



HAL
open science

GAFAM, a progress and a danger for civilization

Jacques Fontanel

► **To cite this version:**

Jacques Fontanel. GAFAM, a progress and a danger for civilization. Financial Architecture; Forced Economic Development in the Context of External Shocks and Internal Inconsistencies, St. Petersburg State University of Economics (UNECON), Apr 2019, Saint-Petersbourg, Russia. hal-02102188

HAL Id: hal-02102188

<https://hal.univ-grenoble-alpes.fr/hal-02102188>

Submitted on 17 Apr 2019

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

GAFAM, a progress and a danger for civilization

Jacques Fontanel

In 1980, the Internet sector was a public good, managed by the state technocracy of the US military-industrial complex and fueled by academic research. In the late twentieth century, US President Ronald Reagan opened the Internet to privatization and commercialization. The GAFAM were the big winners of this new opportunity, after overcoming and destroying the supremacy of Finland Nokia and Canadian Blackberry. It was the beginning of the Washington objective: "USA first".

GAFAM is an acronym for the five most popular U.S. tech stocks: Google, Apple, Facebook, Amazon and Microsoft. These start-ups, sometimes created in a garage, have thus become very successful. The oldest company to list on the stock exchange is Apple in 1980 and the youngest Facebook in 2012. In 2018, GAFAM has a turnover of more than 650 billion dollars and more than 120 billion dollars of profit, 30% for Apple, the biggest profit worldwide.

It is a set of companies that does business first. This commercial success was hailed by an exceptional financial valuation. In summer 2018, Apple, then Amazon, had a financial valuation that exceeded \$ 1000 billion.

Today, GAFAM are the top five companies in terms of market capitalization on the NASDAQ stock exchange. Financial valuation of GAFAM remained very high, between 800 to 900 billion dollars for each of them, except for Facebook with less than 500 billion dollars, but with 2.2 billion active users each month. The financial value of GAFAM, more than 4 trillions dollars, represents the total amount of the GDP of France and Russia.

The question is "**Why such an investor interest?**".

GAFAM members have the ability to generate huge profits, out of proportion to their size. They are especially interested in "doing business", "making money", without reference to the social consequences of their practices and innovations. A UNCTAD report, highlighting the increased

role of multinational firms in international commerce, concludes that the producers of real goods from emerging countries receive proportionally less and less added value in their relations with them, mainly at the cost of subcontractor employers and workers, and in favor of service firms, such as GAFAM members and the power of their "protected economic model".

If the market value of these groups is certainly high compared to profits, the structure of their balance sheet seems optimal, (with little debt except for Amazon) and a huge mountain of liquidity, that reduce their vulnerability.

The business model is based on some wonderful bargain effects (effet d'aubaine").

- First, the new digital economy is immediately global and not only national.
- Then, it develops an economic activity with increasing returns and drastic reductions in transaction costs.
- Third, it produces of permanent processes of financial concentration, thanks to the absence of substantial control from States or international organizations, thus promoting vertical and horizontal integration operations.

Today, these companies are the uncontrolled leaders at the heart of the new digital economy. Historically, some champions can miss technological turns or business error, but for GAFAM this situation seems unlikely, especially when one has the power to take control of all patents. GAFAM is very invested in artificial intelligence, the real potential competitor of the digital economy. Maybe, each member alone has the risk to fail against another GAFAM member but, without a reaction of States, GAFAM as a group will maintain its leadership on digital and artificial intelligence without any preoccupation on the public interest of citizens.

The power of GAFAM is huge over modern society, certainly excessive. They are increasingly being criticized for:

- Their sprawling hold on the global economy with their quasi-monopolistic situation,
- The patent-protected application of technology of domination,
- Their lobbying to avoid antitrust laws,
- Their policy of financial speculation,
- Their taste for tax negotiation and optimization in tax havens,
- The commercial use of private information, and
- The creation of a society of control and surveillance of consumers and citizens.

Five main dangers may possibly threaten their civilizational and financial primacy

- The quasi monopolistic activities of GAFAM
- Their power on national economies,
- The non respect of public and private properties,
- The manipulation of public opinion,
- National defense and security

The dangers of quasi-monopolistic activities

Cartels or monopolies do not allow market prices to be optimized: without a competitor, the company can set a higher selling price for its products and build up an annuity.

Amazon is the leader of giant e-commerce, but it is also the world leader in cloud computing with Microsoft. Alphabet is a near monopoly in the field of search engines with Google, but it develops several other activities like You Tube.

GAFAM expands markets and political-cultural power around the world when States do not regulate digital markets.

Their valuation levels, and their ability to raise funds, give them an exorbitant purchasing power. They can take control of any startup, any promising patent. Their technological ascendancy is thus reinforced in a cumulative way. Except in countries that protect themselves, GAFAM enjoy quasi-monopolies of industrial and intellectual property, reinforced by free trade agreements, which favor their power over the markets.

In Europe, the startups of digital companies are the main targets of GAFAM. In countries that want to retain their ability to manage the information superhighway, Internet companies have been created (Yandex in Russia, Baidu for China). In China, Apple, Microsoft and Google are available by accepting the application of censorship procedures for certain information or applications negotiated.

Their power on national economies

The fact that States compete with one another for the purpose of attracting job-providing companies does not make it easy to find an agreement involving many countries. The Gafam have used this power, also relying on strong lobbying of key government and parliamentary officials.

