

NOT A BUBBLE BUT THE BATTLE OF THE GIANTS

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Published in German in *The European Magazine*. 2011-05-26

Even if some investors may be making extraordinary profits, we should not equate the higher and higher prices being paid to acquire the new info-tech companies with the dot.com bubble of the 1990s. That major technology bubble was a grand experiment that happens every time, midway along the diffusion of each technological revolution. It is the way of testing each wave of new technologies in the market, in order to let demand decide which products will be accepted and which rejected, which companies will be the leaders, which ones the followers and which will not survive. It is also the manner in which the new infrastructures are installed and funded before they are profitable. That process brings investors to bet on many companies of uneven quality hoping to strike gold with one or two of them. Each time, it also brings ordinary people into the stock market. Its culmination is a bubble and a stock market crash that affects the whole economy. In the aftermath, a few giants emerge triumphant.

The next episode is the one we are witnessing now: The battle of the giants and the formation of the main oligopolies that will shape the coming golden age. It is the giants that are deciding which companies to buy and how much to pay for them in order to make sure they are not acquired by their competitors. It is not the semi-blind betting that takes place in major bubble times; it is a series of well informed decisions taken by cash-rich companies to guarantee their place at the top table. The high prices paid are not based on illusions, each company is evaluated for what it would be worth for the competitor. The new giants are fighting to occupy key territories; these battles are part of a complex strategic game where the ultimate shape of the industry is being defined by the most powerful players.

The fact that there are “angels” fueling this game as well as some VCs does not justify the bubble definition (except in a minor and localized way). Those investors have been encouraged by the acquisition binge and they are often preparing the companies they support for a take-over bid by the giants. There can also be some traditional IPO plans; even some of the major shadow banks (like Goldman Sachs) could be investing in what can bring huge profits in a future stock offering. But the essence of the current process is not a stock market bubble but a giant chess game defining the shape of the leading companies of the information revolution, their pecking order and the manner in which they will compete.

This has happened regularly in the past. In the second revolution, the so-called railway amalgamation movement in the UK was a battle for the absorption of the minor lines that could make major powerful networks. In the third technological revolution U.S. Steel was born from the massive acquisition of many minor and some major steel companies until 60% of the industry had been concentrated in J.P. Morgan’s hands. The dozens of automobile companies that survived the 1929 crash and recession in the U.S. were gradually absorbed by the final four. Each case is different, of course, but the nature of the process is the same. The core industries of the information revolution are defining their boundaries and are willing to pay higher and higher prices for each jewel in the crown.