

Donatella Porrini

[dporrini@liuc.it](mailto:dporrini@liuc.it)

*The value of information:  
the PRIVACY issue*

LIUC – Castellanza 27 March 2019



# Privacy, Law and Economics

- Privacy is an economic problem...
- ... even when privacy issues may not have direct economic interpretation
- Privacy is about trade-offs: pros/cons of revealing/accessing personal information
  - Individuals
  - Organizations
- ... and trade-offs are an economic issue



# Different Problems

1. Why privacy is important for the economy and interesting for economists
2. The evolution of the *economics of privacy*
3. Current issues and open questions

# Personal Information as an Economic Good

- Private and public good aspects
  - As information, it is non rival and non excludable
  - The more other parties use that personal information, the higher the risks for original data owner
  - Individual does not know how, how often, for how long her information will be used
  - Intrusions invisible and ubiquitous
  - Negative Externalities

# Market for personal information

- Companies that deal with customers data, intermediaries, credit bureaus
- Companies that want to know more about consumers
- Consumers who willingly or unknowingly reveal personal information
- **BIG DATA!!!**



# Market to protect privacy

- Companies that offer privacy enhancing technologies
- Companies that promise to keep their customers information protected and private
- Consumers who adopt privacy enhancing technologies and/or strategies

# Privacy legal aspects

- Freedom to develop
- Aspect of human dignity
- Right to be left alone
- Ability to control own *space*
- Tort:
  - Disclosure of intimate facts
  - False light
  - Misappropriation
  - Intrusion into somebody's solitude
- Ability to control access to one's information

# Definitions in Economics

- Privacy as hiding information
- Privacy as quiet
- Privacy as freedom
- Even when privacy intrusions have no immediate economic relevance, immaterial dimensions of privacy still impact the well-being of the individual
- Economics of happiness and well-being studies



# Privacy in Law and Economics

- Early 1980s
  - Chicago school broad definition of privacy (ownership)
- Mid 1990s
  - IT explosion
- After 2001
  - The Internet: personalization and dynamic behavior
  - Modeling: price discrimination, information and competition, costs of accessing customers
  - Empirical: surveys and experiments
  - Economics of (Personal) Information Security
- Related areas
  - Marketing
  - Economics: dynamic price discrimination

# Ownership and Privacy

- Peculiar relation between “ownership” and privacy
  - Information about somebody may have been costly acquired by other people
- Free exchange of information will lead to desirable results regardless of ownership
  - If I am a good debtor, I want this information to be known; if I am a bad debtor, I want to keep it secret
  - Suppose I am a bad debtor: then, whether I do not reveal information or information about me is reported, I will pay higher rates

# Posner's view

- Privacy as hiding of information
  - Individuals with bad traits (e.g., poor employees) have interest in hiding them
  - Individuals with good traits have interest in showing them
  - Reducing information available to “buyers” in this market (employers) reduces efficiency
- Extends argument to non-market behavior
  - E.g., marriage
- Costs of hiding by others
  - E.g., when privacy of sex-offenders is protected
- Privacy is re-distributive and reduces efficiency

# The mid 1990

- Consumers rationally want certain kinds of information to be available to producers, not other kinds
- Annoyances comes from *too little* information
- *Externalities* connected to secondary use of information
- Define property rights in private information in ways that allow consumers to retain control over how information about them is used



# A new economics of privacy

- Value of customer information derives from ability of firms to identify individual consumers and charge them personalized prices
- Privacy costs associated to amount of personal information gathered by firms
- Direct marketing vs. untargeted marketing
- Avoidance technologies for spam

# Very recent results

- Allowing firms to use cookies *can* make customers and society better off
- Sharing information between sellers reduces “distortions”
- However: on-line vs. off-line identities:

On-line identity: carries information about an individual’s tastes, her purchase history

Off-line identity: the persistent identity of an individual, as revealed by identifiers such as credit card numbers and social security numbers

# The costs of privacy

- Costs incurred by business and individuals due to incomplete or insufficient privacy protection
  - Individuals: do not protect themselves (*Should* they?)
  - Costs to consumers when privacy not protected:
    - Costs incurred by individuals to protect themselves from intrusion
    - Costs of receiving junk mail, calls, spam
    - Identity theft



# Who should protect your privacy?

- Self-regulation?
- Individual responsibility?
- Policy/legislation?
  - EU vs. US





# Which “Law” in Digital Era?

- Competition Law
- Consumer Law
- Data Protection and Digital Law

# Reading:

Kerber, Wolfgang

“Digital markets, data, and privacy: Competition law, consumer law, and data protection”, Joint Discussion Paper Series in Economics by the Universities of Aachen · Gießen · Göttingen Kassel · Marburg · Siegen, No. 14-2016

This paper can be downloaded from

[http://www.uni-marburg.de/fb02/makro/forschung/magkspapers/index\\_html%28magks%29](http://www.uni-marburg.de/fb02/makro/forschung/magkspapers/index_html%28magks%29)