





ONLINE ABUSE OF POWER: Third Party Payer Businesses, Fake News, Vertical Integration, and The Possible Role of Regulation

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Context

-  We've reviewed the power of MP3PPs
-  We've reviewed the continuing power of MP3PPs
-  We've reviewed the power of search as an example of MP3PP abuse
-  And we've started the discussion of MP3PP search expansion into platform envelopment

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Context – But Wait, There's More to Worry About

- And for the truly worried, more things to worry about:
 - Can a search engine vendor buy loyalty among consumers forever?
 - Can a search engine vendor actually harm consumers by misdirecting them to unsafe websites?
 - Can a search engine vendor use retained earnings to begin vertical integration, use personal information, compete unfairly in other industries?
 - Can a search engine vendor influence thought and public opinion to protect itself?
 - Can a search engine vendor punish its enemies?
 - Can a search engine vendor influence a close election, and slowly alter democratic governments?
 - Can a search engine vendor use retained earnings to compete unfairly in other even more critical industries like cloud infrastructure?
 - What are the implications of so much information controlled by one company with so little respect for privacy?









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Conclusions – But Wait, There's More to Worry About

- ***The Myth of Anonymity***
- ***Harvesting personal data as a business model***
- ***Deep profiling***
 - To enable ***differential pricing***
- Google and Bing do not directly sell your personal data as individuals, creating ***illusion*** of anonymity
- They merely send you a precisely tailored email
 - The sending company knows ***exactly why they sent it to you***, without knowing who you are
 - When you respond, they also know ***who you are*** and they ***know what to charge, what to offer, and what not to offer***
- ***Tradeoffs between fairness and efficiency***







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More to Worry About

-  **Constructing Fake News** — Precision Crafting using harvested personal information
 -  Each story is tailored for maximum impact, given what each reader wants, knows, and does not know
 -  Coal miners and Climate Change — *Resonance Fake News!*
-  **Distributing Fake News** — Precision Targeting using harvested personal information
 -  Each story sent to readers selected for maximum impact
 -  And stories directed away from readers who will experience backlash
-  **Facebook's Role**
 -  And why Facebook allows it to continue




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When to Regulate — Historical Precedent

-  Regulation of AT&T
 -  **The Paradox:** Benefits of monopoly telecoms provider and the risk of monopoly in a critical industry
 -  **The Risk:** possibility of monopoly pricing in an industry essential to the future of the economy
 -  Why market forces would not limit the risk for decades: Real limits to interoperability created by the best available technology of the era
 -  **The Solution:** The Kingsbury Commitment in 1913
 -  Why it worked







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When to Regulate — Historical Precedent

-  When market abuse is present, or when the risk of market abuse is very great
-  When market forces will not correct the abuse, or will not correct it quickly
-  And when it is possible to regulate without causing harm to markets, to innovation, or to consumers

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Conclusions — Where We Are Today

-  The ***Paper Towel Game*** and the power of gateways
-  The ***Ambiguity of Fairness***
-  The power of ***MP3PPs*** and the ability to ***harvest*** more value than is created
-  ***Privacy Violations*** and ***Fake News***
-  ***Privacy Violations*** and ***market fairness*** vs. ***market efficiency***
-  And ***Regulation*** as a necessary last resort

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Looking Forward — What can go *really* wrong?

- Can technology change the governance of a society?
- Can technology change the role of the nation state?
- Gutenberg and the printing press
- Organized warfare and the changing nature of the state, between Peace of Westphalia (1648) and Congress of Vienna (1814)

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Looking Forward — What can go *really* wrong?

- Four Scenarios
- Each with its own set of risks
 - Thucydides Trap* — change in dominance always dangerous
 - Islands in The Net* — Tech firms more important than nations
 - Made in China 2025* — Tech firms more important than nations *and* those firms are no longer American



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Course Summary

- The three **Newlies** and **value creation**
- The three more-complex patterns, and the **balance between value creation and value harvesting**
 - **Resources, Platform Envelopment** and **super-additive value**
 - **Online Gateways** and increased power
 - **MP3PPs, Reverse Price Wars**, and power not checked by markets
- Reframing
- The **Ambiguity of Fairness**
- **Privacy Violations** and **Fake News**
- **Privacy Violations** and **market fairness** vs. **market efficiency**
- And **Regulation** as a necessary last resort