The Daily Dish

Tech and the Regulators

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Eakinomics: Tech and the Regulators

Missouri has opened an antitrust investigation into Google, in part because “No entity in the history of the world has collected as much information on individual consumers as Google,” according to the Missouri Attorney General. This follows a trend of rising calls for regulation — without much clarity about what would be regulated and to what end — of big tech firms like Google, Facebook, Amazon, and others. As pointed out by AAF’s Will Rinehart, this is related to the fact that new business creation has declined sharply. This has caused policymakers at all levels of government to consider policy to enhance new firm creation.

Among those in favor of expanded antitrust action are those that believe it will also increase productivity and expand startups. But that presumes that the size of firms stems entirely from non-competitive actions. There is another explanation dating to the 1970s. In that line of reasoning economists anticipated the links between higher productivity, lower rates of entrepreneurism, and bigger companies. As Rinehart summarizes it, “If the supply of capital increases, then labor will become more productive, increasing the demand for labor, which translates into higher wages. This wage increase induces marginal entrepreneurs to become employees, which increases productivity at the company, but also increases the size of the firm. Over time, as productivity and wages inch upwards, working at a firm gets incentivized over starting a company. Entrepreneurs as a portion of the economy will thus decline and industries with higher productivity rates will see bigger firms.”

Now this may, or may not, explain everything that is going on. But it is a cautionary tale that reminds us of the importance of regulatory restraint and the need to identify actual anti-competitive behavior before intervening and seeking remedy.