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"Tech giants have become too powerful and the only solution is to break them up." To what extent is this statement desirable and feasible?

Under the wing of the digital revolution, technology companies have been allowed to rise up and grow in both size and power. The likes of Google, Amazon, Facebook, Apple, and Microsoft (grouped together as 'tech giants') have taken the world by storm. The power that they have accumulated has got to a point whereby it is frightening how much control they have over our lives. They have complete access to our data and our digital life, to the point of knowing our whereabouts to what weird and wonderful things we are interested in. They are certainly monopolistic.

However, despite their plethora of power, I do not believe that they should be broken up. Whilst these companies are legally classified as monopolies, they have not exhibited dangerous abuse of power and continue to keep their customers' interests at the forefront of their actions. I believe that regulation should be stepped up to ensure that these companies cannot get away with illegal activities, which would inevitably curb their power.

Why are they so powerful?

In the past, oil has been regarded as the most crucial component of the economy. However, now, the most valuable asset is data. Our online life encompasses who we are, and some of the most private information about ourselves. The fear is that this information could easily be sold or misused, compromising us as users. In addition, many of the tech giants offer cheap, or even free services or products. Take Facebook, for example, their service is open to all members of the public and completely free upon use, or is it? Rana Foroohar, the FT's global business columnist commented: "We think [the services] are free but we are actually paying with our data… the most valuable commodity that we have so we have no idea how much value is going out of the window." [1] Their power lies in their possession of such vast volumes of information.

Abuse of their Power

Data has been branded the "oil of the digital economy." [2] These companies hold large sums of data and hence, by their nature, have significant power. They must hold this data in order to perform the tasks that they do. The central question, however, is whether these companies abuse the power that they hold. To some extent, individual companies have. The Cambridge Analytica scandal being a topical example, where the data of 87 million Facebook users was used to influence public voter opinion. This resulted in a public outcry about the misuse of data, and by extension whether these tech giants should be broken up.

However, if we were to break up these companies, it would not solve the problem at hand: not preventing companies from misusing our data as regulation would still be weak. Thus, breaking up these companies might appear a short-term fix by diluting their power, but, in the long run, it is likely that the way in which these companies operate will not alter at all. In fact, it might actually drive tech companies towards more activity like this because their aim is to make profit, whilst having to keep their services very cheap or free. Hence, to make money they will turn to selling our data. If we truly want to be corrective, then breaking up these companies is not the solution.

Regulatory Changes

We must regulate tech giants with an iron fist. The government's tool of policy making has significant potential power. Google's $5 billion fine is an illustration of this and

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[1] Foroohar, Rana (2018) *"Break Up The Tech Giants"* YouTube Video. https://www.youtube.com/watch?v=ay4bKauK-UU. Last Accessed: 31 July 2018

[2] Toonders, Joris (2018) *"Data Is The New Oil Of The Digital Economy"*. Wired. https://www.wired.com/insights/2014/07/data-new-oil-digital-economy/. Last Accessed: 31 July 2018

is a step in the right direction. [3] Stern regulation tells these companies that they must conform to the rules set out. After all, they act in their own interests in every single decision that they make. When these tech giants begin to fear their regulators and the sanctions that can be imposed, then they will actively decide not to abuse their power.

Those who propose the breaking up of these companies would refute this argument by claiming that it is easier to regulate smaller companies. But simply being easier to regulate does not translate to better regulation being enforced. Douglas Rushkoff, a media commentator, noted: “Since when has the internet not been regulated? It’s simply regulated poorly.” [4] This points towards a need to step up regulation rather than break these companies up. Breaking them up begins the cycle whereby another small firm finds a new niche, grows big and then is broken up, which then repeats. (see Fig.1)[5] It is a short-term cover that governments would be able to hide under, but in the long term, it does not fundamentally solve anything.

Danger of Monopolistic Control

The potential threat that these monopolies pose is undoubtedly frightening. At Business Insider’s IGNITION conference, NYU professor Scott Galloway argued that whilst prices rising and quality falling is currently not a problem, it is likely to become a problem in the future. [6] Under this potential threat, he called for these tech giants to be broken up. However, I believe that whilst he underscores the potential threat accurately, it will never manifest into reality. This is because these companies focus on maximising consumer

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[3] Warren, Tom (2018) *“Google Fined A Record $5 Billion By The EU For Android Antitrust Violations”*. The Verge. https://www.theverge.com/2018/7/18/17580694/google-android-eu-fine-antitrust. Last Accessed: 31 July 2018

