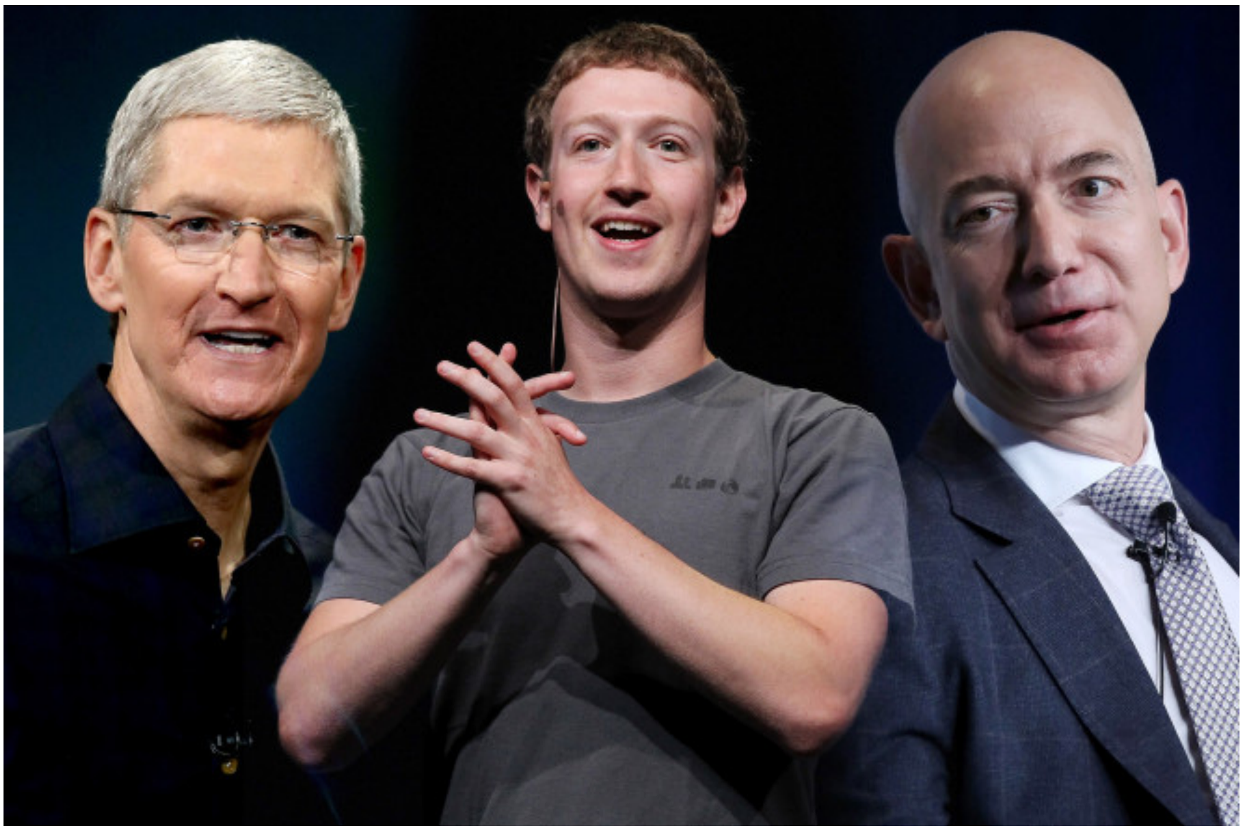
Tech giants are the robber barons of our time

By Kevin Carty



Tim Cook, CEO of Apple, Mark Zuckerberg, CEO of Facebook, and Jeff Bezos, CEO of Amazon.
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America’s biggest tech giants are nothing if not popular. Apple, Google, Facebook and Amazon rank as some of the most well-liked brands in the world. Pollsters find that 86 percent of Americans hold a favorable view of Google and 80 percent share a favorable impression of Amazon. The reason is simple — these companies’ products are entertaining, accessible and seemingly cheap.

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How Big Tech's growth could wind up cutting it back down

But their growing dominance is giving rise to an insidious trend that we shouldn't so happily accept. Just last week, billionaire philanthropist George Soros gave a speech in Davos, Switzerland, in which he attacked Facebook and Google for "inducing people to give up their autonomy" and driving inequality. He's not wrong. In fact, tech giants are just like the monopolists and robber barons that ruled the American economy a century ago. But, while Standard Oil's monopoly was as obvious as the smoke-belching refineries it controlled, the powers of Facebook, Google, Apple and Amazon are less transparent — if not entirely secret.

