

Research on Platform Competition

Competition Policy and Economic Regulation

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EMERG Workshop on Digital Platforms

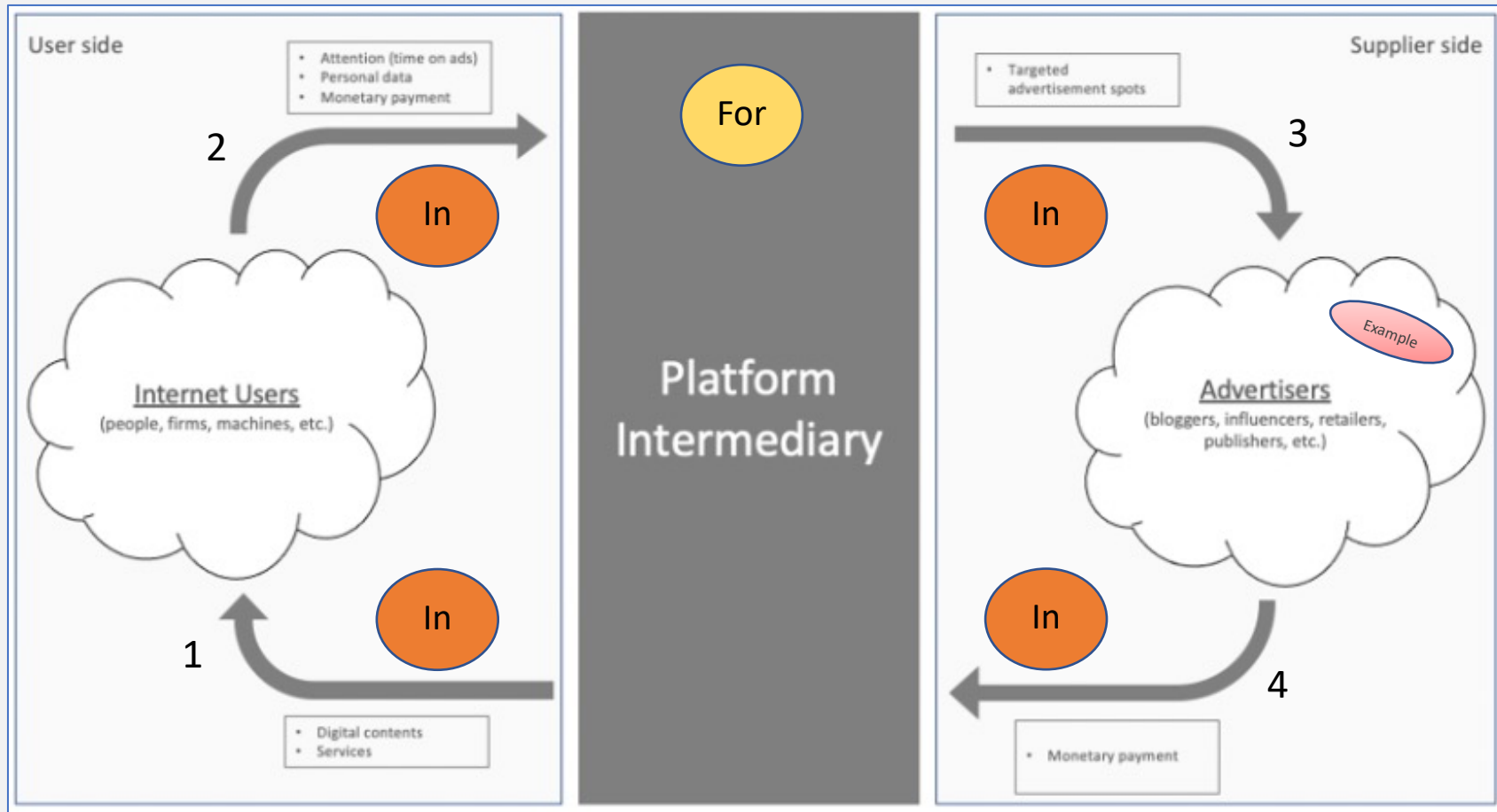
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Platform Competition

Agenda

- Competition for the platform
 - Market definition
 - Market Power
 - Impacts on innovation
 - Different alternatives

