

## PAPER # 6: The “7-11 Effect” and the Inelasticity of our Supply Chain

### Introduction

*“As a nation steeped in a buy-now-pay-later immediate-gratification 24-7 culture, we allow ourselves to “want what we want when we want it” and to expect whatever it is to always be there, ready and waiting for us.”*

Few people understand how supply chains operate, how heavily we depend on them, and how critical they are to our existence—this is especially true for urban dwellers. Second only to physical security (*i.e.*, national security) as a homeland priority, these complex and intertwined logistics systems are essential to the function to our urban centers.

Supply chain systems are more complicated and have less elasticity and redundancy than you think. If they fail, we will not eat or heat our homes, much less maintain our current standard of living. As a nation steeped in a buy-now-pay-later immediate-gratification 24-7 culture, we allow ourselves to “want what we want when we want it” and to expect whatever it is to always be there, ready and waiting for us. We have dubbed this condition the “7-11 effect.” Two generations of Americans have grown up depending on omnipresent 7-11 stores that are always full, always open. Yet despite the abundance we experience today, only the foolish will assume the same will hold true tomorrow.

History demonstrates that all supply chains are eventually disrupted. No network is immune. Barbarian invasions in the fifth century led to the collapse of Western Civilization’s supply chain, region by region. According to Oxford historian Bryan Ward-Perkins, economic complexity makes available a wide variety of manufactured goods, but such a system is always vulnerable. “What we observe at the end of the Roman world is not a ‘recession,’” he noted. “Instead what we see is ... the disappearance of entire industries and commercial networks.” In a Chapter titled “The Danger of Specialization,” Ward-Perkins offered the following warning. He wrote that every advanced economy is vulnerable because of its tendency to specialization. According to Ward-Perkins, “we need to appreciate that economic sophistication has a negative side. If the ancient economy had consisted of a series of simple and essentially autonomous local units, with little specialization of labor within them and very little exchange between them, then parts of it would certainly have survived the troubles of post-Roman times.... However, because the

ancient economy was in fact a complicated and interlocked system, its very sophistication rendered it fragile and less adaptable to change.”

The lesson should be obvious, and craves acknowledgement from Americans today. No nation or generation has been more specialized than ours. And no nation is more vulnerable. Ward-Perkins noted, “We sit in tiny productive pigeon-holes, making our minute and highly specialized contributions to the global economy, and we are wholly dependent for our needs on thousands, indeed hundreds of thousands, of other people spread around the globe, each doing their own little thing. We would be quite incapable of meeting our needs locally, even in an emergency. The ancient world had not come as far down the road of specialization and helplessness as we have....”

## When Efficiency Trumps Security

*“Society is only four meals away from anarchy.”*

In ancient and medieval times, cities were sited at defensible locations. Most people lived on farms and food was grown locally. Towns had walls and stored food in readiness for siege. Many warlords of the Middle-Ages lived in castles. In today’s America, cities were developed without walls, and castles are not part of the landscape. Most Americans live in urban or suburban centers, and food is trucked in from agricultural areas. There is the assumption that the trucks will always run – no matter what happens. Forty years ago the country had enough food in the system to last three years. Today, because of our drive for economic efficiency, the supply chain contains less than a four-week food supply. Why don’t we maintain larger food reserves? Because it is expensive, and few believe that our society is vulnerable.

Great Britain’s MI5 security service holds to the maxim that, “[s]ociety is only four meals away from anarchy.” Disrupt the supply chain—whether through a natural disaster, fuel shortage, terrorist act or other strategic shock—and panic would ensue and social order would begin to break down after people had missed a total of four meals.

So how much food does the United States Government keep in reserve? In 1964, the federal government, maintained stockpiles capable of feeding the entire population for a period of three years. Now, some 40 years later, the Federal Emergency Management Agency (FEMA) has admitted to a stockpile of approximately six million meals. Given a nation of over 300 million people, this is only enough food to feed one percent (1%) of the population, three (3) meals over the course of one (1) day.

The same lack of diligence appears in American stockpiling of emergency medical supplies. Because of the efficiency of the supply chain, almost all commercial organizations in our country maintain relatively low inventories. The system emphasizes

profitability instead of stockpiling/availability for a future emergency. It assumes future peace and ongoing prosperity – along with a steady fuel supply, stable currency and civil order. There is no provision for emergencies in which fuel becomes scarce, the currency collapses, or civil order breaks down. The United States is therefore unready and the individual citizen significantly vulnerable.

## Dependency of the Population

*“The breakdown of the food supply system has occurred in other major nations within living memory.”*

Americans depend on highly sophisticated communications and transportation systems for their food, medicine and fuel. The infrastructure that makes all this possible is vulnerable to electromagnetic pulse (EMP) attack, cyber warfare, and terrorism. It is vulnerable in the aftermath of a financial crash, under conditions of civil unrest, widespread disease, or military conflict. The population of our complex economy is not self-sufficient in the sense that each household produces its own necessities. Today’s household depends on a ready supply of food, available for purchase by paper currency. If anything happened to the currency, the economic system would break down along with the supply chain.

