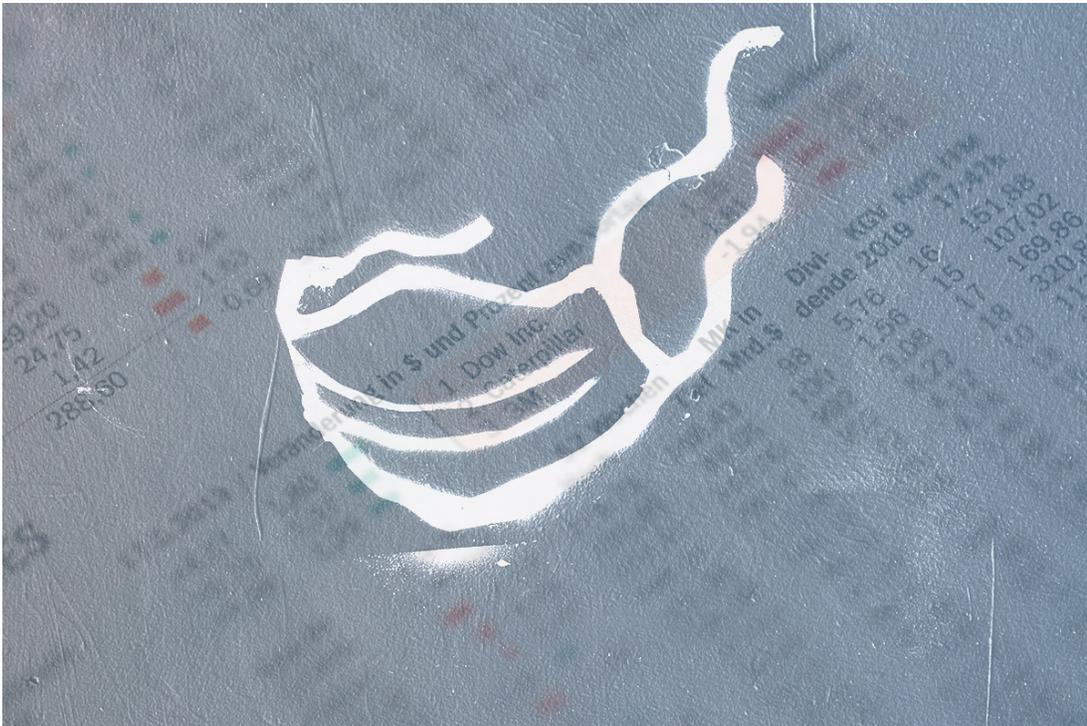


ETHICS

Corona-blues: The next hollowing-out of the economy

by Olaf J. Groth, Mark Esposito, and Terence Tse



The pandemic has accelerated the decoupling of the digital economy from the real economy, with frightening implications for corporate control.

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The digital economy started to detach itself from the “real” economy long before any of us had heard of COVID-19, but the dramatic and unforeseen forces unleashed by the global pandemic severed the remaining bonds between the traditional economy, which contributes the bulk of jobs and value, and a new economy that serves our digital needs. Yet, just as humans rely on a healthy and interdependent ecosystem for their long-term prosperity, the new economy cannot continue to thrive if it leaves behind the tens of millions of businesses and workers who build the core of national and global productivity.

One need look no further than the stock markets for an indication of how wide this rift has grown. While the wider economy continues to labor under the strain of COVID-related restrictions, the equity markets have rebounded and then some. By the beginning of September 2020, the S&P 500 had already surpassed its pre-pandemic peak, despite waves of bankruptcies and the struggles of so many small and medium enterprises. The bulk of these increases – gains that have decoupled equity markets from the real economy experienced by billions of people around the world – have accrued to a small set of digital platform companies. The same digital ecosystem that once nourished the evolution of everyday society and productivity has now decoupled from it.

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By the beginning of September, the share prices of Facebook, Amazon and Apple had more than doubled since the worst of the pandemic. Apple hit the unfathomable \$2 trillion valuation mark – a first in the history of our global economy. Shares of Netflix and Alphabet (Google), the other so-called FAANG firms, hadn’t quite doubled but were also trading at or near all-time highs. Meanwhile, the oldest and most iconic member of the S&P 500 since 1928 – **ExxonMobil – left the index on Aug. 31, driven by Apple’s decision to split its stock**. Those who own and run the tech giants make ever more money, while the rest of the world suffers from economic hardship.

