Why Free Is Too High a Price for Facebook and Google; Most of the ills traced to these companies are a direct consequence of their no-cost business models

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FULL TEXT

Over the past two years, Facebook and Google have taken fire for their roles in everything from eroding democratic institutions to damaging mental health to undermining our collective immunity to preventable diseases.

Those flaws could be seen as the reckless mistakes of callow disrupters. But here's another way to look at them: They're the price of free.

As U.S. antitrust regulators and lawmakers gear up for a probe into Alphabet Inc.'s Google and divvy up responsibility for investigating Facebook Inc. and other tech giants, one issue they might assess is how to weigh consumer harm. By traditional measures, Facebook and Google have been a boon to consumers, going from one service to another—search, email, messaging, maps, photo sharing—and serving up easy-to-use, zero-cost offerings.

In reality, these services are anything but free. We just don't pay for them in the way we're used to.

In fact, most of the ills traced to these companies are a direct consequence of their "free" business models, which compel them to suck up our personal data and prioritize user growth over the health and privacy of individuals and society, all so they can sell more advertisements. They make money from the attention and in some cases the hard work—all those status updates, videos and likes are also a kind of uncompensated labor, if you think about it—of their most devoted users.

What's more, their success has given them the power to block upstarts that might have competed against them with different approaches.

Share Your Thoughts

If there were ad-free versions of the Google and Facebook services you use that didn't gather any of your personal data, how much would you be willing to pay for them? Join the conversation below.

These costs can be harder to quantify than the traditional measure of higher prices associated with anticompetitive behavior. What dollar value do you assign to misinformation that undermined the national discourse around the 2016 U.S. election, and how do you count that versus the convenience of sharing with friends and family, or watching fun videos?

But understanding those costs is critical as authorities try to assess whether the economy is better off with the internet giants as they are or whether they need to be curbed or even—as many critics and presidential contenders have argued—broken up.

How Free Harms Competition

Coupling apparent consumer benefit to monumental revenue is what allowed these companies to balloon to their current size and power. This has led to what critics argue are classically anticompetitive practices, such as buying up rivals, as Facebook did with Instagram, and fighting other competitors by copying them and then beating them with superior scale and resources , as Facebook subsequently used Instagram to do to Snapchat.

Consider if Facebook had never been allowed to buy Instagram or the messaging app WhatsApp in the first place.

It isn't so far-fetched since the result is Facebook at its current size: 2 billion-plus users and a market value approximately equal to that of AT&T and Verizon combined. (Outside the realm of tech, regulators are currently hesitating to approve the merger of distant third- and fourth-place wireless companies Sprint and T-Mobile, which feels like a double standard.)

As it happened, younger people migrated en masse from Facebook to Instagram . If the two companies had remained apart, we might have seen heightened competition between them. And the innovative upstart Snapchat might have been able to hold on to attention and users.

Google has used similar tactics in advertising, search and maps. The company has been fined three times by the European Union since 2017, for a total bill of about $9.3 billion, for various anticompetitive practices in search and Android. The company is also the largest seller of advertising in the world and owns two of the top three mobile-mapping and navigation services—Google Maps and Waze, which it acquired in 2013.

Google has been the subject of some sort of federal inquiry on nine occasions, some of which, like the Federal Trade Commission's 2012 examination of the company's privacy practices, resulted in relatively small fines . When the FTC approved Google's acquisition of advertising giant DoubleClickin 2007, the commission said the deal wouldn't "substantially lessen competition." Congress now has the opportunity to revisit this conclusion.

Whether or not Google and Facebook are on balance creating more innovation in tech will probably be the subject of debate even decades hence. But when academics have studied other industries, they've found a consistent pattern, says Anne Marie Knott, a professor of business at Washington University in St. Louis who invented the measure, called RQ , of the amount of bang per buck companies get from R&D spending.

As companies grow, they pump out more innovations, because being bigger has many advantages, from the scale required to support-related functions like manufacturing and distribution, to a lower fixed cost of R&D relative to their revenue. Facebook executive Nick Clegg has echoed this argument, writing that the company's size gives it the resources to innovate .

The problem is that they lose motivation to innovate once they become a monopoly and lack competition, Prof. Knott says.

"Monopolists will only innovate to the point at which they have brought in the monopoly number of customers, whereas if you have competition," she adds, "you're also continually trying to bring back share you've lost."