- Competition in the platform
 - Self-preferencing
 - Privacy
 - AI ethics



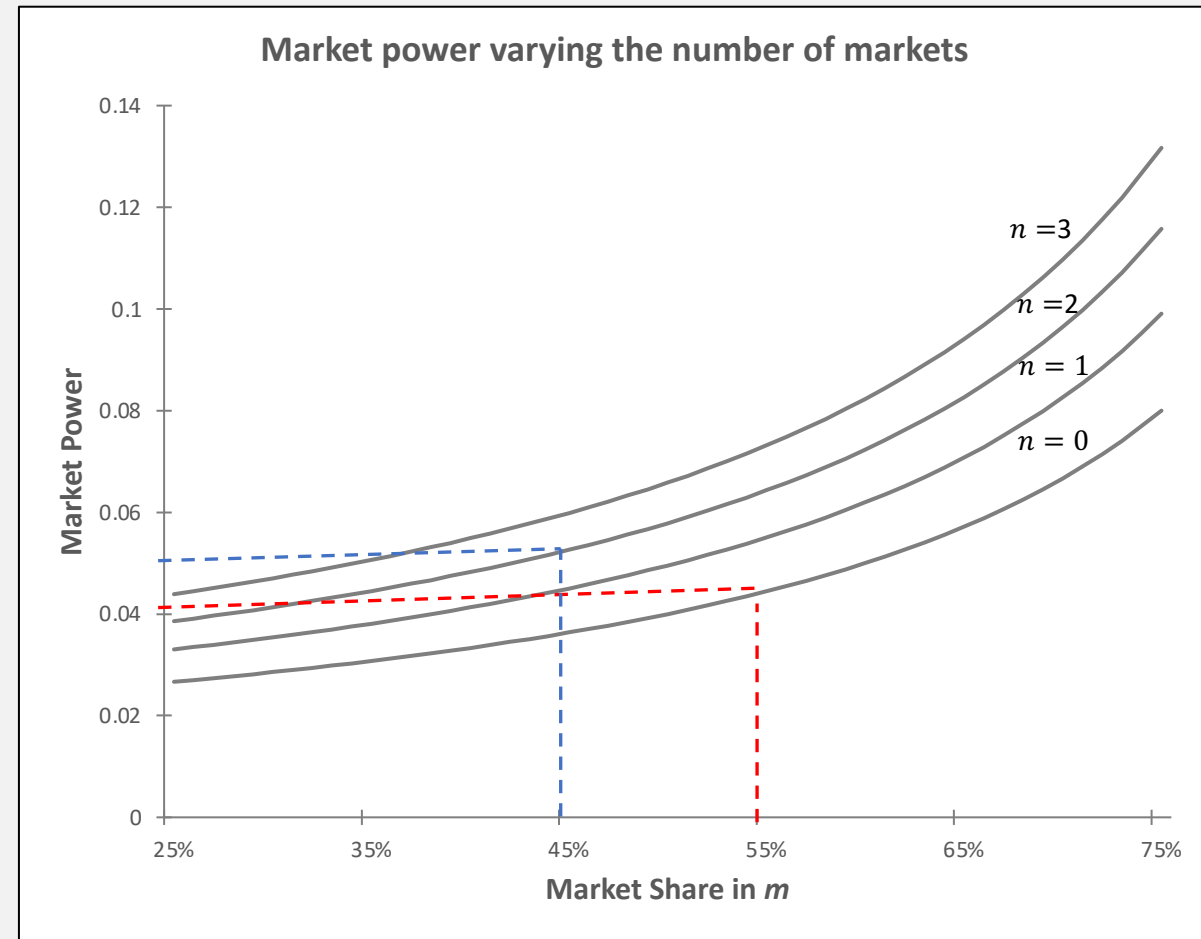
Source: Prado (2020)

Market Definition

- The operationalization of market power in the digital economy remains highly contested in the academia
- Both competition policy and economic regulation approaches rely on the traditional Significant Market Power (SMP) framework
 - Analysis is market-specific (e.g. market of search, video streaming, etc.)
 - Small Significant Non-transitory Increase in Price (SSNIP) test
- Challenges for applying the SMP framework:
 - Some platforms are present in multiple inter-related digital markets (not vertically integrated), granting them a bigger and more diverse amount of data when compared to single-market platforms
 - Platforms offer digital services that are mostly sponsored by attention (to targeted ads) and data collection (zero monetary price to end users), and retail price is not so relevant in many cases

Market Power

- Market power is a function of platform's presence across all digital markets where the platform is present
- Market-specific approaches would have limited impact in promoting competition in digital markets

