



Keynote speech
**The challenges of
big tech in finance**

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#BISResearchConference
#RegulatingBigTech



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The Challenges of Big Tech in Finance

Jason Furman

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October 6, 2021

Bank for International Settlements

Outline

1. The Economics of Increased Concentration
2. Concerns about Digital Competition
3. Pro-Competition Digital Regulation
4. Handling Big Tech in Finance

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The market for beer

Anheuser-Busch

InBev

Heineken



Interpreting greater concentration

Increasing concentration could mean:

More competition

or

Less competition

Potential sources of increased concentration

Good/Natural Causes: *More competition*

- Superstar firms
- Globalization

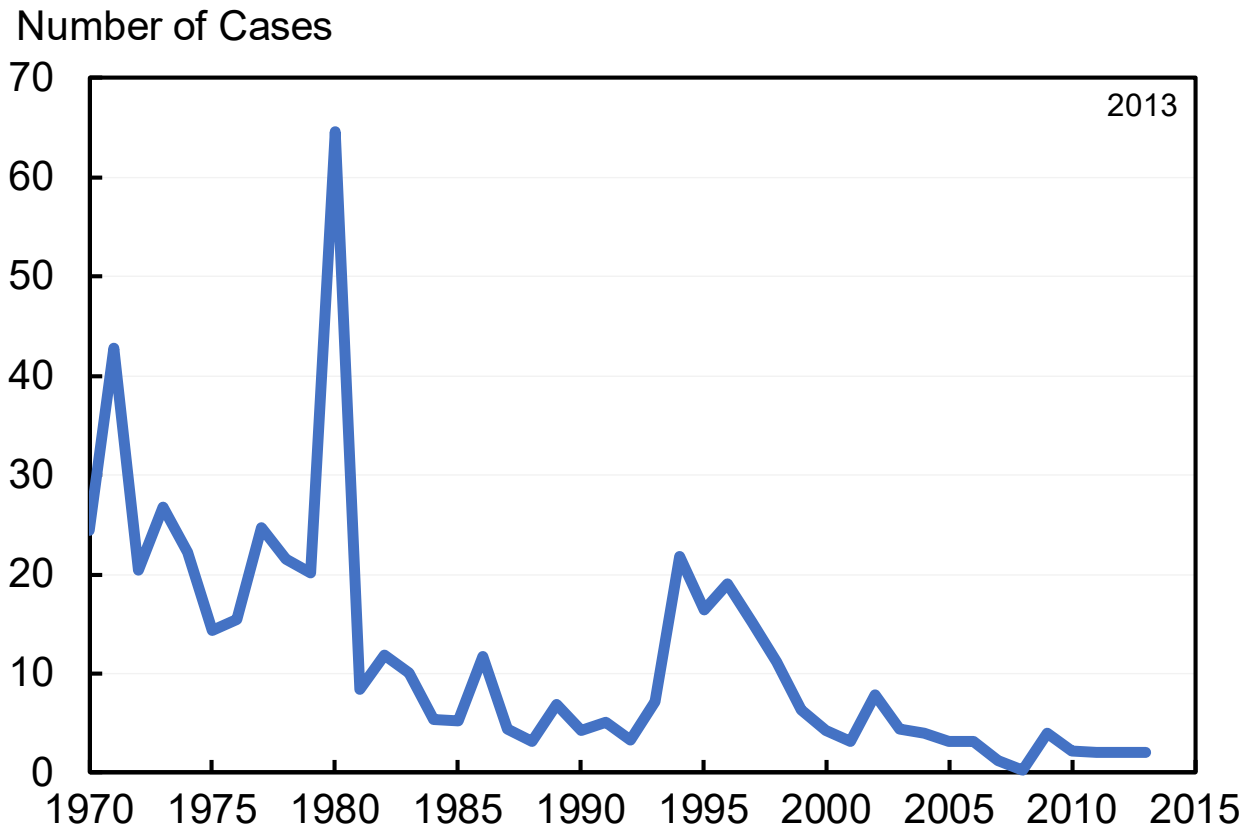
Bad/Unnatural Causes: *Less competition*

