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## INNOVATION LETTER

# HOW PLATFORM COOPERATIVES CAN REDRESS ABUSES OF AUTHORITY WITHIN DIGITAL MARKETS

### **Abstract**

After their advent, digital platforms were hailed as innovative institutional solutions capable of reducing transaction costs for a wide group of stakeholders by removing traditional intermediaries and facilitating the match of demand and supply through digital means. However, a group of big investor-owned platforms from Silicon Valley soon imposed themselves as monopolistic actors within digital markets, leveraging their strong bargaining position to abuse their authority and extract undue rents. Different legal strategies have been assessed in the last few years to limit this unilateral rule-setting power, particularly at the EU level. Nevertheless, little consideration has been given to alternative forms of platform organising, aimed at including the relevant stakeholders in the governance of platforms to redress power abuses. This article presents the case of platform cooperatives, which are platforms owned and governed by their workers and users. Moreover, the article considers the institutional complementarities that could help platform co-ops overcome challenges and compete with capitalist platforms on fair legal and political bases.

**JEL CLASSIFICATION:** D23, D26, J54, L22, L38, O35, P13

### **SUMMARY**

1 Abuses of Authority within Digital Markets - 2 The Platform Cooperativism Alternative - 3 Institutional Complementarities for Supporting Platform Co-Ops

## **1 Abuses of Authority within Digital Markets**

In the last two decades, the platform business model has profoundly transformed modern societies and assumed an increasing centrality in the academic debate. According to the OECD, the term ‘online platform’ describes ‘a range of services available on the Internet including marketplaces, search engines, social media, creative content outlets, app stores, communication services, payment systems, services comprising the so-called “collaborative” or “gig” economy, and much more.’<sup>1</sup> Despite obvious differences, what

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<sup>1</sup> OECD, *An Introduction to Online Platforms and Their Role in the Digital Transformation* (OECD Publishing 2019) 20.

associates all these platforms is that they facilitate on-demand exchanges of goods and services (including labour) through digital means. In this way, digital platforms were originally supposed to reduce transaction costs for all their stakeholders and more democratically distribute value amongst them. The promise was that algorithmic management systems would have helped to build reciprocal trust between users without making it necessary to resort to vertically integrated hierarchies to organise transactions.

However, soon, this ideal left space for reality and a group of big investor-owned platforms from Silicon Valley ended up monopolising digital markets; Uber is an emblematic example. Investor-owned platforms, thanks to network effects, have in fact become infrastructural actors in our daily lives providing increasingly essential services and often representing the only viable options in the labour market for vulnerable people who lack other alternatives. At the same time, these platforms have the unilateral power of setting and updating the rules of the game through their terms and conditions. Consequently, many scholars argue that they can't be intended anymore just as the neutral multi-sided market-matching systems they claim to be. They are instead gatekeepers of digital markets who embrace, evolve and extend some of the control features typical of traditional corporations. Namely, they exploit their algorithms and their unequal bargaining position to dictate the behaviour, take unfair advantages and extract rents from non-financial stakeholders who depend on them at different levels but are not formally integrated into the firm.<sup>2</sup> That is particularly evident in labour-based gig platforms—both 'geographically tethered' and 'cloudwork' centred—which externalise tasks to precarious independent contractors not guaranteed with standard employment protections.<sup>3</sup>

From the perspective of New Institutional Economics (NIE), we could say that digital platforms exacerbate one of the defining features of traditional capitalism: the unilateral allocation of residual control rights.<sup>4</sup> Due to contract incompleteness, residual control rights give their holders, who are usually the ones who own the physical assets of the firm, the right to make decisions about whatever is *ex-ante* left outside of contracts when unforeseeable contingencies happen. However, such an allocation, originally thought to protect the actor supposed to undertake the costliest investment from the hold-up risk, overlooks other important investments: especially in human capital. Therefore, it can create the conditions for an 'abuse of authority': the residual owner may unilaterally renegotiate contracts *ex-post* and expropriate in turn other stakeholders from their

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<sup>2</sup> Martin Kenney and John Zysman, 'The Rise of the Platform Economy' (2016) 32(3) *Issues in Science and Technology*; K Sabeel Rahman and Kathleen Thelen, 'The Rise of the Platform Business Model and the Transformation of Twenty-First Century Capitalism' (2019) 47(2) *Politics & Society* 177; Mariana Mazzucato, Josh Ryan-Collins and Giorgos Gouzoulis, 'Theorising and Mapping Modern Economic Rents' (2020) 13 UCL Institute for Innovation and Public Purpose Working Paper; David Stark and Ivana Pais, 'Algorithmic Management in the Platform Economy' (2020) 14(3) *Sociologica* 47; Koen Frenken and Lea Fuenfschilling, 'The Rise of Online Platforms and the Triumph of the Corporation' (2020) 14(3) *Sociologica* 101.

