LIBERAL REFORM

The Sharing Economy

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Foreword

Sir Vince Cable

Authors

Peter Bancroft, David Thorpe Joe Otten

Editing

Nathan Tipping

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Foreword

This publication performs the useful service of analysing what is somewhat vacuously called the 'Sharing Economy' - the new digital and internet based platforms creating bigger and deeper markets for services which operate faster, more efficiently and over a wider area than before. The examples chosen include Uber, the taxi firm, and Airbnb which performs a similar role in hotel booking.

The approach of Liberal Reform is clear and positive. It welcomes disruptive technology for its potential benefits to consumers, breaking down market access barriers whether natural or man-made, in the form of protectionism. The technology may be new but the ideas of Adam Smith echo through the ages. But as Smith himself acknowledged, businessmen are not saints; they look for opportunities to conspire against the public. In the case of the 'Sharing Economy', public policy lags behind the technology and so market abuse is not being identified or acted upon quickly. A key challenge therefore is to identify where regulation should apply, but without killing the innovation.

The phrase 'Sharing Economy' is unfortunate in that it creates the impression that what is involved is some kind of coop in the sky: a digital Kibbutz. It is nothing of the kind. This is capitalism red in tooth and claw. The modern equivalent of the owners of those 'dark satanic mills' are no less motivated by profit maximisation; no less ruthless in their treatment of their employees (or outworkers); and just as inclined to cut corners where it involves modern inconveniences like paying taxes. Some of the pioneers like Bill Gates have sought to become saints as did the Rowntrees and Cadburys of old; but that is personal idiosyncrasy rather than part of the business model.

The key elements of the various business models are very similar to those of Google which dominates the industry. Indeed, Uber and Airbnb are almost Google apps. There is a vast database made possible by modern computing power to which speed of access saves enormous amounts of time for time-scarce users. Speed and flexibility combine to create consumer-friendly nimbleness. The companies are virtual rather than physical; Uber is a vast car hire company with no cars and Airbnb is a vast hotel company with no hotels (Amazon is an exception to this generalisation due to its logistical operation).

Profitability rests essentially around the exploitation of intellectual property (IP) rather than labour or land and it is the inherently monopolistic character of IP which creates dilemmas for policy-makers. A Schumpeterian will not worry unduly about such monopoly, but a conventional market economist will. Ultimately, we all pay for monopoly although it may be well disguised. The lie that 'the Internet is free' conceals the fact that we all pay for Google's search via commercial advertising, passed on to consumers. The services of Uber and Airbnb have to be paid for directly and they may represent good value, as against conventional search, but nonetheless involve monopoly rent as long as there are no competing platforms.

To my mind, the interesting competition question (which this otherwise admirable publication does not address) relates to monopsony rather than monopoly. Competition authorities tend to have a blind spot about monopsony and are solely focussed on the final consumer. When I was Secretary of State it took a great deal of agonised debate to gain acceptance of the fact that there was a serious asymmetry, and basic unfairness, in the relationship between pubcos and their tied tenants, the publicans and between supermarkets and their farmer suppliers. Similar issues have arisen more generally in relation to employers and individual workers, which has led to legislation over zero-hour contracts and, indeed, the minimum wage. In relation to Uber there is a similar question about whether, as a contractor, it should have any obligation towards its many self-employed subcontractors. The comparison is normally drawn with self-employed black cab drivers which benefit from advanced training requirements, sometimes characterised as 'restrictive practices' and 'barriers to entry'; but should also be made with private hire drivers who drive company cars, also in a dependent relationship, but of a different kind.

The paper is a valuable contribution since the reaction to these emerging, disruptive, technology companies is often characterised by confusion and irrational phobias and enthusiasms. A proper study of how these companies work is a useful step to understanding how public policy should respond.

Vince Cable is former Secretary of State for Business Innovation and Skills (2010-15) and currently visiting professor at LSE, Nottingham and St Mary's.

Introduction

Like our ancestors before us, we live in a world regularly disrupted by technological advances and human ingenuity. Whether through Galileo's advances in observational astronomy, the battle to repeal the Corn Laws or the mechanisation of the mills, genuine progress has always faced resistance from the established order. It is testament to the power of the Internet age that such significant changes now occur at an unprecedented pace. The journey from Copernicus to Galileo took a century; the journey from the first email to the first video call took but a fraction of this time.

A significant, potentially transformational aspect of the modern digital age is the Sharing Economy. Best defined as a range of new business models based on Internet and mobile services, the Sharing Economy facilitates the renting of goods and services, allowing individuals to monetise under-utilised assets and time. Until the recent advent of widespread internet usage, platforms that enable peer-to-peer sharing and commerce have not been viable.

The Sharing Economy is, above all, characterised by its flexibility. New actors may now enter markets with far greater ease than before. Airbnb for example, allows individuals to easily rent out spare spaces via a website and mobile application (app). Furthermore, since the product or service is based as much around intellectual property as it is around physical property, and because the available market is only limited by mass internet usage, many traditional barriers to business development evaporate.

