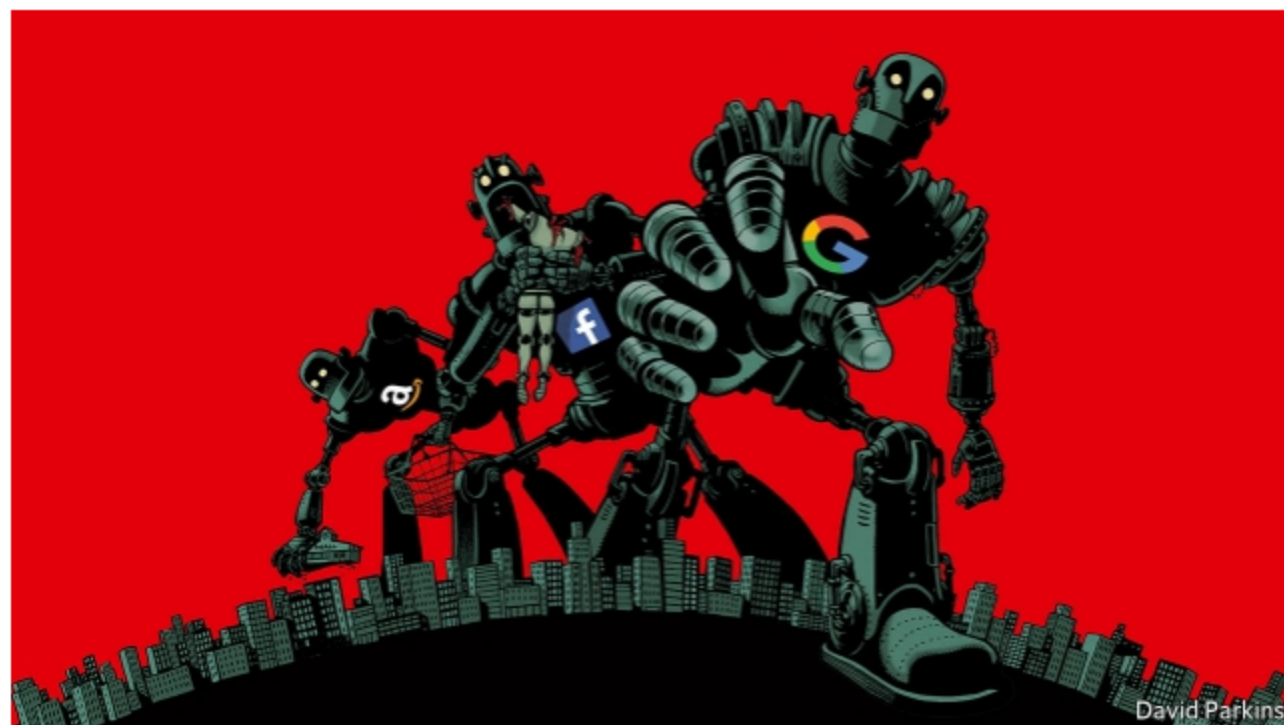


Competition in the digital age

# How to tame the tech titans

*The dominance of Google, Facebook and Amazon is bad for consumers and competition*



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NOT long ago, being the boss of a big Western tech firm was a dream job. As the billions rolled in, so did the plaudits: Google, Facebook, Amazon and others were making the world a better place. Today these companies are accused of being BAADD—big, anti-competitive, addictive and destructive to democracy. Regulators fine them, politicians grill them and one-time backers warn of their power to cause harm.

Much of this techlash is misguided. The presumption that big businesses must necessarily be wicked is plain wrong. Apple is to be admired as the world's most valuable listed company for the simple reason that it makes things people want to buy, even while facing fierce competition. Many online services would be worse if their providers were smaller. Evidence

for the link between smartphones and unhappiness is weak. Fake news is not only an online phenomenon.

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But big tech platforms, particularly Facebook, Google and Amazon, do indeed raise a worry about fair competition. That is partly because they often benefit from legal exemptions. Unlike publishers, Facebook and Google are rarely held responsible for what users do on them; and for years most American buyers on Amazon did not pay sales tax. Nor do the titans simply compete in a market. Increasingly, they are the market itself, providing the infrastructure (or “platforms”) for much of the digital economy. Many of their services appear to be free, but users “pay” for them by giving away their data. Powerful though they already are, their huge stockmarket valuations suggest that investors are counting on them to double or even triple in size in the next decade.

