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Big is not always bad: Why we shouldn't rush to break up the tech giants

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The might of the American government is readying itself to “take on” big tech. On Monday, the US Congress’s judiciary committee announced a “top-to-bottom review of the market power held by giant tech platforms”.

Government agencies responsible for competition policy have been dividing up Google, Apple, Facebook and Amazon for investigations too. Their conclusions will have worldwide ramifications for the regulation and viability of these business models.

Such action has been slowly brewing. Despite scant evidence that consumers are harmed by these companies’ activities – the key metric since the “consumer welfare standard” made competition policy technocratic – a congruence of pressures has led to a perfect storm engulfing the firms.

The rise of anti-capitalist feelings on the US Left, married to the belief tech companies’ permissiveness helped Donald Trump win the presidency, means there’s little love lost from key Democrats. On the right, these firms are seen as staffed by liberals who detest conservatism and/or the president. The companies therefore find few defenders on Capitol Hill or cable news networks. They are in the crosshairs of a culture war.

Alongside these political pressures come economists and lawyers claiming the whole antitrust approach needs rethinking. A revived “big is bad” intellectual movement argues the “consumer welfare standard” provides too narrow a view on companies’ competitive impacts. Many people want a more comprehensive, yet arbitrary, approach that considers the effects of companies’ business on inequality, wages, downstream suppliers and the concentration of political power.

To top this off, many adherents of the consumer welfare standard have themselves become convinced tech companies are just different. Network effects (where the value of a product rises with user numbers), economies of scale, access to vast data, the bundling of products and the operation of huge online marketplaces are features of these firms’ markets.

Even if there’s no consumer harm today, some claim these phenomena create barriers to entry that will entrench the tech giants as harmful monopolies in future. Competition policy, it is said, must therefore be forward-looking and see off these harms.

Alone, none of these arguments are novel. Together, they threaten a counter-revolution in how competition policy is delivered.

Anti-big populism used to be a strong force in US competition policy. The first successful chain grocery store – A&P – was harried through the courts in the Forties after rapid growth delivered cheap food for consumers. The company was accused of predatory price cutting, harming small local retailers, undermining wholesalers through its huge buying power, and using its marketplaces to sell its own goods preferentially against competitors.

Readers might note the parallels to concerns about Amazon today. Yet predictions of A&P's sustained monopoly power did not stand the test of time, following the rise of big-box supermarkets.

In fact, the fatalism we see about tech companies is incredibly present-biased. Large businesses have been predicted to monopolise sectors owing to these same economic phenomena before, only to be cannibalised by new products or ways of doing business.

The "network effects" said to protect Facebook or Google from competition were, at different times, thought to be creating monopolies out of MySpace, Microsoft's Internet Explorer and AOL's Instant Messenger.

As late as 2006, experts claimed that web managers optimising their sites for Internet Explorer due to its wide usage created a feedback loop that would be an insurmountable barrier to competitors. In the case of AOL's Instant Messenger, 40 businesses even wrote to the US Federal Communications Commission asking for AOL's network to be opened to other firms' services. Since then, MySpace has been eaten alive by Facebook, Internet Explorer by Google Chrome, and instant messaging is now available on scores of new apps and services.

History, in other words, is replete with examples of dominant firms falling by the wayside despite having the exact same economic advantages that worry us today.

Experts wail about Apple's app store, for example. They say the firm is anticompetitive because it makes the store the exclusive download mechanism for apps on the iPhone, supposedly giving itself monopoly power to extort app producers.

Leaving aside that developing the app store (as with Amazon's marketplace) has boosted competition across scores of markets, similar arguments were made about Apple's iPods only playing songs formatted from its iTunes store. Then came the rise of music subscription services, such as Spotify and Pandora, as well as the smartphone. Technology and changing consumer tastes ultimately forced an unbundling of music purchase and listening devices.

This kind of competitive pressure is difficult to forecast. But it's real. Kodak, long dominant in the film and photography market, missed the boat on digital cameras, before that sector was again disrupted by smartphones and the internet.

In 2007, Forbes magazine claimed economies of scale for Nokia made life near-impossible for its rivals, by generating "more money to invest in research and development". Nokia's technological superiority was said to mean “no mobile company will ever know more about how people use phones”. The first iPhone launched that year.

As these investigations get under way, be extraordinarily wary about claims that “this time is different” and necessitates a new antitrust approach. This politically convenient talking point will come from both well-meaning economic sources and vested interests, and the sheer size of these firms will mean it is taken seriously.

Yet history shows investigations can be hijacked to consumers’ detriment. Though these firms may well engage in some anticompetitive actions, none of the economic features that can “tip” markets to one-firm dominance for a time have created permanent monopolies before. Overhauling policy on the speculative threat of “future harms” is a fool’s errand.

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