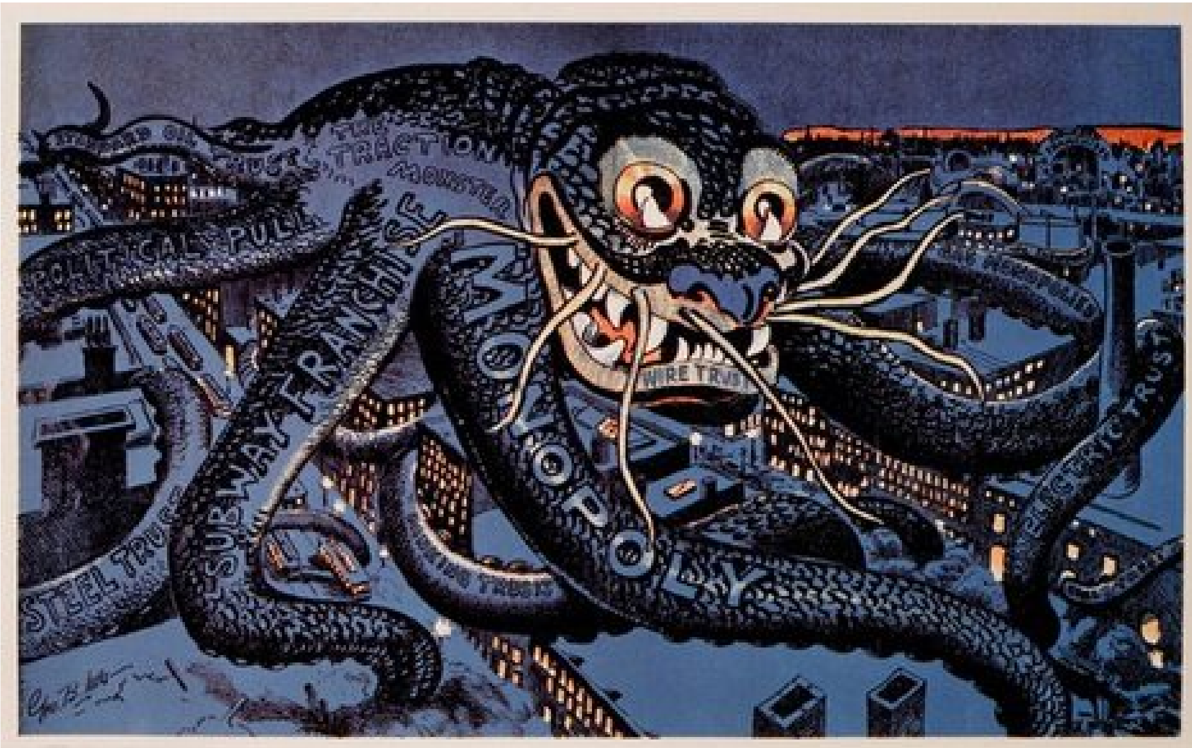
It Is Time to Break Up Google!

By JONATHAN TAPLIN

Photo



Credit Universal History Archive/UIG, via Getty Images

In just 10 years, the world’s five largest companies by market capitalization have all changed, save for one: Microsoft. Exxon Mobil, General Electric, Citigroup and Shell Oil are out and Apple, Alphabet (the parent company of Google), Amazon and Facebook have taken their place.

They’re all tech companies, and each dominates its corner of the industry: Google has an 88 percent market share in search advertising, Facebook (and its subsidiaries Instagram, WhatsApp and Messenger) owns 77 percent of mobile social traffic and Amazon has a 74 percent share in the e-book market. In classic economic terms, all three are monopolies.