This presents an array of challenges for policy-makers. Regulation has consistently lagged behind the rapid evolution of the Sharing Economy, hindering the government's ability to harness such change in its favour. In addition, policy-makers now face the political consequences of tackling angry and noisy vested interests who feel their traditional market dominance is being infringed upon.

The challenges faced by policy-makers can be summarised as follows:

- Governments have struggled to respond appropriately to the changes created by the Sharing Economy
- Prioritising the interests of the individual customer over dominant players in platform business models, many of which naturally tend towards monopoly
- Ensuring regulation is fit for purpose

when applied to new types of transaction
- Removing barriers to participation in the Sharing Economy across all demographics
- Ensuring that, as the traditional employer-employee relationship declines and opportunities for individual entrepreneurship increase, the existing social safety net adapts to compensate

The central question faced by policy-makers is thus: How can the government maximise the opportunities provided by the Sharing Economy, whilst maintaining the necessary safeguards for all in society?
The aim of this publication is to examine these challenges, whilst also exploring the contemporary impact of the businesses within the Sharing Economy. Many of the platforms examined within this publication are chosen due to their contemporary political relevance. For example, Uber is currently the focal point of debate over the role of the Sharing Economy in the UK. Many cases demonstrate the tendency of policy-makers from across the political spectrum to make the same mistakes as their antecedents, favouring the vested interests of the present over the potential of the future. This publication also seeks to explore how the Sharing Economy can be used to alleviate many contemporary issues, such as the housing crisis. This publication will also examine some more conceptual aspects of the Sharing Economy, aiming to highlight the future issues that policy-makers will face as a result of this innovation.

As an organisation, Liberal Reform is determined to pursue evidence-based policy-making. Yet although the Sharing Economy promises to unlock economic opportunities for the many, policy-makers too often feel inclined to protect the more familiar business models they recognise. Liberal Reform contends that the core liberal aim of empowering people to determine their own lives can be achieved through enhancing the choices available to individual market participants - what Adam Smith called the 'thousands of little buyers and sellers'. Paternalistic shielding of the individual from innovation promises only to bolster the status-quo, offering no tangible benefits to the consumer.
The Sharing Economy is named as such because it permits the 'thousands of little buyers and sellers' that comprise the commercial system to interact and trade with each other in the most open and value accretive way: free from geographical constraints, the influence of dominant interests or underdeveloped infrastructure. Recent political events including in particular the Brexit referendum have revealed more clearly than ever the dividing line between evidence-based policy and reactive populism. While those of many political stripes may be tempted by knee-jerk reactions to the Sharing Economy, we are asserting the evidence-based approach. This publication contains specific recommendations that we hope will shape the debate on how policy-makers deal with the challenges and opportunities presented by the Sharing Economy in the future.

Accommodation & Workspace

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Accommodation & Workspace

A particularly promising aspect of the Sharing Economy is the Accommodation and Workspace sector, which allows individuals to easily generate supplementary revenue from underutilised spaces. At a time when policy-makers of all stripes have come to recognise the chronic lack of affordable accommodation in the UK, the opportunity to increase the utility of available space is incredibly promising. This chapter does not argue that the innovations of the Sharing Economy offer a panacea to the problems of the current housing crisis. Rather, it aims to highlight the potential contribution that new technologies bring to the wider debate on Accommodation and Workspace, ensuring that new business platforms are used to complement traditional methods of alleviating housing shortages.

Whilst there are already several businesses operating within the residential sector, the Sharing Economy has yet to transform the field of commercial property to the same extent. There are a number of companies that deal with office space in a similar manner to residential space sharing platforms, such as OFIXU and WeWork. For the time being, however, they have not been nearly as successful. Nevertheless, this section will explore the potential such companies have to revolutionise the commercial property sector.

Residential Housing and Short-Stay Accommodation

Housing and accommodation is one of the largest single areas of expenditure for the modern consumer. This problem has gained particular traction for a cocktail of reasons: the artificial choking of the housing supply due to heavy-handed planning restrictions; a general stagnation in wages, and the policies of global central banks which have sought to, and were successful in, elevating asset prices. As the economist Thomas Piketty has also noted, the provision of housing in the UK is blistered by the interests of those who hoard land. Whilst accommodation and space-sharing models will by no means solve the housing crisis in the UK, it has the potential to nudge both the market and society closer to a sustainable housing market fit for the twenty-first century.

These platforms increase the utilisation of the housing stock, as the Sharing Economy effectively increases the supply of land for accommodation, with minimal disruption to the environment. Such platforms essentially allow people to monetise assets that would otherwise lay idle - unlocking value in underutilised assets. This area of the Sharing Economy appears particularly auspicious for those on lower incomes, as it holds the potential to both broaden travel opportunities and, in a more long-term perspective, change the supply dynamics of the housing market in order to create more affordable housing.

As more space-sharing platforms are developed, the possibility of providing inexpensive accommodation becomes increasingly realistic. These housing platforms allow individuals to quickly and easily rent a place to stay, from a single room to an entire house. As it stands, services such as Airbnb are not a viable means of finding housing for those struggling to find temporary accommodation. However, a modified version of this model could potentially serve those needing longer periods of residence, allowing those struggling to find a safe place to stay.

