BEYOND BIG TECH

An Alternative Vision for California's Tech Economy

In partnership with AI Now

Californians have always been known for turning big dreams into reality. It's how people from every background have come together to build the ideas, tools, and industries that have reshaped our world. The current enthusiasm around AI has sparked a meaningful opening to extend this vision, creating opportunities for California to incubate best-in-class technologies and simultaneously reckon with what it can do to ensure that the development of this industry meets the needs and aspirations of everyday Californians.

Right now, we're at a critical juncture. The AI hype of the past few years has distracted from the reality that the current trajectory of the tech industry is consolidating—not expanding—California's innovation ecosystem and actively working against the interests of everyday people.

California's next generation of leaders can and must create the economic conditions for a pro-competition and people-first version of AI and the tech sector overall. Doing so is key to unleashing a healthier and more distributed innovation economy. This memo holds recommendations for how to do that.

Historically, California has created the conditions where two people with a great idea in someone's garage can compete with behemoth, legacy corporations. This environment of competition, disruption, and technological innovation challenged the old order and birthed an industry that is the envy of the world, creating entirely new generations of products, companies, and ways of thinking.

This spirit of entrepreneurship now faces an existential threat. Over the past two decades, our regulatory environment has allowed a few large technology

companies to gain unaccountable power over the tech ecosystem, preventing new entrants from gaining a foothold in the market. The recent AI boom is only deepening that power. Google, Microsoft, Amazon, and Meta control access to key inputs necessary for building AI. This means that instead of competing with Big Tech firms, AI start-ups are *dependent* on them for resources, growth, and even survival—hampering the sprawling, innovative tech economy core to California's identity. At the same time, California's overreliance on gains from a handful of companies jeopardizes the stability of our state budget and the pocketbooks of millions of Californians who never agreed to this gamble.

Californians are eager to see technology solve pressing social challenges and deliver real benefits for people's lives. When asked, a significant number of Californians think that AI is likely to find solutions to problems that we cannot solve (43%) and improve creativity and innovation (42%). When asked in small-group settings what people mean when they say "innovation," participants shared their hopes for cheaper groceries, lower energy bills, and easier access to doctors.

But instead of tackling the real problems that Californians want to see solved, AI is largely making these problems worse. In fact, AI is being deployed in ways that raise our grocery prices, drive up our energy bills, depreciate the quality of our healthcare systems, and materially reduce our access to life-saving services. These tools are largely being deployed in ways that concentrate power upstream, creating less and more expensive access for everyday Californians to critical needs like healthcare, housing, and employment.

A product ecosystem driven by a single vision—set by a handful of firms chasing the same profit motives—is costing our state a truly diverse horizon of possibility, filled with innovations that could tackle people's real-life needs.

This memo names pro-competition solutions that will build an innovative tech ecosystem that allows all companies to compete on the merits and build products that deliver widespread social benefits. That goal will require California's leaders to have a clear vision for the future—one that is centered on improving everyday people's lives, solving intractable public problems, making public investments that can catalyze growth and innovation, and spurring a new generation of builders and dreamers.

Harms and costs: What's at stake?

The current AI industry is defined by concentration and dependence, precluding a truly diverse, innovative, and competitive ecosystem from flourishing.

Big Tech companies are exploiting their monopoly positions to further entrench power and prosperity in the hands of a few

The AI market is structured in a way that entrenches dominance in a few firms that maintain control over critical inputs and funding resources. Rather than creating broad-based economic gains, this market reality is consolidating gains among the existing winners.

