



ALLIANCEBERNSTEIN®

DECEMBER 2025

The Dystopian Symbiosis: Passive Investing and Platform Capitalism

This piece takes the form of Galilean dialogue and it is clearly fictional, but the implications very much real. Please do not confuse the fictional format with an intention to not be serious.

Interlocutors:

Salviati: An investment strategist

Pangloss: A successful and experienced investor

Sagredo: An educated layman with a wish to invest

See our previous dialogue on the topic of crypto: Inigo Fraser-Jenkins, Portfolio Strategy: A dialogue concerning cryptocurrencies, January 29, 2021

Inigo Fraser Jenkins

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Sagredo: Thank you my friends for convening here on this beautiful morning in my favorite city. I am much moved and worried by what I read these days. I have been following the markets closely in recent years and am struck by how well the stock market has performed despite any recent nervousness. I am grateful that I followed advice and put my savings into stocks, as I paid heed to those who have said inflation will rise and one needs a high allocation to stocks in order to protect the power to purchase goods or services of the same value in the future (I am still some way to retirement, but you know one wants to keep watch on such things). I kept things simple and just bought passive exposure to stocks. It seemed like what so many people were doing, and the market has treated me well. But what worries me is this: so much of the gain is from a small number of stocks, and other people have been buying passive instruments as well. Is this riskier now than it was before? What transpires if something happens to one of these massive companies and people like me try to sell their passive instruments at the same time? Is it the fact that so many people have been buying these passive instruments that is responsible for why these few companies are so huge today? Did we cause this? Afterall, these passive instruments are weighted by market cap and I read that that is a choice, not something that needs be written in stone.

Pangloss: Let me stop you there my dear friend. You have been reading too much scaremongering. People who make their occupation by writing—whether they are in the employ of finance firms and engaged in research or are journalists, they all want the same thing! They need to shock you a little bit; if they just said everything is fine then no one would bother to read them. We are living in the heyday of capitalism, and capitalism is the best of all possible world systems!

Salviati: Your claim is hardly beyond doubt! I can think of countless objections. But even if one wants to accept that capitalism is the best of possible world systems, the world that we have arrived at today is only capitalism in name, or at least is more fragile than it should be!

There are parallel, stark features of the corporate sector and the way that people invest today. These are the high concentration of the weight of the stock market into a small number of mega-cap names and the predominance of “passive” investment in cap-weighted indices, such that large flows into tracking funds direct an ever greater volume of capital to a small number of companies.

I suggest that these parallel features constitute a dystopian symbiosis. It's a symbiosis, as the presence of massive platform companies and passive capital-weighted indices feed off each other like a marriage of convenience; it is dystopian because both stand in the way of competition and capitalism. The massive companies stifle competition, and the passive cap-weighted indices do nothing to aid the process of capital allocation in the economy as they are, by construction, backward-looking.

Sagredo: This sounds worrisome indeed. But are these two attributes symbiotic or causal? I am not gifted with enough intelligence to tell which might have caused the other, but maybe you can enlighten me? It seems that both have happened at the same time, that is to say over the course of the last decade and a half. Surely it seems like a coincidence for these to occur at the same time if one has not led to the other?

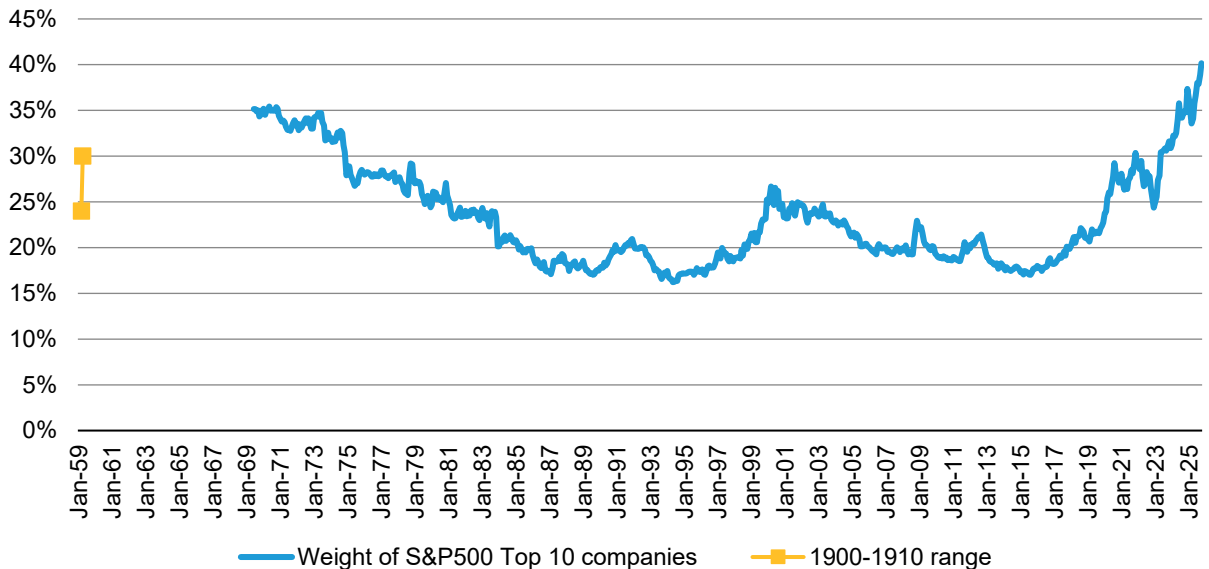
Salviati: Much as I worry about this topic, I don't think I can ascribe causation between them. One might say that, when investors buy passive funds that are weighted by market cap, they promote companies that have been successful in the past, and hence force a momentum characteristic in the market higher. It is also true that when there are new flows into indices that are weighted by market cap, then the largest companies receive the largest extra flow of capital.

