Connecticut Debate Association
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Online Tournament

Resolved: Big tech companies (e.g., Amazon, Facebook, Google) should be broken up.

Google, You Can't Buy Your Way Out of This

The New York Times, Oct. 22, 2020, by Tim Wu

The Justice Department is demanding that the company prove its greatness by competing in the market.

The true significance of the federal antitrust lawsuit filed against Google on Tuesday cannot be captured by any narrow debate about legal doctrine or what the case will mean for the company. This is a big case, filed during an important time, and it merits a commensurately broad understanding. The complaint marks the return of the U.S. government to a role that many of us long feared it had abandoned: disciplining the country's largest and most powerful monopolies.

President Theodore Roosevelt best explained the role played by antitrust law after his Justice Department filed suit in 1902 against the Northern Securities Company, formed by J.P. Morgan and others. Roosevelt wrote to a friend that "the absolutely vital question" was whether "the government has the power to control the trusts." As he had said earlier in a speech, the "immense power" of aggregated wealth "can be met only by the still greater power of the people as a whole."

Can the power of the people prevail over the power of Google and other business giants? As in the days of Theodore Roosevelt, the power of today's biggest private companies rivals that of the government, and they arguably have more influence over how we live.

Historically, the reaction to unfettered private power has often taken one of two forms. One is passive acceptance, in the hope that the private sector will do what is best for the public. That is unfettered capitalism. The other form is an aggressive attempt to nationalize (or at least heavily regulate) powerful companies, with the aim of converting them, in effect, into public servants. That is socialism.

The Anglo-American tradition of antitrust offers a third way. It seeks to reduce or limit private monopoly power, either through breaking a large company into smaller units or otherwise ensuring that the company remains vulnerable to competition. Its genius is to weaken the too-powerful firm by depriving it of the ability to insulate itself indefinitely from market forces.

It is from this traditional antitrust perspective that the lawsuit filed against Google should be understood. The lawyers at the Justice Department have not written a complaint that focuses on artificial intelligence, algorithms or anything else that suggests 21st-century technology. Indeed, the federal government has essentially copied the successful antitrust complaint it filed against Microsoft in 1998.

Google is a classic monopoly, says the complaint, and has used wrongful means to protect itself from competition: specifically, striking exclusive deals with major partners like Apple that ensure its search engine is everyone's default option. With its dominant market share in search, estimated at 88 percent, Google will be hard pressed to convince a judge that it lacks monopoly power. The case is far simpler than many commentators seem to think.

Google and its defenders may protest: But were consumers hurt? Where are the jacked-up prices? Have you not noticed that the product is free?

As in the case against Microsoft (whose Internet Explorer web browser was also free), Google is accused of harming the very process of competition. A monopoly, if immunized from competitive forces, can behave with impunity. In this case, that behavior may include raising its prices (to advertisers), downgrading the quality of its product (with increased advertising) and weakening privacy protections.

Over the past few years, the experience of conducting a Google search has been getting worse — at least if your goal is to find information, as opposed to viewing ads. And in the absence of real competition, Google manages to get away with shamelessly tracking your shopping habits, video-watching preferences and the content of your email conversations.

By many measures, Google is a great organization — full of talented people doing innovative work. But why then does it need to pay Apple billions of dollars to keep competitors at bay? The law is demanding that Google prove its greatness by playing the game, not by buying its way out of it. Being exposed to more competition might also serve as a stimulant for the company: Insulation from competition can be a narcotic.

Some may think that the lawsuit has come too late, that Google is too entrenched to be changed. Then again, it once seemed that IBM would control computing forever, while Bell would run the telephones indefinitely. Both titans were felled with help from the antitrust division of the Justice Department. History is full of surprises. A great strength of the American economy has been its continued ability to make room for what is new; sometimes that process has been aided by the filing of antitrust complaints.

