



Ministero dello Sviluppo Economico

REGULATION, INNOVATION, DISRUPTION

Conceptualizing the “Sharing Economy”
(and Finding a Better Name for It)

Sofia Business School

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SUMMARY

0. Premise: I will only talk about regulation
1. What is the "Sharing Economy"?
2. Case studies
3. Regulatory challenges
4. Electricity, competition and the "Sharing Economy"
5. Conclusion

1.1. WHAT IS THE “SHARING ECONOMY”?

- According to Wikipedia,
 - “A sharing economy takes a variety of forms, often leveraging information technology to empower individuals, corporations, non-profits and government with information that enables distribution, sharing and reuse of excess capacity in goods and services... Collaborative consumption as a phenomenon is a class of economic arrangements in which participants share access to products or services, rather than having individual ownership”
- While this is a common view of the so-called “sharing economy”, this is both **misleading and reductive**

1.2. IN SEARCH OF A BETTER NAME

- The “Sharing Economy” is **not about sharing** anything
- In order to better understand what it is and why it has a **disruptive potential**, a better definition is needed
- Let’s start from a **quick survey** of case-studies...
 - ...and then spot the similarities...
 - ...in order to get to an “operational definition”...
 - ...characterize the regulatory challenges...
 - ...and look forward to further innovation in unexpected sectors

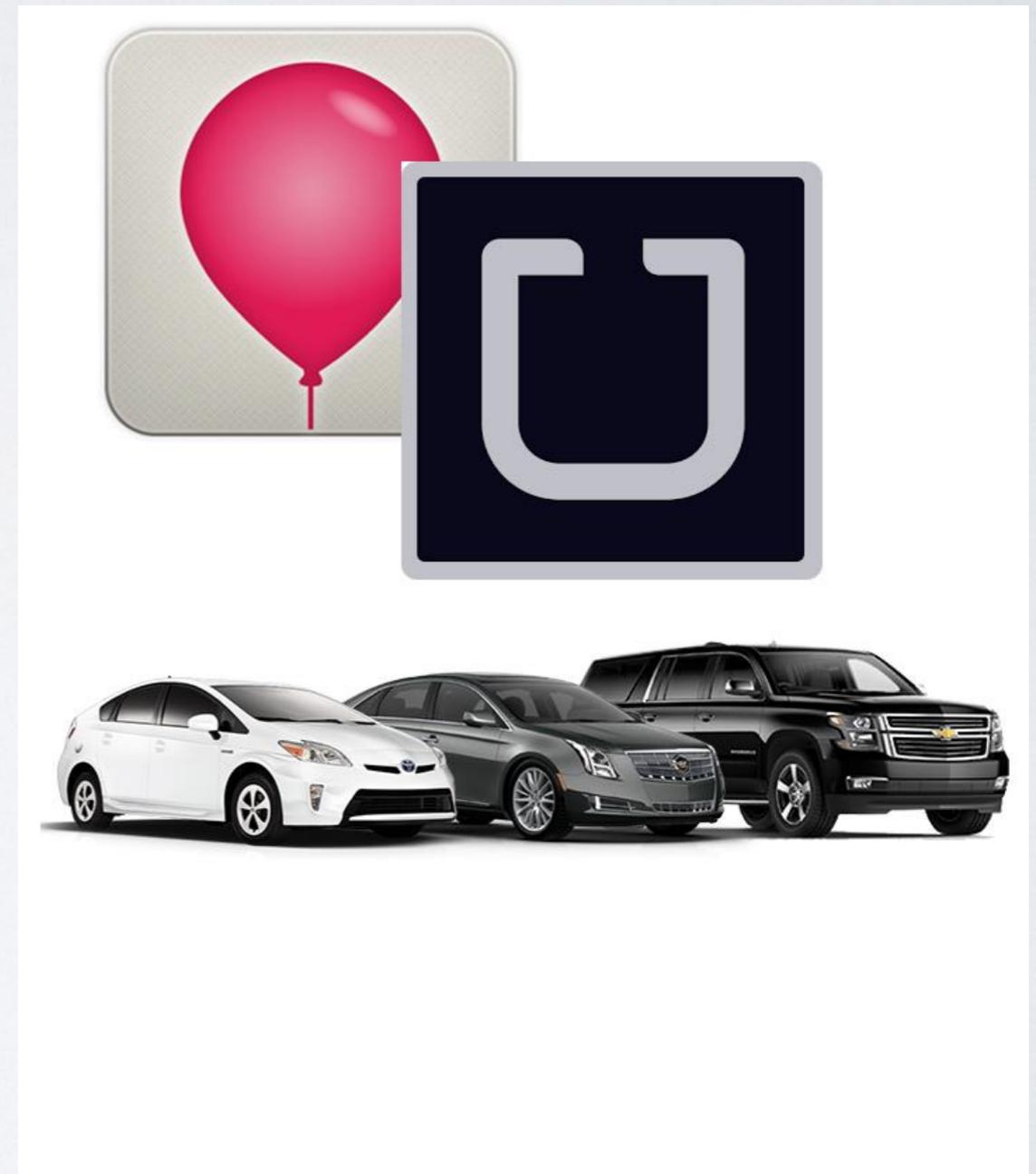
2.1. CASE STUDIES TO DEFINE THE SHARING ECONOMY

