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Article *in* China Political Economy · November 2024

DOI: 10.1108/CPE-06-2024-042

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Received 25 September 2024
Accepted 25 September 2024

The financialization of platform capital from the perspective of political economy

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Abstract

Purpose – The financialization of the platform economy is a crucial part of the theoretical landscape of the platform economy. However, it has not yet received adequate attention from the academic community. This deficiency has led to current research often neglecting the supportive role of finance capital in the platform economy, and consequently, there has been a lack of comprehensive interpretation of the generally poor profitability of platform companies. This paper aims to address the existing gap in the literature within this field.
Design/methodology/approach – This paper examines the role of finance capital, particularly venture capital, in the platform economy and offers a political economy analysis of the historical background, accumulation logic, and inherent contradictions of the financialization of the platform economy.
Findings – The paper argues that the advancement of new technologies, excess capital and labor supply in the post-crisis era, and the development of economic financialization, particularly the maturity and diffusion of the venture capital system, constitute the historical background of the financialization of the platform economy. Driven by finance capital, platform enterprises engage in excessive expansion to increase their financial valuations, forming a valuation-driven accumulation model. Financialization has caused the platform economy to deviate from its normal developmental trajectory. Platform enterprises exhibit higher shareholder payouts while simultaneously engaging in rapid investment expansion, leading to a trend of bubble-like development in the platform economy.
Originality/value – The financialization of the platform economy has exacerbated the socio-economic problems caused by disembeddedness, deepening the contradiction between the speculative logic of finance capital and the healthy development of the real economy. This profoundly reflects the obstruction posed by contemporary capitalist relations of production to the development of productive forces. This paper provides several key policy insights for the formulation and implementation of relevant policies in China.

Keywords Financialization of the platform economy, Venture capital, Valuation-driven, Over-expansion, Political economy
Paper type Translated paper

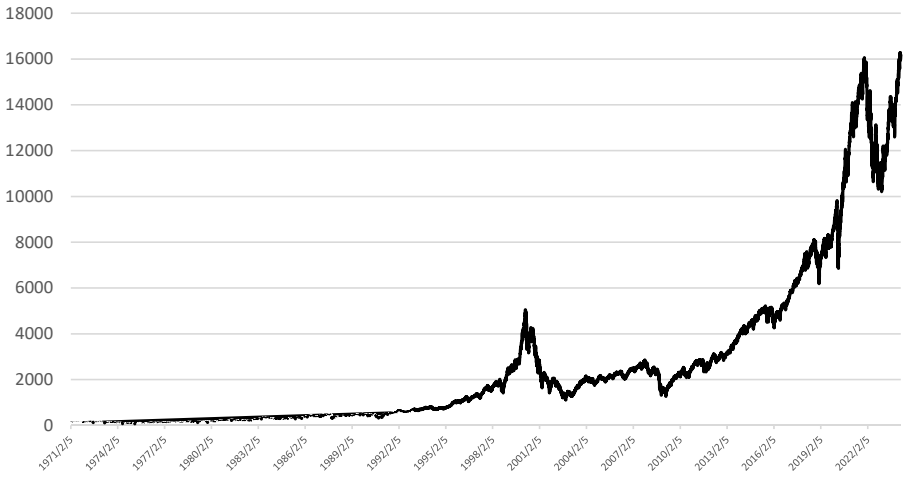
1. Introduction

The rise of the platform economy is one of the most important economic phenomena after the global financial crisis between 2008 and 2009. During the development of the platform

China Political Economy
Vol. 7 No. 1, 2024
pp. 104-121
Emerald Publishing Limited
2516-1652
DOI 10.1108/CPE-06-2024-042

economy, finance capital represented by venture capital (VC) plays an important role, which we refer to as the "financialization of the platform economy." The NASDAQ stock exchange in the USA focuses on innovative high-tech companies, and its index largely reflects the enthusiasm of finance capital for investment in high-tech companies, including platform companies. As shown in Figure 1, the NASDAQ Composite Index continued to grow after the 2008–2009 financial crisis, returning to the historical peak in the 2000 dot-com bubble era of the 2000s in 2015. Although there was a slight decline in 2022, it rose again after 2023, surpassing 16,000 points and reaching a new historical high by 2024. The stock market's prosperity has attracted a multitude of platform companies awaiting their initial public offerings, and as platform investors, finance capital also seeks to attain financial gains through these listings, thereby establishing a closely intertwined network of interests between platform companies and finance capital (McKenzie and Janeway, 2011). As of early 2024, there are over 1,200 unicorn companies (i.e. unlisted companies valued at over USD 1 billion) globally, with a total valuation of around USD 3.8 trillion; in 2009, there were only four unicorn companies globally, with a total valuation of just USD 13 billion [1]. Interestingly, the term "unicorn" was originally coined to describe the rarity of high-valuation companies, but such businesses are no longer uncommon today. Among the vast number of "unicorn" companies currently, platform firms are particularly notable, accounting for about 70% of all "unicorn" companies (Evans and Gawer, 2016). The distinctiveness of platform companies within the "unicorn" category lies not just in their sheer numbers but also in the fact that many platform firms, including Uber, Airbnb and DoorDash, have received sky-high valuations despite significant losses [2], which reflects the particular favoritism finance capital shows toward platform companies and highlights the close connection between the development of the platform economy and the driving force of finance capital.