Others may urge us to trust that large companies like Google are fundamentally well-intentioned. That view became dominant among antitrust officials during George W. Bush's administration and has now prevailed for 20 years. It has left us with an economy that is too concentrated — unfair to workers, smaller producers and entrepreneurs. It has deepened economic inequality. It has also put so much political power in so few private hands that it alarms politicians on both the left and the right.

This is why the lawsuit has a significance greater than itself: It is a reminder that even the most powerful private companies must reckon with the still greater power of the people.

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Antitrust Can't Catch Big Tech

The Wall Street Journal, Sept. 15, 2019, By Andy Kessler

Facebook, Google and the rest will change their ways before the feds can make a case.

On Friday the House Judiciary Committee joined the dog pile of 48 state attorneys general, the Justice Department and the Federal Trade Commission in investigating whether to break up the Big Bad Tech companies. It all makes me think of a Hangtown Fry, my favorite dish at the Tadich Grill in San Francisco. During the Gold Rush, a prisoner condemned to death could request a final meal. To delay the hangman, a smart prisoner would order an omelet with bacon and oysters, meaning someone had to head down to the coast for ingredients, which could take weeks or months. Delicious, by the way.

Any action to break up Google, Facebook and others is, like that Hangtown Fry, going to take a very long time to happen, if it happens at all. The first antitrust suit against IBM was filed in 1968. The U.S. government dismissed all antitrust cases against IBM as "without merit" in 1982. AT&T, an actual government-mandated monopoly, faced its first antitrust suit in 1974. It settled through a consent decree in 1982, with the Bell telephone system breaking into Baby Bells. Yet unlike Humpty Dumpty, the market put AT&T mostly back together again, with it and Verizon going strong in wireless—a field few foresaw at the time of the breakup.

After all the saber-rattling and congressional hearings, to succeed in court antitrust advocates will have to demonstrate that tech companies' actions are harming consumers. Yes, the FTC recently penalized Facebook for privacy violations, but its antitrust investigation is aimed at countering potentially anticompetitive practices, an entirely different matter. The rather weak case from the director of the FTC's competition bureau is that Facebook bought startups "that might ultimately unseat them," which the director says may violate the commission's "theory of competitive harm." Theory indeed.

The Justice Department is more gung-ho. Its antitrust enforcer Makan Delrahim declared, "Without the discipline of meaningful market-based competition, digital platforms may act in ways that are not responsive to consumer demands." Note that Mr. Delrahim uses the weasel word "may"—which is to say the tech companies may ignore consumer demands, but then again they may not. Mr. Delrahim is hinting at regulators' dream: forward-looking antitrust analysis.

Mr. Delrahim and the crystal-ball gazers at Justice and the FTC think they have a perfect view of the future, so they want to break up companies before they commit any offense. They're channeling Tom Cruise in "Minority Report," in which cops use a psychic technology to catch murderers before they commit crimes.

Unfortunately for the Justice Department, current antitrust law is based on evidence of actual consumer harm and not mere speculation about what could happen in the future. A sharp legal mind tells me, "The key is the degree of certainty with which the government can prove the future harm is likely to happen." Justice can pull a minority report on companies contemplating mergers—note how T-Mobile and Sprint had to give up business to get their deal done—but not antitrust.

So has Big Tech squashed competition? Hmmm, let's see. From 2014-18, global venture-capital funding has tripled to almost $360 billion. More than 40,000 startups launched in 2018. There are almost 12 million technology jobs in the U.S. while Apple, Amazon, Google and Facebook combined employ fewer than a million, world-wide.

So here's what's going to happen. Big Tech is going to order the omelet—slow things down, obfuscate, hire lobbyists and hope like hell they can come up with new business models and move on from most of their current business in case the regulators in Washington speed things up.

Instead of spinning off Instagram and WhatsApp, as Facebook critics including founder Chris Hughes seem to demand, the social-media giant is trying to become the ultimate service for private communications and payments. It won't be easy, but it's certainly worth a try.

