



BIG TECH, BIG DATA, AND COMPETITION POLICY: Favouring Dynamic Over Static Competition

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DYNAMIC COMPETITION IS WHAT MATTERS MOST

“competition from the new commodity, the new technology, the new source of supply, the new type of organization— competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the output of existing firms, but at their foundations and their very lives.”

Joseph Schumpeter
1942



Implications

1. Static competition is “weak tea” compared to dynamic competition... innovation is the turbocharger if not the engine of competition.
2. Innovation drives competition (perhaps more powerfully than competition drives innovation).
3. The two way causation is absent from competition policy frameworks in the EU and the US.



SOME COMPETITION EXPERTS AND POLICY MAKERS KNOW THERE IS A LACUNA:

“Antitrust has historically focused on static (rather) than dynamic analysis... for a number of reasons. First the antitrust community... both lawyer and economists... have far greater familiarity and comfort with static analysis rather than dynamic analysis. Third there’s a perception... that dynamic analysis is less well developed...”

Thomas Rosch
FTC Commissioner
2010

“Innovation over the longer run will deliver very large consumer welfare gains” yet competition authorities “routinely struggle to account for dynamic effects”

Christine Wilson
FTC Commissioner
Sept 11, 2019



MAINSTREAM AND NEO BRANDEISIAN APPROACHES TO COMPETITION POLICY SIDESTEP THIS LACUNA:



- Innovation is the driver of competition policy?
 - **Mainstream** sees competition driving innovation; but does not recognize that innovation drives competition
 - **Neo Brandeisians** agree that innovation matters, but somehow only with respect to new entrants, not Big Tech firms themselves
- Neither recognize the broad spectrum nature of Big Tech competition – **Moligopoly**.
- Neither recognizes that “**management matters**,” and that firm level **dynamic capabilities are** a driver of competition just as much as competition drives innovation

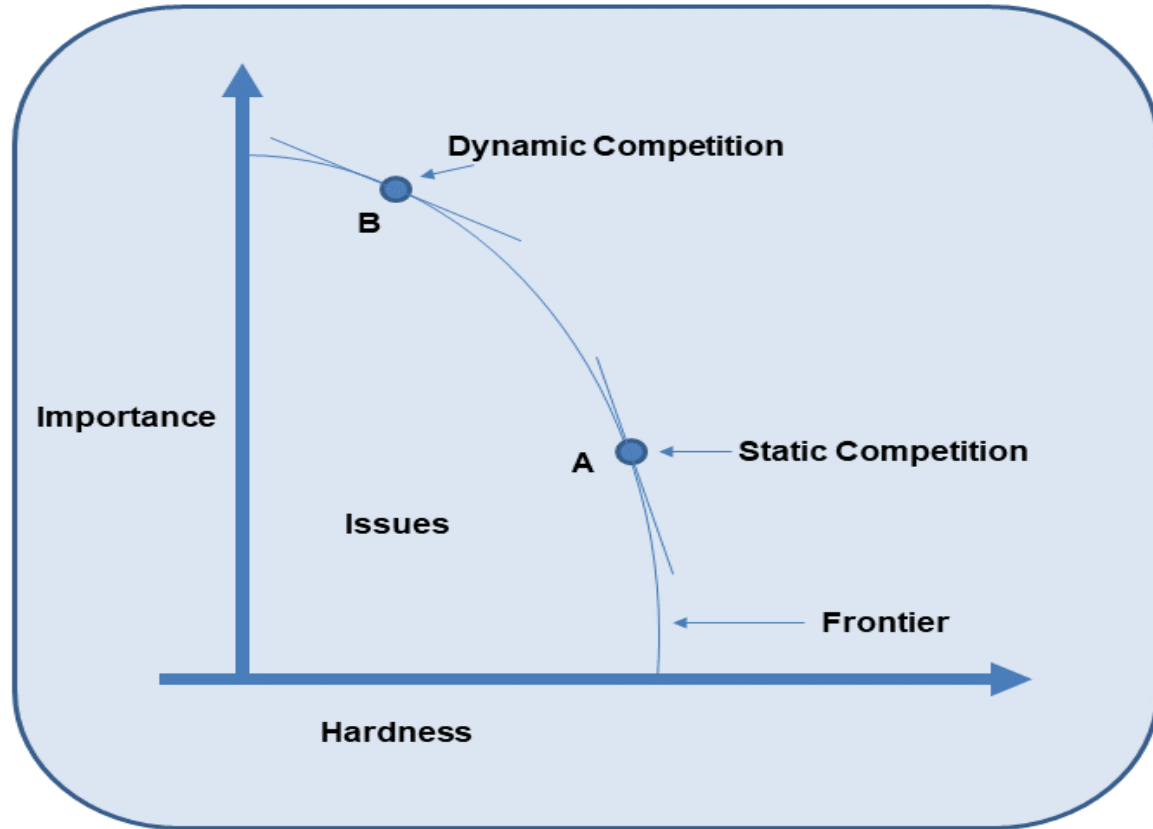


NEED NEW FIT-FOR-PURPOSE ANALYTIC FRAMEWORKS

1. Neo Brandeisians don't have one
2. Mainstream competition policy economists have at best an extremely shallow claim to be masters of innovation economics (writ large); the Neo Brandeisians don't seem to care about innovation... unless it comes from small firms and new entrants.
3. Mainstream economists have frameworks; but they are impaired by:
 - Chicago and post-Chicago static equilibrium approaches
 - what Nobel laureate George Akerlof calls the “hardness police” who have too much sway. Silly but elegant static models, both diagrammatic and mathematical, deflect attention from innovation and are not only tolerated but admired.