The financialization of the platform economy is a crucial part of the theoretical landscape of the platform economy. However, it has not yet received adequate attention from the academic community. This deficiency has led to current research often neglecting the supportive role of finance capital in the platform economy, and consequently, there has been a lack of comprehensive interpretation of the generally poor profitability of platform



Source(s): https://finance.yahoo.com/

Figure 1.
NASDAQ composite index from 1971 to 2024

companies. In the existing research, the vitality of the platform economy has been inadvertently overstated. On the one hand, mainstream economists often regard platforms as exemplars of new productivity and primary drivers of job creation (Rossotto *et al.*, 2012; Cramer and Krueger, 2016; Saran and Sharma, 2019). On the other hand, sociologists and communication scholars view platforms as new forms of exploitation, exercising algorithmic management over gig workers (Rosenblat and Stark, 2016; Schor and Attwood-Charles, 2017; Drahokoupil and Piasna, 2017; Rosenblat, 2018; Shapiro, 2018). Both perspectives, however, recognize the platform economy as an unstoppable developmental trend. Yet, the widespread poor profitability of platform enterprises contradicts this view. If substantial profits cannot be achieved, what is the purpose behind the operation and expansion of these platform businesses? Is the robust growth of the platform economy driven by its inherent vitality, significant financial support from behind, or a combination of both? Therefore, examining the financialization aspect of the platform economy is crucial to understanding its inherent contradictions and evolving dynamics as a whole. In recent years, many issues have surfaced within the platform economy – such as excessive work pressure on platform laborers, overproduction resulting from monopolistic competition, the over-collection of user data and high-risk financial activities – these problems are largely linked to the platform companies' pursuit of financial valuations. This paper examines the role of finance capital, particularly venture capital, in the platform economy and offers a political economy analysis of the historical background, accumulation logic and inherent contradictions of the financialization of the platform economy.

Research on the financialization of the platform economy is burgeoning both in China and abroad. Some studies have described relevant phenomena or analyzed their accumulation logic. British economist Standing (2016, p. 230) pointed out in his work *The Corruption of Capitalism*: "The capital for digital platforms ... comes from a narrow circle of investors, from mutual funds, private equity firms, hedge funds, and sovereign wealth funds. It is a market reserved for the elite and plutocracy." In his work *Platform Capitalism*, Srnicek (2017, p. 150) has early observed the dependence of the platform economy on excess capital and noted that investment in today's tech start-ups is less an alternative to the centrality of finance and more an expression of it. Langley and Leyshon (2017) revealed that the rise of the platform economy is closely related to the upturn in the VC industry. They believe that platform companies tend to scale up to capture monopoly rents, while VC seeks to translate the platform's potential for generating monopoly rents into actual financial returns. Montalban *et al.* (2019) analyzed the platform economy from a regulatory perspective, concluding that it is not an entirely new accumulation system but rather a product of the current "financialized-neoliberal" accumulation system. Researchers in China have also noticed the connection between the global platform economy and finance capital, but most have yet to conduct dedicated studies on this (Pei *et al.*, 2018; Wang and Li, 2018; Xie *et al.*, 2019). Among the few related works, Liu Zhen and Cai Zhiji were among the earliest to explore this issue in depth. They indicated that while platform companies are excessively favored by finance capital, they increasingly face deepening profit realization crises (Liu and Cai, 2020). Based on their research, this paper advances the analysis by emphasizing the integration and connection between platform enterprises and finance capital from a holistic perspective. It explains the overexpansion behavior of platform companies based on the motivation of VC to seek financial valuation, thereby unveiling the inherent contradictions and external manifestations of the financialization of the platform economy.

It should be noted that the term "platform" in this paper refers to economic organizations that utilize their intermediary position in the market to connect producers and consumers via the Internet, leveraging data, algorithms and computing power to facilitate demand-supply matching, thereby earning commissions. The "platform economy" denotes an economic system where production, trading and distribution activities are carried out through

platforms that match producers and consumers over the internet. "Finance capital" herein refers to capital employed to create and trade financial assets to generate financial returns (Meng and Gao, 2019).

2. Historical background and influencing factors of the financialization of platform economy

Neo-Schumpeterian economist Carlotta Perez (2007, p. 57) contends that every technological revolution in the history of capitalism experiences a "frenzy phase" in its initial stages, during which "finance capital gains dominance, and its direct interests govern the functioning of the entire system." She argues that in the frenzy phase, financial speculation leads to asset prices of emerging enterprises significantly deviating from their actual value, creating economic bubbles; substantial amounts of capital pour into infrastructure projects related to the new technologies, resulting in over-investment and the rift between the economic base and the social regulatory framework widens. According to Perez's perspective, the financialization of the platform economy is a phenomenon characterizing the frenzy phase of a new technological revolution. Specifically, this phenomenon arises from three historical contexts.

The first is the rapid development of the platform economy, driven by advancements in new technologies. Supported by the latest information technology revolution, including big data, cloud computing, mobile Internet the Internet of Things (IoT) and artificial intelligence (AI), the platform economy has demonstrated significant potential for technological innovation – improved data storage and processing capabilities greatly increase the transaction volume that platforms can handle; advancements in mobile Internet and IoT technologies provide substantial real-time information regarding market supply and demand; with massive datasets and extensive computational power, AI-powered platform algorithms can enhance the efficiency of supply and demand matching, reduce logistics and circulation costs, better serve long-tail customers and facilitate more transactions. For example, Uber's ride-hailing platform, which optimizes supply and demand matching, reduces idle time, resulting in a vehicle utilization rate that is 30%–50% higher than that of traditional taxis (Cramer and Krueger, 2016). Enabled by new technologies, the platform economy increasingly integrates into production, distribution and consumption processes, fundamentally reshaping production processes, resource allocation methods and lifestyles. Platforms, through their inherent openness, encompass a diverse array of producers and extend their reach into various sectors of social production, facilitating the integration of surplus value production on an unprecedented scale. By leveraging their strengths in data collection, information processing and supply-demand matching, platforms significantly reduce the barriers to realizing surplus value as well as circulation costs, continuously opening new pathways for surplus value production and realization through shaping consumer demand. Additionally, platforms use their market dominance to establish rule-making power, which, to some extent, mitigates the challenges of obtaining surplus value inherent in traditional economies. The technical efficiency of the platform economy and its profound impact on production organization underscore the immense potential of the new information technology revolution to influence productivity and production relations. In this context, the finance capital's favor on the platform economy has a material basis; however, it is crucial to acknowledge that it may overlook the uncertainties associated with the development of the platform economy, potentially leading to an investment frenzy.