- **Big Tech controls the resources necessary to enter the AI market, breeding concentration and dependence.** The largest Big Tech firms in the U.S., including Meta, Google, Microsoft, and Amazon, have used their dominant market positions to gain control over key inputs at all levels of the AI stack. These firms control access to resources (data, chips, compute, data center infrastructure, foundational models), the talent to make the most of these resources, and the ability to monetize this incredibly expensive business through their control over distribution channels and their unparalleled access to the consumer. Even where new entrants are able to enter the market, they are dependent on the resources controlled by dominant firms in order to succeed, creating an ecosystem of dependence rather than competition.
- **Big Tech firms do not just control access to inputs in the AI market: they control access to consumers.** These firms, which already benefit from outsized access to key inputs, can capture value downstream by pushing their own AI products onto customers or by controlling the platforms on which new AI technologies will roll out. For example, Google is able to push its generative AI products into existing products like Search. Microsoft is able to leverage its control over the enterprise market by pushing its AI assistant product, Copilot, across its work apps. Amazon can push generative AI products across its shopping platforms. A new entrant may find it all but impossible to compete with entrenched players who can easily integrate AI into existing products—whether customers ask for them or not.

- **Capital structures financing tech incentivize monopoly creation as a feature rather than a bug.** A major driver for consolidation in the tech industry is venture capital (VC). The VC funding system is driven by the idea of the "power law," meaning that one hugely successful company could hedge against the losses generated by the rest of a failing portfolio. To ensure one's company becomes the next multi-billion dollar unicorn, massive growth (and eventually monopoly consolidation) is the goal. This creates a market dynamic where VC companies are choosing winners and losers, rather than allowing good business ideas to compete on the merits. VC firms push startups to continue raising more money and taking on more risk, rather than settle on a sustainable model, because VC firms prove their value to institutional investors by pointing to the size of subsequent funding rounds their startups raise. In baseball terms, VC ignores potential doubles and triples in an all-out pursuit of grand slams. The incentives of VC also push hard for companies to be acquired, putting massive pressure on startups to be swallowed up and consolidated into larger companies—and thus fueling the problem of market concentration.

Corporate consolidation and lack of diversity in the capital ecosystem have led to a crisis of innovation

Lack of competitive pressure does not fuel innovation: it stalls it. The "AI race" dynamics have already stalled the publication of new technical AI research, and the lack of industry-wide competitive pressure is generating a narrow set of similar products all driving to the same result.

- **Unparalleled spending on AI infrastructure without a pathway to profitability is a road to crisis rather than innovation.** A recent report from Bain & Company estimates that $2 trillion in annual revenue will be required by 2030 to make the AI infrastructure build-out profitable. Given the need to monetize as quickly as possible in order to justify the massive investments in build-out, companies are defaulting to known, extractive business models and repackaging existing technologies. For example, OpenAI's recent decision to start placing ads on the low-cost versions of ChatGPT points to the pressure investors are putting on the AI model builders.
- **Depletion of public research creates opportunity costs for innovation and solving public problems.** Over the past decade, AI's research trajectory has been captured by corporate influence, with more and more critical AI research taking place in the research labs of private companies. Private industry has siphoned researchers from their independent academic

institutions at an alarming rate, with 70% of PhD researchers in the field taking jobs in corporate labs as opposed to 20% just two decades ago. Big tech firms are able to provide lucrative compensation packages and unrestricted access to the financial and technical resources that AI companies own and control in-house, limiting the incentives for researchers to conduct research at public institutions that lack similar benefits and resources.

- **Scaling methods adopted by private industry are extractive and resource-intensive.** The development of AI has centered around the pursuit of one hypothesis at the expense of all others: that scale is the only path to progress. As a result, all of the hyperscale model builders are pursuing AGI by consuming an ever-increasing and unsustainable amount of resources. This approach requires consuming training data without regard to ownership and natural resource extraction, which exacerbates the climate crisis. This "bigger is better" paradigm has also crowded out opportunities to pursue other hypotheses that may be less resource-intensive, or to pursue smaller, more discrete models built for specific purposes.

Concentration threatens California's fiscal and economic stability, putting everyday people at risk

The growing concentration of capital within a few firms in the AI market poses a significant risk to California's economy. In 2024, it was widely reported that a single company—Nvidia—was suspected to have played a major role in closing California's budget deficit. The gains attributed from AI firms' soaring—but unstable—valuations are masking an otherwise bleak economic picture: California is banking on personal income tax windfall while failing to fund gaps in critical access to services, such as Medicaid, impacting millions of low-income Californians' access to healthcare. In the event of a market correction, California's budget crisis could turn catastrophic.

