Monopoly Power & Forging a New Political Consensus in American Life | Matt Stoller

May 29th 2020

INTRODUCTION

Matt Stoller is Director of Research at the American Economic Liberties Project. Prior to joining AELP, Matt was fellow at the Open Markets program, where he researched the history of the relationship between concentrated financial power and the Democratic party in the 20th century. He spent six years on Capitol Hill, most recently as a senior policy advisor to the Senate Budget Committee where he focused on trade, competition policy, and financial services. He has helped author legislation on Federal Reserve reform, the concentration of power among banks, and the restructuring of our trading arrangements. In addition to his work on the Hill, he has produced for MSNBC and starred in an FX political comedy show with Russell Brand. His writing has appeared in the Atlantic, the New York Times, Vice, Salon, The New Republic, and The Nation.

WHY DO I CARE?

Competition is a Sin. — John D. Rockefeller

I’m new to Matt Stoller’s work. I’ve seen his name come across my radar a few times over the years, but not enough for me to take notice. I’ve always associated him with Bernie Sanders-type progressivism, which I have struggled to take seriously because of all the “wokeness” around it. This is yet another example of how stereotyping and political biases operate to hamper intellectual growth & discovery (in this case, I have been the victim of my own close-mindedness).

A few days ago, I chanced upon an article by Matt about the recent Spotify acquisition of “The Joe Rogan Experience” podcast. According to Matt, “Spotify is trying to do to the open podcast world what Google did to publishers.” He goes on to write:

Spotify is gaining power over podcast distribution by forcing customers to use its app to listen to must-have content, by either buying production directly or striking exclusive deals, as it did with Rogan. This is a tying or bundling strategy. Once Spotify has a gatekeeping power over distribution, it can eliminate the open standard rival RSS, and control which podcasts get access to listeners.
The final stage is monetization through data collection and ad targeting. Once Spotify has gatekeeping power over distribution and a large ad targeting business, it will also be able to control who can monetize podcasts, because advertisers will increasingly just want to hit specific audience members, as opposed to advertise on specific shows. . . . No advertiser will care if you’re a listener of Joe Rogan or Bill Simmons, only that you are a 34 year old male with a certain income reachable in thirty forty different audio slots, which can then all go in an auction. Or even if they do care, competitive ad networks who offer the service you want will probably die. Then, just as the New York Times content becomes far less important online because Google can just find you that New York Times reader through another publisher outlet or Google’s own properties, the actual podcast becomes commodified, because all that matters is the listener data combined with the ad slots, not the show against which those ad slots are sold. This is another complicated way of saying the people who do the work of making and distributing a show don’t get the benefit from the work they do.

My first reaction to learning about this deal was to focus on how it further legitimizes an industry that was considered, only a few years ago to be amateurish and relatively insignificant for advertisers and publicists alike. This was not an incorrect observation on my part, but it missed this much more important angle that Matt has addressed on other occasions as well. Most concerning for me are Matt’s comments about the open standard RSS feed and how Spotify or some other monopoly platform may eventually subvert this standard by building a walled garden containing within it the best content in podcasting, making it practically impossible to operate outside its fortifications. This led me down the path of reading more articles of Matt’s going back to the beginning of this year and to reading his book (his audiobook version of Goliath: The 100-year War Between Monopoly Power & Democracy at 1.5x). Today’s conversation will include not only a discussion about the Spotify deal and its implications, but also, a much larger discussion about monopoly power and the concentration of wealth and industry in the hands of a dangerously small group of individuals in society. This is no longer something that “is happening.” It has already happened. The question now is what we are prepared to do about it? My interest today is to help listeners understand the nature of the problem, its scope, and how citizens can formulate an appropriate response.
QUESTIONS

*** The recent protests & riots in Minneapolis in response to the suffocation of George Floyd by a local police officer have reignited America’s racial tensions and brought to light deeper political and social dysfunctions that threaten the very foundations of our liberal, democratic republic. We need a new political consensus in America.