The second is excess capital and labor supply in the post-crisis era. Following the global financial crisis of 2008–2009, the world economy underwent a prolonged stagnation period (Summers, 2015). To stimulate the recessionary economy, the Federal Reserve, alongside the Central Banks of Europe and Japan, implemented quantitative easing policies. This resulted

in a surge in cash supply and fueled global financial speculation (Plender, 2019). However, the real economy, hampered by low-profit margins, failed to attract investment, which in turn redirected the excess money capital into financial speculation. Indeed, financial speculation activities rapidly rebounded after the initial impact of the financial crisis, as evidenced by shifts in the stock markets of developed countries. As illustrated in Figure 2, the market value-to-GDP ratio of listed companies in developed nations swiftly recovered post-crisis. By 2013, this ratio in the USA had returned to pre-crisis levels, continuing its growth thereafter. This trend manifests the resurgence of excess capital supply and financial speculation in the post-crisis era within developed countries. Meanwhile, sluggish investment led to slow employment growth, with rising unemployment in major developed economies and significant underemployment marked by stagnant real wages. Formal employment rates declined further, exacerbating the issue of "disembedding" during the neoliberal period (Polanyi, 2007). A substantial number of unemployed individuals and informal workers have emerged as a significant industrial reserve in the post-crisis era, clearly indicative of labor surplus in developed capitalist countries during this period. Thus, the macroeconomic environment of the post-crisis era is characterized by a dual surplus of labor and monetary capital in major developed economies, laying the groundwork for the evolution and financialization of the platform economy: labor surplus supplies cheap labor willing to engage in gig work, while monetary capital surplus provides inexpensive funding for finance capital investment in platforms (Srnicek, 2017).

The third is the development of financialization and the maturity and diffusion of the VC system. Since the 1980s, financialization in the USA and other Western countries has become increasingly prominent, particularly in its macrostructure. The financial sector's share of total economic value-added has markedly increased; the volume of various financial transactions has grown significantly relative to the size of the real economy; debt ratios in the financial sector, non-financial corporate sector and household sector have risen substantially and economic growth has increasingly exhibited a financial-led nature (Boyer, 2000; Krippner, 2005). Greek economist Lapavitsas (2013) posits that financial and non-financial

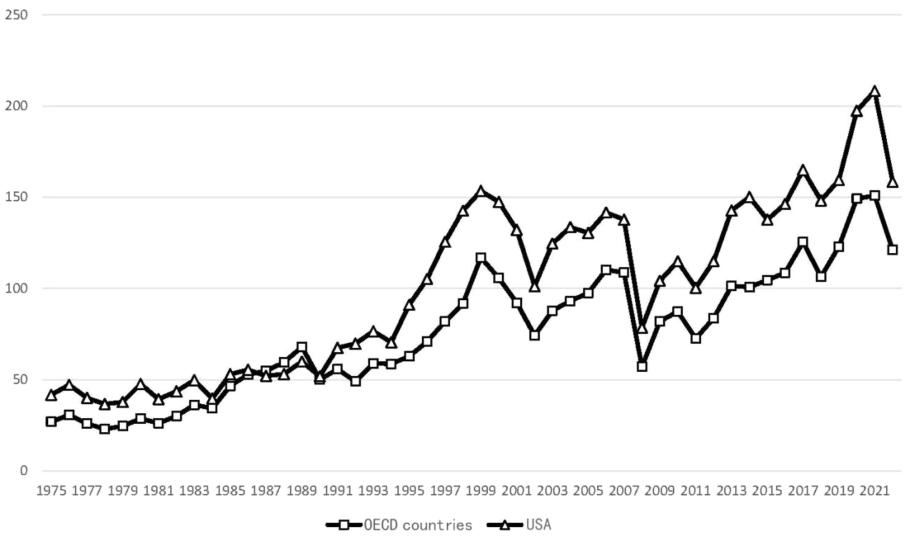
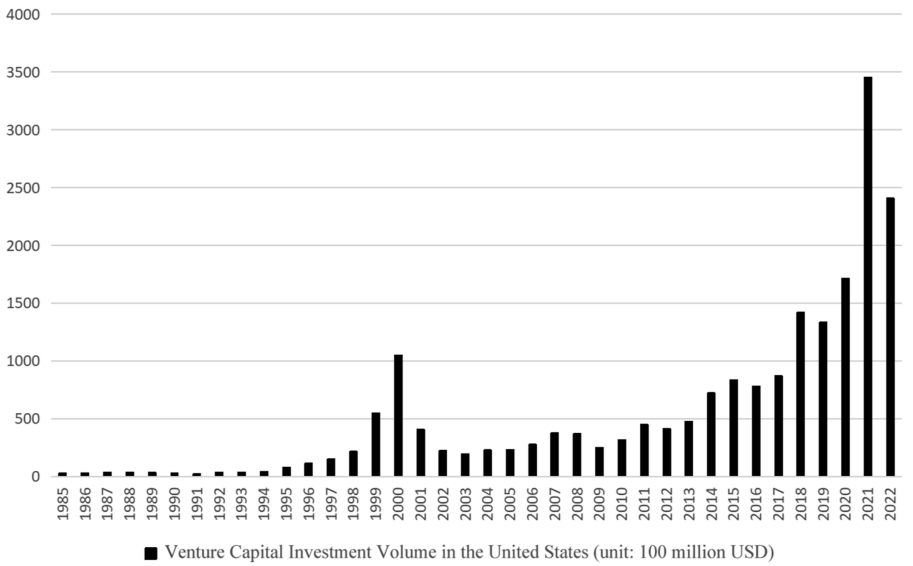


Figure 2.
The market value-to-GDP ratio of companies listed in OECD countries and US, 1975–2022

Source(s): World Bank WDI Database

activities are integral to the circulation of productive capital, and financialization represents a transformation in the way these activities intertwine within this cycle; this transformation has implications for corporate financing efforts, the pursuit of financial profits, internal corporate organization and inherent tendencies toward economic crises (p. 217). As a result, corporate development strategies have shifted from "retain and re-invest" to "downsize and distribute" (Lazonick and O'Sullivan, 2000). In this context, the growth strategies of the platform economy are similarly governed by the logic of shareholder value maximization. For the platform economy, the development of VC has had the most profound impact. Finance capital, typified by venture capital, serves as the main funding source for platform companies [3], and the VC system acts as the institutional carrier and implementation mechanism of the financialization of the platform economy. The primary objective of VC is to realize financial returns through either a public offering or transferring shares. A series of mechanisms, such as staged financing and direct involvement on the board of directors, enables VC to exert significant influence over both the management and expansion of enterprises. Concurrently, equity incentive schemes align the interests of venture capitalists with those of corporate governance (Da Rin *et al.*, 2013). The VC system originated in the USA in 1946. By the 1990s, it had attracted funding from diverse sources, including financial institutions, non-financial enterprises, public and private pension funds and sovereign wealth funds (Lerner and Nanda, 2020). As illustrated in Figure 3, since 1985, the USA has experienced two significant peaks in VC investments. The first surge occurred in the late 1990s through the early 2000s, while the current peak commenced in 2014. Platform businesses have emerged as a hot spot for VC investment. With the rise of the platform economy in recent years, the VC system has flourished beyond the USA, particularly in Asia. China has emerged as the largest VC market outside the USA (Bussgang, 2010) [4]. The global diffusion of investment systems has enhanced venture capital's capacity to absorb excess funds and has increasingly oriented the development of the platform economy toward VC objectives.



