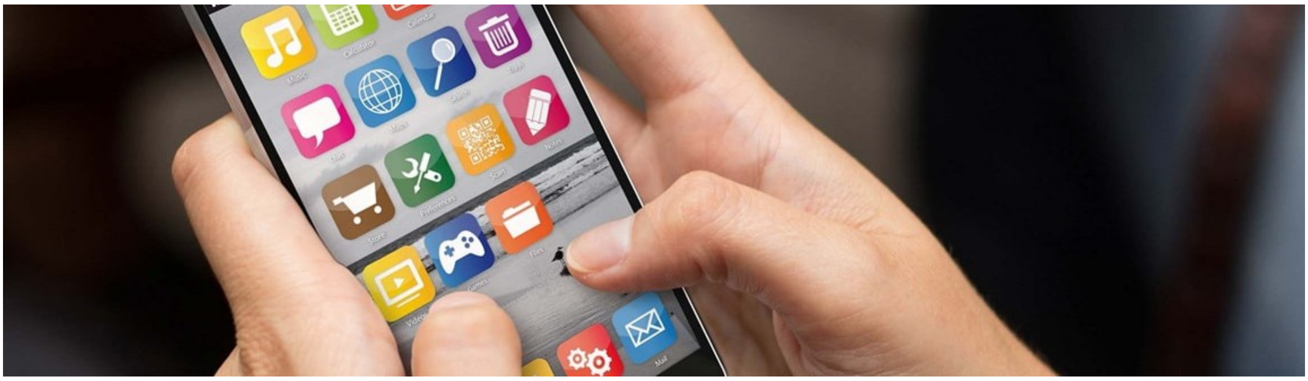
Big tech must pitch in on social infrastructure

by Karl Happe | 21/02/2018



Summary

Today's tech giants have profited greatly from the world they're disrupting, without returning much to society save for the tax revenues they try hard to minimize. We must ask big tech to contribute more to the digital and physical infrastructure – and the functioning civil societies – upon which their profits depend.

Key takeaways

- Internet businesses should be taxed in jurisdictions where their revenue originates
- Internet bandwith as a public good should be auctioned to for-profit businesses to ensure that its benefits are shared with society, rather than privatized by a few ultra-wealthy owners
- If internet companies don't participate in the societal costs of their disruption, the infrastructure and civil society upon which their business models depend will deteriorate

In recent months, some of the world's most successful tech companies have faced an increasing backlash from policymakers and the public. From anger over the alleged spreading of "fake news" during US elections to complaints of unfair competition and tax dodging in Europe, there are growing signs that people are losing patience with big-tech disruptors.

At the heart of some of the criticism of these firms is the fact that their business models depend on a "positive externality" – a resource that they do not own, but that benefits them greatly. In this case, it is the internet itself that companies such as Facebook, Amazon, Netflix and Google have capitalized on so successfully, effectively privatizing a public good.

To be sure, the FANGs and many other tech firms have brilliantly innovative ideas, but their innovations would be worth next to nothing without the infrastructure that enables them to reach most of the world's population. Imagine Facebook operating on a desert island, with no way to connect to anyone. Not a very compelling business case.

Yet despite being dependent on public infrastructure, these companies haven't contributed a proportionate share of their profits back to society as a whole. Because intellectual property is their primary asset, many of these firms can list their domiciles in far-away, frequently low-tax environments – effectively concentrating their profits away from the societies they depend on for their prosperity.

The societies in which these internet businesses operate are also bearing other costs that stem from these firms' success. Witness the continued hollowing-out of traditional retail businesses, the upheaval in the media and telecommunications sectors, and the upending of advertising and marketing value chains. To be sure, the disruption of companies dependent on old ways of doing business is not always a bad thing. Yet the cost of unwinding these failures – for example, by supporting workers who lost their jobs – rests on the governments who are not getting much help from the high-tech giants.

All the while, these firms have proved immensely profitable for a relative handful of venture capitalists, founders and IPO participants. This is adding to the larger issue of income inequality: while much of the world's population struggles to earn more, or has even backslid, a very small sliver has become fantastically rich. To be sure, tech firms alone did not create this problem, but they are certainly not solving it, and growing inequality is one of the biggest contributors to the widespread political polarization that is making modern societies more fragile.

So how do we fix this problem, where a positive externality like the internet is effectively being exploited by a relative few? Here are two proposals:

- First, tax profits in the country or state in which the transaction takes place. We need more tax revenue where the end customer lives – not in the sparsely populated locations that many tech companies claim as their domiciles. Facebook, perhaps sensing which way the winds of public opinion are blowing, recently announced plans to start taxing its revenues in the countries where its users activity generate the firm's profits.
- Second, insist that tech companies that rely on publically provided infrastructure contribute to society's maintenance – beyond merely paying normal taxes. Functioning civil societies create the scalable benefits of their business models.

