



The Dilemma of Digital Monopolies

One of the reasons free market capitalism has thrived is that it self-organizes to produce beneficial results. In the industrial age economy, the decentralized ideal of the capitalist model works, for the most part, because the pursuit of selfish interests by individuals, interacting freely in the marketplace, will result in a complex and dynamic system of multiple competitors. The question that the paper will discuss is whether the economic environment that is emerging in certain sectors of the information age economy is sufficiently different from that which prevails in most industrial age sectors that the same self-interested behavior by individuals and organizations will lead to structures with fewer competitors – namely digital monopolies – that might have significant benefits to consumers and whose formation is actually encouraged by consumer behavior.

Specifically, the paper poses the question of whether the activities of individuals and organizations in segments of the modern digital economy will self-organize into monopolistic structures. To this end the paper will examine eleven separate but often interrelated factors that are found in many business sectors that exist or are emerging in the information age economy. It is suggested that when one or more of the eleven factors examined are present in sufficient strength there is the probability of digital monopolies.

The eleven factors to be examined are: (1) scale economy effects, (2) learning/experience effects, (3) superstar effects, (4) network, standardization or network externalities effects, (5) information search and retrieval burdens, (6) increasing returns, (7) mimetic market effects, (8) self-herding and ownership effects, (9) two-sided market effects, (10) non-rivalry and reproduction cost effects, and (11) more powerful intellectual property rights.

This paper will argue that the self-organizing, monopolistic tendencies in segments of the information age economy that flow from the identified factors can have a predictive function for companies pursuing market power and will have significant policy implications for future competition law policy and enforcement.