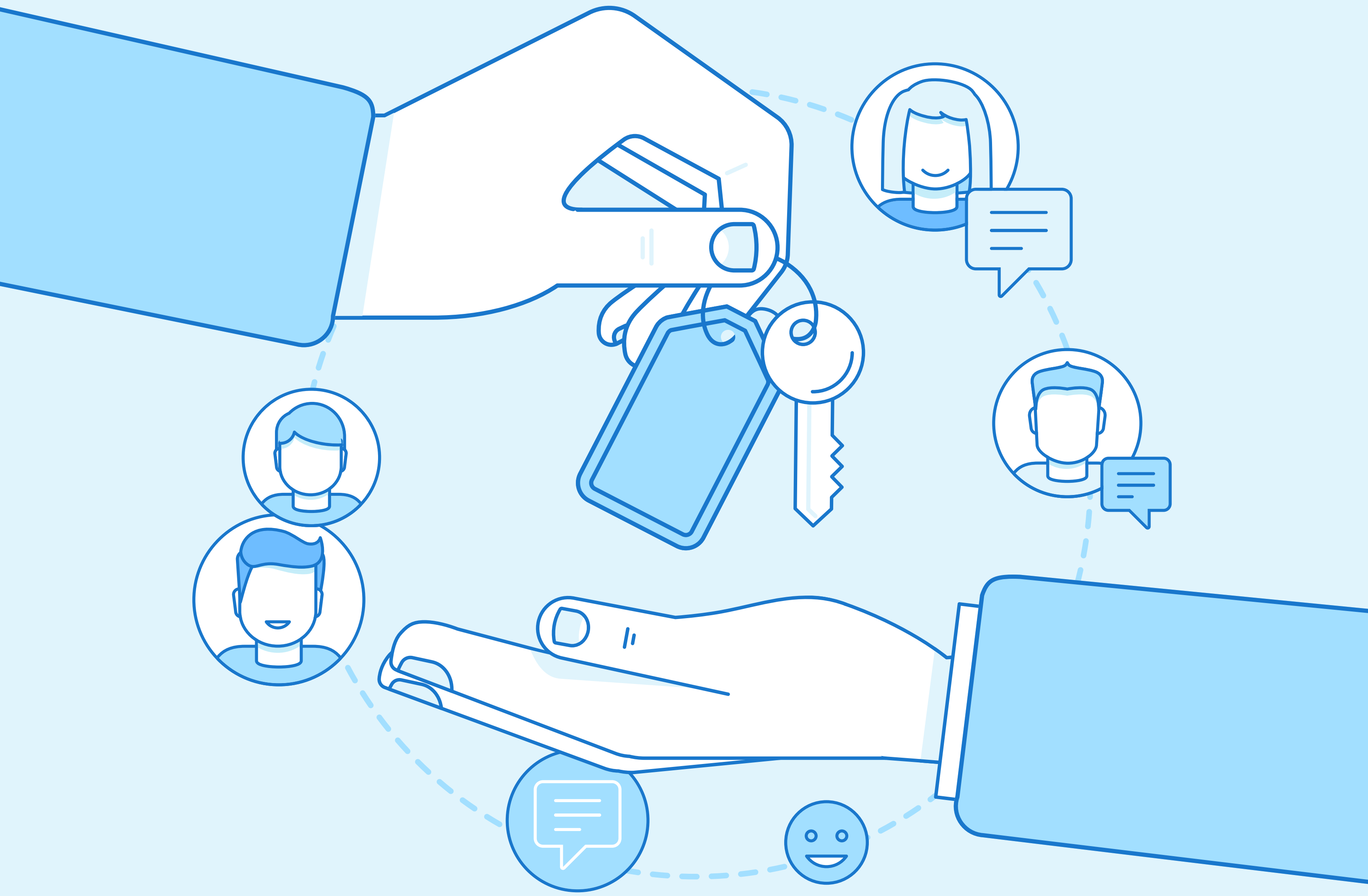
1st
Student Essay Contest
HIGH SCHOOL

CREATING MORE WITH LESS

How to Regulate the Sharing Economy

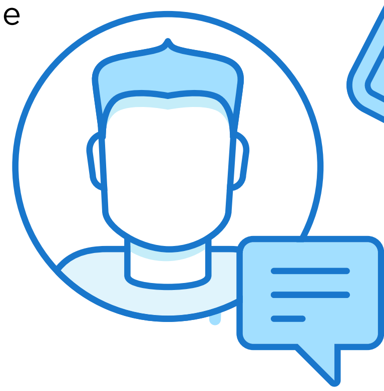
by Felix Hohne



A group of students at Simon Fraser University recently launched an app, OpenSpot, to address one of the most annoying aspects of driving in Vancouver: the city's lack of parking spaces (Azpiri, 2017, May 29). The app connects people who own parking spots with drivers looking to park their cars. While the developers expected that Vancouverites would welcome the idea, they received a lukewarm response at best: homeowners balked at undertaking the complicated process required by city bylaws to charge for more than one car on their spot (CTV 2012, August 20). Because of the city's regulation, the promising new app has so far failed to live up to its ideal of improving the lives of Vancouverites.

The sharing economy adds value to previously underused resources.

This example reveals two important aspects of the sharing economy, a system where services are provided by individual users via platforms rather than by dedicated companies. First, the sharing economy adds value to previously underused resources. For example, customers in the United States spend US$ 1 trillion annually on cars, yet total vehicle use reaches only about 1% (Sundararajan,



2016: 115). With the sharing economy, cars worldwide can be used much more efficiently as excess capacity is rented out and fewer cars are on the streets, thereby reducing pollution, congestion, and shortening commute times. In major cities, platforms such as Uber and Lyft are already alleviating the necessity to own a car.

The sharing economy highlights the difficulty of applying traditional regulations to new circumstances.

Second, the sharing economy highlights the difficulty of applying traditional regulations to new circumstances. Traditional regulations simply fail to consider the different attributes of the sharing economy, as many smaller providers replace larger ones.

For example, a homeowner who occasionally rents out his unused driveway should not generally be regulated to the same extent as a major business with professional staff, dedicated premises, and full-time lawyers for compliance. Furthermore, the sharing economy is still developing, so heavy-handed regulation could impede its growth. Thus, I argue that regulators should not apply traditional regulations to the sharing economy, but rather amend them in order to let this new economic sector develop according to its own merits within the free market. As long as there is fair competition, sharing economies will provide increased well-being to our communities.

