

‘We do what you promise
so why do you hate us so much?’

Understanding Europe’s Hostility Towards Modern Platform Businesses

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Outline

- EU hostilities against modern online platforms
- EU policy priorities for the Single Market
- ‘False Internationalism’: bottom-up vs. top-down integration
- ‘Cultural Appropriation’ and the EU’s legitimacy crisis
- Implications for innovation and economic convergence in the EU

Why are we here?

Will Weber take a hammer to Facebook's social media monopoly?

EU orders tech giants to step up war on fake news

TRAVEL • REGULATION

The EU Would Very Much Like Airbnb to Know That the Rules Are Different in Europe

Uber ride-sharing ban in France backed by EU's top court

'Member States may prohibit and punish, as a matter of criminal law, the illegal exercise of transport activities,' without referring decisions to Brussels, rules European Court of Justice

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EU Is Fighting the Last War Against Google

Regulators can't turn back the clock on smartphones.

EU opens investigation into Amazon use of data about merchants

Commission looking into group's dual role as competitor and host to third parties

Euractiv: 'The EU can win the war on technology'

Do we see a fully-fledged, i.e. organised, 'Tech War' in the EU?

- No, but several very diverse political concerns
- And highly diverse vested interests in business, politics and governmental authorities
- The big common denominator: appetite for new regulation

Determinants of EU hostilities towards modern online platforms

Manifested 'political concerns'

- Data privacy
- Fake news and the prerogative of political agenda setting (EU elections)
- Taxation (EU budgetary concerns)
- 'Digital dividend' for national governments
- Competition and industrial policy
- American 'digital hegemony'
- Chinese 'digital hegemony'?

Widespread 'vested interests'

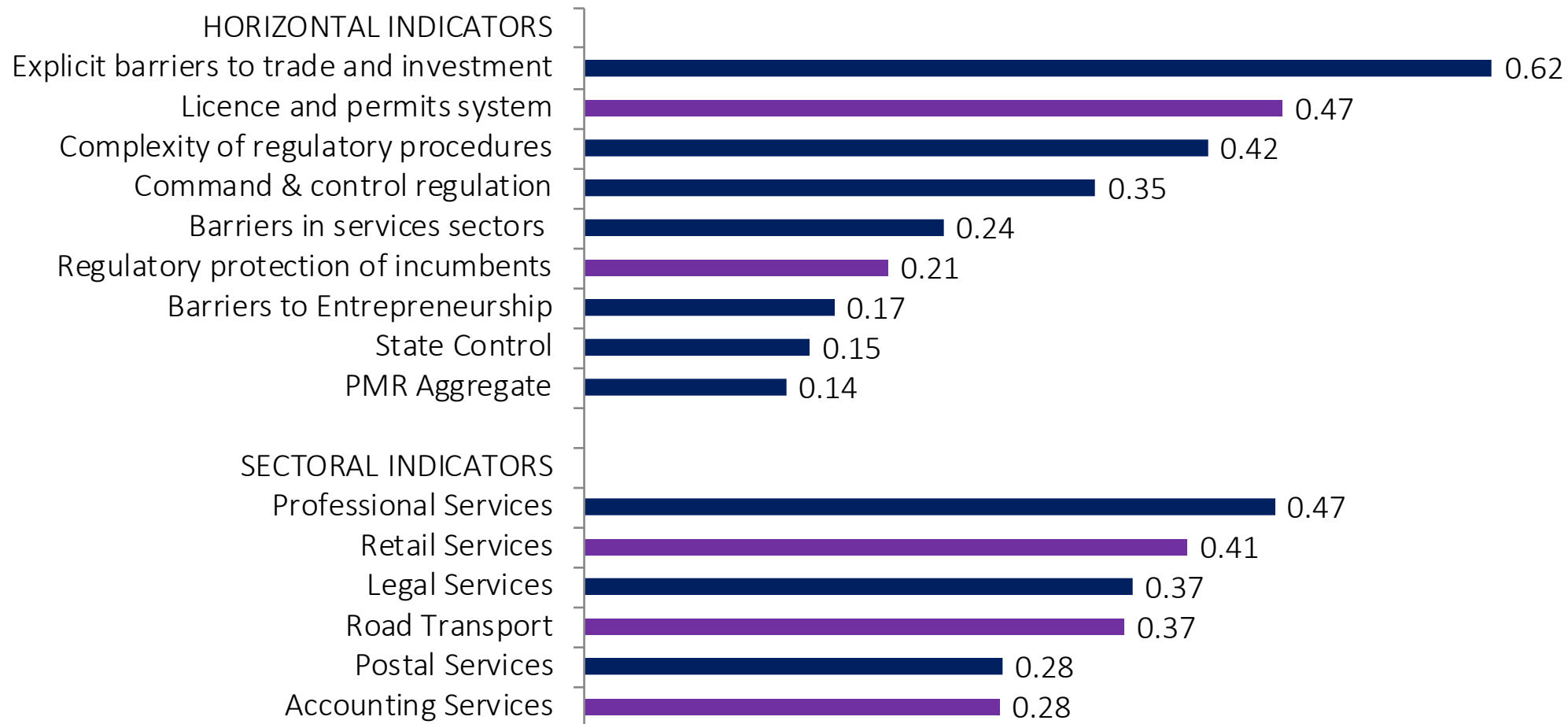
- Traditional political agenda setters
- Political parties
- Ministries
- Regulatory authorities
- Legal advisors
- Labour unions and civil society groups
- Non- or less digital corporations, e.g. stationary retail, accommodation and transport services

