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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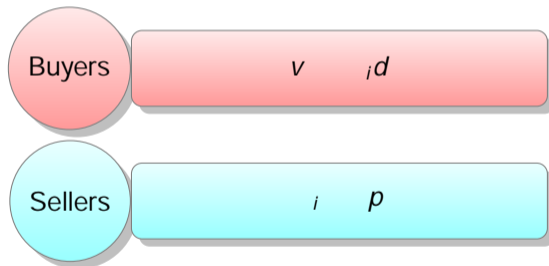 - Example: Misinformation, faulty or counterfeit products.

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 .
- Seller causes *damage*: $\theta_i d$.

Model

- High type causes negative payoff.
  - $v - {}_H d < 0$
- But v high enough that consumers still want to buy.
  - $v - {}_H d \quad (1 \quad) {}_L d) > 0$.

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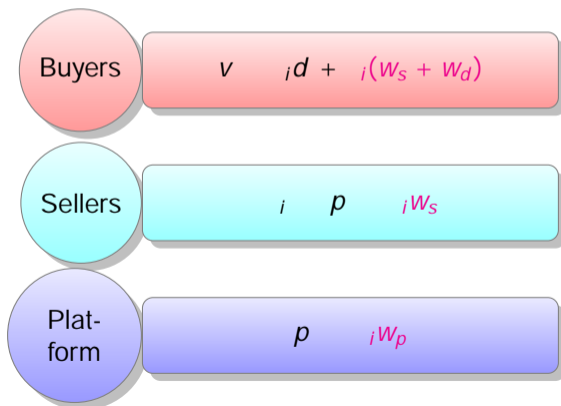 - v $_H d$ $(1$ $)$ $_L d) > 0.$

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Buyers	$v \quad _i d + _i(w_s + w_d)$
Sellers	$_i \quad p \quad _i w_s$
Platform	$p \quad _i w_p$

Platform decisions under damages

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

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

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- Pay cost $c(e)$ (convex)

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Result:

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

Some comments

- 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?

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.