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**Testimony from:
Caleb Watney, Technology and Innovation Policy Fellow, R Street Institute**

**Online Platforms and Market Power, Part 2: Innovation and Entrepreneurship
July 16, 2019**

**U.S. House Committee on the Judiciary
Subcommittee on Antitrust, Commercial, and Administrative Law**

Dear Chairman David Cicilline, Vice-Chair Joe Neguse and members of the Committee:

Thank you for considering my testimony. My name is Caleb Watney and I am a Fellow in Technology and Innovation Policy at the R Street Institute. R Street's mission is to engage in policy research and outreach to offer educational resources to stakeholders on free markets and limited, effective government in many areas, including technology policy.

As the Committee seeks to evaluate the effect of online platform companies' market power on innovation and entrepreneurship, they should keep in mind the wide array of potential policy remedies that exist and apply a risk-management framework to choose between them.

Putting aside the tangible questions of whether the proposed market power exists or whether it is being used irresponsibly, many of the suggested remedies—such as breaking up large technology companies or heavily regulating them—are very high-risk policy levers that could backfire and harm consumers over the long run. As the European experiment with the General Data Protection Regulation shows, regulation that greatly increases compliance costs risks isolating these platform companies from the competitive process that disciplines them and incentivizes innovation. Similarly, breaking up large technology firms risks destroying some of the superstar firms that are producing the lion's share of productivity gains for the American economy.

An alternative approach that requires far less risk is one I detail in a paper for R Street titled, "Reducing entry barriers in the development and application of AI."¹ While the paper focuses on barriers in artificial intelligence—or "AI"—development, the remedies it proposes would

¹ For the full paper and a deeper analysis of all these issues, see the attached policy study. Caleb Watney, "Reducing entry barriers in the development and application of AI," R Street Policy Study No. 153, Oct. 9, 2018. <https://www.rstreet.org/2018/10/09/reducing-entry-barriers-in-the-development-and-application-of-ai/>.



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lower entry barriers across the technology sector more broadly. Specifically, the paper outlines policies that would make it easier for startups to acquire top-end technical talent, high-quality training data sets, and specialized AI hardware.

To ensure a competitive and innovative ecosystem going forward, as our first line of defense, policymakers should prioritize reducing barriers to entry. As the paper concludes, “There are significant barriers to entry ... that have boosted the market power of incumbent firms. If new startups can successfully compete in the absence of these barriers, it will be a win for innovation, consumers and for the dynamism of the economy as a whole.”

I thank the Committee for recognizing the importance of ensuring a competitive ecosystem for emerging technologies and online platforms. If I can be of assistance to members of the Committee, please feel free to contact me or any of my colleagues at the R Street Institute.

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