An average Facebook user has no way of knowing or appreciating the mountain of data the company has collected on them. And the average Amazon shopper is unlikely know that the site steers customers toward its preferred (and often more expensive) products. America's biggest tech giants have at least as much power as John D. Rockefeller and J.P. Morgan did in the early 20th century; it is just much harder to see.

Tech companies can dominate sectors without actually producing anything in those markets. Apple does not produce any music, but it nonetheless controls a huge amount of the industry. Facebook doesn't produce any news, but news organizations are highly dependent on the social platform. And these corporations continue to expand. Amazon, for instance, has entered the grocery business — via its buyout of Whole Foods — and just last week announced a new healthcare project.

Americans have addressed this challenge before. In 1911, the US government broke Standard Oil into 34 pieces after the company monopolized 90 percent of the US oil market. Google now controls 92 percent of the global search-engine market but is still allowed to expand. The only way to tame America's tech goliaths is to see them for what they are — monopolies — and go after them using antitrust law.

Musicians were the first to experience the newfound power of big tech. A generation ago, musicians could reach fans through all sorts of channels. Listeners could buy from small, local record stores, big national chains like Tower Records, bookstores and general retailers like Walmart; they could tune into thousands of independent AM and FM radio channels. This highly distributed system provided not just a way for a musician to be found by listeners, but a way to earn real money — from album sales and radio play, as well as live performances.

The first big change to this system came in 1999, when Napster made it much easier for almost any person to listen to music posted online by others. Although Napster was shut down in 2001, musicians soon found themselves dealing with Apple and its iTunes Store, which launched in 2003.

Apple and Spotify control the majority of the music-streaming market

While Apple, unlike Napster, made people pay for music, it took the power of price-setting away from musicians. Even though Apple does not make any music, it gave itself the power to set music's price — at 99 cents a song. There are few markets in which producers have no power over the price of their goods, but that was exactly the dynamic that Apple created. Just about every year since, musicians have found themselves facing an ever-more concentrated industry, to the point where the business is now dominated by three giant music publishers — Sony, Warner and Universal — and three great Internet bottlenecks — Apple, Spotify and YouTube (owned by Google).

Apple and Spotify control the majority of the music-streaming market, and 46 percent of all on-demand music listening goes through YouTube. As these corporations have expanded, they have steadily driven down what they pay to artists and labels for their music. In the aggregate, the effect is dramatic; global recorded music revenue fell from around $40 billion in 1999 to under $15 billion in 2014, adjusted for inflation. For many individuals and bands, the result has been an almost complete loss of income. Members of the 1970s rock group The Band, for instance, went "from a decent royalty income of around $100,000 per year to almost nothing," as their former tour manager Jonathan Taplin has written.

For musicians, “it’s worse than it’s ever been,” says David Lowery — frontman of the band Cracker. Artists have “no bargaining power whatsoever” when it comes to the tech companies, he says.

Jay Z tried to take back some of this bargaining power in 2015 when he bought the platform Tidal, in the hopes of building an artist-friendly streaming service. But unlike Tidal, Apple and Spotify have enough money to expand via loss-leading. They price their services low to gain more users, and they can afford to continue operating even while losing money. Tidal — which has struggled to gain more than a small fraction of the market — simply can’t keep up.

Artists say YouTube is one of the worst offenders. The video site pays less than a 10th of a penny per song any time a song is played, far below what Apple and Spotify pay.

Even worse, musicians say, YouTube steers listeners away from certain musicians toward others, especially those backed by big record labels that can afford to promote them.

The story is much the same for another set of creators: authors. A few decades ago, authors could sell their books in a highly competitive market, with many publishers and retailers competing to find the next new book and sell it to readers. But today, almost all power is concentrated in the hands of a single company — Amazon. Amazon today sells 55 percent of all books in the US, 82 percent of all e-books and 99 percent of all audiobooks. Like Google and Apple in music, Amazon uses its monopoly position to drive down the price it pays for books, negotiating steep discounts from publishers and tacking on additional fees.

For authors, “It’s a very frightening time,” says T.J. Stiles, a two-time Pulitzer-prize winning biographer.

Authors have seen the effect of Amazon’s power on their incomes. Full-time authors’ incomes declined by about a third just between 2009 and 2015 — from an average of $25,000 a year to $17,000 per year — according to a survey conducted by the Authors Guild. As the president of the guild, Mary Rasenberger, recounts: “A mid-list author in the mid-to-late 20th century could make a pretty decent middle-class income.”

