

# Business Model Approaches to Platform Regulation in the EU

A framework for addressing disinformation and hate speech on social media platforms

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#HertieDigitalGovernance

Looking ahead to the new Digital Services Act, one question facing policymakers is whether the underlying business models of social media platforms are misaligned with normative values of creating a safe, open, and reliable commons for online communication. This paper thus explores regulatory measures that would alter the business models of major social media platforms to protect users while continuing to promote innovation. It outlines three policy approaches for consideration by the European Commission, which are: reclassifying social media platforms as utilities; encouraging platforms to elevate authoritative journalism; and promoting alternative business models through a progressive tax on digital ad revenues. Adopting one or more of these approaches would serve to counteract harmful online content whilst promoting alternative models designed to serve the public interest.

## Our vision

**We aim to contribute to a respectful and reliable internet.** Our mission is to share information and knowledge about the development of the Digital Services Act and thus raise awareness of how it relates to addressing online hate speech and disinformation. Under the leadership of the German Presidency, the European Commission will make crucial decisions that shape the development of a European model for digital transformation. This emerging model is not only going to affect the lives of people inside the European Union, it will also serve as a role model for other countries in the World facing similar issues.

**We believe that more public discourse is needed** to better inform the decisions under deliberation by the European Commission. Toward this aim, we provide information about ongoing developments and the different policy approaches that

Europe could take to tackle online hate speech and disinformation as part of the Digital Services Act. We will contribute to this debate during the public consultation phase of the European Commission on our website at [www.digitalservicesact.eu](http://www.digitalservicesact.eu).

**We are a group of graduate students** at the Hertie School in Berlin, Germany, who have teamed up with [Daniela Stockmann](#), Professor of Digital Governance. The Hertie School's mission is to prepare students for leadership positions in government, business and civil society institutions, to produce knowledge for good governance and policymaking and to encourage responsible stewardship of the common good. We consider ourselves as politically independent and are open to political positions from the entire political spectrum in support of producing positive outcomes for society.

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## 1 Introduction

Over the past 15 years, three companies - YouTube, Facebook, and Twitter - have emerged as dominant platforms providing indispensable communications services to the world. They also face the complex task of arbitrating online content.

Social media has demonstrably been exploited to disseminate false or hateful information, which can promote conspiracy theories, influence election outcomes, or incite real-world violence (Marwick & Lewis, 2017). This is exacerbated by online 'echo chambers,' wherein users coalesce around like-minded groups that become both targets and channels for spreading viral content (Schiffer, 2019). It has further been shown that false news stories -- particularly those of a political nature that provoke intense emotional reactions -- propagate faster and wider on social media than fact-based stories (Vosoughi, 2018).

Such revelations have put pressure on social media companies to better moderate their platforms in order to restore trust with users, advertisers, and governments. Through self-regulation, these companies now regularly publish reports describing the level of harmful content they remove from their pages, using trained human moderators and algorithms based on machine-learning.

"In a lot of ways, Facebook is more like a government than a traditional company," Facebook CEO Mark Zuckerberg has said. Indeed, when major platforms set new policies and modify their algorithms or product designs, they exercise tremendous power through their massive user bases and impacts on adjacent businesses.

However, such decisions are made by platform companies with little accountability to users (Klonick, 2018, p. 1603). The reform of the Digital Services Act provides an opportunity for Europe to adjust the rules governing companies to protect citizens' fundamental rights and the public interest.

## 2 Business Model as Approach towards Platform Regulation

### 2.1 The current business model and targeted advertising

The main revenue stream for social media companies depends on their vast and sophisticated processing of user data (Yakovleva & Irion, 2020). Platforms use data to engage in 'microtargeting' - a lucrative means of personalising advertising content for users. This model leads companies to optimize for user engagement (Zuckerman, 2019), and arguably infringes on the privacy and autonomy of users (Zuboff, 2018), while potentially overexposing users to harmful content primed for virality on the platforms (Silverman, 2016).