For those in possession of property, the Sharing Economy empowers the individual by providing a new avenue through which to supplement their income. Those with spare space in their home have the opportunity to easily rent it out. A major consequence of this has already been felt by the hotel industry. In order to compete with more flexible platforms, hotels have been forced to examine their pricing and value propositions in order to avoid losing market share. Yet policy-makers must strike a balance between ensuring businesses such as Airbnb maintain appropriate safety and insurance standards, whilst avoiding excessive regulation that would hinder the platform's flexibility.

Residents in social housing will find the additional income the Sharing Economy offers even more valuable. Renting out underutilised spaces offers opportunities to mitigate the effects of the spare room subsidy for those in social housing, as well as for those in receipt of housing benefit living in privately rented accommodation. Not only does the Sharing Economy offer to assist individuals on lower incomes, but through the incorporation of these previously unused living spaces the overall price of rented accommodation will fall as the available stock of housing increases.

Another significant alteration the accommodation sector of the Sharing Economy may bring is in complementing the structure of the housing market. With the greater availability of short-term accommodation, demand from developers to build or expand other forms of dedicated short-term accommodation, such as hostels and hotels, will fall. As such, sizeable amounts of land would be available to construct standard forms of housing.

The lack of access to affordable housing has long been an issue for many in the UK. The Sharing Economy may curb some of the issues produced by the current housing situation, but only if it is allowed to do so by policy-makers.

Case Study: Amsterdam & Airbnb

Amsterdam is so far the city that has most strongly felt the transformative effects of Airbnb. Having long been a major tourist destination, its citizens have been quick to capitalise on the advent of the Sharing Economy. As such, an analysis of both the impact of Airbnb on the city and the ways in which local policy-makers have responded is necessary.

With an estimated 22,000 rooms being rented out at least once per year - over half of Airbnb rentals in the entire Netherlands - the short-stay accommodation sector in Amsterdam is booming. Unsurprisingly, this has sparked concern from many citizens and local officials, who are sceptical about the direction this is taking the city. Their concerns range from complaints about the noise generated by partying tourists to the increased cost of real estate, which has priced out a number of Dutch citizens from the local market. For many in Amsterdam, however, the opportunity to rent out their property through Airbnb has been an invaluable form of additional income. In a report published by Airbnb, the company claims that for 36 percent of hosts this income has helped them make ends meet, and that their expansion has led to tourists spending increased amounts of time and money in the city.

In response, Amsterdam has been

the first city to introduce legislation specifically aimed at curbing the excesses of the growing short-term rental sector. In February 2014 a new law was approved that introduced some basic restrictions regarding the right of citizens to rent out their homes. This included limiting the amount of time a host may rent out their home to two months per year, introducing minimum safety requirements, and the right of authorities to prohibit further rentals if their neighbours find the guests disruptive. Later that year, the City of Amsterdam introduced a tourist tax, which is collected by Airbnb before being passed on to the City itself. The agreement also saw Airbnb and the City agree to cooperate in clearly publicising the rules hosts must comply to, and in tackling the rise in illegal hotels.

The obvious conclusion that may be drawn from the case of Amsterdam is that at least some regulation is necessary. Policy-makers in other countries must ensure that, as these platforms bring new accommodation into the short-stay rental sector, hosts continue to uphold basic minimum safety requirements in their property. Policy-makers should also follow Amsterdam in ensuring any further regulation is proportional to the scale of the operation. Hence, an individual renting out a spare room on occasion should face no further rules or requirements. An individual renting out their house for most of the year, however, should face regulation akin to that faced by similar sized conventional businesses.

Another key lesson from Amsterdam is that local authorities must be proactive in cooperating with accommodation platforms within the Sharing Economy, in order to ensure that consumers are aware of the rules their hosts must abide by. Just as the City of Amsterdam attempted to crackdown on illegal hotels through joint efforts with Airbnb, cities in the UK should be prepared to work with developing platforms in a similar manner.

The question of whether a tourist tax is justified is a more complex one, but ultimately it appears to be an unnecessary burden on local people. In 2016, the City of Amsterdam is set to collect more than €44 million more in tourist tax due to the agreement - a national increase of nine percent. Yet the tax does little to tackle the problems many locals complained of: guests behaving in an antisocial manner and the rising cost of real estate. Both of these are issues addressed more effectively by the light-touch regulation discussed previously. Although the tax has raised significant revenue for local authorities, it has reduced competition in the short-stay accommodation market and raised prices for consumers. Given the vast numbers of Airbnb hosts in Amsterdam, and the fact that around one third rely on renting out spare property to achieve an adequate standard of living, the tourist tax offers little overall benefit to local citizens.

Commercial Property

It is a cruel irony that despite the creation of services such as email, video calls and online storage, the biggest single cost for a young entrepreneur is office space. Commercial property, particularly in major cities, has become a trophy asset for many overseas buyers, and a 'safe haven' asset for others, particularly for those from emerging economies where political instability and corruption are ingrained in the system. Many companies are less focused on the economic returns from commercial property and have, particularly in London, driven the prices up by distorting the market away from the fundamentals. The presence of major buyers, who are unconcerned with securing a return on capital, distorts the market. In turn, this pushes those who do seek to generate a return out of London. These buyers then move into secondary and regional markets, driving-up prices there too. The net consequence of this market distortion is that innovative entrepreneurs are faced with higher entry costs into markets they seek to operate within, which ultimately makes it harder to compete with existing, entrenched market participants. The result is less competition, which keeps prices higher for consumers.