Background — You seem to have quite an itinerant career track. Your LinkedIn profile shows that you have a bachelor’s degree from Harvard and that you have worked both in Government as a senior policy advisor to Alan Grayson, as a fellow at various think tanks, and as a member of the media, as both a producer at MSNBC and an independent writer. Q: Can you tell me a bit about yourself? Q: How did you get to where you are today? Q: What do you consider yourself? (writer, activist, intellectual, etc.)

Interest in Power — Your blog on substack is called “BIG,” which I presume is a reference to monopoly and anti-trust, but having read much of your work and listened to a number of talks and interviews you have given, it seems that what you are most interested in writing and talking about is “power;” the nature of power and how it influences and subverts democratic processes when left unchecked. Q: How did your interest in and understanding of monopoly develop? Q: What is the role of power in a democratic society like ours and how should ordinary people think about power?

Antitrust, Power, & the Dividend — Q: Are the antitrust laws that are currently on the books today sufficient to regulate large monopolies like Amazon, Google, etc.? Q: How would I or 99% of the people listening to this podcast today benefit from the breakup of Google, JP Morgan, Amazon, Walmart, etc.? Q: What would it take to break these companies up? Q: What would such a break-up look like? Q: In the case of companies like Facebook or Google, doesn’t the solution require something much larger, like putting limits or regulations around targeted advertising and the use of our private data?

The Freedom Dividend — The perspectives of people like Andrew Yang is that antitrust law is insufficient or outdated for the purposes of what we are facing. He wants to issue a dividend as a way of redistributing profits from the largest, most powerful corporations to the population. Besides
the clientelist problems that this would create, it also
does not address the issue of power. **Q:** Do you think
that Andrew Yang and others like him who have
advanced proposals for direct subsidies of hundreds
of millions of Americans (e.g. the Freedom Dividend)
is actually a sleight of hand meant to sustain the
current power structure?

**Trump, Social Media Censorship, & Section 230 —**
The Trump administration is apparently preparing an
executive order intended to curtail the legal
protections that shield social media companies from
liability for what gets posted on their platforms. **Q:** Without focusing on the personal dimensions of
this story (e.g. Trump and “the Media”), what can you tell us about the substance behind this order?
**Q:** What do you feel (1) needs to be done and (2) can reasonably done to improve social discourse
and civil liberties on the Internet? **Q:** What is the proper framing of the problem? **Q:** Is part of the
problem that we’ve focused on prices as a signal for monopoly when these companies use barter?

**Washington Sausage —** **Q:** How has working in Washington helped you understand how the
levers of power operate? **Q:** Do you think this type of hands-on experience is essential for anyone
looking to understand the nature and rational behind our current political dysfunction?

**Internal Party Policy Rethink —** **Q:** What sort of intellectual discussions and rethinks are
happening in the republican party? **Q:** What is happening in the democratic party? **Q:** Are
discussions happening in the former different than the later because the Democratic establishment
has been able to maintain power and control over their nominees whereas the republicans got
Trump?

**Woke Politics —** **Q:** What do you think it is that so many people find deeply offensive about the
language of “wokeness” as it pertains to the highly moralistic form of identity politics that has
emerged in the last five or so years? **Q:** Is identity politics just a lazy substitution for thinking about
power and the structures of power that actually have a meaningful impact on social outcomes?

**Social Justice + Finance —** **Q:** What did you mean in the past when you said that we are “seeing
a smashing together of the social justice world and the investment world?”

**Democratic Party —** **Q:** Is the Democratic party being held captive by an institutional elite? **Q:** What
would it take for the Democratic party to regain its
relevance as the party of the working man? **Q:** Do Democrats need a “Trump moment?”

**America Post-Corona —** **Q:** Will coronavirus lead to much needed change or just further deepened
divisions in the country? **Q:** Do the latest riots in Minneapolis suggest otherwise?

