

Incipient Monopoly

Platforms and Participants

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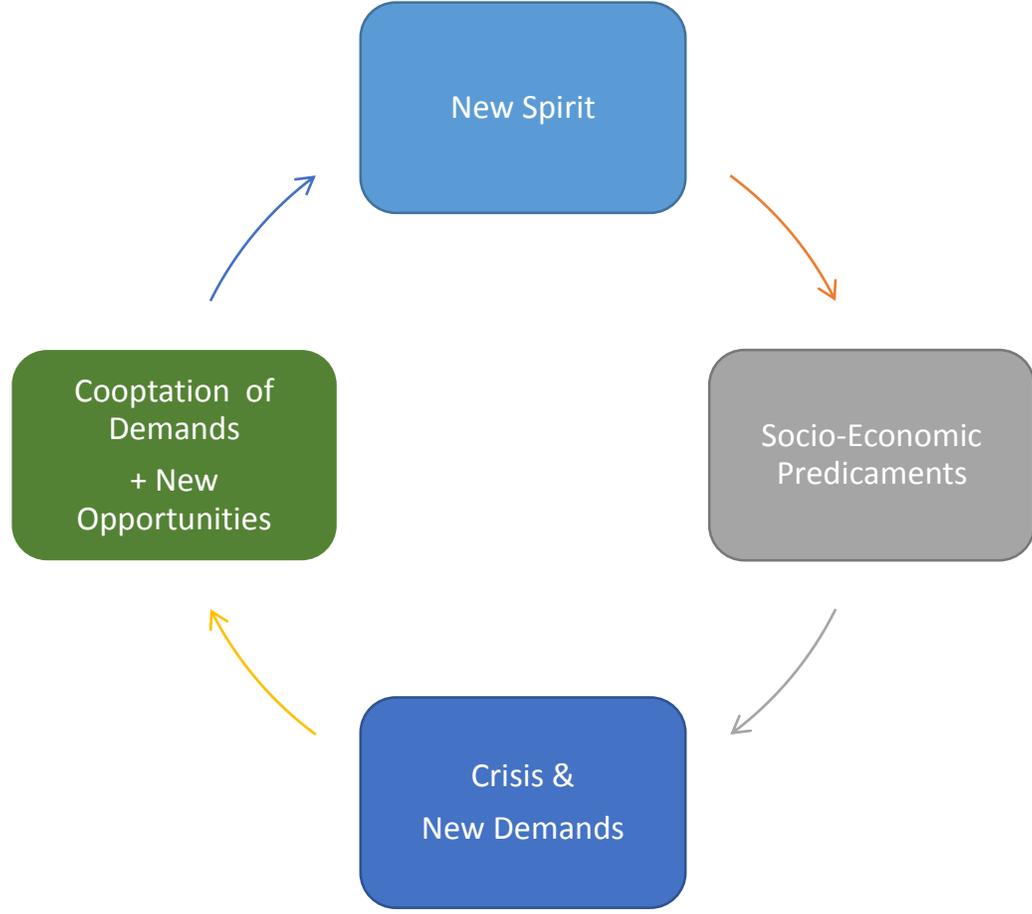
Skolkovo Institute
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Spirit of Capitalism: Apparatus

1. Value Extraction/Wealth Accumulation
 - Trade, credit, manufacturing, ...
2. Institutional Governance
 - Norms, laws, statutes, ...
 - **Antitrust Law**
3. Organizational Governance
 - Rules, procedures, protocols, ...
4. Individual Governance
 - Roles, ethics, psychology, ...

The Dynamics of Capitalist Change



The First Spirit: 1880's–1940's

1. Industrial Production

- Calvinist salvation and worldly success at the same time
- Luxury, charity, and donation frowned upon

2. Rationalized

- Regulation of human behavior and interpersonal relationships in terms of impersonal and “objective” criteria
 - “from the government of men to the administration of things” (Saint Simon)

3. Bureaucratization

- Division of labor, hierarchical control, and communication channels

4. Protestant Ethic

- Work as a “calling” on a par with prayer and piety

Spirit 1 Antitrust: Protecting Small Business

- Sherman Act (1890)
 - To curb price discrimination and predatory pricing
 - To prohibit pricing under production cost that intended "to destroy and make unprofitable the business of ... competitors"
- Federal Trade Commission (1914)
 - To prevent vertical integration and anti-competitive behavior through leverage or foreclosure
- Standard Oil (1911)
 - Supreme Court ruled against monopolistic behavior
 - Ordered the breaking up of the company