However, there are also perfectly natural reasons why concentration in the market has grown. There are the network and scale benefits of technology, be it the network effects of intangible capital or the scale advantages of data centers running at huge scale. One makes no moral judgement about this; if it is indeed the case that technology has a scale advantage, then it would be expected to lead, in equilibrium, to a group of larger companies.

My final reason for denying causation is that the high concentration of the market is not, actually, that unusual. In the US we have been close to here twice before. The Nifty 50 period of the late 1960s saw a very similar level of concentration, and concentration was also elevated from 1900 to 1910. Standard Oil was itself 10% of the US market in 1900, prior to its break-up in 1911. Moreover, other stock markets have been more concentrated than the current US level: look at Denmark or Israel to name but two. In fact, the odd outlier was the level of de-concentration of the 1990s. We are all shaped by our own journey and personal experience, and anyone who learnt their experience of the market in that period would find today's level of concentration unusual.

This reminds me of the Arian heresy of the 4th century. Are these two forces—cap-weighting of passive investments and concentration of massive companies—of the same substance, or does one have primacy over the other?

DISPLAY 1: CONCENTRATION OF US MARKET: WE HAVE BEEN HERE BEFORE



Past performance does not guarantee future results.

As of October 31, 2025

Source: Factset, <https://finaeon.com/200-years-of-market-concentration/> and AllianceBernstein (AB)

Nevertheless, even without this causation, I contend that high concentration is worrying. It is bad for competition and the oft-lauded animal spirits of a healthy capitalist system. What makes this doubly worrying is the scale of the flow into passive indices that gives the appearance of lower volatility, and I suggest it is more worrying now because of the proportion of capital that is invested in the market passively.

Pangloss: Well, I'm heartened that you haven't fallen into the easy trap that passive investing has caused the emergence of massive companies. But I still fundamentally disagree with much of what you have said!

Show me evidence that passive investing impedes the allocation of capital. Or indeed that the emergence of large companies represents some divergence from a capitalist norm!

How would you even know that capital wasn't being allocated efficiently and correctly? I grant you that it sounds elegant as a phrase to throw out in academic discourse. But what is the evidence?

You are thinking about some absurdist extremes, where the only way that equity capital is owned is via active or passive funds, and furthermore that the passive funds squeeze out active funds to the extent that there are none left. It is a striking rhetorical device, I grant you, to take one's opponent's view and inflate it to absurdist extremes and then attack it. But I can see through that! There is not a zero-sum game between active and passive investing. There are many shares held by founders and individuals, there are new shares being issued and others being bought back. The number of shares held in active and passive funds all together accounts for less than half of the market.

