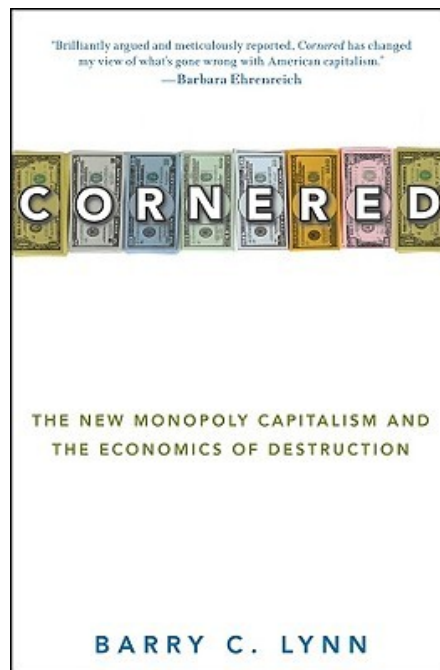




Cornered : The New Monopoly Capitalism and the Economics of Destruction

Barry C. Lynn

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You're at the mall, looking to buy a pair of prescription sunglasses. Which of the four eyeglass stores listed in the directory should you visit first? Don't waste a lot of time deciding; it really doesn't matter. A single, huge international corporation owns three of the four eyeglass stores listed. And the fourth? Out of business. Think you'll try your luck at Sears? Don't bother. The same company you've never heard of controls their eyewear department, too. What appears at first to be a fine example of competitive capitalism in action is, in fact, an immense monopoly in disguise. And it's far from being the only one.

In *Cornered*, journalist Barry C. Lynn paints a genuinely alarming picture: most of our public debates about globalization, competitiveness, creative destruction, and risky finance are nothing more than a cover for the widespread consolidation of power in nearly every imaginable sector of the American economy.

Cornered strips the camouflage from the secret world of twenty-first-century monopolies—neofeudalist empires whose sheer size, vast resources, and immense political power enable them to control virtually every major industry in America in an increasingly authoritarian manner. Lynn reveals how these massive juggernauts, which would have been illegal just thirty years ago, came into being, how they have destroyed or devoured their competition, and how they collude with one another to maintain their power and create the illusion of open, competitive markets.

The Obama administration has promised more aggressive enforcement on antitrust issues, but Lynn argues that they are missing the forest for the trees. For decades, the federal government has all but encouraged companies to buy one another up, outsource all their production, and make their profits by leveraging their market share. It will take more than a lawsuit or two to overthrow America's corporatist oligarchy and restore a model of capitalism that protects our rights as property holders and citizens.

Through stories of real people and real industries, Barry C. Lynn shows how monopolies threaten independent businesses, squelch innovation, degrade the quality and safety of basic products, destabilize our most vital industrial and financial systems, and destroy the very fabric of democracy. Avoiding the partisan cant that has poisoned virtually every important American debate in recent years, he explains how, over the past three decades, leaders of both parties and thinkers across the political spectrum have encouraged and enabled the growth of monopolies. He traces the history of how such now-familiar phrases as "free market" and "consumer welfare" were created and used to pave the way for monopolization. Lynn also demonstrates how the drive for "always lower prices," routinely invoked to justify ruthless practices that might once have landed their perpetrators in jail, makes jobs disappear, puts small businesses out of business, and turns dreams of entrepreneurial success into impossible fantasies.

Complete with an entirely fresh set of solutions based on the traditional American approach of empowering the individual citizen, *Cornered* is both a wake-up call and a call to arms for anyone who believes in democracy, competition, and liberty for all.

Cornered : The New Monopoly Capitalism and the Economics of Destruction Details

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Destruction Barry C. Lynn**

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Athan Tolis says

This is a straight, honest and passionate book. It's written in the first person. It's genuinely heartfelt and it's a wake-up call. Author Barry Lynn sees himself as an evangelist here. It's bad news he bears and he's desperate for everybody to hear it: If we don't pay attention, and time is running short, our world will soon be owned by a small cabal of neo-feudalist financiers.

He builds the argument in two parts: first "you are here" and second "this is how you got here." From there, he actually leaves it to the reader to extrapolate.

