



# Virtual Competition: The Promise and Perils of the Algorithm-Driven Economy

By Ariel Ezrachi, Maurice E. Stucke

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Shoppers with Internet access and a bargain-hunting impulse can find a universe of products at their fingertips. In this thought-provoking exposé, Ariel Ezrachi and Maurice Stucke invite us to take a harder look at today's app-assisted paradise of digital shopping. While consumers reap many benefits from online purchasing, the sophisticated algorithms and data-crunching that make browsing so convenient are also changing the nature of market competition, and not always for the better.

Computers colluding is one danger. Although long-standing laws prevent companies from fixing prices, data-driven algorithms can now quickly monitor competitors' prices and adjust their own prices accordingly. So what is seemingly beneficial?increased price transparency?ironically can end up harming consumers. A second danger is behavioral discrimination. Here, companies track and profile consumers to get them to buy goods at the highest price they are willing to pay. The rise of super-platforms and their "frenemy" relationship with independent app developers raises a third danger. By controlling key platforms (such as the operating system of smartphones), data-driven monopolies dictate the flow of personal data and determine who gets to exploit potential buyers.

*Virtual Competition* raises timely questions. To what extent does the "invisible hand" still hold sway? In markets continually manipulated by bots and algorithms, is competitive pricing an illusion? Can our current laws protect consumers? The changing market reality is already shifting power into the hands of the few. Ezrachi and Stucke explore the resulting risks to competition, our democratic ideals, and our economic and overall well-being.

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### Editorial Review

#### Review

[Ezrachi and Stucke] make a convincing argument that there can be a darker side to the growth of digital commerce. The replacement of the invisible hand of competition by the digitized hand of internet commerce can give rise to anticompetitive behavior that the competition authorities are ill equipped to deal with... *Virtual Competition* displays a deep understanding of the internet world and is outstandingly researched. (Burton G. Malkiel *Wall Street Journal* 2016-11-14)

Traditional competition law is about firms and their activities. The great insight underpinning Ezrachi's and Stucke's book is that, in a digital world, competition law will be mostly about algorithms and big data because these are the forces that now determine what happens in online marketplaces. The book focuses on three particular areas in which anticompetitive and manipulative behavior is possible and, in some cases, already evident... Ezrachi and Stucke dig deep into the ways in which algorithmic and big-data analytics combine to produce behaviors and outcomes that are?or could be?troubling for society. They then go on to discuss the extent to which existing competition law and legal precedents may?or may not?be able to address abuses... Ezrachi and Stucke have made a convincing case for the need to rethink competition law to cope with algorithmic capitalism's potential for malfeasance. (John Naughton *The Observer* 2016-12-04)

We owe the authors our deep gratitude for anticipating and explaining the consequences of living in a world in which black boxes collude and leave no trails behind. They make it clear that in a world of big data and algorithmic pricing, consumers are outgunned and antitrust laws are outdated, especially in the United States... We can hope the ideas discussed in *Virtual Competition* get on the political agenda. (Barry Nalebuff *Science* 2016-11-04)

This is a groundbreaking, critical work?a major contribution to the field of competition law. (Frank Pasquale, author of *The Black Box Society*)

Ezrachi and Stucke provide a compelling analysis challenging the orthodoxy that modern technology empowers consumers. Their findings will send a shiver down the spine of consumers, businesses, public policy makers and anyone working in the competition field. *Virtual Competition* is a fast-paced, mind-boggling thriller that you can't put down; a thriller in which we are all set to be the victim. (Alan Giles, Saïd Business School, University of Oxford)

*Virtual Competition* provides an intriguing and provocative look at the potential dark side of big data and big analytics. The debate over digital competition is just beginning, and Ezrachi and Stucke have laid down a marker that is likely to capture wide attention. (Jonathan Levin, Stanford Graduate School of Business)

Ezrachi and Stucke's insights into data-driven opportunities, collusion scenarios, discrimination, and 'frenemies' will help authorities distinguish between true efficiencies and anti-competitive problems, and ensure that most enforcement at least keeps up with technological developments. Forward-thinking competition authorities can use these insights proactively to help craft government policies that ensure that innovation and competition are real, while problems are addressed quickly and thus?hopefully?remain virtual. (Philip Marsden, Inquiry Chair, Competition and Markets Authority)

A thought-provoking, clearly written examination of the coming effects on markets and competition of

computer algorithms, big data, big analytics, and ‘super-platforms,’ drawing on real-life examples, on neoclassical and behavioral economics, and on the authors’ deep understanding of U.S. and EU competition law. (Harry First, New York University School of Law)

This highly readable and authoritative account sets out the ways that platforms have replaced the invisible hand with a digitized one? a hand that is human-engineered, subject to corporate control and manipulation, and prone to charges of unlawfulness... It is becoming increasingly apparent that widespread deployment of algorithmic tools can intensify, rather than reduce, the chasm between the wealthy and the vulnerable. This is the issue Ezrachi and Stucke address as behavioral discrimination... Overall, they argue, this is corrosive to social welfare, because the more vulnerable among us end up paying more. The authors’ assessment of where this is heading is of the most sober kind: absent legal intervention, perfect discrimination will likely become the new norm. (Julia Powles *Times Higher Education* 2017-01-05)

Equal measures computer science, law, economics, and behavioral science, this book will appeal to all four groups and introduce the concepts in a very enjoyable way. Whether people shop online, on their phones, or in stores, companies track them. What they buy, where they shop, when they shop, and how they shop can all be analyzed by retailers, who can then offer different products, coupons, and discounts. Retailers not only collect and analyze this data but also sell the data and analysis to other companies, sometimes including their competitors. This book delves into the privacy and regulatory complications of this data and analysis. Though readers may be taken aback by just how much information is collected about their shopping habits, this book describes in detail how retailers and marketers use ambivalence to privacy to market products and services at prices consumers are willing to pay. (J. M. Keller-Aschenbach *Choice* 2017-04-01)

#### About the Author

Ariel Ezrachi is Slaughter and May Professor of Competition Law at the University of Oxford.

Maurice E. Stucke is Professor of Law at the University of Tennessee and co-founder of The Konkurrenz Group.

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