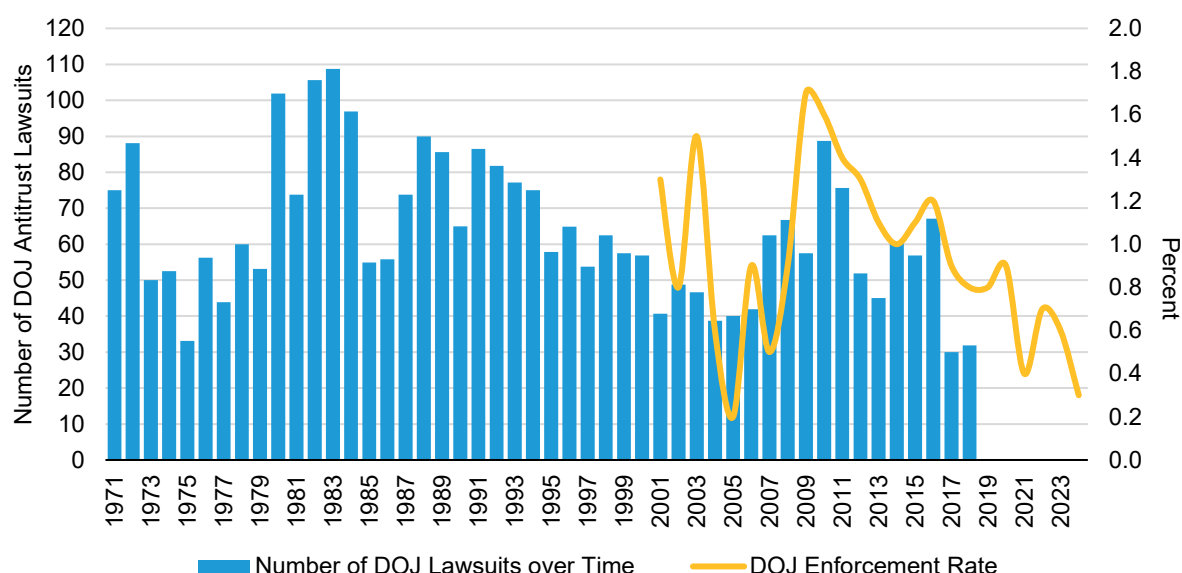
On your other point, that the mega cap companies smother competition, I am not at all convinced. They represent a triumph of capitalism! The extraordinary innovation of recent years has given birth to near-unparalleled growth. There are benefits of scale, be it from the nature of intangible assets and their scalability at low cost and their network benefits, or be it from the new wave of data centers that give promise of a step forward that could exceed that of the Industrial Revolution! I do not see why you see this as a problem. Moreover, it has created a huge amount of wealth. That is real and tangible. This is surely to be celebrated! Innovation has meant that the return on capital has been high, and access to investment has never been easier or cheaper.

Salviati: I'm not so sure. I could push my argument further. There are several possible stories to tell about the rise of this concentration. Let us focus on that for a moment rather than the passive cap-weighted indexing side of the ledger. I grant you

that there has been innovation by the corporate sector. But how sure are you that that is the primary explanation for the state in which we find ourselves today with a small number of companies of unprecedented size?

I contend that there are less benign forces at work, too, that have also contributed to this. There has been a social and political choice made in recent decades to allow more power to corporations, as opposed to both labor and governments. But it is the power of corporations versus governments that is most relevant to my point here. An example of this is the decline in the willingness to enforce anti-trust mechanisms. This has helped the emergence of more powerful corporations than was the case, say, in the post-war decades. A consequence of this is that something that looks akin to regulatory capture is at work.

DISPLAY 2: DECLINE OF ANTI TRUST CASES



Past performance does not guarantee future results.

As of October 23, 2024

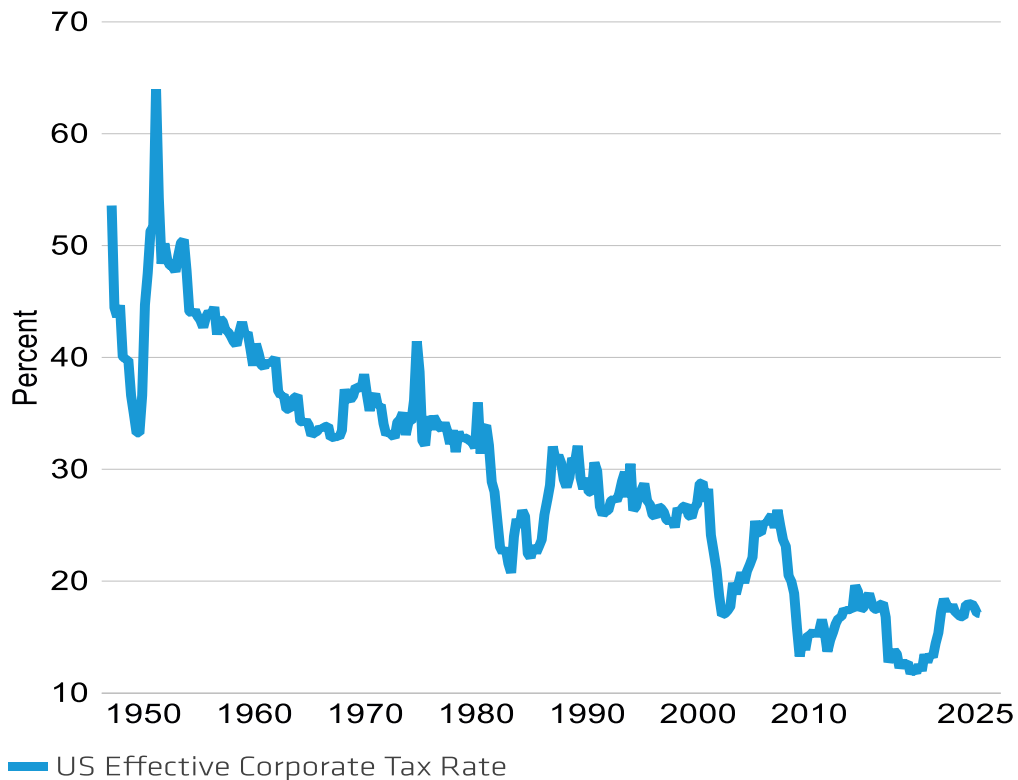
Bars show the number of DOJ antitrust lawsuits for each year of the period 1971–2018. The total number of lawsuits over the sample period is 3,055. It is hard to get consistent data over a long time series hence showing this as two separate series.