EU policy priorities for the Single Market

- **Digital Single Market:** ‘better access for consumers and business to online goods and services across Europe’
- **Competition policy:** ‘designed to ensure fair and equal conditions for businesses, while leaving space for **innovation, unified standards, and the development of small businesses**’
- **EU Trade Policy:** ‘European businesses, particularly SMEs, more competitive’ and to encourage ‘**Trade for All**’
- **Lisbon Treaty:** European Union ‘shall work for [...] a **highly competitive** social market economy’ and ‘promote **scientific and technological advance.**’ (Article 3 TFEU)



Regulatory heterogeneity: the disease of the Single Market



Source: OECD. Indicators of Product Market Regulation, 2013. Own calculations. Numbers represent calculated variation coefficients based on national regulatory restrictiveness indices in 2013. Countries in sample: Sweden, Finland, Belgium, Netherlands, United Kingdom, Germany, Italy, Austria, France, Spain.

Online platforms' contribute to 'more perfect' competition

Positive network effects of multi-sided online platforms

Usage externality:
citizens' value from mutual beneficial exchange/interaction

Membership externality:
the more members a platform has, the greater the value for the individual members

Behavioural externality:
need for platforms to be good governors to succeed

Positive impact on competition by moving markets closer to perfect competition

More perfect competition:
increase of sellers and buyers in interacting a market

Less barriers to entry:
national and legal borders less relevant, no need for "brick and mortar stores"

Greater factor mobility:
facilitation of movement of persons, knowledge and capital; land and rented real estate becoming less relevant business

More perfect information:
about content, prices, utilities, qualities, production methods

Significantly lower transaction costs:
small number of efficient platforms compared to a large number of inefficient middlemen and market-dominant companies

But there's a political rent-seeking society

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The rent-seeking society in government and business

Businesses and governmental institutions, which in the past have succeeded with traditional business and regulatory models, seek for new regulations that undermine marketplace competition through the erosion online platforms' network effects.

Network externalities and online platforms' contribution to 'more perfect' competition

Network externality and related EU economic policy priorities	Major online platforms' contribution to stated priorities in EU economic policymaking			
	<i>AirBnb</i>	<i>Amazon</i>	<i>Google</i>	<i>Uber</i>
<p>Competition and competitiveness:</p> <ul style="list-style-type: none"> - 'Highly competitive social market economy' (Lisbon Treaty) - "More competitive economy" (Europe 2020 Strategy) - 'Strengthen Europe's competitiveness and to stimulate investment for the purpose of job creation' (Political Guidelines for the European Commission) 	<ul style="list-style-type: none"> - Allows guests to benefit from greater choice and lower prices - Increased competition in the accommodation industry and pressure on prices: peer hosts are responsive to market conditions, expand supply as hotels fill up, and keep hotel prices down as a result (see, e.g., Farronato & Fradkin 2018) 	<ul style="list-style-type: none"> - Help European firms, particularly SMEs, to overcome legal and cultural barriers by making it easier to enter a market and reach consumers (see, e.g., Copenhagen Economics 2015) - Contributes to rearranging value chains and enabling new forms of competition in goods and services markets 	<ul style="list-style-type: none"> - Increases search-enabled comparisons in goods and services markets - Increases search-enabled price transparency - Increases price and quality competition and reduces prices in the markets for content, goods and services 	<ul style="list-style-type: none"> - Increases competition in taxi and transportation services markets - Lower prices - Better quality of services, e.g. traceability or routes, security, driver accountability - Empowerment of consumers, who are left with greater freedom of choice



