

February 1, 2022

Honorable Nancy P. Pelosi
Speaker of the House
1236 Longworth House Office Building
Washington, DC 20515

Honorable Kevin O. McCarthy
House Minority Leader
2468 Rayburn House Office Building
Washington, DC 20515

Dear Speaker Pelosi and Minority Leader McCarthy,

On October 12, you received a letter from several progressive think tanks dismissing national security concerns that former intelligence and defense officials raised in an earlier letter about current antitrust bills in Congress.¹ These organizations claim that the online platforms targeted in the bills have no interest in promoting national security or the public interest and only want to maintain economic rents and market power.

Their argument relies on several faulty assumptions, including:

1. Online platforms virtually never prioritize national security;
2. Online platforms do not foster innovation or improve national security; and
3. Online platforms not only pool resources, they pool risk.

Whether a firm acts in the interest of national security is independent of firm size. Small firms are no more likely to prioritize national security than large firms. Small and large firms alike have, as the letter puts it, “prostrated themselves before Chinese leadership in pursuit of China’s markets,” because the U.S. government does not sufficiently advocate for U.S. economic interests in China. This lack of support for U.S. economic interests abroad was on full display recently when Commerce Secretary Gina Raimondo publicly expressed concern that the European Union’s proposed Digital Markets Act would disproportionately impact U.S. firms. Senator Elizabeth Warren (D-MA) criticized the Commerce Secretary’s advocacy for U.S. economic interests as, “undermining the [Biden] Administration’s previously announced policies to protect consumers and workers from Big Tech.”² It is no wonder that U.S. firms would “prostrate themselves before Chinese leadership” when they receive such tepid support from their own government. And such prostrating is not limited to technology companies. Every American company seeking to do business in China must curry favor with Chinese leaders. In 2018, the Chinese government took down the websites of several American

¹ Letter to Speaker Pelosi and Minority Leader McCarthy from the American Economic Liberties Project, et al., October 12, 2021, <https://www.economicliberties.us/wp-content/uploads/2021/10/China-Letter-Final-Signed-10.12.2021.pdf>; Letter to Speaker Pelosi and Minority Leader McCarthy from Robert Cardillo, et al., September 15, 2021, <https://www.documentcloud.org/documents/21062393-national-security-letter-on-antitrust>.

² Cristiano Lima, “Biden’s Commerce chief is under fire from Warren, progressives for defending U.S. tech giants,” *The Washington Post*, December 15, 2021, <https://www.washingtonpost.com/politics/2021/12/15/bidens-commerce-chief-is-under-fire-warren-progressives-defending-us-tech-giants>.

companies, including Marriott and Delta Airlines, for recognizing Taiwan and Hong Kong as independent countries.³ The American companies' Chinese websites were restored only after they removed the offending material and publicly apologized to the Chinese government. Episodes like this are now the subject of scorn from progressives and Neo-Brandeisians. But since when is it in the U.S. economic interest to castigate U.S. companies for seeking overseas markets, which result in more jobs here at home?

Online platforms spur innovation. It is simply not true to claim without evidence that “our tech monopolies are impeding innovation.” The largest U.S. technology companies are leading global R&D spending. In a European Union study of R&D investment by the top 2,500 firms globally, five U.S. superstar firms (Alphabet, Amazon, Apple, Meta, and Microsoft) make up half of the top 10.⁴ In 2020, their combined R&D expenditures of \$128 billion exceeded R&D spending by all Japanese firms and comprised two-thirds of R&D spending by all EU firms in the top 2,500.⁵ These five firms' R&D expenditures were more than a third of all Chinese R&D spending—private and public combined.⁶ To say that this massive investment in the future is impeding innovation should win an award for disinformation. Moreover, the relationship between competition and innovation is more complex than the authors from the American Economic Liberties Project, et al., suggest in their letter. Innovation depends both on the competitive forces in an industry and on technological leadership.⁷ When firms are “neck-in-neck” with other firms for technological leadership, increased competition can spur them to innovate more to escape competition. But when an industry is characterized by technology leaders and followers, increased competition can dampen the drive to innovate because the rewards to becoming the technology leader (i.e., profits) are reduced by the higher degree of competition. In the United States, where industries may more closely resemble the technology leader/follower model, having fewer firms can drive innovation.⁸

An appropriate response to the recognition that, “the Chinese state will direct their [monopolies'] research and production, and help them undercut foreign firms,” is not to hobble domestic technology companies.

³ Tara Francis Chan, “Economic blackmail’: Zara, Qantas, Marriott and Delta Air Lines reverse position on Taiwan for fear of angering China,” *Business Insider*, January 17, 2018, <https://www.businessinsider.com/zara-marriott-qantas-apologized-to-china-listing-taiwan-as-country-2018-1>.

⁴ European Commission, “2021 EU Industrial R&D Investment Scoreboard remains robust in ICT, health and green sectors,” news release, December 17, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6599.

⁵ Prableen Bajpai, “Which Companies Spend the Most in Research and Development (R&D)?” *Nasdaq*, June 21, 2021, <https://www.nasdaq.com/articles/which-companies-spend-the-most-in-research-and-development-rd-2021-06-21>.

