

TALKING POINTS

THE TECH GIANTS ARE TEARING UP THE SOCIAL CONTRACT



Overview

A new world: Headline of the week

CEO of Google questioned by Congress about political biases of algorithms

New challenges: Question of the week

The tech giants are tearing up the social contract

In the west, the social contract has been based on the welfare state since 1945. The *status quo* is now endangered by demographics and the consequences of the crisis of 2008. Anxiety among the middle classes has been aggravated by the progress of technological platforms. The pessimists foresee a dangerous future, shaped by precarious employment, remodelling of cities to suit the economic elite, the demise of traditional forms of retail and all-pervading 'fake news'.

What's more, the internet giants are vying with governments for some of their sovereign functions. The riposte has used intimidation, prohibitions, taxation and sanctions. Will governments emerge triumphant? Do they really have a clear strategy? Does Europe have the means to achieve its goals?

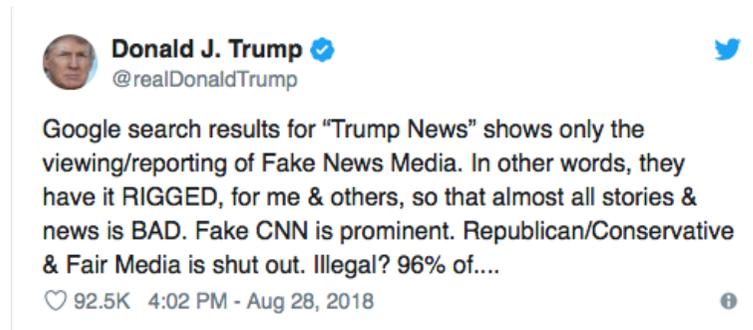


CEO of Google testifies before Congress

Newsflash

Sundar Pichai has been questioned by Congress about the political biases of Google algorithms

Illustration



The US president claims that Google manipulates news about him; his irritation was heightened recently by the appearance of his photo in response to a search that contained the word « idiot »

Conclusion

- ◆ Since the Cambridge Analytica affair (1), US political authorities have been concerned about the **political influence** of large **technological platforms**. Sundar Pichai's hearing of 10 December was preceded by those of Jack Dorsey, CEO of Twitter, and Sheryl Sandberg, COO of Facebook.
- ◆ Google's CEO was mainly asked about how the algorithms work and how the text displayed on the first page of a search is selected. He stood over the company's claim that no human intervention favours partisan search results, which only reflect a statistical « popularity » index (2).
- ◆ The senators also focused on other political subjects: Google's expansion plans in **China** and its position *vis-à-vis* the requirements of the local censor, **anti-competitive practices** in the US and the **protection of users' personal data** (3).

(1) See Talking Points: *The end of free internet?* <https://bit.ly/2GknUEV>

(2) Given millions of similar searches and links to/quotation of these articles by other websites.

(3) See Variety: *Key takeaways from Pichai's day in Congress...* <https://bit.ly/2S5wuch>



What is a society?

◆ **What shapes a society?** Firstly, **powerful concepts** such as values, history and a common culture, legitimate political institutions, a territory. But also a **concrete way of life**: work, mobility, protection of the weak (1), housing, education, social and commercial meeting places, how political opinions are expressed.

◆ The success of the large technological platforms has shifted the tectonic plates. **At the margin**, because today they only concern a small fraction of social intercourse, but **radically** because they make it possible to **envisage** a rapid alteration of living conditions:

A slow death for job security?

① **They undermine salaried employment**, which is the modern form of **work** in the west (2). The salary was a historical victory for workers. It became synonymous with better living conditions (3) and especially with **social protection**. When Uber offers its drivers entrepreneurship, it means for many a return to piecework and reduced social benefits. The platforms concern only a very small minority of jobs, but they are the tip of a much larger iceberg: the proliferation of 'non-standard' jobs (4).

City life restructuring

② **Amazon's share of US trade is only 5%**, but many shopping malls are closing down. This echoes the hollowing out of town centres in Europe (5), which were traditionally a place for social and commercial exchange.

