

Google or Facebook ?, Part II

In our previous essay, we pondered whether Google or Facebook is the better investment. Our arguments were based mainly on numbers related to the size and growth of the advertising market and the positions and prospects of the two companies within that market.

Investing, however, is usually not only about numbers. While numbers are of course important, it is good to complement them with a deeper look into the story relating to any particular company. We'll endeavour to do that in this second part.

Let's begin with a look at Facebook's mission statement. It states the following: "Give people the power to build community and bring the world closer together." That sounds very nice. At least until the instant we confront this statement with reality, because reality is diametrically different. The mission statement implies that Facebook endeavours to bring good to its users and tries to make the impression that they are the company's customer. In fact, Facebook is doing something completely different. It monitors its users literally at every step, collecting various data about them, their behaviour, and all possible forms of their private data – all of which it sells to advertisers. Facebook users are therefore not clients at all but the company's product. I have tried in vain to find another important company with a similarly great disparity between what the company

declares to be its mission and what it is doing in fact.

What is Google's mission statement? It is this: "to organize the world's information and make it universally accessible and useful." Google is similar to Facebook in how it collects and handles data on its users. The difference lies in

Google's greater awareness of this disparity and of the moral ambiguities involved, and it bears these facts in mind – at least a little – in how it conducts its activities. In addition, it cannot be denied that Google does in fact "organize the world's information and make it universally accessible and useful". Its business has a much greater added value than does Facebook's.

Despite all Facebook's proclamations about connecting people and creating communities, it is an advertising company plain and simple. This is no new discovery, of course, but it would interest us to know how many people in fact recognise that. Facebook users feed the company's database with unbelievable amounts of data at no charge. Facebook is vitally dependent on them, because they are the source of all its revenues. What would happen if people would stop using Facebook?

This may sound like science fiction, but history has known a number of similar cases. What if people start to become tired of Facebook and at the same time begin to realise more the

actual nature of its business? Can people be kept satisfied indefinitely knowing that they are constantly being monitored and their life is, metaphorically speaking, for sale? Facebook presently has nothing to fall back on if people were to stop using it. From this viewpoint, Google's business is much more robust and resilient.

The businesses of the two companies also have other impacts that may in future be a source of existential challenges. We will mention the two most serious ones. The first one is distortion of reality. What is that about?

If you want to learn something from the world, something about current events, or if you are just looking for some information, you will very probably use Google or Facebook. What you see, however, is not objective reality but just something Google and Facebook want you to see. And this difference between reality and what you are provided can sometimes be very great. Google and Facebook have various motivations, and these sometimes are in conflict with one another. On the one hand, they want the things you see to be high-quality content because they should have an interest to provide high-quality services. At the same time, however, they want to target the specific interests and preferences of each individual user, and that necessarily deforms what is presented to us. In addition, they must of course satisfy the demands of their advertisers, and then we come to their own internal censorship and the interest to shape public opinion, which we definitely should not underestimate.

For example, we know that Google and FB live off internet advertising. Do you think the posts

and articles supporting the advantages of internet advertising are displayed objectively or is there some partiality and therefore manipulating of public opinion? Take another example: What if Mark Zuckerberg decides to get into politics? Would FB be objective or would it support him with a skewed post selection algorithm? And what if Google's founders would not want him to succeed? Would they modify their algorithm too? We do not know the answers and it is a scary idea.

The result of all this is that we are presented with a skewed image of the world and we are unable to judge the extent of that deformation. In a situation of duopoly with two dominant companies in internet advertising, there is also a duopoly of information handling. A second negative impact caused by the two companies goes hand in hand with this. Internet advertising already has killed off a large part of printed news media, thereby causing the quality of journalism to be diminished along with that of general debate in society. When we again compare the two companies, due to Facebook's susceptibility to abuse and its almost complete indifference to this problem, it comes off looking far worse than does Google. (And I am very well aware of the paradox that I am publishing this text on FB.)

This is why both companies will probably be more and more targeted by various regulations and limitations. After all, this has been going on for some time already. The regulators are gradually beginning to realise that there is not only a duopoly of two dominant advertising companies but also a duopoly concerning the management of information flows. The first indications of

regulatory pressure began to appear several years ago in the areas of taxation and handling of information. Apparently this is just the beginning of a long-term trend. In this regard, Facebook is certainly more vulnerable than is Google.

As we set out to explain in the first part of this discussion, it is unavoidable that sooner or later Google and Facebook will come up against the limitations defined by the size of the global advertising market and their growth will slow substantially. This slowing will probably be much more apparent and also more surprising in the case of Facebook. Both companies can be expected to come under pressure, and it is possible that this will lead to an even stronger tendency to manipulate the public and even greater exploitation of users' personal data. While Google will be far from immune to this pressure, what Facebook might do is much more to be feared.

We also must not forget a long-term problem in the corporate governance of the two companies. They both have several asset

classes such that the shares owned by the founders have more voting rights than do those of the other shareholders. As long as the two companies are doing well, investors will in some measure tolerate that situation. As soon as a period of adversity comes along, however, this very probably will become a source of conflict between the founders and other shareholders.

When we look at the historic development of the two companies' share prices, many people will ask why we should concern ourselves with such nonsense when the share prices of the two companies keep rising? A rising share price does not, however, mean that everything is okay. The rising share prices of the two companies, and especially of Facebook, reflect very optimistic views about the two companies and their futures. This is why it makes sense to think about the future from various perspectives. Google emerges from our deliberation looking better from almost every angle, and if the question were to be "Google or Facebook?", our answer would be "Google".

Invest with care!

Daniel Gladiš, 22 October 2017

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