How Google and Amazon Got Away With Not Being Regulated And Bribing Senators

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Once upon a time, in the 1990s and 2000s, the web and the internet were new and everything was going to be different forever. The web formed its own special exception to just about everything humanity had faced before. Personal relationships, private identity, and communication styles were all different “in cyberspace.” Logically, this also suggested the demise of the usual principles of business and economics.

What else could one conclude when, in the 2000s, a tiny blog could outdo an established media outlet? When startups seemed to come from nowhere, gain millions of users overnight, and make their founders and employees wealthier than old-school tycoons? The man who described the mood was author John Perry Barlow, who in the 1990s implored those interested in cyberspace to “imagine a place where trespassers leave no footprints, where goods can be stolen an infinite number of times and yet remain in the possession of their original owners,

where businesses you never heard of can own the history of your personal affairs, where only children feel completely at home, where the physics is that of thought rather than things, and where everyone is as virtual as the shadows in Plato's cave."

> Excerpted from "The Curse of Bigness: Antitrust in the New Gilded Age" by Tim Wu
> *Columbia Global Reports*

Everything was fast and chaotic; no position was lasting. One day, AOL was dominant and all-powerful; the next, it was the subject of business books laughing at its many failures. Netscape rose and fell like a rocket that failed to achieve orbit (though Microsoft had something to do with that). MySpace, the social media pioneer, was everywhere and then nowhere. Search engines and social media sites seemed to come and go: AltaVista, Bigfoot, and Friendster were household names one moment and gone the next.

The chaos made it easy to think that bigness—the economics of scale—no longer really mattered in the new economy. If anything, it seemed that being big, like being old, was just a disadvantage. Being big meant being hierarchical, industrial, dinosaur-like in an age of fleet-footed mammals. Better maybe to stay small and stay young, to move fast and break things.

All this suggested that in cyberspace, there could be no such thing as a lasting monopoly. The internet would never stand for it. Business was now moving at internet speed: A three-year-old firm was middle-aged; a five-year-old firm almost certainly near death. "Barriers to entry" was a 20th-century concept. Now, competition was always just "one click away."

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Even if a firm did manage to gain temporary dominance, there was nothing to be afraid of. We were not speaking of the evil monopolists of old. The new firms were instead devoted to spreading sweetness and light, goodwill toward all men—whether access to information (Google), good books for cheap (Amazon), or the building of a global community (Facebook).

Not only did they not charge high prices, sometimes they didn't even charge at all. Google would give you free email, free map apps, free cloud storage. Hence, businesses like Facebook or Google needed to be seen as more akin to charities. Who would sue the Red Cross for its "monopoly" on disaster relief? In these heady times, only a malcontent would dare suggest that just maybe, business and economics had not quite been reinvented forever. Or that what was taken to be a new order might, in fact, just be a phase that was destined to come to an end as firms better understood the market and its new technologies. The good times were on.

After a decade of open chaos and easy market entry, something surprising did happen. A few firms—Google, Facebook, and Amazon—did not disappear. They hit that five-year mark of obsolescence with no signs of impending collapse or retirement. Instead, the major firms seemed to be sticking, even growing in their dominance. Suddenly, there weren't a dozen search

engines, each with a different idea, but one search engine. There were no longer hundreds of stores that everyone went to, but one “everything store.” And to avoid Facebook was to make yourself a digital hermit. There stopped being a next new thing, or at least, a new thing that was a serious challenge to the old thing.

Unfortunately, antitrust law failed to notice that the 1990s were over. Instead, for a decade and counting, it gave the major tech players a pass—even when confronting fairly obvious dangers and anticompetitive mergers. That is best exemplified by the Facebook story. Launched in 2004, Facebook quickly dispatched its rival, MySpace, which had been a rare Los Angeles tech-success story but had become a mess of intrusive advertising, fake users, and trolls. In just a few years, Facebook achieved an early dominance over general-purpose social networking.

But by the 2010s, Facebook faced one of its most serious challengers, a startup named Instagram. Instagram combined a camera app with a social network on which it was easy and fast to share photos on mobile. It was popular with younger people, and it was not long before some of its advantages over Facebook were noticed. As business writer Nicholas Carlson said at the time, Instagram “allows people to do what they like to do on Facebook easier and faster.”

Having already gained 30 million users in just 18 months of existence, Instagram was poised to become a leading challenger to Facebook based on its strength on mobile platforms, where Facebook was weak. By the doctrine of internet time, Facebook, then eight years old, was supposed to be heading into retirement.

But the disruption narrative was rudely interrupted. Instead of surrendering to the inevitable, Facebook realized it could just buy out the new. For just $1 billion, Facebook eliminated its existential problem and reassured its investors. As *Time* would put it, “Buying Instagram conveyed to investors that the company was serious about dominating the mobile ecosystem while also neutralizing a nascent competitor.”

When a dominant firm buys its a nascent challenger, alarm bells are supposed to ring. Yet both American and European regulators found themselves unable to find anything wrong with the takeover. The American analysis remains secret, but we have the United Kingdom’s report. Its analysis, such as it was, went as follows: Facebook did not have an important photo-taking app, meaning that Facebook was not competing with Instagram for consumers. Instagram did not have advertising revenue, so it did not compete with Facebook either. Hence, the report was able to reach the extraordinary conclusion that Facebook and Instagram were not competitors.

