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Breaking Up "Big Tech" – a Bad Idea

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There is no doubt that our laws have failed to keep pace with technological innovation. In addressing these shortcomings, our eyes should be on the future and the seemingly endless opportunities for innovation that lie ahead. Yet, politicians on both sides of the aisle are looking to the past, channeling trust-busting sentiments from the Progressive Era.

Most prominently, Senator Elizabeth Warren released a proposal to break up "Big Tech" as part of her 2020 presidential campaign. Meanwhile, Republicans in Congress have vocalized concerns over censorship by social media companies. Senator Ted Cruz recently stated that "by any standard measure, the big tech companies are larger and more powerful than Standard Oil was when it was broken up … and if we have tech companies using their monopoly to censor political speech, I think that raises real antitrust issues." While monopolies and oligopolies are true examples of market failures, those terms simply don't describe what's going on with Big Tech today.

To be sure, companies like Google and Facebook have experienced tremendous growth over the past few decades. Since its founding in 1998, Google has expanded to employ nearly 100,000 workers, and Facebook—from its humble origins in a college dorm room—now reaches over 2.3 active monthly users. Together, these two companies and their subsidiaries account for over 70 percent of all web traffic.[1] This impressive growth has led many to conclude that the Big Tech firms are anticompetitive, but their growth has been driven by consumer preferences rather than special protections. In fact, proposals like Senator Warren's call to break up firms like Google and Facebook only open the door to further cronyism and rent-seeking. Here are 5 reasons why these proposals just don't make sense:

1. Tech firms provide a number of services, but that doesn't make them anti-competitive

There are many search engines to choose from, but Google is overwhelmingly the most popular because it's better than the competition. A major complaint in Warren's proposal is alleged anti-competitive actions by Google such as prioritizing its own services in search results. For example, if you search "restaurants," the first result will be a Google-sponsored map of nearby locations with other information like reviews, hours of operation, and price levels—all in one easy-to-read box. Below that, on the same page of results, are links to competitors like TripAdvisor, Yelp, and OpenTable. It is hard to argue that this is harmful to consumers or severely limits competition. Results like this make Google more convenient, and competing services are certainly better off than in a world without search engines. Moreover, Google search is a free service because it generates revenue from advertisements. Warren's proposal would require Google to separate its search functions from its other services including maps, reviews, advertisements.[2] The result: less helpful search that you'd have to pay for—that's hard to sell as better for consumers.

2. Acquisitions are good for innovation

Start-ups are often swallowed by larger firms in an effort to limit competition. Facebook and Google, for example, have acquired a combined total of 362 companies—many of which were potential competitors.[3] However, these acquisitions also make innovation feasible. Many small firms lack the capital to bring their ideas to market while larger firms have the scale and resources to absorb the costs associated with research and development. In effect, acquisitions shift risks from smaller firms to larger firms who can afford short-term losses.[4] If, as Warren suggests, large firms were prohibited from making acquisitions, many innovative ideas would never see the light of day. The Department of Justice and Federal Trade Commission already have the power to prevent mergers that would significantly reduce competition. Impeding mergers without strong evidence of anti-

competitive effects would only decrease the expected payoff for start-up investors and reduce the incentive to form new businesses. On the other hand, allowing reasonable acquisitions to take place encourages new business formation, allowing innovations to reach consumers more quickly and at a lower cost—a win-win.

3. Big firms are better for data security and privacy

One advantage to scale is greater ability to invest in security. In fact, the big tech firms spend billions on developing new forms of encryption to protect user data. There is even competition among firms to provide better security because consumers demand it.[5] Of course, there are genuine concerns about excessive data collection and invasions of privacy, but it isn't clear that breaking up the big firms would mitigate these problems.[6] Greater competition among smaller firms would create incentives to use our data in more profitable ways while limiting firms' ability to invest in security. Some regulation may be necessary to limit inappropriate uses of user data, but most current proposals miss the mark. It is critical that whatever legislation arises to address privacy concerns not be so restrictive that it prohibits future innovation.

4. Social media is good for free speech – even in the face of "de-platforming"

Think about a time before the internet and large social media platforms. If you wanted to express your opinions to a

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wide audience, your choices were limited. You could submit an opinion piece to a newspaper, but your opinion would be scrutinized by an editorial board, compete with other submissions, and—most likely—be rejected. Today, there are endless accusations of censorship on the part of social media platforms like Facebook and Twitter, but it is hard to argue that speech is restricted relative to any other point in history. Sure, guidelines for acceptable posts can be vague and content is removed with questionable justification, but private businesses should be allowed to remain private—even when it isn't politically convenient. Otherwise, we risk setting a dangerous precedent. Proponents of intervention argue that dominant platforms like Facebook are so ubiquitous that they are necessary to modern life and should be treated like utilities. While competition among various platforms is different than in traditional markets, plenty of alternatives exist. Facebook CEO Mark Zuckerberg recently testified in front of Congress and his exchange with Senator Lindsey Graham illustrates this point well:

Sen. Graham: Is there real competition you face? Because car companies face a lot of competition. If they make a defective car, it gets out in the world, people stop buying that car—they buy another one. Is there an alternative to Facebook in the private sector?"

Zuckerberg: "Yes Senator, the average American uses eight different apps to communicate with their friends and stay in touch with people—ranging from texting apps to email to…"

Sen. Graham: "Which is the same service you provide?"

Zuckerberg: "Well, we provide a number of different services"

Sen. Graham: "Is Twitter the same as what you do?"

Zuckerberg: "It overlaps with a portion of what we do."

Sen. Graham: "You don't think you have a monopoly?"

Zuckerberg: "It certainly doesn't feel like that to me."

5. More regulation really means more cronyism and less innovation

The growing tech industry may be filled with uncertainty, but the effects of regulatory encroachment are well known. Oversight sounds good at first but, over time, "mission creep" expands authority and regulatory bodies become empowered to pick winners and losers. The appeal of wielding government authority is too attractive for large firms to avoid. Before long, millions of dollars are spent on lobbying and other unproductive activities instead of generating value for consumers. Regulations will tend to favor politically connected firms, stifling competition and reducing the incentive to innovate. Large market shares—when they result from market-based competition—are subject to changes in consumer preferences. When bureaucrats dictate outcomes, cronyism, rent-seeking, and corruption are almost sure to follow. The best way to avoid monopoly power and encourage innovation is to leave consumers in charge by allowing the market to operate freely.

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