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Attitudes and drivers towards Big Tech

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Mededingingscongress

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| | Neo Structuralism | Consumer Welfarism |
|----------------------------------|---|---|
| Issue | Bigness | Substantial market power |
| Concern | Political (small business) and economic | Economic |
| Normative foundations | Distributism | Neo classical econ + price theory (Chicago and post Chicago) |
| Source | L. Brandeis, B. Lynn, L. Kahn, T. Wu | A. Marshall, J. Tinbergen, B. Bork, H. Hovenkamp, C. Shapiro |
| Target => organization | Big tech, Big A ... Z | Indeterminate |
| Target => conduct | Predatory pricing, leveraging, killer mergers, gatekeeping, capture | Exclusion, no exploitation |
| Reform | Consumer welfare , breakups, “no fault” and public utilities regulation, M&A ban | Quality adjustments |
| Method | <ul style="list-style-type: none"> • Press, narrative based • Big cases • Congressional reform | <ul style="list-style-type: none"> • Scientific, evidence based • Courts |
| Limitations | <ul style="list-style-type: none"> • Low operationalization • “Spotty” history • US issue | <ul style="list-style-type: none"> • Simplistic assumptions • Tech firms w/o markets or w/o competitors |
| Prospects | Lower in US, higher in Europe | |



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Moligopoly?

- Hypothesis
- Test
- Data and observable indicators
 - 10K
 - Market research
- Model

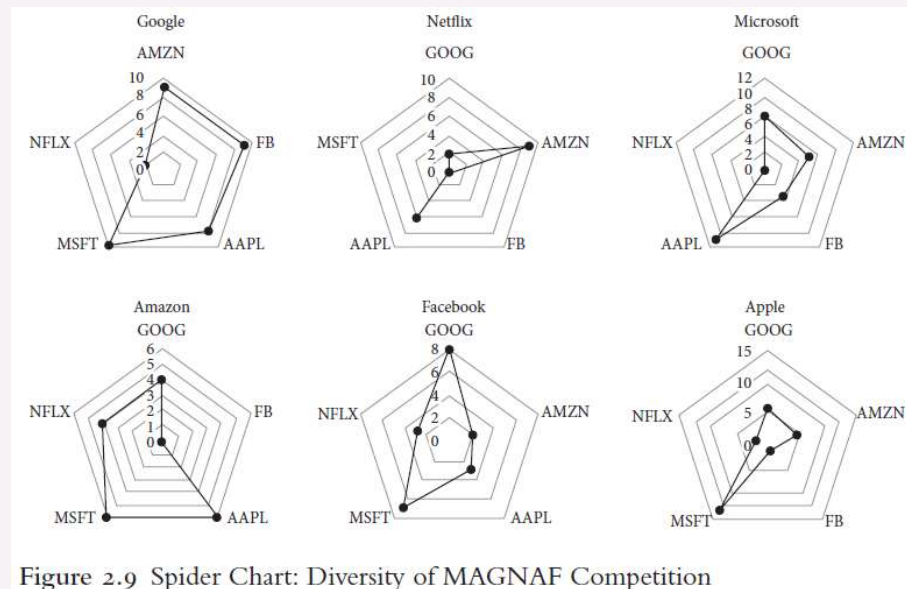


Figure 2.9 Spider Chart: Diversity of MAGNAF Competition



Game

- Monopoly and oligopoly
- Dynamic
- Finite
- Cheating
- Indirect entry

Features

- Diversification
- Discontinuity
- Long termism
- Growth
- Exploration
- Flexibility



Policy implications: tipped v untipped markets

- Priority on **tipped markets**
 - Focus on pressuring naked monopoly rents
 - Constraint: Avoid losing efficiency of large market shares
- Agnosticism toward conduct or transaction by both incumbent and new firms in **untipped markets** (aka **tipping markets**)



Conduct: enabling enforcement w/ multisided markets theory

- Reduce share of output on which monopoly firm takes rent
- Change price structure (not level)
- Allow users on money (inelastic) side to **bypass** tipped platform, and assess conduct under rule of reason (*eg*, Fair app alliance)
- Limit **transfers** to users on subsidy side (elastic), and assess conduct w/ more presumptive rules (*eg*, data property, price discrimination btw user categories)



Compare w/ EC policy options

| | EC (NCT) | Book |
|---------------------|--|---|
| Institutions | Procedural-institutional (CMA like) | Substantive |
| Target | “Tipping markets”, “tipping” risk (tipping is potential) | Tipped markets (tipping <i>has</i> occurred) |
| Timing | Incipiency (bf <i>ex ante</i>) | <i>ex post</i> |
| Philosophy | Regulated competition (agency) as a discovery process | Market competition (firms) as a discovery process |



Tipped markets?

- One firm has “*emerged as winner*” in a market where there is “*strong positive feedback*” (Varian & Shapiro)
- Durable & non transitory (Shelanski)
- “*inertia*” (Bresnahan and Pai-Ling Yin)
- “*important feature of a tipped market is ... very little incentives ...to further invest in innovation*” (Prüfer and Scotchmüller, 2017)

Ex post findings

- Xerox
- VHS
- MS Office
- Windows OS of PC
- IE
- Linux for Web Server OS

Question marks

- Uber (in European markets)?

Emerging cases

- *EPIC (& Spotify) v Apple*



Tests

- R&D data, **broken down** by product /application/segment
- Product and process innovation track record and pipeline
- Marketing expenditure **broken down** by product/application segment
- **Hiring** expenditure broken down by product/application/segment (much R&D in digital is labor costs)
- Intra firm **divisional competition** (Teams v Skype)

Advantages

- Avoids pitfall of market definition, and proceed to administer remedies on various sides
- Good enough market definition => avoid *Amex* type rhetorical discussions



App Store

- Part of Digital Content & Services

| | <u>2017</u> | <u>Change</u> | <u>2016</u> | <u>Change</u> | <u>2015</u> |
|-------------|-------------|---------------|-------------|---------------|-------------|
| Rev | 29,980 | 23% | \$ 24,348 | 22% | \$ 19,909 |
| % net sales | 13% | | 11% | | 9% |

- App store Commission would be about 20 to 30% (Ben Evans)



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Forthcoming book

- *Big Tech & the Digital Economy*, OUP 2020

- 8 October 2020

- Use the promotional code ALAUTHC4 at checkout on the [OUP website](#) and receive a 30% discount

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