Rules are created for a reason; when the reasons change, the rules should be updated. This logic also applies to the regulation of the sharing economy. Historically, there has been a strict division between business and personal lives and their respective rules. For example, as businesses, hotels are required to comply with stringent hotel laws, because a guest's stay is a purely commercial transaction and public institutions are held to a higher standard of care. On the other hand, people acting as individuals do not have to comply with hotel laws when hosting friends overnight because the act of hosting friends is a personal transaction. However, in the sharing economy, formerly personal transactions are becoming increasingly important to the economy as a whole; there is a blurring of the personal and the public. Airbnb hosts do not fit fully into either category: they are neither hosting friends for a weekend, nor are they managing a hotel. Nonetheless, many regulations treat the two as exclusive categories. As a result, there is a clear need to amend regulation to cover the new cases that do not fit the current regulatory model.

If regulations are strictly enforced and not amended, then the innovation that will result in better services and lower prices is stymied. Take, for example, the Hong Kong taxi industry. In May 2017, Hong Kong police arrested 22 Uber drivers for transporting passengers without a car hire permit (Yau, 2017, June 11). The concept of the car hire permit in Hong Kong first originated in the 1960s when passenger transportation services were available in only a few areas and illegal drivers demanded outrageous fees. Thus, the Transportation Department issued regulations which included standards for taxi services, government regulated fees, and a licensing system with artificial regional barriers that ensured that taxi services could be offered economically across Hong Kong (Hong Kong, Transport Department, n.d.). Although these regulations may have made sense at the time they were issued, they were criticized when the government stopped issuing new taxi licenses in 1994, despite a growing population and an expanding tourist industry. Thus, the regulations effectively cemented the de facto cartel structure of the taxi industry and prevented new market entrants (Lee, 2017, June 16). A regulation that was designed to protect customers, combat asymmetric information, and ensure market efficiency (Baldwin, Cave, and Lodge, 2010) instead was co-opted by the industry, such that government regulation became an artificial barrier to entry in the Hong Kong taxi industry.

