Is "Big" Necessarily "Bad"?

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APNIC

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This is not a new question…

High Museum of Art, Atlanta

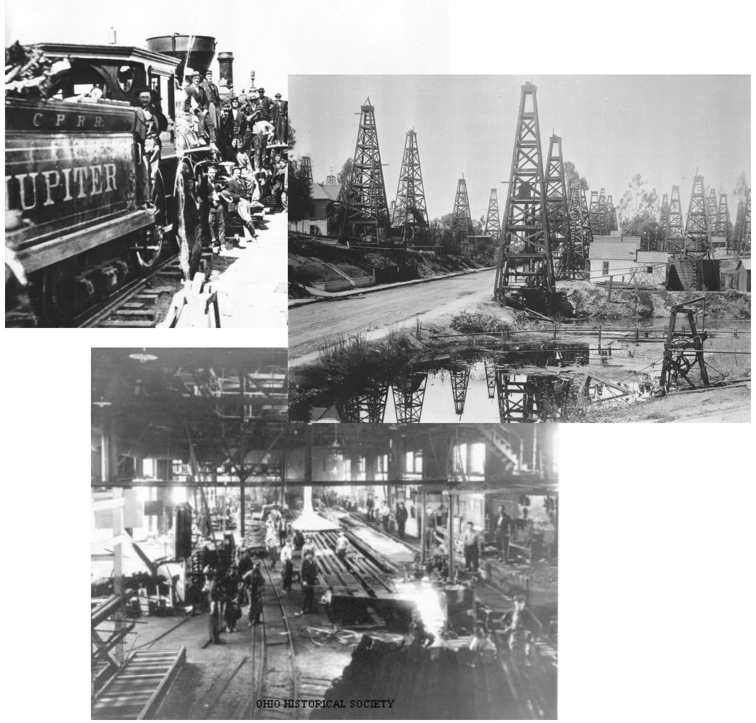
Foundations: the US in the 1870's

- The dislocation of a previously agrarian workforce by the civil war created the opportunity for expansion of the industrial workforce through urbanisation and immigration
- The massive expansion of the national railway system allowed efficient distribution of goods throughout the year
- Liberalised capital markets with offshore investment encouraged entrepreneurial ventures
- The telegraph (and subsequently the telephone) network allowed the projection of power and influence, allowing corporate entities to expand their effective scope beyond a single locale
- Industrialisation transformed small scale cottage industries into large scale industrial production

The Gilded Age

A term applied to America in the 1870 – 1890’s about the building of new industrial and commercial corporate giants on platforms that were a mix of industrial innovation and enterprise with elements of greed, corruption and labor exploitation

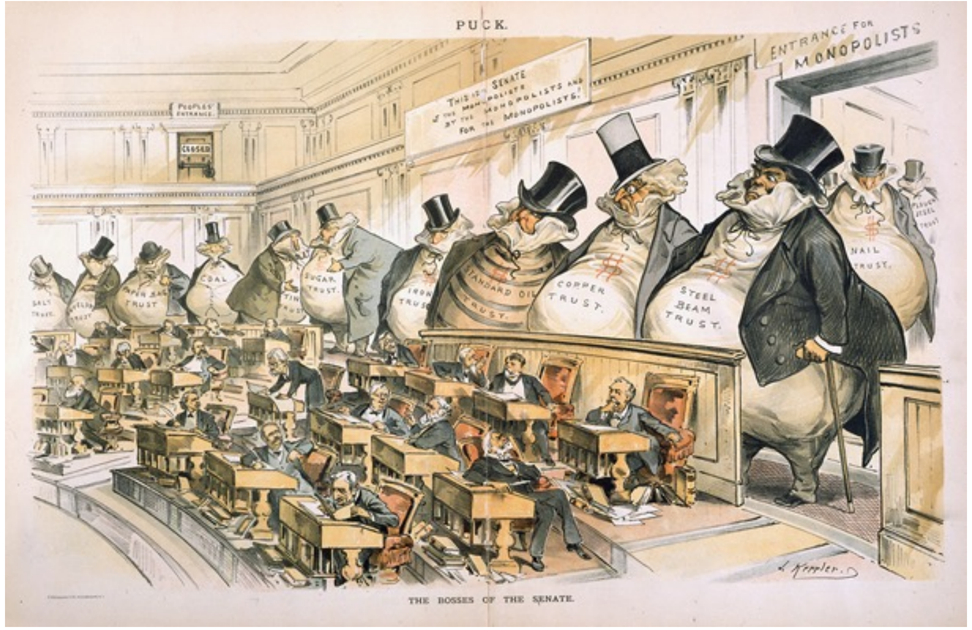
Andrew Carnegie - US Steel
John Rockfeller - Standard Oil
Theodore Vail - AT&T
George Westinghouse – Rail Brakes
Thomas Edison – General Electric
J P Morgan - Banking



The Gilded Age

During this period in the United States the dominant position within industry and commerce was occupied by a very small number of players who were moving far faster than the regulatory measures of the day.

