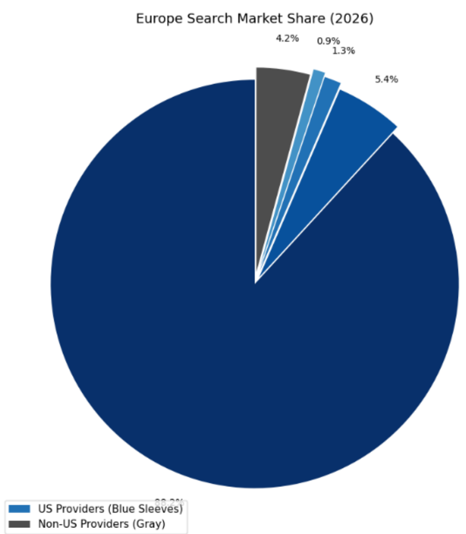
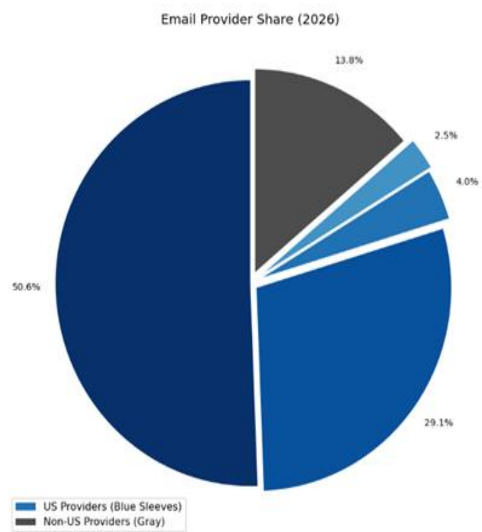
Technopoly

[Let’s start by acknowledging that we are going to leave company names out of this discussion. It will likely be easy enough to discern who the relevant parties are without direct reference.] So, let’s post up the immediate hypothesis at the very outset. Technology has formed into such robust monopolies, or at least oligopolies, that government may eventually deem it in the public interest to regulate them in much the same way that utilities are regulated.

That will, perhaps, seem like a somewhat shocking statement. The immediate response to such a comment would be that doing so would stifle innovation, eliminate or dampen US leadership in tech or, in a broad sense, undercut free enterprise. Those concerns may be warranted at some level. It is also worth noting, that we are not lobbying for such an outcome. Rather, we are simply reading the environment against the backdrop of history. We will acknowledge, too, that the current administration likely has little current appetite for such endeavors. As we will discuss, however, the US is not the sole arbiter neither are politics static – appetites can change.





So, let’s first present the board for our Technopoly Challenge. Today, about 90% of our email traffic goes through just two companies. The vast majority of enterprise office productivity software is the product of another company. Ninety percent of all search traffic is routed through one company, which is also one of the two that combines to control the 90% of email. Just three companies in tech are now bigger than all the industrial companies, energy companies, basic materials companies and utilities combined in the entire United States. While tech is now 44% of the market, energy is just 3%, industrials 9%, while materials and utilities comprise just about 2% each. For perspective, the primary telecom carrier in the 1980s had a 90% market share. Divestitures and mandated competition eliminated the monopoly such that the company that had previously been dominant now controls about 30% of the wireless market and less than 50% of the overall land line market. It’s weight in the S&P 500 was a shade over 5% prior to its breakup. Today, the aggregate weight of all of its legacy companies is a little less than 1%.

It is easy to transition to a discussion of the social good or social benefit concept. The concepts of Natural Monopoly and the express implications for the public good are concepts that cannot be too far removed from the thinking of US and EU regulators. The emergence of AI and the foreboding warnings about the elimination of at least of half of US jobs could very well serve as a catalyst for regulation. After all, if, in fact, AI can displace tens of millions of employees who would end up on the receiving end of US taxpayer-funded assistance while a discreet handful of tech oligarchs amass trillions in wealth, it is easy to see how governments would seek to remedy the situation. Given that the same tech enterprises that substantially control communications also seek to be the ones who would also monopolize AI, it is not a stretch to envision working committees being formed in Washington and Brussels to game out possible strategies.

Brussels simply cannot be overlooked in this discussion, as it is evident that they bristle at the idea of a US-led world order in a general sense and are trailing badly in tech. Would they presumably have an interest in throttling down US competitiveness? Are they powerful enough or motivated enough to act? With a history of draconian fines, it would not be without precedent for them to seize the emergence of AI as a catalyst for action, especially given AI's penchant for overstepping and disruption. Without question, US large enterprise tech has found itself in the crosshairs of regulators both in the US and EU many times in the past, often stemming from the very same backdrop laid out. As the EU is also quite fond of controlling narratives, AI presents a real challenge to the EU in both a business and, perhaps, societal role. It would be anyone's guess as to when or how virulent a pursuit of the US tech giants would be; but, suffice it to say, that it is well within the opportunity set of outcomes as technology and tech dominance evolves.

One could game out a scenario wherein a large, dominant provider of email and search, for example, drew out a commanding lead in the AI race. Would it be in the public good in the UK, for example, for a company to control AI in addition to its 80% share of the search market? We are not drawing conclusions, simply positing questions of relevance which might be considered by decision makers. What if one were to layer in the possibility of service disruptions (i.e., a large service provider goes down taking 80-90% of search and/or email with it)? Is this level of reliance on one or a few, largely unregulated providers in the public good?

In a world of fractured or, at least, tenuous relationships, these questions are very much worth asking. In the framework of analysts, one might ask what is the likelihood of action? Where might such a challenge emerge? What end game might be pursued? As we are only asking questions, we won't try here to precisely define the magnitude of the threat or where exactly it lies. We can simply assess the likelihood that it may exist. Given the established framework, it would seem that there is political hay to be made off assailing US tech. Perhaps, that threat is lurking in the corridors of Washington or, as likely, exists in the ministers' meetings in Brussels. In either case, the threat is not one to be considered lightly.

We would not be playing the hand out entirely if we did not assess the potentialities. If one loosely accepts the premises above, as well as the inherent market power extant in the technolopies, it is fair to assume that all parties would seek to ameliorate concerns and address the issue in the most constructive and least disruptive ways possible. Would that mean spin-outs, spin-offs? Would it take the forms of fines collected as routinely as tolls? One sure thing which cannot be discounted is that the economies of the developed world have been partitioned into have's and have-not's. Throughout history, have-not's have not generally held to being a complacent lot. With elected officials standing only at the pleasure of the masses, they are obliged to do their bidding. Campaign contributions from well-heeled enterprises are valuable, but votes are what are counted.

The clock is ticking, even as the technolopies desperately try to stay ahead of emerging competition in China and Korea. Scale, they will argue, is critical and necessary to their competitive thrusts. In this environment, the management of the AI escalation and its narrative should be foremost in the minds of enterprise leaders, as it is oh, so politically satisfying to extract a pound of flesh from foreign enterprises who have overtaken your market.

In the end, the simplest analogies are sometimes best. A team that wins the league championship twenty years running should expect new rules will be forthcoming. So, it may well be the case with US tech dominance.