- Reductions in merger and antitrust enforcement
- Increased regulatory barriers to entry

Cuts both ways (natural cause but might have bad side effects): Increasing returns to scale and network externalities

Some evidence for less antitrust enforcement in the United States

Number of Cases Filed by the Department of Justice Under Section 2 of the Sherman Act of 1890

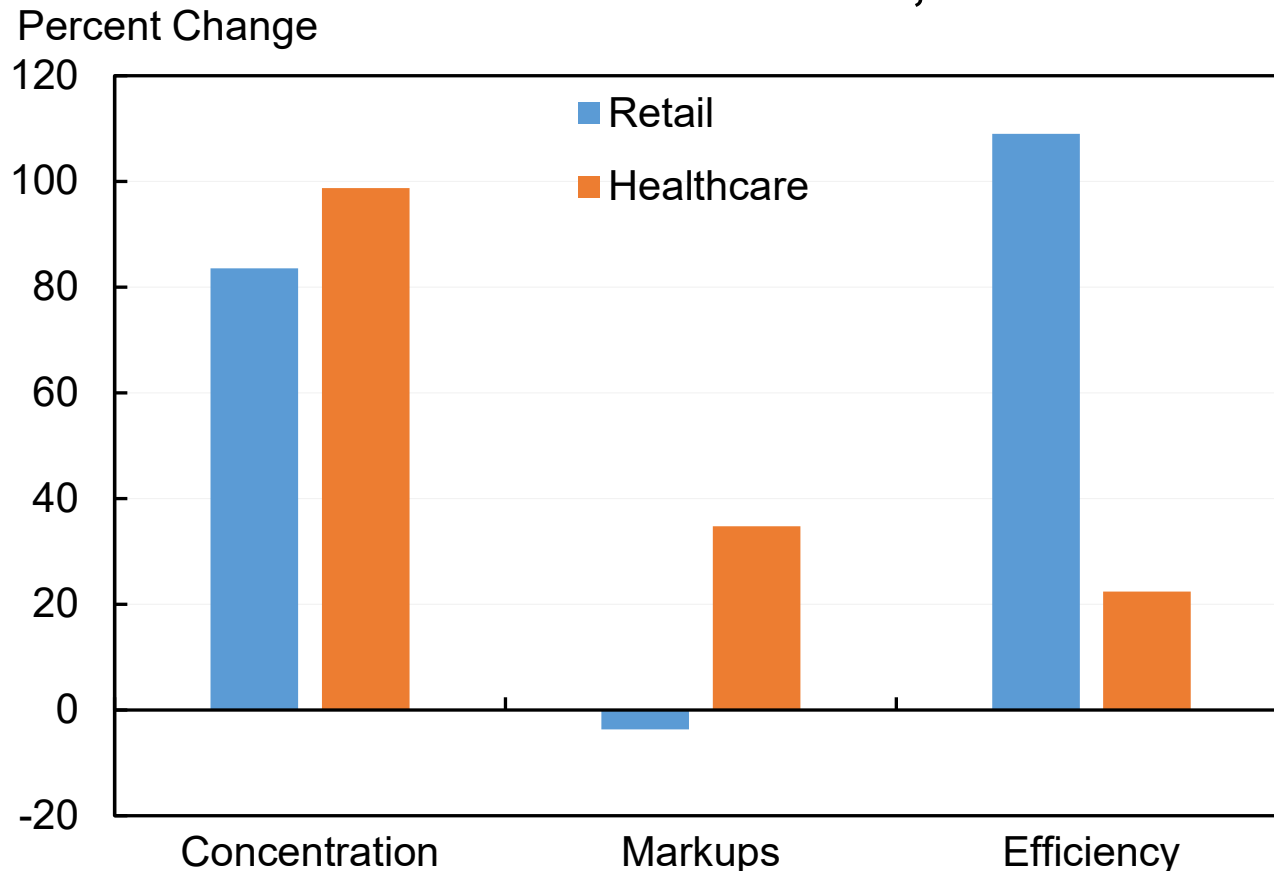


**Also, stronger intellectual property protections
and potentially regulatory barriers**



Retail concentration growth may reflect “good” causes while healthcare may reflect “bad” ones

Change in Concentration, Markups, and Efficiency in the Retail and Healthcare Sectors, 1988–2015



Note: Concentration measured by Herfindahl-Hirschman Index (HHI); markups represent markup of price over cost; efficiency measured by output per hour. “Retail” is “consumer sector” in Crouzet and Eberly.

