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Response to Digital Platform Services Inquiry: Issues Paper

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The Progressive Policy Institute (PPI) is honored to submit a response on the Digital Platform Services Inquiry Issues Paper. PPI is an economic think tank, based in Washington DC, with a longstanding research interest in the global tech economy. Notably, PPI has documented the employment strength of Australia's App Economy.[1] We have also extensively studied the European tech sector.

We note that the European Union's "ex-ante" approach to tech regulation—embodied most notably in the Digital Markets Act (DMA)--has served as a template for other countries, including Australia, India, Japan, and South Korea.[2] For example, like the DMA, India's proposed Draft Digital Competition Bill would create a new set of ex-ante regulatory obligations for the largest tech companies, addressing potential competitive issues.

At the same time, we also note that the EU's push to impose a new ex-ante regulatory framework on the information sector, starting with the 2016 General Data Protection Regulation (GDPR) and continuing through to the DMA, seems to have done little to accelerate European tech growth.

Meanwhile, the United States has maintained extremely strong gains in the information sector without passing a DMA-like law. Instead, competition issues are being handled within the framework of existing antitrust law.

The data is clear. Real GDP growth in the U.S. in 2024 is expected to substantially outperform the European Union (2.7% versus 0.8%). That's according to the April 2024 forecast from the International Monetary Fund.[3]

The strong performance of the US economy is being substantially driven by the information sector, which has accounted for roughly one-third of US GDP growth since 2019.

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[1] https://www.progressivepolicy.org/publication/the-app-economy-in-australia-2023/
[2] https://www.accc.gov.au/system/files/Digital%20platform%20services%20inquiry%20-%20September%202022%20interim%20report.pdf
[3] https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

Indeed, productivity in the U.S. information sector has risen at an annual rate of 5.2% since 2019, while productivity in the German and French information sectors have risen at an annual rate of only 0.8% and 0.6%, respectively, since 2019.[4]

What's new is that EU policymakers and economists are finally acknowledging that the region suffers from a huge innovation problem that the DMA and tech regulation won't fix. In a June 2024 speech entitled "An Industrial Strategy for Europe," Mario Draghi, former president of the European Central Bank and former prime minister of Italy, observed that:

> "…we need to re-think the innovation environment in Europe. As a share of GDP, European firms spend about half as much as their US peers on research and innovation, leading to an investment gap of around €270 billion a year.
>
> The pipeline from fundamental research into commercialisation of ideas is also much weaker. There are no European innovation clusters in the top 10 globally and our universities struggle to retain top talent."

Europe's focus on "ex-ante" tech regulation shows no sign of closing the innovation gap, as long as European companies collectively fall short in innovation investment. Indeed, there's a sense that the weight of regulation may be impeding European innovation compared to the United States, especially in cutting edge areas such as artificial intelligence.

Should Australia follow Europe's example? The results of the EU regulatory experiment will unfold over the next several years. Taking account of the lessons — and downsides — of the DMA and related legislation could greatly improve Australia's digital regulatory efforts.

[4] https://ec.europa.eu/eurostat/web/main/data/statistical-themes