Holding Platforms Liable

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Introduction

- Public policy establishes who is liable when bad things happen.
  - Example: Internet platforms are not liable for content from participants.
- But lots of bad stuff comes across platforms.
  - Example: Misinformation, faulty or counterfeit products.

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Question:

Can damages owed by sellers and platforms be set in a way to optimize social outcomes?

Passive Buyer Model Payoffs

- A platform connects unit of buyers (B) to unit of sellers (S).
- Two types of sellers, $i = \{H, L\}$, H with prob λ.
- Seller causes *damage*: $\theta_i d$.

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Buyers	$v - \theta_i d$
Sellers	$\alpha_i - p$
Platform	p
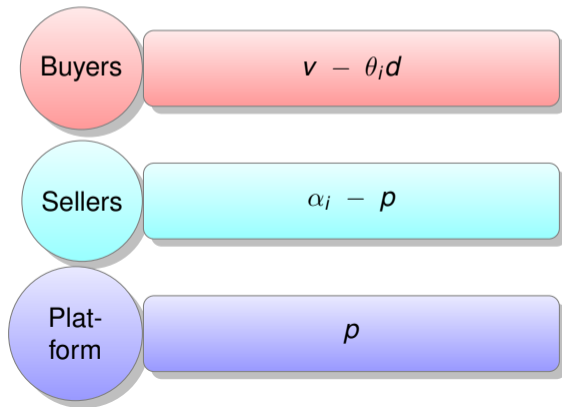
Model

- High type causes negative payoff.
  - $v - \theta_H d < 0$
- But v high enough that consumers still want to buy.
  - $v - \lambda \theta_H d - (1 - \lambda)\theta_L d) > 0$.

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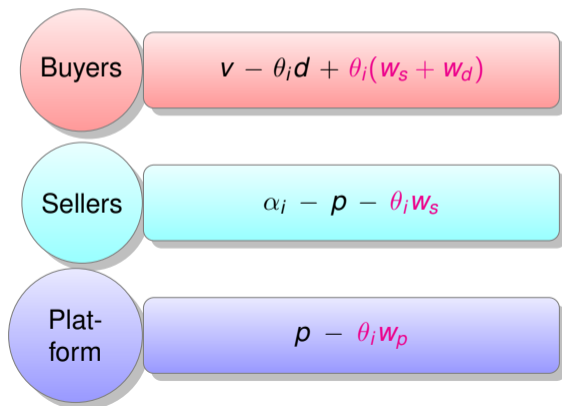
Result

Platform does nothing to prevent bad sellers.

Policy instrument: damages

- Government sets damages paid to consumers from sellers and platform.
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Buyers	$v - \theta_i d + \theta_i (w_s + w_d)$
Sellers	$\alpha_i - p - \theta_i w_s$
Platform	$p - \theta_i w_p$

If *H* types are less profitable than *L*:

- Set *p* to get rid of *H*

If *H* types are more profitable than *L*:

- Platform can engage in *screening*
- Get rid of share $e \in [0, 1]$ of *H*
- Pay cost $c(e)$ (convex)

Platform decisions under damages

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Result:

- Platform may engage in too little or too much screening.
- Depends on size of w_p and w_s.

- What if excluding *H* types meant those consumers matched with *L* sellers?
  - Screening becomes more efficient and more profitable.
- What if there was not full coverage, so screening expanded demand?
  - Platform screens even when there are no damages.
  - Homogenous consumers implies efficient screening?
- What if seller causes damages but not to consumers?

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Examples:

- Political misinformation may cause widespread damage, not just to consumers.
- Counterfeit products hurt brand owners (and may even benefit consumers).

Implications:

- Baseline model is written as if consumers suffer damages but damages could be suffered by anyone and model does not change.
- Model with fees between buyers and sellers is less clear to me.
- In that model, optimal level of screening interacts with pricing, and pricing reflects damages, so if damages are not present in buyer-seller interaction, that changes things.

Conclusion

- Clever and thorough paper on an important topic.
- Allocation of different effects is elegant and informative.
- Many extensions provide evidence of robustness.
- Suggests damages to platforms can be an important policy tool for incentivizing productive screening.