Markets
&
Market Failure in the Age of Technology

GLOBAL INSIGHTS, INDIAN INSTITUTIONS AND CHALLENGES

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Agenda

- Markets and Competition
- What do Markets do?
- What is Market Failure
- What is the Alternative?

Conceptual Foundations

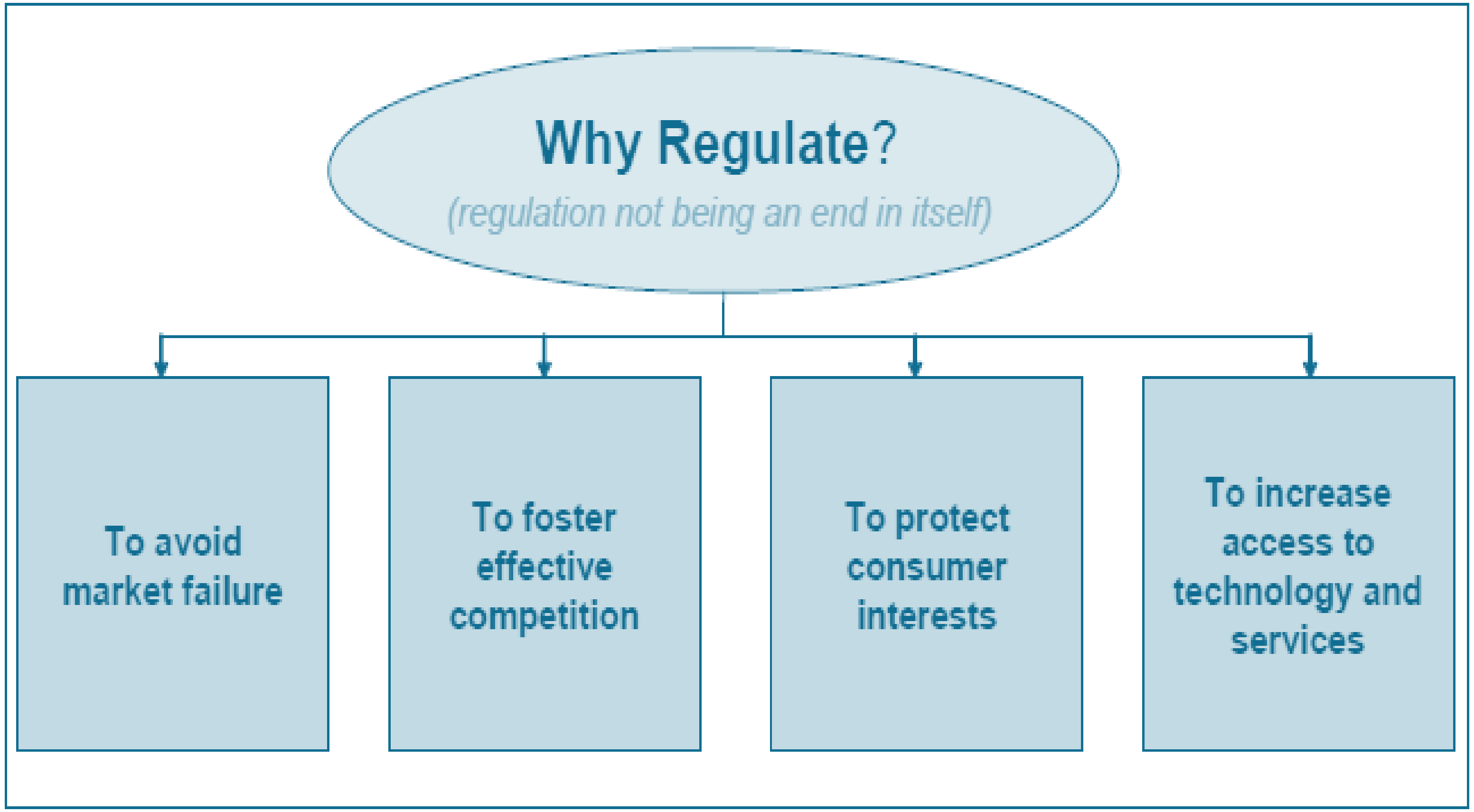
- Market Failure: inefficiency due to info asymmetry, externalities, public goods, monopoly
- Government Failure: capture, rent-seeking, mis-design
- Institutions: reduce transaction costs, critical for markets

Market Failure-Is this Valid in the Digital Era?

