Privacy and Innovation

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What is Privacy?

• “The right to be let alone”.
• “The right to no unauthorized intrusion”.

WHAT PRIVACY USED TO BE
Samuel D. Warren launched the notion in the US of a "Right to Privacy".

Public vs private life distinction.
Your Friendly Neighborhood

Wiretap Man

"NO WARRANT? NO PROBLEM!"

I CAN'T BELIEVE IT'S NOT FREEDOM!

UNCLE SAM'S SNOOPERS

FREE!
LIFETIME SUPPLY
OF SURVEILLANCE

JUST SURRENDER THIS COUPON ALONG WITH YOUR 4TH AMENDMENT RIGHTS

OR PRIVACY vs. SECURITY
PRIVACY IS NOW A BUSINESS ISSUE
Data and Innovation

• Data is key to innovation in many industries.

• Erik Brynjolfsson: “Nanodata is to economics and management was the microscope was to biology and medicine”.

• Joel Mokyr has emphasized data as the key input into innovation across a variety of fields. “The digital age will be to the analog age what the iron age was to the stone age”.

• The use of data requires...data.

• Privacy regulation is explicitly about restricting the collection and use of data.
BUT

• Consumers (and governments!) are concerned with threats to privacy.

• Companies can use data to harm consumers by charging higher prices and/or denying service.

• There is also a vague element of “creepiness” or “repugnance” that consumers feel when companies appear to know their life better than they do.

• As a consequence, we have seen increasing regulatory attention to commercial use of data.
  – E.g. HIPAA for US health care; EC/2002/58 for EU internet data; numerous draft privacy bills in the US Congress; the Canadian Privacy Commissioner.
But then again, maybe people don’t care so much about privacy...
Privacy regulation can restrict innovation

- Goldfarb and Tucker (2011 MngmtSci) on online advertising effectiveness.

Privacy and Openness

• Privacy and openness are both positive values.

• But they are opposites!

• Suggests a tradeoff between privacy protection and innovation.
THIS SEEMS BLEAK.
SO WHY REGULATE PRIVACY AT ALL?
Consumers care!

• Consumers react negatively to (some kinds of) privacy-intrusive advertising (e.g. Goldfarb and Tucker 2011 MktgSci).

• Consumers are becoming more reluctant to share data as time passes (e.g. Goldfarb and Tucker 2012 AERP&P).
Privacy Regulation can benefit consumers without restricting innovation

• Example:
Privacy Regulation can benefit consumers without restricting innovation

• Example:

• Is there a regulatory model around clear and consistent disclosure that protects consumers while enabling innovation?
SO NOW WHAT?
The policy issue: An innovation-focused perspective

• Privacy regulation cannot be too strict, or else it will stifle data-driven innovation.

• Privacy regulation cannot be too lax, or else consumers will be unwilling to provide data and, again, it will stifle data-driven innovation.

• Getting the balance right is the key challenge of privacy policy.

• More openness about privacy?
Thank you


