View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Queensland University of Technology ePrints Archive

Paper 1:
The disruptive forces of the sharing economy

Dr Nic Suzor & Dr Patrik Wikström
Queensland University of Technology

Overview:

- The sharing economy unlocks a previously unused value of goods and labour, and causes disruption in established industries.
- The pattern of disruption is similar regardless of the industry that's impacted. While the initial phases of disruption are transformational for many (e.g. lost jobs), often the industries end up stronger than they were before the disruption.
- Due to differences in setting, upholding and enforcing standards, it is hard to assess the regulatory trade-offs. Safety, labour relations and social fairness are important factors to consider across industry.

The emergence of the sharing economy

The sharing economy represents a fundamental shift in organisational structures enabled by advances in technology. In conventional business models, individuals form firms when the costs involved in procuring goods and services required for market production exceed the costs of hiring employees to produce them. Sharing economy systems, on the other hand, work by directly connecting individuals and exploiting slack capacity in privately owned goods. The types of goods that are most amenable to sharing are those that are routinely underutilised relative to their capacity and have a purchase price that is high enough so that consumers have an incentive to only rent access to them as needed, but still low enough so that at least some consumers are able to buy them.

> *the services promise greater flexibility for both consumers and providers, and increased freedom from the restrictions of established models of doing business.*

By connecting consumers with their 'peers'—ordinary owners of ordinary houses, or drivers of ordinary cars —sharing economy services promise the more efficient use of slack capacity in both physical goods and labour. They provide mechanisms to divide resources (goods and services) into much smaller components, and systems that radically reduce the transaction costs of finding and contracting with another party to use those resources.

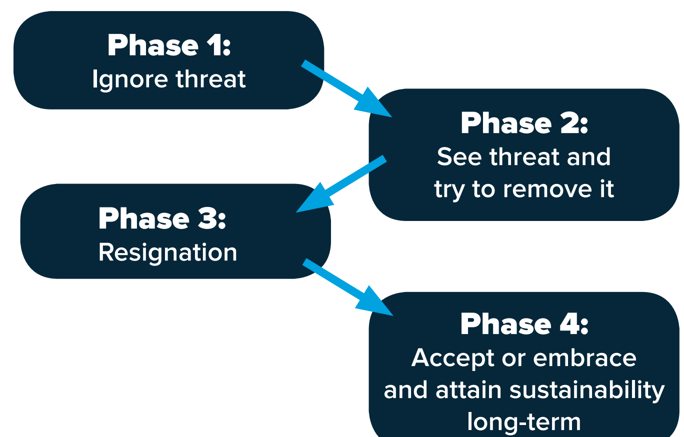
These changes enable individuals to efficiently coordinate production and services without the need to form firms. In doing so, the services promise greater flexibility for both consumers and providers, and increased freedom from the restrictions of established models of doing business.

This increased flexibility threatens to disrupt established industries, particularly industries with high regulatory overheads or barriers to entry. Currently there is a particular focus on the hospitality and personalised transport sectors as well-funded entrants such as Uber and AirBnB challenge traditional structures and practices. Established players in these industries are increasingly concerned that the new entrants are not bound by the same regulatory structures, and are therefore able to compete on an uneven playing field. Incumbents in these industries often argue that the new competitors' ability to escape regulatory costs makes them illegal, or at least unfair.

Unfair digital disruption

The technologies that enable the emergence of sharing economy services can be categorised as disruptive technologies or innovations, as they suddenly make extant competencies or resources obsolete. Incumbents in industries threatened by this kind of innovation often follow a familiar pattern. Initially, incumbents ignore the threat from the disruptive innovation and fail to see how the innovation is relevant to their business.

The four phases of reactions to disruption



In the next phase, when the impact of the innovation begins to be noticed, the incumbents see the threat and try to make the innovator go away, usually by legal or technical countermeasures. If the countermeasures fail, and the disruptive innovation continues to increase its market share, the incumbents enter the third phase, which is characterised by resignation. During this phase, a significant share of the incumbents conclude that it is impossible to compete with the unfair new entrants and decide to exit the market. In the fourth and final phase, the surviving incumbents begin to learn how to cope with (or even embrace) the disruptive innovation and to attain long-term sustainability. This process has been observed in a number of industries that have been disrupted by radical innovation, including photography, publishing, and transportation. While every disrupted industry has its unique set of characteristics, they all have gone through the same process and offer opportunities to learn.

The music industry is a highly regulated industry that at first sight may seem to be considerably different compared to highly regulated industries such as personalised transport or the hospitality industries. However, there are a number of parallels between the digital disruption of this (and other creative industries) and the transformation of the personalised transport and hospitality industries. The peer-to-peer filesharing services that enabled illegitimate distribution of musical content (sometimes referred to as "online piracy") were perceived by the music industry in a very similar way as the incumbents in the hospitality and the personalised transport sectors now perceive and respond to the seemingly illegitimate services that are threatening their businesses. Online piracy did indeed reduce the global market for recorded music by more than 50%, but after almost 15 years of decline, new services have emerged that provide better access to more diverse music and have returned the music markets to growth.