Google should stop running its own ads ahead of its customers'; that's just dumb. But they should also stop running ads on YouTube and instead turn it into a legitimate cord-cutting Netflix-competing streaming service with a monthly fee. Apple should also stop favoring its own apps over companies in its ecosystem—again, just dumb. And Amazon should probably sell Whole Foods to Safeway and declare victory. Don't be surprised if, on its own, it spins off its web-hosting business someday.

Technology's relentless advance means markets sort things out over time. Note the irony of Amazon creating New York office space in the building abandoned by former retail powerhouse Lord & Taylor. And though IBM never did get broken up, it ended 2017 with its 22nd consecutive down quarter. It downsized all by itself.

Or this: On the back of the tourist-mecca thumbs-up sign at the entrance to Facebook headquarters is the old sign for Sun Microsystems, the complex's original tenant bought by Oracle in 2010. The story goes that Mark Zuckerberg wants Facebook employees to see Sun Microsystem's sign as they leave work every day as a reminder that success is fleeting. Breaking up is hard to do, and that Hangtown Fry omelet is slow to assemble.

How Should Big Tech Be Reined In? Here Are 4 Prominent Ideas

The New York Times, Aug. 20, 2019, By Steve Lohr

The Justice Department is investigating them, as is the Federal Trade Commission. Congress and state attorneys general have their sights on the companies, too.

There is no shortage of people arguing that America's large technology companies — namely Apple, Amazon, Facebook and Google — have gotten too big and too powerful. That has helped spur the scrutiny by the government officials.

But what to do about the issue? On that, the industry's critics are split.

Some would like to see the businesses broken up. Others want more robust regulation. And there are shades of gray on both sides. Here are four of the most prominent prescriptions being debated.

Bright-Line Breakups

This is the most drastic surgery, splitting off large portions of the big tech companies.

The guiding principle is simple. If you own a dominant online marketplace or platform, you cannot also offer the goods, services and software applications sold on that marketplace.

So Amazon could not own the leading e-commerce marketplace and sell Amazon-label goods there. Or Google could not have both the dominant search engine and its Google Shopping service, which shows up in search results. Apple could own an app store that offers music services, but not also its own music service sold there. And so on.

Bundling businesses on top of a dominant platform invites conflicts of interest and discrimination against rivals, thwarting competition, proponents of this countermeasure say.

"The world is going to be better off after we break up these companies," said Barry Lynn, executive director of Open Markets Institute, a research and advocacy group.

Senator Elizabeth Warren, Democrat of Massachusetts, has embraced the idea of bright-line breakups in her presidential campaign.

But such a sweeping overhaul of the tech industry could bring unknown risks for the companies and shareholders. Many economists are leery of broadly prohibiting companies from entering new businesses, fearing potential losses of efficiency and consumer welfare.

The last big government-mandated breakup targeted AT&T in the early 1980s, and that was the dissolution of a government-granted monopoly.

Still, the idea is not unthinkable. The remedy initially proposed in the government's antitrust case against Microsoft in the 1990s, endorsed by three leading economists, was to split the Windows operating system business from Microsoft's Office productivity software business. After George W. Bush was elected president, his administration settled the case without a breakup.

Selective Split-Ups

This is a case-by-case approach to breakups rather than a broad rule applied to all the tech giants. A current example is a plan that would require Facebook to shed Instagram and WhatsApp. A detailed proposal on this, laying out the alleged anticompetitive conduct, was developed by two leading antitrust scholars, Tim Wu of Columbia Law School and Scott Hemphill of New York University Law School, along with Chris Hughes, a co-founder of Facebook. (Mr. Wu is also a contributing opinion writer for The New York Times.)

The three have made their presentation to federal and state antitrust regulators and to congressional investigators. They explain that starting about 2010, when mobile computing and photo-sharing services were taking off and Facebook was lagging in those areas, the social network embarked on a yearslong campaign to buy nascent competitors.

The biggest purchases were of the photo-sharing service Instagram in 2012 and the messaging service WhatsApp in 2014.