Source(s): National Venture Capital Association Yearbooks

Figure 3.
Annual venture capital investment volume in the United States, 1985–2022

In addition to the aforementioned historical contexts, the ability of the platform economy to attract finance capital is also contingent upon a set of unique factors. These factors stimulate what is known as "financial imagination," leading investors to hold optimistic expectations regarding the financial valuation of platform enterprises. The initial catalyst for this "financial imagination" is the scale effect and cross-network effect intrinsic to the platform economy: the larger a platform grows, the more users it attracts, which facilitates nonlinear growth and market monopoly, thereby enabling the platform enterprises to monopolize transaction commissions. The increase in consumers on a platform consequently draws in more producers and vice versa. This cross-network effect serves to lock in both consumers and producers (Parker *et al.*, 2017). Furthermore, platforms can evolve into super platforms by bundling multiple functionalities, thereby enhancing user retention by catering to diverse needs. Consequently, investors perceive the platform economy as more prone to monopolistic outcomes, with the financial valuation of platforms increasing in tandem with their monopolistic power.

Moreover, platforms effectively mobilize and integrate vast social resources such as labor, individual proprietors, household assets, small and medium-sized enterprises, and public infrastructure. This creates an interdependent ecosystem of participating entities. Significantly, platforms do not bear the full cost of labor reproduction, nor are they required to provide upfront funding for slowly circulating fixed capital. Consequently, the services offered by platforms are more cost-effective than traditional firms and allow platforms to capitalize on participants' dependencies by extracting high rents (Schor and Attwood-Charles, 2017; Sadowski, 2020). Furthermore, due to the lag in regulatory adaptations relative to the expansion of the new economy, platforms can temporarily circumvent institutional constraints related to labor welfare, business licensing and market monopolies, thereby engaging in "regulatory arbitrage" (Horan, 2017; Frenken and Schor, 2017). Although the cost advantages of platforms may diminish as regulatory frameworks become more robust, this temporary edge often leads investors to perceive platforms as having greater potential profitability compared to traditional firms, thus justifying a higher market valuation.

In addition, the platform economy generates vast quantities of user data, and capturing various data has become a paramount objective for contemporary platform enterprises (Fourcade and Healy, 2017). Data can theoretically be utilized as a generic productive resource to develop new business ventures, penetrate new markets, restructure traditional industries and even construct new economic ecosystems (Van Doorn and Badger, 2020). According to Thatcher *et al.* (2016), data captured by platforms is pivotal in creating commercial value. Sadowski (2019) delineates several methods for leveraging data to generate commercial value: building user profiles to facilitate targeted advertising or services; advancing digital Taylorism for scientific management; managing information to enable real-time automated decision-making; enhancing predictive capabilities through big data and algorithms and establishing digital infrastructures and services that augment asset value via intelligent technologies. With their data advantage, platforms possess the potential to expand across multiple industry value chains, thereby bolstering financial imagination. These cumulative factors have collectively positioned the platform economy as a favored entity within Western finance capital, particularly following the successive collapses of the internet and real estate bubbles.

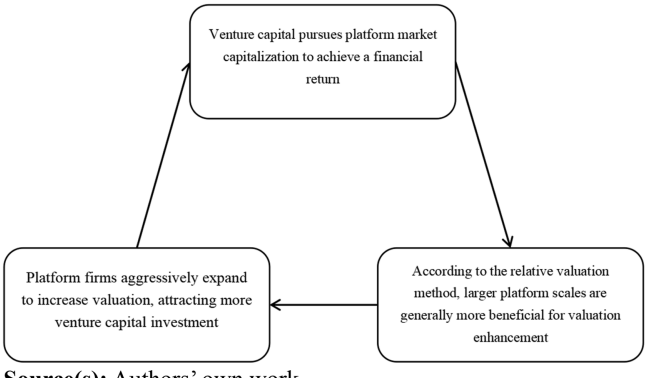
3. The accumulation logic of financialization of platform economy

It is generally posited that VC enhances resource allocation efficiency in two principal ways. Firstly, VC provides the necessary financial backing for entrepreneurs who possess managerial acumen but lack capital. Innovative enterprises, characterized by high levels of uncertainty, often find themselves unable to secure support from traditional financing

channels such as banks and VC effectively bridges this gap. Secondly, VC actively engages in corporate governance, thereby more effectively mitigating capital objectives and overcoming the principal–agent problem between shareholders and management, ultimately improving firm performance (Da Rin *et al.*, 2013). However, the validity of these efficiency hypotheses hinges on a crucial premise: the valuation of start-ups must accurately reflect their growth potential. Valuing start-ups is not only a technical challenge but also involves investors' subjective anticipations and speculative incentives. Typically, during both the nascent and growth phases, a firm is unlikely to achieve stable profitability and may even incur substantial losses. Accurately valuing such firms necessitates comprehensive due diligence and a prudent, objective approach.

In the current environment characterized by excess capital supply and speculative fervor, VC investment activities are likely to induce valuation bubbles, where the valuations of firms significantly deviate from their intrinsic values. Under these circumstances, neither of the above efficiency hypotheses can hold. Firstly, venture capitalists are primarily concerned with the short-term evaluations of firms by future stock market investors (before VC exit), rather than the long-term intrinsic value of the firms. This drives venture capitalists to invest in firms with inflated short-term valuations. However, if these valuations fail to accurately reflect the firms' long-term potential, genuinely outstanding companies may be overlooked by venture capitalists, leading to inefficiencies in resource allocation. Secondly, since rapid firm expansion can artificially boost valuations (which will be elaborated in the following sections), venture capitalists are more focused on the expansion rate. This prompts management to adopt aggressive growth strategies, potentially harming the firms' long-term prospects and leading to future difficulties. In other words, while venture capitalists may overcome the principal–agent problem, their financial motives also distort the accumulation patterns of platform companies, thereby introducing new efficiency losses.

