

The capitalism of the means of connection (07.10.2016)

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The growth of digital platforms poses new challenges to regulatory authorities. The EU is taking the first steps, launching some guidelines on accessibility, consumer protection and transparency. And also Italy is getting ready to discuss a draft law on this topic. The competition on-line.

The autumn of platforms

If Karl Marx came back to life to rewrite “*Capital*”, he could substitute “means of production” with “means of connection”.

Two stories are making the autumn 2016 interesting for the regulation of the so called *sharing economy* (that should be better defined as the *sleeping assets economy*). The first one is related to the Italian Parliament that launched, before the [European Guidelines](#), a [draft law](#) to be discussed in the coming weeks.

In the current draft, two new elements are emerging: a light regulation to new platforms and a fiscal distinction between users who earn just enough to supplement their income and those who earn a true income (above 10,000 euros). The second novelty is the steady advance of the [general reform of the digital market](#) in the EU, made tastier from the arm wrestling between Europe and US web giants such as Alphabet, Facebook and Apple, targeted not only by tax investigations but also antitrust and privacy probes.

So as to convince yourself that some form of regulation of this sector is useful, it is enough to consider that the loss of a user for a digital platform is as bad as it was for an ancient Roman longship to lose a rower: it means doing without a production unit. It was used to be easy to unsubscribe from (physical) platforms: it was enough to simply not renew your club membership or to stop a subscription of a magazine.

On-line privacy is a real issue now, thus the [deliberate use of ambiguous, confusing, or misleading information to interfere with data collection](#) is spreading on the Internet against the overwhelming power of digital platforms.

In the media sector, trickier seems to be the battle of online newspapers and magazines aimed at [seeking compensation](#) from search platforms (such as Google) that respond to search requests by aggregating content snippets and headers from many sources (whose greater part is usually not even clicked).

Intermediaries and network effect

Web platforms (only [27 out of 186](#) are based in Europe) are virtual places that act as match makers, smartly enabling two or more parties to meet. They usually make money through user's fees or, more frequently, monetizing user data thanks to their intermediary role.

The expansion of smartphones, whose online traffic accounts for more than half of the total, accelerated the widespread generation of platforms and also both the fight over user acquisition and the reduction of transaction costs: acquiring a Chrome user or a Google Play user is not effortless, unless the user finds the two apps well nailed on the screen (and undeletable).

The network effect on platforms such as Uber, AirBnb, TaskRabbit, Blablacar is really powerful: the more people sit on one side of the table, the greater the desire of other people to sit on the opposite side. When mutual reviewing systems are present (e.g. the buyer reviews the seller and vice versa) the platforms build network trust, increasing the economic value of the platform itself.

The intelligence of match making is based on the huge amount of personal data extracted at no cost from users sat at both sides of the table. The absence of platform entrance fees does not mean that the service is free from a microeconomic point of view, even if it seems so from a commercial or accounting point of view. Platforms as such [can not be categorized neither sharing nor collaborative economy](#). Amazon for instance, owns information about the reading preferences of millions of people and benefits from it.

User data, competition and regulation

The exclusive access to multiple sources of user data can provide an unmatched competitive advantage, but it does not necessarily mean that this advantage is unfair and classifiable as abuse. Antitrust authorities nevertheless are expected to take into account privacy degradation.

The position assumed against regulators is based on the assumption that the potential lack of competition in the market seems to be largely compensated by the competition for the market. However this argument is a little flawed if we consider the most recent acquisitions of small fish - potential competitors such as Skype, Whatsapp, Instagram, LinkedIn – by big fish (Microsoft, Alphabet, Facebook) with tens of billions of dollars.

EU Guidelines (accessibility, consumer protection, transparency) are an useful reference, but they seem to be too general: the EC should have started a process to draft a directive. The Italian draft law should make it easier for new entrants, somehow following the suggestions of the Antitrust Authority, making the competition for the market smoother and reducing the problems related to dominant position. In the same time, formal fulfillments to protect privacy (contracts, authorizations, informed consent forms) should be made lighter and consumer power made stronger.

Regulators work in very dynamic contexts where continuous change is normal. For regulation theory, used to water infrastructures and power systems, digital platforms are a brand-new challenge.

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