Agribusinesses harvest crops for profit. If something happened to the currency, would agribusinesses continue to harvest crops? The mechanized tools of modern farming are supplied with spare parts only if complex market mechanisms continue to function. Without the market, nobody would know what kind of parts, or how many, to manufacture. Mechanized agriculture also depends on imported fuel, fertilizer and labor. Such a system cannot function through barter. It cannot function under chaotic conditions. It depends on stability and the faithful fulfillment of contracts. Everyone knows this system is effective, and everyone is impressed with the abundance it provides. What they take for granted is the fragility of the system. This fragility, and the dependence of the population upon it, remains hidden by the system’s success.

It is important to remember that the economy of the United States has developed under conditions of domestic peace since 1865. The last time the U.S. was invaded by a foreign power was during the War of 1812. After so many years of domestic tranquility, Americans take for granted that their country is safe and insulated from trouble. After all, America is the leading superpower – unassailable, invulnerable and privileged. Americans see themselves as exempt from the bitter cycle of wars, revolutions and disorders that frequently occur in Europe and Asia. France is on its fifth republic. Germany, Japan, Russia and China were reduced to beggary during World War II. The breakdown of the food supply system has occurred in other major nations within living memory.

It is useful to examine the breakdown that occurred in Germany during 1945. It was not the Allied aerial bombardment that stopped the German economy from functioning at the time,

but the suspension of Romanian oil imports. In August 1944 Germany's oil supply was lost when Romania agreed to an armistice with Russia. Even with disciplined rationing, the German food distribution system collapsed. Germany was vulnerable, and the outcome was catastrophic. Starving townsfolk scoured the countryside bartering for potatoes; cigarettes were used as currency on the black market; survival and recovery was only possible because of help from outside the country. Starvation weakened the population, leading to deadly outbreaks of typhus and dysentery.

Knocking out a key component in a complex economy can have a crippling effect on other components, and, as the example of Germany in 1945 shows, it was not easy to get the German economy working again. People who depend on complex systems are no longer economically self-sufficient. The tremendous wealth generated by complex systems forces them to abandon the rural self-sufficiency of their ancestors. They move to cities and look for work. They specialize, relying on paper currencies and trade. The modern economy forces every individual to comply with its logic which is not the logic of self-sufficiency.

## Political Disruptions

*“The strongest most stable society can suddenly find itself broken and demoralized.”*

The leading cause of system disruption, whether it is warfare or financial collapse, has political roots. Human beings are imperfect, and every political system reflects an imperfect community. The strongest most stable society can suddenly find itself broken and demoralized. History is full of examples. The drift to social decadence happens to every successful society. Men are spoiled by their success, or their children are spoiled, or their grandchildren.

What happens to society also happens to the political system. The politician becomes spoiled, and ignores the vulnerabilities of the system he is elected to safeguard. The supply chain is especially vulnerable when society is focused solely upon immediate gratification, when no one thinks about emergency requirements, and when everything is geared to profit-making and winning elections. When politics has become a competition in optimistic assessments and utopian promises, society's survival is taken for granted. And when survival is taken for granted, society has arrived at the height of its vulnerability.

## Misgovernment

*“In one critical area after another, the government has failed to address the myriad problems of the system’s vulnerability.”*

Misgovernment is the common ailment of any society that fails to call things by their proper names. Politics in the United States has become a crooked word game, in which socialists call themselves liberals, big spenders talk about limiting the size of government, and hedonists call themselves conservatives.

Given the federal government’s deficits, including impractical attempts to stimulate the economy through massive government spending, it is likely that the U.S. dollar is going to lose its standing and suffer repeated devaluations. As goes a nation’s currency, so goes its culture and its future.

Another critical area of misgovernment is the failure of the Department of Homeland Security to secure the homeland. Proper reserves of food, backup systems in the event of EMP attack, or a healthcare system adapted to cope with pandemics, are obvious areas of negligence. The government is responsible for national security, but the right hand of government doesn’t know what the left hand is doing. Washington routinely misapplies its resources, focusing on social engineering instead of national security, failing to institute basic defensive measures.

In one critical area after another, the government has failed to address the myriad problems of the system’s vulnerability. Their standard approach is to paint everything over with empty rhetoric. Many announced programs come to nothing – whether it is National Missile Defense, policing the border, or preparing the population to withstand a nuclear attack. The average American doesn’t know the difference between short-term fallout and long-term fallout, and doesn’t know basic methods of self-protection from anthrax or bubonic plague.