Spirit 1 → 2



Industrial Production



New Deal
Social Security

Mass
Consumption



Bureaucratic
control
Economic
poverty



War and Crisis
Demand for Equity and Security

The Second Spirit: 1940's–1970's

1. Mass Consumption

- Large quantities of standardized goods

2. Liberalized

- Human capital
 - “Investment” in relationships: marriage, friendship, children

3. Managed Corporations

- Customer satisfaction
- The unknown other as a control mechanism

4. Ethics of Consumption

- Consumption as the production of personal satisfaction

Spirit 2 Antitrust: Protecting Consumers

- Economic Structuralism
 - Concentrated market structures give rise to anti-competitive behavior
 - Brown Shoe Company v. United States (1962)
 - United States v. Philadelphia National Bank (1963)
- Price Theory
 - Predatory pricing is irrational and hence unlikely
 - Matsushita Electric Industrial Co. v. Zenith Radio Corp.
- Pricing as the standard of consumer welfare
 - “Cutting prices in order to increase business often is the very essence of competition.”

Justice Powell writing for the majority

Spirit 2 → 3



Large corporation
The Military-Industrial Complex

Casualization of
Work



Loss of authenticity
Loss of freedoms



Crisis of Identity
Demand for freedoms
& liberties

The Third Spirit: 1980's–2000's

1. Privatization of Public Property

- From exchange to competition (Reagan, Thatcher)

2. Deregulated

- Performance, team work, projects as units of production
- Quality circles, profit circles

3. Casualization

- Flex, part-time employment, outsourcing, self-management
- Strategic programming of individuals

4. Ethics of Competition

- Peer control
- Individuals and households as units of risk management

Spirit 3 Antitrust: Protecting Predators

- Consumer “welfare”
 - Narrowly understood as having to do only with low prices
- Brooke Group Ltd. v. Brown & Williamson Tobacco Corp
 - “Evidence of below-cost pricing is not alone sufficient to permit an inference of probable recoupment and injury to competition”

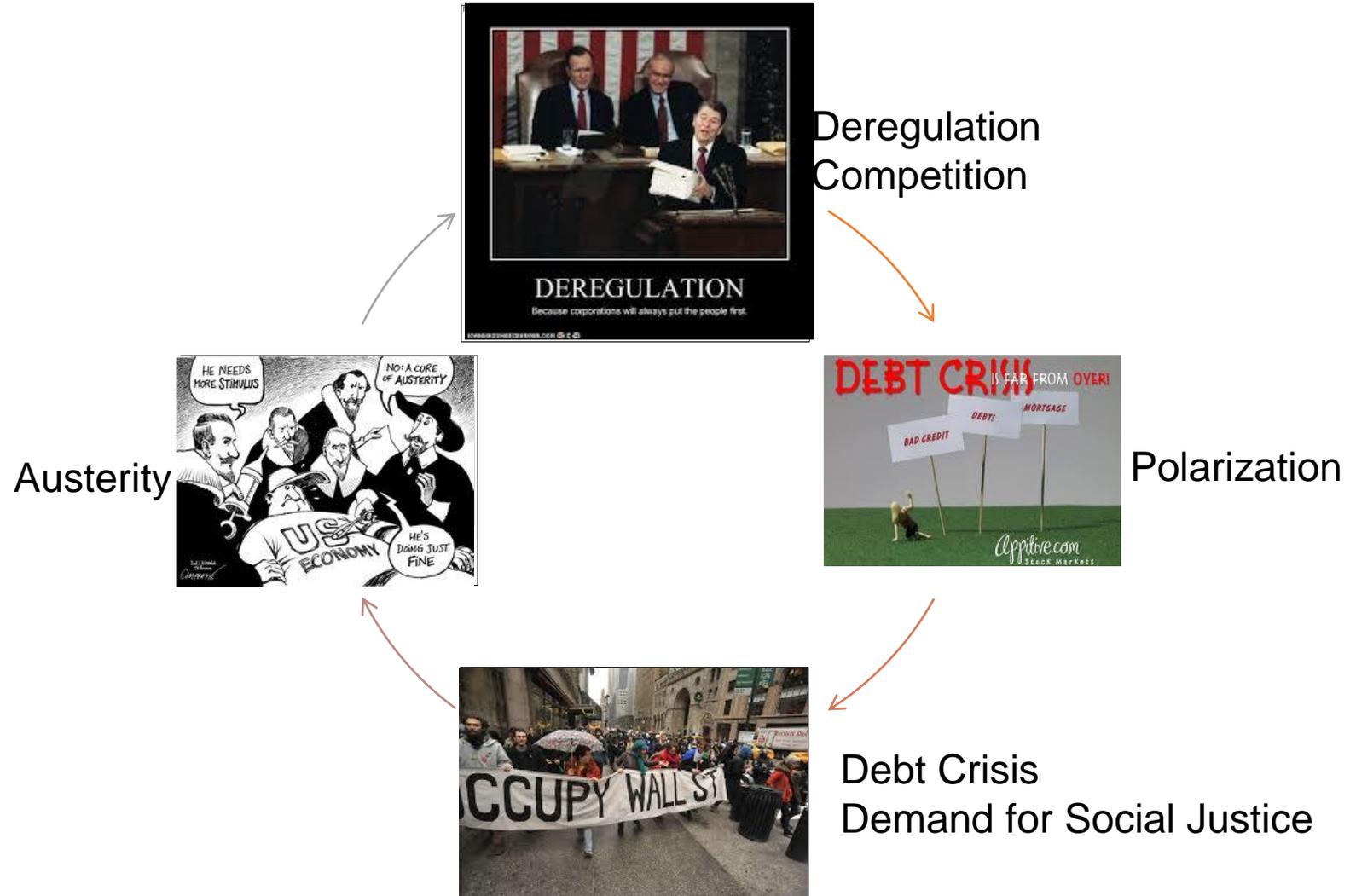
Justice Kennedy writing for the majority

