



Is the big tech era ending?

I put on my wizard hat 

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Valuations of US tech firms hit all-time highs this year, and the FAANGs in particular — Facebook, Apple, Amazon, Netflix and Google — form a huge fraction of the US stock market. Big tech has everyone worried:

- Economically, big tech firms may act like Upas trees, stifling innovation in their shade. Why work on a cool app or faster database, if Google or Facebook will copy your idea and sell it at scale?
- Politically, these firms don't merely lobby Washington: they control the flow of talk through our societies. They stand accused of spreading hate and misinformation, and simultaneously, of stifling and filtering debate through their own political preferences.
- Culturally, do social media algorithms optimize for the dopamine hit that keeps us clicking? And are they making us miserable?

So, will big tech's dominance be permanent or transitory, self-stabilizing or self-defeating?

Here is one way to think about this: imagine that one day, a new kind of magic is discovered.

Phase one: nobody knows who can do magic

Suddenly there are real wizards everywhere, offering magic spells. Ordinary people are profoundly ignorant about the wizardry that has appeared in their midst. They know it is powerful, but they don't really know how it works. Rich people throw money at any wizard, hoping they will have the secret to eternal youth, or a bottomless sack of gold.



Naturally, this generates a crowd of charlatan conjurers in fancy robes and hats. Only true wizards can tell a true wizard from a charlatan – but the true wizards are too busy selling spells of their own. Ordinary people don't know what the wizardry is capable of. Can you really send smells around the world? They also don't know which wizards can use their power wisely, and who will simply burn through their spellbook in a shower of sparks.

This is, of course, the era of the first internet boom, of pets.com and Boo, and also of Yahoo! and Google.

Phase two: nobody understands magic, but we know who does

After the madness fizzles out, society starts to learn more about wizardry. Real wizards are distinguished from charlatans by their results. A few wise wizards keep their power and even extend it. Ordinary people still can't cast spells themselves, but they know the names of the wisest wizards. Some, it is reputed, have turned from light to darkness. Some may even be dark creatures from beyond the void. They begin to transform society with the power of their magic. People flock to buy their spells and give them money, and so they amass huge power.

Apprentices come to study in their dark towers. But are they responsible for the miasma spreading across the land?



This is where we are at now.

Phase three: everyone understands magic

The arcane knowledge can't be kept to itself. Young people, even the sons of nobles, enter schools of wizardry. Firms begin to incorporate magic into their production processes. Some wizards specialize in helping particular sectors. Gradually, the dark arts diffuse into the population. The magic becomes mundane. The great dark towers of the necromancers, which tried to do everything magical under one roof, suffer the usual problems of conglomerates: weak incentives, and no specialist expertise. Eventually their empires shrink.



That hasn't happened yet! But it is one possible future.

Here's a concrete example: in last year's lockdown, my local coffee shop started to deliver beans. They set up a slick web store with Shopify. They took payment with Stripe or Square. The owner's kid brought the beans round on his bike. In other words, they competed with Amazon, because they had to! Ten years ago, this would have been much harder. Now, it's a matter of plugging in off-the-shelf components.

My coffee shop is not an existential threat to Amazon, which retains huge advantages of scale. But before, Amazon was the only firm that could really do ecommerce. Now, everywhere can.

This potential future has some preconditions. The most important ones are that big tech firms got big and stay big, not because of network effects or political power, but because of their rare expertise; and that they cannot keep their advantage in expertise forever. Either of these could be wrong. Network effects do matter, especially for social media giants like Facebook and Twitter. And big firms do invest in innovation, so they might hang on to their advantage.

But new ideas tend to diffuse, and historically, few monopolists have lasted long. Here are some mystic readings from my scrying stone. Walmart, an old economy firm, is clearly planning to challenge Amazon in ecommerce, and some of its acquisitions look like ways to acquire arcane lore. Shopify is a specialist providing a disaggregated chunk of Amazon's platform. UK radio is currently advertising [Fulfilment.co.uk](https://fulfilment.co.uk), which handles deliveries for any firm. These early signs suggest — if you want a risky bet — that we may be at “the end of the beginning”.

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