Due to the integration of the platform economy with VC, platform enterprises feature a characteristic of "accumulating for valuation". The VC's motivation to maximize financial valuation synergizes with the accumulation behavior of platform firms, thereby creating a self-reinforcing mechanism. As illustrated in Figure 4, this mechanism operates as follows: firstly, to maximize financial returns, venture capitalists strive to enhance the future market valuation of the invested platform companies and valuation represents an expectation of future market capitalization. Secondly, given the uncertainty inherent in these investments, venture capitalists often employ relative valuation methods to evaluate non-listed platform firms. Typically, the larger the scale of the platform, the more conducive it is to the increase of valuation. In the end, venture capitalists propel their invested platforms toward aggressive



Source(s): Authors' own work

Figure 4. Interactions among venture capital, platform valuation and platform expansion

expansion so as to augment valuations. The arbitrage gap between actual investments and valuations attracts additional venture capital, continuously funding the platform's expansion. The following figure elaborates on this mechanism.

The valuation of platform enterprises represents the expectations set by VC in the face of uncertainty. An accurate forecast necessitates that investors have precise information about future outcomes; even in the absence of such precise information, investors must at least discern the probabilities of various future scenarios. However, the platform economy represents a novel economic paradigm where critical information, such as technological efficiency, market size and the degree of competition, continuously evolves. The socio-economic environment in which platform enterprises operate, specifically their relationships with labor, government entities and non-platform enterprises, is also dynamically shaped by diverse factors. Given this pervasive uncertainty, valuations often lack the critical information necessary for reference and may even lack "any scientific basis for calculating probabilities" (Keynes, 1937, p. 214). In the valuation process, various sophisticated calculations and key parameters inevitably involve unverifiable conjectures, with seemingly rigorous computation interwoven with overly optimistic sentiments (Kelly, 2019). As Marx (2004, p. 541) aptly noted, "(fictitious capital) is purely illusory; its fluctuating value bears no intrinsic relation to the value changes of the actual capital it represents". Nonetheless, VC driven by financial returns does not necessarily require an accurate valuation of platform enterprises. As long as VC anticipates that platform enterprises will achieve a high market valuation upon going public, the accuracy of the valuation itself becomes secondary, further reinforcing the "illusory" nature of these expectations. Moreover, to reduce evaluation costs, the VC industry generally exhibits a propensity to follow the "market leaders", amplifying the spread of overly optimistic sentiments (Zider, 1998).

In the presence of uncertainty, conventions arising within specific institutional and macroeconomic contexts become the basis for guiding capital investment practices (Crotty, 1994). VC similarly relies on these conventions for valuation, assuming that future stock market investors will also value enterprises according to these established norms. In practical terms, these conventions are manifested in adopting the relative valuation method for companies that have not yet achieved stable profitability (Damodaran, 2018). The fundamental approach of this method involves selecting a comparable listed company as a benchmark and using a set of its metrics (e.g. price-to-sales ratio, price-to-order ratio, price-to-user ratio, etc.). An enterprise's valuation can be derived by multiplying its sales, orders and user numbers by the corresponding benchmark metrics and then computing a weighted average of these respective products. Thereby, a range of metrics related to company scale (sales, orders, user base, etc.) – though not directly tied to profitability – gain significant reference value. This valuation method inherently prioritizes scale over profitability and introduces subjective elements when selecting benchmarks, metrics and weights. For the emerging platform economy, the scant number of listed enterprises means that valuation bubbles in early listings can propagate to unlisted entities via the relative valuation method. Moreover, while financial markets can endow early-listed companies with high market valuations, they cannot guarantee similar valuations for subsequent listings.

Relative valuation is the general method VC employs to evaluate enterprises within the new economic paradigm, which possesses distinct characteristics for platform enterprise valuation. The features are interrelated and aligned with the valuation emphasis on scale [5], manifested in three focuses: First, focusing on the market leadership of a platform. Owing to economies of scale and cross-network effects inherent in the platform economy, it will likely culminate in an oligopolistic industry dominated by a few large platforms. Therefore, valuations consider not only the scale of a platform but also its leadership status within the industry, which is crucial for attracting users and curbing competitors' expansions. Second, focusing on the construction of a platform's ecosystem. A platform's growth potential hinges

on its ability to establish an ecosystem encompassing consumers, producers, e-commerce businesses, advertisers and logistics firms. This interconnected cooperation creates all entities' dependency on the platform, enabling the platform to retain users and realize its commercial value. Third, focusing on the accumulation of data resources by the platform, as transaction data on the platform can be utilized to characterize user behavior, forecast market supply and demand, and be applied across diverse contexts, directing existing users to new sectors. The limitless possibilities for the commercial application of data resources are more likely to attract finance capital's favor toward platform enterprises, resulting in higher valuations for platforms possessing substantial data and robust computational capabilities.

In general, the larger the platform scale, the more conducive it becomes for platform companies to achieve market monopoly, develop ecosystems and accumulate data resources, ultimately resulting in higher valuations through the relative valuation method. Under the guidance of financial return objectives, platform enterprises are inclined to adopt aggressive expansion strategies to rapidly increase platform size and market share while continuously penetrating new markets and industries. Consequently, the platform economy has cultivated a valuation-driven mode of accumulation, where the immediate aim of expansion is not to generate profit but to enhance valuation [6]. Many behaviors of current platform enterprises can be interpreted as examples of valuation-driven accumulation models. Specifically, this accumulation approach manifests in three prominent forms.