There is thus a justified fear that the tech titans will use their power to protect and extend their dominance, to the detriment of consumers (see [article](#)). The tricky task for policymakers is to restrain them without unduly stifling innovation.

### The less severe contest

The platforms have become so dominant because they benefit from “network effects”. Size begets size: the more sellers Amazon, say, can attract, the more buyers will shop there, which attracts more sellers, and so on. By some estimates, Amazon captures over 40% of online shopping in America. With more than 2bn monthly users, Facebook holds sway over the media industry. Firms cannot do without Google, which in some countries processes more than 90% of web searches. Facebook and Google control two-thirds of America’s online ad revenues.

America's trustbusters have given tech giants the benefit of the doubt. They look for consumer harm, which is hard to establish when prices are falling and services are "free". The firms themselves stress that a giant-killing startup is just a click away and that they could be toppled by a new technology, such as the blockchain. Before Google and Facebook, Alta Vista and MySpace were the bee's knees. Who remembers them?

However, the barriers to entry are rising. Facebook not only owns the world's largest pool of personal data, but also its biggest "social graph"—the list of its members and how they are connected. Amazon has more pricing information than any other firm. Voice assistants, such as Amazon's Alexa and Google's Assistant, will give them even more control over how people experience the internet. China's tech firms have the heft to compete, but are not about to get unfettered access to Western consumers.

If this trend runs its course, consumers will suffer as the tech industry becomes less vibrant. Less money will go into startups, most good ideas will be bought up by the titans and, one way or another, the profits will be captured by the giants.

The early signs are already visible. The European Commission has accused Google of using control of Android, its mobile operating system, to give its own apps a leg up. Facebook keeps buying firms which could one day lure users away: first Instagram, then WhatsApp and most recently tbh, an app that lets teenagers send each other compliments anonymously. Although Amazon is still increasing competition in aggregate, as industries from groceries to television can attest, it can also spot rivals and squeeze them from the market.

### **The rivalry remedy**

What to do? In the past, societies have tackled monopolies either by breaking them up, as with Standard Oil in 1911, or by regulating them as a public utility, as with AT&T in 1913. Today both those approaches have big drawbacks. The traditional tools of utilities regulation, such as price

controls and profit caps, are hard to apply, since most products are free and would come at a high price in forgone investment and innovation. Likewise, a full-scale break-up would cripple the platforms' economies of scale, worsening the service they offer consumers. And even then, in all likelihood one of the Googlettes or Facebabies would eventually sweep all before it as the inexorable logic of network effects reasserted itself.

The lack of a simple solution deprives politicians of easy slogans, but does not leave trustbusters impotent. Two broad changes of thinking would go a long way towards sensibly taming the titans. The first is to make better use of existing competition law. Trustbusters should scrutinise mergers to gauge whether a deal is likely to neutralise a potential long-term threat, even if the target is small at the time. Such scrutiny might have prevented Facebook's acquisition of Instagram and Google's of Waze, which makes navigation software. To ensure that the platforms do not favour their own products, oversight groups could be set up to deliberate on complaints from rivals—a bit like the independent “technical committee” created by the antitrust case against Microsoft in 2001. Immunity to content liability must go, too.

Second, trustbusters need to think afresh about how tech markets work. A central insight, one increasingly discussed among economists and regulators, is that personal data are the currency in which customers actually buy services. Through that prism, the tech titans receive valuable information—on their users' behaviour, friends and purchasing habits—in return for their products. Just as America drew up sophisticated rules about intellectual property in the 19th century, so it needs a new set of laws to govern the ownership and exchange of data, with the aim of giving solid rights to individuals.

In essence this means giving people more control over their information. If a user so desires, key data should be made available in real time to other firms—as banks in Europe are now required to do with customers' account information. Regulators could oblige platform firms to make anonymised bulk data available to competitors, in return for a fee, a bit like the



compulsory licensing of a patent. Such data-sharing requirements could be calibrated to firms' size: the bigger platforms are, the more they have to share. These mechanisms would turn data from something titans hoard, to suppress competition, into something users share, to foster innovation.

None of this will be simple, but it would tame the titans without wrecking the gains they have brought. Users would find it easier to switch between services. Upstart competitors would have access to some of the data that larger firms hold and thus be better equipped to grow to maturity without being gobbled up. And shareholders could no longer assume monopoly profits for decades to come.

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