Typically, regulators challenge mergers when they give a company a big share of an established market. That was not the case when Facebook paid $1 billion for Instagram, a start-up with 13 employees in an emerging field.

Instead, the three argue, the strategy was to buy out budding threats. “We think that’s the better perspective of what was going on — maintenance of monopoly in the social network market,” Mr. Hemphill said.

In Facebook’s case, Mr. Wu said, “the remedy is straightforward: Unwind the acquisitions.”

But an issue in spinning off a unit like Instagram is whether doing so enhances competition. Would a stand-alone Instagram be a real rival to Facebook, or would consumers simply stay with the dominant social network, Facebook, and Instagram suffer?

A New Tech Watchdog

Getting breakups approved by the nation’s courts, which are generally conservative on economic matters, would be a stretch. Besides, some experts argue, a more comprehensive way to police the big tech companies would be with a beefed-up force of regulators.

One idea is the creation of a new regulator, a Digital Authority. It would be an expert group to supplement traditional antitrust regulators in the Justice Department and the Federal Trade Commission. It would be able to move faster and have the expertise to constantly track the tech markets and trends.

“Its mandate would be to protect competition,” said Fiona Scott Morton, an economics professor at the Yale University School of Management.

The new regulator was the central recommendation of a recent report about the digital platforms that was sponsored by the Stigler Center for the Study of the Economy and the State at the University of Chicago. Ms. Scott Morton led a group of eight antitrust experts and technologists who worked on the study. Since the report was released in May, members of the group have made a series of presentations to policymakers.

In online markets, the flywheel of network effects — the more people who use a service, the more users, developers and advertisers it attracts — is especially powerful, creating dominant companies. Yet even in digital markets, the door to new entrants must remain open, said Ms. Scott Morton, a former senior official in the Justice Department’s antitrust division.

In traditional antitrust, regulators and courts move at a measured pace, slowly and often after the fact. The goal of a new digital regulator, she said, “would be to save the rival before it is killed.”

The authority, Ms. Scott Morton said, could receive a complaint from a competitor and schedule a hearing two weeks later, when both sides would present testimony.

A new regulator? It would be a tough sell in today’s political environment. But we do have specialist federal regulators in many other industries, including banking, aviation, transportation, drugs and agriculture.

Reining in the big tech companies, Ms. Scott Morton said, is increasingly becoming a bipartisan concern. “At some point, society will say this is too much power without real oversight,” she said.

Unlock the Data

There are also narrower, targeted regulatory proposals. Some of these involve rules that would loosen a dominant company’s control of user data, by either forcing that company to share the data with a smaller competitor or giving users more ability to take their data from one service and move it to a competitor. The Stigler Center study cited those data moves in a list of potential regulations and enforcement actions.

The idea, broadly, is that data can be a barrier to competition, and that freeing up the personal information collected by the tech giants could lower that barrier.

The big online platforms are data monetization machines, collecting, analyzing and exploiting information from consumers, merchants, advertisers and others. And the network effect of data is formidable. The more data the companies have, the more fuel to feed the machine-learning algorithms that power their businesses.

“Data is the real trump card these platforms have,” said A. Douglas Melamed, a professor at Stanford Law School and a member of the Stigler Center study team.

Mr. Melamed, a former senior antitrust official at the Justice Department, favors a rule that would require dominant digital platforms to give other companies access to their user data for a fee. That would help level the playing field for new entrants and other rivals, he said, but wouldn't be free for them, either.

"You let the competitors have access to their back rooms for a reasonable fee," Mr. Melamed said. Such a solution would require regulatory oversight to set guidelines for fair licensing terms. Data sharing would also entail some privacy risk, since no privacy-protection technique is foolproof.

A related idea is to mandate that tech companies make user data portable. That means consumers could move their information from one service to another, forcing digital businesses to compete with superior offerings rather than data lock-in.

The regulator would need the technical skills to ensure that the consumer data was handed over in a way that would let a competitor use it easily.