“An inspired theoretician might do as well without such such empirical work, but my own feeling is that the inspiration is most likely to come through the stimulus provided by the patterns, puzzles and anomalies revealed by the systematic gathering of data, particularly when the prime need is to break our existing habits of thought”

Ronald Coase

2.2. UBER AND LYFT

- Uber and Lyft allow professional as well as non-professional drivers to meet the demand of people in need of urban mobility



2.3. BLABLACAR



- BlaBlaCar allows non-professional drivers who have planned a trip from city A to city B to meet the demand from people who need to take the same ride

2.4. CAR2GO

- Car2Go rents cars to users, who may drive them within the boundaries of a given urban areas



2.5. AIRBNB



- Airbnb allows people who own unused houses to offer them for rent, for limited periods of time to people in need of a temporary accommodation

2.6. GNAMMO

- Gnammo allows non-professional cooks to host dinner events in private locations, whereby people in search of a p



2.7. ANY OTHER EXAMPLES?

- Do you have specific firms providing similar services in Bulgaria?



2.8. MY OWN LIST

(WORK IN PROGRESS)

- **Agriculture**
- Garden sharing
- Seed swap
- **Finance**
- Crowd funding
- Peer-to-peer lending
- Virtual currency
- **Real estate**
- Coliving
- Co-housing
- Collaborative
- workspace
- Coworking
- Home exchange
- Peer-to-peer property rental
- **Labor**
- LETS
- Time banks
- **Property**
- Bartering
- Book swapping
- Clothes swapping
- Fractional ownership
- Freecycling
- Peer-to-peer renting
- **Transportation**
- Bike sharing system
- Carpool/Ride sharing
- Carsharing
- Real-time ridesharing
- Share taxi
- Share parking space
- Transfer cars

3.1. SUMMING UP

- All the surveyed case studies share common characteristics:
 - They do not provide a specific service – they rather work as **intermediaries**
 - Regardless to their for-profit or not-for-profit nature, they entail **people paying for a service they consume**, whereby the innovative firm charges a **fee on the intermediation**
 - They allow a **(better) use** of existing spare (productive) capacity

3.2. SUMMING UP (IN MORE FORMAL TERMS)

- They **decrease transaction costs**
- They **manage platforms** (two-sided markets)
- They **challenge incumbents** by introducing an **unexpected kind of competition** in (sometimes) closed or rigidly regulated markets
- They **capture existing demand** as well as **create new demand**
- They are regulatory **unknowns**

3.3. REGULATORY CHALLENGES

- (Theory says) Regulation does
 - Create the conditions for markets to properly work
 - Raise barriers to entry
- Regulation is predicated upon **a specific understanding** of the market
- But what happens when the **boundaries** between different industries **vanish**?
 - Uber/Lyft: Do they compete with taxis? Do they compete with public transport? Do they create new demand? In which combination?