Such a market correction would also hit the pocketbooks of everyday Californians. As our economy is increasingly concentrated in AI gains, everyday people are increasingly exposed to financial risk. Tech companies comprised over 80% of U.S. stock market gains in 2025, and stock market ownership represents nearly 30% of the net worth of American households.

The perils of tech concentration also threaten our economy's broader security and stability. This structure creates single points of failure for security breaches and devastating effects during outages, such as the July 2024 CrowdStrike

software outage that crashed over 8.5 million Windows devices, including those belonging to hospitals, airlines, banks, and government services.

Californians' future, and our state's budget, depend on our ability to build a more resilient tech economy in which opportunity, innovation, and prosperity are more widely distributed.

> **"HOW TECHNOLOGY IS USED IS ALWAYS INTERTWINED WITH THE VISION AND INTERESTS OF THOSE WHO HOLD POWER."**
>
> – Daron Acemoglu & Simon Johnson in Power and Progress

A roadmap for prosperity in the age of AI

California thrives when its people have the opportunity to turn their vision and ambition into reality. Achieving what everyday people want from technology—scientific breakthroughs, solutions for climate change, better health care, and a more affordable life—requires boldness from the state's leadership, who will take the helm at the dawn of a new age. California's elected leaders must adopt an agenda that:

- reshapes our markets towards competition and fairness,
- advances a bold vision for a publicly funded tech ecosystem, and
- reform capital markets to catalyze entrepreneurship.

Foster competition to unleash real innovation

Competition policy to build California's future

Competition policy has long played an important role in shaping California's tech economy. A series of regulatory actions against large monopolies in the 1970s-1990s—interventions at such companies as AT&T, IBM, and Microsoft—broke open the innovation ecosystem and enabled a range of new technologies to thrive. In fact, the collective actions against Microsoft's monopoly in the late 1990s created space for new players to enter into the search and browser markets, namely a small startup that was barely on the radar screen when the federal antitrust case was initially decided in 1998: Google.

Google and the slew of tech companies that were birthed in its wake would likely not have been possible without antitrust enforcement, creating a more competitive environment for internet search. Twenty years later, history is poised to repeat itself as Google, Meta, and Amazon—companies now known as tech hyperscalers—face their own set of antitrust lawsuits and investigations for dominating various markets.

Innovation thrives in competitive markets. When no single player dominates, new ideas and opportunities have room to emerge—and the economic benefits are shared beyond the hands of a few powerful companies. To harness the full potential of AI and emerging technology—both in what these tools can do and in who gets to prosper from them—California must establish brightline rules that preserve a competitive ecosystem for its businesses, workers, and consumers.

- **Update California's Cartwright Act to address single-firm conduct:** In 2022, the California legislature requested that the California Law Review Commission (CLRC) conduct a study on California's antitrust law to better understand if California's existing laws were sufficient to the challenge of ensuring competition amongst a growing set of unprecedented technology titans. After three years of extensive work, the CLRC voted in January 2026 to recommend that California's legislature modernize state antitrust law to clearly ban conduct by a single entity that restrains competition or has a harmful effect on its overall and connected markets. These changes would include holding dominant AI platforms accountable when they block competitors, self-preference their own services, or leverage power in one market to squeeze out rivals. This recommendation was supported by a wide range of consumer advocacy groups, economic justice organizations, proponents of tech start-ups such as Y-combinator, and AI safety organizations. In addition, the CLRC is slated to provide recommendations on additional antitrust issues, including mergers and acquisitions.
- **Investigate and enforce robust merger review** to scrutinize mergers, acquisitions, and partnerships, including those involving Big Tech hyperscalers. A comprehensive review of these types of deals would include restrictions or pre-merger review of Big Tech companies that enter into partnerships with AI startups—including those that may look unconventional on their face like credit arrangements where an investment includes a commitment to exclusive use of that investor's services (e.g. a $12B Microsoft's investment into OpenAI that includes "cloud credits" and exclusivity agreement to use Microsoft Azure as its cloud provider), or takes the form of acqui-hires where a company can hire competitors' talent and

