

## Digital platforms: new challenges for public authorities

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A considerable number of economic sectors, such as the content, passenger transport, retailing and short-stay industries, are undergoing a profound transformation as a result of the emergence of new companies that put providers and users of goods and services in direct contact with one another. These are the so-called digital platforms, such as Amazon, Uber, Airbnb and many others. From an economic point of view, they act as intermediaries in bilateral or multilateral markets in which different groups of agents (drivers and passengers for example) obtain value from the connection or coordination that transaction costs prevent them from arranging themselves. By facilitating economic transactions that otherwise would not take place, the platforms create value and increase the possibilities within the reach of consumers and providers. Although some traditional markets, such as bazaars or auction houses, fit within the definition of platforms, this business model has become hugely more relevant in the digital world, since the new information and communication technologies substantially reduce transaction costs and allow interaction among agents scattered over wide areas.

The main economic feature of the bilateral markets in which digital platforms operate is the existence of indirect network effects. This means that the utility or value of a platform for its users on one side of the market (for example would-be borrowers in a crowdfunding platform) increases with the number of participants on the other side (investors and lenders in this case). These network effects generate positive feedback loops for successful pioneering platforms, and may make it difficult for new competitors to enter the market when a company has already established a significant position. In fact, the economic literature argues that, in general, bilateral markets tend towards concentration. Furthermore, indirect network effects also strongly influence the platforms' business strategy and optimal pricing structure, which depends on the nature and intensity of the network effects between the two sides of the market.

In facilitating new economic transactions, the digital platforms generate value and can benefit all the agents involved. However, because they transform the way in which some economic activities are carried out, they also generate new risks and fears, which the public authorities must address. Some of these challenges have to do with consumer protection. In bilateral or multilateral markets, individuals interact both with the platform itself and with other agents, with differing degrees of intermediation and direct interaction depending on the business models. In this context, there is a need for responsibilities to be clearly and transparently assigned so as to protect consumers, and for effective mechanisms for resolving possible disputes (a particularly significant aspect in the case of cross-border transactions). Moreover, the activity of some platforms may have negative effects on agents that are not participants in the market, such as the neighbours of short-stay rented apartments for example. The public authorities must find ways to alleviate the possible negative side-effects.

Other challenges have to do with the protection and promotion of competition in the markets. On the one hand there needs to be a level playing field for those providing goods and services directly and those doing so through a platform model. In this regard, the regulatory framework needs to evolve so as to avoid companies being able to take advantage of legal loopholes. On the other hand, given these markets' tendency towards concentration, there may be a need for rules on neutrality, compatibility or portability among platforms in order to uphold competition. The competition authorities also need new analytical

methods that take account of network effects in defining significant markets and measuring platforms' market power.

Lastly, digital platforms have an impact on other areas of public policy. For example, given their intermediation role, they could help governments to collect certain taxes. Apart from this, those that promote work on demand (the much-debated "gig" economy) pose significant challenges for employment and social protection policies, which governments must analyse and take into consideration.

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