3.4. REGULATION AND (DISRUPTIVE) INNOVATION

- It is a mantra that “regulation should be **flexible**”
- However, **regulation is almost never flexible**
- Flexibility is easier applied with regard to “**sustaining innovation**” than “**disruptive innovation**”
- By changing the boundaries between industries, **disruptive innovation also changes the boundaries** between regulation/ors
 - Does Uber fall under telecom regulation or transport regulation? Or both? Or neither?

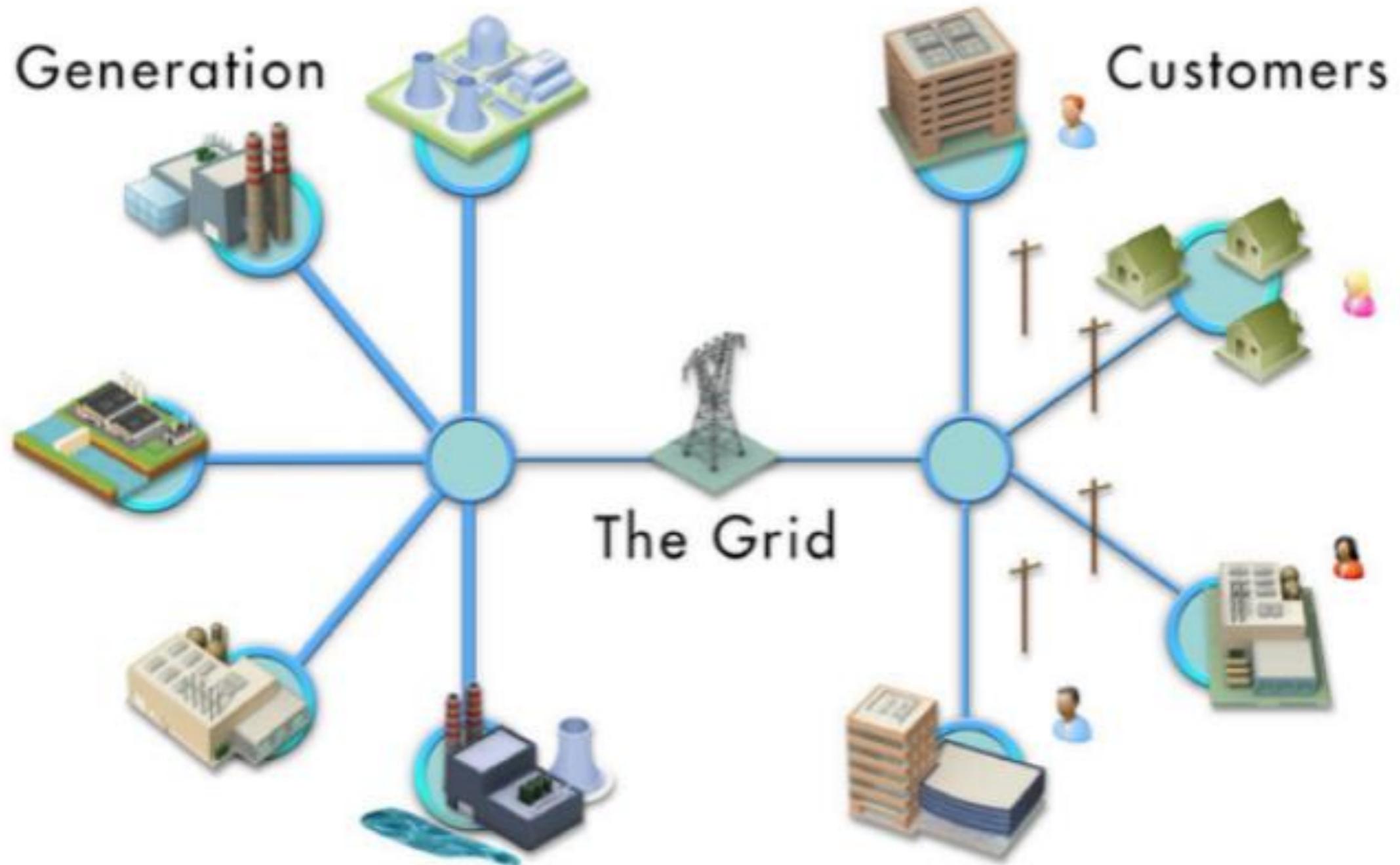
3.5. IN SEARCH FOR A NEW REGULATORY PATTERN

