

Written Testimony of John Battelle

[Cambridge Analytica and Other Facebook Partners: Examining Data Privacy Risks](#)

U.S. Senate Committee on Commerce, Science, & Transportation

Senator John Thune Chairman; Senator Bill Nelson, Ranking Member

Subcommittee on Consumer Protection, Product Safety, Insurance, and Data Security

Senator Jerry Moran, Chairman; Senator Richard Blumenthal, Ranking Member

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Honorable Committee Members –

My name is John Battelle, for more than thirty years, I've made my career reporting, writing, and starting companies at the intersection of technology, society, and business. I appreciate the opportunity to submit this written and verbal testimony to your committee.

Over the years I've written extensively about the business models, strategies, and societal impact of technology companies, with a particular emphasis on the role of data, and the role of large, well-known firms. In the 1980s and 90s I focused on Apple and Microsoft, among others. In the late 90s I focused on the nascent Internet industry, the early 2000s brought my attention to Google, Amazon, and later, Twitter and Facebook. My writings tend to be observational, predictive, analytical, and opinionated.

Concurrently I've been an entrepreneur, founding or co-founding and leading half a dozen companies in the media and technology industries. All of these companies, which span magazines, digital publishing tools, events, and advertising technology platforms, have been active participants in what is broadly understood to be the "technology industry" in the United States and, on several occasions, abroad as well. Over the years these companies have employed thousands of staff members, including hundreds of journalists, and helped to support tens of thousands of independent creators across the Internet. I also serve on the boards of several companies, all of which are deeply involved in the technology and data industries.

In the past few years my work has focused on the role of the corporation in society, with a particular emphasis on the role technology plays in transforming that role. Given this focus, a natural subject of my work has been on companies that are the most visible exemplars of technology's impact on business and society. Of these, Facebook has been perhaps my most frequent subject in the past year or two.

Given the focus of this hearing, the remainder of my written testimony will focus on a number of observations related generally to Facebook, and specifically to the impact of the Cambridge Analytica story. For purposes of brevity, I will summarize many of my

points here, and provide links to longer form writings that can be found on the open Internet.

Facebook broke through the traditional Valley startup company noise in the mid 2000s, a typical founder-driven success story backed by all the right venture capital, replete with a narrative of early intrigue between partners, an ambitious mission (“to make the world more open and connected”), a sky-high private valuation, and any number of controversial decisions around its relationship to its initial customers, the users of its service (later in its life, Facebook’s core customers bifurcated to include advertisers). I was initially skeptical about the service, but when Sheryl Sandberg, a respected Google executive, moved to Facebook to run its advertising business, I became certain it would grow to be one of the most important companies in technology. I was convinced Facebook would challenge Google for supremacy in the hyper-growth world of personalized advertising. In those early days, I often made the point that while Google’s early corporate culture sprang from the open, interconnected world wide web, Facebook was built on the precept of an insular walled garden, where a user’s experience was entirely controlled by the Facebook service itself. This approach to creating a digital service not only threatened the core business model of Google (which was based on indexing and creating value from open web pages), it also raised a significant question of what kind of public commons we wanted to inhabit as we migrated our attention and our social relationships to the web. (Examples: <https://battellemedia.com/archives/2012/02/its-not-whether-googles-threatened-its-asking-ourselves-what-commons-do-we-wish-for> ; <https://battellemedia.com/archives/2012/03/why-hath-google-forsaken-us-a-meditation>)

In the past five or so years, of course, Facebook has come to dominate what is colloquially known as the public square – the metaphorical space where our society comes together to communicate with itself, to debate matters of public interest, and to privately and publicly converse on any number of topics. Since the dawn of the American republic, independent publishers (often referred to as the Fourth Estate - from pamphleteers to journalists to bloggers) have always been important actors in the center of this space. As a publisher myself, I became increasingly concerned that Facebook’s appropriation of public discourse would imperil the viability of independent publishers. This of course has come to pass.

As is well understood by members of this committee, Facebook employed two crucial strategies to grow its service in its early days. The first was what is universally known as the News Feed, which mixed personal news from “friends” with public stories from independent publishers. The second strategy was the Facebook “Platform,” which encouraged developers to create useful (and sometimes not so useful) products and services inside Facebook’s walled garden service. During the rise of both News Feed and Platform, I repeatedly warned independent publishers to avoid committing themselves and their future viability to either News Feed or the Platform, as Facebook would likely change its policies in the future, leaving publishers without recourse. (Examples: <https://battellemedia.com/archives/2012/01/put-your-taproot-into-the-independent->

[web ; https://battellemedia.com/archives/2012/11/facebook-is-now-making-its-own-weather](https://battellemedia.com/archives/2012/11/facebook-is-now-making-its-own-weather) ; <https://shift.newco.co/we-can-fix-this-f-cking-mess-bf6595ac6ccd> ; <https://shift.newco.co/ads-blocking-and-tackling-18129db3c352>)

Of course, the potent mix of News Feed and a subset of independent publishers combined to deliver us the Cambridge Analytica scandal, and we are still grappling with the implications of this incident on our democracy. But it is important to remember that while the Cambridge Analytica breach seems unusual, it is in fact not – it represents business as usual for Facebook. Facebook’s business model is driven by its role as a data broker. Early in its history, Facebook realized it could grow faster if it allowed third parties, often referred to as developers, to access its burgeoning trove of user data, then manipulate that data to create services on Facebook’s platform that increased a Facebook user’s engagement on the platform. Indeed, in his early years as CEO of Facebook, Mark Zuckerberg was enamored with the “platform business model,” and hoped to emulate such icons as Bill Gates (who built the Windows platform) or Steve Jobs (who later built the iOS/app store platform).

