TECH GIANTS, COMPETITION AND INNOVATION: THE SEEN AND THE UNSEEN

Nicolas Petit

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Extended Abstract

Modern antitrust policy is broken, but there is a fix. Antitrust policy ignores competition *outside of markets* and *inside the firm*. However, intense rivalry – and its byproduct innovation – occurs there too.

This flaw is best seen today in digital economy markets. Tech giants like Google, Apple, Facebook, Amazon and Microsoft are conventionally characterized as monopolies. The standard dominance verdict is based on a range of structural proxies like industry share; entry, exit and expansion barriers; network effects and switching costs. In turn, radical remedies like breakups, M&A bans and mandatory sharing duties are discussed.

At the same time, antitrust policy's confident monopoly findings contrast with the noise encountered in other fields of expertise. In particular, a substantial body of market research produced by financial institutions, industry strategists and market analysts describes the tech giants as oligopoly firms involved in a deadly game of survivalist competition (and innovation).

That experts unconstrained by the antitrust framework are less prone to find digital monopoly, calls into question whether antitrust policy falls into Bastiat's "*broken window*" fallacy: due to its methodology, is there is competition that is "*not seen*" by antitrust policy?

And indeed scrutiny of the 10-K filings of Google, Apple, Facebook, Amazon and Microsoft since the late 1990s denotes structural, behavioral and organizational patterns inconsistent with deviations from the competitive equilibrium: entry, exit and mobility across multiple markets; high level/intensity R&D, including in "*blue sky*" fields; sustained M&A activity; decentralized R&D organization (divisional or business unit level); earnings allocation choices.

That evidence invites a discussion on whether antitrust should move beyond the structural Bain-Mason paradigm – with its early 21st century sophistications like multi-sided markets theory – and move towards building a more comprehensive theory of the whole: large tech firms may neither be monopolies nor oligopolies, but "*moligopolies*".

Granted, antitrust policy accepts the idea that a firm holds monopoly in market A and at the same time competes in oligopoly in B, C, D. But it treats both states of the world as independent and separate while they are contingent and co-variate. Moreover, conceptual tools like "*potential competition*" do not cater for the fact that Google, Apple, Facebook, Amazon, Microsoft compete against the non-consumption ("*blue ocean*" competition) with shadow rivals. Overall, the process of moligopoly competition can be seen at play when firms expand beyond their core market and morph into conglomerates.

There is a fix to antitrust policy. Because the problem is one of methodology, not ideology, antitrust policy can be changed. The antitrust inquiry should be *firm*-focused, instead of *industry structure*-inferred. This means that the inquiry should try to understand if the firm under scrutiny hustles to disrupt itself. Key data points are size, nature and direction of R&D investments, profit allocation choices (retained earnings v dividends), transactional activity (M&A, VC, CVC). New applied tools ought to be designed ("*conglomeralism*" ratio, intra firm v inter firm competition metrics, "*dividending*" rate, etc.). Those tools, in turn, could assist antitrust agencies in discriminating between pro and anticompetitive tech firms.

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