How the Internet is Reshaping Markets, Society and Economics

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ABSTRACT

The objective of this paper is to present a unifying framework for studying the impact of new collaborative technologies (or consumer technologies) on markets, society and economic science. It aims to influence researchers in social sciences, entrepreneurs and policy-makers to accelerate the adoption of the learning, tools and opportunities which the new collaborative technologies bring into their fields.

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1. THE MARKET IS WATCHING

First they ignore you, then they laugh at you, then they fight you, then you win. – M. K. Ghandi.
By giving people the power to share, we are starting to see people make their voices heard on a different scale from what has historically been possible. – M. Zuckerberg.

The recurrent idea motivating this work is that the digitalization of the world, the continuous customization of the channels of information and the new ways of interaction between users and providers of services - all enabled by new collaborative technologies - are leading to a new wave of the industrial revolution that will have a tectonic impact on five main pillars of the economy and society: firms and their industrial organization, entrepreneurship, markets (including labor), economic growth and social structures. Due to the nature of the underlying technology, the current revolution - unlike previous revolutions - offers a unique opportunity to develop the mechanisms and institutions for a non-disruptive, sustainable distribution of welfare.

First, the new collaborative technologies provide the means to fulfill most prerequisites underlying the market clearing hypothesis and the assumptions for efficient markets, perfect competition, and information, as advocated by the “neoclassical” economics schools of thought that emerged after the first industrial revolution. They offer the technological mechanisms that can realize the vision of neoclassical markets, and through their functioning, contribute to more efficient allocation of resources and the interrelated gains. Second, these new technologies offer tremendous opportunities for

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Reducing a vast variety of inefficiencies; from unsuccessful product launches to empty cargo movements or bargaining breakdowns, leading to lost mutually beneficial opportunities, due to high costs of implementing market tests, developing a platform for return loads, or automated bargaining mechanisms. Last but not least, they reduce barriers to knowledge-sharing and collaboration. The speed of transmitting information seems constrained only by the speed of light; reduced processing costs of customizing and analyzing information continuously open new opportunities for value creation. As these lines were written, leading US academic institutions (MIT, Harvard, the University of California Berkeley and Stanford) were launching edX, offering online education for “anyone, anywhere, anytime,” reducing the barriers to high-quality education, talent selection, accelerating the frictionless diffusion of human capital. This knowledge revolution marks an era in which content is easily accessible almost everywhere, and value is created mainly by the ways this context is compiled to kindle new ideas, combined into new concepts, and ultimately commercialized in markets.

Following every major scientific/technological revolution, economic theories, interrelated policies, and institutions evolve, new social structures and organizations emerge, taking over power from the old ones.

New collaborative technologies accelerate the development of compatible, efficient institutions and organizations through: a) the reduction of inefficiencies; b) the promotion of a network theory of value; and c) efficient technological mechanisms that continuously simplify, standardize transactions and exchanges.

In the following sections, the impact of new technologies is projected on firms and industrial organization, entrepreneurship, markets, economic growth, and social structures. This process of change is analyzed from the perspective of the ongoing evolution in the pillars of welfare and value creation, and in the reduction of inefficiencies, costs and barriers to information and knowledge sharing. The paper concludes with the challenges this evolution implies for decision and policy makers.

Figure 1. Market is watching - Taxonomy of change
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