



---

## THE SHARING ECONOMY AND WHY IT MATTERS FOR POLICY MAKERS

---

NOAH ZON, THE MOWAT CENTRE

**T**hroughout the world, a new set of marketplaces are shifting economic patterns by allowing people to buy goods and services directly from one another rather than from traditional businesses. Collectively known as the "sharing economy," these platforms facilitate transactions between users by making them easier, more convenient, more affordable and more trustworthy.<sup>1</sup> Through these innovations, these marketplaces are unleashing a significant amount of economic activity, changing the dynamics of the transportation, accommodation, services, retail, and financial sectors.

---

**"After only a few years in operation, Airbnb now offers more properties than some of the world's largest hotel chains put together."**

---

## I. WHAT IS THE SHARING ECONOMY?

When we refer to the sharing economy we generally refer to marketplaces where people bypass traditional businesses in favour of peer-to-peer transactions, whether in renting their underused homes or power tools to each other (e.g., Airbnb or Snapgoods) or selling products or services (Etsy, TaskRabbit) or some combination of the two. Another aspect of the sharing economy is a membership model, where consumers get access to shared assets, instead of ownership. Examples of these include car-sharing services ZipCar and AutoShare, and urban bike-sharing services.

While some of these marketplaces are built around a pure "sharing" approach (Couchsurfing for accommodation or BlaBlaCar in ridesharing) and others are commercial by nature, the term sharing economy has emerged as the most common way of describing this collection of marketplaces. Though the sharing economy represents a diverse array of business models across a number of sectors, there are some important elements in common — the creation of platforms that build trust and reduce transaction costs, the central place played by technology in enabling the marketplaces, the disruption to existing industries and the need for policy makers to modernize policy and regulatory frameworks to accommodate these new patterns of economic activity.

Many of the transactions at the core of the sharing economy are not new. Renting a room to travellers or sharing space in a car in exchange for gas money is a well-established practice. What is new is the scale and the scope. After only a few years in operation, Airbnb now offers more properties than some of the world's largest hotel chains put together, and Uber has become a dominant feature of urban mobility in 300 cities around the world (and growing). The speed and scale of this change, and the blurring lines between personal activity and small business are at the core of this challenge for governments.

The sharing economy presents unique challenges for governments. In some cases, these new business models run into direct tension with existing policy and regulatory frameworks. In other cases, the challenge is more subtle, centered on the blurring lines between the personal and the commercial.<sup>2</sup>

At the same time, the growth of the sharing economy represents a significant opportunity for policy makers.<sup>3</sup> There is the potential for economic growth and increased productivity by enabling new transactions and greater use of assets, while introducing innovation to a variety of sectors. But there is also a broader opportunity to modernize policy and regulatory approaches to make them more flexible, more risk-based, and more closely aligned with the policy objectives that they were designed to achieve. This modernization would not only address the need to respond to the fast-evolving sharing economy, it would also leave governments better prepared to respond to future changes driven by technology.

## II. THE POLICY CHALLENGE

While some sectors have trickier implications than others, the growth of the sharing economy raises important questions:

1. **Thresholds for regulation.** At what point does someone renting their home become subject to the rules for bed & breakfasts? The often-unacknowledged reality of our approach to regulation is that small-scale part-time activity flies below the radar of our regulators. Even without explicit exemptions, we don't send food inspectors from our public health departments to approve the summer lemonade stands of small children. The growth of the sharing economy means that part-time and informal operations at the margins of this bargain make up larger and larger portions of major sectors. This calls at a minimum for increased clarity about the operating environment.
2. **Competition.** With new business models and offerings, the sharing economy has the opportunity to make sectors more competitive, for the potential benefit of consumers – something highlighted by competition authorities in Canada and the U.S.<sup>4</sup> However, many incumbents raise the concern of unfair competition. If the competitive advantage comes only from avoiding the regulatory costs and constraints faced by existing businesses, then the competition is not adding value for consumers.
3. **Consumer protection.** The sharing economy marketplaces typically offer their own consumer protection mechanisms in the form of insurance and reputational ratings. These may be more responsive and in some cases more effective than traditional consumer protection approaches, providing an opportunity for modernization. However, these ratings systems have their limits, and governments need to consider whether particular needs of vulnerable consumers are being met (e.g., accessibility).
4. **Labour markets.** The relationship between individual sharing economy entrepreneurs, the platforms that they sell through, and their consumers, often does not fit clearly into either the category of employer-employee relationships or into the category of client and independent contractor. What is the right balance of flexibility and obligations for this relationship? To capture the benefits of the sharing economy while protecting workers, some have called for a new category of employment relationships<sup>5</sup> while others suggest a broader need to re-think the role of the social safety net.<sup>6</sup>
5. **Taxation.** The revenue agencies of governments around the world are turning their attention to the sharing economy with an eye to what it could mean for tax revenues. While some have highlighted a risk that the peer-to-peer economy could mean that business income that would otherwise be taxed goes either unreported or exempt, the new marketplaces also bring some traditional cash businesses into the formal economy. More than anything, the sharing economy amplifies existing ambiguities in the tax code, especially in determining what counts as business activity.<sup>7</sup>

In addition to these particular challenges, the rapidly evolving and decentralized character of the sharing economy comes up against the political operating environment and organizational culture of government. This context creates hurdles to proactive policy responses.