<sup>3</sup> Jamie Woodcock and Mark Graham, *The Gig Economy: A Critical Introduction* (Polity Press 2020).

<sup>4</sup> Oliver Hart, 'Incomplete Contracts and Control' (2017) 107(7) *American Economic Review* 1731.



specific investments.<sup>5</sup> Moreover, it can also reduce firm efficiency in the long run since, fearing the risk of expropriation, the latter will likely start to underinvest. This dynamic is even worse for platform stakeholders—not only workers but also customers and service providers.

Indeed, as I have anticipated, the organisational model of platform capitalism is founded almost entirely on the externalisation of the entrepreneurial risk.<sup>6</sup> The only real asset platforms own are their algorithms and no protections are granted to other actors who are not integrated into digital companies that just claim for themselves the role of market-matching systems. As a consequence, platform stakeholders do not have any bargaining power in negotiating the rules to which they are subjected and can only accept terms and conditions on a take-it-or-leave-it basis, knowing that these rules can even be unilaterally renegotiated from one moment to the next. Therefore, some scholars are currently referring to this business model as ‘neoliberalism on steroids’<sup>7</sup> and advocating for the necessity of alternative institutional solutions to tackle the increasing precarity of working conditions, the unilateral extraction of users’ value (including data), the extensive adoption of unaccountable surveillance practices through algorithmic management systems, the platforms’ anti-competitive behaviours and their role of gatekeepers concerning essential infrastructures of our daily lives.

So far, the main strategy considered, at least at the EU level, for protecting stakeholders’ rights while preserving the possibility for healthy innovation is to regulate the sector from the top to level the playing field and force all platforms to guarantee minimum protections in order to create a fair terrain for competition. At the same time, it is contested the extent to which legal instruments such as the Council Directive 93/13/EEC on unfair terms in consumer contracts (UCTD), the EU Platform to Business Regulation 2019/1150 (the P2B Regulation), the Digital Markets Act (EU Regulation 2022/1925), the Digital Services Act (EU Regulation 2022/2065) or the new Platform Work Directive can capture all the specificities of the platform economy and solve the problems posed on the demand and supply sides by the unilateral adoption of contracts of adhesion in this sector. In the same way, it is under debate to what extent national governments are bound to implement and enforce EU rules. Accordingly, this article presents the idea that fixing minimum standards for protecting stakeholders’ interests within digital markets could be just a part of the answer. A complementary strategy that would deserve attention is to actively sustain more democratic and equitable bottom-up initiatives that can thrive in an enabling and more certain legal context. In particular, the article focuses

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<sup>5</sup> Lorenzo Sacconi, ‘Codes of Ethics as Contractarian Constraints on the Abuse of Authority Within Hierarchies: A Perspective from the Theory of the Firm’ (1999) 21 *Journal of Business Ethics* 189.

<sup>6</sup> Nick Srnicek, *Platform Capitalism* (Polity Press 2017).

<sup>7</sup> David Murillo, Heloise Buckland and Esther Val, ‘When the Sharing Economy Becomes Neoliberalism on Steroids: Unravelling the Controversies’ (2017) 125 *Technological Forecasting and Social Change* 66.

on one of the most promising alternatives recently proposed: the organisational model known as platform cooperativism.

## 2 The Platform Cooperativism Alternative

The concept of platform cooperativism was coined by the New School professor and digital activist Trebor Scholz in 2014 through its first influential article on the topic: *Platform Cooperativism vs. the Sharing Economy*.<sup>8</sup> Subsequently, Scholz founded the Platform Cooperativism Consortium (PCC): ‘an organisation dedicated to fostering the growth of platform co-ops and related projects’ that actively supports cooperative developers in the most disparate contexts and sectors through advocacy activities, community building, education and co-design.<sup>9</sup> Moreover, in 2019, he also founded the Institute for the Cooperative Digital Economy, the research arm of the PCC at the New School. Each year this institute launches a non-residential fellowship programme to convene young scholars from all over the world to conduct frontier research on platform co-ops. Amongst the most interesting projects that have emerged until today, we can recall: CoopCycle, a French-born federation of food-delivery cooperatives that share the software infrastructure and is rapidly expanding in different countries across the globe to compete with Deliveroo, Glovo and similar other companies; Fairbnb, an ethical alternative to Airbnb born in Italy and aiming to redistribute value to local communities; and the Drivers Cooperative, a New York City-based driver-owned cooperative challenging Uber and Lyft.