The resulting monopolies took the US decades to dismember, and even today many of these gilded age companies remain dominant in their field



The Sherman Act

- An attempt to curtail the excessive aggregation of power that interferes with trade and competition
- The act was intended to protect the public from the perils of failure of a market to sustain competition within the market
- It prohibits anti-competitive arrangements and conduct that creates market monopolisation that results in the restraint of trade and competition within a market
- Applied in 1911 to Standard Oil, American Tobacco and General Electric
- Applied in 1982 to AT&T

What happened between 1911 and 1982? What happened after 1982?

Why wasn't the Sherman Act bought to bear on other industrial enterprises through most of the 20th century?

- Unintended side-effects of application the Sherman Act may be a factor - the break up of Standard Oil and American Tobacco caused the economic panic of 1910-1911
- Dominant enterprises turned to political lobbying to forestall political action in the form of anti-trust actions
- The US assumed a dominant position in international markets
  - In 1913 the US auto industry was already manufacturing 485,000 units out of a world total of 606,000, and by 1929 Ford, GM and Chrysler had 80% of global market share
- The US domestic economy was a major beneficiary of large scale US enterprises dominating the global market, making them politically untouchable in the domestic marketplace

Louis Brandeis - "Big is Bad" by definition

US Supreme Court – 1916 – 1939

- He argued that big business was too big to be managed effectively in all cases.
- The growth of these very large enterprises that were at the extreme end of the excesses of monopolies, and their behaviours harmed competition, harmed customers and harmed further innovation
- The quality of their products tended to decline, and the prices of their products tended to rise once they had achieved market dominance
- When large companies can shape their regulatory environment, take advantage of lax regulatory oversight to take on more risk than they can manage, and transfer downside losses onto the taxpayer, then we should be very concerned

Theodore Roosevelt

US President 1901 – 1909

- There are legitimate economies of scale where large enterprises could achieve higher efficiencies and lower prices to consumers in the production of goods and services by virtue of the volume of production
- Large enterprises gain access to volumes of capital and resources that are otherwise inaccessible
- The auto industry and the electricity industry are examples of a prohibitively expensive luxury good that turned into a generally accessible product through the application of massive scale in production of the good

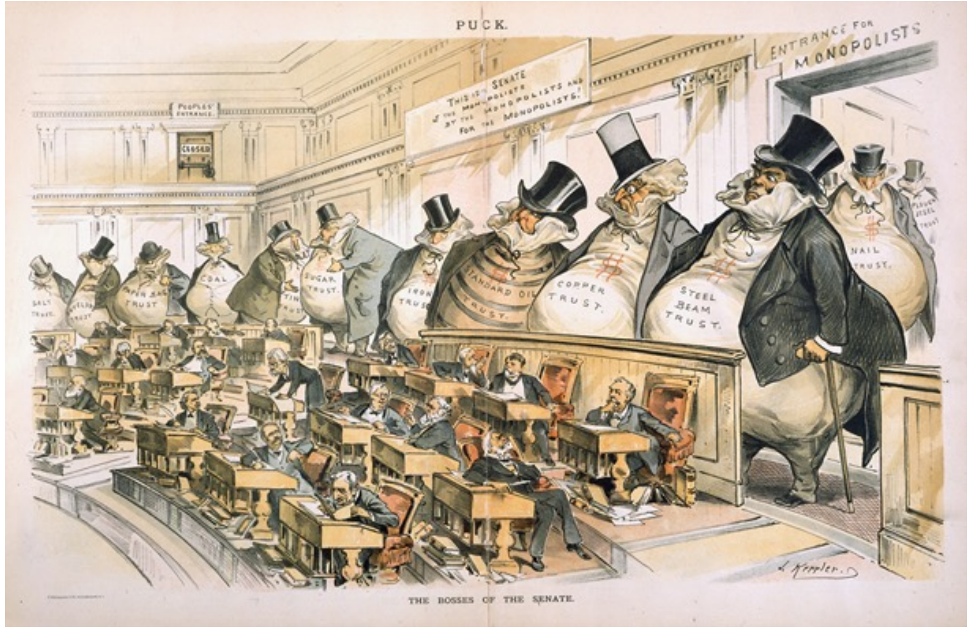
Regulation?