"The details are crucial, if you're really going to give consumers more choice and control," said Jamie Morgenstern, a computer scientist at the Georgia Institute of Technology who worked on the study.

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Breaking Up Facebook Would Make Things Worse

Bloomberg, July 1, 2019, by Michael R. Strain

Privacy, bias, web addiction – how does antitrust action solve any of those problems?

The calls to break up Facebook — or at least to consider it — are growing louder by the day. On the left, Elizabeth Warren got on the antitrust bandwagon early with a plan for dismantling the company and other tech giants, while on the right Republican Senator Josh Hawley has mused, "Maybe we'd be better off if Facebook disappeared." They are just two of many.

But what exactly is this growing chorus of critics trying to solve by threatening to dismember Facebook? The answers show why their solution would be both inappropriate and ineffective.

Take the arguments of those who are concerned about privacy. Democratic Senator Ron Wyden, for example, went so far as to argue that federal regulators should hold Facebook CEO Mark Zuckerberg "individually liable for the company's repeated violations of Americans' privacy."

The company records how you are voluntarily using its platform, and sells that information to advertisers. Personal responsibility seems to get completely lost in this discussion. No one is being forced to use Facebook. If you don't want your personal choices and parts of your life in the public domain, then keep them off social media.

Regardless of your views on the importance of individual responsibility, breaking up Facebook would do nothing to protect privacy. Whether there are 10 Facebooks or one hardly matters if you are worried that information about your behavior is being sold to third parties.

Another common worry is that foreign governments, especially Russia, are using Facebook to spread false information and interfere in U.S. elections. Chris Hughes, a co-founder of the company who now supports breaking it up, argued that in 2016 "Russian actors" manipulated "the American electorate."

This is a real concern, but as with privacy, it's not clear why having 10 Facebooks rather than one would adequately address this threat. What Russia can do on one social media platform, it can presumably do on several.

Another criticism of Facebook is that it is addictive, impairing cognitive function and the development of healthy interpersonal skills, especially among children. Hawley describes it as "a digital drug – and the addiction is the point." Valid or not, these fears are linked to the way a social media platform is used and the amount of time spent on it. They wouldn't be mollified if people had more platforms to choose from.

The same is likely true when it comes to doubts about Facebook's ability to filter out violent livestreams, stop the spread of racist and hate speech, and protect data. If anything, economies of scale might make it easier for one social media platform to solve these problems rather than 10.

Then there is the complaint that Facebook has too much control over the public debate. But remember that in the decades before Facebook, Google and a few other companies came on the scene, most people consumed news from one of three nightly network television broadcasts and perhaps one or two local newspapers. Breaking up Facebook would make it harder, not easier, for me to access information I might have missed.

A related accusation against the company is that it is suppressing viewpoints — content from conservatives, in particular. President Donald Trump and Senator Ted Cruz, among others, are up in arms about this.

Consumer pressure seems like a good remedy here. Conservatives, who are enthusiastic about entrepreneurship, should consider starting rival companies if they don't like the way Facebook moderates content.

There have been some high-profile cases of right-wing figures being banned (correctly, in my view) from Facebook. But how serious of a problem is this overall?

The complaints from Trump and some conservatives seem odd in light of his 2016 campaign's effective use of Facebook. And as Vice News reported this spring, "In the Trump era, Fox News has cemented itself as the most dominant news publisher on Facebook as measured by engagement," regularly beating out the New York Times and CNN, for example.

What about traditional antitrust issues? Facebook's critics charge that it has stifled innovation and competition, and decreased consumer welfare. There are reports that the government is ramping up an antitrust inquiry of its practices and those of other tech companies.

As I have argued in this column before, this borders on the absurd. Monopolies charge consumers high prices, while Facebook is free to users. It is competing for consumers by being a top corporate spender on research and development, and plowing money into innovation. It is experimenting with ways to respond to its users' concerns about privacy.

Facebook's acquisition of Instagram is cited as an example of how it suppresses innovation. But in reality, Facebook took a big bet on Instagram's improbable success, and won. That was a good business decision, not a threat to consumer welfare.