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<p>Barriers to entry in (foreign EU) markets:</p> <ul style="list-style-type: none"> - 'To achieve a simplified business environment' (Single Market Acquis) - 'Promoting equivalence, mutual recognition and convergence on key regulatory issues' (Europe 2020 Strategy) - 'Promotion of internationalisation of EU SMEs' (Europe 2020 Strategy) 	<ul style="list-style-type: none"> - Significant reduction of entry barriers: allows individual homeowners to easily access > 300 million guests (AirBnb 2018) - 50% of hosts in France are moderate- to-low income (see AirBnb 2016) - 42% of AirBnb guests spending is in the neighbourhoods where they stayed (usually SMEs; see AirBnb 2016) 	<ul style="list-style-type: none"> - Among new sellers on all marketplaces that Amazon has worldwide, 36.3 percent registered on Amazon in the United Kingdom, Germany, Italy, France or Spain (ENe 2017) - 363,000 new sellers joined Amazon in Europe - Enables third party sellers, small and large, to market goods and services to consumers around the globe at low costs (ENe 2017) 	<ul style="list-style-type: none"> - Helps corporate customers to significantly increase visibility among potential customers, particularly SMEs with limited budgets for advertisement - Facilitates matches between suppliers and consumers of content, goods and services 	<ul style="list-style-type: none"> - Lower barriers to entry for people willing to offer taxi ride and transportation services - Lower prices and greater levels of trust encourage consumers to choose Uber services



The 'Bypassing Rent-seeking' externality

- Rent-seeking activities have for a long time preserved anti-competitive market structures and patterns in profits and earnings (see, e.g., OECD 2018).
- Rent-seeking is most common when companies and/or public institutions aim to defend existing businesses or regulatory models and have sufficient economic or political influence to do so.
- Besides the recognised network externalities, online platforms have an additional quality that is critically important for the EU's Single Market and economic integration in Europe: they help consumers to bypass markets characterised by 'rent-seeking' regulation.

The 'Bypassing Rent-seeking' externality

- The platform economy creates **brand-new opportunities for consumers and businesses** to engage in **formerly non-existent or inaccessible** markets.
- E.g. markets characterised by **country-specific** tax laws, complex labour market and wage regulations, transportation and shipping regulations, retail regulations, national contract law, and consumer protection laws.
- Platforms tend to create **markets that function better** (by creating more perfect competition).
- In other words: they allow platform users to **1) bypass the commerce-prohibitive effects** of regulations and also drive **2) better frameworks for internationalism in the EU.**

A natural response to 'False Internationalism'

- Platforms can be viewed as a natural (bottom-up) response to what Wilhelm Röpke (1899–1966) called 'False Internationalism'.
- For Röpke, internationalism couldn't be created from above – by political instruction.
- Economic internationalism commonly 'springs from more dubious motives, such as faulty thinking, inability to comprehend the problems, or, what is worse, the aversion to tackling the real tasks involved in a radical reform of society, and finally the endeavour to meet the desire of the peoples for smoothly-functioning international interrelations by means of sham solutions on the principle of *ut aliquid fieri videatur*' – i.e. doing something for the sake of appearing that action is being taken.

False Internationalism and Cultural Appropriation

- Cultural appropriation: ‘the adoption of elements of a minority culture by members of the dominant culture.’



Cultural Appropriation and the EU's legitimacy crisis

- Through a **bottom-up trial-and-error process**, online platforms **culturally appropriate** customs and practices of governments and regulatory authorities in regulating markets and commercial behaviour.
- **Platforms' practices** are often **'unacknowledged'** (e.g. self-regulation in ride-sharing services) by policymakers or considered **'inappropriate'** (free access to social media platforms or mobile device operating systems).
- At the same time, it is a **bottom-up response to roots and symptoms of the EU's legitimacy crisis**, particularly the inability to create a true Single European Market for goods and services.

False Internationalism and Cultural Appropriation

- Tom Goodwin (TechCrunch, 2015) argued that Amazon, Facebook, Google, Baidu, Tencent, Alibaba, Uber, Twitter and co have nothing but a critical mass of **buyers and sellers, content producers and content consumers, drivers and passengers** that are connected through their platforms.
- Chris Skinner (2018) argued that ‘Uber, the world’s largest taxi company, owns **no vehicles**. Facebook, the world’s most popular media owner, creates **no content**. Alibaba, the most valuable retailer, has [i.e. owns] **no inventory**. And Airbnb, the world’s largest accommodation provider, owns **no real estate**. Something interesting is happening.’