The book the author really wanted to write was the "this is how you got here," but in my view that part of the book is nowhere near as strong as the first part, which is a proper compendium of business-school case studies in monopolistic and oligopolistic behavior, including:

- Walmart, and how it works with a Chinese company called Menu Foods to dominate pet food.
- Luxottica, and how they came to dominate the optical business (from p. 31)
- The beer duopoly of SAB and InBev (from p. 36)
- The dominant position of Procter and Gamble in the US after it absorbed Gillette (from p. 42)
- The roll-up of the high street by Macy's (from p. 57, and yes, post Amazon it sounds quaint)
- Jack Welch's "#1 or #2" strategy (from p. 66) with a bonus case study (the RCA rollup into NBC)
- David Stockman's rise and fall, with emphasis on his explicit pursuit of monopoly (from p.75)

The case studies are accompanied by

- a taxonomy of monopolistic behavior (p. 19)
- a primer on the benefits of common carriage laws and why the producer (not the intermediary) ought to be setting the price (p. 50)
- a case study on how monopoly stifles progress (the market for safe syringes, from p. 152)
- a primer on how patents can be a double-edged sword (and the story of the triple sublimation of George Westinghouse, Thomas Edison and Nikola Tesla, from p. 162)
- a busting of the monopoly innovation myth (p. 169)

Special emphasis is given to

(i) the "hydra" model of monopoly whereby a slew of allegedly competing firms depend on a single supplier for a vital part of their value chain and the risk this poses to the "resilience" of the system. Ford's CEO Mullally is quoted here, in particular. He appealed for his competitors to be saved in 2008, remember, lest their demise hurt the suppliers he depended on!

(ii) the monopsony power that a small, concentrated number of agricultural aggregators exercise over the farmer, who these days operates once again in serfdom. For example, 80% of milk is bought by either Dean Foods or Dairy Farmers of America

(iii) the threat to biodiversity and the resilience of our ecosystem that these same companies (he names Monsanto and ADM) bring about when they insist on monoculture of their own special seeds.

The most evil guys in this book, however, are the moneymen, and chief amongst them J.P. Morgan, whose career reads like an anthology of all the above.

And that's the rub: the "how we ended up here" part of the book, the book the author really wanted to write, has its moments, but in my view fails to convince. Lynn does not satisfactorily explain what it is that makes 1995-2005 different from 1945-1995. Even worse, he ascribes the entire process to politics, a topic he does

understand, and therefore is in a position to discuss, but is in my view nothing more than the intellectual mantle under which the transition has taken place, rather than the actual mechanism. He knows he hates J.P. Morgan, he knows he hates Cerberus, but he does not actually understand how they operate and what laws made the difference.

If you're looking for a manual to do some harm, the book is of no use: the line is not traced between the politics (however wrong the politics might be) and the actual legislation spawned by the politics, let alone the way monopolists used the relevant laws that brought about the outcomes. Simple as that! Compared with David Stockman's "Great Deformation," which (hidden deep in its 750 pages) contains a virtual "how to" guide, this account is far too theoretical.

Regardless, the history of the politics as told by Lynn is totally fascinating and worth repeating:

The very foundation of the American state is ascribed to the struggle against monopoly. The Boston Tea Party of 1773 was a revolution against the Amazon of its day, the British East India company, rather than the British Empire, the author alleges, and very convincingly too.

Next comes the necessary discussion about Alexander Hamilton (bad) and Thomas Jefferson (good), which neatly brings us to the civil war, which is seen through the same lens: the US decided to shut out via steep tariffs the international monopolies of the British and to foster its own productive capacities. The South, which had previously operated as part of this setup, found itself cut off the international market both for its output, which it was forced to sell domestically, and for its inputs, that it was also forced to source domestically and the rest we know.

From there we move on to the progressive era. Harry Truman, we're told, did not really cut the robber barons down to size because he cared about the economics of monopoly. His trust busting should be credited to the fact that the powerful monopolists were beginning to exert political power and had to be restrained. It is only because they were a political threat that he intervened, bottom line.

Woodrow Wilson is the author's true hero from this era, and he's credited with setting up the Federal Trade Commission, with speaking out against the practices of monopolists, with actively presiding over their breakup and with putting "Democratic-Republican" Louis Brandeis on the Supreme Court, whose antitrust ideas infused mainstream American thinking for decades, including the super-important FDR presidency when not only the welfare state was set up, but also important legislation like Glass-Steagall was enacted.

