The policy implications of the sharing economy

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The emergence of the sharing economy is rapidly changing the way in which goods and services are provided across the EU. However, the policy implications of these new business models are only gradually becoming apparent, whilst policymakers at EU and national levels begin to consider the optimal ways to adapt regulation to the new economic reality.

The sharing economy – sometimes referred to as the collaborative economy – can best be understood as the use of online platforms to reduce the transaction costs of economic exchanges, thereby allowing more mutually beneficial transactions to take place (cf. Lilico and Sinclair, 2016; Munger, 2015). The primary practical implication of the sharing economy is a shift from asset ownership to asset hiring, with significant gains achieved through more efficient use of under-utilised assets.

The maximum potential gains to be made from more efficient use of under-utilised assets have been estimated at €572bn, or €1,125 per EU citizen (ibid.). This is a theoretical maximum rather than a reflection of the actual gains that will be realised as sharing economy business models expand in scope and scale. Nonetheless, it gives a measure of the considerable positive economic impact, in the form of greater resource efficiency, of the sharing economy if it is allowed to operate reasonably freely and openly.

On 2 June 2016, the European Commission released its guidance and recommendations to Member States on the collaborative economy (EC, 2016a; 2016b). The document is non-binding and intended to inform national and lower-level administrations about applicable EU laws in areas of regulation which are relevant to the sharing economy. The following examines these areas, along with other common policy concerns.

Market access and user protection

The fundamental principles of EU law surrounding market access are those of non-discrimination and proportionality. Market access requirements – e.g. business authorisation, professional licensing, consumer safety regulations – may be deemed necessary in certain instances, but they can also constitute barriers to entry and operation for providers, and thus reduce consumer welfare on balance. In the particular case of the sharing economy, market access requirements typically raise operating costs for providers and can thus make some transactions uneconomical, offsetting the efficiency gains from the use of online platforms.

For these reasons, the Commission’s guidance cautions against the use of crude market access measures such as bans and quantitative restrictions. With regard to other requirements, such as provider qualifications and safety regulations, it is important to note that sharing economy platforms have tended to develop effective and sophisticated feedback mechanisms to ensure safety and quality, notably review systems, as well as provider background checks.

Additionally, the greater competition brought about by new business models acts as a powerful spur for better standards and quality. For instance, Wallsten (2015) found that the entry of Uber into New York City and Chicago taxi markets led to an improvement in customer satisfaction among users of regulated taxis.

Public policy on market access should not replace effective governance systems developed by sharing economy platforms, as the latter are more likely to evolve in line with technological improvements and customer feedback (Cohen and Sundararajan, 2015). Even the potential issues of social exclusion identified by Lilico and Sinclair (2016) are likely to be resolved through ad hoc private arrangements – e.g. temporary low-reputation premiums and discounts – or limited public interventions such as government-sponsored community platforms where individuals could rebuild their reputations.

The employment status of providers

Discussions of the sharing economy tend to focus on the intermediaries, i.e. the online platforms, whose emergence has made new transactions possible. Whilst intermediaries capture some of the gains from better asset utilisation, typically in the form of fees, the main beneficiaries of the sharing economy are providers, i.e. those making their assets or labour available for hire, and consumers, i.e. those making use of providers’ assets or services.

Of particular concern to policymakers has been the employment status and conditions of sharing economy providers. Specifically, it is feared that remuneration levels sometimes lie below equivalent minimum wage rates (cf. de Groen and Maselli, 2016), and that providers do not have access to worker protections and fringe benefits available to traditional salaried employees.
Whilst it may be found that most sharing economy providers meet the three criteria of EU law to determine whether somebody is a worker – subordination, nature of work, and remuneration (cf. EC, 2016a), this is not sufficient to establish whether the relevant employment status is that of self-employment or of an employment relationship between the provider and the platform. It may be argued that most sharing economy work would fall under the category of self-employment, given the flexibility and choice typically available to providers.

With regard to remuneration, it is important to recognise that the irregular and casual nature of much sharing economy work – the quantity of which can be determined by providers – acts as a compensating differential, i.e. a non-monetary benefit, for higher remuneration. It should also be pointed out that many sharing economy providers are individuals who would otherwise not be active in the labour market, due to either government restrictions – minimum wages, licensing – or because the kind of flexible work they seek is not offered by non-sharing economy firms. Chassany (2016) illustrates the potential for the sharing economy to bring marginalised groups into the labour force.

Regarding work benefits, aside from the above considerations, it is likely that providers and platforms will over time develop ways to secure some of these – e.g. pension plans, health insurance – in the sharing economy. Statutory measures should work in tandem with these efforts, rather than pre-empt them.

Taxation

The need to adapt tax systems, and to come up with low-cost – in compliance and administration – solutions for effective tax collection, is one of the more salient policy issues in the sharing economy. It is crucial to recognise that sharing economy work is part of the formal economy, unless excessive regulation pushes sharing economy activity into the ‘grey’ or informal sector. Furthermore, technology enables efficient data collection by sharing economy platforms, enabling low-cost tax collection and payment. The Estonian government’s collaboration with ride-hailing firm Uber is exemplary in this regard (ETCB, 2015).

The taxation of sharing economy platforms themselves is a separate matter which must be addressed by national rules on corporate taxation and international treaties. It is essential to treat this question as fundamentally distinct from, and unrelated to, the regulation of the sharing economy and the taxation of sharing economy providers. This implies that the rise of the sharing economy does not in itself justify harmonisation of national corporate tax rates, as suggested by Petropoulos (2016), or a curtailment of financial flows between firm subsidiaries.

Asset ownership and inequality

Concerns about increasing wealth inequality are often raised in connection with the sharing economy. In particular, it is feared that the related trend away from ownership and towards hiring of physical assets will lead to greater concentration of capital ownership among a few individuals. However, as Lilico and Sinclair (2016) have argued, there is no reason to expect wealth inequality to increase. Indeed, the sharing economy might in the long run cause a decrease in wealth inequality by enabling individuals to forego purchase of lumpy durables – cars, homes, appliances – and invest their resources in financial assets instead.

Moreover, it should be pointed out that, like other technology-enabled improvements in resource use, the sharing economy is increasing consumption equality. For instance, individuals who previously could not afford private hire transport and relied exclusively on public transport now enjoy greater choice and high-quality options at a lower price. Similarly, home-sharing has made holidays more accessible to those of limited means. Both of these are closer to the options available to wealthier individuals than the status quo ante. Consumption equality is important because it is more closely related to the relative standard of living of rich compared to poor than income or wealth equality.

Conclusion

The sharing economy raises important public policy questions, notably the need for, and extent of, reform of tax systems, regulation and employment laws. The Commission guidance to Member States suggests that these issues can and should be addressed whilst allowing sharing economy platforms to flourish, to the benefit of both providers and consumers.

National government policies with regard to these new business models have until now varied significantly across EU countries and the specific business sectors concerned. Some Member States have, in general or in concrete cases, taken relatively liberal and welcoming approaches to the sharing economy, whilst others have resorted to total or partial bans on the platforms enabling sharing economy transactions. Both EU law and an economic analysis of the relevant policy questions suggest that the latter approach is unnecessary and, on balance, harmful.
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References