#### 2.1.1 Effects on traditional news publishers

Quality journalism has an essential role to play in the fight against misinformation (Crovitz, 2019). While social media platforms are arguably a huge benefit to news publishers by sending them traffic (Jarvis, 2020), the paradigm shift towards targeted online advertising has crippled the traditional advertising-driven business models of established news publishers, with hosting, distribution, and monetization of news content being ceded by publishers to platforms (Bell & Owen et al, 2017). This transfer of power has contributed to waves of staffing cuts and closures of traditional news outlets, particularly in local news (Hendrickson, 2019), which must now compete with a proliferation of fake news content on social media that can sophisticatedly mimic fact-based journalism (Recode, 2020).

### 2.2 Proposed alternatives to platform business models

In part to mitigate the spread of harmful online content, various politicians, policymakers, and academics have suggested different ways to regulate platforms' business models. U.S. Senator Elizabeth Warren has argued for breaking up platforms to clear space for tech startups via antitrust measures. Margrethe Vestager of the European Commission has discussed regulating companies' revenue sources through a subscription fee as a way to exempt users from tracking and advertising.

More far-reaching alternatives include a proposal by Tristan Harris for a new corporate classification for platforms as "public utilities" which would subordinate companies'

actions to the public or general interest. Landwehr, Borning, and Wulf (2019) present alternative models of funding and control, such as publicly-funded platforms, NGOs and cooperatives, and “No funding” (or minimally-funded) models such as Wikipedia.

### **3 Framework for Evaluation**

The new Digital Services Act package aims to modernise the current legal framework for digital services by placing two types of responsibilities on large online platforms: 1) addressing the risks faced by their users and to protect their rights, and 2) ensuring fair behaviour so that consumers have the widest choice and the Single Market remains competitive and open to innovations (European Commission, 2020).

In line with the EU Commission’s pillars, we use the following evaluative framework comprised of the three main principles guiding our policy recommendations:

#### **3.1 Users’ right to privacy**

We agree with the author Shoshana Zuboff that the issue of individual privacy is a key problem in social media platforms’ current business models. We believe that companies should respect and protect users’ right to privacy. Protection for privacy is not only an end in itself (Article 8 of ECHR) but also essential to reclaim users’ autonomy and self-determination that has been lost due to the constant push of information from the platforms (Napoli, 2019).

#### **3.2 Protecting the public interest**

As Daniela Stockmann (2020) argues, platforms’ double roles as data companies and information services have led to a tension between their private and public interests. The imperative to safeguard the public interest can justify the need for government intervention in the market (Nooren et al, 2018). The use of social media platforms further relates to the public interests of freedom from improper influence (Helberger, Kleinen-von Königslöw, & van der Noll, 2015) in the use of data, as well as to pillars of the EU community such as free democratic elections and access to reliable information.

#### **3.3 Ensuring innovation and sustainable business practices**

As the EU Commission has stressed (COM(2016)288), the aim of strengthening the single market in relation to online platforms should be guided by the goal of limiting the concentration of market power by large companies, without overburdening or disincentivizing new innovators from entering the market (Dittrich 2018). While reducing profit margins or market power for major platforms should not be the goal of regulation, we believe this should be an acceptable outcome if it ensures users’ rights to privacy and protects the public interest.

## 4 Policy Suggestions

### 4.1 Reclassifying social media companies as utilities

This approach would reclassify major platforms as distinct economic entities bound by specific standards, obligations, and oversight as public service providers (Sabeel, 2018). This would enable regulators to comprehensively evaluate and regulate social media platforms' business practices, including how they respond to disinformation and hate speech.

Building on digital rights-based approaches (such as access to the internet and freedom of expression), the activities of social media companies can be considered an essential public service. Recognizing this, some critics have already argued for a reclassification of large platform companies as utilities. This includes proposals to break up companies through antitrust proceedings; however, antitrust measures arguably lead to a diffusion of the problems of harmful content across a multitude of firms, making it more difficult to track and address (Landwehr, Borning & Wulf, 2019). As utilities, firms could instead be broken up by functional capabilities, restricting the data that the common carriers and their analogs can share (ibid).

#### 4.1.1 Social Impact Assessments

Another requirement of a utility-model approach could be to subject the platforms to social impact assessments (Harris, 2020), in which new products would be evaluated and approved based on their potential impacts on dimensions of individual and societal health, including the impacts of disinformation and hate speech.