Political debate under pressure

③ **AirBnB is a marginal player in the hotel business**, but its success has transformed the physiognomy and housing patterns of the most emblematic cities. It allows us a foretaste of the future of cities: rich, but invaded by tourists and void of social and commercial diversity (6).

④ **Google and Facebook** have made a significant contribution to the **decline of the press**, which is essential for a healthy democratic debate. Moreover, Facebook has become a prominent organ for political expression, at the margin of the parties and open to interference by foreign powers - and all without submitting to the editorial requirements of the law.

(1) The old and the sick

(2) See Talking Points: *Uber, Deliveroo: the inexorable rise of precarious employment* <https://bit.ly/2QVoBsb>

(3) Thanks to the minimum wage, training, progress on the wage scale and access to credit

(4) Overall, the equivalent of all jobs created in the US since the end of the Great Recession. In the OECD, one-third of jobs are precarious. <https://bit.ly/2QVoBsb>

(5) Despite the relative decline of the hypermarket model.

(6) See Talking Points: *Tourism: Eighth wonder of a globalised world* <https://bit.ly/2Bphz5h>



Challenge of the superstar firms

« Bombard the Headquarters ! »

The deadly sins of the superstar firms

◆ Governments are a special participant in political and economic life. They pass and enforce **laws**. As **employers**, they structure and influence the labour market. Governments are a key **client** for some industrial sectors: infrastructure, aerospace and defence. Solicited by numerous special-interest groups, they are expected to do what is in the **general interest**. In the final analysis, they have the monopoly on legitimate **violence**. However, they are being challenged by a group of very ambitious firms: the **superstar** firms (1), and especially the internet and technology giants.

◆ Governments feel threatened by these companies, which they say are guilty of **seven deadly sins**:

- ① **Disrespecting the supreme authority**, brazenly in the cases of Facebook, Apple and Uber (2).
- ② **Intruding** in the organisation of society, by rewriting the social contract to suit their own ends.
- ③ **Undermining the public economic order**: e.g. Google abusing its dominant position (3) or technological oligopolies eliminating competition and capturing most of the value.
- ④ **Challenging fiscal sovereignty**: US firms that own the IP report their profits in low-tax regions.
- ⑤ **Collecting personal and confidential data** of citizens.
- ⑥ **Preparing the future**, even the ethical norms, by special-interest groups that corner the rare talent capable of developing artificial intelligence (4).
- ⑦ **Facilitating interference by foreign powers**: for example, internet giants have collaborated with US security services in Europe, and have acted as vectors for Russian interference in US elections. They have even been used to prepare terrorist attacks.

(1) See Talking Points: *When Superstar companies compete with governments* <https://bit.ly/2UQ43At>

(2) In his manifesto, Mark Zuckerberg disputes the legitimacy of governments and cities and sees the future dominated by « communities ». Tim Cook qualified the EU decision to oblige Ireland to tax Apple « *political crap* ». It is Uber's policy to operate in defiance of local regulations.

(3) Sanctioned several times by the EU; FT: *EU fines Google record \$4.3bn over Android* <https://on.ft.com/2JvfMN>

(4) Only 2,000 IT PhDs a year in the US. The tech giants recruit most of them (Uber even lures academics from Carnegie Mellon). 40% of A.I. research is the work of company-affiliated employees.



Political disengagement and fragmentation is worrying



US middle-class shrinking in relative terms (1971-2016) source PEW

Governments counter-attack with taxes, anti-trust laws and bans

Saving Private ‘Nanny-state’

◆ **The promise of social progress** has cemented the alliance between the middle classes and western governments since 1945. The welfare state is an essential component of this pact. It is still undermined by the budgetary consequences of the crisis of 2008. Technological advances, made very visible by the ubiquitous nature of platforms, aggravate the **anxiety of the middle classes** (1). This sentiment partly explains the « get the hell out » scream addressed to the established parties and the fragmentation seen in recent western elections. This is why political authorities are **actively seeking levers** to counter the inexorable rise of the platforms:

