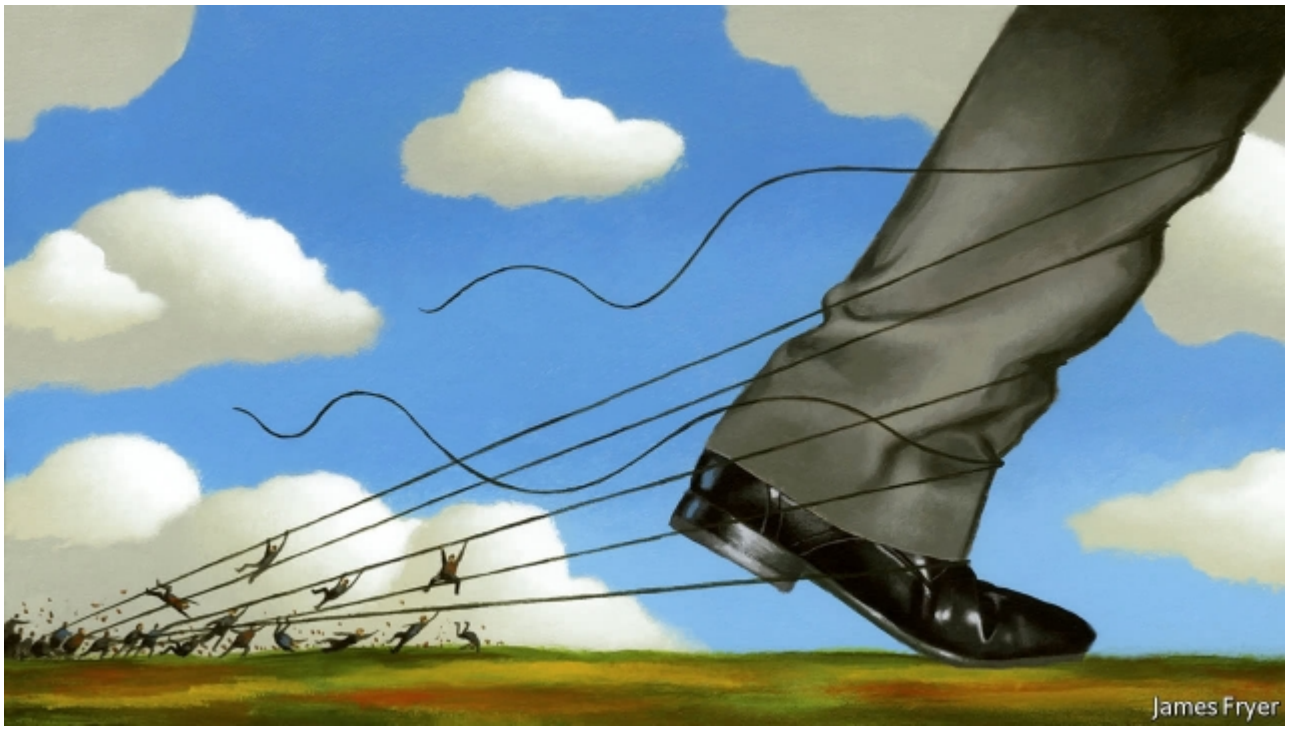
Chaining giants

Internet firms face a global techlash

Though big tech firms are thriving, they are facing more scrutiny than ever



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HOW much bigger can they get? The five biggest technology firms—Alphabet (Google's parent), Amazon, Apple, Facebook and Microsoft—have published financial results in recent weeks that put their combined quarterly revenues at $143bn. Yet this rude financial health conceals a more troubling long-term trend: governments, long willing to let internet firms act as they wish, are increasingly trying to tie them down.