False Internationalism and Cultural Appropriation

–Jack Ma (2018), the executive chairman of Alibaba Group, said that online platforms operate more as governors rather than managers of a company:

‘At Alibaba we treat it more **like governing an economy**, as we have to manage **so many companies dependent upon us as partners**. By 2036 we will have built an economy that can **support** 100 million businesses for billions of users. We won’t own that economy. We will **just govern it.**’

Digital hegemony captured for 2010



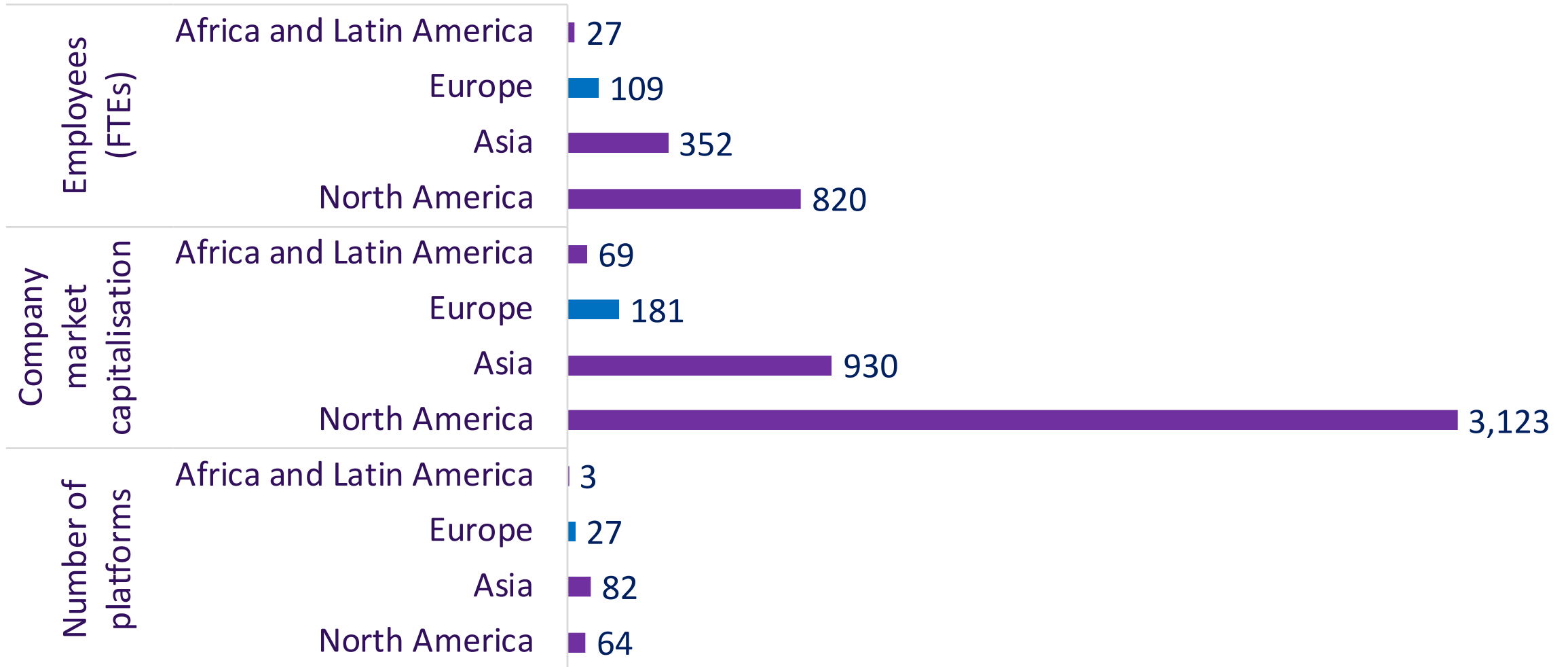
Note: Country size represents share of global e-commerce sales; leader based on web traffic where market share not available; includes subsidiaries (e.g. Gmarket under eBay in Korea)Source: Euromonitor, Alexa, Internet Archive, BCG Henderon Institute analysis.

Digital hegemony captured for 2016



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Online platform companies by region, absolute numbers, 2016



Source: Center for Global Enterprise (2016). FTE = full time equivalents.



Implications for innovation and economic convergence in the EU

- 18 of the Top 20 tech companies are headquartered in the Western US and Eastern China
- Can ‘anywhere else’ catch up?
- Platforms operating on online search, e-commerce and social media have a solid competitive edge
- But: revolutionary business models continue to spark widespread disruption in other industries, e.g. automotive, financial services, healthcare, and retail
- What are the right policies for Europe allowing Europeans to gain from this development?

Implications for innovation and economic convergence in the EU

- **Special taxes** on digital services (digital services tax) or **requirements to change/revert business model** -> strong warning signals to innovators and investors – start-ups and incumbent companies, e.g. in IoT industries
- **‘Unsolicited’ probes** -> may increase peer pressure, but bold and controversial legal actions feedback on the **perception of legal certainty and trust in the EU** as a whole, i.e. strong warning signals to innovators and investors
- Keep in mind: **wealth and innovation does not stay in the ‘creation-region’**, i.e. the economic benefit of any new technology and market innovation comes much more from the actual use of new goods and services, not from their creation (in Silicon Valley or Hangzhou).

Thank you for your attention.