Source: Calculations based on Crouzet and Eberly (2018).

What about them? Good or bad sources of growth?



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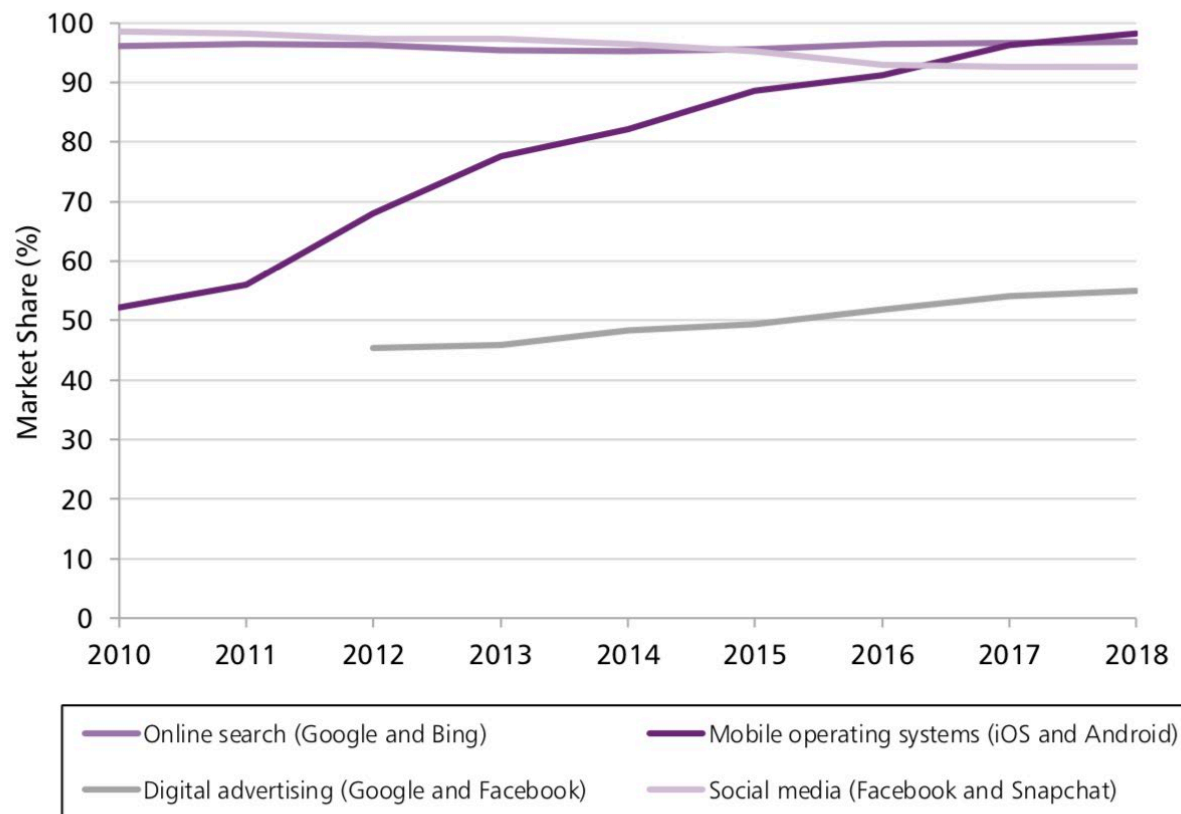
Features that make digital markets “winner take most”—through a process called tipping

- Network externalities
- Economies of scale/scope (near zero marginal cost)
- Data as a barrier to entry
- Capital and brands
- Behavioral features—consumers do not seem to switch

These features are present in other markets as well, just not in nearly as strong a form individually and in combination.