If regulations need to be updated to accommodate the sharing economy, what should these new regulations look like? The best approach is one in which new technologies and business models are generally permitted by law unless they could cause serious harm to society (Thierer, 2016). Thus, traditional legislation should be revised so that different rules for the sharing economy and for the "regular" economy apply because of their different natures, enabling both economies to coexist and thrive.

There are now almost five times more vehicles for hire on the streets of New York than before the introduction of ride hailing services.

New York is a good example of successful regulation of the sharing economy. Its Taxi and Limousine Commission (TLC) has taken different business models, such as rides hailed on the street or by smartphone, into consideration and revised its existing regulations to specifically accommodate the needs of the ride-hailing industry (New York City TLC, 2017, May 1). While all taxi or ride hailing service drivers must meet basic common standards—such as having TLC approved cars, TLC license plates, and commercial insurance—Uber and Lyft drivers face different pick-up modes, fare rules, and vehicle equipment requirements because of their different modes of operation (Perez, 2017, May 31). This enables both taxis and ride-hailing services to compete fairly with one another, increasing the likelihood that passengers can find a ride. As a result, there are now almost five times more vehicles for hire on the streets of New York than before the introduction of ride hailing services; the value of the city's taxi medallions, which are required to drive a yellow cab, has slumped from over US$1.4 million in 2013 to around US$241,000 today (Agovino, 2017, April 14).

The effects of increased competition are already improving the quality and availability of rides in New York. Though many owners of taxi medallions are attempting to stop the spread of ride-hailing companies through litigation against the updated TLC regulations (Agovino, 2017, April 14), other taxi drivers are fully embracing innovation and technology to make taxi rides more efficient and competitive. They utilize the app "StreetSmart," which predicts the best routes for finding the maximum number of potential customers using artificial intelligence and data mining (O'Brien, 2017, May 10). In addition, the company Via has introduced virtual stops, which reduces unnecessary detours for taxis, and carpooling, which has the potential to decrease taxi fares by up to 40 percent (O'Brien, 2017, June 6).

Because New York has updated its regulations, ride-hailing services can provide better service and improve safety, convenience, and comfort, forcing the long-stagnant taxi industry to adapt and improve (Lim, 2017). It is likely that many of the new innovations for taxis would have not been adopted or, if adopted, not as quickly, if ride-hailing apps had not provided such stiff competition.

The sharing economy is often attacked for destroying livelihoods and reducing work security. However, if it is allowed to develop according to its own merits, it can also increase capabilities and provide new services that traditional economic systems simply could not. Consider Japan, which is experiencing an unprecedented growth in tourism. The number of visitors increased from 10.4 million in 2014 (Japan Macro Advisors, 2014, May 22) to 24 million in 2016 (Kyodo, 2017, January 17). However, this tourism boom was threatened by a scarcity of available hotel rooms, which could not be built quickly and had a fixed number of rooms despite fluctuating seasonal demand.

The traditional real estate zoning regulations restricted hotel operators from building facilities in residential areas and at the same time also prevented homeowners from renting their houses or apartments to tourists. In June 2017, however, the Japanese government formally approved a new law which established a new category for Airbnb-style rentals. Now, to rent out a room, owners must only notify the local government, register with the Tourism Agency, and ensure clean facilities (Real Estate Japan, 2017, June 10). Additionally, Airbnb-style hosts can now provide services not only in business zones but also in residential districts (Wynkoop, 2016, March 15). The Japanese government has effectively adopted new regulations to balance different interests instead of applying traditional regulations to the new economic form. With the new regulations, Japan can reap the benefits of the new sharing economy as platforms like Airbnb supply flexible housing capacity for the massive tourism boom and give tourists more choice in accommodation than the standard hotel room.

Regulators should be flexible and willing to develop new regulatory systems for new cases that arise out of the sharing economy.

A change in the nature of our economy should lead to an alteration in its regulatory structure. We should not unthinkingly apply the rules of an old form of economic organization to the new forms available today. By updating traditional regulation, governments can enable innovation and progress, making our economies more efficient, more enjoyable, and provide more variety in services at lower prices. Regulators should be flexible and willing to develop new regulatory systems for new cases that arise out of the sharing economy. The sharing economy is still in its infancy, but it is already revolutionizing our communities for the better, thereby improving our quality of living.

Felix Hohne is a high school student at St. George's School, Vancouver. With a keen interest in the effects of public policy and the ability of government to improve lives, he hopes to study the social sciences and public policy in university.

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