Insight

Is Interoperability Needed to Address Antitrust Concerns?

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Executive Summary

- Advocates of interoperability, which refers to the ability of digital platforms to operate in conjunction with other platforms that provide a similar service, claim that mandating it would be a moderate and "surgical" solution to the problem of little competition in the digital economy.
- Current assessments of competition in the digital markets are based on a shortsighted definition of competition, which concentrates on user count but ignores other valuable metrics such as screen time or relevancy, and some companies are already offering interoperability apart from any mandate.
- Mandating interoperability faces challenges distinct from companies offering interoperability, and its implementation could raise concerns about consumers' privacy and control over their data.

Introduction

In recent Senate and House committee hearings, some members of Congress argued that the social media market lacks competitiveness due to "network effects" and high costs to entry. Some members, including Senator Klobuchar, are advocating for general antitrust reform in hopes of breaking up the largest tech companies. But others, in contrast, are seeking narrower reforms, including potentially an "interoperability requirement."

Mandating interoperability—in brief, the ability for tech platforms to communicate and exchange information between each other—appears to be the moderate and more careful approach, but it raises a variety of questions. What exactly is interoperability? How would interoperability make markets more competitive? Would it benefit end users? What might it mean for the experience on both current and new platforms? Assessing these questions indicates that interoperability is no panacea and mandating it might create more problems than solutions.

What Is Interoperability?

Interoperability refers to the ability of digital platforms to operate, at some level, in conjunction with other platforms that provide a similar service. A recent example of interoperation is the latest unification of Facebook's and Instagram's direct messages, which enabled users to send private messages between the apps. In many cases, this interoperability allows for a seamless transition between applications and an expansion of users' contacts and interactions.

While Facebook and Instagram are owned by the same company, interoperability can (and does) occur between competing companies as well. The Data Transfer Project, explained in more detail below, is one such example.

Interoperability can take various forms, depending on the level of integration between apps. While political support for an interoperability mandate is on the rise, there is no consensus on the extent to which it should be required. For some, interoperability should emulate the Facebook-Instagram scenario, where users of one platform would be able to message users in other platforms. For others, this mandate should allow for a unified content standard, which would allow for seamless content sharing between platforms. The definition of an interoperability requirement is crucial, as it would determine how much of their users' data these platforms would have to share with each other. The amount of data shared in inter-platform messaging would be completely different from that required for a unified platform displaying content from multiple existing platforms.

Do Network Effects Impede Competition?

The network effect is a concept used in economics for products that become more attractive as more people use them. Social media platforms provide an example of how network effects work. The more users a platform has, the more it benefits both existing and new users, as users (and advertisers) can connect with more people on a single platform. Advocates for interoperability claim network effects damage overall competition in the industry by locking down users into the biggest services. As a result, upstart firms offering a competitor product struggle to emerge.

But competition among platforms cannot be measured only by the number of active users; this method ignores other relevant metrics of competition in the digital space, such as screen time and engagement. It is one thing to get a user to sign up to a platform, but to attract advertisers and investors, platforms must maintain their relevancy and engagement among users. Further, competition for users on various online services, including social media, is not a zero-sum game. It is not necessary to deactivate an account on one platform in order to sign up for another, and it is quite common for a single user to use multiple services. User count marks a first layer of competition among platforms, but user count alone does not consider multi-homing and other complexities of this unique market experience.

Advocates for an interoperability mandate also argue it would reduce "switching costs," as users would be able to switch to a different service, but still contact their connections from the old platform after deactivating.

But as noted, this argument overstates the impact of switching costs, as signing up for another platform does not necessarily mean deactivating your account and losing your contacts. Network effects are still relevant, as user count is a factor for platform relevancy, but since the use of one platform does not preclude the use of another, the cost of moving onto another platform is much lower than interoperability advocates claim. As a result, mandating interoperability would introduce an unnecessary burden to companies to solve an overestimated constraint.

Interoperability Can Emerge Without a Mandate

It is important to distinguish between mandated interoperability and the decisions of platforms themselves to engage in interoperability to respond to consumer demands. In some cases, interoperability can be beneficial and a logical response to market forces, and some companies seem eager to offer it. Mandating interoperability, however, can also bring risks as well as fail to improve competition and the consumer experience.

For example, we already see different types of interoperability conducted by these platforms voluntarily, at different levels. One example is the “Connect to Facebook” or “Import from Facebook” options in different social media platforms or apps that let users find contacts in the platforms that also have a Facebook account, allowing users to import their social network seamlessly.

On a broader scale, Apple, Microsoft, Google, Facebook, and Twitter have currently partnered in the Data Transfer Project (DTP), an open-source initiative looking to create a “service-to-service data portability platform so that all individuals across the web could easily move their data between online service providers whenever they want.” Large-scale interoperability might arrive through voluntary mechanisms before any mandates are enacted.

These interoperability measures allow emerging companies to use the networks of established platforms to build their own user base, while giving consumers the opportunity to select which platforms can host their data and which protocols are to be used in the data transfer process.

The Risks of an Interoperability Mandate

An interoperability mandate would face various challenges in its implementation. For example, defining protocols and requirements for interoperability implies defining what the secure methods of transferring, aggregating, and holding data look like. Companies vary in their approach to these issues, such that mandating interoperability would be difficult technically. Legislation runs the risk of either creating a too lenient or too strict protocol based only on existing technological options. While voluntary initiatives such as the DTP allow for a quick reform or fix when needed and can grow as technology changes, legislation is often more slow-paced and static.

Additionally, an interoperability mandate could raise serious concerns regarding data privacy. As noted before, some of the proposals explore the possibility of “exporting” your social network of contacts from one platform to another. This export could mean that the data of third parties (e.g., the contacts of the user exporting the data) could end up in a platform apart from the wishes of those parties. In addressing this concern, any mandate would have to tackle multiple challenges. First, it would have to define to what extent users “own” their data. Second, it would have to determine which backstops are to be implemented in case users want to prevent the exportation of their data to unauthorized platforms. Third, a mandate must determine which platform is to be held accountable for securing the data once the exporting process begins.

Conclusion

Advocates of an interoperability mandate claim it would provide a “surgical approach” to boosting competition, but its implementation would also come with various risks that are often overlooked. When taking into account the current non-mandated implementation of interoperability and the reality of competition in the digital marketplace, a mandate would be a solution in search of a problem. This approach could put consumers into a digital straitjacket of sorts, subjecting them to government-defined protocols, and requiring their data be shared with platforms without their consent. Considering the existence of private interoperability initiatives such as the Data Transfer Project, an interoperability mandate would create myriad unnecessary risks.