This goes far beyond the latest row over sexism and tolerance of diverse political viewpoints in Silicon Valley, sparked by a memo written by a Google employee (see

article (http://www.economist.com/news/business/21726078-sacked-james-damore-has-become-hero-alt-right-google-employee-inflames-debate-about)). Scarcely a week passes without a sign of the shift in attitudes. On August 1st Amber Rudd, Britain's home secretary, warned that unless the firms did more to block extremist content from their platforms, they would be forced to do so by new laws. Stephen Bannon, the chief strategist at the White House, reportedly wants to regulate Facebook and Google as utilities. Steven Mnuchin, the treasury secretary, has talked of taking action against Amazon because it allegedly does not pay its fair share of tax.

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Under pressure from the Chinese government, Apple removed several "virtual private networks" (VPNs)—services that enable users to bypass China's censorship apparatus—from its local app store. In June Canada's Supreme Court ordered Google to stop its search engine returning a result advertising a product that infringed on a firm's intellectual property. And on August 9th it emerged that the Internet Archive's Wayback Machine, which preserves old versions of edited web pages, has been blocked in India, apparently by order of the department of telecommunications.

The examples vary, but they amount to a significant change in the regulatory environment. When the internet went mainstream in the late 1990s, tech firms and most democratic governments embraced its global nature. Firms operated largely free from onerous rules (blocking pornography featuring children has been the main exception).

One reason is technological. It has become easier to enforce borders in cyberspace. Tools that use "IP addresses", the numbers that identify internet connections, have become much better at enabling online firms and regulators to work out where users are. The shift to smartphones has increased governments' power. App stores have local links, for example to payment services, which make it easier to monitor

and control users' activity.

Meanwhile, as the internet has penetrated every aspect of life offline, incumbents from publishers to carmakers are coming to see the tech titans as a threat to their survival. Indeed, tech firms are easy targets for anyone worried about change. They employ relatively few people, and pay little tax. President Donald Trump does not see them as natural allies, as Barack Obama did. (Mr Obama's administration was packed with former Google employees.) Some governments are unsettled by the growing role in their national lives of firms whose values are distinctively American, in particular in their commitment to free speech ahead of privacy.

One consequence of governments' fading deference towards tech firms is a more muscular approach towards taxation. Apple is expected soon to put €13bn ($15.3bn) into an escrow account while courts consider its appeal against last year's ruling by the European Commission that the firm owed back taxes in Ireland, home to its European headquarters. Another consequence is public policies that pay little heed to their needs, for example on immigration. Mr Trump has complained that tech firms import foreign workers rather than hiring Americans, and has ordered a review of the rules governing work visas.

Shooting the messenger

For more than two decades internet platforms have largely been treated as intermediaries. They have been seen as more like telecom companies, which may transmit criminal material for which they are not liable, than media firms, which can be prosecuted or sued for what they publish. Now, governments in America and Europe are starting to hold them responsible for what their users do and say. Germany is the most striking example. From October 1st it will require social-media platforms to take down hate speech, such as Holocaust denial, within 24 hours or face fines of up to €50m.

Under Germany's law, the clock starts when firms are alerted by users or the authorities. But some governments are thinking of requiring firms to block some objectionable content as soon as it appears (as they already do with child porn). Britain's government, for example, wants them to block Islamist propaganda, such as videos of beheadings. It has ignored tech firms' complaints that this will be difficult and costly. Distinguishing such content from mainstream reporting on the

war in Syria is harder than sifting out child porn. Automated techniques will block some legitimate content. Humans will often have to make the final decision.

Border control

Tech firms have been building barriers in cyberspace for some time. Their aim has been commercial: to keep users within "walled gardens" where it is easier to sell them services. But governments are also erecting borders—and theirs are more constraining. Like China, Russia plans to clamp down on VPNs. Both countries now require data on domestic users to be stored within their borders. Such data-localisation rules are a growing problem in democratic countries, too. In January the European Commission complained about "unjustified restrictions on the free movement of data" within the EU.

Even as the internet starts to fragment into local versions, some countries are trying to extend their legal reach beyond their borders. In the past internet firms would ignore requests from governments that sought to censor what people elsewhere saw online, for example requests originating in Thailand, with its stifling *lèse-majesté* laws that ban all criticism of its king. But now some democracies are passing extraterritorial laws that seek to regulate online content wherever it appears. "We risk a heckler's veto, where any single country can get a piece of information removed not just within that country but anywhere around the world," says Alan Davidson, who served in Mr Obama's administration and is now a fellow at the New America Foundation, a think-tank.