[4] Arthur, Charles (2017) *“Internet Regulation: Is It Time To Rein In The Tech Giants?”* The Guardian. https://www.theguardian.com/technology/2017/jul/02/is-it-time-to-rein-in-the-power-of-the-internet-regulation. Last Accessed: 31 July 2018

[5] See Appendix, Fig. 1

[6] Galloway, Scott (2017) *“The Big Four”* YouTube Video. https://www.youtube.com/watch?v=6NyFRIgulPo&t=57s Last Accessed: 31 July 2018

satisfaction and improving global connections- outlined in their mission statements [7]: working for the people, not against them. Consumers still have the choice whether to utilise their services or not, thus it remains in the interests of these tech giants to maintain the lowest possible prices whilst continuing to increase quality.

Those who propose breaking these companies up would cite Apple's latest iPhone X as an example of prices begin to spiral upwards. The retail price of the company's 2018 flagship device was $1,000, up from the $650 of the iPhone 7 (a 53.8% increase). However, in this case, the production costs had also risen significantly from $248 to $581 (an increase of 134.3%). Therefore, the price increase was clearly justifiable and was almost sacrificial by Apple as they would be taking a hit on their profit growth levels. Limer, deputy editor of Popular Mechanics, went to the extent of saying that: "short-term profit is probably not what the iPhone X is made for. In fact, Apple would be wise to be wary of selling too many at the moment." [8]

Apple remains consumer-centric despite their 51% of global smartphone revenue share. These tech companies have found a balance between the need to make profit, fulfilling their mission statement and ensuring a high quality service or product offered. To break them up would force them to take steps backwards and lead to general social regression.

The Need to be Big

Tech companies are able to perform largely because they have access to such wide data pools. Silicon Valley developed on the premise that there would be knowledge spillover

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[7] Mission Statements: *Facebook*- "to bring the world closer together"
Google- "To organise the world's information and make it universally accessible and useful."
Amazon- "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online"
[8] Limer, Eric (2017) *"Why The iPhone X May Be Painfully Pricey On Purpose"*. Popular Mechanics. https://www.popularmechanics.com/technology/gadgets/news/a28245/iphone-x-cost-supply-chain/
Last Accessed: 31 July 2018

between neighbouring firms. The success and power of these companies are due to their size. When the aims are to connect the world together and break down political borders, then outreach and size are key. Amazon's desire was to become the 'everything store', but how can this be done if we do not give it access to everything. If we wish to live in the globally connected world that these companies have created, then it is not at all desirable to break these giants up.

A Feasible Solution?

Feasibility of breaking up these firms is also debatable. In my opinion, it would be an outlandish task to attempt to do this. Every part of the companies feed off of each other, and therefore dividing them would being up logistical dilemmas. That being said, proponents of breaking up these firms posit that companies have been split up before and hence it is not impossible to do. A prime example of this would be the case of Standard Oil. It had grown from one refinery in Cleveland in 1863 to producing 87% of all US refined oil output. [9] In 1911, however, the Supreme Court ruled that the company was in breach of Sherman's anti-trust legislation and ordered that it be broken up into 34 independent companies.

However, once again, there are flaws in comparing the Standard Oil case to these tech giants. Two intrinsic problems emerge with this: completely different business models and history repeating itself.

Different Business Models

The breaking up of Standard Oil (SO) was feasible because it could easily be divided up geographically. SO New Jersey became Exxon; SO New York into Mobil; SO California rebranded as Chevron. The company could be naturally broken up. However, with the tech

[9] Elliott, Larry (2018) *"Is It Time To Break Up The Tech Giants Such As Facebook?"* Larry Elliott. The Guardian. https://www.theguardian.com/business/2018/mar/25/is-it-time-to-break-up-the-tech-giants-such-as-facebook. Last Accessed: 31 July 2018

giants, this is not the case. International or national borders do not exist in the cybersphere. Tech giants take advantage of this- they embody globalisation. Therefore, splitting up these companies geographically would not work as they rely on the interactions between different people of different nations. It is simply not as feasible to break these companies up.

History Repeating Itself

With the SO division, Roosevelt's aim was to force regulation into the petroleum industry. [10] By breaking the company up into various different smaller entities he was successful, in the short-term. However, 97 years on we find ourselves in a similar situation with OPEC dominating the oil industry, owning 81.89% of oil reserves in their member countries and can control the global price of oil. [11] History has repeated itself. What is the reason for this? A lack of stern regulation.