We have been transported back to the early 20th century, when arguments about “the curse of bigness” were advanced by President Woodrow Wilson’s counselor, Louis Brandeis, before Wilson appointed him to the Supreme Court. Brandeis wanted to eliminate monopolies, because (in the words of his biographer Melvin Urofsky) “in a democratic society the existence of large centers of private power is dangerous to the continuing vitality of a free people.” We need look no further than the conduct of the largest banks in the 2008 financial crisis or the role that Facebook and Google play in the “fake news” business to know that Brandeis was right.

While Brandeis generally opposed regulation — which, he worried, inevitably led to the corruption of the regulator — and instead advocated breaking up “bigness,” he made an exception for “natural” monopolies, like telephone, water and power companies and railroads, where it made sense to have one or a few companies in control of an industry.

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Could it be that these companies — and Google in particular — have become natural monopolies by supplying an entire market's demand for a service, at a price lower than what would be offered by two competing firms? And if so, is it time to regulate them like public utilities?

Consider a historical analogy: the early days of telecommunications.

In 1895 a photograph of the business district of a large city might have shown 20 phone wires attached to most buildings. Each wire was owned by a different phone company, and none of them worked with the others. Without network effects, the networks themselves were almost useless.

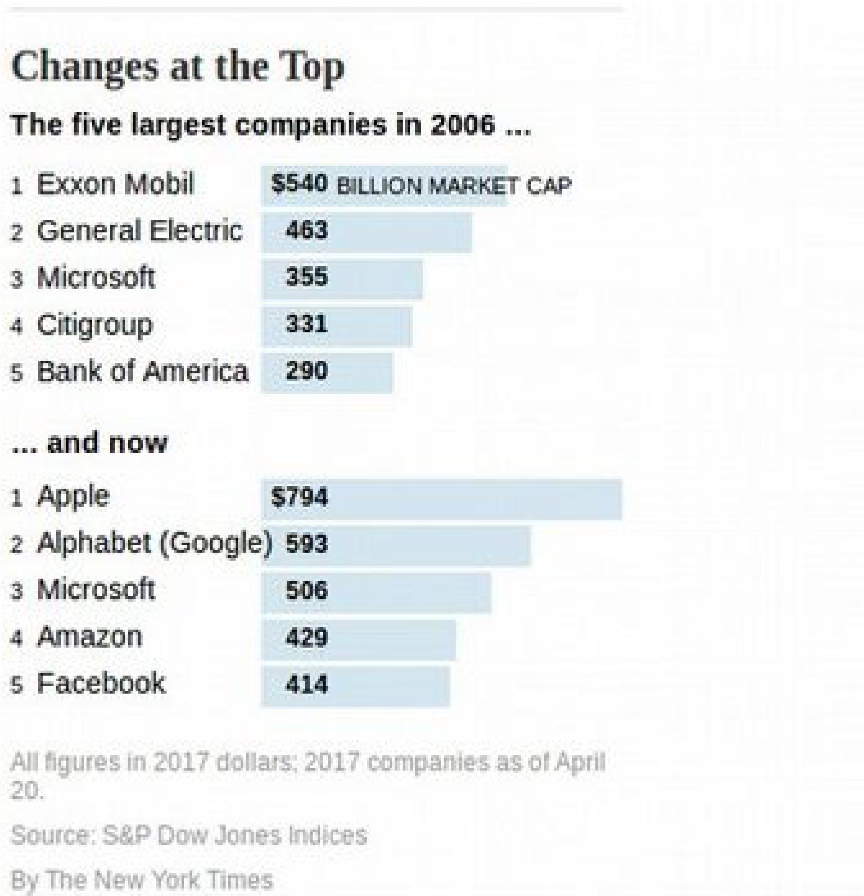
The solution was for a single company, American Telephone and Telegraph, to consolidate the industry by buying up all the small operators and creating a single network — a natural monopoly. The government permitted it, but then regulated this monopoly through the Federal Communications Commission.