- Brandeis: no methods of regulation ever have been or can be devised to remove the menace inherent in private monopoly and overwhelming commercial power
- John Ralston Saul: you should never expect the private sector to safeguard the public interest

- If we regulate, then are we attempting to forestall the condition, or applying regulatory sanctions on the consequent behaviour?
- What happens during periods of rapid change in the enterprise landscape? How does regulation remain relevant? How can we prevent regulation from embedding enterprises in the past?

The Internet's Gilded Age

At some point in the past decade or so the dominant position across the entire Internet has been occupied by a very small number of players who are moving far faster than the regulatory measures that were intended to curb the worst excesses of market dominance by a small clique of actors.



The Internet's Gilded Age

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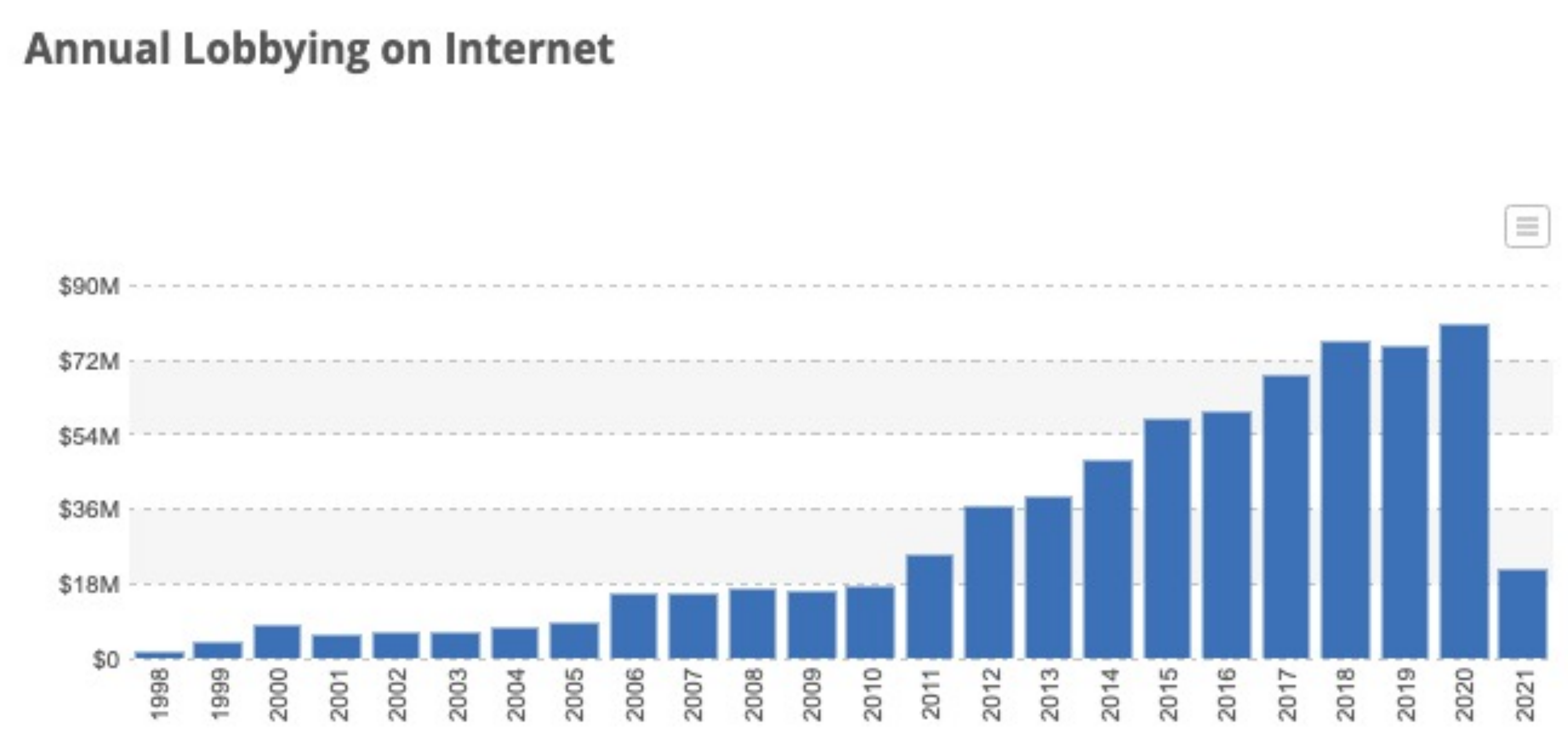

