

# Price setting and inflation dynamics in the new economy

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Alexis Walckiers

Belgian Competition Authority – Ecares (Université libre de Bruxelles)

# Competition issues in the digital economy

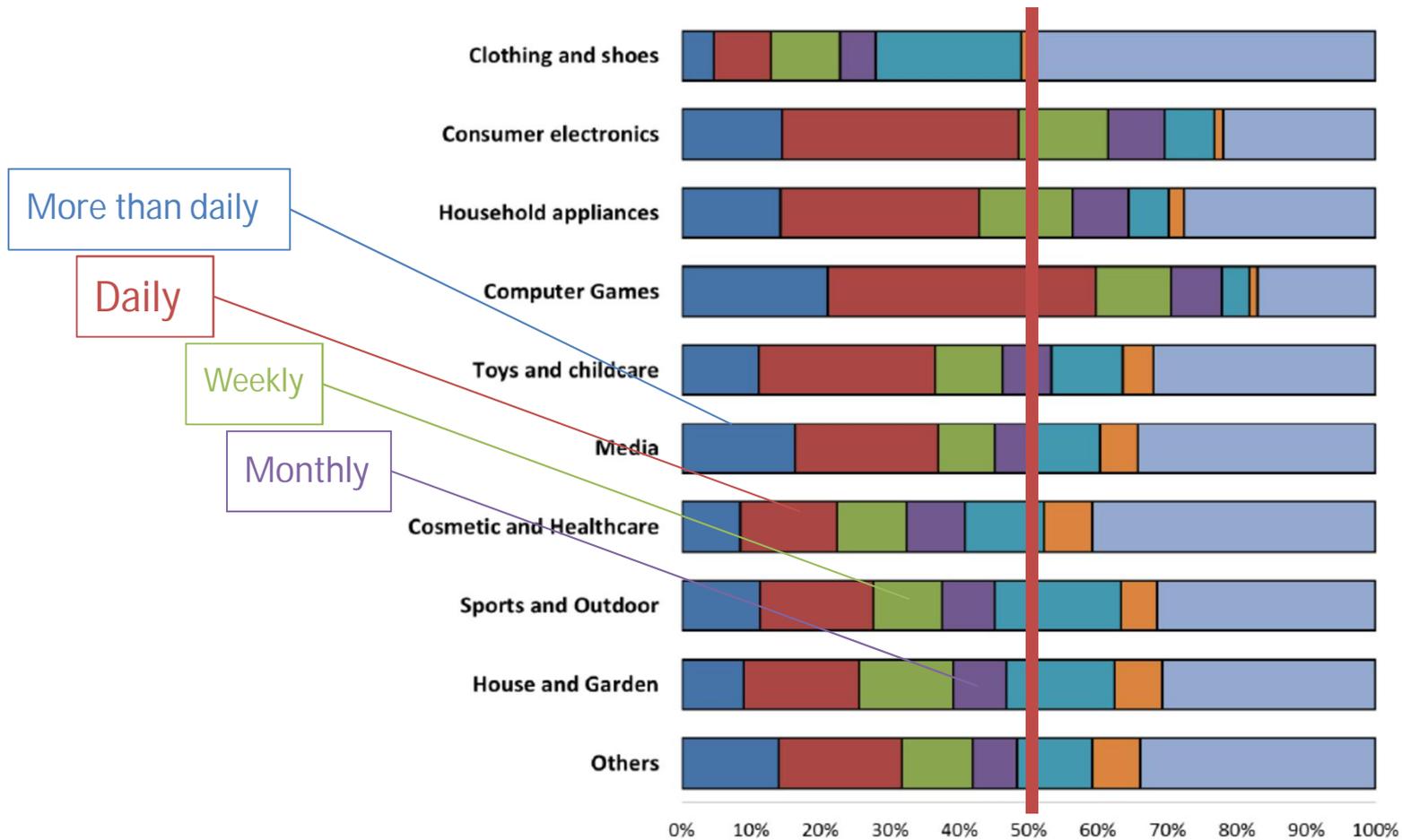
Assuming that concentration and margins have increased over time, I explore how competition authorities could react

- what is so special about digital markets?
- merger control
- agreements
  - horizontal
  - vertical
- abuses
  - price discrimination
  - big data
- what should be done?



# Frequency of modifying online prices

## Sector inquiry into e-commerce (2017)



# What is so special about digital markets?

## Tipping markets

- indirect network externalities – two-sided (multi-sided) markets
  - many platforms' attraction derives from their ability to serve other customers
  - platforms therefore compete more for some customers (singlehomers) than for others
    - some client bases are therefore extremely valuable—path-dependency?
    - winners-take-it-all nature of some markets
- high fixed costs, (very) low marginal cost
  - (very) significant returns to scale
  - cross-border (or worldwide) activity, which lowers the probability of entry by a foreign competitor
  - significant barriers to entry
- (often) complex and rapidly changing business models
  - sources of revenues evolve
  - tendency to focus on successes and forget failures
    - Nokia, Blackberry, Palm, Netscape, AOL,...



# Merger control

## Ex-ante evaluation

- difficult for competition authorities to second guess market evolution
  - Facebook’s purchase of WhatsApp for \$19Bn
    - low revenues and less than 60 employees
    - a significantly higher amount than the valuation (\$1,5Bn) of a venture capital financing round that same year
  - culture of giving back to the community by bringing “smart money” to the next generation of entrepreneurs
  - extremely difficult to predict what a company will become — much more so for instance than for biotechs and other innovative companies
    - complex and evolving business models
    - often, a number of revenue streams come in later stages
    - complements / substitutes? Apple / Shazam
    - barriers to entry / risk of foreclosure?
    - difficult to rely on declarations of third parties (what are their incentives?)
  - tendency to focus on success stories



# Horizontal agreements

## Can algorithms facilitate collusion?

- reaching an agreement
  - markets in which collusion was not present, may see a new equilibrium emerge, due to increased transparency, greater stability and effective punishment
- detection of deviation
  - algorithms facilitate monitoring of competitors' pricing (and other keys terms of sale)
  - but, what's available to competitors might also be available to clients and competition authorities
- retaliation
  - rapid, credible and reasoned retaliation (one can teach a computer to make a smart move)



# Non-horizontal agreements

Can algorithms facilitate anti-competitive non-horizontal agreements?

- vertical agreements (anti competitive or not) made easier
  - geo-blocking
  - deviations from RPM or MFNs are easier to identify
- hub-and-spoke collusion may emerge when sellers use the same algorithm or the same data pool to determine prices
  - eg, when competitors outsource their pricing to a third-party
  - see Ezrachi and Stucke (2017)



## Higher prices and margins?



- exclusion of downstream rivals
  - one of the most discussed theories of harm
  - Google shopping, Amazon?
- Big data
  - possibility to price discriminate à la Ezzachi and Stucke (2017)
    - can consumers arbitrate?
    - can digital markets be part of the solution?

# What should be done?

## Regulation or ex post competition enforcement?

- beware of unintended consequences
  - platforms are difficult to define, evolve quickly and have a lot of cross-border activity
  - case-by-case approach often necessary
- regulation and competition are complementary tools
- how can we improve competition enforcement?
  - significant EU enforcement that is not yet confirmed by the Courts
  - some EU cases rely on non-standard theories of harm; e.g. exploitative abuses, geoblocking, state aid
- increase resources, to investigate more cases?
  - definitely an issue in Belgium
  - Belgium has 4 times less competition investigators per inhabitant than in comparable countries such as Denmark, Sweden and Finland, and 3 times less than in The Netherlands