However, Facebook’s core business model of advertising, driven as it is by the brokerage of its users’ personal information, stood in conflict with Zuckerberg’s stated goal of creating a world-beating platform. By their nature, platforms are places where third parties can create value. They do so by leveraging the structure, assets, and distribution inherent to the platform. In the case of Windows, for example, developers capitalized on Microsoft’s well-understood user interface, its core code base, and its massive adoption by hundreds of millions of computer users. Bill Gates famously defined a successful platform as one that creates more value for the ecosystem that gathers around it than for the platform itself. By this test – known as the Gates Line – Facebook’s early platform fell far short. Developers who leveraged access to Facebook’s core asset – its user data – failed to make enough advertising revenue to be viable, because Facebook (and its advertisers) would always preference Facebook’s own advertising inventory over that of its developer partners. In retrospect, it’s now commonly understood in the Valley that Facebook’s platform efforts were a failure in terms of creating a true ecosystem of value, but a success in terms of driving ever more engagement through Facebook’s service.

For an advertising-based business model, engagement trumps all other possible metrics. As it grew into one of the most successful public companies in the history of business, Facebook nimbly identified the most engaging portions of its developer ecosystem, incorporated those ideas into its core services, and became a ruthlessly efficient acquirer and manipulator of its users’ engagement. It then processed that engagement into advertising opportunities, leveraging its extraordinary data assets in the process. Those advertising opportunities drew millions of advertisers large and small, and built the business whose impact we now struggle to understand.

To truly understand the impact of Facebook on our culture, we must first understand the business model it employs. Interested observers of Facebook will draw ill-informed conclusions about the company absent a deep comprehension of its core driver – the business of personalized advertising. I have written extensively on this subject, but a

core takeaway is this: The technology infrastructure that allows companies like Facebook to identify exactly the right message to put in front of exactly the right person at exactly the right time are, in all aspects of the word, marvelous. But the externalities of manufacturing attention and selling it to the highest bidder have not been fully examined by our society. (Examples: <https://shift.newco.co/its-the-advertising-model-stupid-b843cd7edbe9> ; <https://shift.newco.co/its-the-advertising-model-stupid-b843cd7edbe9> ; <https://shift.newco.co/lost-context-how-did-we-end-up-here-fd680c0cb6da> ; <https://battellemedia.com/archives/2013/11/why-the-banner-ad-is-heroic-and-adtech-is-our-greatest-technology-artifact> ; <https://shift.newco.co/do-big-advertisers-even-matter-to-the-platforms-9c8ccfe6d3dc>)

The Cambridge Analytica scandal has finally focused our attention on these externalities, and we should use this opportunity to go beyond the specifics of that incident, and consider the broader implications. The “failure” of Facebook’s Platform initiative is not a failure of the concept of an open platform. It is instead a failure by an immature, blinkered company (Facebook) to properly *govern* its own platform, as well as a failure of our own regulatory oversight to govern the environment in which Facebook operates. Truly open platforms are regulated by the platform creator in a way that allows for explosive innovation (see the Gates Line) and shared value creation. (Examples: <https://shift.newco.co/its-not-the-platforms-that-need-regulation-2f55177a2297> ; <https://shift.newco.co/memo-to-techs-titans-please-remember-what-it-was-like-to-be-small-d6668a8fa630>)

The absolutely wrong conclusion to draw from the Cambridge Analytica scandal is that entities like Facebook must build ever-higher walls around their services and their data. In fact, the conclusion should be the opposite. A truly open society should allow individuals and properly governed third parties to share their data so as to create a society of what Nobel laureate Edmond Phelps calls “mass flourishing.” My own work now centers on how our society might shift what I call the “social architecture of data” from one where the control, processing and value exchange around data is managed entirely by massive, closed entities like Facebook, to one where individuals and their contracted agents manage that process themselves. (Examples: <https://shift.newco.co/are-we-dumb-terminals-86f1e1315a63> ; <https://shift.newco.co/facebook-tear-down-this-wall-400385b7475d> ; <https://shift.newco.co/how-facebook-google-amazon-and-their-peers-could-change-techs-awful-narrative-9a758516210a> ; <https://shift.newco.co/on-facebook-a156710f2679> ; <https://battellemedia.com/archives/2014/03/branded-data-preferences>)

Another mistaken belief to emerge from the Cambridge Analytica scandal is that any company, no matter how powerful, well intentioned, or intelligent, can by itself “fix” the problems the scandal has revealed. Facebook has grown to a size, scope, and impact on our society that outstrips its ability to manage the externalities it has created. To presume otherwise is to succumb to arrogance, ignorance, or worse. The bald truth is this: Not even Mark Zuckerberg understands how Facebook works, nor does he comprehend its impact on our society. (Examples: <https://shift.newco.co/we-allowed-this-to-happen>

