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PLATFORM-DEPENDENT ENTREPRENEURS AND PRIVATE REGULATORS IN THE PLATFORM ECONOMY

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Digital platforms have altered our lives. The conundrum of a platform-organized world is balancing the dramatic benefits they generate and the significant problems they create. Consider the benefits: instant information from Google; prompt access to rides through Uber and others; new ways of connecting with our friends and business colleagues; retail goods and food delivered to your home; and so much more. Google offers inexpensive services, as do Amazon Facebook, eBay, and Etsy. It is important not to understate the benefits of platforms, such as the ability to immediately find information, to connect seamlessly to billions of people, to make purchases from anywhere, and to do so many other things. And yet, there are many economic, business, and policy challenges that come with the platforms.

But these platforms that are organizing ever greater parts of social and economic life are creating problems and dilemmas. There are controversies and policy debates, from privacy and the question of how workers should be treated, to the core question of market and social power that turns on platforms operating as private regulators. Concerns have been voiced about new forms of work and work arrangements that are generating disputes about social policy and labor markets.

For both entrepreneurs and existing businesses, participation on platforms is increasingly mandatory and often not even a choice – for example, Google Search finds one's website and lists it on its search engine. Even as platforms integrate firms and, indeed, all organizations into their logic, they also offer remarkable business opportunities. They connect businesses to customers they could not otherwise reach and provide a variety of tools enabling an entrepreneur to easily offer goods or services on the platform. And yet, this access creates a powerful dependence upon the platform owner.

Private regulators?

The platform owner is rule maker, regulator, and police, even as they are for-profit firms driven to increase their profits. In other words, they have government-like powers, but are judged by their owners entirely upon how much profit they make, and by a stock market that stridently demands that they increase profits. Increasingly, any consumer-facing firm, even powerful ones, must be present on the platform and thus accept its rules and choices. It is not just the dominant major platforms such as Amazon, Facebook, Google, and Microsoft, and their Chinese equivalents like Tencent and Alibaba, but also the numerous smaller platforms in various verticals, such as Yelp, Booking.com, and Spotify that make the rules in their market segments.

The sheer scope and continuously growing importance of platform firms has significance beyond the resemblance to struggles over shelf space at or private brands of Tesco, Safeway or Walmart. Consider the reach of these platform firms: in 2019, more than a million U.S.-based small- and medium-sized businesses operate on the Amazon Marketplace. Approximately 45% of all US online sales go through Amazon. In China, a retailer that does not accept Alipay and WeChat Pay is irrelevant. YouTube provides a platform to hundreds of thousands of creators that receive income from their videos. In 2018, the Apple Appstore paid its creators approximately

$34 billion; the Google Play store paid approximately $17 billion. The sheer size of these markets and the millions of businesses that have moved their operations to, or were created on, a digital platform is changing the context for entrepreneurship.

So let us consider the ways by which platforms regulate and control their markets. First, does a business exist if it cannot be found by Google Search, Google Maps, or can only be found on the third page? Online rankings and reviews, whether on Google or Yelp, can determine market success. Delisting or demonetization can devastate not only YouTubers, but also major hotels. More saliently, the algorithms generating these decisions are largely opaque.

Second, platforms define competition: who can compete and in what ways. Due to the terms and conditions that the platform-dependent entrepreneur (PDE) must agree to prior to using the website, the power of the platform in regards to the PDE is untrammeled. If the platform makes a decision that negatively impacts the PDE, any appeal is routed to an anonymous, all-powerful Kafkaesque bureaucracy. Decisions may occur with or without warning--the platform need not provide reasons for its actions. Decisions can appear both capricious and draconian, and dependent entrepreneurs are powerless to get the platform owner's attention.

Let us review some of the implications. Consider the plight of a PDE who develops an exciting, innovative app to sell through an app store. This PDE is entirely at the mercy of the app store owner. For example, according to recent news reports, Apple removed previously approved child protection apps from its app store. The issue is not whether the apps were good or bad, rather, it is that the apps could be removed unilaterally without warning, and this can occur even as the platform introduces its own competitive app. The point, of course, is that in its marketplace, Apple is the judge, jury, executioner, and only "court of appeal." Why is this the case? For use of these platforms, users and vendors agree to the terms and conditions that state essentially, "my way or the highway."

