Opinion **Silicon Valley**

A light shines on the concentration of power in Silicon Valley

Oligopoly is showing itself to be the economic and political challenge of our time

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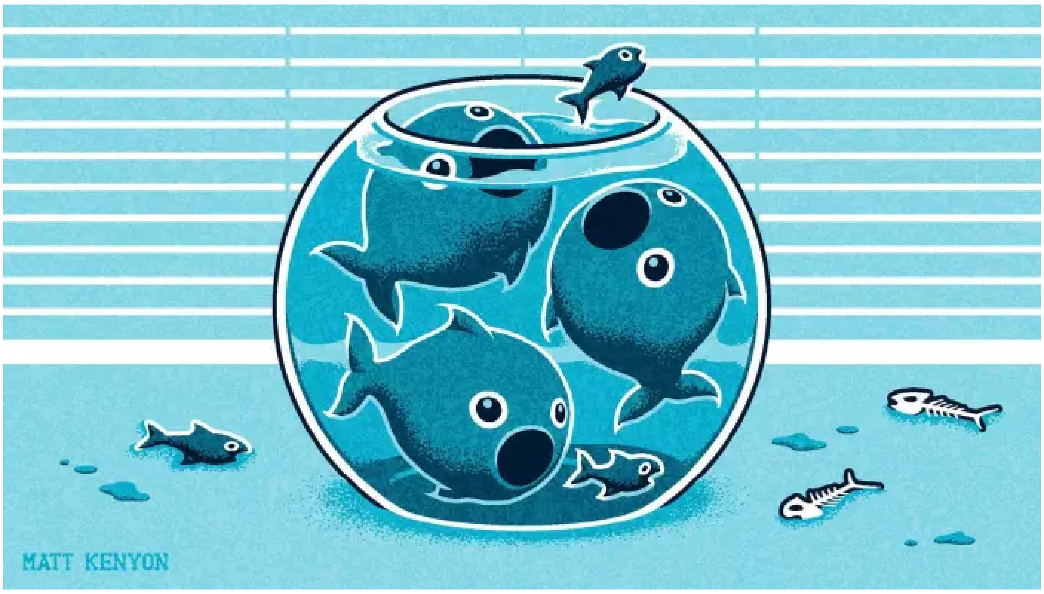

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Rana Foroohar YESTERDAY

The fines keep getting bigger, and so do the companies. Last week's whopping €4.3bn antitrust penalty by the EU against Google for abusing its power in the mobile phone market was nearly double what it was charged last year for favouring search results from its shopping service over competitors.

In both cases, the core issue was the way in which Google uses the power of its enormous ecosystem — it has about 90 per cent of key EU search markets and its Android software is used in more than 80 per cent of the world's smartphones — to winnow out competitors.

It is appealing the latest decision, and will make technical arguments, with varying degrees of merit, about why it is not a monopoly. But the case also shines an uncomfortable light on the concentration of power in a handful of companies. The oligopoly that has resulted is the economic and political challenge of our time.

Research published in the past few years shows that concentration and profit rates have increased across most US industries since the 1990s. Jason Furman, the former head of the Council of Economic Advisors, suggested that this phenomenon hints at barriers to entry in some markets.

Academic David Autor has linked the same consolidation to a decrease in labour's share of the US economy. There is also evidence that a small group of "superstar" companies are pulling way ahead of others, not only in terms of profits but also productivity.

In a paper released last month, OECD economists linked the insufficient diffusion of new technologies to weak overall productivity growth. The biggest companies, particularly in the most digitally connected parts of the economy (tech, finance and media), are incredibly productive. Everyone else, not so much. The upshot is that economic growth as a whole has suffered.

Researchers are busy digging into the reasons for this centralisation of power. They suggest that the shift from a "tangible" economy, based on physical goods, to one based more on intangibles — namely intellectual property, ideas, and data — has sped up the trend towards concentration.

Facebook, Apple, Amazon, Netflix and Google — known collectively as the Faangs — are case studies in how the network effect supports dominant players and allows them to ringfence users and their data. Google's claim that "competition is only a click away" rings hollow — if for some reason the site went down, we would all be more likely to take a coffee break and wait for it to come back online than seek out a competitor.

Another reason for the concentration of corporate power is political capture. Americans invented modern antitrust policy, and love to rail against "statist" old Europe. But a fascinating study by academics Germán Gutiérrez and Thomas Philippon shows that EU markets are, in fact, more competitive. They have lower levels of concentration, lower excess profits, and lower regulatory barriers to entry.

The study points to a huge rise in US political lobbying as the key reason that levels of concentration between the two regions have diverged since the 1990s. "European institutions are more independent than their American counterparts, and they enforce pro-competition policies more strongly than any individual country ever did," it says.

It serves as a sharp counterpoint to the argument often used in Silicon Valley that Europeans do not have an internet giant because they simply are not innovative. US tech groups have been using that tired old line in Brussels for years, apparently forgetting that it was a British computer scientist, Tim Berners-Lee, who invented the worldwide web while working at Cern, the European physics research laboratory.

Google has lobbied hard in recent months against a proposed change to copyright law in Brussels, and put in eleventh hour emergency calls in advance of the Android ruling.

It is to the great credit of EU competition commissioner Margrethe Vestager that she has not been cowed by such efforts. It will be interesting to see whether American regulators follow her lead.

Joseph Simons, the chairman of the Federal Trade Commission, has pledged "vigorous" antitrust enforcement, including hearings later this year on competition and consumer protection. They would be the first broad policy hearings on the topic since 1995. A Republican lawmaker recently called on the FTC or the Department of Justice to reopen a 2013 case on how Google handles search results — Democrats have been calling for the same for some time.

Makan Delrahim, the DoJ head of antitrust, recently told the Financial Times that he believes “data is an important asset”. While he is not opposed in principle to Big Tech’s business models or deal making, he is concerned about abuse of a dominant position. One of his touchstones for anti-competitive behaviour is the late 1990s US v Microsoft case, in which the company was found guilty of using its operating system monopoly to stifle competitors like Netscape a rival browser and software markets.

Many critics see echoes of that behaviour in Google today. Regulators on both sides of the Atlantic need to grapple with it.

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