Source: Tania Babina et al., Antitrust Enforcement Increases Economic Activity, NBER Working Paper Series Working Paper 31597

<http://www.nber.org/papers/w31597>, <https://www.cov.com/-/media/files/corporate/publications/2024/10/three-years-running-merger-enforcement-activity-continues-at-historically-low-levels-according-to-the-agencies-most-recent-hsr-report.pdf> and AB

I do not seek to make a moral point about this per se, but it does need to be recognized that this is a social and political choice that has been made, whether citizens explicitly realize this or not. The primary evidence for this is in the tax paid by the US corporate sector. The effective tax rate of US companies has fallen in an almost monotonic fashion from above 40% in the 1960s to below 20% over the last decade. Seen in this light, high margins and plentiful growth in earnings suddenly do not look so positive from a social perspective. Why should the people accept this? I cannot fathom it!

DISPLAY 3: DECLINE IN THE EFFECTIVE TAX RATE FOR US CORPORATES



Past performance does not guarantee future results.

As of November 26, 2025

Source: BEA, Macrobond and AB

We should consider two other forces that have aided the overall strong return of the market. These are true not only for technology stocks but for the market overall. I bring them up here, as they also represent an implicit social and political choice, of which I do not believe everyone is aware.

The first of these is buybacks. Since buybacks were made legal in 1982, corporations have emerged as the primary buyer of their own stock in the US. Indeed, across all developed markets this approach is entrenched, and buybacks exceed the issuance of new stock. By this mechanism, the public stock market is shrinking. That is helpful for returns, but my point is that this represents a leveraging up of the system for little, or no, social utility. I genuinely believe that most people don't realize this. What might appear as a rational decision for an individual company has a separate emergent property when considered in the light of the overall system, which is a higher level of corporate debt and less of an equity buffer. I can only think that this is a combination of management teams being told to focus on metrics that are couched in terms of metrics per share, and also because it is a short-term expedient to increase returns for the owners of capital.

The second of my points is a more obvious leveraging up of the system and that is the enormous increase in government debt, also since 1980. There have been many reasons for this and its effects show up in many other ways, mainly the increased riskiness of government bonds and the ending of any notion of there being such a thing as a "risk-free" asset (there never was such a thing but it suited the academics and investors so well to postulate that such a thing existed). But for our purposes here, the point is the evidence that greater government deficits help the corporate sector by lifting margins but create a social cost via leverage.

We don't want to overstate these. There has been real, organic growth beyond these forces, but they have been consistent contributors. Net buybacks have lifted US equity returns by 1.6% pa, and the increase in the deficit over the last two decades

has arguably raised margins by four percentage points. But the point is that, in unison, they represent an increase in risk to the system that was not the same before the great bull run started in the early 1980s.

Sagredo: So, are the strong returns from the stock market in some sense fake?

Salviati: No, no, I did not seek to give that impression. There has been real innovation and real growth. But in parallel, there have been choices that have increased the power of the corporate sector and hence boosted the return on capital. The point is that these are not free choices—they raise risk elsewhere. In a democracy, if people chose to make this choice then who am I to criticize it? I just worry that the choice has been subtle, with a slow change over time in the understanding of what is acceptable, so that voters have not really explicitly made this choice. Especially not global voters who live in a world of multinational companies.