AT&T (also known as the Bell System) had its rates regulated, and was required to spend a fixed percentage of its profits on research and development. In 1925 AT&T set up Bell Labs as a separate subsidiary with the mandate to develop the next generation of communications technology, but also to do basic research in physics and other sciences. Over the next 50 years, the basics of the digital age — the transistor, the microchip, the solar cell, the microwave, the laser, cellular telephony — all came out of Bell Labs, along with eight Nobel Prizes.

In a 1956 consent decree in which the Justice Department allowed AT&T to maintain its phone monopoly, the government extracted a huge concession: All past patents were licensed (to any American company) royalty-free, and all future patents were to be licensed for a small fee. These licenses led to the creation of Texas Instruments, Motorola, Fairchild Semiconductor and many other start-ups.

Changes at the Top

The five largest companies in 2006 …



All figures in 2017 dollars; 2017 companies as of April 20.
Source: S&P Dow Jones Indices

By The New York Times

True, the internet never had the same problems of interoperability. And Google's route to dominance is different from the Bell System's. Nevertheless it still has all of the characteristics of a public utility.

We are going to have to decide fairly soon whether Google, Facebook and Amazon are the kinds of natural monopolies that need to be regulated, or whether we allow the status quo to continue, pretending that unfettered monoliths don't inflict damage on our privacy and democracy.

It is impossible to deny that Facebook, Google and Amazon have stymied innovation on a broad scale. To begin with, the platforms of Google and Facebook are the point of access to all media for the majority of Americans. While profits at Google, Facebook and Amazon have soared, revenues in media businesses like newspaper publishing or the music business have, since 2001, fallen by 70 percent.

According to the Bureau of Labor Statistics, newspaper publishers lost over half their employees between 2001 and 2016. Billions of dollars have been reallocated from creators of content to owners of monopoly platforms. All content creators dependent on advertising must negotiate with Google or Facebook as aggregator, the sole lifeline between themselves and the vast internet cloud.

It's not just newspapers that are hurting. In 2015 two Obama economic advisers, Peter Orszag and Jason Furman, published a paper arguing that the rise in "supernormal returns on capital" at firms with limited competition is leading to a rise in economic inequality. The M.I.T. economists Scott Stern and Jorge Guzman explained that in the presence of these giant firms, "it has become increasingly advantageous to be an incumbent, and less advantageous to be a new entrant."

There are a few obvious regulations to start with. Monopoly is made by acquisition — Google buying AdMob and DoubleClick, Facebook buying Instagram and WhatsApp, Amazon buying, to name just a few, Audible, Twitch, Zappos and Alexa. At a minimum, these companies should not be allowed to acquire other major firms, like Spotify or Snapchat.

The second alternative is to regulate a company like Google as a public utility, requiring it to license out patents, for a nominal fee, for its search algorithms, advertising exchanges and other key innovations.

The third alternative is to remove the "safe harbor" clause in the 1998 Digital Millennium Copyright Act, which allows companies like Facebook and Google's YouTube to free ride on the content produced by others. The reason there are 40,000 Islamic State videos on YouTube, many with ads that yield revenue for those who posted them, is that YouTube does not have to take responsibility for the content on its network. Facebook, Google and Twitter claim that policing their networks would be too onerous. But that's preposterous: They already police their networks for pornography, and quite well.

Removing the safe harbor provision would also force social networks to pay for the content posted on their sites. A simple example: One million downloads of a song on iTunes would yield the performer and his record label about $900,000. One million streams of that same song on YouTube would earn them about $900.

I'm under no delusion that, with libertarian tech moguls like Peter Thiel in President Trump's inner circle, antitrust regulation of the internet monopolies will be a priority. Ultimately we may have to wait four years, at which time the monopolies will be so dominant that the only remedy will be to break them up. Force Google to sell DoubleClick. Force Facebook to sell WhatsApp and Instagram.

Woodrow Wilson was right when he said in 1913, "If monopoly persists, monopoly will always sit at the helm of the government." We ignore his words at our peril.