Therefore, despite their public denials, GAFAM members have little regard for the protection of democratic societies and they do not feel responsible for the societal consequences of their actions.

Some non-governmental organizations and responsible citizens are beginning to learn about and combat these undue advantages, with even less efficiency in view of the unequal information and financial means available on both sides.

Their non-respect of public property

Indeed, it is difficult to locate the production of services. The GAFAM will therefore boost their turnover to countries with a low tax rate. With the economic globalization process, GAFAM has artificially located their activities in countries with accommodative taxation in order to pay less than 10% of corporate tax in Europe, compared to an average of 23% for other companies.

GAFAM wants to minimize the amount of their taxes for the exclusive benefit of shareholders and managers of their companies. In this context, the most important inequalities are claimed and conceived as proof of good management, which justifies the payment of new revenues for those who run.

European partners have often been reluctant to levy taxes on GAFAM, because of their strong lobbying and their weight in political and economic life. Some States are able to have some advantages from GAFAM at the cost on other national economies, with the system of “beggar thy neighbor”.

However, faced with increasingly complicated financial equations, and unable to reduce the debts accumulated since the 2008 crisis, the states are trying to regain control, because, too much is too much! These tax optimization practices do not allow the entire population to benefit fully from this technological revolution.

Until when will States tolerate the great escape of their taxes?

European Union seeks to find some new solutions, but it is very difficult to obtain unanimity when some States benefit of this situation. However some results of this battle must be reported, such as Luxembourg condemned for minimizing Amazon’s taxes, Irish government for the

advantages offered to Apple, Google for abuse of dominant position. However, Alphabet legally transferred \$ 36 billion to Bermuda in 2016 and 2017, thanks to the complex Irish-Dutch sandwich system proposed by Ireland and the Netherlands.

A frontal tax attack, by the means of law, normalizations or protectionism, should be difficult to live if retaliatory measures should be decided by the states against GAFAM. The procedures to be developed and followed to fight against these unjustified advantages are still to be imagined and installed quickly, in spite of the bad will and the political blockages committed by the States and the beneficiary companies. France proposes that Europe impose a tax corresponding to 3% on the turnover on digital companies that have reached a critical size!

States have the weapon of the law.

Their Non-respect for private property

Still, Google and Facebook are free for consumers. They produce the illusion of being a simple interface. However, they can define more precisely your consumer profile and then get paid by offering companies Internet advertising links with a very efficient commercial impact. The collection of personal data allows sites to earn revenue by trading them to a data broker and selling targeted advertising banners.

Free marketing of personal data activities may be prohibited. Law could decide a review of the price of personal information and control over free access to this resource. If the States decided it, the digital economy should be subjected to an economic shock comparable to that of oil.

Manipulation of opinion

At the World Economic Forum in Davos, George Soros explained that Facebook and Google become obstacles to innovation and they are an immediate threat to today's society. These media exploit the social environment, influencing the thinking of men without any precaution. Thus, through their broadcast channels and their users, the information is filtered, modified, polluted by commercial and advertising messages that reduce the ability of readers to concentrate. The use of a tool that provides continuous information is the addiction of the generations that used it.

The neutrality of Internet is not assumed and the search engine can present results that will favor some sites that are against the preservation of democratic rules and objectives. All these companies are great users of personal data, but the abuses that we start to measure better and better, notably with the Cambridge Analytica scandal, are mainly condemned.

States do not sufficiently protect citizens against abuses of commercial and political exploitation. In 2018, Europe propose a "General Regulation on Data Protection", agreed by Facebook. But at the same time, without any negotiation with US allies, Donald Trump abandoned the public search for neutrality. GAFAM is always free to develop technologies that secretly modify our methods of thinking. GAFAM will not change on their own without a political will to regulate their activities.

National Security

The revelations of Edward Snowden have been astonishing. Microsoft, Facebook, Google, Yahoo, Apple have information made available to the National Security Agency (NSA) and all US intelligence services. Basically, intelligence agencies use these masses of information to control the movements of thought of populations and to understand and to influence adversary States strategies. The theft of data by states allows the establishment of cyber warfare instruments.

They would even threaten the sovereignty of states. However, GAFAM know that they have the United States government behind them: they are the US spearhead in terms of economic power, but also intelligence and spying for Washington.

OECD and 110 states, "have agreed on an essential point, the status quo on the digital economy is no longer possible".

But what to do and when! That is the question, as said William Shakespeare.

Without a world reaction, this situation looks like a modern adaptation of "Brave New World" and "Brave New World Revisited" of Aldous Huxley.

Citizens, tovaritch, it is time to think, to resist, and to move!

Bibliography

Fontanel, J., Sushcheva N. (2019), la puissance des GAFAM : réalités, apports et dangers, Annuaire Français des Relations Internationales, Paris.

Fontanel, J. (2019), L'Europe des Paradis fiscaux, Liber Amicorum de la Professeure Catherine Schneider, Faculté de Droit, Université Grenoble-Alpes, France.

Sushcheva, N. , Fontanel, J. (2019), Les GAFAM, mémo, à paraître en langue russe.

Fontanel, J. (2016), Paradis fiscaux, pays filous, L'Harmattan, Paris.