This is in juxtaposition with the turn for the worse in the thinking among our intellectuals after the war, best exemplified by the more "efficiency-minded" John Kenneth Galbraith, whom the author brands a "democratic socialist" and not particularly open to the idea of actively fostering competition. Indeed (p.146) Galbraith is accused of having "actively waged war against the very idea of antimonopoly law." There are parallels to be seen here with Teddy Roosevelt and his desire for a better planning state, rather than an out-and-out rejection of corporate monopoly.

Even worse, this left the door wide open to the Chicago school of Milton Friedman, who calls upon the new god of the unfettered "free market" twelve times in his seminal "Capitalism and Freedom" and names government interference as the biggest impediment to progress, to redefine the terms of the game. (Lynn notes wistfully that "free market" is mentioned exactly once in Adam Smith's "Wealth of Nations", exactly once in Hayek's "Road to Serfdom" and zero times in all of Schumpeter's "Capitalism, Socialism and Democracy") The result is that as of the Reagan presidency, the monopolist gets a get out of jail free card, provided he can be shown not to be raising the price.

Funnily enough, progressive Barry Lynn reserves his maximum contempt for Bill Clinton, who picked up where Reagan left off and, in the context of the "End of History" event that was the fall of the Berlin Wall,

looked the other way as mergers and acquisitions went on overdrive, as Microsoft and Intel monopolized computing and Walmart killed the high street, but also enacted a series of laws that left the field wide open for finance (the ultimate enabler of the monopolist) to go wild, including laws that allowed interstate banking, the end of the Glass Steagall act, the deregulation of the derivatives market etc.

The basics were all in place, then, when the 2008 crisis hit for all business to consolidate into oligopoly or outright monopoly, with the weaker competitor in every single business either exiting the market, or being merged into the surviving player, and that's where we find ourselves today.

What most annoys the author, however, is that we did not have to lose the narrative. It was the fair-trading US that won the Second World War and, contrary to how the story is told today by our very own intellectuals, the institutions that were put in place were those of a 100% benign empire: when we discuss Bretton Woods today we focus on the institutions that were established such as the gold standard, the IMF and the World Bank, but the main change was that the US could have organized a centralized imperial system, but instead decided to impose a system based on liberal trade (p. 197)

The US even deserves credit for the establishment of the EU: it was part of the decision to blend the German industrial system with that of the rest of Europe. The French baulked first, but the Americans were the ones paying to rebuild Europe, mainly through the Marshall Plan, and they got their way, ensuring peace and prosperity for two generations.

But the US never openly admitted it had created a decentralized, commerce-based, cosmopolitan "empire by integration" (p.202) because "the people who conceived this imperial system never trusted the world to support such high levels of integration, so they developed the habit of hiding their actions from the very people they believed they were serving" (p.203)

"And that, folks, is how Milton Friedman was able to seize the high ground," you can hear the author say with sorrow. The direct result is that two very important terms we use daily have been perverted. Barry Lynn wants to set us straight:

1. "market" is a vital political institution, not a natural, superhuman mechanism as per Friedman
2. "a business is a political institution designed to govern people and properties." It is not property itself. (p. 227) (an equally good definition can be found on p. 142)

Another thing we need to understand is that we don't want competition because we want lower prices. We want "competition for the sake of competition," in markets that are supported by government regulation (p. 96). That is the space in which citizens can thrive, where politics will be healthy and where growth can be shared by all, rather than re-distributed ex post to the losers.

I totally agree with Barry Lynn and there is little doubt that we are rapidly reaching the dead-end to which the deification of the market and the shareholder economy is leading us. But the call to arms at the end of the book is misplaced. There will not be a revolution (we're far too rich for that these days) and if we don't change the laws there also will be no change.

Sadly, what is called for here is not a change in attitude or ideology. What we need is a change in the statute. On that front, Barry Lynn comes up waaaay short.

