

PRIVATE ACTOR GOVERNANCE AND PLATFORM POWER



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This brief is based on the paper, “When serving the public interest generates private gains: Private actor governance and two-sided digital markets,” which is forthcoming in *Perspectives on Politics*. The brief argues that work on digital policy should pay more attention to the politics of technical defaults and corporate standards. These standards can have far reaching implications for public policy and market dynamics. It uses the case of Apple’s App Tracking Transparency privacy feature to demonstrate this phenomenon. In one iOS update, Apple reconfigured industry surveillance practices, while also elevating its own platform power.

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OVERVIEW

Key public policy domains – free speech, privacy, cyber security – are governed by the decisions of digital platform companies. That said, we only have a rough idea of when firms engage in such actions and to what effect. In this brief, we argue that one critical driver of private actor governance in the digital domain is corporate power. In short, firms can use technological standards and defaults to target public policy objectives, while simultaneously concentrating their economic position in the market. To explain how this works, we link work on private actor governance with the economic literature on two-sided markets. In short, we argue that the particular nature of platform economies offers digital firm a unique way to grow their influence as they attempt to address public policy goals. To demonstrate the argument, we explore Apple’s decision to implement its App Tracking Transparency feature, which requires users to opt into third-party tracking via cookies.

TWO-SIDED MARKETS

A core feature of many digital economies is that they are characterized by what economist term two-sided markets (Rysman 2009). In such markets, two groups depend on an intermediary to exchange goods e.g. video consoles (players and game developers); malls (stores and shoppers); newspapers (advertisers and readers). This market dynamic features in most digital platforms like Google, Uber, or Amazon. In two-

sided markets, the value for one side depends on the size and characteristics of the other i.e. users value Uber only if it can connect them to a large fleet of safe cars. The intermediary then can attempt to extract rents from the side of the market that is more dependent on the platform to reach its user base i.e. Uber takes a cut of the fair provided by the drivers.

PRIVATE ACTOR GOVERNANCE AND PLATFORM POWER

Private actor governance can become a source of business power as it can help to redistribute economic benefits across the two sides of the market. By changing corporate standards or technical settings, a platform can reduce competition for rents or alter the relative dependency of groups on one side of the market. In some cases, a platform might use governance efforts to cultivate a more attractive user base on one side of the market or to delegitimize competing intermediaries. In either case, the policy intervention makes one side of the market more dependent on the intermediary.

RESEARCH DESIGN AND DATA

To demonstrate the argument, we examine Apple’s 2021 decision to update its operating system with the App Tracking Transparency privacy feature. The operating system update

requires iPhone users to opt-in to the placement of third party cookies on their devices when they explore the internet. Among some 1 billion iPhone users, only 20-30 percent opted in. Our research examines the consequences of this decision both for other companies in the market and for Apple.

FINDINGS

The decision upended global privacy debates as the company was able to severely limit the use of third party cookies. Billed as a privacy intervention, the change also made companies much more reliant on Apple to conduct their own advertising. Early estimates suggest that companies lost some 10 billion in advertising revenue (McGee 2021). At the same time that Apple updated its operating system, it also upgraded its own advertising offers so as to target firms that were no longer able to use third-party cookies. As other tech companies saw their revenues drop, Apple's own services revenue grew and reached an all-time high in the first quarter of 2023 (Apple 2023c). For average consumers, initial evidence suggests that Apple's efforts seem to resonate as well. In a 2023 nationally representative sample of over 16,000 Americans on their views of corporate reputations, Axios Harris Poll found that Apple ranked in the top 10 of 100 so-called "most visible companies". When respondents were asked which company "securely protects its customer's personal information and data", Apple placed second.

IMPLICATIONS

The policy memo has several important implications. First, it underscores the ways through which companies can shape public policy objectives. While there has been a lot of attention on laws aimed at addressing data privacy, cyber security, or disinformation, the case presented here demonstrates how with a flick of a switch, Apple was able to transform the way that surveillance capitalism works. Second, the brief suggests that more attention should be paid to the particular market logics of the digital economy. While there has been considerable attention to network effects, the brief suggests how work on two-sided markets can help policy-makers understand digital platform power. In particular, it shows how digital infrastructures can put pressure on different user groups to further concentrate their positions.

DILEMMAS

- ➔ Digital private actor governance may resolve a public policy concern but further concentrate corporate power
- ➔ Such private actor governance efforts may shift with the preferences of corporate leadership (e.g. Twitter and content moderation)

POLICY RECOMMENDATIONS

It is important for policy-makers to consider how corporate standards and technical defaults can help address pressing policy concerns. At the same time, these corporate initiatives can generate new externalities, which may undermine policy objectives. Governments must be ready to address these even as they applaud private actor governance initiatives. To do this effectively, policy-makers need a clear understanding of underlying market dynamics.

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