

Opinion **Big Data**

## The rise of the information economy threatens traditional companies

A 'data tax' on Google, Facebook and Amazon would stimulate real competition

**JOHN THORNHILL**



The rise of data-rich 'superstar' firms will suck the life out of many traditional companies © AFP  
John Thornhill APRIL 2, 2018

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Jeff Bezos has become the world's richest man, with a fortune of about \$125bn, because the Amazon founder was among the first to understand the new rules of [data capitalism](#).

The reason why he grasped those rules quicker than most is because he wrote most of them himself. His letters to the company's shareholders, published every year since [Amazon](#) went public in 1997, are the best explanation for how to thrive in the [digital economy](#).

Short summary: obsess about customers, invest for the long term, exploit your network of customers to grow further, and focus on delivering the best customer experience and the lowest price via an online platform. "Our vision is to use this platform to build Earth's most customer-centric company, a place where customers can come to find and discover anything and everything they might want to buy online," Mr Bezos wrote in 1999.

At Amazon, Mr Bezos has made that vision work spectacularly well in practice. A new book from Viktor Mayer-Schönberger and Thomas Range suggests how it might work in theory, too.

In *Reinventing Capitalism in the Age of Big Data*, the authors make two provocative, interrelated arguments. First, they contend that [data](#) have largely superseded price as the most effective signalling mechanism in the economy. Second, data-rich markets will increasingly render the traditional company obsolete, with massive consequences for our economies and workforces.

For centuries, the authors write, price has worked as a miraculous market mechanism, connecting buyers and sellers, consumers and producers. Some \$100tn of transactions take place around the world each year guided by the “invisible hand” of the market.

As Friedrich von Hayek, the liberal Austrian economist, put it: “The market is essentially an ordering mechanism, growing up without anybody wholly understanding it, that enables us to utilise widely dispersed information about the significance of circumstances of which we are mostly ignorant.”

The intriguing possibility of today, though, is whether data-rich platforms have, in some areas, invented a better ordering mechanism that can structure information and reduce ignorance. They can now match buyers and sellers taking into account multiple preferences, such as personal taste, timing and convenience, rather than just price.

If data do indeed supersede price as more efficient economic information capsules, then that will threaten many traditional companies. In essence, companies exist because they can coordinate some human action more efficiently than decentralised markets. They act as legal entities, raise capital, bundle risks, and separate management of assets from ownership.

But the authors argue that the rise of data-rich “superstar” firms, such as Google, Apple, Alibaba and Samsung, will suck the life out of many traditional companies. Those that know how to exploit the informational advantages of data will flourish; the rest will die.

As consumers, we may rejoice in the stunning services provided by these data-rich marketplaces. As employees, we may be alarmed at the looming erosion of our main employers. About two-thirds of the workforce in most countries are employed by the 100m to 200m companies that operate today.

The authors argue that this increasing concentration of market power will have social and economic impacts that will need to be carefully managed. It may also act as poison to innovation and competition. In an interview, Mr Mayer-Schönberger argued that innovation will increasingly result from feeding data into machine learning systems to understand consumers’ needs. That will make it all the more difficult for disruptive start-ups to succeed.

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“So long as innovation was based on human ingenuity, then a small start-up with a smart idea could dislodge a powerful incumbent,” he said. “But in the future those companies that have the data are going to be more and more innovative. A small start-up cannot hope to compete.”

Mr Mayer-Schönberger believes governments should levy data “taxes” on the superstar companies, allowing challengers to access some of their informational assets to stimulate competition. He points to the German car insurance market, where the bigger players are forced to share data with smaller competitors.

If this overall analysis is right, then we are going to have to start thinking more about such radical ideas. Data capitalism can deliver phenomenal services, as Amazon has shown. But it may also undermine some of the foundations on which our societies have been built.

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