High or rising market shares

Chart 1.B: Combined indicative market shares of current leading two companies in selected UK digital markets



Sources: StatCounter,²¹ Comscore,²² and eMarketer and company reports²³

Even with tipping, winners could be overthrown and replaced by another winner

Competition in the market

Multiple competitors at a time

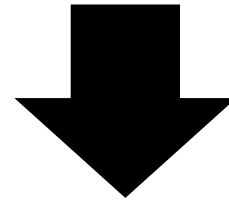


VS.



Competition for the market

One leader, can be replaced

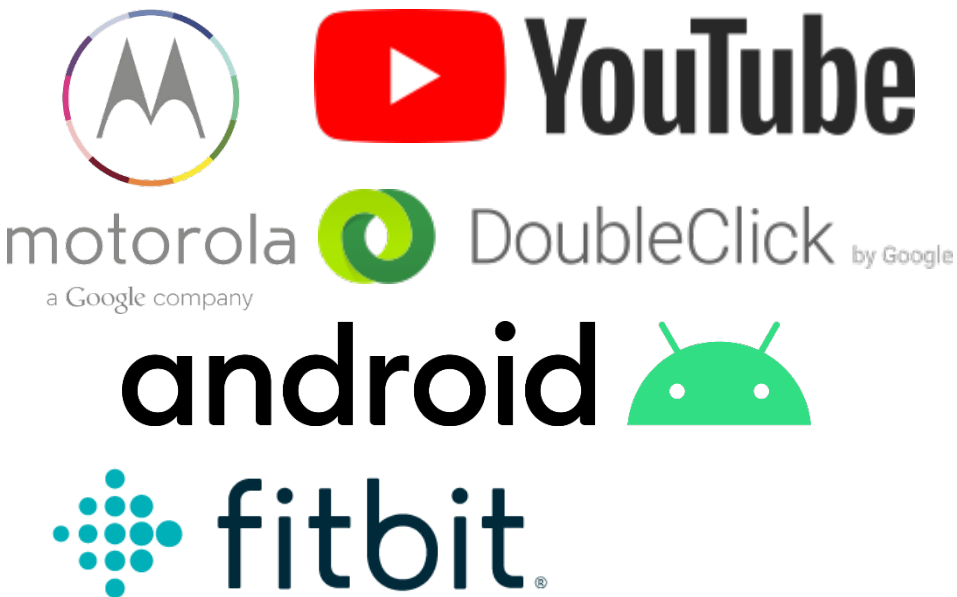


Why is “free” costly?

- Zero is just another number—equilibrium price might be negative
- Pay more in cash due to advertising markups
- Pay in data, privacy
- Lost quality, variety
- Lost innovation

Not just organic growth, over 400 acquisitions (including aquisi hires) by major platforms as well