By definition, a ‘platform cooperative’ is a ‘project or business that *primarily* uses a website, mobile app, or protocol to sell goods (e.g., data) or services, and relies on democratic decision-making and shared community ownership of the platform by workers and users.’<sup>10</sup> Hence, Scholz’s idea can be summarised as follows: involving platform stakeholders in the governance and ownership structures of digital companies to solve the issues mentioned in the previous section. Similarly, the other founding father of the movement, the American academic and activist Nathan Schneider, stresses how, ‘under the banner of “platform cooperativism,” an emerging network of cooperative developers, entrepreneurs, labour organisers and scholars is developing an economic ecosystem that seeks to align the ownership and governance of enterprises with the people whose lives are most affected by them.’<sup>11</sup> In this sense, at least four possible membership types have

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<sup>8</sup> Trebor Scholz, ‘Platform Cooperativism vs. the Sharing Economy’ (*Medium*, 5 December 2014) <<https://medium.com/@trebors/platform-cooperativism-vs-the-sharing-economy-2ea737f1b5ad>> accessed 10 September 2024.

<sup>9</sup> Trebor Scholz, *Own This: How Platform Cooperatives Help Workers Build a Democratic Internet* (Verso 2023) 18.

<sup>10</sup> *ibid* 8.

<sup>11</sup> Nathan Schneider, ‘An Internet of Ownership: Democratic Design for the Online Economy’ (2018) 66/2 *The Sociological Review Monographs* 320. For the different stakeholders that can be involved in an ideal-typical platform cooperative and the role they can respectively play in an extended governance structure, see Pietro Ghirlanda and Vassil Kirov, ‘An



been recognised: multi-stakeholder/community platforms, producer-led platforms, consortia/worker platforms and data consortia platforms.<sup>12</sup> Focusing on the centrality of digital workers for all these membership types, Scholz has also proposed ten further defining principles of platform cooperativism: (collective) ownership, decent pay and income security, transparency and data portability, appreciation and acknowledgement for workers, co-determined work, (the need for) a protective legal framework, portable worker protections and benefits, protection against arbitrary behaviour, rejection of excessive workplace surveillance and the right to log off from platforms.<sup>13</sup>

We have already seen how the organisational model of capitalist platforms has quickly proved to be extremely asymmetric and prone to power abuses, despite the original promises of transaction cost reduction and economic democratisation. The entrepreneurial network characterising investor-owned platforms is in fact composed of a central hub represented by platform owners and venture capitalists who keep residual control rights for themselves and can extract monopolistic rents from other stakeholders. On the contrary, the organisational model of platform cooperatives is more horizontal and decentralised, with the different stakeholders that are democratically involved in the value creation process, appropriately rewarded for their specific investments and that, in this way, contribute to increasing the relational capital of the firm.<sup>14</sup> As a consequence, platform co-ops can boost efficiency in the long run because of stakeholders' lower incentive to underinvest and because of the superadditivity of joint human capital investments characterising the digital environment. Therefore, platform cooperatives seem to re-actualise the project of a polycentric digital economy based on 'commons-based peer-production' that the Internet's theorist Yochai Benkler had described as a third mode of production and distribution of value alternative to markets and hierarchies.<sup>15</sup> A model that was betrayed by the monopolisation of digital markets by the hands of capitalist platforms, but which is now gaining a renewed attention to preserve Internet's public nature.

Of course, while platform co-ops have considerable potential, we cannot expect them to be equally successful in all sectors. With an often-dispersed pool of stakeholders who may be connected only by digital means, they risk exacerbating the governance challenges that economists traditionally oppose to cooperatives: the high cost of making decisions and the free-riding problem. Moreover, other challenges related to digital markets are financial, technological and growth challenges. Namely, co-ops lack access to the

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Alternative Organizational Model for a More Democratic and Equitable Digital Economy: A Systematic Literature Review on Platform Cooperativism through the Lens of Stakeholder Theory. *Competitive Advantages and Challenges*' (2024) 95 *Annals of Public and Cooperative Economics* 1197.

