Is It Time to Break Up Google?

By Jonathan Taplin, 23 April, 2017

In just 10 years, the world’s five largest companies by market capitalization have all changed, save for one: Microsoft. Exxon Mobil, General Electric, Citigroup and Shell Oil are out and Apple, Alphabet (the parent company of Google), Amazon and Facebook have taken their place.

They’re all tech companies, and each dominates its corner of the industry: Google has an 88 percent market share in search advertising, Facebook (and its subsidiaries Instagram, WhatsApp and Messenger) owns 77 percent of mobile social traffic and Amazon has a 74 percent share in the e-book market. In classic economic terms, all three are monopolies.

We have been transported back to the early 20th century, when arguments about “the curse of bigness” were advanced by President Woodrow Wilson’s counselor, Louis Brandeis, before Wilson appointed him to the Supreme Court. Brandeis wanted to eliminate monopolies, because (in the words of his biographer Melvin Urofsky) “in a democratic society the existence of large centers of private power is dangerous to the continuing vitality of a free people.” We need look no further than the conduct of the largest banks in the 2008 financial crisis or the role that Facebook and Google play in the “fake news” business to know that Brandeis was right.

While Brandeis generally opposed regulation — which, he worried, inevitably led to the corruption of the regulator — and instead advocated breaking up “bigness,” he made an exception for “natural” monopolies, like telephone, water and power companies and railroads, where it made sense to have one or a few companies in control of an industry.

Could it be that these companies — and Google in particular — have become natural monopolies by supplying an entire market’s demand for a service, at a price lower than what would be offered by two competing firms? And if so, is it time to regulate them like public utilities?

Consider a historical analogy: the early days of telecommunications.

In 1895 a photograph of the business district of a large city might have shown 20 phone wires attached to most buildings. Each wire was owned by a different phone company, and none of them worked with the others. Without network effects, the networks themselves were almost useless.

The solution was for a single company, American Telephone and Telegraph, to consolidate the industry by buying up all the small operators and creating a single network — a natural monopoly. The government permitted it, but then regulated this monopoly through the Federal Communications Commission.

AT&T (also known as the Bell System) had its rates regulated, and was required to spend a fixed percentage of its profits on research and development. In 1925 AT&T set up Bell Labs as a separate subsidiary with the mandate to develop the next generation of communications technology, but also to do basic research in physics and other sciences. Over the next 50 years, the basics of the digital age — the transistor, the microchip, the solar cell, the microwave, the laser, cellular telephony — all came out of Bell Labs, along with eight Nobel Prizes.

In a 1956 consent decree in which the Justice Department allowed AT&T to maintain its phone monopoly, the government extracted a huge concession: All past patents were licensed (to any American company) royalty-free, and all future patents were to be licensed for a small fee. These licenses led to the creation of Texas Instruments, Motorola, Fairchild Semiconductor and many other start-ups.

Changes at the Top
The five largest companies in 2006, Billion market cap.
Exxon Mobil $540
General Electric $463
Microsoft $355
Citigroup $331
Bank of America $290

……….. and now, 2017:
Apple $794
Alphabet (Google) $593
Microsoft $506
Amazon $420
Facebook $414

True, the internet never had the same problems of interoperability. And Google’s route to dominance is different from the Bell System’s. Nevertheless it still has all of the characteristics of a public utility.

We are going to have to decide fairly soon whether Google, Facebook and Amazon are the kinds of natural monopolies that need to be regulated, or whether we allow the status quo to continue, pretending that unfettered monoliths don’t inflict damage on our privacy and democracy.

It is impossible to deny that Facebook, Google and Amazon have stymied innovation on a broad scale. To begin with, the platforms of Google and Facebook are the point of access to all media for the majority of Americans. While profits at Google, Facebook and Amazon have soared, revenues in media businesses like newspaper publishing or the music business have, since 2001, fallen by 70 percent.

According to the Bureau of Labor Statistics, newspaper publishers lost over half their employees between 2001 and 2016. Billions of dollars have been reallocated from creators of content to owners of monopoly platforms. All content creators dependent on advertising must negotiate with Google or Facebook as aggregator, the sole lifeline between themselves and the vast internet cloud.

It’s not just newspapers that are hurting. In 2015 two Obama economic advisers, Peter Orszag and Jason Furman, published a paper arguing that the rise in “supernormal returns on capital” at firms with limited competition is leading to a rise in economic inequality. The M.I.T. economists Scott Stern and Jorge Guzman explained that in the presence of these giant firms, “it has become increasingly advantageous to be an incumbent, and less advantageous to be a new entrant.”

There are a few obvious regulations to start with. Monopoly is made by acquisition — Google buying AdMob and DoubleClick, Facebook buying Instagram and WhatsApp, Amazon buying, to name just a few, Audible, Twitch, Zappos and Alexa. At a minimum, these companies should not be allowed to acquire other major firms, like Spotify or Snapchat.

The second alternative is to regulate a company like Google as a public utility, requiring it to license out patents, for a nominal fee, for its search algorithms, advertising exchanges and other key innovations.

The third alternative is to remove the “safe harbor” clause in the 1998 Digital Millennium Copyright Act, which allows companies like Facebook and Google’s YouTube to free ride on the content produced by others. The reason there are 40,000 Islamic State videos on YouTube, many with ads that yield revenue for those who posted them, is that YouTube does not have to take responsibility for the content
on its network. Facebook, Google and Twitter claim that policing their networks would be too onerous. But that’s preposterous: They already police their networks for pornography, and quite well.

Removing the safe harbor provision would also force social networks to pay for the content posted on their sites. A simple example: One million downloads of a song on iTunes would yield the performer and his record label about $900,000. One million streams of that same song on YouTube would earn them about $900.

I’m under no delusion that, with libertarian tech moguls like Peter Thiel in President Trump’s inner circle, antitrust regulation of the internet monopolies will be a priority. Ultimately we may have to wait four years, at which time the monopolies will be so dominant that the only remedy will be to break them up. Force Google to sell DoubleClick. Force Facebook to sell WhatsApp and Instagram.

Woodrow Wilson was right when he said in 1913, “If monopoly persists, monopoly will always sit at the helm of the government.” We ignore his words at our peril.

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