

Debate

Should Google Be Broken Up?

ISSUE: As digital firms gain monopoly status in some markets, should regulators intervene to break their monopolies?

It is no secret that a few Internet companies dominate the digital market. Alibaba maintains 80 percent of the e-commerce market in China. Amazon has more than half of the book market in the United States. Similarly, Google has 68 percent of the web search market in the United States. This number is even higher in Europe, where it holds more than 90 percent of the market!

As a result of its market dominance, Google and other heavyweight Internet firms have made it difficult for some smaller companies to compete. This has led to lawsuits in Europe, with critics claiming that these Internet giants have become monopolies. Monopolies occur when an organization offers a product that has no close substitutes, making it the sole supplier. Because monopolies are the sole supplier of a good or service, they have the power to restrict competition and keep prices high. Anticompetitive activities performed by monopolies such as Standard Oil in the late nineteenth century led the government to pass the Sherman Antitrust Act to restrict monopolies. Often regulators break up monopolies or intervene to keep a large company from unduly dominating the market. However, sometimes the amount of resources required to perform a service is so extensive that it is more efficient to have only one company in a region serve the market. Utility companies are a good example. In these cases the government will closely regulate them to make sure they are treating customer fairly.

Google clearly dominates the web search market in Europe. Not only does it have the dominant share of the web search market, but it has also made major inroads into smartphones, robotics, and other technology. This worries regulators who believe that Google and similar companies are gaining too much power. Google has also been the subject of a major EU investigation into whether it is engaging in anticompetitive activities. At the crux of this is the allegation that Google is promoting its services in its search results above competitors' so that its own search services get pushed up to the top. Conversely, competitors' search results get pushed farther down, giving Google's results more of a competitive advantage. Google has made concessions in response to these accusations, but concern over its power remains unabated. Competitors and some European regulators are calling for even more drastic measures.

The European Parliament has responded to what they perceive as an unfair advantage by asking the European Commission to consider forcing a breakup of Google in Europe. This would result in Google spinning off its search engine from its other services. The theory is that this action would rein in Google's power and enable more local companies to compete against Google. Although many analysts believe that it is unlikely Google will be broken up, it has become one of the options under consideration.

However, while most people will agree that Google clearly dominates the European market and could be seen as a monopoly, not everyone believes this situation needs to be rectified. A strong argument against breaking up Google and comparable companies is the fact that they tend to be more efficient than the competition. For instance, Google is almost unparalleled in its data gathering capabilities. Products from Amazon and eBay often cost less for

consumers, and Facebook acts as a strong communication tool that links different individuals and companies throughout the world. This efficiency has done much to help both businesses and consumers.

Critics also maintain that a digital monopoly differs from a traditional one. Digital companies exhibit a network effect: new users attract more users, and as the user base grows both companies and stakeholders benefit. For instance, Facebook would not be successful if its user base was not as large. Because a high percentage of global consumers are a member of Facebook, other users are encouraged to join to connect with their friends already on the site. Additionally, a greater user base often results in lower prices. A high user base means greater revenue, which allows companies like Amazon and Google to make improvements to their operations and lower prices of goods and services.

The competitive landscape in the digital realm operates somewhat different from brick-and-mortar companies. For instance, there are lower barriers to entry in the digital world because it costs less to set up a digital firm over a brick-and-mortar location. Another argument is that just because digital firms are popular today does not mean they will remain so indefinitely. Orkut and Myspace were both highly popular social networks but eventually failed (or decreased significantly) after companies like Facebook began dominating the market with more innovative products and user-friendly features. Instead of restricting competition, the possibility of becoming a dominant player can inspire new companies to compete, especially since costs of operating in a digital environment are often lower. This means established players in the market must remain vigilant and innovative so they do not lose their market position, resulting in improved goods and services for consumers and society. Finally, those that oppose the EU Parliament recommendation believe that the recommendation is not to protect consumers but would-be European competitors. They claim that consumers are not being harmed and that European rivals are simply unable to compete with Google's efficient processes and operations.

As expected, not everyone agrees with this line of thinking. They believe consumers are deceived by Google's search results. Consumers tend to believe the results are neutral and listed according to their relevance. This has not always been the case, as Google has promoted its own services over competitors' to give it an edge. This could potentially harm consumers by not providing them with the most relevant information available. Additionally, although it is relatively easy to enter the digital market, it can be extremely difficult to attract users. Users often do not want to leave a site like Facebook because their friends are on it, and they might lose these connections if they leave. It is also no secret that established digital companies tend to acquire those that could potentially represent a threat. Facebook, for instance, spent \$1 billion to acquire Instagram.

Finally, as one European regulator puts it, a monopoly "in whatever market has never been useful, neither for consumers nor for companies." Supporters of the EU proposal point out the many concerns that have emerged when digital companies have gained too much power, such as privacy considerations or tests performed on users without their consent. They argue that the more power these digital companies have without regulation, the more they will use their power to abuse the system and maintain their market dominance.

There are two sides to every issue:

1. Digital monopolies should be left alone because they encourage innovation and benefit consumers.
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2. Digital monopolies should be broken up because they unfairly dominate the market, harm consumers, and deter competition.

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