

Regulatory Interventions and the Nature of Competition in Digital Ecosystems: A Q&A with Eliana Garces

Aaron Yeater and **Eliana Garces** — 5 MIN READ

Policymakers around the world have been considering how (or whether) to intervene in the digital platforms space for more than a decade. But are they accounting for the full range of ways that platforms create value and compete in the complex digital ecosystems of today?

To help unravel this knotty question, Analysis Group Managing Principal **Aaron Yeater** spoke with Senior Advisor **Eliana Garces**. Dr. Garces, an economist with deep public- and private-sector antitrust policy and regulation experience in the US and Europe, has spoken and written extensively on the analytical frameworks underpinning enforcement actions and the regulation of large digital platforms.

In this Q&A, Dr. Garces focuses on the ongoing debate over whether current proposals for regulating competition in the digital space adequately address the economic concerns of various stakeholders in a way that protects the value that the technology has to offer.

Why is it important to be discussing this topic now?

Recently, regulators and legislators around the world have trained the competition spotlight on the actions of large, online digital platforms such as Google, Apple, and Meta. The most prominent example is the EU's adoption of the Digital Markets Act, or DMA, which imposes stringent obligations on very large platforms that are designated as "gatekeepers."

Elsewhere, the UK is proposing a Digital Markets, Competition, and Consumers Bill [DMCC], and competition agencies in Australia, India, and other countries have been taking critical looks at how these platforms operate.

And in the US, the House of Representatives is considering several bills such as the American Innovation and Competition Online Act [AICOA] and the Open App Markets Act, while the two competition oversight agencies, the FTC and the DOJ, have proposed new merger guidelines that clearly have in mind acquisitions in the digital space.

All these various initiatives differ in scope and ambition, but they also all seem to share a vision of the threat to competition that online platforms are alleged to pose, as well as of the nature of appropriate remedial actions.

What makes up the "shared vision" that you refer to, and what has been the reaction of stakeholders and others who are invested in digital platforms' business models?

One question that is hotly debated is whether the regulators have strayed beyond their traditional role of oversight and enforcement – which is typically very targeted and based on a very good technical understanding of the regulated activity – and instead have embarked on an extensive exercise in market design, or perhaps redesign, based on general principles.

In particular, critics of many of the recent regulatory actions maintain that the regulators are insisting that the large digital platforms rein in their business models and restrict their operations solely to providing their core services and then serving as a host infrastructure to other companies.

The concern from these parties is that relegating the businesses simply to this "gatekeeping" role limits the ability of large platforms to operate as fully governed ecosystems. By not recognizing the full extent of value exchange flows and the central role of ecosystem governance in digital platforms, the argument goes, regulators run the risk of missing elements that are important both for the platforms' success and, most importantly, for the success of all participants in the ecosystem.



> *By assuming that all very large platforms are in a static situation of 'tipped' dominance, which they leverage to enter other markets, the current regulatory framework opens itself up to criticisms that this type of dynamic competition is seen only as a potential harm, rather than as an important engine for the competitive process itself."*
>
> DR. ELIANA GARCES

The primary concerns relate to how value is created in the digital space, the role of innovation and platform design in maintaining competition, and the overall competitive dynamics in that space. Regulatory initiatives would benefit from a clear understanding of these elements to ensure value-preserving competitive outcomes.

Why is it important to look at the digital platform ecosystem in its entirety?

The current regulatory approach treats platforms as little more than infrastructure on which other businesses can build and deliver their own services to the users who connect over the platform. This essentially is a "platform as infrastructure" approach, with competition being over the services offered on the platform.

But another view, favored by some business strategy and information systems experts and academics, maintains that many large digital platforms are much more complex organizations than simple infrastructure providers or gatekeepers. They believe platform businesses are more usefully described as ecosystems, which is a concept borrowed from the realm of biology and ecology.

In this view, the "platform as infrastructure" approach to regulation ignores two vital elements of digital platform businesses.

What are those missing pieces?

The first is the way value is actively created on platforms. It's fairly widely accepted that platforms offer efficiencies by reducing information, search, or transaction costs.

But viewed within the ecosystem framework, another important source of efficiency is a platform's ability to constantly create new services and processes by sharing and recombining digital assets and capabilities. These new products and services can then be monetized, but also used to support the growth of other platform participant businesses, which creates an entirely new value flow separate from the basic provision of infrastructure.

This ability to repurpose assets and capabilities leads to the second area of concern, which relates to the evolutionary nature of platforms and the importance of dynamic competition. Some observers believe that the prevailing regulatory framework does not yet fully integrate the platforms' use of innovation to create expansion and entry opportunities, which then generates inter-platform competitive pressure.

Social media's expansion into commerce is one example of this overlooked phenomenon, with Amazon having to respond to TikTok and Instagram's shop buttons with the creation of its own in-app feed and with TikTok's search function essentially challenging Google search.

By assuming that all very large platforms are in a static situation of **"tipped" dominance**, which they leverage to enter other markets, the current regulatory framework opens itself up to criticisms that this type of dynamic competition is seen only as a potential harm, rather than as an important engine for the competitive process itself.

Where do you see this perspective leading us as regulators and legislators continue to grapple with the complexities of digital competition?

The fact of the matter is that the diversity and complexity that characterize digital platform ecosystems do not easily lend themselves to the types of generalizations driving inflexible, "one size fits all" policies. Instead, more-reasoned, case-by-case assessments can lead to a new generation of digital platform economics that goes beyond basic issues of access and pricing and accounts for the actual value-generation mechanisms underlying competition in the digital world. ▪