Pangloss: Again, I think you raise worries of a theoretical and academic nature. Why do these things matter? We have bountiful growth, the people have jobs and the return of the stock market has made people well off. You want to jeopardize that?

Salviati: Well, I would challenge your view about people being well off. It has made some people very well off, but that has not been equally shared. I will return to that point later.

Since you are still not convinced I see, I would like to push my point even further and bring up the work of Varoufakis.

Pangloss: Here we go! Please can we not discuss Marxism? You really think that is relevant when discussing the structure of the stock market? Imagine putting that in a research note aimed at institutional investors and see how you fare!

Salviati: I beg to differ! Marxism is always relevant, even for me who happens to believe that capitalism is a helpful system for society in many ways. One needs to be open-minded to alternative points of view, and I believe this is a viewpoint that potentially undercuts the whole system you claim to love so much.

The point I wanted to make is that Varoufakis has declared that capitalism has died.¹ This might sound surprising. Afterall, it seems like we are in a society refined by the norms of capitalism to a degree never seen before. Varoufakis, however, claims this is a veneer. Companies talk of profits, but really profits are no longer the primary force; instead, the emergence of platform companies of huge scale and with unprecedented power vis a vis regulators means that rather than collecting profit, they are really collecting rent. Therefore, we are now in a quasi-feudal system and not a capitalist one.

The only irony, for Varoufakis at least, is that capitalism was not brought low by the action of organized labor, but instead by platform companies benefiting from an extraordinarily low cost of capital.

If this is the case, then for those who believe in capitalism as a mechanism for growth, it raises profound questions on the ability to continue growth as has been experienced before. I worry about this point a lot, as it does indeed seem the case that platform companies do charge something akin to rent and, I can see many examples when their actions do not look to be commensurate with an ideal form of capitalism, at least as I see it.

Pangloss: You make a strong argument. But I would like to add another angle. Your narrative is grounded in the world of publicly listed companies.

All that we are discussing is happening at a time when the stock market is becoming progressively less relevant—both as a venue for entrepreneurs to raise capital and as a share of the assets for institutional investors.

Since the war, the primary source of capital to fund growth was the public stock market. But the locus of capital creation has moved! You seem to phrase this as necessarily a risk. But why should the public market be preeminent? I strongly believe that regulation is the enemy of innovation. There is too much regulation and unhelpful attention foisted on firms that choose to seek a public listing. This stifles innovation and the growth you claim you are so fond of. But is it any wonder that there has been a smaller number of IPOs for decades? And if corporates wish to engage in buybacks, then that is their own private decision of how to best use their cash, or their ability to raise debt. Meddle with that at your peril!

¹ Yanis Varoufakis, *Technofeudalism: What Killed Capitalism* (Melville House, 2023)

May I remind you that this city created what I would contend was the very first factory in Europe. Hundreds of years before the British had their Industrial Revolution, the Arsenale established what was essentially assembly lines and was capable of building a galley in a single day! Do you know how hard this was, and how extraordinary for the time? The need to make the hull, the miles of ropes, the sails. The immensely long rope-making halls have stood the test of time and are still here. This was automation taken to a level that had not been dreamed of before. Without that, the glory of Lepanto would not have been possible! The reason for all this activity? A city built on commerce above all other considerations. Yet it did not require a stock market to fund it. My point is that capital can come in many forms. I am unconcerned about the shrinking public market; fashion and opportunity change over time.

Sagredo: I think I follow your argument, but there is another kind of concentration that I read a lot about, and that is the concentration of the weight of the stock market in companies that are listed in the US. This share has grown relentlessly even as the share of the US as a share of the global economy has shrunk. Something seems odd about this. Can either of you gentlemen explain it?

Pangloss: Yes, the effect that you describe is true. But it should not be a surprise, or indeed a source of concern. Some of this is the rise of massive tech companies that we discussed earlier. But the extra element to this, the apparent disconnect between the weight of the US in the stock market compared to the weight of the US in the global economy, reflects another choice about the source of capital. It is the rise of China that has been the primary reason for the shrinkage of the US as a share of the economy overall, but China has chosen not to seek public equity financing in the same way. Thus, this apparent disconnect is inevitable.

Salviati: This is one point at least on which I'm happy to say that we are in agreement.

Sagredo: Thank you both for your views on this. I must admit I am struck by how two such intelligent people as yourselves can have such divergent views. But tell me, the topic of the day seems to be AI and how it will transform the economy. It also seems to be the dominant issue for the stock market, given the way hopes about AI have driven up the returns of stocks. Does this dynamic of AI change either of your views?