Jonathan Taplin is the director emeritus of the University of Southern California's Annenberg Innovation Lab and the author of "Move Fast and Break Things: How Google, Facebook and Amazon Cornered Culture and Undermined Democracy."

We Killed Silicon Valley Because They Are Corrupt Scumbag Deviant Narcissists

An Ailing Boys Club

Is the Silicon Valley Dynasty Coming to an End?

Ethical lapses at some of the tech industry's biggest companies suggest a chilling reality of what really matters in the world's most rollicking economy.

- Nick Bilton

Uber C.E.O. Travis Kalanick, 2014.
By Kim Kyung-Hoon/Reutes.

It has been said that Silicon Valley, or the 50 or so square-mile area extending from San Francisco to the base of the peninsula, has overseen the creation of more wealth than any place in the history of mankind. It’s made people richer than the oil industry; it has created more money than the Gold Rush. Silicon chips, lines of code, and rectangular screens have even minted more wealth than religious wars.

Wealthy societies, indeed, have their own complicated incentive structures and mores. But they do often tend, as any technological entrepreneur will be quick to remind you, to distribute value across numerous income levels, in a scaled capacity. The Ford line, for instance, may have eventually minted some serious millionaires in Detroit, but it also made transportation cheaper, helped drive down prices on countless consumer goods, and facilitated new trade routes and commercial opportunities. Smartphones, or any number of inventive modern apps or other software products, are no different. Sure, they throw off a lot of money to the geniuses who came up with them, and the people who got in at the ground floor. But they also make possible innumerable other opportunities, financial and otherwise, for their millions of consumers.

Silicon Valley is, in its own right, a dynasty. Instead of warriors or military heroes, it has nerds and people in half-zip sweaters. But it is becoming increasingly likely that the Valley might go down in history not only for its wealth, but also for creating more tone deaf people than any other ecosystem in the history of the world.

In just the past month, the Valley has seemed like it's happily living in some sort of sadomasochistic bubble worthy of a bad Hollywood satire. Uber has endured a slate of scandals that would have seriously wounded a less culturally popular company (or a public one, for that matter). There was one former employee's allegation of sexual harassment (which the company reportedly investigated); a report of driver manipulation; an unpleasant video depicting C.E.O. **Travis Kalanick** [furiously berating] an Uber driver; a story about secret software that could subvert regulators; a report of cocaine use and groping at holiday parties (an offending manager was fired within hours of the scandal); a lawsuit for potentially buying stolen software from a competitor; more groping; a slew of corporate exits; and a driverless car crash. (The shit will really hit the fan if it turns out that Uber's self-driving technology was misappropriated from Alphabet's Waymo; Uber has called the lawsuit "baseless.")

Then there was Facebook, which held its developer conference while the Facebook Killer was on the loose. As **Mat Honan** of BuzzFeed put it so eloquently: "People used to talk about Steve Jobs and Apple's reality distortion field. But Facebook, it sometimes feels, exists in a reality hole. The company doesn't distort reality—but it often seems to lack the ability to recognize it."

And we ended the week with the ultimate tone-deaf statement from the C.E.O. of Juicero, the maker of a $700 dollar-soon-reduced-to-$400 dollar juicer that has $120 million in venture backing. After Bloomberg News discovered that you didn't even need the $700 $400 juicer to make juice (there are, apparently, these things called hands) the company's chief executive, **Jeff Dunn**, offered a response on Medium insinuating that he gets up every day to make the world a better place.

