

Towards a new theory of harm? Some thoughts from two-sidedness to digital data

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Plan of the talk

- **Two features of the digital economy:**
 - increased role of two-sidedness
 - increased ability to gather and process information

(note: close relationship with indirect and direct network effects)
- **Do we need a new theory of harm?**
- **I will answer with regard to the two features above**

Digital markets as two-sided markets

A market where firms act as platforms and sell two different products to two different groups of buyers

taking into account that demand from one group of buyers depends on demand from the other group of buyers (so that these are not externalities for the firm)

while buyers of the two groups do not take this indirect network effects into account (so that these are in fact externalities for buyers)

An old type of market:

e.g. newspapers, radio, TV

But much more common in the digital economy:

e.g. Gmail, Google search, Google maps

In fact, from two-sided to multi-sided...

Digital markets as two-sided markets

The theory of two-sided markets explains, among other things, why many products are given (and will always be given) away for free

This fact is crucial in discussing (many) digital markets

More generally, the theory of two-sided markets questioned traditional methods used in competition policy

Where is the harm if there is no price (rise) for consumers?

There are two-sides and the other side may be harmed.

But

“the two sides are interconnected and this should be taken into account by policy makers”

This is the main message of the two-sided markets literature

Digital markets as two-sided markets

At least for market definition, assessment of dominance and mergers assessment the literature has already provided new instruments to policy makers

The lag in picking them up is mainly due to the perceived legal necessity to be consistent with previous decisions.

There remained the issue of how to weight harm and benefits on the two-sides of the market

This seems to have been settled (in the EU) by the ECJ ruling on Mastercard: the strict option of not allowing a trade off of consumers surplus was chosen

It is an interesting question whether the answer would have been the same if the case had concerned a different market than the payment cards market

On collusion, the practical contribution of the theory to policy making has more limited: in part because of the per se prohibition of price-fixing (and the fact that cases in which it is beneficial because of two-sidedness are probably rare), in part because the analysis of the role of two-sidedness on the incentives to collude is technically difficult

Digital markets as two-sided marketsa

On the abuse of dominant position, the literature, by showing that two-sided markets are different from traditional one-sided markets, has highlighted new trade-offs and has pushed towards a revision of some rules (e.g. Areeda-Turner)

There is still some room here on providing guidance to policy makers on how to deal with specific types of behaviour, but the general message is there

All in all, competition policy (as in Motta(2004) can survive two-sidedness by simply accounting correctly for the business model)

It simply needs to recognize that one, having acquired new knowledge, cannot have the aim to be consistent with decisions taken under ignorance (of the business model)

From two-sidedness to the role of data

But why are there more and more two-sided markets?

Mainly because it is easier to collect information

How could you collect (and process) the sort of info that Google search or Facebook collect (and process) if there were no digital technologies?

Data allow to offer better products one or both sides

It enhances the scope for two-sidedness

Looking ahead a question for the (near) future is:

Will the smart-home adoption go along with advertising financing?

Data

But data can be used also

to design new products

and

to provide better products in markets different from the one they derive from (e.g. from Google search to Google maps to Google car, see Pruefer)

The recognition of this raises different issues for competition policy than those raised by two-sidedness alone.

Data

A market definition based on demand side substitutability between existing products may be unable to assess the competitive constraints faced by firms.

The concept of potential entry would be better suited to take this into account

Mergers among independent products may be as harmful as mergers among competing products as they can be pre-emptive mergers aimed at avoiding potential entry

Similarly horizontal agreements among firms active in different markets may be as harmful as those among competitors as they may be a way to keep markets separate also in the future

Data

Tackling these sort of issues requires competition policy to deal with the concept of potential entry or competition much more thoroughly than done so far.

Crucial is the ability to understand the business model and predict its possible developments.

Again, as for two-sidedness, knowledge of the markets becomes much more important than per se rules.

A competition authority may recognize the issue but will not probably feel at ease in making predictions about the future: “what if we write that something will happen and then it doesn’t?”

An early example of this problem was the Google / DoubleClick merger. The dissenting opinion of Judge Pamela Jones Harbour in the US is an early illuminating piece to this regard.

Two-sidedness and data (a comment to Prufer)

But the issues raised by data get even thornier when coupled with two-sidedness

For instance, if Google uses search data to provide Google maps that, being of higher quality, by selling at zero price displace the traditional map producers

two-sidedness explains that the zero price can be pure profit maximization rather than an attempt to predate

then... where is the harm?

There cannot be any harm (allocative inefficiency) to map consumers

But there may be harm (dynamic inefficiency) to search (or map) users if such a move lowers the incentives to innovate the algorithm in the search market (or to develop future innovation for the map market).

Again assessing this potential source of harm would require assessing the likelihood of potential future innovations

Conclusions

The digital economy is asking competition policy to switch focus towards the business model.

In particular, the spreading of two-sidedness is succeeding in pushing competition authorities to consider all interrelated sides of the business into account.

The increasing role played by data is instead pushing towards accounting for the predictable developments in the market

Providing a framework to allow the predictable future to play a role in the decisions seems the way to proceed.