Although the sector of commercial property has yet to experience a similar boom to that of short-stay accommodation, this appears to be an increasing possibility. Over the next few years it is likely that we will see previously underutilised areas converted into office and workspace. Spaces that were previously difficult to reach via public transport, too large to be occupied by a single company or were generally unknown may become far more accessible. As more companies make use of them they may leave positive reviews, leading to more operating in the area. Consequently, the value of this unknown, underutilised property will be unlocked. Thus, the Sharing Economy also offers to diversify and complement the commercial property market, even if it has not done so yet.

Case Study: Silicon Roundabout

The success of the 'Silicon Roundabout' exemplifies the Sharing Economy's potential to revolutionise the commercial property sector. Located in Shoreditch, London, the area saw an explosion in the number of start-up technology companies based there around 2010. Being situated on the edge of the city meant that office space was cheaper and employees could afford to live nearby, whilst the close proximity of the Old Street tube station facilitated easy access to the heart of London.

Space-sharing platforms were the key to the Silicon Roundabout's success. As many of those living in the area have moved to the area in search of a job, or to work for one of the numerous technology start-ups, they have simply found a room using space-sharing websites. In turn, this has fuelled the local economy, with more people spending time and money in nearby businesses for food and drinks. In a similar vein, a number of companies, including Google, have set-up shared incubator spaces in the area. Such spaces are often provided with services such as fibre optic broadband and rent is linked to the success of the company. Although the Silicon Roundabout has yet to produce any companies as large as Apple or Google, it has been successful in providing an affordable, stable place for new businesses to develop.

The Silicon Roundabout also illustrates another major challenge for policy-makers - adapting traditional economic procedures to effectively measure and understand the Sharing Economy. Much of the activity in this sector is not currently captured in GDP growth figures due to outdated accounting principles; if the government is to harness the benefits of this sector then this growing sector must be incorporated into economic data, otherwise the potential of such innovation will be wasted.

Policy Recommendations

In summary, the Sharing Economy enhances the market of commercial property by:

- Reducing costs and risks for entrepreneurs when setting up new businesses
- Establishing a presence in a new city, faster and more affordable
- Companies to scale with employees, rather than having to commit to long-term leases.

The potential benefits of the shared accommodation and space sector are manifold. For policy-makers, the challenge lies in reconciling this emerging, versatile sector of the housing market with the necessary regulation in order to safeguard consumers.

- Minimum safety regulations should be put in place, with any more prescriptive rules being proportional to the scale of the operation
  - ***e.g.*** *A full house being rented out all year around should be subject to B&B type regulation, whereas a spare room rented out occasionally should not*
- The standard tenancy agreement template should be updated to remove the current explicit ban on subletting; this should also include social housing
- Encourage local authorities to work with businesses such as Airbnb (as seen in the case of Amsterdam) in order to tailor regulation to the needs of specific areas.

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Transport

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Transport

The Future of Personal Transport

The area of transport is one that has been, and continues to be, revolutionised by the development of the Sharing Economy. Transport is essential to trade, and trade is essential to social and economic development. If we broaden our understanding of trade to include the exchange of ideas, as well as goods and services, then transport becomes a sector of even greater importance. As such, it should be a priority of policy-makers to maximise access to cheap and effective transportation to the largest extent possible.

A major contemporary challenge faced by policy-makers is the need to satisfy the growing demand for transport in cities, whilst also effectively managing the subsequent environmental impact such an increase will bring.

Companies have become increasingly proficient at adapting to the specific needs of consumers. The range of bespoke offerings continues to grow day-to-day: watching a TV programme no longer requires you to be in front of a set at a particular time, and mobile phone contracts are becoming increasingly flexible as technology evolves. In the UK, however, public transport has not experienced such a transformation. Although it remains critical to the functioning of any economy, public transport will always be constrained by set timetables and fixed routes. It is in this area that the Sharing Economy offers to complement traditional forms of transport. Services such as Uber allow individuals to easily pay for a taxi when public transport is unable to suit their needs. Such a service comes at no additional cost to the taxpayer, yet is a versatile way of meeting the everyday needs of citizens.

There are at least two longstanding issues with car travel that the Sharing Economy promises to alleviate. First is the environmental impact. The majority of car journeys made transport less than the maximum number of people the vehicle is capable of carrying, which leads to more cars on the road, greater congestion and higher levels of pollution. Ride-sharing apps have the potential to abate some of these excesses. For example, a 2014 survey by the University of California Transportation Centre found that nearly half of all ride-service trips carry more than one passenger. Second, a car in

private ownership spends most of its existence not being driven, with only a small proportion of the total stock of cars in a country being utilised at any one time. Companies such as Zipcar are not shy about declaring that for every one of their vehicles in use, many more are taken off the road.