Of course, not everyone who makes the pilgrimage out West is, or becomes, a jerk. Some people arrive in the Valley with a philosophy of how to act as an adult. But here's the problem with that group: most of them don't vociferously articulate how unsettled they are by the bad actors. Even when journalists manage to cover these atrocious activities, the powers of Silicon Valley try to ridicule them, often in public. Take, for example, the 2015 TechCrunch Disrupt conference, when a reporter asked billionaire investor **Vinod Kholsa**—who evidently believes that public beaches should belong to rich people—about some of the ethical controversy surrounding the mayonnaise-disruption startup Hampton Creek (I can’t believe I just wrote the words “mayonnaise-disruption”). Khosla responded with a trite and rude retort that the company was fine. When the reporter pressed Khosla, he shut him down by saying, “I know a lot more about how they're doing, excuse me, than you do.” A year later and the Justice Department opened a criminal investigation into whether the company defrauded investors when employees secretly purchased the company's own mayonnaise from grocery stores. (The Justice Department has since dropped its investigation.)

When you zoom out of that 50-square-mile area of Silicon Valley, it becomes obvious that big businesses can get shamed into doing the right thing. When it was discovered that Volkswagen lied about emissions outputs, the company’s C.E.O. was forced to resign. The same was true for the chief of Wells Fargo, who was embroiled in a financial scandal. In the wake of it's recent public scandal, United recently knocked its C.E.O. down a peg. Even Fox News, one of the most bizarrely unrepentant media outlet in America, pushed out two of the most important people at the network over allegations of sexual harassment. (**Bill O'Reilly** has said that claims against him are “unfounded”; **Roger Ailes** has vociferously denied allegations of sexual harassment.) Even Wall Street can (sometimes) be forced to be more ethical. Yet **Elizabeth Holmes** is still C.E.O. of Theranos. **Travis Kalanick** is still going to make billions of dollars as the chief of Uber when the company eventually goes public. The list goes on and on.

In many respects, this is simply the D.N.A. of Silicon Valley. The tech bubble of the mid-90s was inflated by lies that sent the NASDAQ on a vertiginous downward spike that eviscerated the life savings of thousands of retirees and Americans who believed in the hype. This time around, it seems that some of these business may be real, but the people running them are still as tone deaf regarding how their actions affect other people. Silicon Valley has indeed created some amazing things. One can only hope these people don't erase it with their hubris.

Full Screen

Silicon Valley’s 14 Most Spectacular Failures

Andrew Mason, Groupon

Scorned as the “worst C.E.O. of 2012” by CNBC’s **Herb Greenberg, Andrew Mason** was at the helm of Groupon when the company went public, an I.P.O. Greenberg wrote off as the “most over-hyped . . . of recent years.” Years after going public, Groupon still has trouble turning a profit.

Photo: Photo-Illustration by Ben Park; From Bloomberg (Mason), Robert Kirk/Photodisc (Ticket), both from Getty Images.

Elizabeth Holmes, Theranos

Elizabeth Holmes became emblematic of Silicon Valley excess when her $9 billion blood-testing start-up, Theranos, became the subject of a series of *Wall Street Journal* investigations that reported that the company's technology didn't actually work. Theranos is currently under federal criminal investigation. *Photo: Photo-Illustration by Ben Park; By Adrianna Williams/The Image Bank (Needle), Andrew Burton (Holmes), both from Getty Images.*

Parker Conrad, Zenefits

Zenefits C.E.O. and co-founder Parker Conrad resigned in 2016 amid concerns over questions about his $4.5 billion start-up's regulatory compliance. Further reports insinuated Zenefits' company culture under Conrad was more frat house than hackathon, complete with allegations of sex in the stairwells and plenty of drinking.

Photo: Photo-Illustration by Ben Park; By Steve Jennings (Conrad), Jack Andersen/DigitalVision (Beer), both from Getty Images.

Marissa Mayer, Yahoo

Hailed as the turnaround boss Yahoo so desperately needed when she was hired for the job in 2012, Marissa Mayer has come under fire as investors have lost their patience waiting for a miracle that never came. (The millions she reportedly spent on lavish parties and perks, while the ailing Internet giant circled the drain, didn't help.) Yahoo is now up for sale.
Photo: Photo-Illustration by Ben Park; By Robyn Beck/AFP/Getty Images (Mayer).

