

Platform Economics and Tech Giants: Competition *in* the Market Versus *for* the Market and the Implications for Regulation and Merger Policy

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Executive Summary

Over the past three decades, as the Internet has revolutionized society, the field of microeconomics has seen the emergence of a subfield called *platform economics*. Methodologically, platform economics makes incremental rather than radical adjustments. Nevertheless, a pervasive theme running through its findings is that conventional wisdom from traditional markets may not apply in the online world and thus requires careful reexamination. In this piece, we describe in clear, non-technical terms, some broad contours of platform economics, and suggest how the results of this research can inform current debates regarding regulation and antitrust of tech giants.

Our analysis is organized around a distinction made by three recent, high-profile reports (commissioned by the EU, the UK Government, and the University of Chicago's Stigler Center, respectively) between competition *in* the market and competition *for* the market. The former refers to a more "textbook" notion of competition, in which different firms jockey with one another, trying to solve a tradeoff between market share and high margins. The latter refers to a starker, "winner-take-all" phenomenon, in which an incumbent that dominates an industry tries to fend off potential challengers that seek to usurp its commanding position in an industry.

Competition *in* a variety of platform markets tends to be quite weak. For example, Meta (Facebook), Alphabet (Google), and Amazon dominate the markets for social networking, search, and online shopping. Interestingly, however, from the standpoint of economic efficiency, weak competition in such markets may not be a bad thing. This is the case for two reasons. First, operating a platform requires large fixed costs, and second, platforms exhibit network effects, i.e., customers often want to use the largest platform. We touch on both classic and cutting-edge research on this topic. In doing so, we explain why these factors suggest that policies intending merely to increase competition *in* the market may not be desirable, although some caveats apply.

We then turn to competition *for* the market. Here, we focus on the question of whether dominant platforms can become “entrenched,” even when their technology is surpassed by that of innovative startups. We review a longstanding debate in economics in which proponents of *lock-in* argue that certain initial conditions can lead economic systems to persistently glide down an inefficient path. On the other hand, lock-in skeptics argue that countervailing forces make such outcomes rare. Regarding the potential for lock-in to occur in platform markets, we emphasize that, up until quite recently, empirical observations such as Facebook’s rapid eclipsing of MySpace seemed to support the skeptical view. Moreover, theoretical analysis of startups’ ability to use sophisticated pricing schemes and “viral marketing” further seems to support the skeptical view of lock-in.

Despite this somewhat optimistic view, two issues stand out as particular sources of concern regarding governance of platforms’ behavior. The first is their collection of and access to user data, and the second is the frequency with which they acquire potential rivals via merger. Regarding the former, proprietary data may be used to prevent rivals from effectively competing. Thus, regulation requiring platforms to provide data portability appears to be a good idea if properly implemented. Regarding the latter, in cases where lock-in is strong, startups have little hope of displacing incumbent platforms, and so the prospect of acquisition can provide significant incentives for innovation. On the other hand, when lock-in is naturally weak, dominant platforms can artificially increase its strength by acquiring new firms before they become viable rivals. We thus argue that tighter merger control and policies designed to mitigate lock-in can play a complementary role to one another.