<sup>12</sup> Simon Borkin, 'Platform Co-operatives – Solving the Capital Conundrum' (2019) Nesta and Co-operatives UK Report, February.

<sup>13</sup> Trebor Scholz, *Uberworked and Underpaid: How Workers are Disrupting the Digital Economy* (Polity Press 2017) 180, 184.

<sup>14</sup> Ghirlanda and Kirov (n 11).

<sup>15</sup> Yochai Benkler, 'Coase's Penguin, or, Linux and The Nature of the Firm' (2002) 112(3) *The Yale Law Journal* 369.

financing channels of venture-capital-backed platforms yet still require huge early-stage investments to build the technological infrastructure and develop the network of users. Consequently, they must find alternative scaling strategies to the traditional ‘growth-before-profits’ business models of their competitors.<sup>16</sup> Therefore, in the case of global marketplaces, search engines or social media platforms, other institutional arrangements, such as a stronger regulatory role for public institutions, may be more effective in constraining monopolistic tendencies. In contrast, the cooperative solution seems more viable for labour-based platforms, which are those where platform capitalism produces some of its most negative outcomes, because of the more homogenous stakeholders’ interests that can reduce governance costs.<sup>17</sup> That is especially true for geographically tethered platforms like ride-hailing or food-delivery, since most of the services, even if managed online, are provided in the real world by people who can more easily meet and organise. At the local level, platform cooperatives may indeed prove greater efficiency, because of the deeper social embeddedness and the even lower costs of making decisions, and higher productivity, due to the lower peer-monitoring effort that is required locally—where there is also less need to build a highly sophisticated platform.<sup>18</sup> At the same time, an alternative scaling strategy to the development of big monopolistic giants is represented by the option of pooling the technological investment and sharing the same infrastructure within a network of federated but autonomous local cooperatives to reduce the entry barrier represented by the cost of the platform, similar to the model of CoopCycle.<sup>19</sup>

### 3 Institutional Complementarities for Supporting Platform Co-Ops

Building on the previous section, the reduced risk of abusive behaviours, which is a defining feature of platform cooperatives, can be thus read as one of their main competitive advantages (distributed between all the relevant platform stakeholders and not appropriated by a small oligopoly). Nevertheless, we have seen that platform co-ops experience several difficulties in becoming a credible alternative to capitalist platforms. Moreover, by externalising entrepreneurial costs on precarious and low-paid workers, capitalist platforms can further outcompete platform co-ops through price dumping strategies.<sup>20</sup>

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<sup>16</sup> Borkin (n 12); Ghirlanda and Kirov (n 11).

<sup>17</sup> Henry Hansmann, *The Ownership of Enterprise* (Belknap Press 1996).

<sup>18</sup> Richard Spear, ‘The Co-Operative Advantage’ (2000) 71(4) *Annals of Public and Cooperative Economics* 507; Koen Frenken, ‘Political Economies and Environmental Futures for the Sharing Economy’ (2017) 375(2095) *Philosophical Transactions of the Royal Society A* 20160367; Damion J. Bunders and others, ‘The Feasibility of Platform Cooperatives in the Gig Economy’ (2022) 10(1) *Journal of Co-operative Organization and Management* 100167; James Muldoon, *Platform Socialism* (Pluto Press 2022); Ghirlanda and Kirov (n 11).

<sup>19</sup> Morshed Mannan and Nathan Schneider, ‘Exit to Community: Strategies for Multi-Stakeholder Ownership in the Platform Economy’ 5(1) *Georgetown Law Technology Review* 1; Scholz (n 9); Ghirlanda and Kirov (n 11).

<sup>20</sup> Scholz (n 9).