David Byttow, Secret

David Byttow, the founder of anonymous-posting app Secret, pivoted his year-old start-up to an incubator in 2015 after allegedly pocketing millions and buying a flashy Ferrari. Google Ventures investor Bill Maris later compared the start-up shutting down to a “bank heist.”
Photo: Photo-Illustration by Ben Park; By Car Culture (Ferrari), Heather Kennedy (Byttow), both from Getty Images.

Michelle Peluso, Gilt

Gilt Groupe, the once hot flash-sales start-up, was valued at $1 billion in 2011, having raised more than $286 million in funding since its founding. Five years later, Hudson's Bay, the parent company of Saks Fifth Avenue, purchased it for $250 million in what CNN dubbed the "ultimate flash sale."
Photo: Photo-Illustration by Ben Park; From Bloomberg Finance LP (Peluso), Rastem Grler (Sign), both from Getty Images.

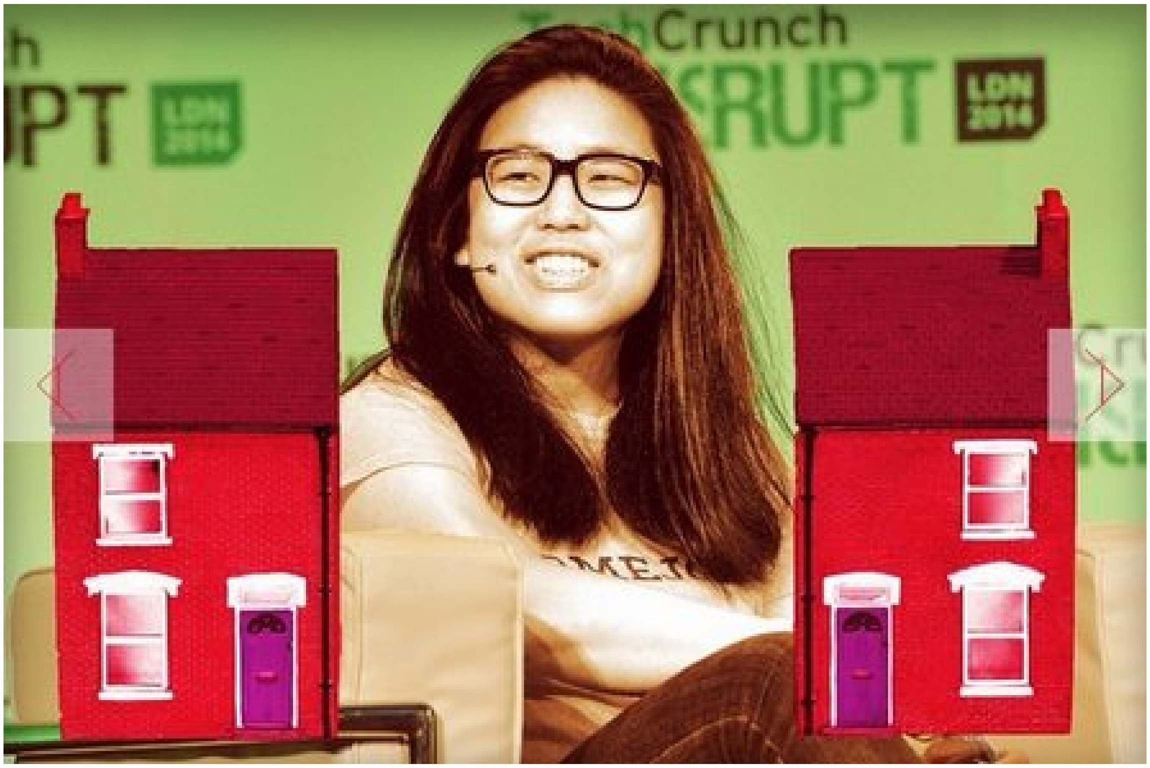
Anthony Bay, Rdio

Rdio filed for bankruptcy in 2015, showing just how hard it can be to make a viable streaming service. Rdio had raised $125 million in funding at a $500 million valuation. Pandora scooped up “many employees” from the failed start-up afterward, though its C.E.O. Anthony Bay did not join them.
Photo: Photo-Illustration by Ben Park; From Bloomberg Finance LP/Getty Images (Bay); From Alamy (Headphones).

