

CEPS COMMENTARY



Thinking ahead for Europe

UBER: Innovation or déjà vu?

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If there is one development that has provoked a wide and heated discussion in the services sector in recent months, it is the emergence of Uber. Unfortunately we cannot exhaustively address in this short Commentary the long list of questions raised in the public discourse, but we will focus on the following issues: Does Uber really offer a new service? And, after all, does Uber represent true innovation? We argue below that there are some very interesting innovative elements associated with Uber, but those related to the specific industrial relations model might be prejudiced against drivers.

But first and foremost, what is Uber? Uber is a mobile app that allows booking and paying for a car ride with a few clicks on a smartphone (Becchis & Nada, 2015). (When we refer to the Uber case in this Commentary, we refer to UberPop, which is the low-cost branch of Uber based on spontaneous and non-professional drivers.)

As such, Uber is probably the most famous example of the so-called 'sharing economy'. It is difficult to provide an academic definition for it, as the literature on the subject is scarce. Lessing (2008) makes a distinction between the commercial and the sharing economy. The former is driven by profits, the latter by social relations. However, this distinction does not seem to include activities that require a fee. Botsman finds evidence that access to goods and skills matters more than owning them (Sacks, 2011). Belk (2013) argues that what characterises the sharing economy is i) temporary access and non-ownership of goods and services and ii) the reliance on the Web 2.0, which allows users to connect with one another. One could stress that the sharing economy is a system in which demand for certain services is satisfied by non-standard forms of supply, which mobilise dormant assets.

However, the basic principles are simple: people have skills, customers look for affordable services, and the Silicon Valley matches the two by allowing physical assets to be disaggregated and consumed as services. As a result, capitalism moves towards a highly efficient peer-to-peer structure. People circumvent many traditional service businesses, reducing transaction costs thanks to new technologies and making money from underutilised assets, so that the focus of the economy shifts from ownership to access.

As with many other digital innovations that have arisen from unchartered regulatory waters, Uber raises many important questions: Do peer-to-peer businesses compete unfairly by avoiding the same taxes as the incumbents? How does an app's access to customers' and

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workers' data impact privacy? Are freelance workers micro-entrepreneurs or rather micro-earners who are unfairly competing with other workers? Given the vigorous debate generated by the Uber case, all these questions deserve reflection. But first, we think that they need to be framed in a common point of departure, namely: Is there anything new in the Uber story?

Is it innovation or not?

It is difficult to give a clear answer to such a question. On the one hand, one cannot deny that Uber turns two forms of underutilised assets into productive capital: the car that we use to go out on a Sunday afternoon and for other leisure activities becomes a potential source of profit. By doing so, it introduces a form of competition in a typical non-tradable and heavily regulated services sector. As such, it brings an innovation to the process, rather than to the product, which results in lower tariffs.

Moreover, imagined on a large-scale, Uber could significantly alter the way we use cars and roads, potentially bringing about a shift from a model based on private property for private use, to one characterised by shared utilisation. However, the net balance effects of such a shift are difficult to assess without a model: it could improve the efficiency of existing car usage given that most cars today transport only one passenger at the time, aside from the driver, when they could carry three or four. Alternatively, thanks to its low price, Uber can reduce the relative price of a car ride and drive people to ditch public transport instead. The final impact on the environment is therefore difficult to assess *ex ante*: on the one hand it could be beneficial due to the fact that fewer cars would be on the road; on the other hand, it could be detrimental because those cars would drive around for a longer period of time. To this computation one should add the fact that newer cars tend to pollute less.

From an altogether different perspective, one can also say that Uber is not at all innovative since it is just a form of franchising. In a franchise, one party agrees to grant another party the right to use its trademark and its processes to produce a good or a service according to certain standards. If one sticks to this definition, it seems pretty obvious to consider Uber as a franchisor and the driver as a franchisee. An Uber driver is not an employee and has the full freedom to choose his own work schedule. But this freedom comes at the price of not receiving a salary, but rather a share of the fee. The remaining share is taken by Uber as its fee.

So, should Uber be considered an innovation or not? As a service, it is not at all innovative, since it consists of transporting a person from point A to point B with an already existing commercial form, except for its relationship with the tax authorities. In other words, it is a sort of advanced version of the 'unofficial cabs' that spread throughout early post-communist Europe. However, in the case of unofficial taxis, drivers set the price and received 100% of it. If one considered Uber a simple service provider to both drivers and customers, there would be no difference from this case. The existence of the intermediary, however – in the form of the app – allows reaching decent standards in terms of the quality of the service, which is also determined by the fact that customers can give ratings at the end of each ride.

Therefore, if Uber should instead be considered as a parent-company, our main concern is to ascertain whether it presents a peculiar form of industrial relations that we need to better understand. For example, who is the 'capitalist': Uber? The individual driver? Both? The investment is partially borne by the parent company (the technology) and partially by the driver who owns (or rents) the car him or herself, together with the cost of fuel and car insurance. The driver, however, cannot set the price for the service, which is unilaterally imposed by Uber. In such world, holding demand for rides constant, an increase in the number

of drivers raises the profit of the company but reduces the margin of the drivers by decreasing the market shares of the drivers already on the market. This is the opposite of what happens in traditional industrial relations.

Uber drivers are surely free to set their own schedule, thanks to the fact that the use of technology allows the supply of rides to adjust very quickly to demand. But once again, the cost of the adjustment is borne by the driver who does not earn unless s/he works. From this point of view the innovative aspect lies in the shift of the risk from the company to its 'non-employees'.

More research needed to understand the sharing economy

The uncontrolled start-up offers a way to perform an old task in a way that is, to some extent, innovative. The novelty lies in the capability to mobilise underutilised capital and to create a new division of work by exploiting a technology that allows demand and supply to adjust quickly. By doing so, it stirs up the waters in a sector that is often highly regulated and sheltered from competition, but it does so by reshaping the division of risks between the parent company and its non-employees and by blurring the actual boundary between professionals, free-lancers and hobbyists. This blurring come at the expense of several guarantees.

For this reason, more research is needed to investigate the distributional effects of these new trends. Uber, in fact, is not an isolated case. As recently documented in *The Economist* (2015), a number of apps have been developed to share more than cars: Uber has a counterpart in cleaning services (Handy or Homejoy), personal assistants (Fancy Hands) and even flower delivery (BloomThat). It is unlikely that the sharing economy will completely replace traditional forms of business and consumption, but its impact on economies and society is only beginning to be felt.

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