A study released this spring by Edison Research and Triton Digital finds that Facebook has lost 15 million users in the last two years, with declines heavily concentrated among younger people. (The Guardian summarizes the situation nicely: "Parents killed" Facebook for young people.) It hardly seems that Facebook is an entrenched, immovable monopoly.

None of this is to say that the company shouldn't make changes in the way it operates. Privacy questions could be addressed by requiring it to tell users what items of their data have been sold. This would allow users to make better informed decisions about whether, and how, to continue using Facebook.

Criticism of Facebook's role in the public square could be addressed by requiring that all of its accounts be held by actual human beings, rather than bots, and by requiring that political ads hosted on the platform be labeled. Indeed, in a conversation at the Aspen Ideas Festival with my Bloomberg Opinion colleague Cass R. Sunstein, Zuckerberg argued that current laws on political ads are "very out of date."

If Facebook were required to publish information on which content and users it kicked off its platform, conservatives might have a better yardstick for judging whether the company is biased.

There is a lot of ground between breaking up a company and regulating it. Facebook's users, and the company itself, might benefit from more regulation, done right. But breaking up one of the most innovative and successful American companies would be a gross abuse of government power. And for nothing.

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Why Free Is Too High a Price for Facebook and Google

The Wall Street Journal, June 8, 2019, By Christopher Mims

Most of the ills traced to these companies are a direct consequence of their no-cost business models

Over the past two years, Facebook FB 0.60% 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.

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."

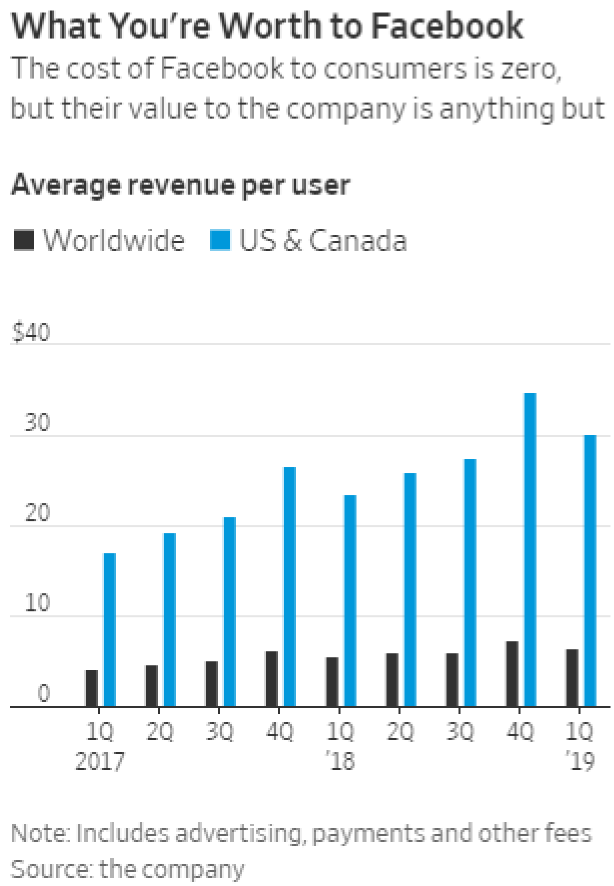
What's unclear at present—and what regulators and Congress will have to assess—is where exactly in this transition from usefully big to actually a monopolist Google and Facebook are in their many lines of business.

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. government 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.

What If Companies Get Big Because They're Better?

Bloomberg, December 2, 2019, by Peter R. Orszag

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New research suggests that industry concentration just reflects the superior productivity of superstar firms. Are you listening, trust-busters?

Fewer U.S. companies are controlling more market share as industrial concentration has settled over the U.S. economy during the past two decades. That trend has provoked fierce debates among economists and politicians over whether the government should do more to break up big companies, especially the dominant technology giants.