Dan Wagner, Powa Technologies

C.E.O. Dan Wagner said that his company's product, a glorified Q.R. scanner called PowaTag, was going to help Powa become "the greatest technology company of all time." In February, $2.7 billion Powa shut down after struggling with its flagship product and, according to former employees, Wagner's own hubris.

Photo: Photo-Illustration by Ben Park; From Bloomberg/Getty Images (Wagner).



Adora Cheung, Homejoy

On-demand cleaning start-up Homejoy shut down in 2015 after failing to hold onto its customers. C.E.O. Adora Cheung reportedly didn't work to fix its retention rates, which flopped as a result of offering $19 flat-fee introductory deals. The "deciding factors" in Homejoy closing its doors, however, were the four lawsuits it faced from workers who claimed they'd been misclassified as contractors. The lawsuits were still pending as of last summer.

Photo: Photo-Illustration by Ben Park; By Anthony Harvey (Cheung), Tim Macpherson/Cultura (House), both from Getty Images.

Ben Kaufman, Quirky

Quirky, a start-up that sought to crowdsource inventions to the masses, filed for bankruptcy in September 2015. Quirky struggled to raise funding and C.E.O. Ben Kaufman stepped down a month before his company folded. Quirky sold Wink, its software business, to Flextronics for $15 million. *Photo: Photo-Illustration by Ben Park; By Larry Busacca/Getty images (Kaufman).*

Scott Thompson, Yahoo

Scott Thompson served as C.E.O. of Yahoo before the company hired Marissa Mayer. Months after Thompson was hired to the job, vocal activist investor Dan Loeb sent Yahoo's board a letter questioning Thompson's credentials and wondering if perhaps Thompson had "embellished his academic credentials." Thompson was immediately replaced with Ross Levinsohn, after the board discovered Thompson had falsely added a computer-science degree to his résumé.
Photo: Photo-Illustration by Ben Park; By Jo Foord (Kindersley), from Bloomberg (Thompson), both from Getty Images.

Carly Fiorina, H.P.

When Carly Fiorina was let go from her six-year tenure as C.E.O. of Hewlett-Packard, the company's stock jumped 10 percent upon the news of her firing. While she was C.E.O., Fiorina didn't increase the company's profits, and she actually decreased H.P.'s shareholders' wealth by 52 percent. A disastrous merger with Compaq, which led her to fire some 30,000 employees, haunted Fiorina throughout her failed senate and presidential campaigns, too.

Photo: Digital Colorization by Ben Park; By Justin Sullivan/Getty Images. (Fiorina).

Jason Goldberg, Fab

E-commerce start-up Fab was once valued at $900 million, a near unicorn in Silicon Valley terms. But after allegedly burning through $200 million of its $336 million in venture capital, C.E.O. Jason Goldberg was forced to shutter its European arm and lay off two-thirds of its staff.
Photo: Photo-Illustration by Ben Park; By Anthony Harvey (Goldberg), Oli Scarff (Frame), both from Getty Images.

Gurbaksh Chahal, RadiumOne and Gravity4

Fired in 2014 from his ad-tech firm RadiumOne following a domestic-violence conviction, Gurbaksh Chahal founded a new company to compete with the one he was kicked out of. But Gravity4, his new firm, was sued for gender discrimination in 2015, though that case is still pending, and former employees have contemplated legal action against him.

Photo: Photo-Illustration By Ben Park; By Charley Gallay/Getty Images (Chahal).

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