Government leaders have lulled themselves into a false sense of security regarding the American supply chain’s resilience, and are completely unaware of its multiple weaknesses. This assumption of invulnerability comes naturally to Americans, who have lived in a society that has seemed indestructible for decades. Unfortunately, our nation’s leaders are more focused on being re-elected than in shoring up the vulnerabilities of the nation they have sworn to protect.

## Economic Collapse

*“The collapse of the currency will signify a collapse of the food supply chain.”*

The United States economy currently uses paper money. It has been said that paper money tends toward the value of zero. Having no intrinsic value, such “legal tender” is subject to sudden collapse, especially during periods of economic crisis. Because a complex economy depends on a stable currency to function, the collapse of paper money would be catastrophic for the food distribution system.

Crops may not be planted, fuel supplies may not be available, vital medical supplies may disappear. It has been said that “money makes the world go round.” It is certainly true in today’s economy with its emphasis on specialization and trade. The collapse of the currency will signify a collapse of the food supply chain.

## Social Unrest

*“As opportunity dries up, people feel frustration and frustration can lead to violence.”*

Social unrest has occurred in every nation on earth. As with the L.A. riots of 1992, a large city can be shut down. The Los Angeles riots lasted six days. Mass-scale looting, mob violence, and arson took place. Hundreds of buildings were burned, and lives were lost. If the federal government had been unable to maintain order, for whatever reason, the urban supply system would have completely broken down.

Today the United States has a black American president. In this situation, the country is particularly vulnerable to riots because the popularity or unpopularity of the president has a racial dimension. If any harm should come to the president, as the result of an assassination attempt or sudden illness, the country could be seriously disrupted by urban riots. This is not mere speculation. The death of Dr. Martin Luther King, Jr. set off riots in the 1960s. There is every reason to suspect that a similar outcome would attend the death or injury of today’s leading politician.

As the U.S. economy continues to worsen, a large subset of people are losing everything they’ve worked for. As opportunity dries up, people feel frustration and frustration can lead to violence. Bread riots are known to occur when people find themselves without means. There is also the question of how the public judges the government’s performance during the crisis. If the government fails to turn the situation around, the government will find itself vilified—to the detriment of public order.

## Civil War

*“He suspects that the U.S. is headed for martial law in 2009, and will break apart by 2011.”*

Igor Panarin, a former KGB analyst now serving as the dean of Russia’s diplomatic academy, is predicting civil war for the United States in 2010. He suspects that the U.S. is headed for martial law in 2009, and will break apart by 2011. His analysis, he says, is based on data collected by the Russian intelligence services. Panarin also says that the United States is ethnically and ideologically divided, in moral decline and economically collapsing. This combination is a formula for civil war.

Such a war within the United States would disrupt basic economic relationships. Once again, a highly specialized system would suffer trauma and critical elements in the supply chain would be disrupted.

## International Conflict

*“A nuclear world war, which might occur by accident or miscalculation, would completely negate the U.S. food supply system.”*

A nuclear world war, which might occur by accident or miscalculation, would completely negate the U.S. food supply system. A conflict in the Middle East could result in an interruption of the flow of oil through the Strait of Hormuz. The results would be catastrophic throughout the Western world. As with Germany in 1945, the Western world depends on oil imports. If oil supplies were cut off, the Western economic system would unravel. Food supplies, and the means to move food to market would be seriously impacted.

## Conclusion

*“The challenge before us is not only the immediate economic crisis and the need to stabilize our spiraling economy, but taking the steps necessary to protect our populace from the strategic shocks that can wreak havoc upon our supply chains.”*

The United States has entered into a crisis. Nobody knows where this crisis is headed. Will the federal government stabilize the economy or destroy the currency system? Will the supply chain function if social order breaks down?

It is unwise to assume that the American system is invulnerable when facts and analysis show it is vulnerable precisely because it involves a high degree of specialization. The words of historian Bryan Ward-Perkins bear repeating: “we need to appreciate that economic sophistication has a negative side. If the ancient economy had consisted of a series of simple and essentially autonomous local units, with little specialization of labor within them and very little exchange between them, then parts of it would certainly have survived the troubles of post-Roman times.... However, because the ancient economy was in fact a complicated and interlocked system, its very sophistication rendered it fragile and less adaptable to change.”

The challenge before us is not only the immediate economic crisis and the need to stabilize our spiraling economy, but it is taking the steps necessary to protect our populace from the strategic shocks that can wreak havoc upon our supply chains.

Specialization and division of labor are key drivers of our economic success. They are also our points of greatest vulnerability. While individuals can and should take steps to protect themselves and their families against supply chain interruptions and possible systematic collapse, it is equally important that we *as a society* immediately and unflinchingly address these problems and take every step necessary to ensure our national survival.

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*Our papers are not intended to predict the future, but rather to offer a thought process and perspective unavailable from mainstream media outlets (although we note that, in 2006, we did predict the current financial downturn). We hope to avoid repetition of history’s darker moments, and to that end we spotlight the dangers of our nation’s current path.*

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