bypass them as a competitor through a licensing agreement that avoids triggering a mergers and acquisitions review. Reviews should also take a look at potential conflicts of interest through cross-board representation across Big Tech firms and AI startups and dataset acquisitions that could further market concentration.

- **Pass bright-line rules to prohibit anti-competitive market behavior before it can occur.** To prevent the concentration of power in a small number of dominant technology companies from distorting the market, California must investigate potential competitive harms, including AI partnerships and investments, self-preferencing, and blocking rivals' access, and establish clear rules governing how cloud providers and AI developers treat their customers and competitors. Cloud providers should be prohibited from self-preferencing or offering more favorable terms to similarly-situated customers. They should be blocked from using data obtained through hosting customer infrastructure to develop competing products and from penalizing customers across their ecosystems for building competitive products and services. Foundation-model companies should be subject to the same self-preferencing prohibitions and additionally required to ensure their models are interoperable across cloud infrastructure providers, so that no single platform becomes an inescapable bottleneck for the businesses and developers who depend on them.
- **Build a genuinely pro-competitive economy in California using a full toolkit—not a single lever.** We must take a multi-faceted approach to encouraging competition and innovation. That means ensuring that workers, consumers, and businesses each have meaningful, accessible rights to bring complaints, raise concerns, and pursue legal action when market power is being abused. It also means robustly funding the California Department of Justice with the talent, resources, and clear mandate to pursue an affirmative competition agenda.

Build anew

Set a bold vision for public innovation

Our tech ecosystem is in need of a paradigm shift that allows for the emergence of new approaches to innovation. We are at a time when students, researchers, and entrepreneurs across California are feeling more energized than ever by the immense potential of technology to tackle our state's most pressing challenges, from revolutionizing healthcare and education to transforming our transportation systems and tackling climate change.

This prompts the question: what could AI look like if it were guided by public interest objectives and non-market imperatives, freed from private industry's dominance over the AI stack?

There is a strong appetite across civil society, government, and academia—supported by the public writ large—for public investment in the core infrastructure and research pathways that can fuel tech innovation outside of private AI companies. In 2025, California passed a law mandating the development of CalCompute, a publicly owned-and-operated cloud computing cluster to be established within the University of California system that fosters "research and innovation that benefits the public." CalCompute presents California with an opportunity to open up space and funding for alternative research trajectories and invest in technological development that is focused on solving important, public problems in ways that are not currently incentivized by the market. CalCompute's ultimate success will require leadership from the next Governor to see it through.

Now is the time for California to reclaim ownership over the direction of technological innovation in our state and ˙beyond, inspiring the next generation of big ideas and divesting California's tech future from the incentives of private firms.

- **Invest in public AI infrastructure and alternative research trajectories that** reduce dependence on Big Tech infrastructure. California should fully fund CalCompute to provide affordable AI compute resources for small businesses, researchers, and startups. The program should incentivize AI research trajectories outside the large-scale, "bigger is better" scaling paradigm, including smaller-scale models, alternative ownership structures (such as cooperative AI and data coops), federated AI, and more.
- **Launch a California "Grand Challenges" program that directs AI towards public missions**, defining a series of public benefit objectives that are set by the public, mobilizing public resources to drive technological breakthroughs that tackle the toughest challenges facing our state.
- **Place enforceable, binding conditions on all public AI investment** to hold public AI investment accountable to public-oriented goals. These include enforceable resource limits to curb the harmful environmental effects of AI and processes to ensure structurally disadvantaged groups have deliberate authority in the development of public infrastructure.

