

Googling 'Monopoly'

By THOMAS M. LENARD and PAUL H. RUBIN

August 21, 2007

Barely a week goes by without a new Google controversy. Most recently, the company has been in a dispute at the FCC over the rules for the upcoming spectrum auction. Egged on by self-styled public interest groups and Google rivals, regulators have the company in their sights. Google has been under fire in Europe for retaining its data too long; in Oakland, Calif., for recording someone's cat sitting in a window as part of its new Street View map service; and back in Washington for purchasing the Internet advertising firm, DoubleClick.

In the last few months, the three most prominent players in the world of online advertising have each announced major acquisitions: Google-DoubleClick, Microsoft-aQuantive, and Yahoo-Right Media. Yet the Google deal has stirred the most controversy and is currently being scrutinized by the Federal Trade Commission. Merger reviews are difficult when the markets are rapidly changing, as they clearly are here. Internet advertising is growing rapidly -- up 38% globally in the last year. As TV and the Internet converge, the market will expand even more dramatically.

The great appeal of Internet advertising is the ability to target the message to consumers more precisely than in other media. Using information from a variety of sources, including sometimes the past history of an individual's Internet browsing, ads can be delivered to consumers that are most likely to be of use to them.

Those who complain about Google's purchase of DoubleClick make two claims. Both are flawed.

The first argument is that, since both firms have a large market share of their respective spheres, a merger would be monopolistic. The flaw is that the two companies undertake activities that don't overlap. Google places text ads mainly on its own Web sites and search-result screens. DoubleClick delivers display ads from advertisers to Web sites. It creates no ads and controls no Web sites. Even if we believe that Internet advertising is a distinct market (debatable, since it comprises only about 5% of all advertising) the combined firms will not gain any market power since they do not have any business in common.

The second argument comes from privacy advocates who have filed a brief with the FTC. They say the merger "could impact the privacy interests of 233 million Internet users in North America." The FTC's antitrust function and its consumer protection function are fundamentally different. Indeed, the more information markets have, the more competitive they are. If "privacy"

advocates have their way, there would be less information and markets would not work as well.

Marketers use information. Some people have a cockeyed notion that if this information benefits marketers, it is to the detriment of consumers. Wrong. Consumers benefit when marketers provide them with information about products, especially new products, that they may want. A free flow of information enabling more efficient "targeting" of consumers is to their advantage.

Opponents of Google's purchase of DoubleClick also cite the risk of identity theft, which they claim is increasing. The actual data from Javelin Strategy and Research indicate that identity theft is not increasing. More important, free use of information reduces this risk. After all, how does a seller identify a purchaser? One way is to ask questions, of which "mother's maiden name" is only one. For this method to work, sellers must have access to the information needed to check the answers and be sure that the purchaser is in fact who he says he is. It is exactly because this information is available that consumers can obtain financing for a car in one day, and more generally make purchases in many venues (including the Internet) easily.

Our intuitions about privacy and information are flawed. We tend to think that if something is known, then a *person* knows it. But most of the information used in Internet marketing is "known" only to computers. These computers do not start with a person and ask "What do we know about Tom Lenard?" Rather, they start by asking "Which IP numbers (Internet addresses) are likely to be associated with someone interested in a new car?" and then put ads for automobiles on those computers. No one knows or cares whose computer is targeted.

Even Google does not fully understand this process. When its opponents claim the company will have access to excessive information, Google defends itself by pointing out that they have in the past not misused data. The better answer is that the information to which they will have access will be useful for both consumers and sellers, and by having access to additional information they will provide large social benefits.

Both the antitrust and the consumer protection branches of the FTC should leave this acquisition alone. It will create benefits with no increase in market power and no harmful reduction of privacy.

Mr. Lenard is acting president of the Progress and Freedom Foundation. Mr. Rubin, an adjunct fellow at the foundation, is professor of economics and law at Emory University. Both were senior officials at the FTC during the 1980s.