And here's the funny thing. His second-biggest bete noire in the whole book, "villain" David Stockman has written his own version of this book, where he explains exactly what happened:

"we have a rigged system -a regime of crony capitalism- where the tax code heavily favors debt and capital gains, and the central bank purposefully enables rampant speculation by propping up the price of financial

assets and battering down the cost of leveraged finance."

Stockman further explains that

1. There is a large tax advantage to financing with debt rather than equity, because the cost of servicing debt can be carved out of your bottom line. This has always been the case
2. Tax on regular income (be it from dividends or from going to work every day) is much higher than tax on capital gains. This only became the case in the Reagan years, so it's relatively new.
3. The Fed perceives GDP growth to be its chief mandate and its only tool to achieve this is cheap money, which was duly delivered, and especially so when asset prices were endangered. The Greenspan put and Bernanke QE are also very new.

These three factors have unleashed the four horses of the last 20 years' financial apocalypse of "corporate equity withdrawal" whereby every drop of value is squeezed out of corporations and shared by the 0.1 percent class of financiers and their puppet CEOs.

1. 1992-2000 Tyco-style LBO acquisition bubble that aided and abetted but also fed off of the Internet bubble
2. The 1992-2008 private equity bubble that toward the end was 100% about Corporate Equity Withdrawal
3. The 2000-2008 GSE / mortgage broker / subprime / Wall Street / CDO housing bubble
4. The 1992- present corporate bond cum stock repurchase bubble to support stock option prices for CEOs and upper management.

What is unbelievably funny is that Lynn's and Stockman's politics read like the negative of one another. They each go through American history and if one guy loves a president, the other is guaranteed to hate him. Wilson, loved by Lynn is Stockman's biggest object of scorn. Perhaps even hatred. Lynn loves "regulation," where Stockman loves "the free market."

Yet when it comes to markets, they are nigh-on indistinguishable. For example, they both hate traders, be it oil and commodities traders, futures traders or stock and bond traders. Very very funny. And they both fiercely abhor monopoly, much as Stockman once tried to put one together in the car supplier business.

Which takes me to my conclusion: if Barry Lynn were to update his book to 2017, he would do well to look for remedies to the problems posed by Stockman, starting probably with an equal withholding tax on all types of corporate distributions, be they bond coupons, dividends, buybacks or stock option grants, set at the top marginal income tax rate.

With that said, in the world of Google, Amazon and Facebook, a strong background in why we do not like monopoly remains highly relevant.

Peter says

If you have puzzled over why it is that the pay gap between line employees and executives in America is so much larger than in the rest of the developed world (it cannot be greed, because that is universal), and why it has steadily increased between the 1970s and now (again, greed, one expects, within a total population, should not increase markedly over time), the answer is finally and devastatingly here.

Since the end of the 1970s, anti-monopoly law had not been seriously enforced since a rule change made quietly back then. Corporate mergers would not be enforced if the consumer were ensured lower prices, if “price efficiency” could be maintained. It sounded benign. After all, couldn’t everyone agree (I mean, hadn’t they?) that if it promised lower prices for consumers then why worry about monopoly, why worry about concentration? That canny wage raiser Henry Ford (who decided it might be wise to pay his workmen enough to be able to afford his products) might have known why to worry, but he was dead and buried. Had the rule-changers really thought it through?

Lower consumer prices come from “efficiency” and “synergy” which, in common sense English, means doing more with less, means cutting costs. Cutting costs means cheaper sourcing; it means fewer, cheaper workers. The argument for efficiency had a seductive internal logic. Cheaper prices sounds better. But if two beers make you feel good, do ten beers make you feel five times as good? Justice Louis Brandeis (a glorious anti-monopolist crusader) was spinning in his grave as Milton Friedman (who espoused throughout the 70s and 80s that the business of business is only to make money) danced on it. Perhaps more people around the world were now better off, but were we (Americans, as a society)?

The increasingly larger corporations that constantly grew like snowballs from the relaxing of the anti-monopoly laws meant greater CEO responsibility and C-suite pay packages rose by roughly the same percentage that balance sheets increased. But what happened to worker pay during that time? We all know it was essentially flat.

Was it Agamemnon’s CFO who recommended he take out life insurance policies on his Greek soldiers? When it comes to money, where to draw the line in the sand of ethical quandary? Perhaps the goals are wrong. After all, you cannot serve two masters. But what does that mean now? Hadn’t the genius Chicago economists already squared that circle? Hadn’t they harnessed greed? (That was their assertion—as Ayn Rand preached, self-interest is all you need for a successful capitalist system.)