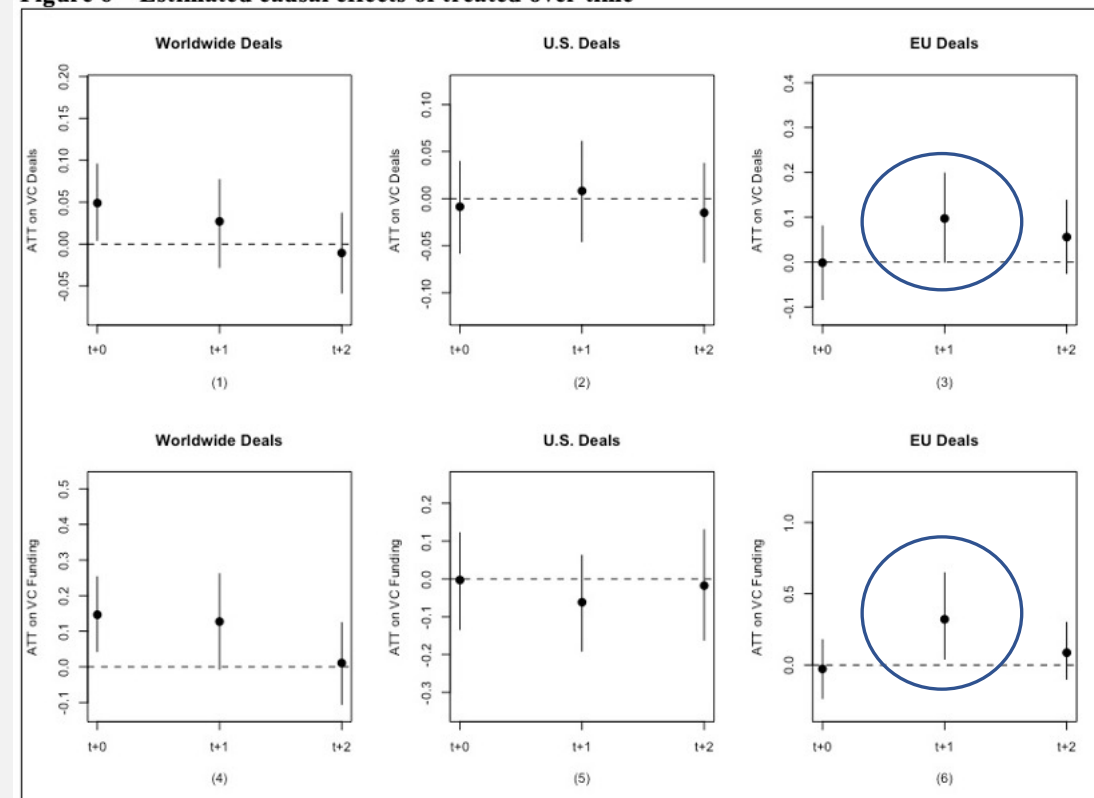


Source: Prado (2020)

Impacts on Innovation

- Numerous recent claims that big tech start-up acquisitions suppress entrepreneurship and stifle innovation (Schechter, 2018; Smith, 2018; McLeod, 2020; Waters, 2020)
 - Short-term: big tech acquisitions may discourage VC investment in early-stage start-ups that aim at the same industry segments
 - Long-term: big tech acquisitions may aim at reducing the likelihood that new competitors emerge that challenge their own business
- A contrasting position holds that big tech acquisitions have made a positive contribution to overall welfare (Byrne, 2018; Kennedy, 2020; Prado, 2021).
 - Give scale to innovations of small start-ups, resulting in bigger impact on productivity
 - Foster venture capital investment and start-up creation (entry for buyout)

Figure 6 – Estimated causal effects of treated over time



90% confidence intervals based on block-bootstrapped standard errors using 1,000 iterations. For details, see Imai, Kim, and Wang (2020, p.20).

Source: Prado and Bauer (2021)

Competition for the platform

Competition policy and regulatory alternatives

Reformed ex-post antitrust

Shapiro (2021), Scott-Morton et al. (2021)

- React to anticompetitive behaviors (e.g., data portability and interoperability standards developed by antitrust enforcers and used as remedies)
- Merger review (e.g., reversing the burden of proof in merger reviews)

Ex-post regulation

Wheeler et al. (2020), Dasgupta et al. (2020)

- Respond to complaints and misconduct
- Apply remedies on non-compliant platforms
- Managing the consequences of an inevitably concentrated market

Precautionary antitrust

Scott-Morton et al. (2019), Caffarra (2020)

- Setting antitrust measures ex-ante, to be applicable in general (e.g., banning big tech start-up acquisitions)
- Precautionary principle prevalent over potential risks to innovation

Ex-ante regulation

Engels (2016), Kramer (2020)

- Impose safeguards to remedy anticipated harms to innovation and gain immediate consumer welfare (e.g., data portability and interoperability)
- Specialized regulatory entity

Self-regulation

Cusumano et al. (2021)

- Instead of gov inventing new rules, it may offer credible threats, that would make platforms embark in private coalitions of self-regulation

Main Takeaways from Research

- Concentration in digital markets is viewed by some as an intrinsic characteristic of many digital markets, as direct and indirect network effects and economies of scale and scope are what generates value and welfare to consumers
- “One size fits all” approaches toward platform regulation/antitrust may not be the best alternative. While competition in the platform should be fostered by every country, the same is not necessarily true for competition for the platform
 - Platforms have contributed a lot to productivity gains, benefiting consumers and small companies
 - The innovation ecosystem and consumer market of most countries offer limited conditions of generating big digital techs (scale, data, engineers, venture investment, etc.)
- Multi-market platforms can leverage their dominant position across markets, what makes the impact of adopting pro-competitive remedies in a single market very limited to promote competition for the incumbent platforms
- Potential harms of platforms to innovation are yet to be proven with robust empirical data.

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Thank you!

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