One practical way to implement the second proposal would be to hold an annual auction for internet-bandwidth access. Some of the proceeds would go to network maintenance, but the excess would pay for other forms of infrastructure these firms depend on: roads for deliveries, legal systems for adjudicating differences and regulations for protecting consumers.

Not unlike auctions for radio-wave bandwidth, the auctions for internet bandwidth would ensure a more competitive market for search functionality, marketplaces and publishing platforms. And some of the positive externalities of network usage would be returned to the societies that provide them, rather than exclusively privatized.

The auctions would also ensure that there would be at least a chance for competition in areas currently dominated by effective monopolies. Competitors willing to come into the market and contribute more of their profits back to society might be able to disrupt existing players who tried to retain too much for themselves. Legacy companies would clearly retain a huge advantage over new entrants, but at least there would be a mechanism to limit how much they are able to profit from public infrastructure.

In the end, it is critical for the continued stability of our societies that disruptive companies not only provide good ideas that make economies more efficient, but contribute more to the social infrastructure upon which their business models depend.

About the author

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Karl Happe is Chief Investment Officer (CIO) Insurance Related Strategies with Allianz Global Investors, which he joined in 2013. He leads a team that manages equity and fixed-income portfolios for insurers. Karl was previously the head of the global fixed-income strategy team, responsible for managing global fixed-income portfolios for Allianz. Before joining Allianz in 2004, he worked at McKinsey & Co. in Munich; at BankBoston as the head of non-USD fixed income derivatives trading; and at Morgan Stanley in private equity and fixed income derivatives structuring and trading in New York, Frankfurt and London. Karl has a B.S.E in civil engineering and operations research, summa cum laude, from Princeton University and studied at the University of Stuttgart on a Fulbright scholarship. He also has an M.B.A. with distinction from INSEAD.

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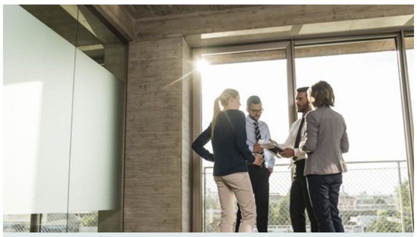

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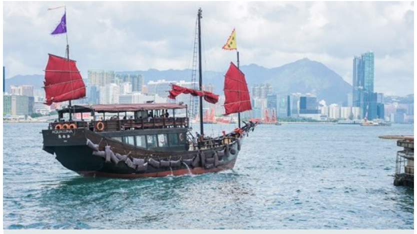

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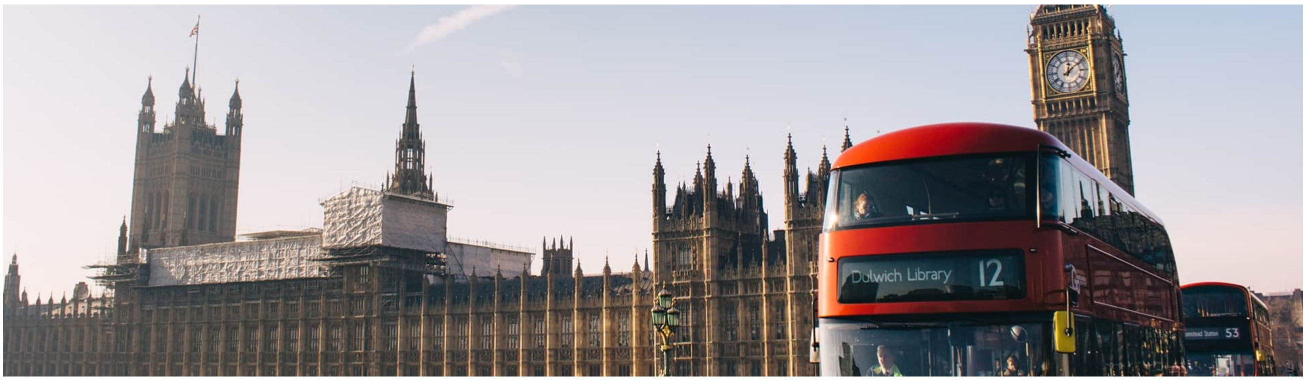

Summary

A new Grassroots Research report shows that 18 months after the Brexit vote, UK residents are growing more concerned about employment, less confident in their household finances and more worried about Brexit's long-term effects on the economy.

Key takeaways

- Almost half of the respondents to our new Grassroots® survey said they think Brexit will cause the UK economy to deteriorate over the long term
- Brexit is hurting some UK savers: 23% of our December survey respondents they plan to save less than before, up from 14% in July 2016
- Because of Brexit, more than 1/3 of our Grassroots® survey respondents said they expected

to reduce their dining, vacation and auto purchases

- Auto sales are an important driver of the UK economy, but they've cooled significantly since their July 2016 post-Brexit high; our research suggests UK autos could remain the weak spot within Europe