Presence on the platform is just the beginning: ranking and presentation on the site is the digital equivalent of shelf space and placement in a brick and mortar store. An important matter is where the business ranks in searches by potential user/consumer. The PDE is constantly evaluated by the platform's online ranking systems – a true innovation and an important way we consumers receive information. However, neither the PDE nor the user is ever informed as to the variables included in the ranking system. For example, a YouTube creator or eBay seller often does not know what the exact rank score is that will trigger demonetization or removal. Literally, all aspects of the platform can be changed at will. In other words, PDEs are in a state of constant fear, uncertainty and doubt.

For PDEs earning income on a digital platform, there is always an income-sharing with the platform. However, at any time and unilaterally, the platform can change the share. For example, over time, eBay sellers have seen their fees for listing increase, and changes in the percentage of sales eBay takes. Interestingly, any adjustments can be quite granular. The share can be shifted for specific market segments. In fact, it can be shifted for individual vendors. The right to do this is, again, secured in the terms and conditions.

The platform not only controls the terms of competition, but with its complete knowledge of

the market, can compete directly with a PDE. Given its knowledge about all activity on its platform, owners can identify particularly successful businesses, decide to enter, and choose the best entry price point. Effectively, the PDE's success is a signal to the platform that there is a lucrative opportunity. To illustrate, research has shown that Amazon is more likely to enter successful product lines to compete against firms that demonstrate superior performance – effectively absorbing the entrepreneurial rents that the PDE discovered and created!

In sum, the platform can be seen as a landlord controlling virtual spaces. The PDE rents a "place" in cyberspace. But the analogy with the physical world ends here. In the physical world, the entrepreneur has a shop or workspace. If the landlord decides to evict the entrepreneur, prior to moving the entrepreneur can hang a sign in the window stating that they are moving to a new location. However, digital platforms forbid or drastically curtail any such advertising on their sites. Similarly, if a PDE is "evicted" from a platform, there are no "signs" stating to where they have moved. The PDE's business simply disappears. The right to stifle a PDE's efforts to inform customers is all codified in terms and conditions, and enforced by bots and human agents.

What Can Be Done?

Platform firms, many of which are from the west coast of the United States, are now the target of policy-makers globally. The question is whether there are solutions that maintain the benefits of platforms and sustain the incentives to generate them, while protecting the community, those who buy or sell on the platforms. Of course, platforms need not remain unregulated; competitive markets require proper rules. It is as much a question how, and whether these new markets themselves need external oversight or avenues of redress. Mark Zuckerberg's mantra of "move fast and break things" has broken many things and, in some cases, created fundamental unfairness. So, let us consider the issue of remedies and regulation.

How might governments and courts act to shift some of the power asymmetries we have identified? Part of the answer lies in the terms and conditions by which we all operate on the platform. For example, one way that PDEs can resist the platform's power is through multi-homing. To assist in increasing competition, regulators could decree that PDEs have the right to post contact information regarding their websites and their operations on other platforms. Another action would be to mandate that any change in compensation formulas requires a legally specified notice period sufficient for the PDEs to prepare. In the same way, to promote more transparent business environments, any action taken by the platform with direct repercussions on the PDE's business, should be accompanied by a detailed description of the reasons for such changes. Currently, terms and conditions are so long and convoluted that very few can understand their meaning and implications. It could be legally required that key terms and conditions be explained in language comprehensible to lay persons. This has been done for credit cards, an earlier type of platform, and this could be applied to platforms today. Legally-required changes to what is permitted in the terms and conditions would not eliminate the current asymmetric power conditions, but could mitigate them.

Various other remedies have been proposed, though much of the discourse has been fairly conventional. Today's platform giants differ from each other in dramatic ways, thus requiring platform-specific remedies, and exploring cross-cutting remedies. For example, there have been

suggestions for various forms of divestiture to address the power of platforms such as Apple, Google, and Amazon that both manage a market and introduce their proprietary products in that market. Another recommendation has been to regulate the dominant platforms as public utilities. Alternatively, government-mandated councils composed of users, PDEs, and company representatives could be required for powerful platforms. An ever more dramatic remedy would be government subsidies for the creation of cooperative platforms that would provide an alternative, and would share the returns between consumers and providers—this could return the online world to the more cooperative solutions envisioned by the internet founders.

In sum, despite, and because of, the great commercial and marketing opportunities offered, the entrepreneurs attracted into an ecosystem become entirely dependent on a profit-maximizing platform owner that is only responsible to its shareholders. The PDEs are vulnerable to changes of the participation terms, direct competition from the owner, or even sudden and unexplained exclusion from the market. As these platforms continue to intermediate and thus regulate ever greater parts of the economy, policy must expand its focus from only users, privacy, or disinformation, to the millions of businesses dependent upon platforms, and to the subordination of ever-greater parts of the economy to a few powerful platforms and their owners.