**Ferguson & the New Deal —** **Q:** Have you read any of Thomas Ferguson’s work? He wrote his PhD
dissertation on much of what you cover in Goliath.
The paper was called “Critical Realignment: Decline of the House of Morgan and the Origins of the New
Deal.” He is most famous for developing “The Investment theory of party competition,” a theory he
The theory focuses on how business elites, not voters, play the leading part in political systems. The central claim is that since ordinary citizens cannot afford to acquire the information required to invest in political parties, the political system will be dominated by those who can. As a result, the investment theory holds that rather than being seen as simple vote maximizers, political parties are best analyzed as blocs of investors who coalesce to advance candidates representing their interests. This runs contrary to the median voter theorem where political parties have traditionally been seen as vote maximizers who will seek out the position of the 'median voter' on any particular issue. One of Ferguson’s insights is that voting decisions are ultimately made on the basis of the information that is available, and if acquiring information is expensive in terms of time or money then most likely those decisions will be made on the basis of information subsidized by wealthy investors. Q: How has our current information environment impacted voter education and behavior?

**Spotify & Future of Podcasting** — You publish a great piece on the Spotify-Rogan deal recently that I would like to discuss. It’s not the first time you’ve published something on the streaming service or on podcasting. Q: Could you fill our listeners in on what we know about the deal and what you think its significance is? Q: What can we do in such instances to protect the vibrancy and independence of new media?

**Rethinking the Drive Towards more Efficiency** — One of the broader lessons from the pandemic is that perhaps hospitals should not be run with a mentality of maximizing operational efficiency and that this is one area of our economy where operational resilience is important. Q: Could we have a broader discussion about how policy makers and the public think about the trade-offs between efficiency and resiliency? Q: Could it be that the relentless pursuit of efficiency, which has dominated American business thinking for decades, has made the global economic system more vulnerable to shocks?
HOW DID WE GET HERE?

For roughly two hundred years, with the creation of the U.S. Postal Service in 1792, American policymakers have sought to ensure a decentralized and independent media communications environment. The First Amendment shielded private speech from government censorship. Equally important were public policies to structure markets for advertising, media, and communications. Policymakers subsidized media through universal low-cost or free distribution of information via the mail, promoted neutrality in critical speech platforms, and prioritized diversity of speech. Advertising revenue served as an important shield for publishers against financial control from the government and the wealthy.

Throughout most of the 20th century, a combination of telecommunications policies and advertising markets supported a surfeit of radio and television stations, as well as a host of local newspapers and specialized magazines. Until recently, between sixty to eighty percent of the revenue for newspapers came from advertising. Policymakers also implemented variations of the Fairness Doctrine, a regulation that mandated equal time for political views on regulated broadcast channels, reflecting a desire to safeguard concentrated media ownership from fusing with partisan political interests.

From the 1930s to the 1970s, the Federal Communications Commission pursued three main policy goals. As described by Supreme Court Justice Thurgood Marshall, (1) one was diversity of speech via diversity and local ownership of media platforms. (2) Another was “the best practicable service to the public” consistent with the technology of the day (FCC v. National Citizens Committee, 436 U.S. 775 (1978)). For communications networks, (3) universality of service was yet another goal.

Starting with the Radio Act of 1927 and continuing through the Communications Act of 1934, congress and regulators sought to decentralize ownership and control of media markets, often when these industries were in their infancy. The Radio Act essentially forced AT&T, which sought to leverage its telephone infrastructure to dominate this new medium, to sell its nascent radio network. In 1940, the Federal Communication Commission imposed strict ownership caps on FM stations.
In 1942, the FCC and the Department of Justice forced NBC to spin off its second national radio network, which turned into ABC, a national competitor for eyeballs and ad dollars. In 1953, the FCC wrote the so-called 7-7-7 rules, which prohibited anyone from owning more than 7 television licenses, 7 AM radio licenses, and 7 FM radio licenses nationwide. The FCC updated these rules to include cable systems in 1970. In 1975, the FCC blocked any company from owning a newspaper and TV or broadcast station in the same market.

Regulators also reduced network operators’ power over the flow of advertising and information, thus preventing operators’ from using that power to extort or bully other market participants. In 1941, the FCC blocked national radio networks from seizing control of advertising sales and programming choices, allowing local affiliates to more easily substitute local programming for network offerings. These rules were intended to make it easier for affiliates to sell non-network advertising. Radio-network publicists prophesized doom for the industry, arguing it was a prelude for a government takeover of the airwaves. Instead, revenue and the number of broadcasters soared.