- Regulation is sometimes “needed” BUT
 - Such “need” **depends on old industrial organization**, that does not necessarily last forever
 - Periodical **regulatory reviews** are needed as well, to check whether the industry has changed to a point that **once-needed regulation becomes obsolete**
 - Regulation **tends to perpetuate itself** by assuming that a) the regulator possess all the relevant information and b) consumers and market operators do not possess enough information
 - Please **note the gap**: between enough and all there is... reality

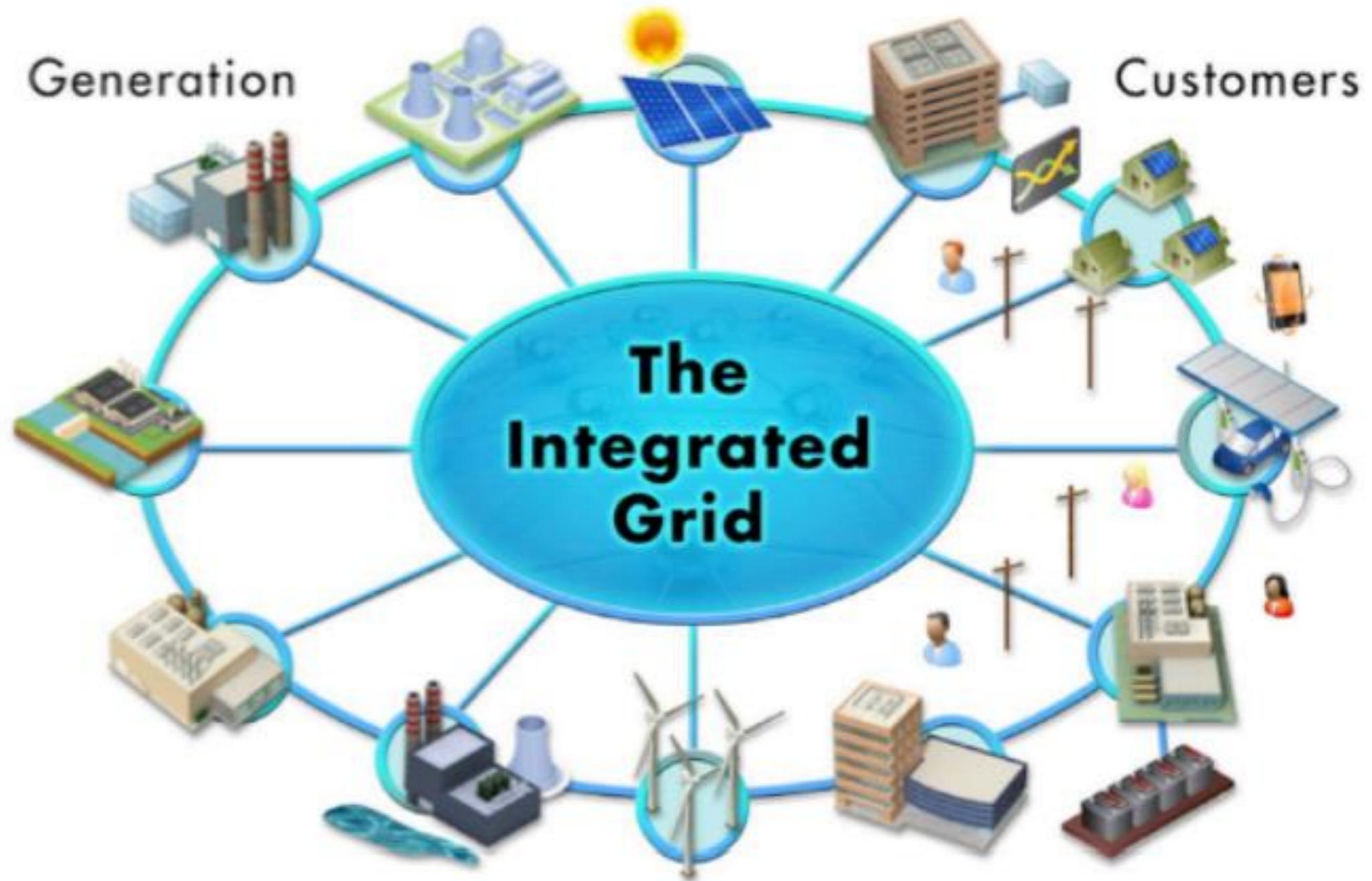
4.1. A CASE STUDY FOR THE FUTURE: ELECTRICITY

