

Protectionism and Platform Revenues

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Introduction

- ▶ Geoeconomics and geopolitics are changing **also** because of technological change and the growing role and power of digital platforms.
- ▶ **Political fragmentation** (due mostly to populist exclusionary policies) is accompanied by **economic fragmentation**, with protectionism in primis.
- ▶ In this paper
 1. we first document key **political and regulatory** triggers of the growing weight of digital platforms;
 2. and then we show that **protectionism and economic fragmentation** have indeed an independent appeal for the GAFAM platforms, independent of political, fiscal, and regulatory favors.

Platforms

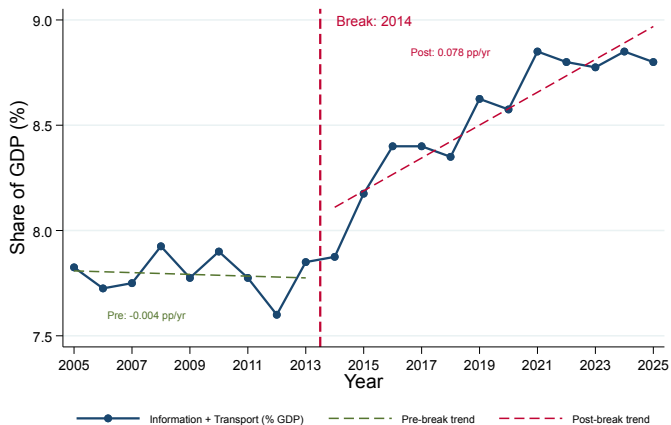
- ▶ Preliminary intuition: Consumers of all goods and producers of most goods rely on platforms for information, intermediation, fast search and matching services – → growing role and power of platforms.
- ▶ Platform revenues **scale** with the gross value of the transactions intermediated (Rochet and Tirole).
- ▶ Amazon is clearest example, but also the other in the GAFAM category fit: Google Ads, Meta Ads, Bing/MSN/LinkedIn, all have winning bids that are anchored to the expected conversion value of the advertised transaction.
- ▶ The three literatures our paper contributes to are tariff incidence, platform economics, and the political economy of trade, where the beneficiaries of protectionism are considered the domestic producers – whereas we highlight the GAFAM surplus.

Arab Spring 2011 awareness shock

- ▶ Information leaks and new technologies allowing fast communication and coordination of masses made many incumbent governments fall in 2011.
 - awareness shock of dangers of democratization of information and need of more control, direct or indirect.
 - more direct control in China but more control through platforms in the US.
- ▶ Obama administration delivered a sequence of regulatory and legislative decisions: The Federal Trade Commission had approved the Facebook–Instagram acquisition without conditions in August 2012, and closed its antitrust investigation of Google in January 2013 without action. Transparency Project records 23 personnel transfers between Google and the State Department.
- ▶ → Using BEA value-added series we should see that revenues by platform have acceleration after those regulatory changes.

First Acceleration figure

Figure: GDP share of intermediation services, 2005–2025.



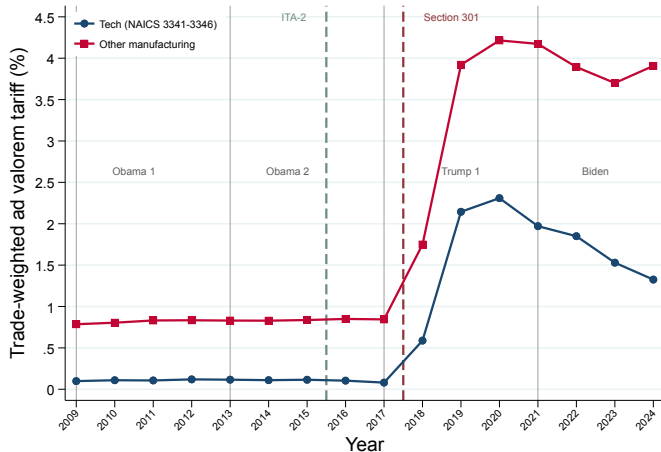
Source: BEA via FRED (VAPGDPI + VAPGDPT). Annual averages, 2005-2025.
Optimal break at 2014 (sup-Wald, Andrews 1993).
Chow F at 2011 = 31.86, $p < 0.001$.

2018 political favor:

- ▶ First Trump administration imposed non uniform tariffs in 2018, after the section 301 investigations initiated in 2017.
 - ▶ We show that the tariff sparing was concentrated in the same categories whose downstream firms feature most prominently in the GAFAM operating accounts.
 - ▶ natural empirical unit for our purposes is the NAICS 4-digit level, since this is the level at which the public Section 301 schedules were debated and at which we can align tariff data with firm-level Compustat and Orbis information.

tariff sparing evidence for tech334

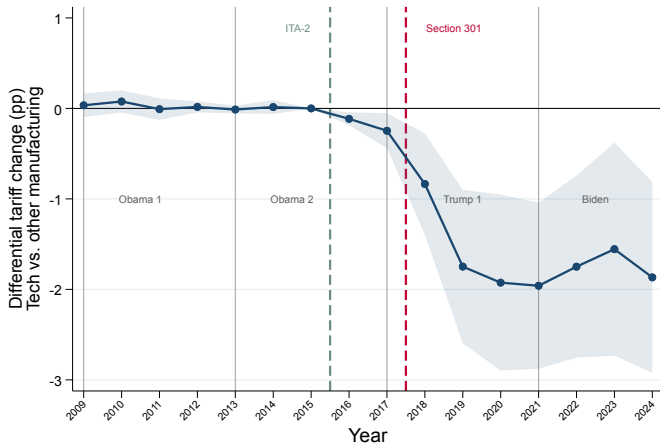
Figure: Trade-weighted average tariff rates: technology vs. other manufacturing.