Google



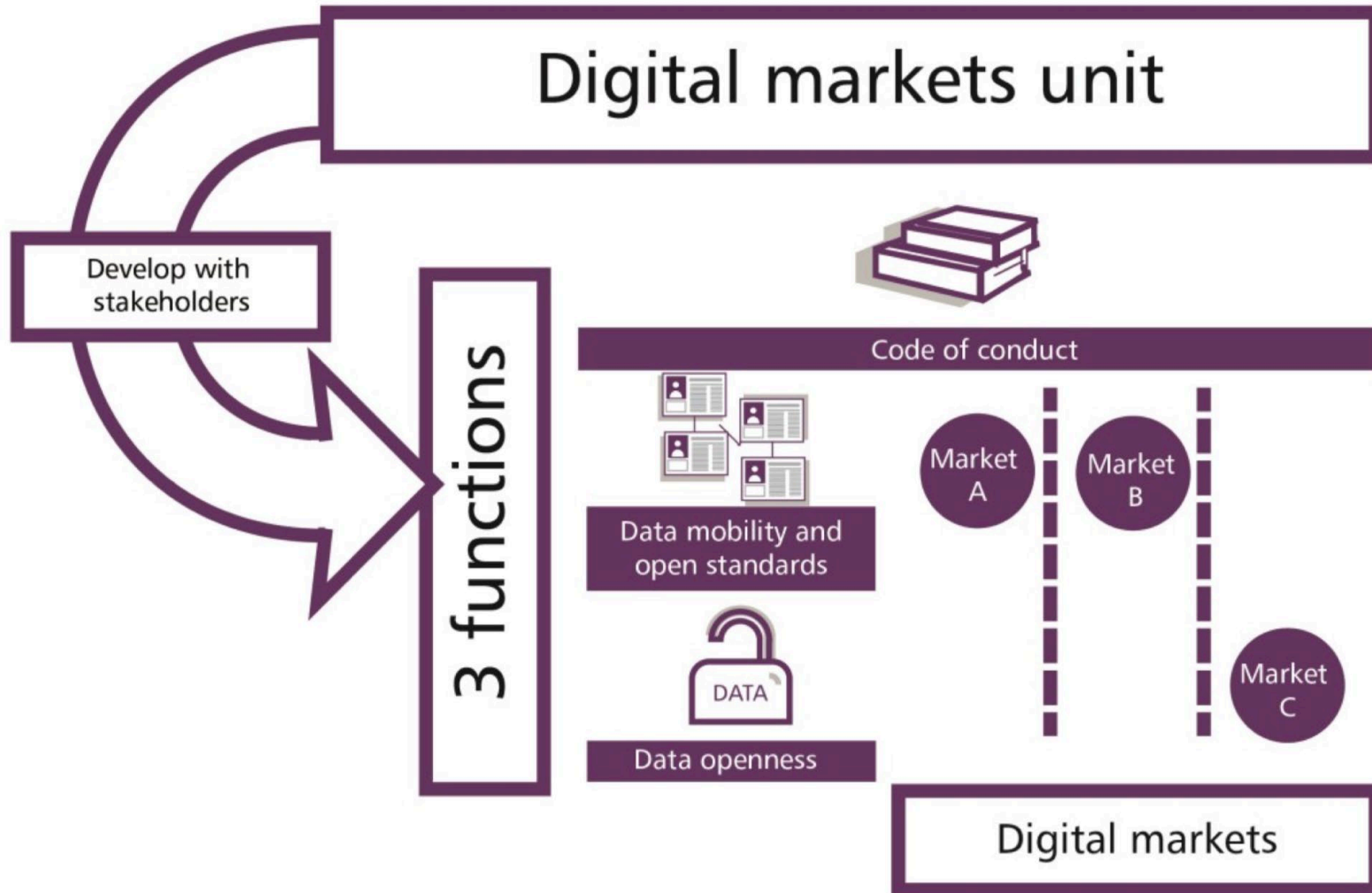
Facebook



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The UK Digital markets unit (as proposed)