Politicians are naturally responsive to stakeholder interests and concerns. This means that the concerns of established operators — stakeholders with pre-existing organization and relationships — will have an advantage in the political process. Even for decision-makers actively looking to balance the interests of incumbents, new entrants, consumers and the broader public, the fact that incumbents have relatively narrow and focused interests compared to the diffuse interests of consumers will influence the conversation around an issue. This is clearly true with the sharing economy, for example with policy makers hearing regularly (and loudly) from the taxi industry and from Uber and Lyft, while consumer interests are more difficult to decipher amidst the background din.

A corollary of this responsiveness to stakeholder perspectives is a strong aversion to risk, something common among governments. Our political culture and the organizational culture of government are both ill-suited to dealing with the uncertainty that comes with changing business models or new technologies. Governments rarely get credit for innovation, but often get punished for missteps.<sup>8</sup> This culture leads to policy choices that prefer command-and-control regulatory models and approaches that ban or restrict new activities that are poorly understood. The rapid change that happens when people adopt disruptive technologies is often challenging for governments to respond to, but is also particularly so when it comes to the looser networks and blurred lines that define the sharing economy.

### III. RESPONSES TO DATE

In light of the complex nature of these policy questions and the hurdles facing governments in responding, it is not surprising that policy responses have lagged well behind the pace of change in society and the economy. Where there has been some form of active response on the part of governments, the policy framework has been plagued by inconsistencies — across different cities in the same province, state or country, across different levels of government, and across different parts of the sharing economy. This inconsistency has contributed to uncertainty for both existing operators and sharing economy entrepreneurs, and confusion for consumers and the broader public. For example, the City of Hamburg has specified that no special permissions are needed to rent out a primary residence on a short-term basis through an accommodation sharing platform. But Berlin has



taken the opposite approach, banning this activity except where local authorities give express permission.<sup>9</sup>

In a number of instances, governments have been reactive and highly cautious, looking to fit the sharing economy into existing policy frameworks. This can be seen for example in France's blanket ban on the UberPOP peer-to-peer service, or restrictions on accommodation sharing in the Catalonia region of Spain. Given the incongruity between the distributed, part-time sharing economy model and regulatory frameworks designed for full-time traditional businesses, taking this approach effectively rejects the sharing economy.

Other jurisdictions have been more proactive in adjusting their policy framework to create an operating environment that is consistent with their objectives while making room for the sharing economy to operate. In some cases, this has meant creating new categories for regulation, e.g., rules for short-term rentals of someone's home or legislation for "transportation network companies" like Uber or Lyft. In other cases, definitions of existing categories might be stretched to clarify exactly where the sharing economy fits in. A smaller number of governments are taking more creative approaches, for example the City of Boston's partnership with Uber that allows the platform to operate in the city, which includes a data-sharing component that allows the city to learn from anonymized data that paints a rich picture of how, when, and where people are moving through their city.

---

#### IV. HOW TO MOVE FORWARD

Given these wide-ranging challenges and the fragmented responses to date, how can governments move forward constructively in a way that maximizes the opportunity offered by the sharing economy and minimizes the challenges? While each sector brings its own considerations, there are some important steps that governments ought to consider across the board as they form their own approaches to the sharing economy.

- **Establish a strategic operating framework** — Rather than focusing immediately on how the sharing economy corresponds to existing regulations, governments should take a step back and use this transition as an opportunity to revisit what their primary policy objectives are and whether existing policies are meeting those goals. This could include reinforcing key principles such as equity, accessibility, competitive markets and promoting innovation. The United Kingdom provides a good example of this exercise, with the independent commission and subsequent government response that it established to frame its overall perspective on the sharing economy.<sup>10</sup>
- **Re-align government structures** — The core structures of government have remained largely unchanged since they were designed for primarily agricultural societies. The change being brought about by the sharing economy is only one instance of how government structures need to be re-designed to meet the needs of a digital world. With the way that the sharing economy blurs boundaries between sectors and between the personal and the commercial, governments need to be much more integrated and agile in how they share information, how they provide services, and how they design policy. Given the clashing vested interests at play, it is also that much more important to emphasize political transparency and open dialogue.

- **Adopt an end-user perspective** — The basis of the peer-to-peer economy involves reducing barriers for part-time entrepreneurs to enter into a business relatively informally. We know that laws and regulations that are more straightforward and easy to understand have higher rates of compliance.<sup>11</sup> Having simple, clearly communicated rules should be at the basis of the expectations of sharing economy participants.
- **Diversify the regulatory toolkit** — To date, experience with the sharing economy has made clear that many of the current regulatory approaches used by governments are obsolete and inappropriate if applied to the sharing economy. Governments should consider adding new approaches, for example greater adoption of performance-based regulation (rather than prescriptive requirements), harnessing the data and reputational information from sharing economy platforms, and using waivers or temporary exemptions rather than bans when new technologies and business models arrive to allow for real world evaluation to take place.