- Major Vertical Mergers

- DuPont/Conoco (1981), BP/Standard Oil(1987)
- Exxon/Mobil (1998), Pfizer/Warner-Lambert (1999)
- AOL/Time Warner (2000), AT&T/BellSouth (2006)
- Dow/Dupont (2015), Monsanto/Bayer (2016)
 - Total: ~\$4 Trillion in mergers and acquisitions

Reagan Admin.
Clinton Admin.
Bush Admin.
Obama Admin.

Spirit 3 → 4



Market Share

- Apple and Google
 - 90% of smart phone operating systems
- Google
 - 70% of world's search activity
- Amazon
 - 46% of online shopping
 - 67% of ebook market and 41% of sales of new books
- Facebook
 - 2008 → 2013
 - 130 M → 1 B (members)
 - \$ 300M → \$ 4 B (revenue)
 - “increase in ads ...driven by user growth” (SEC filing, 2012)

A Comparison

1990

Top three Detroit car companies

- Capitalization: \$36 B
- Revenue: \$250 B
- Employment: 1,200,000

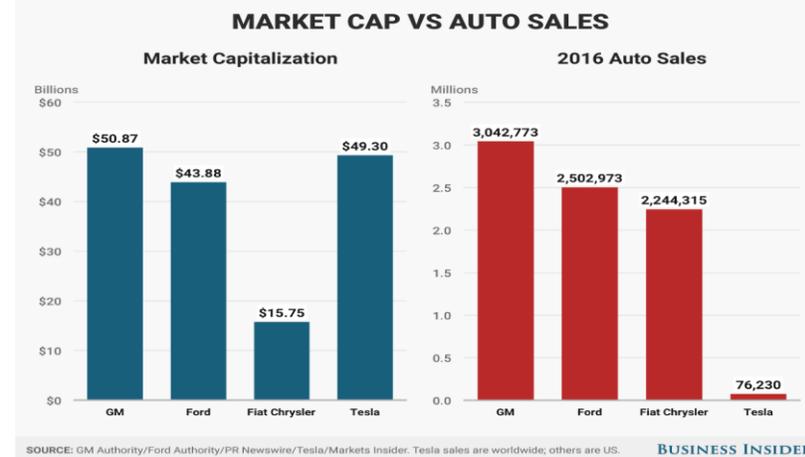
2014

Top three Silicon Valley Companies

- Capitalization \$247 B
- Revenue \$1000 B
- Employment 123,000

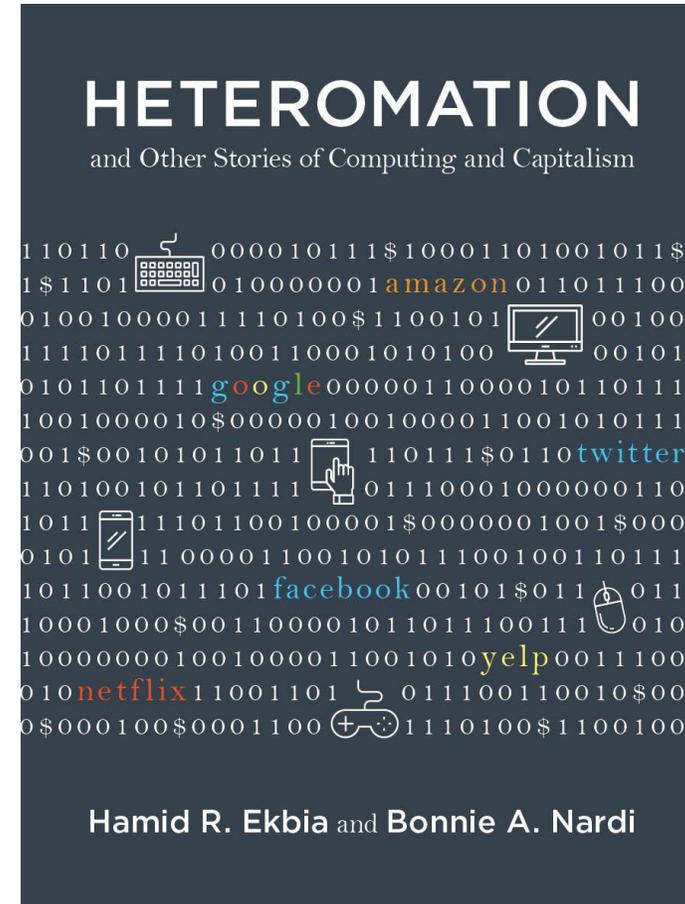
Automation

- Humans out of the loop
- Machines doing the job of human beings
- But full automation is a myth



Heteromation

- Invisible mechanism of value extraction
- Quasi-monopoly of the labor market
- Logic of inclusivity
 - “You get from the network what you put into it.”
- Platform structure
 - Quasi-voluntary
 - Consumers and rivals locked-in





Tech companies have reinvented the principle of economies of scale by shifting their attention from the supply side (production efficiencies) to the demand side (network effects). Just as the old industrial giants used technological innovations to reduce their costs, the new tech giants use technological innovations to expand their networks. Digitisation reinforces the trend because digital companies can exploit network effects and operate across borders.

The Economist

A Fourth Spirit?

2010's-...

1. Heteromation

- A new mechanism of value extraction

2. Networked

- Inclusive logic
- Big Data, distributed control

3. Platforms

- 24/7 work schedule, blurring of labor-leisure boundary

4. Totalized engagement

- Micro-validations