Causes of Market Failure

- **Monopoly**
- **Public Goods**
- **Externalities**
- **Asymmetric Information**

The Goals of Regulation



Source: *ICT Regulation Toolkit.*

Theoretical Pillars – Nobel Contributions

Akerlof: Market for Lemons – info asymmetry

Spence: Signalling in job & credit markets

Stiglitz: Screening, risk & insurance failures

North: Institutions matter for long-run efficiency

Market Failure – Causes

Information Asymmetry

Externalities

Public Goods / Missing Markets

Market Power / Monopolies

Government Failure – Risks

Regulatory Capture

Rent-Seeking

Over-Regulation

Policy Mis-Design

Institutional Design: Comparison

- Anglo-Saxon: Transparent, independent boards
- India: Bureaucratic/political appointments
- Tenure & Accountability differences
- Need for digital-era institutional reform

Digital & AI Failure Modes

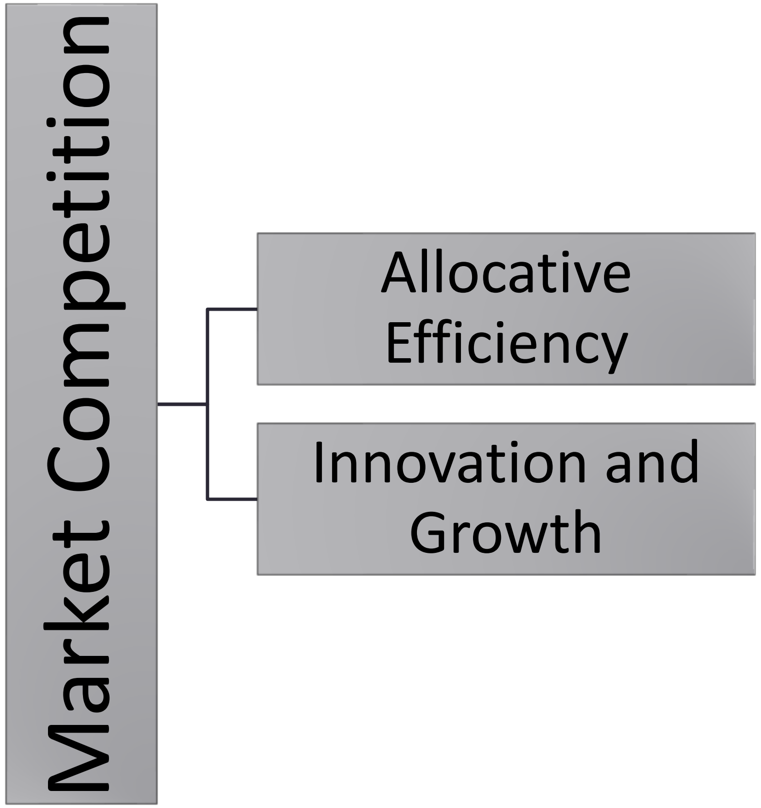
Data Asymmetry (users vs platforms)

Algorithmic Opacity & Bias

Winner-Takes-Most Markets

Information Pollution (AI externalities)

Competition is key –but how can one stimulate it?



[Source - https://ec.europa.eu/competition/consumers/why_en.html](https://ec.europa.eu/competition/consumers/why_en.html)

For consumers, market competition leads to:

- Lower prices
- Better quality of product and service
- More choice
- Innovation?
- Better competitors in global markets

Natural Monopolies and the Break up of AT&T

What is a natural monopoly?

An industry in which technical factors preclude the efficient existence of more than one efficient producer (Bannock et al., 1987).

Gerald Faulhaber defined natural monopoly as one that occurs in an industry in which the production technology is such that one producer can supply the entire market more cheaply than two or more producers.

Economic regulation is mainly exercised on natural monopolies and market structures with imperfect or excessive competition

Public utilities electricity, water, gas etc. are considered natural monopolies and is considered the most compelling argument for the regulation of these markets.

Global Lessons

Great Depression: Systemic financial collapse

Global Financial Crisis 2007-09: risk mispricing, leverage, regulation gaps

Climate change: global externality

Public goods failures in health, R&D

The Rise of Digital Platforms

- The resurgence of conglomeralism-big-tech companies have achieved high degrees of diversification, entering weakly related – or even sometimes totally unrelated – new markets.
- Amazon has expanded from the online sale of books to the sale of almost everything
- Google has expanded from search to everything
- Facebook has diversified into photo and video social networking with Instagram, messaging with WhatsApp

Source: Digital Conglomerates and EU Competition Policy March 2019

Arguments Against Big Tech

Amazon's Antitrust Paradox, contends that the traditional framework of U.S. antitrust law is fundamentally inadequate

Critique of the Consumer-Welfare Standard

The Paradox: low prices and prioritizing growth over immediate profit allows it to evade scrutiny under this narrow standard, even while engaging in behavior that is deeply anti-competitive in the long run.

By using massive scale, aggressive investment, and below-cost pricing (predatory pricing) financed by investors seeking long-term platform dominance, Amazon cripples competitors. Since consumers benefit from these low prices, the system is blind to the structural damage being done to competition

Focus on Structural Power and Vertical Integration

- Dual Role as Platform and Competitor –Gatekeeper
- Vertical integration
- Monopsony Power

Challenges for Regulation

- Static versus Dynamic
- Kill Zones
- The untrammeled power of Big Tech-Are Structural Remedies Useful?
- Data is at the centre of a platform’s competitive strengthsts.
- Competition authorities across the world are in a state of rethink, engaging in regulatory experiments to assess market outcomes. Economic and legal research have pointed towards solutions of data portability, data co-operatives and data sharing to reign in digital monopolies.