APPLYING NOBEL ECONOMIST GEORGE AKERLOF'S TRADE-OFF MODEL:



Source: Akerlof, "Sins of Omission in the Practice of Hardness," Journal of Economic Literature, 2020. Here hardness means formal models, not difficulty.

WITH BIG DATA AND DIGITAL CONVERGENCE, THE UNDERSTANDING OF COMPETITION REQUIRES NEW ANALYTIC FRAMEWORKS

- Problem with mainstream:
 - Favor “hardness” over importance (Akerlof)
 - Favor “static” over “dynamic” competition frameworks
- Neither Neo Brandeisians (e.g., Kahn, Wu) or mainstream economists (e.g., Shapiro) have analytical frameworks likely to deliver good policy recommendations
- Akerlof points out that the “hardness police” stand in the way of new ideas



INNOVATION GETS PUT IN THE BACK SEAT... ALTHOUGH EACH CAMP PROTESTS OTHERWISE

THE ABSENCE OF A FULLY OPERATIONAL DYNAMIC COMPETITION FRAMEWORK INVITES NEO BRANDEISIANS TO FILL THE VOID WITH SHIBBOLOTHS FROM THE PAST.



- View tech trusts like industrial age railroads and oil “trusts”
- Reckless focus on divestiture... without an understanding of:
 - (a) firm level competitive advantage
 - (b) how big data matters for competition policy as well as competitiveness
- It’s not just about n-sided platforms... they are just one of many features of the tech sector



FIASCOS CAUSED BY ABSENCE OF DYNAMIC COMPETITION FRAMEWORK?



1. Facebook acquisition of Instagram (type II error?)
2. FTC case against Qualcomm (overturned by 9th Circuit) (type I error?)
3. Alstrom – Siemens merger (type I error?)



SOME BUILDING BLOCKS FOR A THIRD WAY FORWARD



1. **Moligopoly** captures broad spectrum competition amongst and between Big Tech players.
2. Broaden the **(consumer) welfare standard** and insist on **long-term** to embrace innovation
3. Competitive outcomes can be shaped by firm-level **dynamic capabilities** (requiring entrepreneurial management) as much as by market position. The latter is often meaningless (only the paranoid and the dynamically capable survive)
4. Antitrust should allow innovators to capture **Schumpeterian** and **Ricardian** rents but be skeptical of practices that generate **naked monopoly rents**
5. Need to develop a meaningful and operational theory of **potential competition** based on **capabilities**... which will give merger enforcement agencies a better chance of blocking anticompetitive transactions and approving good ones
6. The theory of **complements** needs to be developed further

ABSENT AN UNDERSTANDING OF ORGANIZATION CAPABILITIES AND HOW THEY EVOLVE, MISTAKES (BOTH TYPE I & II) WILL CONTINUE TO BE MADE

FURTHERMORE, NEITHER THE NEO BRANDEISIAN OR THE MAINSTREAM APPROACHES CAN HARMONIZE “COMPETITIVENESS” AND “COMPETITION”

- Competitiveness (an industrial policy construct):
Competitiveness for a nation is defined as the degree to which it can, under free and fair market conditions, produce goods and services and meet the test of international markets while simultaneously maintaining and expanding the real income of its citizens...close to a total welfare standard
- Competitive Markets (a competition policy construct):
Those where the competition process is functioning well and (long term) consumer welfare is maximized.
- EU and US industrial and competition policy must be in harmony:
To deal with systemic competition from Chinese business entities. Industrial policy and competition policy are unified in China



DYNAMIC COMPETITION CAN BE THE COMMON THREAD TO HARMONIOUS COMPETITION POLICY, INDUSTRIAL POLICY, AND TECHNOLOGY POLICY.

THERE IS A NEED TO BRING ALL HANDS ON DECK TO MAKE THE DYNAMIC COMPETITION FRAMEWORK MORE OPERATIONAL.

WE MUST EMPLOY THE EXTENSIVE RESEARCH IN TECHNOLOGY STRATEGY & POLICY AND IN STRATEGIC MANAGEMENT TO OPERATIONALIZE NEW FRAMEWORKS

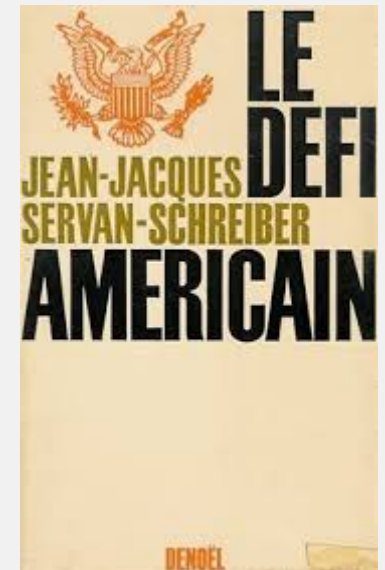


EUROPE NEEDS STRONGER DYNAMIC CAPABILITIES TO BECOME MORE COMPETITIVE... BOTH THEN (1967) AND NOW!

“it is time for us to take stock and face the hard truth... what threatens to crush us today is... a more intelligent use of skills”

What Europe needs is “the ability to transform an idea into reality through... the talent for coordinating skills and making rigid organizations flexible” i.e., dynamic capabilities!

Jean-Jacques Servan-Schreiber
Le Défi Américain
1967



SOME REFERENCES TO “THIRD WAY” WORK

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