⁶ Arjun Kharpal, “China spending on research and development to rise 7% per year in push for major tech breakthroughs,” *CNBC*, March 5, 2021, <https://www.cnbc.com/2021/03/05/china-to-boost-research-and-development-spend-in-push-for-tech-breakthroughs.html>.

⁷ Philippe Aghion, et al., “Competition and Innovation: An Inverted-U Relationship,” *The Quarterly Journal of Economics* 120, no. 2 (2005): 701–28. <http://www.jstor.org/stable/25098750>.

⁸ Aamir Rafique Hashmi, “Competition and Innovation: The Inverted-U Relationship Revisited,” *The Review of Economics and Statistics* 95, no. 5 (2013): 1653–68. <http://www.jstor.org/stable/43554853>.

Undermining U.S. firms by reducing their scale and their ability to appropriate the value of their intellectual property and earn revenue will make them less effective competitors against Chinese state-supported monopolies. U.S. history is replete with examples of aggressive antitrust enforcement against innovative firms spawning formidable foreign competitors who later come to dominate U.S. markets. Antitrust actions against RCA and Xerox led to Japanese dominance in televisions and copy machines while action against AT&T contributed to the rise of the European telecommunication giants.⁹

That the largest U.S. technology companies are attractive targets for Chinese hackers does not mean smaller firms or firms outside of the tech industry are any less vulnerable. The largest cybersecurity attacks last year included targets from a wide variety of industries, including petroleum pipelines, meatpacking, and professional basketball.¹⁰ The only technology firm in the top 15 largest attacks was Microsoft. Furthermore, shrinking the size of U.S. technology companies will only increase our vulnerability to Chinese attacks by driving consumers to adopt Chinese products. The product offerings of the companies targeted by Congress exhibit strong network effects. Meta's Facebook social network and Microsoft's Xbox video gaming platform are attractive to consumers in part because of the large number of other consumers using these products. Unwarranted, aggressive antitrust enforcement degrading digital products will lead consumers to adopt rival Chinese products such as TikTok or WeChat or products of smaller U.S. companies with fewer resources to devote to cybersecurity, thus providing China with greater and direct access to U.S. consumer data.

Finally, the five U.S. superstar firms that are subject to the recent antitrust bills make investments that directly support national security. A recent report by the National Security Commission on Artificial Intelligence notes that, "a new warfighting paradigm is emerging because of AI" and that "advantage will be determined by the amount and quality of a military's data, the algorithms it develops, the AI-enabled networks it connects, the AI-enabled weapons it fields, and the AI-enabled operating concepts it embraces to create new ways of war."¹¹ The companies that the progressive think tanks' letter demonize have developed, and continue to develop, the vast cloud computing infrastructure that leading-edge research in AI requires.¹² "Amazon, Microsoft and Google in aggregate are typically investing over \$25 billion in capex per quarter, much of which is going towards building and equipping their fleet of over 340 hyperscale data centers."¹³ Moreover,

⁹ Robert D. Atkinson, "Antitrust Can Hurt U.S. Competitiveness," *The Wall Street Journal*, July 5, 2021, <https://www.wsj.com/articles/antitrust-can-hurt-u-s-competitiveness-11625520340>.

¹⁰ Shanika Wickramasinghe, "15 Biggest Cybersecurity Attacks in 2021," *Privacy Affairs*, November 23, 2021, <https://www.privacyaffairs.com/cybersecurity-attacks-in-2021>.

¹¹ National Security Commission on Artificial Intelligence, Final Report, March 1, 2021, <https://reports.nscai.gov/final-report/table-of-contents>.

¹² Jon Markman, "Big Tech Is Making A Massive Bet On AI ... Here's How Investors Can, Too" *Forbes*, October 26, 2019, <https://www.forbes.com/sites/jonmarkman/2019/10/26/big-tech-is-making-a-massive-bet-on-ai--heres-how-investors-can-too>.

¹³ Ron Miller, "Cloud infrastructure market kept growing in Q2, reaching \$42B," *TechCrunch*, August 2, 2021, <https://techcrunch.com/2021/08/02/cloud-infrastructure-market-kept-growing-in-q2-reaching-42b>.

these companies lead in research on AI itself. These investments enable the pioneering AI research needed for the new warfighting paradigm.

We at the Information Technology and Innovation Foundation (ITIF) agree that “it is the government’s job to protect our national security.” In an environment in which the military depends on dual-use technologies and the Defense Department prioritizes its “third offset program,” which relies on next-generation information and communications technologies, having world class IT companies in America is central to U.S. national security.¹⁴ And the antitrust bills currently under consideration do not improve national security. Hobbling U.S. superstar firms only makes Chinese firms more attractive to American consumers and limits these companies’ ability to make security-enhancing investments. Congress would do well to heed the advice of our national security experts and not sacrifice our economic and national security with misguided antitrust bills.

Sincerely,

Dr. Julie Carlson
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Schumpeter Project
Information Technology and Innovation Foundation

¹⁴ Cheryl Pellerin, “Deputy Secretary: Third Offset Strategy Bolsters America’s Military Deterrence,” *DOD News*, October 13, 2016, <https://www.defense.gov/News/News-Stories/Article/Article/991434/deputy-secretary-third-offset-strategy-bolsters-americas-military-deterrence>.