Technology, Institutions and Regulation

Public sector monopoly

Entry of private sector players

Rise of independent regulators

Technology convergence - convergence in regulatory bodies.

Who will regulate ***Data***? Do we need a separate ***data regulation/ protection authority***?

Countries are still exploring options

Conclusion

Markets fail – but so do governments

Digitalisation & AI introduce new failure modes

Institutional design matters: independence & appointments

India’s digital leap offers opportunity + risk

Forward-looking, tech-aware regulation is essential

The three pillars supporting society

The state

- Executive, judiciary, legislature
- Security, justice
- Pre-market support (capabilities)
- Post-market support (safety net)

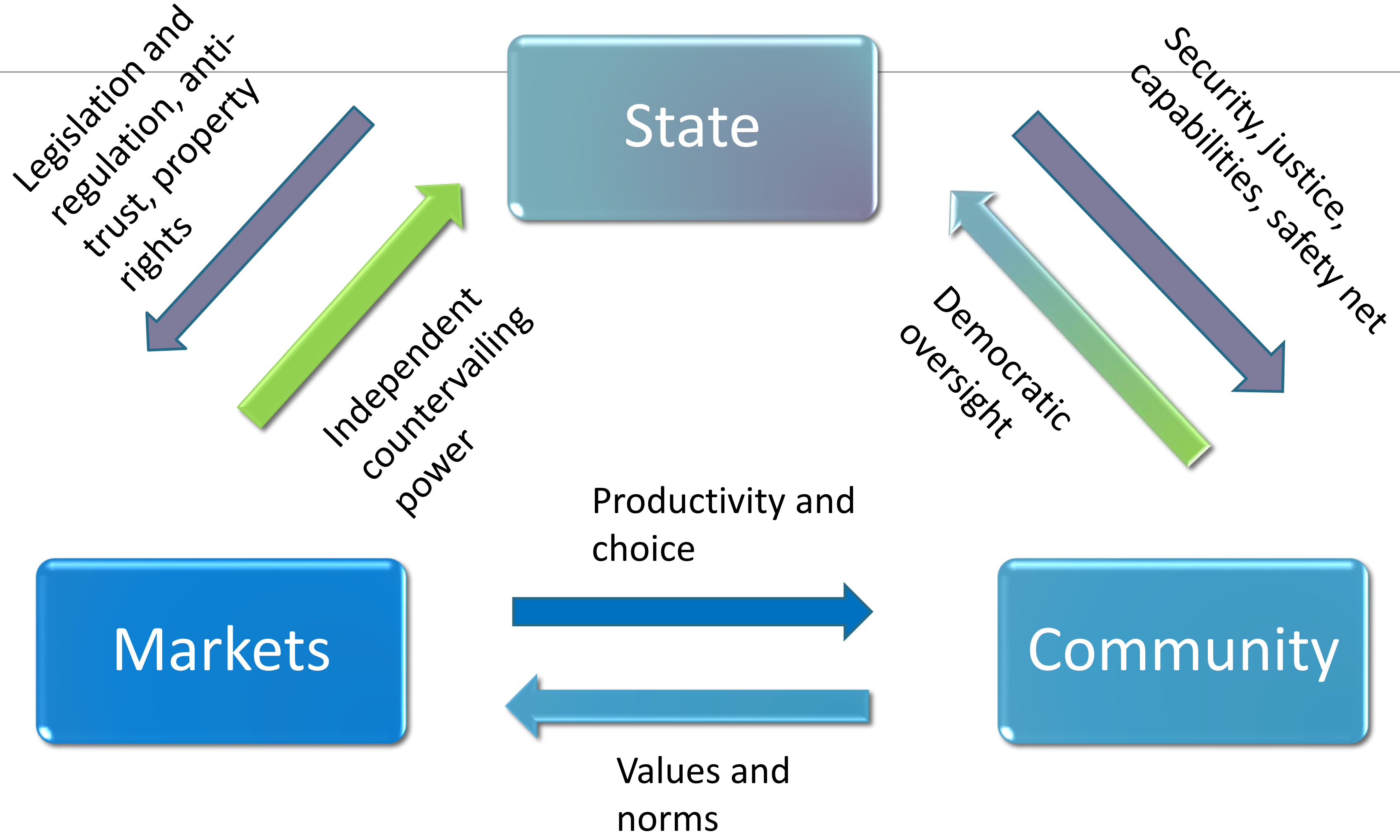
Markets

- Goods markets, labor market, capital markets, firms
- Productivity and choice

The community

- Proximate – neighborhood, village, municipality
  - Includes local government and institutions like schools

The three pillars and the balance in liberal market democracies



Why community today?

The proximate community still matters

- Identity and values
- Security, justice, capabilities, safety net
- Relationships not contracts – filling holes
- Political organization

Other forms of community?

The ICT Revolution has changed markets

- Facilitated trade – global supply chains
  - Hit manufacturing hubs in industrial countries while helping mega cities

- Hollowing out of middle income jobs through outsourcing and automation
  - Factory worker, tax accountant

- Superstar professions

Push power back…international to local

Responsible sovereignty

Civic nationalism

Inclusive localism

Thank You