The Canadian ruling against Google, which applies worldwide, could be just the start. Later this year the European Court of Justice will decide whether the EU's much-contested "right to be forgotten" applies not just to Google's European sites, but to all of them. This would mean that links to information about people that is deemed "inadequate, irrelevant or no longer relevant" in the EU will no longer be returned in response to any Google search anywhere. If the firm does not comply, it may face stiff fines.

The biggest long-term threat to tech firms is probably antitrust law. Regulators, particularly in America, have long held that online, competition is only a click away. But they are increasingly concluding that even in cyberspace competition can be restricted by dominant firms, for instance when the tech giants buy up smaller

rivals before they mature into a threat, or discriminate against their offerings (for example, in search rankings). Governments have also started to fret about foreign data monopolies, which they think hoover up local information and turn it into valuable artificial-intelligence services.

Perhaps unsurprisingly, given that Europe has produced no big digital platform of its own, such thinking is common in the EU. In June the European Commission hit Google with a €2.4bn fine for abusing its "monopoly" in online search. But elsewhere, too, regulators are becoming more active. In Japan the head of the Fair Trade Commission has warned that exclusive access to data could be used to restrict competition. Even in America, such thinking is gaining ground.

As tech giants build up their offline presence, they can expect regulatory scrutiny to increase still further. Though Amazon has so far got off lightly, its recent purchase of Whole Foods, an American grocer, is likely to change that. Amazon's fulfilment centres (warehouses from which products are shipped) have created hundreds of thousands of jobs; earlier this month it sought to hire 50,000 people across America in one day. That has given it brownie points with governments. But as more retail jobs are lost to e-commerce, and positions at Amazon become automated, the mood could shift. Amazon is not alone in venturing into the physical world. Google is experimenting with self-driving cars and Facebook with drones, which will bring new headaches and increased oversight.

The tech giants are not all equally vulnerable. As a legacy of the antitrust investigations it faced in the 2000s, Microsoft still has plenty of lawyers and lobbyists. It also comes under less scrutiny than Facebook and Google, which play a bigger role in consumers' daily lives. Both firms are now ramping up their lobbying operations, having seen how Microsoft only belatedly recognised the risks that accompany commercial dominance. Google, for example, has around 500 people in its public-affairs and regulatory team, only a handful of whom work from its headquarters in California. Many are based in Europe. "Each company learns from the mistakes of those that went before," says Mr Davidson.

Complying with a proliferation of new laws means expanding local teams: Facebook is planning to have 650 "moderators" in Germany to enable it to respond to takedown requests within the stipulated 24 hours. Services and technical

infrastructure are also becoming more fragmented. On August 4th it emerged that Google had agreed to tighten monitoring of terrorist and other offensive material on its YouTube video-sharing service in Indonesia. Amazon and Microsoft, for their part, have built data centres in certain jurisdictions, such as Germany, to be able to comply with data-protection rules.

The firms hope that funding local initiatives will help curb resentment. Google's "Growth Engine for Europe" aims, among other things, to help small businesses hone their digital skills. Facebook's "Journalism Project" will seek to fight fake news and to develop new subscription services with publishers, including Axel Springer, which played a big part in the campaign against Google in Europe. In October Microsoft published a book that could easily be mistaken for a political party's manifesto. It lists dozens of detailed public-policy recommendations, ranging from protecting privacy to fighting cybercrime. Amazon, which faced criticism a few years ago for its working conditions, has started offering public tours of its fulfilment centres in Europe.

Things fall apart

Governments sometimes have good reason to claim sovereignty over the digital realm. They are responsible for national security and elected to uphold national laws. But their regulatory push threatens to create a "splinternet", with national borders reproduced in cyberspace. That would harm the internet's function as an open forum where people can communicate freely and come up with new global products and services—which is precisely what made it great in the first place.

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