Regulators and antitrust enforcers also imposed a wide variety of rules that restricted the power of any particular corporation in telecommunications and advertising markets. These restraints specifically promoted decentralization and fair competition. For instance, the Justice Department filed a suit against a monopoly on outdoor advertising, as well as a suit to stop price fixing in the typesetting business. In another case, the Justice Department sued a group of businesses for monopolizing supplies and services to rural newspapers (United States v. General Outdoor Advertising Company, Inc. (1950); United States v. Thomas P. Henry Co. (1950); United States v. Western Newspaper Union, et al, (1951)).

Regulators also prevented one part of an industry from controlling the whole media supply chain, or what is known as vertical integration, in both television and film. In 1970, the FCC adopted Financial Syndication rules, which stopped TV networks from owning the programming aired in prime time. As a result, TV networks had to buy their prime time programming from independent production companies and studios throughout the 1970s and 1980s, which gave artists more negotiating leverage and helped open television production to new voices. Decades of litigation
also broke up the motion picture industry, separating production from distribution and ending a series of abusive practices, like requiring theaters to show unwanted films as a condition of showing sought-after blockbusters (United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948)).

Policymakers also prohibited certain false and deceptive practices on broadcast speech platforms. In 1960, after a series of pay-to-play scandals, Congress eliminated a conflict of interest in advertising markets by outlawing the practice of “payola,” or undisclosed sponsorship payments to radio DJs, stations, and television personalities and shows. With this limit on licensed broadcast channels, advertising would be aboveboard and disclosed.

Enforcers and regulators also sought to intervene in high-technology markets to block monopolization at its incipiency. The Justice Department prohibited AT&T from competing outside its communications business in 1956, in part to prevent the company from leveraging its monopoly power in one market to advantage itself in others. This stricture forced the corporation to license its patents to the burgeoning electronics and digital computer companies, allowing them to grow without interference from AT&T. The FCC also sought to stamp out abusive behavior in the nascent online services market. Standards for new technologies, like those underlying fax transmissions, email, and the nascent internet, were often open, allowing competition within these new markets to flourish.

This system still had significant deficiencies and injustices. Local newspaper monopolies often had excessive local control over advertising and news flow, and structural racism and sexism limited the availability of advertising revenue and infrastructure to support publications and media outlets challenging the status quo. Publications like the legendary African-American newspaper The Chicago Defender never faced anything but a very challenging financial existence, and people risked lives and livelihoods to distribute it in the South because white-owned firms would not carry it. Dramatically unequal levels of access to capital that fell along racial or gender lines presented an additional barrier to creating a just media ecosystem.

In the late 1970s, policymakers reversed their presumptions, increasingly deferring to assertive capital market actors on Wall Street. This shift manifested in the loosening of FCC rules capping media ownership and mandating political speech neutrality on publicly licensed airwaves. The
subsequent consolidation of media outlets beginning in the 1980s turned into a merger tidal wave after the passage of the Telecommunications Act of 1996, which lifted caps on media ownership. Underpinning this transition was an ideological transformation driven by the “law and economics movement,” which originated at the University of Chicago and successfully reoriented policymakers’ approach to structuring markets. Under the influence of writers like Robert Bork, policymakers, on a bipartisan basis, shifted the main goals of antitrust away from ensuring decentralization and fair rivalry within markets. Instead, they sought to allow corporate concentration within and across markets, often under the assumption that market dominance signaled nothing more than efficiency.

In industries created after this framework became dominant, such as the personal computer industry, concentration became extreme. Competitors battled to privatize technical standards, creating monopolies around these complex specifications. While the standards underlying fax and email were open so that anyone could create fax and email products, the operating system for personal computers and the standards underpinning social media were under the control of individual corporations. Modern technology corporations sought to compete for the market itself, rather than within the market.

Antitrust enforcers also weakened merger law, viewing mergers in terms of their presumed impact on consumer prices instead of their impact on the competitive process. This pivot set the stage for corporations like Facebook and Google, which offered tools at no monetary cost to consumers, to go on merger sprees unencumbered by meaningful challenges.

