

The
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The superstar company

A giant problem

The rise of the corporate colossus threatens both competition and the legitimacy of business

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DISRUPTION may be the buzzword in boardrooms, but the most striking feature of business today is not the overturning of the established order. It is the entrenchment of a group of superstar companies at the heart of the global economy. Some of these are old firms, like GE, that have reinvented themselves. Some are emerging-market champions, like Samsung, which have seized the opportunities provided by globalisation. The elite of the elite are high-tech wizards—Google, Apple, Facebook and the rest—that have conjured up corporate empires from bits and bytes.



As our special report this week makes clear, the superstars are admirable in many ways. They churn out products that improve consumers' lives, from smarter smartphones to sharper televisions. They provide Americans and Europeans with an estimated \$280 billion-worth of “free” services—such as search or directions—a year. But they have two big faults. They are squashing competition, and they are using the darker arts of management to stay ahead. Neither is easy to solve. But failing to do so risks a backlash which will be bad for everyone.

More concentration, less focus

Bulking up is a global trend. The annual number of mergers and acquisitions is more than twice what it was in the 1990s. But concentration is at its most worrying in America. The share of GDP generated by America's 100 biggest companies rose from about 33% in 1994 to 46% in 2013. The five largest banks account for 45% of banking assets, up from 25% in 2000. In the home of the entrepreneur, the number of startups is lower than it has been at any time since the 1970s. More firms are dying than being born. Founders dream of selling their firms to one of the giants rather than of building their own titans.

For many laissez-faire types this is only a temporary problem. Modern technology is lowering barriers to entry; flaccid incumbents will be destroyed by smaller, leaner ones. But the idea that market concentration is self-correcting is more questionable than it once was. Slower growth encourages companies to buy their rivals and squeeze out costs. High-tech companies grow more useful to customers when they attract more users and when they gather ever more data about those users.

The heft of the superstars also reflects their excellence at less productive activities. About 30% of global foreign direct investment (FDI) flows through tax havens; big companies routinely use “transfer pricing” to pretend that profits generated in one part of the world are in fact made in another. The giants also deploy huge armies of lobbyists, bringing the same techniques to Brussels, where 30,000 lobbyists now walk the corridors, that they perfected in Washington, DC. Laws such as Sarbanes-Oxley and Dodd-Frank, to say nothing of America’s tax code, penalise small firms more than large ones.

None of this helps the image of big business. Paying tax seems to be unavoidable for individuals but optional for firms. Rules are unbending for citizens, and up for negotiation when it comes to companies. Nor do profits translate into jobs as once they did. In 1990 the top three carmakers in Detroit had a market capitalisation of \$36 billion and 1.2m employees. In 2014 the top three firms in Silicon Valley, with a market capitalisation of over \$1 trillion, had only 137,000 employees.

Anger at all this is understandable, but an inchoate desire to bash business leaves everyone worse off. Disenchantment with pro-business policies, particularly liberal immigration rules, helped the “outs” to win the Brexit referendum in Britain and Donald Trump to seize the Republican nomination. Protectionism and nativism will only lower living standards. Reining in the giants requires the scalpel, not the soapbox.

That means a tough-but-considered approach to issues such as tax avoidance. The OECD countries have already made progress in drawing up common rules to prevent companies from parking money in tax havens, for example. They have more to do, not least to address the convenient fiction that different units of multinationals are really separate companies. But better the grind of multilateral negotiation than moves such as the European Commission’s recent attempt to impose retrospective taxes on Apple in Ireland.

Concentration is an even harder problem. America in particular has got into the habit of giving the benefit of the doubt to big business. This made some sense in the 1980s and 1990s when giant companies such as General Motors and IBM were being threatened by foreign rivals or domestic upstarts. It is less defensible now that superstar firms are gaining control of entire markets and finding new ways to entrench themselves.

Prudent policymakers must reinvent antitrust for the digital age. That means being more alert to the long-term consequences of large firms acquiring promising startups. It means making it easier for consumers to move their data from one company to another, and preventing tech firms from unfairly privileging their own services on platforms they control (an area where the commission, in its pursuit of

Google, deserves credit). And it means making sure that people have a choice of ways of authenticating their identity online.

1917 and all that

The rise of the giants is a reversal of recent history. In the 1980s big companies were on the retreat, as Margaret Thatcher and Ronald Reagan took a wrecking ball to state-protected behemoths such as AT&T and British Leyland. But there are some worrying similarities to a much earlier era. In 1860-1917 the global economy was reshaped by the rise of giant new industries (steel and oil) and revolutionary new technologies (electricity and the combustion engine). These disruptions led to brief bursts of competition followed by prolonged periods of oligopoly. The business titans of that age reinforced their positions by driving their competitors out of business and cultivating close relations with politicians. The backlash that followed helped to destroy the liberal order in much of Europe.

So, by all means celebrate the astonishing achievements of today's superstar companies. But also watch them. The world needs a healthy dose of competition to keep today's giants on their toes and to give those in their shadow a chance to grow.

From the print edition: Leaders