- ① **Taxation.** The superstar firms dominate thanks to their **intellectual property**, which allows them extraordinary market power: patents, technological expertise and brandnames (2). Their local subsidiaries pay for this IP with generous royalties. Despite their obvious success, the superstar companies pay very little tax. The GAFA tax is Europe’s attempt to level the playing field (3).
- ② **Pro-competition policies.** The European Union condemned Google for abuse of a dominant position. Apple must pay taxes in Ireland to offset illicit profits thanks to State aid (4). The internet giants take advantage of inadequate legislation (5), and buy out potential competitors almost as soon as they appear. Network effects « naturally » lead to oligopolistic positions. Should Google and Facebook be dismantled (6)?
- ③ **Prohibitions or operational frictions.** Uber is banned in some countries and cities. Judges have requalified their drivers and Deliveroo cyclists as employees, entitling them to costly social benefits. Some cities have banned AirBnB, or limited activity volumes. The EU has ruled that the Netflix offering must be 30% European fiction. Like its regulation concerning personal data, the GPRD, which strives to reduce commercialisation of personal data, to the detriment of Facebook et Google.

(1) Whose numbers are shrinking in relative terms in the US. See Pew <https://pewrsr.ch/2QhdnuU>

(2) Starbucks, McDonald, Amazon in conflict with EU. FT *EU rules McDonald Lux taxes* <https://on.ft.com/2SThhuK>

(3) Google’s effective tax rate in Europe is 7%. The idea of the GAFA tax was championed by France in the EU. Not welcomed in northern Europe and technically difficult to integrate into the fiscal architecture: FT *EU’s tech tax is going nowhere fast* <https://on.ft.com/2S2RXCj>

(4) That is how the EU qualified the tax break that Apple enjoyed in Ireland.

(5) e.g. Facebook and Instagram, Whatsapp. Google have acquired c.250 companies.



A riposte mired in contradictions

◆ Western – and especially European – governments worry about the disintegration of the social contract. In this respect, the tech giants are now considered partly to blame (1) because they threaten the market, the freedom of consumers and democracy. Governments are taking increasingly vigorous action, but they face four hurdles:

- ① **Platform services are popular:** they provide free solutions that are useful and create new social ties. They satisfy the demands of younger generations for access to information, leisure and shopping. A return to the past is illusory.
- ② **Governments are ambivalent.** They resist the platforms, but still use them to communicate with the people. They welcome Uber as a way of short-circuiting an overly-powerful taxi lobby, and AirBnB as a means of raising tourist numbers and the incomes of city dwellers. In the US, Google has been criticized by political authorities, but it is an indispensable partner of the Pentagon in dual A.I. technologies. The CIA has chosen Amazon's cloud in preference to IBM (2).
- ③ **Governments have contradictory objectives.** The USA protects its companies in foreign markets, just like China. The fear of US reprisals is one of the reasons for German reticence about the GAFA tax.
- ④ **Regulations may have unexpected consequences.** The GPRD raises costs for young companies, but has no real impact on oligopolies. The GAFA tax may handicap European start-ups.

Europe: the means to achieve the goals ?

◆ It would be futile to pose a head-on challenge to the technologies of our age. Having failed to create many large companies in the sector, Europe is only just beginning to ask if it can manage social and technical progress at the same time. The levers have been identified clearly. To be truly operational in Europe, they must be based on a shared **political will**, stronger **pro-competition regulations**, more rapid and heavier **sanctions**, and a drive to become a world-class player in technology in order to influence the rules of the game. This is mainly a question of **financial investment** (3).

- (1) Currently debated in the US, but red hot issue in Europe because the tech giants are American or Chinese.
- (2) Governments accept the risk of regulatory capture via massive recruitment of high-ranking civil servants by the tech giants. The Guardian *Silicon Valley is the new power ...* <https://bit.ly/2vWrYRn>
- (3) European firms attract only 11% of global venture capital.