The Reagan and Clinton Administrations also chipped away at the regulatory structures and vertical and horizontal restraints that had kept telecommunications networks partitioned and decentralized. Part of this involved the Reagan Administration’s confusing attack on AT&T, which appeared to be a break-up of a monopoly. However, the underlying goal was to separate the regulated business components of AT&T from its other divisions as a means of deregulating telecommunications markets. The Reagan administration also loosened media ownership restrictions and eliminated the Fairness Doctrine.

Google

Don’t Be Evil JK
The Clinton Administration continued Reagan’s approach, with the Telecommunications Act of 1996 enabling consolidation in telecommunications and broadcast industries. The law included a little noticed provision, Section 230 of the Communications Decency Act (which is a part of the overall law) to enable the management of online chat rooms. Section 230 allowed providers of “interactive computer services” to be free from liability for speech on their platforms. Section 512 of the Digital Millennium Copyright Act offered a parallel shield for platforms to avoid liability for copyright violations on their networks.

These shields led to an explosion of innovation. Platforms could experiment without worrying, as publishers must, that the content they monetized was illegal or included copyright violations. Importantly, these laws also enabled digital-era communications networks to finance themselves with advertising revenue, but without any liability for the content they facilitated.

While the Telecommunications Act eliminated a variety of restraints in media markets, it did succeed in blocking telephone companies from spying on customers for marketing purposes through what were known as Customer Proprietary Network Information rules. However, these protections have not been extended to surveillance and advertising online platforms. The Clinton Administration also brought suit against Microsoft for antitrust violations. This suit created the opportunity for new young corporations such as Google to succeed. But the ultimate failure of the suit, combined with an increasingly conservative Supreme Court’s further narrowing of antitrust law, meant that the burst of innovation unleashed by the case was followed by the growth of new, even more powerful monopolies.

During the 1990s, regulators and policymakers were somewhat aware of possible anti-competitive discrimination in the physical infrastructure of internet access, which led to the battle over “net neutrality,” and the question of control over the physical infrastructure of the internet. But they did not recognize the possibility of centralization over the flow of information in the content layer of the web. They did not see the possibility of monopolization and centralization among advertising networks, search engines, or other nascent communication network applications.

Ironically, within the industry, the moral dialogue about market structure was prescient. In 1998, Google founders Larry Page and Sergei Brin made the most cogent case against advertising-
financed business models in their paper describing the underpinnings of Google’s search engine. The key problem with ad-financed search indexes was that they would engage in self-dealing; search engines financed by ads were “inherently biased towards the advertisers and away from the needs of the consumer.” Page and Brin also identified that search engines would seek to prevent users from leaving their properties to sell more advertising. This problem is what would later be identified as engagement, the need to create algorithms to keep users engaged on a platform. But policymakers, if they acknowledged these arguments, did not incorporate them in any coherent regulatory framework.

Because of the ideological dominance of the law and economics movement, even under Democratic administrations the Federal Trade Commission (FTC) viewed consumer protection as a question of adequate disclosure regimes, focusing on solutions that required consumers to be notified when their data was collected. The FTC largely did not consider that, as companies accumulated data on their users, they would be able to structure bargaining power – to water down or eliminate competition – among different agents in the marketplace, including publishers, platforms, and users. Instead, market power was inappropriately shoe-horned into the framework of privacy law, where it remains today.

In 1999 and 2000, the FTC held a series of workshops and issued reports on the nascent online behavioral advertising market, with the outcome being industry self-regulation in the context of privacy. In 2007, the FTC offered updated principles to guide self-regulation in the now-thriving market for behavioral advertising. These principles were further extended in an FTC staff report in 2009, under a Democrat-majority agency. The embrace of self-regulation set up a contest in which competition within the online advertising market could take place based on self-dealing and conflicts of interest.