Salviati: It is of prime importance! We face a world where there are very plausible reasons why the growth rates that have seemed normal in the last 40 years might no longer be attainable. Smaller working-age populations, deglobalization, the exceeding of planetary limits, and the buildup of debt all point to an outlook of lower growth. AI is the only force that could plausibly offset these forces. But that is not the central point that we are discussing here. So far, the market's experience of AI has been very much as a game of scale. Those who can build or secure the greatest capacity of data centers have benefited the most. Thus, so far, AI appears set to exacerbate the concentration that we have seen so far.

Acemoglu teaches us² that the emergence of a new technology does not, per se, determine who benefits from it. Instead, that is determined by political choices made at the time that the new technology emerges. Given the view on the growth of corporate power that I have already outlined and the observation that, in the West at least, corporations are firmly in charge of deciding what type of AI is developed, then this is potentially alarming about further entrenching the power of large platforms. We also see this in the relative power of capital vs. labor: union membership in the US has reached a new low, and the sectors that are most exposed to AI are the ones with the lowest union membership. Therefore, one should expect corporations to be in a position to take more power. Many might view AI as a benign force, but we are tempted to side with Crawford in labelling it an extractive industry.³

Pangloss: You are very fatalistic about this. One thing we agree on is that AI is a potentially huge source of growth and increase in productivity. But I'm not sure we know yet who is going to win from AI. When a new technology comes along, the cards are all thrown in the air. Will it be the large companies that have access to the data centers that are the winners? Or will access to those kinds of models be commoditized? If they are commoditized, the winners could be a plethora of smaller companies, many of which don't exist yet. Maybe the suppliers of power and the builders of the power grid are the ones who benefit? We just don't

² Daron Acemoglu and Simon Johnson, *Power and Progress: Our Thousand-Year Struggle over Technology and Prosperity* (PublicAffairs, 2023).

³ Kate Crawford, *Atlas of AI: Power, Politics and the Planetary Costs of Artificial Intelligence* (New Haven, CT: Yale University Press, 2021).

know. It's one of the reasons I think that, despite what you say, competition is alive and well. Let the development of AI just take its course.

Moreover, on your fears about passive investing, the rise of AI also shows the presence of counteracting forces. Yes, there has been a large flow into passive cap-weighted indices, but do not forget that individual retail investors are participating in the market in a way that they did not a decade ago. They are choosing to buy individual stocks linked to AI and that is an active investment, it's just not taking place within a traditional active fund.

Salviati: I agree that it seems too early to say who benefits from this new technology. But what about jobs? I read stories already about workers losing their jobs because of automation. Aside from the social cost of that, if it happens at larger scale then don't we have a problem? It's all very well for AI to improve productivity, but if there are only a small proportion of workers still employed that is no good! There would be a recession and then a need to rethink the structure of the economy.

Pangloss: But this worry is as old as the Industrial Revolution. In fact, it is older! Queen Elizabeth I denied a patent for a knitting machine explicitly because it would destroy jobs and render her subjects impoverished. Some 250 years later, the Luddites smashed mill machinery because of automation. But after all these years of innovation we still have full employment! People who hold your position always fail to estimate how many new jobs are created that, prior to the new technology, could not be imagined! This is how capitalism works. It creates more growth in total in the end.

Salviati: You blithely skip over real hardship! Real wages were static for generations during the Industrial Revolution and groups of people were left in penury, or else had to subject themselves to working conditions of a woefully inferior level than they had before. But I will say no more on this particular topic or it will send us off on a tangent that we would not be able to do justice to today.

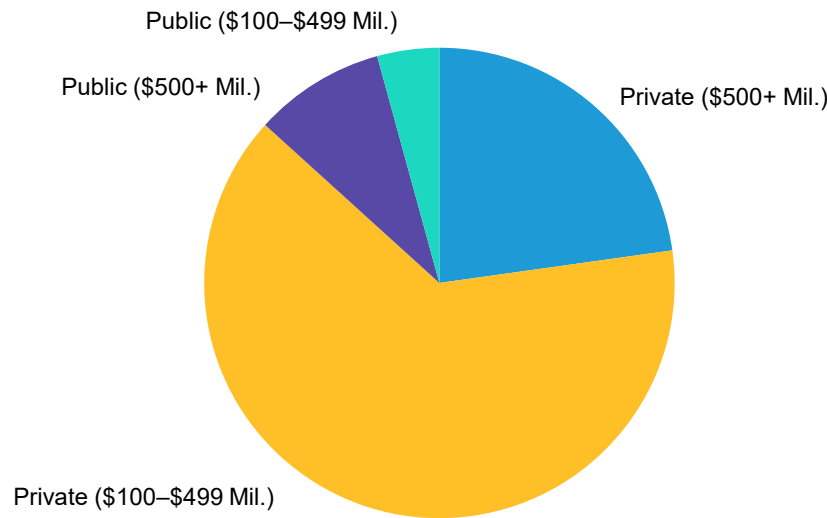
Pangloss: May I move us on slightly in our debate?