For these reasons, beyond identifying the sectors where the cooperative solution is feasible, the success of platform cooperatives also depends on the socio-political compromises that modern societies can decide to adopt for pushing digital companies to produce and distribute public value instead of appropriating undue rents. Such socio-political compromises are usually referred to as ‘institutional complementarities,’ a concept that stresses how institutions belonging to different domains can reinforce each other to stabilise a socio-political system.<sup>21</sup> In this sense, different varieties of capitalism can be analysed through the interdependences between certain corporate governance models and certain other political and regulatory choices. For example, the path characterised by the financialisation of the economy and by the increasing precarity of labour markets that culminated in the current platform capitalism has been facilitated by the conducive legal environment and business sector of the U.S.<sup>22</sup> That is the core of what Anu Bradford defines the American market-driven regulatory model: the ‘U.S. digital empire.’ On the contrary, the ‘European digital empire’ is characterised by a rights-driven model that prioritises the protection of the fundamental rights of EU citizens over radical innovation.<sup>23</sup> Accordingly, a more human-centric governmental approach may serve as an institutional complement to the platform cooperative movement.

I have already mentioned the regulatory role that supranational and national governments can play in levelling the playing field to create a fair terrain for platform competition, pushing capitalist platforms to internalise the costs that they often externalise on other stakeholders and that grant them unfair advantages over platform cooperatives. In this sense, the UCTD, DSA, DMA, P2B Regulation and Platform Work Directive do not directly mandate co-ownership of platforms. Still, despite the problems of implementation they face in regulating businesses that structurally exploit legal grey zones, they seek to reallocate entitlements within the EU digital economy. This reallocation can favour more equitable and democratic governance models that naturally align with these rules. For example, the UCTD (together with the GDPR) can be implemented to protect consumers from the unfair terms and conditions unilaterally set by platforms, often leading to data extraction, while platform co-ops already leave users in control of their data. Similarly, the P2B Regulation shields small businesses and traders on online platforms from the latter’s exploitation of information asymmetries, promoting a transparent and predictable digital environment that extends to individual entrepreneurs. The aim of the Platform Work Directive is instead to capture the case of fake independent contractors and limit the use of algorithmic management systems in the workplace, introducing a presumption of employment to force platforms to guarantee

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<sup>21</sup> Masahiko Aoki, *Toward a Comparative Institutional Analysis* (The MIT Press 2001); Ugo Pagano and Massimiliano Vatiello, ‘Costly Institutions as Substitutes: Novelty and Limits of the Coasian Approach’ (2015) 11(2) *Journal of Institutional Economics* 265; Bruno Amable, ‘Institutional Complementarities in the Dynamic Comparative Analysis of Capitalism’ (2016) 12(1) *Journal of Institutional Economics* 79.

<sup>22</sup> Rahman and Thelen (n 2).

<sup>23</sup> Anu Bradford, *Digital Empires: The Global Battle to Regulate Technology* (OUP 2023).

their workers with standard protections when material facts indicate control and direction. This would increase the costs for capitalist platforms and foster the competitiveness of worker-owned alternatives. Finally, the DSA and the DMA, preventing illegal activities on large online platforms and regulating their role as gatekeepers, can benefit platform co-ops not only as competitors but, more importantly, as business users of these services.

At the same time, there are more direct strategies that public institutions may decide to undertake. As a direction for future research, I thus want to conclude this innovation letter by mentioning a policy paper jointly produced by the Platform Cooperativism Consortium and the Berggruen Institute about *Policies for Cooperative Ownership in the Digital Economy*.<sup>24</sup> In this paper, the authors discuss several strategies that local and regional governments may adopt for actively supporting platform co-ops and other ethical forms of platform organising by taking inspiration from prominent case studies. For example, they extensively refer to the work on the digital urban commons done in Barcelona by Francesca Bria, former Chief Technology and Digital Innovation Officer of the city under Ada Colau's administration. Among these strategies, it is worth recalling: the development of sustainable public procurement initiatives friendly to platform co-ops, the implementation of loan/funding programs targeted for solidarity-oriented platforms, the public participation in multi-stakeholder platform cooperatives, investments in university research to identify and overcome legal, technological and economic barriers, and the provision of public spaces that platform co-ops can use for free or at a low cost. Accordingly, the interesting idea of this policy paper is that, apart from regulation, public institutions have a whole set of policy solutions they can implement to incentivise the development of socially innovative forms of platform organising and redress abuses of authority within digital markets. If the aim is shaping a more democratic and just digital transition, there is a need for multi-level, multi-sectorial and comprehensive approaches that acknowledge the importance of community-driven alternatives as one piece of the puzzle.

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<sup>24</sup> Trebor Scholz and others, 'Policies for Cooperative Ownership in the Digital Economy' (2021) Platform Cooperativism Consortium and Berggruen Institute Policy Paper, December.