It takes many years of training to reach conclusions this absurd. A teenager could have told you that Facebook and Instagram were competitors—after all, teenagers were the ones who were switching platforms. With this level of insight, the world’s governments in the 2010s did nothing to stop the largest firms from buying everyone and anyone who might be a potential threat, in a buying spree worthy of John D. Rockefeller himself. And nothing was learned from the Instagram failure: Facebook was able to buy its next greatest challenger, WhatsApp, which offered a more privacy-protective and messaging-centered competitive threat. The $19 billion buyout—as suspicious as J. P. Morgan’s bribe of Andrew Carnegie—somehow failed to raise

any alarm. At the time, many were shocked at the price. But when one is actually agreeing to split a monopoly as lucrative as generalized social media, with over $50 billion in annual revenue, the price suddenly makes sense.

In total, Facebook managed to string together 67 unchallenged acquisitions, which seems impressive, unless you consider that Amazon undertook 91 and Google got away with 214 (a few of which were conditioned). In this way, the tech industry became essentially composed of just a few giant trusts: Google for search and related industries, Facebook for social media, Amazon for online commerce. While competitors remained in the wings, their positions became marginalized with every passing day.

If many of these acquisition were small, or mere “acquihires” (i.e., acquisitions to hire employees), others, like Facebook’s takeover of Instagram and WhatsApp, eliminated serious competitive threats. In the 2000s, Google had launched Google Video and done pretty well, but not compared to its greatest competitor, YouTube. Google bought YouTube without a peep from the competition agencies. Waze, an upstart online mapping company, was poised to be an on-ramp for Google’s vertical challengers, until Google, the owner of its own dominant online mapping program, bought the firm in a fairly blatant merger to monopoly. Google also acquired Doubleclick and AdMob, two of its most serious advertising competitors. The government allowed the AdMob acquisition on the premise that Apple might also enter the market in a serious way (it didn’t). Amazon acquired would-be competitors like Zappos, Diapers.com, and Soap.com.

These were hardly coercive takeovers, as practiced by Standard Oil. Most of these firms were happy to have a big fat buyout. But if the takeovers were friendlier, their net effect was little different than John D. Rockefeller's campaign: the continued domination by the trusts. This was obvious to the business press. As Techcrunch opined of the 2014 WhatsApp acquisition, "Facebook [now] possesses the most popular messaging app, and has neutralized the biggest threat to its global domination of social networking." Or as another business analyst wrote at the time: "Without this acquisition, 'uncool' Facebook would have been in a very difficult competitive position against its cooler messaging apps rivals [which] would have posed an existential threat for Facebook. By acquiring the leader in messaging apps, Facebook has removed this threat."

Where buyouts were not practical, the tech firms tried a different approach: "cloning," the favorite tactic of Microsoft back in the day. Faced with potential competitive challenge from Yelp's popular reviews of local businesses in the early 2010s, Google created its own "local" sites attached to Google maps. The value in any such site would rest in the quality of its user reviews, and as a newcomer, Google didn't have any of those. It solved the problem by simply purloining Yelp's reviews and putting them on its site, making Yelp essentially redundant, and also harvesting the proceeds of its many years of work. (The FTC, in the course of an investigation, told Google to knock it off, and Google grudgingly stopped taking Yelp's reviews, though it insisted it was doing Yelp a favor. It nonetheless maintained its Yelp clones, and, in the style of Microsoft, did everything it could to make its own local results show up, even though they were inferior by Google's own metrics.)

Meanwhile, Facebook cloned so many of rival Snapchat's features that it began to seem like a running joke. Amazon has a track record of cloning products that succeed so it can help itself to the margins. To be sure, there is nothing wrong with firms learning from one another; that's how innovation spreads. But there is a line where copying and exclusion become anticompetitive, where the goal becomes the maintenance of monopoly as opposed to real improvement. When Facebook spies on competitors or summons a firm to a meeting just to figure out how to copy it more accurately or discourages funding of competitors, a line is crossed.

Over the years, a strong current of self-justification began to creep into the consolidation. This could be a somewhat awkward undertaking for some of the firms who, as startups, had been committed to the old internet ideals of openness and chaos. But now it was all for the best: a law of nature, a chance for the monopolists to do good for the universe. The cheerer-in-chief for the monopoly form is Peter Thiel, author of *Competition Is for Losers*. Labeling the competitive economy a "relic of history" and a "trap," he proclaimed that "only one thing can allow a business to transcend the daily brute struggle for survival: monopoly profits."

The big tech firms are a little more circumspect than Thiel. Facebook, supposedly, is not building a global empire of influence so much as "bringing the world closer together." It's a "different kind of company that connects billions of people." To do that right, however, requires a global monopoly. Meanwhile, Google wants to organize the world's information, but to do so it needs to get its hands on all the information in the world. Amazon, meanwhile, wants nothing more than to serve the

consumer, which is great, and you can check out any time you like, but you can never leave.

If there is a sector more ripe for the reinvigoration of antitrust regulation, I do not know it.

This excerpt is adapted from Tim Wu's new book *The Curse of Bigness: Antitrust in the New Gilded Age* (Columbia Global Reports).