

# Open standards, economics and innovation

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# Economics of standards

- Network effect: benefits to single user proportional to number of users
- Network externality: added value of network effect

# Economics of standards

- Network effects can form entry barriers for new technologies
- Natural monopolies to maximise welfare from network effects
- Monopolies can capture the profits from network externalities, so consumers don't benefit

# Economics of standards

- *If* no competitive advantage is held by some players just because they own rights over a standard,
  - *then* a natural monopoly of technology can coexist with full competition in the supply for the technology
- Only such a *different* economic effect deserves a different term: **open standard**

# Standards and innovation

- *Standards inherently limit innovation!*
- This is also the value of standards:
  - Network externality accrues to a fixed technology
  - Value to customers (network)
  - Value to producers: (large market)

# Standards and innovation

- *Standards inherently limit innovation!*
- This is also the value of standards:
  - Standards provide a platform that can be assumed
- *A standard provides a platform above which innovation can take place freely*

# Digital inclusion

- Truly open standards are required to *maximise* digital inclusion
- Different levels of policy impact: government services, education, healthcare...

# More information

Full FLOSSPOLS report (including “An economic basis for Open Standards”):  
<http://flosspols.org/deliverables.php>

Economic impact of open source:  
[www.flossimpact.eu](http://www.flossimpact.eu)

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