Today that’s “extraordinarily hard.” Both authors and publishers have tried to get around Amazon, but the company has in the past punished publishers trying to negotiate for better rates for themselves and their authors. In 2010, for instance, Amazon removed the “buy” buttons from books by the publisher MacMillan, and in 2014, Amazon delayed the shipping of books from Hachette. “Hachette was a warning,” Stiles says. “If anyone crossed Amazon, they were willing to do basically anything to force people to knuckle under.”

Amazon even managed to convince the Antitrust Division of the Department of Justice to sue publishers for trying to resist the company. In 2007, with the introduction of the Kindle, Amazon decided to price all e-books — regardless of how much time or investment was put into them — at $9.99. The publishers, upset that Amazon had taken away their ability to price their authors’ books, allied with Apple to build a new e-book market. Publishers would set the price of their books, as in the previous, competitive market, and Apple would take a cut.

But, the government said this was illegal collusion, even though the publishers had established a market that closely resembled the competitive book market that predated Amazon’s monopoly.

Movie-studio businesses cannot compete with Amazon and Netflix’s money

Movies are another industry in which the tech platforms are becoming increasingly dominant. Netflix, just like Amazon in the book business, prices its streaming service below what it costs to operate. And now, Amazon and Netflix are bidding up the prices of films they buy — thereby setting the price of movies.

Movie-studio businesses cannot compete with Amazon and Netflix’s money. This was why Disney, last year, decided to pull all of its content from Netflix. Separating itself from Netflix is Disney’s only hope of staying afloat. As in other sectors, Amazon and Netflix are beginning to dominate the market, even though they only produce a small share of the movies in the business. And, as is often the case, it is the regular, non-famous creators — the scriptwriters, small actors and set workers — who are sure to be hurt most if Amazon and Netflix continue to grow their monopoly power.

It is hard to predict what the American economy will look like if the big tech platforms are permitted to continue their unchecked growth.

Although the tech giants went after the creative industries first, they won't stop there. Amazon started selling books but has since expanded into other sectors of retail, including electronics, appliances, power tools and clothing. With its purchase of Whole Foods last year, Amazon brought its monopoly power to grocery. The stock prices of leading grocers fell dramatically after that merger, but it is the workers — the cashiers, farmers, suppliers and managers who work in the industry — who will ultimately feel the real effects of Amazon's monopoly power.

Google's search-engine monopoly, meanwhile, produces a huge amount of money and data for Google's parent company, Alphabet. Alphabet has used that data advantage to turn itself into one of the most successful, powerful corporations in the race for artificial intelligence. And Alphabet has used its money and technology to build a company, Waymo, that could be one of the first to sell a real, driverless car to American car-buyers. In so doing, Alphabet is competing against the country's auto companies as well as the millions of people who work as the drivers, mechanics and builders of those cars. And as tech experts claim, the rise of AI could eventually displace all kinds of jobs, far more than those affected by the rise of driverless cars.

It is increasingly clear that the relentless expansion of Amazon, Google and Facebook is beginning to have a much bigger effect on the American economy. This monopolization serves to drive down wages, and it may mean fewer jobs overall. It also means less opportunity for independent entrepreneurs to start up new companies — contributing to fewer small and

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local businesses.

problem tomorrow

Worse still, in his speech at Davos, Soros warned of the “web of totalitarian control” that would be created if the tech giants are to combine their powers with those of authoritarian states like Russia and China. “The dictatorial leaders in these countries may be only too happy to collaborate.”

The good news is that America’s antitrust enforcers can begin to fix this problem tomorrow.

For much of the 20th century, anti-monopoly law aimed to protect the producer, the creator and the worker. But a group of radical thinkers upended this tradition in the 1980s. By arguing that the law should focus exclusively on the “welfare” of the “consumer,” they opened the door to the sort of unfair pricing and business tactics that have been perfected by the tech giants.

Fortunately, although the philosophy has changed, the underlying laws remain largely the same. This means that the antitrust lawyers at the Justice Department and the Federal Trade Commission can use their existing powers to go after the biggest tech platforms.

US antitrust enforcers have all the power they need to resume the trust-busting that freed Americans from companies like Standard Oil and plutocrats like J.P. Morgan. They just need to use that power, now.

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