Source: USITC. Tariffs weighted by fixed 2015 import volumes.

Tariff event study

Figure: Tariff event study: technology vs. other manufacturing.



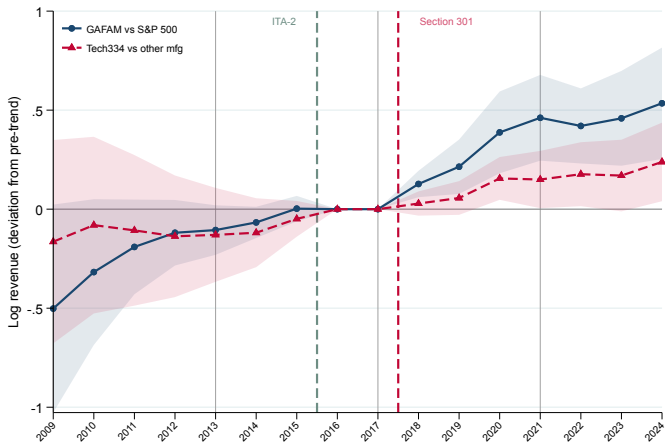
NAICS4 and year FE, SE clustered at NAICS4. Fixed 2015 import weights. Ref. year: 2015.
Pre-trends (2009-2014): $p = 0.122$. Post-treatment (2018-2024): $p < 0.001$.

Platforms vs product manufacturers

- ▶ Having established the tariff sparing for tech334 sector of product manufacturing, we report on what happened to platform revenues directly and in comparison with the favored firms.
- ▶ The comparison between tech334 firms and the rest of US manufacturers is a baseline;
- ▶ but we show that the growth of platform revenues wrt the others S&P500 grew even faster!
→ first we show it and then need to explain it!

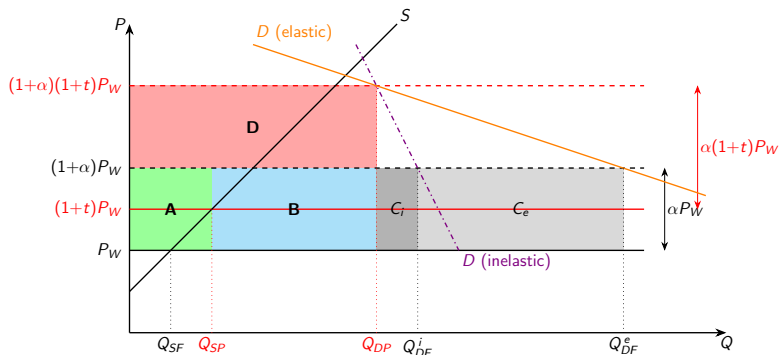
Revenue event study (GAFAM and Tech334)

Figure: Revenue event study: GAFAM and Tech334.



Detrended (Autor 2003), ref=2017, Cluster-robust 95% CI.
GAFAM: pre-dev $p=0.259$, post $F=12.65$ ($p=0.0000$).
Tech334: pre-dev $p=0.250$, post $F=3.26$ ($p=0.0027$).

A striking explanation



Platform commission revenue change from free trade to tariff = $D - A - C$. The sign tracks the size of C , hence the elasticity of demand. Net is positive iff $|\epsilon| < 1$.

Formally:

Proposition. *Platform revenue rises with a tariff on an intermediated good if and only if the absolute value of the demand elasticity is below one.*

- ▶ The mechanism extends beyond perfect competition among goods producers. Under monopoly, oligopoly, and monopolistic competition on the product market, platform revenue continues to rise with the tariff whenever the tariff-induced increase in transaction values dominates the induced contraction in quantities demanded. In those environments the relevant condition depends jointly on equilibrium pass-through and demand adjustment rather than only on the elasticity parameter itself.
- ▶ The mechanism also survives in the case of a large importing country whose tariffs affect world prices: terms-of-trade effects attenuate the increase in the consumer price, but do not overturn the result unless they fully offset tariff pass-through.

Summing up:

1. The first acceleration of GAFAM economic weight came from political decision to concentrate data access control;
 2. the tech tariff sparing in 2018 also political decision to protect US manufacturing in tech 334 (benefiting platforms only indirectly);
 3. but the documented sharp acceleration of GAFAM revenues with respect to the S&P500 has a simple and novel independent rationalization.
- ▶ **even absent preferential political, fiscal, or regulatory treatment**, the proportional commission channel alone can mechanically generate gains from tariffs on products for digital intermediaries.
→ platform commission revenue rises with the tariff whenever demand is inelastic.
 - ▶ The condition is plausibly satisfied for the categories that dominate platform-intermediated tariffed imports.

Implications

- ▶ Our insight on a structural advantage from economic fragmentation makes large digital platforms natural allies for governments motivated to engage in protectionism for populist commitment purposes.
- ▶ The standard political economy of protection, in which the beneficiary of an import tariff is the domestic producer (Grossman and Helpman 94) is incomplete: there is a fourth incidence margin, i.e. the platform intermediary, which carries no border cost and whose share of the inflated transaction value can be first-order.
- ▶ The same dominant platform intermediary that prefers political fragmentation as a way to escape taxation and regulation also has a mechanical interest in economic-protectionist fragmentation. The two preferences operate jointly; either could sustain platform support for tariff policy in equilibrium.

Broader implications for geopolitics

- ▶ → Seems hard to go back to greater political and economic integration. For future research:
 - ▶ Alesina Spolaore Wacziarg pushed vision of "more economic integration allows more political fragmentation";
 - ▶ but what we see now is "economic and technological power push for economic fragmentation that **reinforces** political fragmentation incentives."
- ▶ → Consequences for more conflicts and more difficult cooperation on global public good provision.