First, blindly increasing market share. Attaining a monopolistic position necessitates an elevated market share, which platform enterprises often pursue through short-term price wars rather than long-term technological innovation, fueled and incentivized by finance capital. For example, recent years have seen fierce competition among various platforms in the ride-hailing industry worldwide, where platform companies are willing to incur significant expenses to subsidize drivers and passengers to outmaneuver competitors. Besides, the fierce competition in China's bike-sharing sector around 2017 resulted in substantial idle resources. Also, major platform enterprises continue to extend their reach from metropolises to smaller cities, tap into lower-tier cities' markets and partner with foreign entities to penetrate international markets.

Second, adopting a land grab approach to capture new domains. Continuously developing new lines of business facilitates the integration of various entities into the platform's ecosystem, thereby increasing user dependency on the platform. Platforms strive to evolve into super-platforms by introducing new functionalities or bundling different services, enhancing user stickiness by catering to diverse user needs (Hui, 2014). Therefore, platforms exhibit a pronounced inclination toward territorial expansion, relentlessly capturing new market segments. For instance, e-commerce giants like Amazon continuously branch out into new sectors, expanding their operations into advertising, consumer electronics, application stores, cloud services and logistics warehousing. Interestingly, platforms funded by finance capital are increasingly eying the financial industry as a crucial expansion domain by developing payment tools, engaging in lending activities, establishing VC departments and transforming them into incubators for nurturing new "unicorn" companies. This phenomenon further underscores the profound impact of financial logic on the platform accumulation model.

Third, producing data through dispossession. Platforms do not merely collect data passively; they actively produce data through dispossession by monitoring and digitizing individuals, processes and relationships (Fourcade and Healy, 2017). They continuously capture, control and accumulate vast amounts of user data in real time, creating detailed profiles of users' personal characteristics, lifestyles and social connections. Commercialization of data assets can be implemented beyond their original context, with data being restructured, repackaged and sold without user awareness or consent. From this perspective, the extraction of data by platforms constitutes a form of "accumulation by dispossession" (Thatcher *et al.*, 2016). Zuboff (2019), in *The Age of Surveillance Capitalism*,

highlights how major tech companies like Google, Apple and Amazon leverage the surveillance of human behavior and their monopolistic control over data and algorithms to shape human behavior, thereby enhancing their commercial value. Guided by financial logic, excessive expansion goes against the normal growth cycle of enterprises, leading to the platform economy deviating further from the normal track.

4. The inherent contradictions of financialization of the platform economy

Finance capital plays an indispensable role in the smooth progression of capital accumulation, as industrial capital obtains monetary capital, commonly through financing activities, supported by finance capital and utilizes this monetary capital alongside its own surplus value for accumulation purposes. Depending on the relative influence of industrial and finance capital, the accumulation process may be dominated either by industrial capital or finance capital. Accumulation aims to achieve higher profit rates, particularly ensuring relatively high and stable long-term profitability when dominated by industrial capital [7], and to maximize shareholder value, with shareholders typically prioritizing short-term returns over the company's long-term development when dominated by finance capital. Many studies have pointed out a nonlinear relationship between the accumulation rate and the long-term profit rate, and there is an optimal range for the expansion speed of the company to achieve a relatively high and stable profit rate in the long term while expanding too quickly or too slowly are not conducive to achieving this goal (Stockhammer, 2004; Lavoie, 2014, p. 134). An important feature of the financialization of Western economies is the propensity of listed companies to increase dividend payouts and share buybacks to appease shareholders and boost stock prices, which ultimately reduces the profits available for reinvestment, hindering corporate expansion and sacrificing long-term growth (Lazonick and O'Sullivan, 2000). Figure 5 shows the levels of shareholder payouts and investment rates

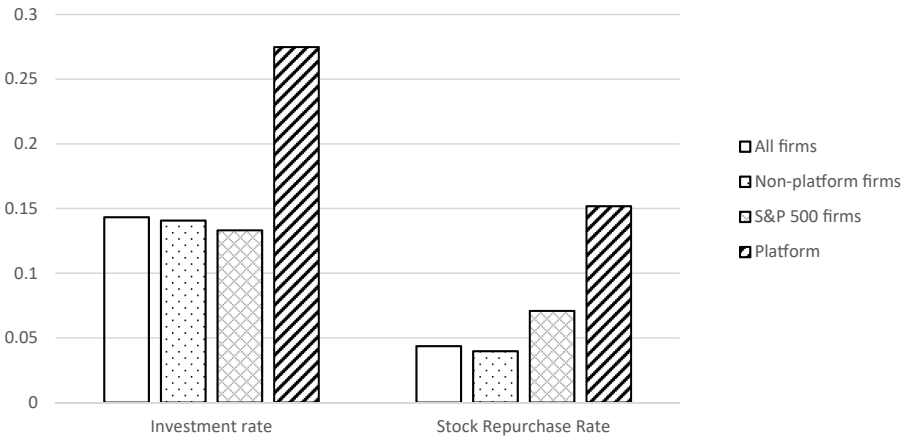


Figure 5.
Comparison of average investment rate and stock repurchase rate among various listed companies in the United States from 2010 to 2023

Note(s): The investment rate is defined as the ratio of a firm's capital expenditures (Capital Expenditure) to its tangible capital stock (Property, Plant, and Equipment). The stock repurchase rate is calculated as the ratio of the amount spent on repurchasing common and preferred stock (Purchase of Common and Preferred Stock) to the firm's total equity (Total Stockholders' Equity)

Source(s): Compustat Database of US-listed companies

of non-platform companies, S&P 500 firms and various platform companies in the US listed companies from 2010 to 2023. It can be seen that both platform and non-platform companies allocate a large amount of cash flow to stock buybacks, which is a typical feature of financialization. Notably, the proportion of stock buybacks is higher among platform companies, which also exhibit higher investment rates than general enterprises. In fact, the slow expansion of non-financial companies in Western countries and the current rapid expansion of platform companies are two sides of the same coin – both result from finance capital dominating the accumulation process and embody the principle of shareholder primacy.