Catalyze innovation

Overhaul capital systems to enable more companies to thrive

To fund a more robust and competitive innovation ecosystem, the state can catalyze different methods of allocating capital to startups and innovators.

California already has a vehicle for public financing of infrastructure and private development in alignment with the state's values and priorities—the California Infrastructure and Economic Development Bank (IBank), which was created in 1994. As part of the American Rescue Plan in 2021, the state utilized new federal funding to establish the Expanding Venture Capital Access program within the IBank. The VC Access program, which will invest an initial $250m in VC funds and startups, presents a unique opportunity for the state to not only fund a wider range of businesses but to encourage private investors to move away from their steadfast commitment to producing "grand slam" results and instead build portfolios around doubles and triples. By doing so, California can shape capital markets to encourage investments in the kinds of businesses that are building AI to address the use cases the public desires—while at the same time creating more dynamism and sustainability in the economy.

While the VC Access Program is a promising effort, it can be leveraged to catalyze more private capital to seed a robust innovation ecosystem. California leadership can direct the IBank to:

- **Expand the VC Access Program to include later-stage companies.** Many startups with mid-sized potential have a relatively easy time finding early-stage capital, but then struggle to find investors who can provide growth capital. Elected leaders should consider increasing the capital allocated to the VC Access Program so that it can fund startups beyond their earliest stages.
- **Evangelize its success to attract private investors.** The biggest challenge with developing new modes of venture capital investing is lack of awareness among the startup community. Venture capital funds are notoriously opaque, making it hard to propagate data that demonstrates other approaches can work. The next Governor should direct GO Biz to develop partnerships that can amplify the learnings and successes of the VC Access Program in order to socialize a broader set of methodologies for investing in innovation.
    - These partnerships can and should include research partnerships that encourage private fund managers to share data with researchers who can provide wide-scale analysis into the performance of different fund structures.

- **Leverage the state's assets to fund more sustainable growth.** In addition to being a fund manager itself through the VC Access Program, the State of California is also an institutional investor in many private venture capital funds. The next Governor and legislative leadership should commission an analysis of the State's various institutional investments in venture capital and make recommendations for how California could lead institutional investors in moving capital to fund managers who take a "doubles and triples" approach to investing. While many of these institutional funds are not managed directly or indirectly by elected leaders (the funds are, for example, held in pension plans or university endowments), elected leaders can use their leadership to encourage these institutional fund managers to adjust their thinking.

The opportunity ahead

Throughout history, our government has driven technological breakthroughs by setting ambitious targets for our most pressing challenges—from the federal government's formation of the Advanced Research Projects Agency in 1958, which became the backbone of the early internet, to the National Institute of Health's sustained funding for exploratory medical research that delivered the mRNA vaccine when we needed it most. These public investments for the public good have produced some of the last century's most impactful scientific advances.

Today, the growth of artificial intelligence offers a once-in-a-generation opportunity to transform our work, economy, and society. Unfortunately, the infrastructure, research, and resources driving this change are held almost entirely in private hands with incentives aimed at maximizing profit rather than public benefit. California's major tech companies—Google, Meta, Apple, Nvidia—have grown to eye-popping valuations enabled by the infrastructure, resources, and culture provided by the state of California, from our world-class public university system to the heavily, publicly-subsidized medical device and military research facilities that line our coasts. These companies and their products exist because of the public's century-long investment in innovation, people, and technology.

If we want AI to unlock the same broad-based dynamism the internet once did, we need policy that puts society's needs first—not the balance sheets of a few tech companies.

California's next leader has a once-in-a-generation opportunity: to ensure this state isn't just remembered as where the AI companies were born, but one where we proved advancements in technology could benefit everyone. This means imagining a new and different trajectory—one that seeds opportunities broadly, rather than concentrating them into fewer and fewer hands, and that treats our public challenges as problems all Californians are both invested in and equipped to solve together. The question isn't whether AI will reshape our future; it's what kind of future do Californians want?