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After the DMA, the DSA and the New AI regulation: Mapping the Economic Consequences of and Responses to New Digital Regulations in Europe

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Brussels, Belgium, 28th April 2022 - This study takes stock of the new incoming regulations and reviews their effect on EU member states' economies. More precisely, the paper considers how different countries in Europe will be affected by the regulations and how they should balance these effects with policies that help the economy to prosper.

The European Union (EU) has pursued an ambitious agenda for regulating the digital economy, and it is now planning to establish a new package of regulations, including the Digital Markets Act (DMA), the Digital Services Act (DSA), and a new regulation of Artificial Intelligence (AI). These regulations build on an already established structure of digital and business regulations in Europe that is comparatively restrictive, but that varies substantially between EU member states.

The European Commission's economic analyses and impact assessments of the new regulations are thin. In fact, they are grossly inadequate for the purpose at hand: to better understand how the economy will change because of these regulations. The Commission identifies some benefits – for instance, positive competition outcomes from reduced network effects and more trust in AI-based goods and services. However, these regulations will also lead to new costs and have broader consequences for firms and resource allocation in the economy.

This paper argues that two factors are essential for grasping the distributive patterns of costs from digital regulations. First, the industry structure of a country is key. Countries have different endowment structures in the economy, and the modern European economy is defined by factor endowments such as data and digital competencies. Firms and organisations exploit these factor

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endowments in the economy that use them to create different comparative advantages. In turn, these advantages influence how a firm and a country market, sell and trade. Second, the existing structure of a country's business and digital regulations will influence how an economy will respond to new and additional digital regulations. In fact, the restrictiveness of regulations that we know to impact the digital economy varies substantially in the European Union – both between countries and between sectors. This variation will have consequences for the distribution of the costs of the three new regulations that are going to be implemented.

European policymakers must now consider how to avoid these new digital regulations continuously reinforcing size advantages for big economies and big firms. There are some policy strategies that should be considered:

- Regulations can be changed to fit better the overwhelming evidence that young, dynamic, and innovative firms drive a substantial part of productivity growth in the economy.
- EU and national policymakers can pursue policies that make the transition into a more size-balanced economy easier, for instance, by taxing and regulating small firms differently. Smaller economies can also be helped by having lower corporate taxes than big ones.
- EU and national policymakers can reform other digital and business regulations and make them less burdensome.
- The EU can help support the build-up of digital advantages in smaller economies.

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