But, as we found in the post-war years, if you want to have a healthy, vibrant, growing economy, you need to put cash in many hands. Unfortunately, until Bernie, the Democrats stopped caring about the working man after Humphrey and the latter day Republicans had always been fans of the trickle down. Now most pols ascribe to the ‘what’s good for the shareholders of GE is good for America’ mantra, as per Chi-town economist rhetoric and implementation by Neutron Jack (remember the head of GE, cutting and slashing those inefficient jobs, in the name of shareholder value? Wall Street loved that guy), and most of the Big Money has moved to Galt Gulch, a gated echo chamber of LOL-WUT service industry “job creators.” Totally unchained capitalism felt good for a while. But, as we hopefully now realize, you can have too much of a good thing.

??? ??? says

Strong cases about major players from the past who have shaped the creepy reality of what we still call the “free market”.

In Europe and China they make products while in the US they rather specialize in making process for

making products.

And of course:

"Parents of newborns don't pay much attention to price as do parents of toddlers."

Brilliant.

blakeR says

You know you're in for an interesting perspective when a capitalist writes a book about the dangers of monopoly. The person can lay out the lurid history of consolidation of industry in tedious detail, and document with exhaustive specifics just how this consolidation destroys choice, and jobs, and lives, and democracy. But at the end of the day the guy is still a capitalist, so he's therefore bound to miss key lessons.

Even before the ideological pretzeling Lynn must undergo in order to describe the problem, there are significant problems with this book. Unless you're an economic neophyte who doesn't really know anything about monopoly, this book will feel tiresome and over-explanatory. Most of the people who open up a book subtitled "The Economics of Destruction" are already well aware of the dangers. Either tell us something we don't know, give us solutions, or you're wasting our time.

As a simple history of monopoly the book is mildly useful. But certain Lynn stances - such as his brief, unconvincing tangent about neoliberalism and democratic socialism being Actually The Same Thing! - made me skeptical of later analyses. And his "solution" - there's literally only one, and it occupies the very last page of the book - is embarrassingly, outrageously, unforgivably weak. Who could ever have imagined that all we need to do to fix monopolies is. . . break up monopolies?

Of course, his weak sauce solution and other inane statements such as, ". . . there is nothing inherently wrong with private corporate government and concentrated capital" are fundamentally due to his misguided allegiance to capitalism. It leads him to ignore such obvious questions as:

-Considering that we've already broken up monopolies, and they re-formed, what would stop them from doing it again even if we were able to break them up as you unrealistically prescribe? Is this just a dance we should expect to repeat every century or so? Just ignore the accompanying misery?

-Might there be something inherent in capitalism that leads to unfettered, illegal concentration?

-How many chances should we give capitalism before we try something else? One more Great Recession/Depression? Two? A hundred? Infinity?

All in all I'd skip this book unless you're REALLY interested in monopoly. I've just started Ha-Joon Chang's Bad Samaritans and from the mere prologue I can tell it's going to be significantly better, mainly because he at least acknowledges the importance of strong, timely state intervention.

Not Bad Reviews

@pointblæk

Vikas Erraballi says

Important and impressive in scope considering its only 300 pages. unfortunately polemical in style - could use a more academic style write-up to keep the focus on the subject

Paul Namie says

This is a fascinating book on the effect that financial deregulation has had on the "free market" economy. The author explains how Corporate Monopolies in almost every industry threaten consumer choices and the quality of the goods that are produced. He compares the control that the monopolies have to a form of Quasi Socialism, where competition and innovation are stifled and controlled by the finance industry instead of the entrepreneurs and scientific innovators.

Paleoroundtable says

A brilliant and sweeping treatise on the deteriorating state of Western economies. In three parts, this book covers what went wrong, how it went wrong, why it went wrong, who is to blame, and how to fix it. 5 stars!

