A New Breed of Company-States

Book Review: Vili Lehdonvirta, Cloud Empires: How digital platforms are overtaking the state and how we can regain control

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At the height of its power, the British East India Company (EIC) controlled a vast commercial infrastructure, including forts and forces, minted currency, engaged in diplomacy, collected taxes, and administered justice. It was 'a state in the disguise of a merchant' [1, p. 29]; one among many 'company-states' that shaped early capitalism and imperialism [2], and, for a time, challenged the exclusive sovereignty of states [3].

Today, we observe the rise of a new breed of company-states: large technology platforms, or, as Vili Lehdonvirta calls them in an excellent new book of the same title, cloud empires. Like their predecessors, they exercise quasi-sovereign authority over millions of people. For example, platform companies today likely 'resolve more disputes now than the entire world's public courts' (p. 2). But unlike earlier company-states and unlike states themselves, their authority is not bound to territory but applies to all 'users', wherever they live. They are 'states without estates, empires in the cloud' (p. 213).

Lehdonvirta retells the rise of these cloud empires to the commanding heights of today's digital economy through the lens of individual stories. Combining historical and biographical research, social-scientific theory, and empirical insights, 'Cloud Empires' weaves different episodes and story-lines of the digital transformation into a rich and colorful tapestry of today's digital world, focusing on its economic (Part I), political (Part II), and social institutions (Part III) respectively.

The chapters in Part I chronicle the quest of different pioneers of the Internet age to solve digitally the problems of the analogue world; only to encounter them anew and solve them in very 'analogous' ways to how they were solved in the past. The Internet, as Lehdonvirta writes, 'essentially recapitulated the past three thousand years of economic history in thirty years' (p. 6). For example, in a case study on *Usenet Marketplace*, a decentralized predecessor to Ebay and Amazon, Lehdonvirta documents how reciprocity and reputation sustained commerce on the early Internet for almost a decade. However, as the number of Internet users grew in the 1990s, the classic problem of exchange resurfaced. Fraud and spam became endemic, and users flocked to centralized platforms that - much like states before them - were able to restore social order at scale by creating and enforcing rules.

The institutionalization of the digital world by private companies made them powerful rule-makers whose decisions began to shape markets for books and labor alike. But their private 'market-

craft' (Steven Vogel) also raised questions of power and accountability, which the chapters in Part II tackle. They show how difficult it is to ensure accountability in the digital age: how competition policy lacks teeth as network effects and information asymmetries work in favor of entrenched platforms; how blockchain technology at best democratizes rule-enforcement, but not rule-making; and how ordinary digital laborers have a tough time organizing effective resistance given their geographical and social fragmentation.

Here, Lehdonvirta offers an unashamedly sober account of digital resistance. What is more likely than a successful revolution of the digital proletariat is a successful revolution of the emerging digital bourgeoisie. Lehdonvirta puts his hopes in the digital 'burghers' - successful app developers and tech workers, streamers and influencers - not those those that deliver them burgers. Against this background, Part III makes a number of provocative suggestions about how to make the digital economy more inclusive and democratic.

Lehdonvirta concedes that policies like vertical breakups, interoperability requirements, and public utility regulation have an important role to play. But what if today's tech elites are not (just) the robber barons of our age, to be reined by the tools of competition policy, but today's aristocrats, to be reined in through democratization and constitutionalization? After all, they are not only economically dominant, but increasingly design the rules of how we work, communicate, and entertain ourselves. Policymakers are therefore advised to focus on i) protecting and fostering the 'indigenous proto-democratic institutions' (p. 233) the digital burghers are already building, and ii) creating a digital charter of fundamental rights that limits 'platform rulers' exercise of power against their users, just as constitutions limit states' power' (p. 235).

These suggestions move the debate beyond its current focus on (supra-)national regulations of platforms whose user base is transnational. No state, after all, 'can really represent the interests of the users of a deterritorial digital platform' (p. 228). However, they also raise a number of questions that bring us back to some of the books' core arguments. First, one wonders whether a defense of economic interests by well-resourced digital burghers is the only way to think about digital resistance. Could resistance not also come from a Polanyian counter-movement against the digital commodification of everyday life, from privacy activists or opponents of workplace surveillance, or from those concerned about the mental health effects of smartphones and the public health effects of social media?

Second, one wonders about the theoretical and conceptual implications of thinking about today's tech elites - the founders, CEOs, venture capitalists, senior engineers and managers - as aristocrats, rather than old-fashioned capitalists. Curiously, Cloud Empires avoids the term digital feudalism [4], despite the book's emphasis on the privatization of rule-making, which resembles the 'parcellization of sovereignty' [5] under feudalism. But it also avoids the term digital socialism, despite elective affinities of the proposed reforms with calls for the reorganization of the digital economy 'through the social ownership of digital assets and democratic control over the infrastructure and systems that govern our digital lives' [6, p. 3]. Instead, Cloud Empire sketches a vision of a transnational 'digital liberal democracy'. This vision, however, remains somewhat underdefined on an analytical level.

Third, one wonders about how free-floating tech platforms truly are. For one, just as the company-states of yesteryear, they owe their existence to the laws of states. While its founding charter gave the EIC the right to 'make laws and impose penalties on offenders' unless they were 'repugnant to the Laws

of England' [3, p. 6], today's Cloud Empires only got 'off the ground' through comprehensive liability protections and favorable intellectual property regimes. Even today, they remain 'moored to earth' by a complex legal architecture ultimately controlled by states [7].

Moreover, when the EIC challenged the sovereignty of the British state all too openly, it was eventually reined in [3]. Edmund Burke accusation - leveled against the EIC - of 'pillag[ing] the people, under the pretense of commerce' [1, p. 130] and the highly publicized trial of Warren Hastings are strangely reminiscent of today's techlash and the parliamentary 'grillings' of tech leaders. And the resurgence of debates around (digital) sovereignty, from Russia to the EU, might indicate that states will re-assert their authority over the platform 'princes' - much like they did with the rebellious feudal lords when the term sovereignty was first coined.

Time will tell whether states will wrestle back rule-making power from digital platforms; or whether their efficiency - unimpeded by democratic procedures - will allow them to retain considerable rule-making authority as long as their 'community guidelines' are not too 'repugnant' to the laws of each land; or, finally, whether we will see a transnational democratization and constitutionalization of rule-making that will sideline both states and platforms. In any case, more than most books on this topic, 'Cloud Empires' helps us get a sense of where we're heading by helping us understand how we got where we are. It is a highly accessible and refreshingly original book, and a must-read for anyone interested in our digital past, present, or future.

References:

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