Antitrust Issue (1): Invisible Ultrastructure

- Vast and invisible infrastructure
 - Proprietary networks and algorithms
 - not “to build an online bookstore or an online retailer, but rather a ‘**utility**’ that would become essential to commerce.” (Jeff Bezos)
- Organizational complexity
 - ~20 holding companies, 500 affiliates, 50 countries
 - Recoupment across global markets
- Computer Collusion
 - Dynamic pricing
 - Almost-perfect price discrimination

Antitrust Issue (2): Logic of Inclusion

- Frenemy

- Rivals as customers
- Conflict of interest

Ezrachi and Stucke (2016)

- Branding

- Anti-competitive effects
- Image making

Desai, Lianos, & Waller (2015)

- Innovation Suppression

- Buying startups or channeling their innovations

Antitrust Issue (3): Incipient Monopoly

- The New Gold Rush
 - Prospecting behavior in the digital age
 - Predatory Pricing + Platform Extortion + Network Effects
- Switching costs
 - Prohibitively high despite perceptions
- Structural dominance
 - “Silicon Valley hates good old-fashioned capitalist competition. From Microsoft to Apple, Amazon to Google, [and] Facebook, it prefers one-player market dominance to maximize profits and create huge concentrations of customers or users.” (Business Insider, May 28, 2017)

Antitrust: Thinking Ahead

Corporate Behavior

1. Predation
 - Programmatic advertising
2. Prospecting
 - Future monopolization
3. Personalization
 - Almost-Perfect Price Discrimination

Regulatory Response

1. Prohibition
 - Apply current legal instruments
2. Anticipatory Legislation
 - Enforce incipient standards
3. Reverse Engineer
 - Apply analytic techniques

Current Dilemma: Platforms or Participants?

Periods Apparatus	First Spirit 1880s-1940s	Second Spirit 1940s-1970s	Third Spirit 1970s-2010s	Fourth Spirit(?) 2010s-...
Wealth Creation	Ind. Production	Mass Consump.	Privatization	Heteromation
Institutional	Rationalized	Liberalized	Deregulated	Networked
Antitrust Protections	Small Producers	Consumers	Predators	Platforms or Participants?
Organizational	Bureaucracies	Managed Corp.	Projects	Platforms
Individual	Asceticism	Satisfaction	Stimulation	Validation