While the sharing economy has expanded throughout our economy and across the world with dizzying speed, in many ways it is one of the more straightforward of the disruptive technology changes on the horizon for government. Finding a more constructive and consistent approach to forming policy for the sharing economy is important to capture the significant economic and consumer potential offered by the sharing economy, while managing the challenges to other public policy objectives. But the response today to the sharing economy also presents a broader opportunity. It's an opportunity to identify and address longstanding challenges in rigid government structures and restrictive approaches to regulation that are obstacles to a more dynamic economy. It is also an opportunity to improve governments' capacity to respond to changes driven by disruptive technology. As a new set of opportunities — automated vehicles, 3D printing, robotics — are set to arrive with the promise to upend entire sectors, it is essential that governments become more effective at responding to the dominant influence of technology that is becoming a persistent trend in our world.

---

**NOAH ZON** is the Practice Lead for the Intergovernmental Economic and Social Policy research stream at the Mowat Centre, a public policy think tank based at the University of Toronto's School of Public Policy and Governance. Prior to joining the Mowat Centre, Noah was a public servant with the Government of Ontario.

<sup>1</sup> *The Economist*, (March 9, 2013), "The rise of the sharing economy," <http://www.economist.com/news/leaders/21573104-internet-every-thing-hire-rise-sharing-economy>.

<sup>2</sup> Emily Badger, "Why we can't figure out how to regulate Airbnb", (April 23, 2014), *The Washington Post - Wonkblog*, <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/04/23/why-we-can-t-figure-out-how-to-regulate-airbnb/>.

<sup>3</sup> This article draws on research by the Mowat Centre. See in particular Sunil Johal and Noah Zon, (February 17, 2015) *Policymaking for the Sharing Economy: Beyond Whack-a-Mole*. <http://mowatcentre.ca/policymaking-in-the-sharing-economy/>

<sup>4</sup> Competition Bureau of Canada (November 25, 2014), "Taxi industry's emerging digital dispatch services", <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03842.html>; Federal Trade Commission (June 9, 2015), "The 'Sharing' Economy: Issues Facing Platforms, Participants and Regulators," <https://www.ftc.gov/news-events/events-calendar/2015/06/sharing-economy-issues-facing-platforms-participants-regulators>.

<sup>5</sup> Shelby Clark, (July 22, 2015), "'Uber' Benefits: The New Safety Net for the On-Demand Economy", *Forbes*. <http://www.forbes.com/sites/valleyvoices/2015/07/22/uber-benefits-the-new-safety-net-for-the-on-demand-economy/>.

<sup>6</sup> Nick Hanauer and David Rolf, (Summer 2015), "Shared Security, Shared Growth", *Democracy*. <http://www.democracyjournal.org/37/shared-security-shared-growth.php>; Arun Sundararajan, (July 26, 2015), "The 'gig economy' is coming. What will it mean for work?", *The Guardian* <http://www.theguardian.com/commentisfree/2015/jul/26/will-we-get-by-gig-economy>.

<sup>7</sup> Shu-Yi Oei and Diane Ring, (2015), "Can sharing be taxed?" *Washington University Law Review*, Vol. 93, Issue 4.

<sup>8</sup> Johal and Zon, 2015.

<sup>9</sup> Spiegel International. (10 April 2015) "Tourism troubles: Berlin cracks down on vacation rentals", *Spiegel International*, [www.spiegel.de/international/business/berlin-cracks-down-on-estimated-18-000-vacation-rentals-a-1026881.html](http://www.spiegel.de/international/business/berlin-cracks-down-on-estimated-18-000-vacation-rentals-a-1026881.html).

<sup>10</sup> See UK Department for Business, Innovation and Skills. (2014), "Unlocking the sharing economy: An independent review", United Kingdom Department for Business, Innovation and Skills, [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/378291/bis-14-1227-unlocking-the-sharing-economy-an-independent-review.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378291/bis-14-1227-unlocking-the-sharing-economy-an-independent-review.pdf); and UK Department for Business, Innovation and Skills (18 March 2015), "Sharing economy: Government response to the independent review", Department for Business, Innovation and Skills, [www.gov.uk/government/publications/sharing-economy-government-response-to-the-independent-review](http://www.gov.uk/government/publications/sharing-economy-government-response-to-the-independent-review).

<sup>11</sup> Based on OECD (2000), "Reducing the risk of policy failure: challenges for regulatory compliance". <http://www.oecd.org/gov/regulatory-policy/46466287.pdf>; and Henry Aaron and Joel Slemrod, (2004), "The Crisis in Tax Administration", Brookings Institute. <http://www.brookings.edu/research/books/2004/crisis-intaxadministration>.