Digital Dominance

The oligopolistic power of these digital platforms shows no signs of abatement, either. Governments have shown little interest in seriously reeling them in. To be sure, we will need them to help transform and upgrade the economy overall, and we have come to rely on them more than ever in this pandemic. But currently their network effects and their hegemonic control over massive consumer data sets seal off the kinds of entrepreneurial competition that helped transition value between the digital and real economies. Indeed, they have driven a new “platformization” of the economy – hollowing it out in much the same way the financialization of the economy did in the 1990s and early 2000s. By siphoning out the productive resources the real economy needed (e.g. cash, talent and attention), financialization gutted the core of the real economy, which then collapsed into the Great Recession in 2007.

Like financial services before them, digital platforms became an indispensable, and often welcome, part of our social and economic lives. The products, services, and connections created by the FAANG companies served as vital lifelines for billions of people around the world. However, these companies no longer provide mere digital services and infrastructure; as massive digital platforms, they have near-unilateral control over the marketplaces that are built upon that infrastructure. This type of power has created a new form of disparity within the economy, as dominant companies increasingly seek to impose greater control over the options available to individual consumers. They determine the apps that billions of users around the world can access, and under what conditions, and they change how people are employed, enabling socio-economic asymmetries in consumer choice, privacy, and labor that are shaping the profoundly new landscape ahead of us.

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Those near-monopolistic digital rents became increasingly problematic and controversial when the pandemic heightened consumer and business reliance on these digital platforms. Yet, absent any significant policy intervention, the near future offers few alternative scenarios to the ongoing dual-track split in the economy. If we hope to drive

innovation and reach the next threshold of growth through digitization, we need to find ways to move beyond this separation of platforms and work to better integrate them with the rest of the economy. We now have to ask: How much value do the handful of companies that drive the market and economy today really contribute to the rest of the analog economy? How does an environment thrive when one species hordes the financial and talent resources needed for the entire ecosystem to thrive? Amidst a global pandemic, how can the vast majority of “real economy” companies recapture the resources and vitality they need to sustain their critical contributions to productivity, employment and GDP?

New Possibilities

The Fourth Industrial Revolution or, as the Japanese describe it, Society 5.0, will never come to fruition unless we preserve the symbiotic relationship between old and new parts of the economy – one that encourages the evolution of new market entrants that provide tangible value to the real economy. We cannot rely on the tech giants to single-handedly pull our economies out of the abyss. The rest of the economy and society will need to stimulate growth in other places, including analog industrial and social fields, seeking to drive more evenly distributed pockets of growth outside of the usual tech suspects. By focusing on additional digital or digital-physical hybrid spaces of expansion, companies can begin to create the products, services and jobs that boost the productivity and welfare in the economy that’s obscured by the current stock market surge.

To be sure, the platformization of the economy represents an important structural change, much like the virtualization of work, the automation of physical processes and the waves of roll-ups that will emerge from the pandemic. But if we hope to recapture critical resources and spark entrepreneurial evolution across the whole of the economy, we need tools and frameworks that help us drive the important structural changes, lest the gains on the global platforms amount to a mere flash in the pan. This is especially true given the current retrenchment and “batten down the hatches” instincts of the old economy, so driving broader value creation out of the pandemic will also require a model that flips outlooks from defensive to growth-oriented postures, including approaches that embrace new technologies such as AI, automation and data science. Whether as individuals or as

business leaders, we need to identify the new trends and disruptions, understand how those forces will develop and coalesce, and then analyze and act upon the steps we can take to mine opportunities in this uncertain and rapidly evolving environment.

