

VoxEU: The impact of Covid-19 on the value of online goods

The lockdown has acted as a natural experiment testing the extent to which digital goods and physical goods are substitutes. The changes in valuation may indicate which services will be most valuable, and to which groups, in a post-pandemic world where more activity takes place online, **write Diane Coyle and David Nguyen for VoxEU**



With the lockdown a lot more people are buying groceries online

The question of how to value digital services for which users pay no upfront cost has become increasingly important in two areas of policy interest. One is the accurate measurement of productivity, with a number of researchers suggesting that GDP, and hence productivity figures, are omitting a potentially large source of economic value (e.g. Brynjolfsson et al. 2019a, b). The other is competition policy, as authorities focus on market power in digital services (e.g. CMA 2020).

One way to explore consumer valuations of 'free' digital goods is to use contingent valuation methods, which are widely used in environmental economics (e.g. Carson et al. 2001). We had results from a YouGov survey representative of the UK online population and carried out in late February eliciting willingness to accept (WTA) the loss of 30 goods and services – a mixture of zero price online goods, market substitutes for some of these, and zero price offline goods such as access to a public park. Repeating the same survey in mid-May allows us to treat the lockdown in the UK as a natural experiment to test changes in these consumer valuations (Coyle and Nguyen 2020).

Consumer spending patterns clearly changed substantially during lockdowns (Chronopoulos et al. 2020). In the UK, as in other countries, online consumption in general increased (eg Relihan et al 2020). ONS figures show that internet shopping as a proportion of retail spending increased to a record 32.8% share in May 2020, and Ofcom reported that Brits were spending a quarter of their waking hours online.

Comparing our surveys between the end of February, before the lockdown, and mid-May (a ten-week period), there were some significant changes for some goods in the proportion of respondents saying they used or did not use them. The proportion reporting that they shop online for groceries increased from 50% to 60% in the second survey wave. The share of people not using Skype, Facebook Messenger, Netflix and WhatsApp decreased by around 5 percentage points. Other goods that saw a decline in non-usage rates were Facebook, online learning, mobile games, Amazon and Twitter. On the other hand, the usage of various other goods has declined. For example, while in February around 41% reported they do not read (physical) newspapers, this had increased to 48.5% by mid-May.

A key quote from the article:

During the lockdown, there were significant and rapid changes in the contributions different goods and services make to consumer valuations, with differences by age group, social class, and gender. The lockdown has been a natural experiment suggesting the extent to which digital goods and physical goods are substitutes. As many of the goods we considered are free to use, these valuation changes give useful insights into economic welfare and activity that are not captured by changes in prices. They offer a forward-look at which services may be most valuable in a post-pandemic world if more activity continues to take place online. They also provide important, policy-relevant insights into distributional questions.

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