We all make use of intermodal solutions to get around in our day-to-day lives. However, services such as UberX demonstrate how platforms within the Sharing Economy are increasingly undercutting the costs of using other forms of transport. Although it maintains minimum requirements regarding the model and registration of the vehicles driven, UberX is the most economically efficient transport option available when travelling through central London on a journey shared between two people. As we move towards full autonomy, the costs of private transportation on such platforms are predicted to fall by around seventy percent. This poses challenging questions to policy-makers regarding existing forms of public transport. Transport planning as a whole may need to be re-evaluated. With the possibility of ride-sharing becoming more efficient than buses or trains, there may be a shift in the volume of people using public transport towards platforms such as Uber. Policy-makers will thus need to assess the necessity of certain aspects of public transport: bus routes, the cost of maintaining particular train stations, and the frequency of journeys.

Case Study: Uber

Compared to other sectors, there has been far greater debate in the transport sector over the relationship between the platforms themselves and those who use them to make additional revenue.

This is aptly illustrated by the recent clash between Uber and the GMB trade union over the former's status as an employer. At the core of the disagreement lay the question of whether those using Uber for work should be classed as self-employed, or instead as employees of Uber. Uber insisted, and continues to insist, that it is merely a platform that enables drivers and customers to interact and trade – it is not an employer in of itself. It is worth noting that this is nothing new, as black cab drivers are currently classified as self-employed. Ultimately, a London employment tribunal ruled in favour of the drivers, meaning that Uber will now be forced to pay them the minimum wage and adhere to the Working Time Directive. Whilst the ruling currently applies only to the two individuals involved, it may well set a precedent for future legal challenges.

Given the level of freedom services such as Uber grant, the tribunal's ruling is particularly disappointing. Sharing platforms are simply a go-between for consumers and those using them to make money; it offers consumers with a wider range of cheaper options, and provides those using them for work with a flexible, easily accessible form of income. The tribunal's ruling seems to have fundamentally misunderstood this. If Uber is forced to pay all of those who use it a minimum wage, it would hardly be different from a conventional taxi company. Likely, it would have to restrict the number of drivers using the platform, whilst removing the option of drivers to decline offering customers lifts at their own choosing. Consumers would also suffer, as prices would consequently rise whilst the availability of drivers would fall. With an increasing number of people now being employed in more than one job, Uber and similar services are an important source of income for many, precisely because of their flexibility.

Transport Models within the Sharing Economy

The transport sector of the Sharing Economy is comprised of four models from which new market entrants may choose to derive themselves from.

Table 1. Car platforms	**Hire Car Platforms**	**Multi-Person Platforms**
Example companies	• Uber • Lyft	• UberPool • Lyft Line
What is it?	• *Mobile apps which summon a hire car to a person's location* • *Uber is the most successful of these models. Offers a wide variety of cars and drivers at different price-points* • *The platform is often legally structured as an intermediary, with individual drivers owning the licence*	• *Similar / same mobile apps used to hail vehicles. However, these apps match multiple people to one car going in a particular direction* • *The model is reminiscent of private minivan services common in Russia and Sub-Saharan Africa*
Benefits	• **Accountability** *Information is mutually shared and centrally recorded* • **Flexibility** *With multiple apps on the market and each containing different price-points, consumer choice is far greater than when using a "one size fits all" licenced cab* • **Cost** *Basic cars are typically 30 percent cheaper than black cabs*	• **Congestion** *A study in New York suggested travel times could be cut by 30 percent through the greater use of pooled journeys* • **Environment** *The same study suggests 95 percent of journeys could be shared* • **Cost** *Better utilisation of car space would lower prices significantly. e.g. In Los Angeles, rides which would normally cost $20-40 now cost $5*
Potential issues	• *New entrants in private-hire taxi companies can be just as unreliable as existing minicab and black cab drivers - regulators need to ensure compliance with laws* • *Need to ensure services with facilities for different disabilities remain at least as affordable as other platforms*	• *Regulation must be updated to ensure that it is fit for purpose to enable multiple people are using a car at once*

Table 2. Vehicle and ride sharing	**Car Clubs / Sharing Platforms**	**Car Trips / Sharing Platforms**
Example companies	• Zipcar • GetAround	• UberPOP (not currently available in UK) and Lyft • BlaBlaCar and Liftshare
What is it?	• *The sharing of cars (and also parking spaces) to make more efficient use of them e.g. P2P lending where individuals can rent out their cars when they are not in use*	• *Allows people in cars to either share their journeys with others or to pick people up* • *Allows individuals to earn additional revenue in their free time and to more efficiently utilise private vehicles* • *This is perhaps the most controversial incarnation of Uber. The regulatory framework surrounding UberPOP must be adapted to safeguard consumers and to limit potential discrimination. Given that hitchhiking is legal, so should UberPOP*
Benefits	• **Environment** *Every car added to Zipcar's fleet leads to ~32 personal cars never being purchased - cutting levels of pollution* • **Cost** *Makes use of cars more affordable e.g. For moving, family shopping*	• **Flexibility** *Allows individual to raise extra income using their spare time and assets to create additional revenue* • **Cost** *As they do not have to pay for steep overheads, including those imposed upon traditional taxi services such as CCTV, rides are very cheap*
Potential issues	• *The success of Zipcar in cities depends on them having access to parking facilities for cars during downtime – councils are often reluctant to give this* • *Insurance requirements need to continue evolving to allow for the appropriate balancing of risk*	• *Drivers only require criminal record checks in some countries. Even then, these are usually more lax than those other taxi services are required undergo*