In particular, business leaders will need to understand how the platformization of the economy and the immense growth and consolidation of personal and enterprise data will drive or clash with other trends that impact their companies, their industries, their workers and their lives. The global “datasphere” is expected to top 59 zettabytes this year, up from roughly 33 zettabytes in 2018, according to IDC. (A zettabyte is a 10 with 21 zeros behind it, and hence a massive one sextillion bytes.) And the data explosion won’t slow anytime soon: **IDC said it expects a compound annual growth rate of 26 percent through 2024**, and it previously forecast a datasphere of 175 zettabytes by 2025 – meaning the “amount of data created over the next three years will be more than the data created over the past 30 years.” Most of that business, consumer and government data will continue to accrue to the large digital platforms – as will the market power that huge trove of data facilitates. So, within that environment, what new resources, power patterns and phenomena do we see arising? As new, globally virtual and locally physical work patterns entrench themselves, can we develop solutions that are company or industry specific? What parts of our portfolios do we need to adjust? Will operations made fragile by the pandemic’s physical distancing mandates now require automation and remote operation? The answers to these questions might yield advantages for companies with physical or analog competencies, rather than the purely digital players.

To help identify those possibilities, and thus pivot from survival to growth mode, we have developed the “FLP-IT” framework. This model is designed to help business leaders develop a comprehensive response to both the macro trends and forces (e.g. platformization), as well as the most focused and pragmatically ideated forms of experimentation.

Forces: Understand the new forces, or the amplification of existing forces, that are now impacting our lives and businesses. For example, what platforms are positively or negatively impacted by the pandemic? Will new political administrations in the U.S. and

Europe elevate or depress regulation of the digital economy and society? What will emerge from advancements in quantum computing, neuromorphic chips or other cutting-edge technologies?

Logic: Determine the new, emerging logic of our societies, industries, and fields. Will our economies, industries and lives bounce back quickly once a vaccine is approved, or will we struggle to recapture growth and vitality? If we do roar back, will we all share that bounty, or will a small few win at everyone else's expense? Will technocracies triumph and thrive as other countries drift toward populism and away from science?

Patterns: Visualize the phenomena and patterns of interactions between actors. Who gains and who loses? For instance, will a weaker economy depress high-tech startup funding and increase the likelihood of roll-ups? Will cities suffer brain drains as virtually working nomads seek new physical spaces? How will education and training change to allow workers far more flexibility to learn and earn simultaneously?

Implications: Draw conclusions about the implications of those forces, logic, and patterns for your company, community, and family. For example, the decoupling of working and living locations will have wide-ranging effects on everything from analog learning to health management. How will we manage wage depression effects for talent, changes in facility-utilization patterns and ever-growing digital capacity needs? What specialized platforms might emerge, or what technologies could we develop in-house, to enhance smart procurement and supply chains?

Triage: Finally, what kind of triage actions should you take to calibrate your pre- and post-pandemic activities. In other words, which projects, programs, investments or strategies should you cut and which ones should you invent or reinvent? For instance, do we need to shed the complexity of our conventional products given supplier uncertainties? Should we augment our portfolio with smart remote factory and lab management? Does it make sense to upgrade our IT systems and hire workers with data science and AI capabilities? Or shall we boost assets in our portfolio that are valuable or complementary to global platforms as we negotiate with them?

The managers who do not make an effort to foresee what lies ahead of their businesses will have little opportunity to ward off the consequences of platformization and other major structural change forces. Their businesses will simply vanish and be replicated by global platforms in the years to come. In the meantime, that will mean significant physical-analog assets lost and significant displacement of labor.

We will not see a “new normal” for months if not years, and we more likely will adjust to a series of frequently changing “new normals” as we prepare ourselves for a world in constant transformation. Recovery will likely take three to seven years, depending on the industry or part of society. In that time, the large platforms will seek to consolidate power. It’s left to the rest of us to find the Forces, the Logic, the Patterns and the Implications of that primary economic trend and then Triage our strategy and portfolios across the inevitable disruptions that arise.

Rather than waiting for a return to normal or giving in to the pain of what’s lost, we need to flip our gaze forward, embrace the churning uncertainty, and adjust our strategies and activities now. This way, we can create a broader set of growth opportunities together, strategically using the recovery resources available to us, rather than patching holes and allowing digital platforms to gain increasing power over our economies and lives. We need to cut forward with the kinds of everyday experimentation and creativity that create new options for a broader swath of the economy. The FLP-IT model will generate tangible value within the real economy businesses and individuals grapple with every day. As both individuals and collectively, this strategy can begin to offset the splitting of digitally native platforms from the rest of the economy that is hollowing out of the economy and society, allowing us to open new horizons.

► References



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