The financialization of the platform economy not only adversely affects the development of platform enterprises but may also have more profound implications for the macroeconomy, primarily manifesting in two key aspects:

Firstly, the rise of the platform economy as a novel organizational form of production has accelerated the process of market disembedding since the 1980s, and under the influence of the financialization of the platform economy, the problems brought about by disembeddedness have been further exacerbated. As a mode of production organization, the platform economy exhibits four characteristics: (1) The recruitment method of labor by platforms commonly features precarious gig work. Platform workers face low entry barriers but work in scattered, independent tasks, with neither job stability nor income security. Most platform workers do not have legitimate employment relationships with the platforms and are not covered by the social security system. (2) The labor process within the platform economy utilizes "algorithmic management," where algorithms assign tasks to workers and impose rewards or penalties to control work quality. Like other technologies employed in real production processes, algorithms enhance production efficiency by precisely matching supply and demand while simultaneously exerting disciplinary effects on workers, thereby increasing platforms' capability to appropriate surplus. Algorithms often strive to achieve the goal of surplus appropriation under the guise of efficiency, leading to the excessive use or exploitation of labor. (3) Most platform companies adopt an "asset-light" model, with workers providing the necessary production assets themselves. Consequently, workers bear the property risks associated with supplying these assets, facing the risks of income instability and asset depreciation and devaluation. (4) Many platforms significantly utilize public infrastructure (e.g. road resources occupied by ride-hailing cars and delivery riders), leading to a strain on the supply of public infrastructure, yet platform companies typically do not incur extra fees or taxes to the government for it.

These four characteristics indicate that the platform economy is inherently a mode of production organization that accelerates the disembedding process, and its development inevitably contains the potential for conflicts arising from disembedding. Financialization of the platform economy leads to overexpansion, and when "overexpansion" intersects with "accelerated disembedding," the problems caused by disembedding are inevitably aggravated. In the absence of regulatory frameworks, the faster the platform economy expands, the more likely it is that conflicts and crises triggered by disembedding will emerge. Financialization of the platform economy acts as a critical driving force in accelerating platform economy expansion, exacerbating conflicts between platform enterprises and the workers, deteriorating relationships between platform companies and governmental regulators, inducing excessive competition among platform companies, diminishing profitability of the platform companies and increasing financial risks. Thus, the financialization of the platform economy exacerbates the socio-economic problems attributed to disembeddedness, creating instability in the economic development environment.

Secondly, the financialization of the platform economy indicates an attempt by finance capital to construct a new paradigm of financialization: through platforms as intermediaries,

finance capital exerts dominance over the real economy, which directly hinders the healthy development of the real economy. Since the 1980s, Western countries have transitioned into a period of neoliberalism characterized by increased income inequality and tepid investment, leading to long-term overproduction challenges. During this period, the evolution of financialization has seen the dominance of finance capital in the capital accumulation process, thereby reshaping the decision-making and accumulation models of enterprises in the real economy. The finance sector has increasingly diverged from its traditional role of servicing the real economy, becoming a site for speculative activities of finance capital. Since the beginning of the 21st century, the USA has experienced cyclical economic volatility, marked by inflation and subsequent bursting of both the internet and housing bubbles. In recent years, the rise of the platform economy has presented finance capital with new speculative opportunities, leading to the re-emergence of economic bubbles. In this context, the financialization of the platform economy can be interpreted as a new development within the broader trajectory of financialization in Western neoliberal economies. The platform economy serves a dual role: it acts as a crucial intermediary for advancing productive forces driven by cutting-edge technological revolutions to promote the development of the real economy while simultaneously offering finance capital a speculative arena for accruing financial gains. Therefore, the progression of the platform economy confronts two divergent pathways. The first pathway aims at fostering the healthy development of the real economy: on the condition that platform enterprises serve the real economy, the inherent potential of the platform economy will encourage the integration of advanced technologies, such as big data and cloud computing, with the real economy, thus contributing to the robust growth of the real economy. The alternative is the financialization of the platform economy: finance capital transforms platform enterprises into instruments for financial gains, extracting present and potential surplus value from these enterprises and dominates key segments and cycles of the socio-economy through its dominance over the platform economy, securing a hegemonic position in the production and distribution of surplus value.

The path of financialization of the platform economy inevitably hinders the healthy development of the real economy, manifested in three key aspects. Firstly, the speculative logic inherent in finance capital requires that platform companies prioritize investments in market expansion, which crowds out investments in innovation and limits the platform companies' capacity to serve the real economy. Accumulation under the dominance of finance capital aims to maximize shareholder value, particularly short-term returns. Consequently, platform enterprises emphasize investments that favor short-term surplus appropriation while neglecting long-term investments conducive to productivity development. Secondly, the market capture strategies of platform companies, bolstered by finance capital, lead not only to excessive competition among platform enterprises but also to over-competition among producers on different platforms, resulting in production surpluses in the real economy. Platform enterprises often fail to establish effective entry barriers, and the excessive competition, perpetuated by finance capital, continues to recur. Furthermore, with the backing of finance capital, platform companies engage in monopolistic practices such as unfair competition, infringing upon the livelihoods of workers in traditional sectors, exploiting gig workers and small businesses to increase profitability, and wantonly extracting user data for expansion. These practices disrupt market order, exert pressure on the traditional economy and fuel discontent among workers, small businesses and consumers, impeding the real economy's healthy development.

In summary, the financialization of the platform economy has, on the one hand, driven its excessive expansion, thereby exacerbating the issues of disembeddedness and contributing to increasingly imbalanced socio-economic development and heightened social and economic tensions; on the other hand, it has diverted platform enterprises from their role in serving the

real economy, impeding the healthy development of real economy and creating the risk of bubble formation in these enterprises, which highlights a deepening contradiction between productive forces and relations of production within the context of neoliberal financialization. Historically, the primary outcomes of financialization were the creation of financial bubbles, crises and subsequent stagnation of the real economy. The financialization of the platform economy, however, not only makes existing production relations unsustainable but also hinders the development of productive forces. Therefore, it exposes a deeper institutional impasse and stalemate in the neoliberal era: while capitalism requires major technological innovations to rejuvenate the real economy and overcome the challenges of income inequality and investment stagnation, finance capital dominates the development of the platform economy and results in bubble formation, thus significantly diminish the prospects for capitalism to extricate itself from these predicaments.

