

THE SHARING ECONOMY

Political entrepreneurs are finding ways to break the strong relationship between regulators and the industries controlling them, writes **Darcy Allen**, and in doing so are paving the way to a freer market

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The sharing economy is a suite of emerging software platforms acting as an intermediary between private buyers and private sellers, allowing them to share their existing resources—hence, a ‘sharing’ economy. The sharing economy is a market catalysed by disruptive technologies. Communication technologies have drastically reduced the costs of coordinating resources. It is now marvellously cheap and simple to discover if there’s an idle car or an empty room around the corner.

The sharing economy does not own the cars, the houses, or the helicopters. What the companies own is the software—and the algorithms—that help match potential private buyers and sellers. Their software models are based on self-regulation mechanisms such as insurance for guests and hosts, a secure payment system, and reputation-based accountability.

And these applications are extremely beneficial to its consumers—giving them a way to escape the high costs brought about by overly-regulated government industries that impose unnecessarily high cost structures.

The current valuations of these peer-to-peer models are over \$75 billion. Despite this, the future of the sharing economy remains dependent on breaking the strong relationship between regulators and the industries controlling them. The disruption of highly regulated industries by companies, such as Uber and Airbnb, has roused old questions of the efficacy and role of industry regulation.

While the questions are old, what is new and revolutionary is the way these regulatory battles are being fought. The political entrepreneurs in the sharing economy are not seeking government-granted protection—they are advocating for free markets and deregulation. And they are not achieving this by negotiation with bureaucrats in Canberra.

Their novel approach is to create an informal yet powerful coalition with their customer base. This provides the political leverage to tear down the current barriers to entry, which in turn promotes innovation, competition and choice in the Australian economy.

> VOTERS ARE FAST COMING TO REALISE THE VAST BENEFITS OF FREE MARKETS AND LOW REGULATION.

In a time where the cost of living is on the rise, it is little surprise that consumers are streaming to a sharing economy which gives them greater choice.

Since August 2008 over 25 million guests have chosen to sleep in one of the 800,000 Airbnb listed properties. The ridesharing app Uber is signing up over 1,100 new ridesharing partners every month in Australia. Zopa—a peer-to-peer lending application in the UK—has lent over 650 million pounds between individuals. Airtasker—an Australian company focusing on utilising casual labour to complete tasks—has facilitated over \$5.85 million in jobs between more than 160,000 people.

Another nascent Australian company, Open Shed, is sharing household tools—such as lawn mowers and post-hole diggers—between over 5,000 members.



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The uniqueness of the sharing economy is largely in its ability to exchange the underutilised capacity of resources that individuals already own. The economics of this is quite simple: we have faster, cheaper, and deeper access to knowledge that make existing resources divisible through time and space in more efficient ways.

This is good for consumers—UberX is approximately 20-50 per cent cheaper than the taxicab alternative. It is good for producers—such as the average \$2,500 monthly income for twenty hours of work per week for UberX partner drivers in Sydney.

If the sharing economy is so good, why is there even a problem at all? The sharing economy has disrupted the strong relationship between incumbent industries and their regulators. This has seen a raft of sensationalised media attention pushed by incumbent industries

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over largely hypothetical harms to the public.

This pushback against the emerging sharing economy can be understood through the economics of regulation, namely the demand for, and the supply of, regulation.

The thesis of Nobel winner George Stigler was that regulation is often acquired by an industry, rather than thrust upon it in the public interest. In reality, businesses are acquiring the government's most powerful resource: the legal right to control entry into a given market.

Consequently, such control makes it harder for innovators to enter the market creating barriers that restrict competition. The result is supernormal profits for producers at the detriment of consumers.

The other side of this is the supply of regulation by governments and regulators. Sam Peltzman's work focuses on these motivations of regulators. What governments want is the money and votes private industries can provide.

The outcome is a symbiotic relationship between regulators and private industry—regulators provide barriers to entry in return for financial resources and political votes. Seeking this relationship is often referred to as political entrepreneurship. That is, efforts to craft a mutually beneficial exchange with governments—often occupational licensing in return for political support.

Once this exchange is shaped, it is in the interest of both the industry

and the government to maintain and strengthen this relationship. This is a serious problem for entrepreneurs and innovators looking to compete. When both governments and the incumbents are benefitting from an exchange, entrepreneurs must offer a better deal to government.

What can entrepreneurs do about this? One common path is to try and negotiate to be included within the barriers to entry. There are two problems with this. The first is that entrepreneurs often lack the money and the votes the government wants. They cannot provide a more appealing deal to disrupt the current industry-government relationship. The second is that this is bad for society. These are costly and time-consuming negotiations that hurt both entrepreneurs and consumers.

► **ENTREPRENEURS MAKE MONEY, WHILE CONSUMERS ENJOY THE BENEFITS OF INCREASED CONSUMER SURPLUS.**

The sharing economy is taking a different path. Their form of political entrepreneurship is not to get inside the barriers, or to tear them down with direct negotiation. Rather, they are ignoring current regulations and building a wide and decentralised base of users.

This informal relationship between entrepreneurs and their user-base provides political leverage that makes the government reconsider their current arrangements. The result is the creation of a political environment that is almost toxic to that government which in turn seriously attempts to shut them down.

This relationship between the sharing economy entrepreneurs and their customers is a symbiotic one. Entrepreneurs make money,

► **BUSINESSES ARE ACQUIRING THE GOVERNMENT'S MOST POWERFUL RESOURCE: THE LEGAL RIGHT TO CONTROL ENTRY INTO A GIVEN MARKET.**

while consumers enjoy the benefits of increased consumer surplus. Entrepreneurs and their consumers have formed a coalition indirectly seeking the same outcome: free markets. The sharing economy is standing up and showing its disdain for the current regulations. This is good for Australia.

Entrepreneurs now have a powerful base of voters at their disposal: voters who are fast coming to realise the vast benefits of free markets and low regulation. This has the potential for a strong free market message that comes from the public itself.

Riding with Uber and hosting with Airbnb is a tangible experience through which individuals can realise the immense benefits of free markets absent from government control. What they are experiencing is the recapturing of the consumer surplus that had been flowing into the incumbent industries for many decades.

It would be overly ambitious and optimistic to suggest that the sharing economy entrepreneurs understand the important political ground-swell they are providing. In reality, what they understand is that they can provide greater services at lower cost and gain market share in a free-market environment of low regulation.

Yet while their actions firmly sit in their own private interest, they are more broadly providing a service that all Australians can enjoy—they are breaking up the incumbent industries-government relationship.

This locking of horns between the incumbents and the innovators is a

Current valuations of peer-to-peer models: \$75 bn

Airbnb

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Uber

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Zopa

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Airtasker

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good thing. It is important that these scuffles continue to be played out noisily and chaotically in the public eye. The incumbents are currently being left scrambling for air, citing their various excuses for their 'level-playing field'.

Each new user of the sharing economy is a vote for the free market, and is additional power on the side of the free market political entrepreneurs. [R](#)