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Wake up to the old-fashioned power of the new oligopolies

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What will it take to wake us up to the ever-tightening grip of oligopolies over ever more of our global marketplaces? Even though their power increasingly warps our production systems, and our free market system, alarms are rare and fleeting.

The collapse of an overly consolidated US flu vaccine system two years ago did not set off any bells. Nor did the revelation, by experts studying the potential impact of an avian flu pandemic on commerce, of deep fragilities in our hyper-rationalised medical and food supply systems. The mega-merger of Procter & Gamble and Gillette last year did not do it. Nor did the general consolidation of food processors; in the US, 10 groups account for half of all retail sales, with single companies often capturing more than 75 per cent of particular product markets. Neither the fact that Wal-Mart controls 30 per cent of sales for many goods in the US economy, nor that four companies account for 94 per cent of UK supermarket sales, seem to concern policymakers.

What about Samsung's effort to capture world markets for liquid crystal display screens and D-Ram computer chips? Or Tokyo's rewriting of antitrust laws to allow companies to consolidate 100 per cent monopolies over key technologies? Or the capture of 60 per cent of the global trainer market by Nike and Adidas? In every case, there has been almost no reaction. Mittal Steel's play for Arcelor may not be a global-scale problem, as the two companies combined account for only 10 per cent of the world steel market. But what of the fact that three companies account for 75 per cent of global iron ore production?

There is no shortage of competition in many markets. Just ask Volkswagen or Delta Airlines. But the further down we look below the level of branded companies, the more consolidation we tend to find. This is true in commodities, services, industrial components and shipping. Many executives and investors do understand what is happening, and recognise the stakes. In a recent article for McKinsey & Co, one consultant wrote of the rise of "global mega-institutions". Although the writer did not refer to these as oligoÃ‚Âpolies, he described their character well. Not only, he wrote, have these companies developed "extraordinary scale and scope", but they capture "disproportionately high profits". It seems that only the citizen and politician remain in the dark. The global corporate endgame is well under way, and none of our societies is prepared for it, intellectually or institutionally.

It is not as if we need to search long for evidence of the problems traditionally associated with monopoly. Capture of political power? Consider Boeing's hold over the Bush administration. Extreme pricing distortions? We see them throughout Wal-Mart's supply system. Artificial control over what technologies are brought to market and when? One blatant example is the power over renewable energy systems of British Petroleum and Royal Dutch Shell. Extreme profiteering? America's big energy companies have not only resurrected the art of gouging the consumer, they have raised it to a new state of perfection.

As bad as these old-fashioned problems may be, many of our 21st-century global oligopolies appear to pose entirely new dangers. This is due largely to how power is exercised in systems characterised by extremeoutsourcing. Alfred D. Chandler, an industrial scholar, has written thatone of the main factors behind therise of the huge, vertically integrated corporation early in the 20th century was enforcement of US antitrustlaw, which limited the horizontal growth of these companies. Unable to exert power over the market, many scrambled instead to internalise key functions, for competitive advantage.

This means we cannot ignore the effect on global industrial organisation of the radical relaxation of antitrust enforcement by the Reagan administration in 1981. One result of giving big companies a licence to grow horizontally was that many producers, once they captured control over their markets, opted to sell off or shut down expensive and risky manufacturing and research and development operations and buy these "services" from outside suppliers with few or no other pathways to the marketplace. Over time, many of these top-tier companies relied ever more on their power to dictate prices to their suppliers (including workers) to capture profits.

The increasing power of a few leading trade-oriented companies over entire production and supply systems results in a variety of economic and political ills. One is the degradation of many production systems themselves. That is what happens when the actual producers of goods or components are unable to capture a sufficient share of revenue to support innovation, or sometimes even to maintain existing machinery and workforces. Another is the heightening of competition within society as opposed to between leading companies. In a production system marked by extreme outsourcing,oligopoly does not result in the end of competition so much as the redirection of competition downwards, as lead companies capture more power to set supplier against supplier, community against community and worker against worker.

It is here we find at least a partial explanation for one of the more confusing paradoxes of today's global system - the simultaneous rise in consolidation and competition. So far, especially in America, the tendency has been to blame extreme competition on "globalisation", not least because faulting foreigners for domestic ills can be a good way to sell books and win votes. The real explanation, however, is not only globalisation, or even mainly globalisation, as much as radical changes in the structure of industry. In other words, it is not the Chinese who destroy US and European jobs, but roll up by the world's largest traders and retailers of the power to pit producer against producer, and to capture most or all of the gain from the arbitrage.

Outright monopoly is absolutely defensible - when granted temporarily to reward companies for bringing truly new ideas to market. But most of today's powerful companies are not the result of new ideas, only the strategic reordering of markets. If anything, their goal is the oldest one in commerce - to fence in the place where deals are done, and to tax producers and consumers for the right to meet there. It will not be long until we realise that to save our free market system will require, among other actions, far more aggressive enforcement of antitrust. Simply stopping any further consolidation of power will not be enough. True believers in the free market will admit there is no other choice than to roll the power back.

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