Salviati: Please do! I am sick of talking about AI every day.

Pangloss: The concern outlined at the beginning of this debate was the interaction of large companies with passive cap-weighted investing. But buying equities by way of a passive cap-weighted index is not the only way to do so—it is a choice, an explicit choice.

Yes, the biggest listed companies are worth trillions, but the opportunity set for investors is different from that. If one considers the number of companies in the US with revenues greater than \$100 million and just counts them rather than adding up their sizes, then the listed companies in the US only account for 15% of the group. There are many other ways for people to invest that expand their opportunity, one just needs to consider private companies too.

DISPLAY 4: FEWER THAN 15% OF COMPANIES WITH OVER \$100M IN REVENUE ARE PUBLICLY TRADED



Historical analysis does not guarantee future results.

Note: S&P Capital IQ data as of December 2022; most recent data from Statistics of US Businesses (2017) used to triangulate S&P Capital IQ estimates for privately held company counts by revenue band.

Source: Bain & Company, S&P Capital IQ, US Census Bureau and AB

Salviati: I do not dispute any of this. However, to benefit from this there would have to be a huge shift in the way that investors design their portfolios. I do not doubt that there are other ways to invest that do not involve the cap-weighted index, but it is very far from the way that large institutions think!

OK, but there needs to be a shift in how investors think! Exposure to passive capital weighted is going up not down.

Pangloss: In the meantime, the pairing of buying a concentrated and weighed index with the huge success of the largest companies has been a good thing. My friend, you said earlier that you felt this was a problem in some way, as it was not equally shared?

Salviati: Yes indeed! A huge problem of the creation of wealth in recent decades, especially with the rise of globalization, was that the benefits were not equally shared. That is what has given rise to populism and the attack on enlightenment norms that many have cherished so dearly. As Piketty so comprehensively showed,⁴ inequality has risen and, as the ownership of capital is more concentrated than the ability to offer one's labor, then anything that increases the returns on capital will increase inequality more. Bluntly put, the rich own more of the stock market and hence benefit most from its rise.

Pangloss: I often hear people talk about only a narrow group benefited, and there is truth in that I grant you, but let me remind you that pension funds have significantly invested in the market, too. The size of pension pots might be very unequal, I agree, but nevertheless this is the mechanism for many people to enjoy retirement. Therefore, the benefits from what you characterize as a symbiosis are actually felt broadly.

Salviati: Yes, it is true that pension funds own a significant share of the market. But you cannot just state that fact in isolation. In recent decades, there has been a huge transfer of who bears the risk for retirement, with that risk now being borne more by individuals. Maybe people accepted this in a world where inflation was low and returns could easily beat inflation. But I would contend that has changed. The confluence of a greater riskiness of returns (in part because of this topic we are discussing today), the likelihood of higher inflation, greater longevity (admittedly a nice problem, just one that needs to be funded), and the shrinking number of people benefitting from defined benefit pensions all point to a greater need to generate returns. Despite pension funds benefitting from the high returns of recent years, there is no extra cushion to protect from a period of low returns in real terms. We think that this pension funding problem might be enough to threaten the social contract. Anyway, don't get me

⁴ Piketty, Thomas. *Capital in the Twenty-First Century*. Cambridge, MA: Belknap Press, 2014

started on the scale of the pension problem or we will be here for another day. The point is that those pension returns are not sufficient.

Sagredo: Gentlemen, we are getting needlessly theoretical here. I want to bring us back down to earth. What does this dystopian symbiosis, as my friend calls it, mean in practice for one who wants to invest their money today?

Salviati: Well, I think it makes investing riskier. Specifically, I think it means that the passive index is riskier than it has been in the past. The confluence of high concentration, a dominant factor driving returns (in the sense of a principal component analysis), and high valuations points to the idea that there is complacency about volatility today. The scale of the flows that have been disproportionately into passive cap-weighted funds with a high exposure to the mega cap companies implies the risk of a significant negative wealth effect if there is an upset to expectations for those large companies.

Sagredo: Are you saying I shouldn't own the stock market now?

