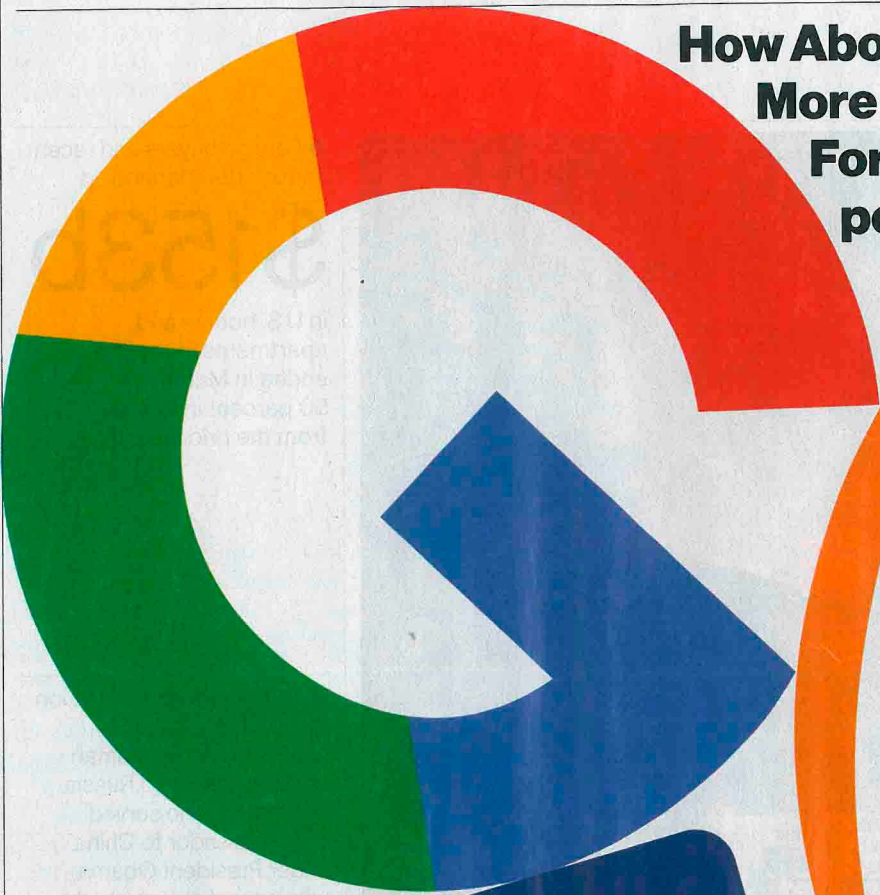


How About a Bit
More Room
For Com-
petition?

Amazon



● The tech giants may be contributing to the U.S. economy's most persistent ailments. Should they be broken up?

● By Paula Dwyer

As a former tour manager for Bob Dylan and The Band, Jonathan Taplin isn't your typical academic. Lately, though, he's been busy writing somber tomes about market shares, monopolies, and online platforms. His conclusion: Amazon.com, Facebook, and Google have become too big and too powerful and, if not stopped, may need to be broken up.

Crazy? Maybe not. Taplin, 70, author of *Move Fast and Break Things: How Facebook, Google, and Amazon Cornered Culture and Undermined Democracy*, knows digital media, having run the Annenberg Innovation Lab at the University of Southern California. Ten years before YouTube, he founded one of the first video-on-demand streaming services. He also knows media M&A as a former Merrill Lynch investment banker in the 1980s. He says Google is as close to a monopoly as the Bell telephone system was in 1956.

He has a point, judging by market-research figures. Alphabet Inc.'s Google gets about 77 percent of U.S. search advertising revenue. Google and Facebook Inc. together control about 56 percent of the mobile ad market. Amazon takes about 70 percent of all e-book sales and 30 percent of all U.S. e-commerce. Taplin pegs Facebook's share of mobile social media traffic, including the company's WhatsApp, Messenger, and Instagram units, at 75 percent.

Economists have noticed these monopoly-size numbers and drawn even bigger conclusions: They see market concentration as the culprit behind some of the U.S. economy's most persistent ailments—the decline of workers' share of national income, the rise of inequality, the decrease in business startups, the dearth of job creation, and the fall in research and development spending.

Can Big Tech really be behind all that? Economists are starting to provide the evidence. David Autor, the MIT economics professor who famously showed the pernicious effects of free-trade deals on Midwestern communities, is one. A recent paper he co-wrote argues that prestigious technology brands, using the internet's global reach, are able to push out rivals and become winner-take-all “superstar” companies. They're highly profitable, and their lucky employees generally earn higher salaries to boot.

They don't engage in the predatory behavior of yore, such as selling goods below the cost of production to steal market share and cripple competitors. After all, the services that Facebook and Google offer are free (if you don't consider giving up your personal data and privacy rights to be a cost). However, academics have documented how these companies employ far fewer people than the largest companies of decades past while taking a disproportionate share of national profits. As they grow and occupy a bigger part of the economy, median wages stagnate and labor's share of gross domestic product declines. Labor's shrinking share of output is widely

implicated in the broader economic growth slowdown.