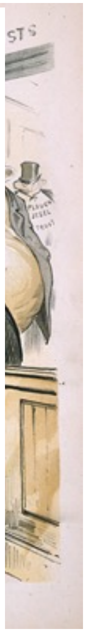

Source: Open Secrets

The Internet's Gilded Age

2020 Lobbying Sources - US

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Client/Parent	Total
Facebook Inc	$19,680,000
Amazon.com	$18,685,000
Alphabet Inc	$8,660,000
Alibaba Group	$3,160,000
ByteDance Inc	$2,610,000
SalesForce.com	$2,050,000
IAC/InterActiveCorp	$1,810,000
Twitter	$1,540,000
Tencent Holdings	$1,524,000

Source: Open Secrets

Market Sentiment

9 of the 10 largest publicly traded companies are now technology companies

And one fossil fuel company!

In this top 10 list there are no

- financial services
- chemicals
- industrials
- retails

Based on national GDP Apple's market cap is now more valuable than all but 8 of the world's economies!

Rank	First quarter
1	Apple Inc. ▼2,050,000[13]
2	Saudi Aramco ▼ 1,890,000
3	Microsoft ▲1,778,000[14]
4	Amazon ▼1,558,000[15]
5	Alphabet Inc. ▲1,395,000[16]
6	Facebook, Inc. ▲838,720[17]
7	Tencent ▲766,970[18]
8	Tesla, Inc. ▼641,110[19]
9	Alibaba Group ▼615,010[20]
10	TSMC ▲613,410

https://en.wikipedia.org/wiki/List_of_public_corporations_by_market_capitalization

The Internet's Gilded Age

These actors have enough market influence to set their own rules of engagement with:

- Users,
- Each other,
- Third party suppliers,
- Regulators and Governments

By taking a leading position with these emergent technologies, these players can amass vast fortunes, with little in the way of accountability to a broader common public good

What's the problem?

Is it that these enterprises are:

- so big?
- exploitative of their workers?
- distorting markets?
- extracting monopoly rentals from consumers?
- not providing consumers what they want?

What we want?

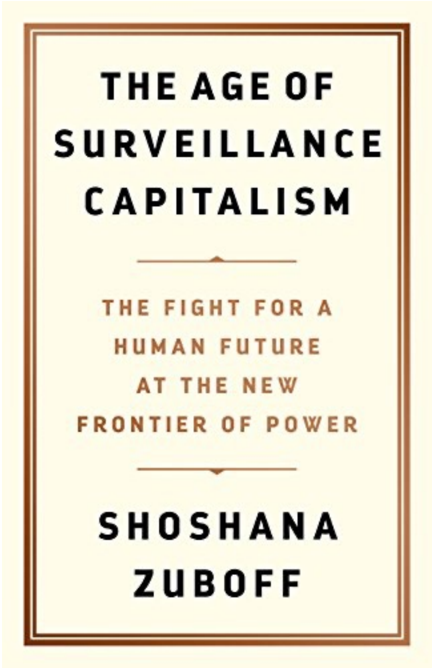
- It seems that these enterprises have focussed very sharply on giving users precisely what they want
- The ability to customise a solution to a market of 1 and still bring economies of scale to that market underlies their success
- Their ability lies in achieving a critical mass in size that allows them sufficient bulk to capitalise an asset that individually is worthless
- So we all use these services – because they are obtained through the capitalisation of something that individually we are incapable of capitalising

There are side-effects

- In order to understand what each consumer wants, the service provider needs to understand the consumer
- Which brings us to…

Surveillance Capitalism

- Much of the wealth and impact of these activities is built upon a foundation of aggregation of individual user behaviour and construction of personal profiles
- It also has benefitted from a cavalier attitude towards data security and privacy concerns and the absence of regulatory imposts that attempt to safeguard some basic common aspects of personal privacy