Salviati: Well, no, I am not saying that. The timing of any such upset is highly uncertain, and I can see a case where the market finds its way higher. So, stay invested, but hark what I mean about complacency about volatility and also have defensive trades in place.

Pangloss: Ha! So, despite all your misgivings, it does not make you do anything that different from what I am doing in practice.

Salviati: Indeed not. But my fears are about the riskiness of the system and the efficiency with which capital is allocated.

Sagredo: And what about the longer-term implications? Does our topic of discussion today imperil the very concept of the stock market? For an institution that started in the coffee houses of the seventeenth century then grew to be the primary locus of capital raising for the great growth period of the 20th century, is this how it ends? With a declining number of shares listed and of those that *are* listed, ever more and more weight in a smaller number of companies and an ever higher proportion of it accounted for by passive funds?

Salviati: There is a lot to like in the way that you phrase it. I don't disagree with any of it. But bear in mind that there are reasons why investors will need to own, if anything, an even higher proportion of stocks, I think. But you are right that the point of the stock market has changed and it no longer occupies the privileged position that it once did.

Pangloss: I have to say I'm unmoved. It remains an important place for investors to find returns and for entrepreneurs to raise capital. But there are other venues as well. Ultimately the distinction between public and private assets is fake, anyway.

Sagredo: As the day draws to a close, can we think about what the conclusions are from our discussion? Having heard both your arguments, I think I am more likely to take my friends' view that the symbiosis, as you call it, is indeed a problem. But if one were to take that view, what is one to do about it? It seems like those who wish to revive capitalism are in a bind; if anything is done to unwind the mega cap companies, then passive investment indices would suffer, causing a huge loss of wealth, which would adversely affect pension funds among other things. Traditionally, that might have at least hurt the wealthy more, but I'm not even so sure of that today if more of them have moved into private assets.

You said earlier that we have been here before. How did we get out of this state in the past?

Salviati: That's a very astute question! It has happened via different routes is the answer. The high concentration of the early 1900's was ended by regulation, the break-up of Standard Oil I mentioned before. But in the 1970s, this was more a narrative of market forces, an abrupt deterioration in the macro outlook and a derating of companies that had been expensive. So, there is not necessarily a single template.

One could take the view that the system can fix itself. As the public equity market shrinks and loses its primacy, both as a venue to raise capital and as a share of investment portfolios, then one could argue, perhaps, that if one views the *WHOLE* equity market (i.e., public and private) that the problem is reduced. However, we are not so sure, I think that the evidence of an increase in corporate power vis a vis governments and labor implies that a more active push is needed. This would have an economic goal in increasing competition, which is the core of capitalism, and also a sociopolitical objective in curbing the power of corporations in the interest of liberal democracy.

Pangloss: What you suggest shocks me profoundly. We have a system that has created untold wealth in recent decades and a corporate sector that has been an engine of growth for the economy. One would mess with that at one's peril! How could pension funds, or individuals saving for retirement, cope with a breaking up of big tech? Moreover, passive funds are a good thing: they democratize access to investing, something that surely your social conscience cares about. As I said at the beginning, the capitalist system is the best of all possible economic models. We have had decades of high growth and I fully expect that to continue.

Salviati: Yes, growth has been strong. Some of that was a peculiar set of circumstances since the 1980s: globalization and a strong demographic stimulus, both of which have now gone into reverse. Some of it was also a failure to realize planetary boundaries. There was also a series of choices that allowed corporations to raise margins and hence earnings growth, but I'm not sure that was good for growth in the broader sense. My contention is that the emergence of a high degree of market concentration has blunted the role of competition, while in parallel the emergence of passive investing as the dominant mode of investing in public markets has blunted the capital allocation role traditionally fulfilled by investors. For anyone concerned about the functioning of capitalism, I suggest that the dystopian symbiosis I have outlined should be a concern. However, it goes beyond that, as in the age of AI, the now-dominant position of large companies to control the news agenda raises social questions, too. Thus, it is also a problem for liberalism (in the philosophical sense of the word rather than the contemporary American political usage of the term) and for democracy itself.

The dystopian symbiosis represents a clear and present danger. More fundamentally, it does not represent the heyday of capitalism—instead, it is killing it.

Sagredo: Gentlemen, on that note I see that it is now dark, so let's bring this day to a close.

Pangloss: You are lucky that I enjoy the debate so much, but also that I'm hungry, so that I'm happy for you to have the last word!

Sagredo: The gondola is outside and is waiting to take us to the Rialto. We deserve a glass or two of wine.

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ICN20251631