Had the oil companies been regulated more sternly then it would not have been likely that a monopoly would not have been able to form in the market. The same logic can be applied to the tech giants: breaking these companies up is illogical because in the short run it may achieve the goal, but in the long run, other giants will emerge and the cycle will continue. Harsher regulation that is needed to achieve the competitive market that we desire.

Creative Destruction

If cyberspace was left entirely to market forces, some believe that havoc would strike as the biggest fish (the tech giants) would eat the small fish (the start-ups). Therefore, regulation is required to prevent the tech industry from becoming a complete oligopoly. However, the free market is not completely useless in withholding competitiveness. Creative destruction (the process of industrial transformation, from a competitive to a monopolistic

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[10] *"The Dragon Slain: The Breakup Of The Standard Oil Trust"*. Penn State College Of Earth And Mineral Sciences. https://www.e-education.psu.edu/egee120/node/226. Last Accessed: 31 July 2018

[11] *"OPEC Share Of World Crude Oil Reserves"*. https://www.opec.org/opec_web/en/data_graphs/330.htm. Last Accessed: 31 July 2018

market and then back to a competitive one) [12] ensures that these tech giants remain 'on their toes' and that continue to research and develop their products and services. This removal of complacency from the tech industry keeps it competitive and customer-satisfaction oriented.

Larry Page commented that "competition is only one click away" [13] evidenced by what happened to Yahoo! in 2000. It was dubbed to be "the biggest star in the Internet cosmos" [14] with a valuation of $125bn. A few months later, Google was formed and took the world by storm, seizing control of the market. Today, Yahoo! has a meagre value of $32bn. In sum, a combination of free market competition and strong regulation will ensure that the tech giants will continue to serve the general public whilst not exercising dangerous monopolistic practices.

Conclusion

Tech giants have emerged as a result of the digitalisation of our world. If we wish to learn from our mistakes, we need to step up regulation by handing out greater fines; preventing all start-ups being bought up; and in extreme cases, preventing operation in particular regions. However, the emphasis lies on these being threats with the potential to be exercised. Breaking these companies up is not desirable at this point time, nor is it the most feasible.

Sherman's Hammer [15] solved the anti-trust problems of its time, but our world has developed significantly in a century. Regulation needs to be approached differently. Breaking the tech giants up is a last resort measure and I believe that we are far from needing to do

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[12] Riley, Geoff (2009) *"Explaining Creative Destruction"*. https://www.tutor2u.net/economics/blog/explaining-creative-destruction. Last Accessed: 31 July 2018

[13] Wismer, David (2012) "*Google's Larry Page: 'Competition Is One Click Away'*" https://www.forbes.com/sites/davidwismer/2012/10/14/googles-larry-page-competition-is-one-click-away-and-other-quotes-of-the-week/. Last Accessed: 31 July 2018

[14] Stross, Randall (1998) *"How Yahoo! Won The Search Wars Once Upon A Time"*. Fortune Archive. http://archive.fortune.com/magazines/fortune/fortune_archive/1998/03/02/238576/index.htm. Last Accessed: 31 July 2018

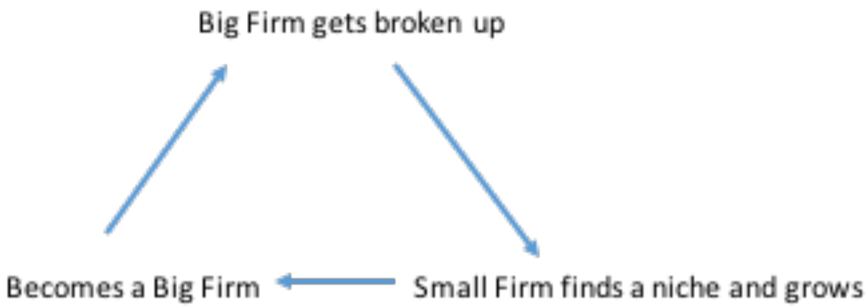
[15] Beattie, Andrew (2018) *"A History Of U.S. Monopolies"*. Investopedia. https://www.investopedia.com/insights/history-of-us-monopolies/. Last Accessed: 31 July 2018

this. As long as these tech giants continue to serve in the interests of the consumers, they should not be broken up.

Word Count: 1973 (excluding footnotes and bibliography)

Appendix

Fig. 1



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OPEC *OPEC Share of World Crude Oil Reserves*. [online] Available at: https://www.opec.org/opec_web/en/data_graphs/330.htm [Accessed 31 Jul. 2018].

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