C F says

Barry Lynn's new book is a good explanation of how corporations have cornered capitalism, leaving little room for the entrepreneurs who create more jobs. Think of the oligopolies in the banking, weapons, accounting, food production, etc. sectors. But this book is very accessible, and not at all intimidating for the non-economist who wants to know why, if there are so many brands on the shelf, it can be said that there are just a few companies that control the food market. He also does an interesting analysis of the restructuring of the auto manufacturing market, including the role of David Stockman, who restructured the suppliers' sector (Collins & Aikman, etc.), making it "too interconnected to fail". If you still think we live in a competitive capitalistic economy, think twice, or at least read this book before reaching your final conclusions.

Susan says

I'm going to do my best to review this because it is an extraordinary book I think everyone should read. I'm not an economist though and will maybe say things that are arguable--maybe things that aren't right. This book tells what is actually going on economically behind "globalization." It explains for example how car parts are no longer made by individual car manufacturers but out-sourced and produced for all cars by the same companies that have monopolies over individual parts so that a failure in one company is a failure in the whole industry. It tells how the real value of US corporations in the past: their work forces, their skills, their knowledge, their inventory, their machines and their physical property--ALL of that value has been sucked out of them and sent elsewhere so that our economy is nothing real but a skin of stock trades that bet not on real value but on the short term aftermath of ever larger mergers. There's nothing solid under it. This

book is very clear, and you will recognize what he's talking about from what you see in the shopping malls around you. READ THIS BOOK.

Clif says

Get this book...

I'll admit, it was kind of a hard slog for me to read, but by the time you get to chapter two, you will not regret it. This is a literal textbook case as to the "why" of the Crash of '08 and the subsequent recession that followed it.

He shows historical precedent in every case, and, as humans are wont to do, repeat history again. Whether detailing the role of the financier, the laborer, the small investor, CEO, etc, this book breaks down the original purpose of a corporation, and how it became twisted into a simple legal construct to make money at the expense of those in it.

Alas, I doubt too many people will not gain any benefit from this book unless it was required reading in a syllabus (which won't happen in all but the most liberal of institutions of learning).

John G. says

This book nails it, the real problem which is concentrated power in fewer and fewer hands. It's rare to see anyone express these sentiments so forcefully and in such a straight forward manner. Lynn takes off the kid gloves in this book. This book made economic history come alive and made me realize how important it is to know history and that, no, things really haven't always been this way and that's it's not natural at all for things to take this shape. He made me realize that politics and political decisions permeate every pore of economic systems which try to hide under the cover of free-hand markets or some other drivel to hide the fact that certain segments desire the economy to operate in a way beneficial to themselves and that forging the concepts of a neutral market system is a pure invention. Very, very important and readable book.

John says

Disappointed in this book. Basic point is that there's a lot of consolidation in distribution channels/producing that we don't really see (E.g. Wal-Mart) and that aren't good. But it's repetitive -- and seems to misuse the term/concept "monopoly".

Jeff says

Firstly, I would like to say that I enjoyed this book for one reason in particular. The author lays out a simple, yet well thought analysis of our current capitalist system. The book is similar to The Shock Doctrine in many respects, but is organized slightly differently and contains a few issues that I thought detracted from the impact of the book.

I had concern over a few issues that pervaded the work. The author seems to have a nostalgia for the pre-Civil War period in American history, where American institutions were able to keep markets and monopolies in check. The discussion here is not so much critical, as this viewpoint is implied. The history lessons found within the book are stated as fact in order to support a thesis, though certain arguments and justifications are clearly caught up in some kind of patriotic ideological basis.

The second point is that there is that along with the author's nostalgia for the US (referring to US interests and involvement as "Ours" involvement, etc.) which might seem strange to a reader from another country. It is not clear, but is implied that the author's target audience is the US public. The fact that he doesn't say this, while utilizing a patriotic polemic really rubbed me the wrong way.

The final point of critique is that the author outlines a simple, natural argument that other authors such as Naomi Klein have also offered (hence my comparison to The Shock Doctrine), but does not take the argument to a novel conclusion. Rather, the author tells us to "go read Hayek" who apparently knows the answer.

Brian says

Interesting info that makes sense to me and with the bit of economic knowledge I've got, I believe it. I'm just not sure how the editor let pass the author's tendency to over-explain and repeat himself.

Content: Good

Writing: Unreadable

Henry Best says

Both bleak and inspiring.