What's unclear at present—and what regulators and Congress will have to assess—is where exactly in this transition from usefully big to actually a monopolist Google and Facebook are in their many lines of business.

Not everyone agrees Google and Facebook even qualify as monopolies. Neither company lacks competitors, whether it's Bing, Baidu and Yandex in search or whatever the latest thing teens are on in social media, says Kim Wang, an assistant professor of strategy and international business at Suffolk University's Sawyer Business School, who researches competition among technology firms. "Even if Google and its peers do seem to possess monopolistic power, fast-paced technological change likely makes the power short-lived," she adds.

One thing that's become clear is that these companies' sizes and tendency to eliminate the competition while poaching its talent have created what analysts call an "investment kill zone."

"We know of instances where tech giants emulated and then crushed young upstarts, and some prominent venture capitalists have expressed apprehension about funding companies that compete directly against these platforms," says economist Ian Hathaway, research director for the Center for American Entrepreneurship.

Google's YouTube is the 800-pound gorilla in user-generated video, but it's worth considering its surviving competitors: There's the Facebook/Instagram conglomerate, there's Amazon.com Inc.-owned Twitch, and there's TikTok. The hugely popular site —which consists almost entirely of short, song-driven clips—is the product of the merger of two Chinese startups, Shanghai-based Musical.ly and TikTok, owned by ByteDance Ltd., one of China's most valuable startups. Arguably, TikTok is thriving because it escaped Big Tech's kill zone.

Google and Facebook now make up about 60% of the U.S. digital-advertising pie, which in 2019 is projected to exceed the total ad spend on TV for the first time. In the last three months of 2018, Facebook pulled in about $30 in ad revenue for each user in the U.S. This is why economists are starting to argue that consumers are being

taken for a ride by these "free" services.
But if our data is so valuable, why aren't Facebook competitors lining up to write us checks for it?
"If these industries were more competitive, a consumer might actually be paid in terms of better services or even cash to use the site," said Jason Furman, a former White House chief economist who recently wrote a report for the U.K. governmen t about competition in digital markets. A lack of alternatives is further evidence of the harmful monopoly of Google and Facebook, he adds.
How Free Harms Us
When an online service must be paid for solely through advertising, the company's overriding incentive is to increase engagement with it: Users see and click on more ads. This drives all sorts of unexpected outcomes.
Owing to its engagement-maximizing algorithms, Facebook appears to bear, by its own admission , some responsibility for a genocide in Myanmar .
Other well-documented ills that may have been exacerbated by Facebook include the erosion of global democracy , the resurgence of preventable childhood diseases and what the company itself acknowledges may be wide-ranging deleterious effects on the mental health of millions.
On YouTube, Google's engagement-maximizing algorithm has been recommending material that denies the Holocaust, Sandy Hook and other tragedies, as well as white-supremacist content and other forms of hate speech, a policy the company on Wednesday pledged to redress . Over the years, YouTube has been criticized for other practices, from driving viewers to the internet's darkest corners to pushing questionable content on children .
Meanwhile, the globally dominant Google search engine has had a hard time avoiding accusations of bias in its results .
What Can Regulators Do
In recent history, regulators have clipped the wings of tech giants rather than breaking them up. In Microsoft Corp.'s 2001 settlement with the Justice Department, the company agreed to external oversight and opening up more of Windows to developers, rather than shedding its Internet Explorer browser.
Facebook seems well aware of this history, with Chief Executive Mark Zuckerberg telling regulators that his company welcomes more regulation—but not, of course, being broken up.
"Because these platforms are so multifaceted and involved in all these different lines of business, there is not just one problem, there are many problems," says Lina Khan, an academic fellow at Columbia Law School and an adviser to the U.S. House of Representatives subcommittee now examining the monopoly issue in Big Tech. "I don't think a regulatory approach and a breakup approach are mutually exclusive," she adds.
In a forthcoming paper, Ms. Khan chronicles historical antitrust efforts against banks, TV networks, railroads and telecommunications companies. In each of these industries, regulators aimed to prevent companies from expanding into lines of business that would compete with their own customers.
Taken to the extreme, such logic would dictate that Google would have to stop making its own apps, since they compete with developers that publish in its Google Play app store, Facebook would have to stop copying or buying up companies that use its services and rely on it for advertising revenue, and all tech giants would have to curtail their tendency to pile into pretty much every business on the planet .
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