While the music industry may be growing once again, the past decade characterised by digital disruption has been brutal. Thousands of people lost their livelihood, assets once valued at millions of dollars have suddenly been rendered worthless and cherished traditions have become obsolete. At the same time, musicians and composers are still being treated as unfairly in the new music economy as they have been in the past.

There has never been a debate about the government's responsibility for the music industry workers who lost their jobs, but perhaps it is necessary to discuss the government's responsibilities if the ongoing digital disruption of the personalised transport sector has similarly brutal consequences for drivers, licence holders and network operators?

Regulating the sharing economy

The role of the government has so far primarily been focused on the regulation of these markets rather than providing economic support, and the rise of the sharing economy poses even more complex regulatory challenges for policy-makers. These services are rapidly disrupting existing established markets, but the regulatory trade-offs they present are difficult to evaluate. It is important to note that these questions cannot be answered solely with economic analysis.

One of the key reasons for this is that regulation in many industries is not only concerned with questions of overall efficiency, but necessarily also with concerns about levels of service, controls over pricing, and different approaches to setting, upholding, and enforcing standards.

> *We think that there are three primary sets of concerns that present the most pressing issues for regulators to consider: safety; labour relations; and social fairness.*

Clearly, there are some efficiency advantages to be gained through the increased coordination of transactions through algorithms and software. What is less clear, and what regulators will have to monitor over the short- to medium- term, is what effects these systems might have on measures of service quality, safety, labour relations, and equality. Ultimately, some of these questions are reducible to some fundamental social questions about the extent to which Australians believe the free market must be curbed in the public interest. When determining the appropriate form of regulation for sharing economies, these questions reflect an ongoing ideological conflict between different conceptions of the appropriate role of the state and markets. This ideological conflict is supplemented in rich and complex ways by strong and often conflicting rhetoric of decentralisation, liberation, communitarian sharing, and anti-consumerism.

We think that there are three primary sets of concerns that present the most pressing issues for regulators to consider: safety; labour relations; and social fairness. These represent areas of concern where the government has historically had a role in setting the limits of market forces. Later papers in this collection address the question of safety and provide some interesting insights as to how future regulation may operate. We conclude this paper with some brief points about the regulation of work and mechanisms to enforce social standards of fairness and equality.

Labour relations

The emergence of new peer-to-peer models for transacting raises serious questions about the future development of labour regulation. In general terms, employment law was developed in the industrial era, and takes as its key focus the contract of employment. By definition, all providers in the sharing economy are independent entrepreneurs, not employees: they have the freedom to choose their work hours (although not necessarily to set their own prices), and personally bear the risks of commercial failure, injury, and misfortune.

By increasing flexibility, sharing economy models also increase the precariousness of work and can drive down labour conditions. This problem can be exacerbated when professional labour markets undergo a sharp increase in supply from amateurs and hobbyists. In some models we have seen emerge in recent years, these trends mean that the labourers of the sharing economy bear much of the risk but few of the benefits of entrepreneurship.

There are important questions for the future development of labour law, which has not yet adapted to consider how workers can be adequately protected in these new systems. Globally, this is an increasingly visible tension, as states struggle to determine what obligations the operators of sharing economy networks owe to those who provide the labour: obligations from insurance, sick leave, workplace safety standards, protection from unfair dismissal and discrimination, minimum wages, and so on. Ultimately, regulators face a series of important questions about how much labourers in the sharing economy should be protected, and by whom.

Fairness

Some industry regulation is specifically designed to ensure that competitive market forces do not result in unfair outcomes for consumers. This includes, for example, regulatory limits on pricing and enforced obligations to deliver a minimum level of service to potentially disadvantaged consumers. These kinds of regulations may be required where it would be unjust to expose consumers to the potentially harsh forces of supply and demand – to ensure, for example, that people outside major metropolitan hubs are adequately served, or that affordable services are available to people with disabilities or others whose special needs may cost more to effectively cater for. This type of regulation specifically requires providers to absorb the costs of serving segments of the market that are less profitable, spreading the costs more equitably over a broader group of consumers. In cases where this type of protection is not possible, other systems (such as direct public payments to disadvantaged people) may need to be introduced. This is a key area where there is not yet enough information about how sharing economy services are delivered to make informed decisions about whether some sectors of society may be disadvantaged in any industry transformation.

Ridesharing regulation has already been addressed by many governments around the world. What can we learn from them to ensure an appropriate long-term regulatory framework?

The sharing economy has disrupted other industries, such as the music or hotel industries, before. What can or what should the personalised transport industry learn from this?

Queenslanders with a disability or reduced mobility are potentially at risk of having reduced access to services. What can be done to ensure their needs and requirements are still met, given the evolution of personalised transportation services?

Typically, jobs in the sharing economy are considered the so called 'long tail' of jobs—large number, high competition, relatively low income. What protections should be in place for sharing economy workers and who should be responsible for this?