Where's the real harm from Google, Amazon, Facebook and Apple?

Sloppy economic thinking is behind the push for antitrust action

Ryan Bourne

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If you use Facebook, Amazon, Google or an Apple iPhone, then Congress and federal agencies fear you could be a victim of anticompetitive business behavior. The House Judiciary Committee has announced a "top-to-bottom review of the market power held by giant tech platforms." The Justice Department and the Federal Trade Commission likewise are divvying these companies up for their own investigations.

These inquiries will generate a host of claims and counter-claims about supposed economic harms, or potential for them, from these firms. But given current debates, politicians and regulators risk making two huge mistakes in their analysis: mis-defining the markets these huge firms operate in, and overhauling policy based on highly speculative predictions about the future.

Behind Microsoft, the four major tech firms are the biggest U.S. companies by market capitalization. They operate across a range of sectors, and most people interact with at least one of them on a near-daily basis. As a result, they occupy "psychological monopoly" status in our public discourse. So synonymous are they with their primary industries — social networks, online retail, search engines and phones — that it's hard for people to imagine meaningful competition to them.

But a first step in assessing whether the firms are actually engaging anticompetitively is to define the contours of their markets. This is surprisingly difficult. Is Google GOOG, +1.31% GOOGL, +1.34% competing in the market for advertising revenue (given advertisers are its paying customers), digital advertising revenue, or in search engines?

Should Facebook FB, -0.12% be thought of as an advertising space seller or a social network? Might we, as Facebook's Nick Clegg suggests, consider it as competing in sub-markets, such as messaging, photo sharing, contact storage and more? Is Amazon AMZN, +0.96% a retailer in individual product lines, a digital retailer, or a marketplace platform? Or all three?

And is Apple AAPL, +2.27% primarily run as a phone company, or a platform for app producers?

How one answers these questions determines how "dominant" the companies seem. Even then, the size of a company tells us little about consumer welfare. Network effects (the value of a

service growing with the number of users), economies of scale and extensive user data can create markets where consumers actually benefit from one firm dominating for a time, albeit with new technologies and firms offering competition over longer periods.

Absent strong evidence these firms currently harm consumers, proponents of breaking up or regulating them instead claim these economic phenomena might create barriers to entry that give these firms damaging monopoly power in future. In her article "Amazon's Antitrust Paradox," lawyer Lina Khan explicitly argued that antitrust authorities should "ask what the future market will look like." If that sounds familiar, it may be because it's a variation on the theme from "Minority Report," Steven Spielberg's movie about detectives who use information fed to them by prescient oracles to catch criminals before they actually commit a crime.

Given that a quarter-century ago Facebook, Google and Amazon did not even exist, such fatalism about enduring monopolies seems misplaced. In fact, many major firms have dominated markets concurrent with these economic features before, only to be outpaced by new companies or better products.

Read: Big Tech was built by the same type of antitrust actions that could now tear it down

Almost exactly the same arguments about how "network effects" might make Facebook or Google entrenched monopolies were used against Myspace, Microsoft's Internet Explorer and AOL's Instant Messenger. Analysts worriedthat web managers optimizing sites for IE because of its high use numbers would ossify the browser market in Microsoft's favor. In the case of AOL, 40 companies wrote to the Federal Communications Commission asking it to make AOL's network compatible with others. Of course, Myspace was rendered obsolete by Facebook, Internet Explorer by Google Chrome, and AIM by, well, a lot (there are many apps with instant messaging facilities).

But it's not just network effects. In 2007 Forbes was running articles about how economies of scale for Nokia would act as a barrier to entry for rivals. The higher profits were generating "more money to invest in research and development." It was said Nokia's supposed technological superiority meant "no mobile company will ever know more about how people use phones than Nokia." That year saw the first iPhone launch.

Today, consumer groups wail against Apple's supposed "monopoly" power with its app store, saying it's unfair to bundle it into its phone while prohibiting other means of download. Yet similar arguments were made about Apple's iPods inability to play songs that weren't downloaded from iTunes. Of course, developments in the music purchase market, mobiles and speaker technology completely unbundled music purchase from listening devices.

The point here is not that today's tech giants are incapable of anticompetitive behavior or harming consumer welfare. But with the cacophony of hostilities to these firms, politicians and regulators must be mindful of the need to accurately define markets, recognize that one-firm dominance need not equate to consumer harm, and acknowledge that there is little historical support for economically deterministic predictions of enduring monopolies.

Ryan Bourne occupies the R. Evan Scharf Chair for the Public Understanding of Economics at the Cato Institute. Follow him on Twitter @MrRBourne.