### 4.2 Leveling the playing field for news publishers

This approach addresses the ways in which social media platforms could appropriately compensate traditional media companies from advertising revenues generated when users search for and consume news articles and videos via the platforms. This would follow Australia's 2020 order to draft a "Mandatory Code of Conduct" for platforms on issues including the sharing of data with traditional publishers, ranking of news content online and the sharing of revenue generated from news. A similar measure taken by the French Competition Authority in April enforces a 2019 European Commission change to copyright law. As with the Australian model, this measure could be enforced through penalties and sanctions that include a dispute resolution process.

We believe this kind of policy intervention would encourage platforms to strengthen authoritative journalism by pushing them to coordinate with news publishers that are subject to stricter standards, are liable for their content, and serve as a bulwark against misinformation.

### **4.3 Supporting alternative business models through a progressive tax on digital ad revenues**

As proposed by Nobel Prize-winning economist Paul Romer (2019), a progressive tax on targeted ad revenues could accomplish ends similar to those sought by antitrust measures without necessitating a judicial process. The Romer model suggests that higher tax rates for larger companies would a) discourage large mergers and acquisitions and b) make it easier for new companies to enter the market, encouraging greater competition that would ultimately serve consumers. This measure could incentivize companies to adopt business models that do not rely on targeted advertising, and tax revenues could be reinvested to fund new “public service media” models (Zuckerman, 2020) as well as comprehensive study of the social and individual effects of digital media.

#### **4.3.1 Incentivizing platform companies to adopt subscription models**

In order to avoid a progressive tax on digital ad revenues, platforms could be incentivized to adopt more traditional practices like a subscription model (Romer, 2019). A subscription fee would alter the business model of platforms by reducing or removing their reliance on targeted advertising. Limiting data collection would protect users from targeted ads that infringe on their privacy and autonomy (Opinion 3/2018 EDPS Opinion on online manipulation and personal data, 2018). This could disrupt the ability of bad-faith actors to target susceptible audiences through disinformation, and might shift platforms’ incentives away from engagement-centric metrics that reward harmful content.

#### **4.3.2 Reinvesting tax revenues in new business models and research**

As proposed by Ethan Zuckerman (2020), one possible use of digital ad tax revenues could be to facilitate experimentation and the development of new forms of public service digital media. In order to guide this proposed experimentation, he argues, governments should also fund extensive research on the effects of social media on our individual and societal health. In this way, new kinds of public platforms could be created as an alternative to surveillance-based business models, based on sound scientific evidence that addresses the root causes of problems such as the proliferation of harmful content.

#### **4.3.3 Adopting a regulatory sandbox approach to support new ventures**

To realise the social and economic potential of the preceding policy suggestions, there is a need for an agile regulatory framework to keep pace with emerging technological innovations while mitigating their harmful impacts. One model for such a framework comes from finance, as lawmakers across the world have already started applying ‘regulatory sandboxes’ to regulate FinTech companies.

Using this framework, policymakers in the EU can experiment with eliminating red tape during a limited time (Federal Ministry for Economic Affairs and Energy, 2019), facilitating development of new tools (Allen, 2015), testing safeguards (Monetary Authority of Singapore, 2020) and enabling real-time proactive policy change (Arner et al, 2016).

With the launch of the European Forum for Innovation Facilitators (“EFIF”) in 2019 to foster collaboration between European supervisors and FinTech firms, there is already a forum that can be modified and expanded to support public-private partnerships around social media platforms operating in the public interest.

## 5 Conclusion

The introduction of the Digital Services Act is an opportunity to update the rules governing social media platforms by encouraging new approaches to regulation that better protect the public interest while promoting innovation under the single market. Our accordant policy recommendations have ranged in severity, from those that would reform current practices (such as reclassifying platform companies as utilities or requiring them to more generously compensate news publishers) to developing alternative business models through a progressive tax on digital ad revenues.

There is no doubt that today’s major social media platforms have generated benefits for their users, opening up entirely new forms of communication. However, we see that the harms that emerge from hate speech, disinformation and misinformation on the platforms risk may be too complex for companies alone to manage, especially given their existing business models that may be misaligned with the public interest around these issues.

Any new regulatory framework should take account of such complexity and invest in more research to better understand the root problems, foster targeted innovations, and provide the public with greater choices with which to navigate the informational commons safely and reliably.

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