[were-sorry-we-need-your-help-e26ed0bc87ac](https://www.newco.co/i-apologize-d5c831ce0690) ; [https://shift.newco.co/i-apologize-d5c831ce0690](https://www.newco.co/i-apologize-d5c831ce0690) ; [https://shift.newco.co/facebooks-data-trove-may-well-determine-trump-s-fate-71047fd86921](https://www.newco.co/facebooks-data-trove-may-well-determine-trump-s-fate-71047fd86921) ; [https://shift.newco.co/its-time-to-ask-ourselves-how-tech-is-changing-our-kids-and-our-future-2ce1d0e59c3c](https://www.newco.co/its-time-to-ask-ourselves-how-tech-is-changing-our-kids-and-our-future-2ce1d0e59c3c))

Another misconception: Facebook does not “sell” its data to any third parties. While Facebook may not sell copies of its data to these third parties, it certainly sells *leases* to that data, and this distinction bears significant scrutiny. The company may not wish to be understood as such, but it is most certainly the largest data broker in the history of the data industry.

Lastly, the Cambridge Analytica scandal may seem to be entirely about a violation of privacy, but to truly understand its impact, we must consider the implications relating to future economic innovation. Facebook has used the scandal as an excuse to limit third party data sharing across and outside its platform. While this seems logical on first glance, it is in fact destructive to long term economic value creation.

So what might be done about all of this? While I understand the lure of sweeping legislation that attempts to “cure” the ills of technological progress, such approaches often have their own unexpected consequences. For example, the EU’s adoption of GDPR, drafted to limit the power of companies like Facebook, may in fact only strengthen that company’s grip on its market, while severely limiting entrepreneurial innovation in the process (Example: [https://shift.newco.co/how-gdpr-kills-the-innovation-economy-844570b70a7a](https://www.newco.co/how-gdpr-kills-the-innovation-economy-844570b70a7a))

As policy makers and informed citizens, we should strive to create a flexible, secure, and innovation friendly approach to data governance that allows for maximum innovation while also insuring maximum control over the data by all effected parties, including individuals, and importantly, the beneficiaries of future innovation yet conceived and created. To play forward the current architecture of data in our society – where most of the valuable information is controlled by an increasingly small oligarchy of massive corporations – is to imagine a sterile landscape hostile to new ideas and mass flourishing.

Instead, we must explore a world governed by an enlightened regulatory framework that encourages data sharing, high standards of governance, and maximum value creation, with the individual at the center of that value exchange. As I recently wrote: “Imagine ... you can download your own Facebook or Amazon “token,” a magic data coin containing not only all the useful data and insights about you, but a control panel that allows you to set and revoke permissions around that data for any context. You might pass your Amazon token to Walmart, set its permissions to “view purchase history” and ask Walmart to determine how much money it might have saved you had you purchased those items on Walmart’s service instead of Amazon. You might pass your Facebook token to Google, set the permissions to compare your social graph with others across Google’s network, and then ask Google to show you search results based on your social relationships. You might pass your Google token to a startup that already has your genome and your health history, and ask it to munge the two in case your 20-year history

of searching might infer some insights into your health outcomes. This might seem like a parlor game, but this is the kind of parlor game that could unleash an explosion of new use cases for data, new startups, new jobs, and new economic value.”

It is our responsibility to examine our current body of legislation as it relates to how corporations such as Facebook impact the lives of consumers and the norms of our society overall. Much of the argument around this issue turns on the definition of “consumer harm” under current policy. Given that data is non-rivalrous and services such as Facebook are free of charge, it is often presumed there is no harm to consumers (or by extension, to society) in its use. This also applies to arguments about antitrust enforcement. I think our society will look back on this line of reasoning as deeply flawed once we evolve to an understanding of data as equal to - or possibly even more valuable than - monetary currency.

Most observers of technology agree that data is a new class of currency in society, yet we continue to struggle to understand its impact, and how best to govern it. The manufacturing of data into currency is the main business of Facebook and countless other information age businesses. Currently the only participatory right in this value creation for a user of these services is to A/engage with the services offered and B/purchase the stock of the company offering the services. Neither of these options affords the user - or society - compensation commensurate with the value created for the firm. We can and must do better as a society, and we can and must expect more of our business leaders.

(More: <https://shift.newco.co/its-time-for-platforms-to-come-clean-on-political-advertising-69311f582955> ; <https://shift.newco.co/come-on-what-did-you-think-they-do-with-your-data-396fd855e7e1> ; <https://shift.newco.co/tech-is-public-enemy-1-so-now-what-dee0c0cc40fe> ; <https://shift.newco.co/why-is-amazons-go-not-bodega-2-0-6f148075afd5> ; <https://shift.newco.co/predictions-2017-cfe0806bed84> ; <https://shift.newco.co/the-automatic-weapons-of-social-media-3ccce92553ad>)

Respectfully submitted,

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