View

Big Tech May Be Monopolistic, But It's Good for Consumers

Call off the antitrust watchdogs.

By Michael R. Strain

March 21, 2018, 4:00 AM GMT+13

Are these companies threatening or reducing the welfare of consumers? *Photographer: Michael Short/Bloomberg*

“Big tech” is under increasing scrutiny. Tech giants like Amazon, Google, Apple and Facebook are being accused of a wide variety of sins: promulgating fake news, stifling innovative competitors, and crushing mom-and-pop shops, to name a few. Some critics have gone so far as to call for these powerful companies to be converted into public utilities. Others want the government to use its antitrust powers to break up big tech.

This borders on the absurd.

For the past half century, the U.S. government has followed the best standard that economists and legal scholars have come up with to define anticompetitive behavior: Are these companies threatening or reducing the welfare of consumers as determined by the prices, quality of products and services, and choices consumers face and the benefits of economic innovation that consumers enjoy?

This is the right standard. Another standard that could be used in antitrust enforcement is essentially "big is bad" -- the presumption that large and powerful companies should be suspect because of the political and economic influence they wield. This vague, fuzzier standard is inferior. It ignores the good things that come from size, including the ability to produce output at lower cost. It also invites regulatory mischief. And it weakens the focus on the benefits competitive markets offer to consumers.

By the standard of consumer welfare, big tech is a blessing. I have been using Gmail every day for over a decade. It operates flawlessly. And its search feature is so good that it acts as a virtual diary, allowing me to revisit correspondence from years ago with just a few keystrokes. Google, the creator and operator of Gmail, has charged me exactly zero dollars for this fantastic product. Amazon is pushing prices so low that some believe it is reducing the rate of price inflation for the overall economy. Apple put a sleek computer -- and the ability to access previously unimaginable quantities of knowledge -- in our pockets.

In short, by the standards of consumer welfare -- providing a variety of high-quality products, innovation, low prices -- big tech is one of the best things to happen in the economy in decades.

A more subtle argument against big tech involves the future: Yes, many new and innovative products are given away free today. But what effect is big tech having on tomorrow's prices and innovation?

This argument assumes that big tech is stifling the competition today that tomorrow would lead to innovation or lower prices. I'm not sold. It is certainly true that consumer welfare can be harmed by the absence of products that might have been created if a market had had more competition. But look at what is actually happening: Big tech firms plow revenue into research and development in order to continue creating new and better products. These companies are innovation powerhouses, and there are no signs that that will change.

Are they stifling competition in news and information? Hardly. It wasn't long ago that the average American's choice in news consumption was the morning paper and three networks for the nightly news. Thanks to Google, for example, you can type in a few keywords and read dozens of news stories on your topic of choice.

Because of the importance of network size and upfront investment, does the tech sector naturally tend toward concentration? This is a reasonable argument. But it must contend with the fact that the web browser Netscape fell to Internet Explorer, that Hotmail was displaced by Gmail, the decline of America Online, that many speculate Apple's ability to innovate is descending, and that Facebook "is losing its teenage users" because -- in the words of The Guardian -- "parents killed it."

In other words: These companies haven't been dominant for that long, there were dominant tech companies before them, and we shouldn't assume that the current market leaders will dominate forever.

Yet another concern is that the tendency of tech giants to gobble up startups is suppressing innovation -- Facebook's purchase of Instagram and Google's purchase of YouTube, as examples. But it's just as possible that the opportunity for an entrepreneur to create something great and sell it to big tech encourages more innovation than it suppresses. And by the standards of consumer welfare, it is not clear that it matters whether Facebook or shareholders or the founders own Instagram.

And let's assume for the sake of argument that Amazon's master plan actually is to dominate all retail sales -- including groceries -- by charging low prices that squeeze the profit margins of its competitors (again, a great thing for your pocketbook) and then, at some point in the future, jacking up prices and harvesting outsize profits.

Even if that lay in store, the appropriate regulatory response would be to wait until much more evidence accumulates that Amazon actually might harm consumers and reduce competition. Online sales make up less than 10 percent of all retail sales. Walmart's revenue is more than twice Amazon's. It's not time to call in the trust busters.

This is not to say that big tech is without concern. There is a conversation to be had about the influence that social media companies like Facebook have on the public debate and in our political system. Its guiding light must be the preservation of free speech. But issues like the role of bots, the hosting of political content, and the amount of responsibility Facebook has over the content on its platform should be discussed. In addition, it is reasonable to be concerned about consumer ownership of social network data and search and purchasing histories, and about data security.

But break up big tech? No. That would shatter some of the greatest achievements of the American economy.

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To contact the author of this story:
Michael R. Strain at mstrain4@bloomberg.net

To contact the editor responsible for this story:
Philip Gray at philipgray@bloomberg.net

Michael R. Strain is a Bloomberg Opinion columnist. He is director of economic policy studies and resident scholar at the American Enterprise Institute. He is the editor of “The U.S. Labor Market: Questions and Challenges for Public Policy.”

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