This policy environment enabled relative newcomers Facebook and Google to roll up the online advertising industry. From 2004 to 2014, Google spent at least $23 billion buying 145 companies, including Maps, Analytics, YouTube, Gmail, Android, and, critically, its 2007 purchase of DoubleClick. Google’s DoubleClick acquisition, which the FTC approved, gave Google control over
the plumbing used to deliver ads from advertisers to publishers in the display ad market. Google’s DoubleClick acquisition, which was approved by the Federal Trade Commission, gave Google control over the plumbing used to deliver ads from advertisers to publishers in the display ad market. Prior to this acquisition, online advertising was a segmented and competitive series of markets. The merger radically concentrated power over the flow of information and advertising. Google then combined DoubleClick data with its search and Gmail data into data sets that gave ad buyers unrivalled information with which to reach potential customers.

Facebook, too, acquired competitors without regulatory intervention. Most notably, in 2012, the Federal Trade Commission unanimously approved Facebook’s $1 billion purchase of Instagram. Mark Zuckerberg bought the company because he saw it as a competitive threat to his social networking business; in other eras, such a merger would have been challenged. A year later, in 2013, Facebook acquired a company called Onavo, allowing it access to granular data on how people used rival apps in order to monitor potential competitive threats. Then in 2014, Facebook paid $19 billion for the secure communications messaging service WhatsApp, a popular program used by large numbers of people around the world to send private text-messages to one another, and which posed a potential threat to Facebook’s original social network.

The result is that Google and Facebook enjoy extraordinary market power, with users firmly locked into their services. Today, Google has eight products with more than a billion users each, and Facebook has four products with more than a billion users each. Acquisitions have allowed these two corporations to control the richest and widest data sets on human populations ever assembled. Their reach, combined with data, gives these platforms gatekeeping power over who wins and loses online. These advantages insulate them from basic market-based accountability mechanisms, like competition from rivals for users and advertisers. Facebook and Google can increase the number of ads in their services or reduce quality of products through elevated surveillance levels without consequence.

**QUOTES**

“Unlike other crusaders from Berkeley, I have chosen Wall Street as my battleground for improving society.” — Michael Milken (**said without a hint of irony**)

“It is true entirely on the Democratic side. There is literally no interest in learning about the language of power to the point where they didn’t know what they voted for until three weeks after they voted for it.” — Matt Stoller (**speaking about the CARES Act**)
“The progressive movement is a very cloistered set of art critics who signal to each other about what the appropriate things to think are. They don’t read books. They don’t think about ideas. They don’t respect people who read books or think about ideas. They don’t associate governance and power with what they do with elections. It’s a movement of art critics. I don’t know how to fix it, but that’s my analysis. It’s pretty embarrassing. It’s also embarrassing how they approach Trump. Because Trump is putting forward real policy ideas many of which are really bad policy ideas. But he is putting forward ideas about power and they don’t have any way to understand what he is saying.” — Matt Stoller

“[There is a] substitution within the Democratic coalition of identity politics for what you might call structural analysis of the economy and political economy.” — Robert Johnson

“My view of Democrats is that they don’t actually care about racism. They use it as a sort of moral shield, but really, what they are doing is substituting moral vanity for thinking. If you want to think about race and power—and you leave banks and corporations out of the calculus—then you’re not actually thinking about race and power. You are just using race as a symbol for your own goodness. You are just grandstanding. And so, I think when the right makes fun of the Democrats and the left for their wokeness, they are really playing on the fact that the democrats don’t really care about racism. They’re just moral grandstanders. And I find a lot of the woke language just deeply offensive. Because they are turning everyone into an unperson, and that’s just embarrassing. Woke politics is all about making people into victims and saying that only victims have legitimate political claims, and I just think that that’s an authoritarian way of seeing the world. And it isn’t a way of seeing the way that actually puts forward the concerns of black people, or Latinos, or white people, or women, or another group. It’s a view of the world that’s just aristocratic and they are aristocrats. They are just like “oh, if you don’t learn this incredibly complicated language of wokeness that you have to spend years at a university to understand and then you step on a landmine somewhere: oh sorry, you’re canceled.” That’s not a legitimate way to do politics. It’s a way to exclude people who aren’t like you. And that’s what the democrats are. That’s what the woke politics is. It’s just a way to exclude people that are not like you.” — Matt Stoller