Policy Recommendations

We are currently in the midst of a transitionary period, in which the cost of taxi services is plummeting as technological advances enable assets to be utilised more efficiently. Existing companies, such as Uber, Zipcar and Lyft likely mark the beginning of transport platforms within the Sharing Economy, which will grow considerably in the near future. Policy-makers must navigate this period with an eye to the future rather than the past, in order to ensure the continued existence of both private and shared forms of transport. Given that the Sharing Economy promises to bring real choice and flexibility to the transport sector, regulation must be light – aiming to guarantee the safety of the consumer. Heavy-handed interference will only strangle innovation that could otherwise work to the benefit of the majority.

- Uber drivers should continue to be regulated as minicabs, ensuring that regulation is fit for purpose as the platform evolves
  - ***e.g.*** *As autonomous cars come into common usage, regulation must be updated and adapted in order to ensure that legislation does not hinder the potential such innovation offers*
- Minimum levels of regulation should be in place for any drivers not covered under minicab regulations (e.g. the UberPOP model).
  - ***e.g.*** *Individuals wishing to work using apps such as UberPOP must undergo a criminal background check first*
- For lightly regulated models such as UberPOP, legislation must be adapted in order to ensure that consumers are aware of the risks involved
  - ***e.g.*** *Make it mandatory for the Uber app to clearly state that UberPOP drivers may not be as well-trained as on other Uber platforms*
- Existing legislation should be assessed in order to ensure it continues to be necessary. Heavy-handed legislation that hinders the competitiveness of established taxi companies should be removed.
  - ***e.g.*** *Remove the ability for local councils to determine metering charges or schedule mandatory tests for licence renewal. Potentially consider removing the requirement for black cab drivers to retake 'the Knowledge' every two years.*
- Car clubs should be welcomed as a way of decreasing levels of car ownership
  - ***e.g.*** *Councils should cooperate with car clubs to ensure they have fair access to parking spaces.*

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Time, Skills & Capital

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Time, Skills & Capital

A particularly promising aspect of the Sharing Economy is that it allows people to utilise their time skills and capital via platforms that bypass traditional intermediaries.

There are four main models:

■ Platforms for help and work Platforms that allow freelancers and others currently in employment to learn new and develop their existing skills
- ***e.g.*** *TaskRabbit*

■ Platforms for exchanging knowledge and services Forums for market participants to share knowledge and potentially swap services and labour with each other
- ***e.g.*** *HourlyNerd*

■ Knowledge brokers Allows individuals with a common interest to come into contact with those that already possess the relevant knowledge; e.g. AlphaSights

■ Capital sharing Companies that allow businesses access to a wider customer base, typically for a small commission
- ***e.g.*** *Seedrs*

Until recently, those wishing to either participate in the labour market or access capital have been forced to do so through conventional companies – for example, by working for a business or through taking out a loan through a bank. The Sharing Economy removes the intermediary and allows SMEs to trade services and capital freely. For individual workers this is a great advantage, as they can easily sell their labour with the intermediary receiving only a relatively small fee. Furthermore, it also brings benefits to the wider economy by facilitating the transfer of ideas and innovations between market participants. In contrast to the transformations occurring in the sectors of transport and accommodation, the basic regulatory frameworks of this sector appear to be coping well with the changes wrought by the Sharing Economy.

The UK has suffered from weak productivity compared to our competitors for many years, for a number of reasons. The opportunities created by the sharing economy offer individuals various new ways to increase their own productivity as well as simply earn additional income.

What are the potential benefits?

Disintermediation of services & labour
By removing or significantly reducing the use of intermediaries, new market participants will enjoy lower market entry costs. As the number using such platforms to supplement their income continues to

expand, this will simultaneously lower costs for the end consumer.

A major long-term implication of disintermediation may be geographic. The growing user base of platforms within the Sharing Economy may disperse a number of highly concentrated urban areas, potentially leading to the revival of areas currently underutilised. In turn, such a change would lower both living and business costs in regions that currently dominate the UK's economic landscape.

Greater opportunities to secure multiple jobs

Although moonlighting has been common practice for a long-time, it has not been without issue. Individuals have typically been limited by geographical constraints. More significantly, however, much of this work has occurred within the shadow economy, meaning it has not been taxed or regulated. The Sharing Economy promises to solve these issues by eliminating a number of geographical constraints, with platforms such as TaskRabbit allowing individuals to complete certain kinds of work remotely. Crucially, it promises to bring the shadow economy into the light, allowing it to be taxed.