What we might want

If this situation calls for some public sector response then perhaps the thrust of any such response should focus on the user rather than the dynamics of the market

But the public sector efforts to do so remain largely ineffectual despite the magnitude of the public concern over private sector seizure of the space of public discourse

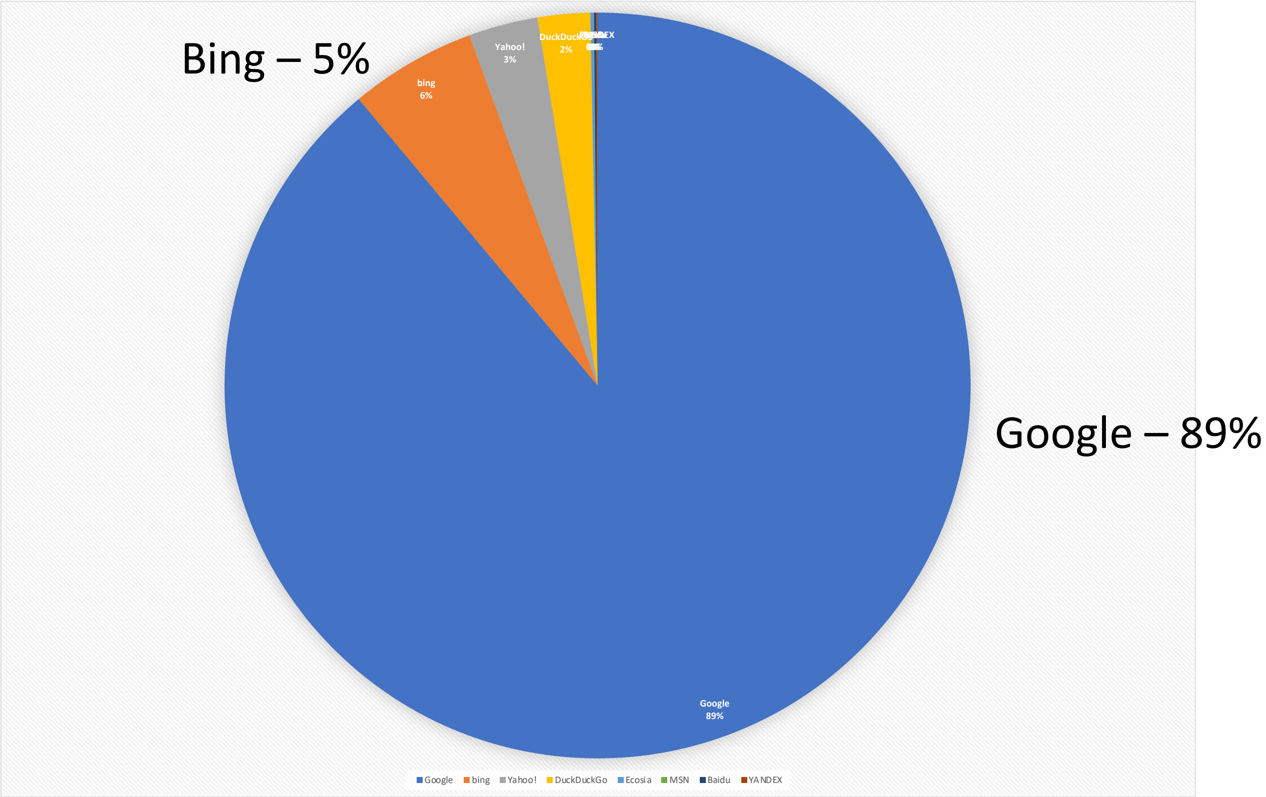
Where are we?

- We are now communicating with a computer-mediated environment rather than with each other
- The network itself is largely incidental to this evolving story, and this is not really about the Internet any more
- It’s about a set of revolutionary social changes on a par with the industrial revolution that have been triggered by abundant computing, storage and comms

Maybe its more than this

- In a world of abundant content what do we choose to view?
- What do we choose to believe?
- Search becomes the arbiter of content selection and assumes a level of ultimate importance in this world
- What's the outcome of search being dominated by a single entity?

Is it about what we *buy* or is this more about what we *think*?



Share of search in US market - 2021

https://gs.statcounter.com/search-engine-market-share/all/united-states-of-america

Where does all this head?

For our society this market-driven digitisation of our world has the potential to be incredibly empowering or incredibly threatening

Or both at the same time!