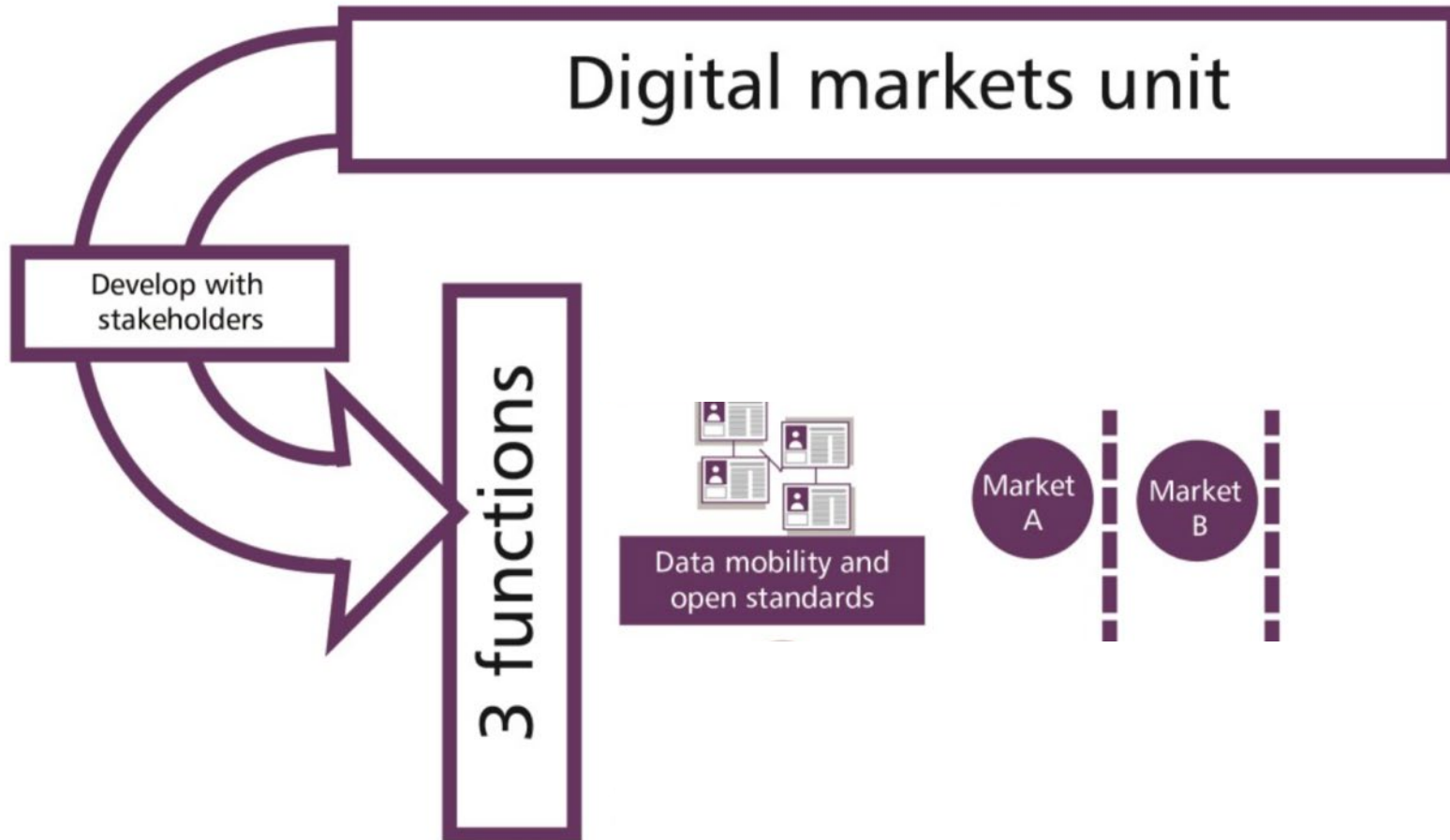


The Code of Conduct is similar to existing antitrust rules

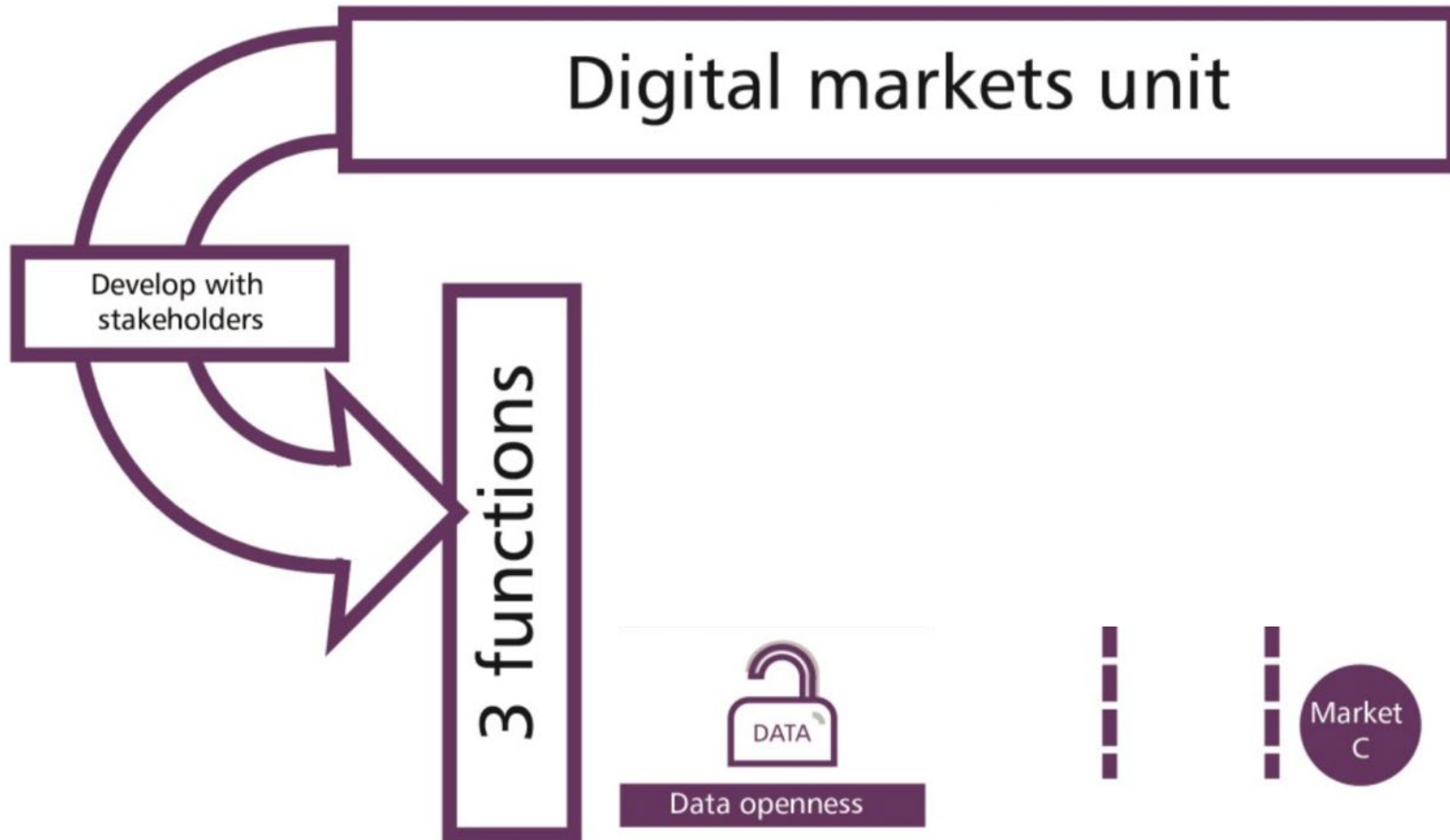
Principles for businesses with “strategic market status”:

- Access to designated platforms on a fair, consistent and transparent basis
- Prominence, rankings and reviews on designated platforms on a fair, consistent, and transparent basis
- Not unfairly restricted from, or penalized for, utilizing alternative platforms or routes to market

Digital markets unit



Digital markets unit



Government has launched the Digital Markets Unit

Digital Markets Unit

A Digital Markets Unit (DMU) has been established within the CMA to begin work to operationalise the future pro-competition regime for digital markets.

From: [Competition and Markets Authority](#)

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The internet was supposed to usher in a new era of competition

- Anyone can start a company in their dorm room.
- Low fixed costs, zero marginal costs.
- Can take advantage of the long tail.

But instead we've gotten more concentration.

Many also expected that the fintech space would create opportunities for new entrants



stripe

- But we have also seen a large rise in big tech entering the financial space.

Is this good concentration or bad concentration?

- The fine line: leveraging market power in one sector to dominate another vs. providing benefits to consumers based on scale and scope.
- Entering finance is different from selling books: Amazon competes with small bookstores but big tech is competing with big finance, which often faces insufficient competition.
- Concerns about regulatory arbitrage: Tech is the ultimate unregulated sector, move fast and break things. To the degree it is arbitraging its (non-regulation) to succeed in a highly regulated sector.

Goals for public policy

- **Keep as much good competition that benefits consumers as possible.** If the digital giants are succeeding based on superior products and increasing competition in finance that is good.
- **Pro-competition regulation from the digital side along with tougher merger enforcement** to ensure a code of conduct, interoperability, and limit growth through merger.
- **Maintain regulation from the finance side** so big tech does not engage in regulatory arbitrage.

It is hard to get this right—but even harder to clean up the errors later if policymakers get this wrong.



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