Converting banks' capital allocation to a P2P basis

This may be the area in which the transformations brought about by the Sharing Economy are most profoundly felt. Crowdfunding and P2P finance providers will soon challenge the banking sector's traditional oligopoly over the financing of emerging businesses and economic sectors. These new forms of provision may supply a wider pool of capital for both businesses and consumers to access, resulting in greater opportunities for entrepreneurs. The potential of the Sharing Economy in these areas has not gone unnoticed. Last year, former Barclays CEO Antony Jenkins predicted the approach of an 'Uber moment' in banking. As it stands, the current banking sector will likely be forced to adapt or disintegrate in the face of new, more flexible competitors.

Trust & accountability through ID verification & ratings

This is perhaps the area of the Sharing Economy that presents the strongest set of issues for policy-makers. Fraudsters are apt at matching technological advances, and so sharing platforms will be a ripe target unless efforts are made to protect them. Platforms such as Blockchain are leading the fightback; however, it is ultimately the role of policy-makers and regulators to facilitate cyber-security measures and update and adapt laws where appropriate. Contract and commerce laws should also be adapted in line with technological advances, in order to ensure that progress is not hindered by an outdated legal system.

Case Study: Samaschool & TaskRabbit

Samaschool is an American institution that teaches digital skills to individuals from low-income communities, as a means of enhancing social mobility. Staff at the institution have noted that many of their students have begun to use TaskRabbit, a platform that allows consumers to outsource help with tasks – ranging from cleaning to, as is the case here, digital tasks. The benefit of this has been immediately obvious. A number of students were soon engaged in jobs that paid from $20 to $40 per hour and many have gained valuable work experience from using it. Given the success of the platform so far, TaskRabbit has now been made an integral part of the curriculum.

The case of Samaschool and TaskRabbit demonstrates two points. First, that digital competence is of ever-growing importance, and that it is growing to be essential for social mobility. Second, it illustrates that effectiveness of platforms such as TaskRabbit in allowing individuals to achieve a higher standard of living.

Table 3. Work Exchange	**Platforms for help and work**	**Platforms exchanging knowledge and services**
Example companies	• TaskRabbit • RatedPeople	• HourlyNerd • 99 Designs
What is it?	• *Allows individuals looking for work to connect with other individuals, families and companies in need of either skilled or unskilled labour*	• *Platforms where companies can source bids for creative and analytical projects*
Benefits	• *Both sides benefit from the removal of intermediaries: Workers keep a higher share of their wages, whilst purchasers will still benefit from a competitive market* • *The flexible nature of freelancing allows individuals work around their own lifestyle and income requirements* • *Accountability for both consumers and workers, ensuring fair treatment of workers and identification of any "cowboy builders"*	• *Companies benefit from a high diversity of suppliers, often including initial "auction" stages where bidders produce proof of concepts or proposals* • *Content producers can use the platforms to supplement their income or to fund a start-up*
Potential issues	• *Anti-discrimination laws must be kept up to date in order to ensure that everyone has a fair access to the marketplace, irrespective of gender, race, sexuality or disability*	• *Managing disputes concerning service contracts on online platforms can be complicated and costly; the EU should develop common streamlined methods in order to ensure adequate settlements*

Table 4: Investment Exchange	**Knowledge brokers**	**Capital sharing**
Example companies	• GLG • AlphaSights	• FundingXchange • Seedrs
What is it?	• *Intermediary firms which source industry-specific experts to investors and companies seeking specialist advice in particular areas*	• *Platforms which take banks out of access to capital for start-ups and small companies in the form of either debt or equity*
Benefits	• *Direct market intelligence is increasing in importance as capital allocation becomes more competitive; the challenge of avoiding unfair advantages through insider trading has become more difficult* • *Knowledge brokers provide a platform for compliance and an audit trail to make insider trading more difficult and easier to identify retrospectively*	• *Equity raising platforms such as Seedrs dramatically decrease the challenges in securing equity funding, whilst also democratising the process for those without personal connections* • *Funding platforms have the potential to greatly increase available debt to small companies by removing the interests of large banks*
Potential issues	• *The monetisation of previously informal networks moves access to information from the well-connected to those able to invest*	• *Capital sharing platforms require updated regulatory frameworks, otherwise, legitimate activities will be prevented whilst less desirable actions will go unnoticed*

Policy Recommendations

At present, many of the platforms that exist within the Sharing Economy serve to empower the consumer. The next stage, however, will see the development of models that serve to empower the small business relative to the larger corporation. This is a potentially egalitarian step, as it facilitates the creation of smaller businesses that will challenge entrenched interests and drive innovation. The Sharing Economy best benefits smaller businesses when the latter is able to cast its net wider when sourcing materials and labour. A larger pool of suppliers will reduce the power of scale that established interests enjoy, thus aiding a greater number of individuals and businesses in the economy and ultimately increasing productivity. As such, existing laws must be updated in order to ensure they are applicable to business-to-business procurement.

People raising small amounts of income should pay appropriate tax, but HMRC should investigate whether it is possible to simplify the tax collection of people in PAYE employment who also derive secondary incomes. The current tax system code, and the infrastructure it is based upon, is orientated towards an economy predominantly comprised of workers with traditional relationships to their employers.

As employer-employee relationships are already evolving, it is vital to the national finances that a 'shadow economy' does not prevail. Such an economy would be enabled by an outmoded tax code, and would lead to much of the productivity, earnings, employment, and inflation statistics being unaccounted for. Critically, this could result in policy-makers making sub-optimal economic decisions, as they would be unable to discern the true state of the economy.

