Trillion Dollar Companies: The Apple Empire and Concentrated Markets

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It seems a distant reality, or nightmare now: a company that was near defunct in 1996, now finding itself at the imperial pinnacle of the corporate ladder. Then, publications were mournful and reflective about the corporation that gave us the Apple Computer. An icon had fallen into disrepair. Then came the renovations, the Steve Jobs retooling and sexed-up products of convenience.

Apple's valuation last Thursday came in at $1 trillion and may well make it the first trillion dollar company on the planet. That its assets are worth more than a slew of countries is surely something to be questioned rather than cheered. This un-elected entity, with employees versed in evading, as far as possible, the burdens of public accountability, poses a troubling minder about how concentrated financial power rarely squares with democratic governance.

Chalking up such a mark is only impressive for those keeping an eye on the trillion dollar line. China's state-owned PetroChina is another muscular contender for getting there first, while the Saudi Arabian energy company Aramco, which produces a far from negligible 10 percent of the world's oil, could well scoot past Apple should it go public.

Cheering was exactly what was demanded by James Pethokoukis of the American Enterprise Institute, whose piece in *The Week* suggests that Apple reached that mark "the right way". The critics of such concentrated power, technology company or otherwise, were simply wrong. "For them, superbig is automatically superbad."

Praise for Apple, an abstract being, is warranted in the way that its ally, modern capitalism, should be. "The story of Apple is really the story of modern capitalism doing what it does best: turning imagination into reality." The author prefers to see Apple, and Amazon, as products of US genius in the capitalist context.

The *New York Times* is similarly impressed, linking individual gargantuan successes to the broader American effort in the economy. A small gaggle of US companies commanding "a larger share of total corporate profits" than at any time since the 1970s, is not necessarily something to snort at. The nine-year bull market has, essentially, been powered by the four technology giants. "Their successes are also propelling the broader economy, which is on track for its fastest growth rate in a decade."

To its credit, the paper does pay lip service to concerns that such "superstar firms" are doing their bit to stifle wage growth, shrink an already struggling, barely breathing middle class, while jolting income inequality.

This is where the trouble lies: a seemingly blind understanding of capitalism's inner quirks and unstable manifestations. The paradox behind the tech giant phenomenon does not lie in the wisdom that innovation comes from competition. The converse is claimed to be true: that concentration, oligopolistic power, and strings pulled by a few players is the way to keep innovation alive. This was Microsoft's vain argument during the 1990s, something that did not sit well with the antitrust denizens.

The fraternity of economists, rarely capable in agreeing on broader trends, has become abuzz with literature focused on one unsettling topic: the continuing, and accelerating concentration of US industry. Gustavo Grullon, Yelena Larkin and Roni Michaely noted in April last year that government policies encouraging competition in industry had been "drastically reversed in the US" with a 75 percent increase in the Herfindahl-Hirschman index (HHI) measuring market concentration. (Antitrust regulators beware.) The authors observe how, "Lax enforcement of antitrust regulations and increasingly technological barriers to entry appear to be important factors behind this trend."

Marketing professor from NYU, Scott Galloway, is one who has supped from the cup of the tech giants. He has written about their exploits (*The Four: The Hidden DNA of Amazon, Apple, Facebook and Google*), his addresses having become something of a viral phenomenon with analyses of the companies at the DLD Conference in Munich. Initially seduced by the bling and the product, he enjoyed the magic mushroom inducements the tech giants supplied, relished in their success and stock options, extolled their alteration of human behaviour. "This started as a love affair. I want to be clear. I love these companies."

This year, a change of heart took place. Galloway, after spending "the majority of the last two years" of his life "really trying to understand them and the relationship with the ecosystem" is convinced that these behemoths must be broken up. The big four, striving all powerful deities, sources of mass adoration, have become "our consumptive gods". "And as a result of their ability to tap into these very basic instincts, they've aggregated more market cap than the majority of nation's GDP".

Power and influence has shifted. Political leaders have little of these relatively speaking, certainly over the behavioural consistency and content of subjects and citizens. Someone like Mark Zuckerberg, distinctly outside a political process he can still control, does. "He can turn off or on your mood. He can take any product up or down. He can pretty much kill any company in the tech space." And that's just Facebook.

What Galloway points out with a forceful relevance is that liberties and freedoms are not the preserve of estranged markets and their bullish actors. Regulation and oversight are required. A return to competition would only be possible through some form of intervention and coaxing, perhaps even economic violence. The memory of the great financial crisis initially stimulated an appetite for regulation. In recent years, such urgings have been satiated. The tech giants, fully aware of this, continue to burgeon.

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