5. Conclusion: policy implications of the financialization of platform economy for China

The Fifth Plenary Session of the 19th Central Committee of the Communist Party of China explicitly called for the "promotion of the healthy development of platform economy and sharing economy" (Xinhua News Agency, 2020a). Moreover, the annual Central Economic Work Conference in 2020 further emphasized the need to "reinforce anti-monopoly measures and prevent the disorderly expansion of capital" (Xinhua News Agency, 2020b). The "14th Five-Year Plan" for Digital Economy Development in 2022 additionally stressed the importance of "improving and perfecting the governance system of the digital economy" (Xinhua News Agency, 2022). Over the past decade, China's platform economy has achieved remarkable accomplishments, catalyzing the emergence of many fast-growing high-tech firms. The digitalization, networking and intelligentization of China's economy are rapidly advancing, with the platform economy increasingly integrating with societal resources. Against this backdrop, the phenomenon of the financialization of the platform economy observed in Western countries warrants significant attention in China. A critical contemporary issue for China is examining the interrelations among platform enterprises, finance capital, workers and the state while avoiding financial bubbles and systemic crises. The financialization of the platform economy provides several key policy insights for the formulation and implementation of relevant policies in China.

Firstly, preventing platform enterprises from engaging in speculative arbitrage facilitated by economic bubbles ensure that these enterprises serve the real economy and advance technological innovation. The platform economy harbors significant potential to drive productivity development, and this potential should be harnessed to bolster the real economy, foster technological innovation and achieve innovation-driven growth, ultimately enhancing the quality of economic development. Historical evidence demonstrates that modern finance institutional arrangements, such as venture capital, have been instrumental in the success of many renowned high-tech firms. However, these arrangements have also repeatedly played speculative roles in the economic bubbles. They function simultaneously as incubators of new productive forces and accelerators of financial bubbles and overproduction. Thus, China must promote advanced finance mechanisms that support the platform economy and contribute to the development of the real economy and technological innovations. At the same time, it is essential to remain vigilant about the dual nature of finance capital, implementing prudential regulation for finance capital in emerging sectors like the platform economy.

Secondly, deterring platform enterprises from pursuing reckless expansion aimed at market monopoly and inflated financial valuations fosters the orderly and healthy development of the platform economy. The monopolistic market position is a key factor

finance capital considers in valuing platform enterprises, which in turn motivates these enterprises to aggressively seek such dominance. This pursuit often leads to the adoption of unfair competitive practices and indiscriminate expansion across various regions and industries, disrupting normal market order and resulting in over-competition and production surpluses. Since 2020, China has intensified its antitrust policies regarding the platform economy. Implementing these antitrust policies must comprehensively consider both the unfair competitive behaviors of platform enterprises and the underlying financialization processes. Regulatory policies in the platform economy should not only curb monopolistic tendencies but also restrain the financialization of the platform economy, thereby holistically addressing the interplay between the platform economy and financial markets.

Thirdly, preventing platform enterprises from leveraging their monopoly positions to the detriment of platform users ensures the inclusive development of the platform economy. In recent years, the platform economy has provided considerable convenience to consumers and has emerged as a crucial growth driver for employment in both urban and rural areas in China. It has played a significant role in maintaining supply, securing jobs, reducing poverty and preserving social stability amidst the disruptions caused by the pandemic. However, it is important to acknowledge that platform enterprises, owing to their monopolistic power and the dependency of users on these platforms, have been able to exploit producers, particularly gig workers and small businesses, impair consumer rights and excessively collect and misuse user data. Regulatory policies in the platform economy sector should dismantle the profit system centered around finance capital, promote the inclusive development of the platform economy, reasonably adjust the profit distribution patterns among stakeholders and promote shared development through technological innovation.

In conclusion, the platform economy exemplifies the robust vitality of a new wave of technological revolutions and is poised to become a pivotal sector in China's new stage of development. This novel economic form necessitates robust institutional support. China should expedite the integration of the platform economy into a comprehensive regulatory framework to ensure orderly market operations, adequate protection for laborers and effective financial support for the real economy. Such measures are crucial for the healthy development of the platform economy, ultimately contributing to the high-quality growth of the broader economy.

Notes

1. Refer to Global Unicorn Index 2023 issued by Hurun Research Institute.
2. The ratio of pre-IPO financial valuation to cumulative investment for Uber, Airbnb and DoorDash was 435%, 272%, and 600%, respectively, but they also faced huge losses. Source: information on cumulative investments and valuations obtained from https://www.cbinsights.com/. Information on profitability: Uber from the company's annual report; Airbnb from reports by *The Wall Street Journal*; DoorDash from reports by *The New York Times*.
3. We analyzed the investors of the top 20 "unicorn" platform companies globally using public data from the CB Insights website and found that these companies have attracted VC and private equity funds from the USA, Japan, the United Kingdom and other regions. VC is a typical representative of financial capital invested in the platform economy; in addition to venture capital, private equity funds, sovereign wealth funds and other types of institutional investors also play a crucial role in financing the platform economy. These entities differ from VC in organizational form, funding sources, investment stages and other aspects; however, there is no fundamental difference in their pursuit of financial returns.
4. According to data from China Venture (https://www.chinaventure.com.cn/), VC and private equity funds in China have also experienced rapid growth since 2014, mirroring the trend observed in the USA.

5. The valuation process itself is not publicly disclosed; however, the emphases can be discerned in the prospectuses of typical platform enterprises. For instance, Uber's prospectus highlights its vast and rapidly growing number of platform users, particularly high-frequency users, and its operations spanning over 700 cities worldwide. Uber leverages existing technological capabilities, data resources and network effects to extend its core business into novel platform services such as food delivery and freight, thereby reinforcing interactions among various entities and laying the groundwork for continuous expansion. Similarly, DoorDash's prospectus underscores its aggregation of a large number of consumers, merchants and delivery personnel, commanding a substantial share of the US food delivery market. DoorDash has established an extensive logistics network across the US, Canada and Australia; it enhances user stickiness through data technology and the integration of community resources, broadening its user base.
6. It should be noted that while valuation-driven accumulation encapsulates a prominent feature of current platform enterprises, it does not imply that all of the platform's investments are solely for the purpose of enhancing valuation.
7. Different modes of financing accumulation represent different ways of combining industrial capital and finance capital. But it does not imply fundamental contradictions between industrial capital and finance capital. For instance, in the case of platform accumulation dominated by finance capital, both platform management and venture capitalists can benefit from the rise in market value, forming a shared-interest community.

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