It is equally crucial that policy-makers do not treat the opportunities of the sharing economy as a threat, and attempt to crush it as a means of stamping out the shadow economy - in practice, this would harm the real economy.

Minimum incomes in the UK have been guaranteed by the National Minimum Wage (now the National Living Wage), and so as these models grow it will be important to ensure regulations remain fit for purpose. A danger may be that this model, becomes distorted by those seeking to use the innovations to escape the requirements of the National Living Wage, it is crucial that policy-makers prevent this from happening by, for example, monitoring transactions.

Many skill and capital-sharing companies operate in sectors which are highly regulated, with rules designed for traditional business models. Policy-makers must remain aware of the emergence of new models in order to effectively manage risk.

References

Samaschool Impact Update: Closing the Digital Divide

Conclusions

It is the ubiquity of the Internet in the twenty-first century that has made possible the astounding range of new business models, collectively referred to as the Sharing Economy. These advances have placed increasing amounts of power and responsibility in the hands of individuals. Now, people have the ability to easily monetise their spare time and assets, superseding traditional multinationals with user-based platforms. The benefits that can be wrought from the Sharing Economy are potentially colossal: lower prices for consumers, a higher return on investment for asset-owners, fewer cars on the road and more efficient use of the housing stock.

This is not to say that this will necessarily be a smooth development, however. The Sharing Economy will likely continue to be a headache for regulators, who must find a way to adapt to a world where principles that have been in place for decades are suddenly becoming obsolete. It took Uber just four and a half years to join the ranks of the so-called 'unicorns' and reach a billion dollar valuation, the next Uber may do the same in a fraction of that time. Today's regulators thus risk falling further and further behind ever-accelerating innovations. Failing to adapt will hamstring a country's competitiveness, with consumers and producers bearing the brunt of the consequences.

Liberal Reform passionately believes that politicians who attempt to hold back change, rather than harness the benefits it brings, are doing their constituents a disservice. Where no regulation exists, some basic protections must be ensured in order to protect consumers and workers' rights. Such regulation should remain light, however. With the Sharing Economy promising to empower individuals through the opportunity to supplement their income in a flexible and accessible manner, policy-makers must be careful not to obstruct innovation that works in the interest of the many.

Undoubtedly, the Sharing Economy will continue to grow. Within the next decade it will come to encompass far more areas than those which are explored here. Yet it will be how policy-makers adapt to such transformations that will determine its impact on society as a whole. Ultimately, politicians must be willing to engage with these changes, and not act in the interest of the status-quo, in order to ensure the Sharing Economy works for everyone.

Appendix

Accommodation

Airbnb

- *The largest company in the short-stay accommodation sector of the Sharing Economy*
- *Through its website and mobile application, it allows customers to instantly rent out property in cities and towns across the world, typically at lower prices than hotels*
- *There are varying standards of property available, with some simply offering a bed in a shared room to others offering B&B style services*
- *Individuals have the opportunity to act as hosts, by renting out spare spaces, from a single room to a full house*

OneFineStay

- *A similar platform to Airbnb, except it deals exclusively with luxury accommodation*
- *Offers a more tailored approach, with local teams preparing your stay*
- *Guests are given complementary items to use during their visit, such as an iPhone*

OFIXU

- *A platform that allows individuals and companies to rent out spare workspace – whether in a home, warehouse or office*
- *Users can search for locations to rent through a standard search or by using an interactive map*
- *Allows users to instantly rent a place for teams of varying sizes to work*

Transport

Uber

- *Perhaps the best known and most used platform in the Sharing Economy, Uber is a mobile application that allows users to quickly hail a taxi in the local area*
- *There are a number of branches of Uber that allow users to request different standards of vehicle*
- ***e.g.** UberX (the cheapest and most commonly used option), UberSUV, UberLUX, UberSELECT, UberSUV*
- *Individuals also have the option to drive for Uber in order to gain additional income, whilst also having the option to turn down requests if they wish*
- *Both drivers and passengers rate each other after each journey, with their overall ratings being on viewable prior to any further interactions*

Zipcar

- *A company that allows members of the public to quickly hire vehicles locally*
- *Vehicles can be reserved via a mobile application, by phone or through their website*
- *Once reserved, users unlock the car via the application and can then drive it as normal*
- *Members pay a monthly or annual fee*

Lyft

- *A ride-sharing platform that connects passengers in need of a lift to car-owners who can offer them one*
- *Drivers can earn tips from passengers*
- *Lyft provides additional insurance to those that drive for them*

Time, Skills and Capital

TaskRabbit

- *Allows individuals looking for work to connect with other individuals, families and companies in need of either skilled or unskilled labour*
- *Essentially allows individuals to outsource jobs they need help with*

Seedrs

- *An equity crowdfunding platform that allows individuals to invest in businesses, most of which are start-ups*
- *Allows individuals to invest amounts as low as £10 in exchange for equity in the business*

AlphaSights

- *A platform that allows businesses and investors to find those with expert knowledge of a given subject area*

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