Still others have shown that, as markets become more concentrated and established companies more powerful, the ability of startups to succeed declines. Since half of all new jobs spring from successful startups, this dampens job creation.

It's no wonder the superstar companies are getting super-normal returns on capital, further adding to income inequality, writes Peter Orszag in Bloomberg View. He and Jason Furman, chairman of President Barack Obama's Council of Economic Advisers, point out that higher returns on capital haven't resulted in increases in business investment—yet another manifestation of monopoly power.

Some members of the Chicago School, the wellspring of modern antitrust theory, agree. In the 1970s and '80s, a group of University of Chicago scholars upended antitrust law by arguing that the benefits of economic efficiency created by mergers outweighed any concerns over company size. The test was one of consumer welfare: Does a merger give the combined company the power to raise consumer prices, and are barriers to entry so high that new players can't easily jump in? U.S. antitrust enforcers were swayed. From 1970 to 1999, the U.S. brought an average of 15.7 monopoly cases a year. That number has since fallen—to fewer than three a year from 2000 to 2014.

Luigi Zingales, director of the university's Stigler Center, likes to remind people that the reason Google and Facebook were able to succeed is that the U.S. in 1998, under Bill Clinton, sued Microsoft Corp. for tying its web browser to its Windows operating system to undermine rival Netscape. A trial court decision that Microsoft should be broken up was overturned on appeal (though not the court's finding of monopoly), and ultimately the case was settled by the George W. Bush administration. But it slowed Microsoft's ability to dominate the internet. Zingales says today's monopolies are yesterday's startups, and a healthy system needs to make room for newcomers.

Market concentration has many parents. One of them is surely the so-called network effect, a key antitrust argument in the Microsoft case. That doctrine says the more people use a platform—say, the iPhone or Facebook—the more useful and dominant it becomes. The iPhone, for example, is popular in large part because of the voluminous offerings in Apple Inc.'s App Store, and the app store is popular because developers want to write programs for popular smartphones. Network effects can create what Warren Buffett calls “competitive moats.”

Problem is, the Chicago School's focus on the impact on consumers—at least as it's applied in the U.S.—won't help antitrust enforcers to drain those moats. For example, because what Facebook offers is free, regulators weren't concerned that its \$22 billion acquisition of WhatsApp in 2014 might result in higher consumer prices. In fact, because WhatsApp is in a different industry, it didn't even increase Facebook's market share in social media.

The tech superstars insist they compete fiercely with each other and have lowered prices in many cases. They argue that their dominance is transitory because barriers to entry for would-be rivals are low. Google often says competition is “one click away.” And since consumers prefer their platforms over others', why punish success? But when a cool innovation pops up, the superstars either acquire it or clone it. According to data compiled by Bloomberg, Alphabet, Amazon, Apple, Facebook, and Microsoft made 436 acquisitions worth \$131 billion over ▶

◀ the last decade. Antitrust cops made nary a peep.

Snap Inc.'s experience with Facebook is instructive. Since Snap rebuffed Facebook's \$3 billion offer in 2013, Facebook has knocked off one Snapchat innovation after another. That includes Snapchat Stories, which lets users upload images and video for viewing by friends for 24 hours before self-destructing. Facebook added the feature—even calling it Stories—to its Instagram, WhatsApp, and Messenger services, and most recently to the regular Facebook product. Snap's shares now trade at around \$15, below the \$17 initial offering price in March. By offering advertisers the same features but with 100 times the audience, "Facebook basically killed Snapchat," Taplin says.

Antitrust regulators have taken notice of all this, though much more so in Europe and Asia than in the U.S. The European Union's \$2.7 billion fine in late June against Google for favoring its shopping-comparison service over rivals' is cheering Taplin and others who monitor the superstars. They ruefully note that the U.S. chose not to bring charges against Google in 2013 for the same conduct punished by the EU.

Instead of applying conventional antitrust theory, such as the effect of a merger on consumer prices, enforcers may need to

consider alternative tools. One is to equate antitrust with privacy, not a traditional concern of the competition police. Germany's Federal Cartel Office, for example, is examining charges that Facebook bullies users into agreeing to terms and conditions that allow the company to gather data on their web-surfing activities in ways they might not understand. Users who don't agree are locked out of Facebook's 2 billion-strong social media network.

Another avenue is to examine control over big data. Google collects web-surfing and online-purchasing data from more than a billion people. It uses that to send personalized ads, video recommendations, and search results. The monopoly control of consumer data by Facebook and Google on such a scale has raised antitrust questions in South Korea and Japan.

Taplin suggests that authorities look to 1956, when the U.S. forced Bell Labs to license its patents to all comers. The result was a deluge of innovation (semiconductors, solar cells, lasers, cell phones, computer languages, and satellites) commercialized by new companies (Fairchild Semiconductor International, Motorola, Intel, and Texas Instruments) and the formation of Silicon Valley. Why not require the tech superstars to do the same? Who knows what forces that might unleash. **B**

—With David McLaughlin and Aoife White