- Electricity was once believed to be – and regulated as – a **natural monopoly**
- A number of **technological and institutional changes** triggered (disruptive) **innovation**
- **Electricity became a competitive market** where prices are the result of demand/supply, not political decisions
- Some specific segments remained **strictly regulated** – **transmission** and **distribution** networks are natural monopolies, aren't they?

4.2. YES...



4.3. ...BUT NO!



4.4. WHAT THE HELL DID HAPPEN?

- The cost of **small-scale generating units** fell (also because of subsidies, not today's issue)
- Consumers became producers and **new patterns** of self-producing and self-consuming subjects emerged
- Generators were made **financially liable** for their own investment choices: no more cost-plus price regulation!
- Consumers became **smart (= informed)** and smart (=information) technologies enabled them to make smarter (=more informed) choices

4.5. POWER TO THE PEOPLE

- Preconditions:
 - **Full retail market liberalization:** consumers as well as producers must be made accountable
 - Effective **antitrust** enforcement
 - Regulate **as little as you can**, as much as you need (easy to say, harder to do)
 - Think **out of the box:** the (false) fact that the industry “has always been like this” does absolutely not imply that it “will always be like this”
 - In fact it will **likely be different**
 - In fact it is **different already**

4.6. IS AN ELECTRICITY UBER POSSIBLE?

- Yes, IF distribution networks **evolve from being mere networks to being platforms**
- Back to basics: a platform (or two-sided market) **connects demand and supply**, both from professional and non-professional agents
- Smart grids, smart networks, decentralized generation and storage, and a growing scope for horizontal integration between electricity and telecoms allows scope for speculation
 - Could my Tesla storage facility sell power to your electric vehicle in need for a charge?
- All you need is **smart meters, smart grids, and a platform**

4.7. WHAT WILL HAPPEN AND HOW DO WE MANAGE IT?

“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design”

Friedrich A. von Hayek

- Logical **biconditional**: If A then B \leftrightarrow if not-B then not-A
- **If you cannot know, don't even try to design: just let human ingenuity to sort things out!**

5.1. CONCLUSION / 1

- “Sharing economy” is a common, “sexy” name for something which is less sexy but much more fundamental:
 - Two-sided markets that reduce transaction costs and create value by making efficient use of spare productive capacity
- Uber, Lyft, BlaBlaCar, Airbnb, Gnammo, etc. are examples of how the same economic proposition underlies a wide array of disruptive innovations
- Disruptive innovations open new markets and challenges existing regulatory frameworks

5.2. CONCLUSION / 2

- As industrial organization and industrial structure change, **regulation should change** as well
- Long-held truth may **no longer reflect reality**
 - We need **periodical regulatory reviews** to check whether the theoretical foundations of regulation still hold
 - We need to accept that the very **boundaries** of different industries **may vanish**
- A potential evolution has been sketched with regard to an industry that has been long thought about as a natural monopoly
- To capture all the benefits of disruptive innovation, **market forces need to be set free**

5.3. CONCLUSIVE LESSONS

Liberalize

Liberalize

Liberalize

Thank You for Your attention



“Give anyone a lever long enough and they can change the world. It's unreliable levers that are the problem”

–Terry Pratchett

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