The Digital-Age Robber Barons?

**INTRODUCTION**

Could Big Tech dominance be merely temporary? Indeed, U.S. business history seems to oscillate between periods of intense competition and periods of consolidation of monopolies. Moreover, the anti-trust sector is showing early signs of a paradigm shift that could regulate tech-monopolies.

**OBSERVATIONS**

- Alphabet controls nearly 90% of search advertising, Facebook almost 80% of mobile social traffic, and Amazon about 75% of e-book sales. J. Taplin argues that these monopolies are more powerful than previous ones, which tended to be limited to a single product or service.

- In *The Attention Merchants*, Tim Wu notes that there is a pattern in the history of businesses that compete for our attention: a period of explosive growth triggers a public and sometimes legislative action. The seeds of such a backlash might already be visible in the rising public concern over the effect of social media on our wellbeing, as we noted last week.

- Business historian Alfred Chandler summed up the history of American business after the civil war as oscillation between "competition and oligopoly". Periods of intense competition, often driven by the rise of new technologies, (such as oil, telephones, computers and the internet), precede market consolidation.

**ANALYSIS**

In the aftermath of the civil war, the industrial ‘robber barons’, like J.P. Morgan, Andrew Carnegie and J.D. Rockefeller, amassed great wealth. Partly due to protest from small businesses, Congress passed the Sherman Antitrust Act of 1890, which is at the heart of U.S. competition (or anti-trust) law. Its purpose is to preserve competition and protect consumers. Broadly speaking, from the 1910s up until the 1970s regulators were active in enforcing the Sherman Act, and broke up companies like Standard Oil and AT&T because they expanded too much both horizontally and vertically. However, economists from the Chicago School triggered a paradigm shift in the 1970s: monopolies were allowed as long as consumers benefited from them (this idea still guides U.S. anti-trust thinking today). As anti-trust enforcement diminished, the "evil corporation" was born in popular culture (from Robocop, Jurassic Park and Alien to Wall-E, the Circle and Ex Machina). Yet, there is a more cyclical interpretation to anti-trust thinking: markets oscillate between competition and consolidation, while different generations enact policy based on different eras: periods of anti-business sentiment (such as the 1910s and 1930s) are followed by periods of pro-business policies (such as the 1920s and 1950s).

Currently, three trends could trigger another paradigm shift in anti-trust thinking. First, the pro-business era from the Reagan to the Clinton administrations is giving way to an anti-business mood. Both Trump and Clinton were outspoken about their intention to tackle Big Tech. Steve Bannon wanted to regulate Big Tech like utilities. The DOJ has blocked 39 mergers under Obama, compared to 16 under Bush. Second, the economic perils of Big Tech domination are raising concern. The number of new firms being born is at its lowest level since the 1970s. Even Chicago School economists have expressed concern over the threat Big Tech poses to the U.S. economy. Third, although Big Tech companies are still beloved, they are increasingly being associated with privacy-invasion, inequality, fake-news, and the destruction of industries like newspapers, advertising and music. This could fuel public outrage similar to the protest of the late 19th century.

What might an anti-trust process look like? Regulation, like competition, often targets adjacent markets. AT&T was prohibited to enter the computer business, and Microsoft’s maneuvers in the browser market were tackled to regulate its monopoly in the OS market. However, it is important to note that even anti-trust action without any verdict can transform industries focused on innovation: the IBM case, opened in 1969 and dropped in 1982, cost IBM $1bn (equivalent to $5bn today) and prevented it from entering the software market, leading to the dominance of Microsoft and Intel. Similarly, the Microsoft case is said to have enabled the dominance of Google. All in all, in historical perspective, the consolidation of Big Tech monopolies is anything but inevitable – even failed anti-trust action could disrupt their dominance.

**POTENTIAL BENEFICIARIES**

- Anti-trust action will boost opportunities for firms in adjacent markets, such as VR, AR and neurotechnology.

- Since the E.U. is more likely to enforce anti-trust action, the European tech sector could benefit. Germany is investigating Facebook and views privacy as a competition (or anti-trust) issue.