But what if industries are concentrating because size confers real benefits to the economy rather than because of lax antitrust enforcement?

That's where the evidence points in forthcoming research by a team of leading economists at the Massachusetts Institute of Technology, Harvard University, the University of Chicago and the University of Zurich. Their study gives reason to be cautious about the growing enthusiasm for inadequate enforcement as the explanation for increased concentration.

In 2015, the economist Jason Furman of Harvard and I took note of the emergence of growing disparities across U.S. companies, with the leading firms in each sector outpacing others in productivity, return on capital and market share. We highlighted the emergence of superstar firms that were earning high returns, enjoyed high productivity and paid high wages. But we weren't able to tease out what was causing those trends, and thus were forced to admit that "our only real conclusion is thus that more attention needs to be paid to what is driving firm-level trends in the United States."

In the years since, the topic has received increasing attention from economists, policymakers and presidential candidates. One view of the facts and causes is laid out in a new book by the New York University economist Thomas Philippon, who puts most of the blame on inadequate antitrust enforcement.

Philippon argues that U.S. markets were more competitive than European markets two decades ago, but that policymakers defended competition more rigorously in Europe than America since then (thus the title "The Great Reversal"). As the book summary argues:

Sector after economic sector is more concentrated than it was 20 years ago, dominated by fewer and bigger players who lobby politicians aggressively to protect and expand their profit margins. Across the country, this drives up prices while driving down investment, productivity, growth, and wages, resulting in more inequality. Meanwhile, Europe — long dismissed for competitive sclerosis and weak antitrust — is beating America at its own game.

That's contradicted by the latest research, to be published in the Quarterly Review of Economics by economists David Autor, David Dorn, Larry Katz, Christina Patterson and John Van Reenan. They focus on why the share of labor compensation in national income has been declining, but their exhaustive empirical work winds up clarifying the causes behind the rise of superstar firms. (My Bloomberg Opinion colleague Noah Smith also explored this literature in a column last week, emphasizing the potential role of technology in creating and perpetuating superstar firms.)

Autor and his team find support for a productivity-based explanation of increased market concentration. As they note, "If globalization or technological changes push sales towards the most productive firms in each industry, product market concentration will rise as industries become increasingly dominated by superstar firms." This more benign view is supported in several ways.

First, the economists found clear upward trends in various concentration measures, with a smaller number of firms accounting for a larger share of U.S. industry sales. That's consistent with Philippon's research and with most other commentary on the topic, though there are some industrial-organization economists who agree with the general conclusion but quibble with the measures used to confirm it. Where Philippon and the Autor team diverge, though, is in the causes of those facts.

Second, the productivity-based view, but not the antitrust one, would predict that the industries concentrating fastest would be the ones with the fastest growth in productivity. The economists show that larger firms are more productive than smaller ones, that industries concentrating faster are ones with faster growth in patents, and that industries with bigger gains in labor productivity had larger increases in concentration. How can these observations be reconciled with the overall slowing of aggregate productivity growth? Either the effects aren't that large, or they have been offset by the growing productivity gap between leading firms and others in each sector.

Finally and most crucially, if rising concentration is caused by the benign productivity explanation as opposed to the more troubling lax-antitrust one, the patterns should be similar across the globe despite varying antitrust laws and enforcement. And that's precisely what the new research shows. As the economists note: "An alternative interpretation of these patterns is … that weakening U.S. antitrust enforcement has led to an erosion of product-market competition. The broad similarity of the trends in concentration, markups and labor shares across many countries that we document below casts some doubt on the centrality of such U.S.-specific institutional explanations. Indeed … antitrust enforcement has, if anything, strengthened in the European Union — and yet … industry concentration appears to have risen in the European Union despite this countervailing force."

A productivity-based explanation for rising industry concentration would suggest dramatically different policies than the antitrust one does. The evidence uncovered by Autor and his collaborators buttresses the view that superstar firms are thriving because they are simply more productive than other firms, not because they have been given a special break by regulators.