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THE AIRBNB ECONOMY: A BATTLE BRITAIN MUST WIN

- Peer to Peer Markets are fostering the new innovators of this decade.
- Regulators acting on behalf of vested market interests are threating P2P growth.
- Britain can be a global hub for companies such as Airbnb and Uber.

1. P2P MARKETS

When Democratic New York Senator, Liz Kruger was asked in an interview why she is against her constituents using Airbnb to rent out their apartments to make a little extra money, her response was both chilling and revealing.

"If you live in an apartment building with people living to the right and the left, below and above, your right to let strangers stay in your home for money impacts all your neighbours. Did they sign off on the deal? It's also very unlikely that it's legal under your lease and co-

op or condo bylaws. I would say, "I hope you know that you can be evicted from your home, even if you own it. Are you prepared to take that risk?"

This cocktail of patronising paternalism verging on outright authoritarianism is the force threatening the growth of peer to peer markets and what has become known as the Shared Economy. Kruger conjures up that old chestnut of the tenuous externality to justify her opposition to Airbnb. Moreover, instead of explaining why she believes it should be illegal to rent out your house for shorter periods of time, she simply says that her constituents should just deal with it and face the consequences if they defy her.

The rapidly expanding firms which constitute the Sharing Economy make use of some key principles. Firstly, what might once have been regarded as waste or unusable capacity can now be seen very much as potential capacity. For example, homeowners might want to rent out their driveways as parking space if there is a big nearby event causing congestion. Secondly, paying for access is often more convenient than paying for outright ownership. Borrowing or renting goods and services can enable consumers to access what they need for the specific time period which is suitable for them. Thirdly, better information delivers greater trust and higher quality; ranking providers for example gives consumers more confidence that what they are purchasing will be as they expected.

All throughout the world, peer to peer markets in industries as varied as transport, food, real estate and finance are developing new business models and matching demand with supply in often quite transformative ways. Many of these businesses will fail naturally but others are blazing a trail. The effects of this greater choice and competition can be seen with higher quality and lower prices. The sharing economy and the valuable new innovators it is fostering should be embraced.

However, the defenders of the status quo, the supporters of big, pushy government and the established market participants are fighting to construct new regulatory barriers to entry to stop the growth of these P2Ps. Amongst the developed Western economies, Britain stands out as not having yet succumbed to a bout of regulatory-led lashing out at these new businesses. Nevertheless, it is clear that British bureaucrats have now taken their cue from their American counterparts.

(Source: Techcrunch)

2. REGULATORY THREATS

The growth of many of these new companies has been phenomenal. Uber's investment has grown 6000% in five years and Airbnb has grown 750% over the same time to reach a $10 billion valuation. However, many are now facing problems with the law all across the world.

The US, where these services predominantly operate, has so far been the country most vocal about the need to regulate the sharing economy in tangible goods. Airbnb – which allows individuals to rent out their spare rooms to strangers – is accused of unfair competition with the hotel industry.

Similar arguments are made with regards to ride-sharing services like Uber and Lyft. Taxi associations have been vocal about what they consider unfair competition. Uber drivers are accused of not undergoing the same arduous licensing and are not bound by any formal or informal price agreements, meaning they are free to undercut traditional drivers. Uber faces legal challenges, protests and even bans. The latest incarnation of peer-to-peer trade in tangible goods, Eatwith.com (which allows you to sell a place at your dinner table) has not got the sort of market capitalisation to pose a threat to the catering industry, but it is not difficult to imagine critics using concerns food safety and hygiene standards as a means to attack it.

However, the uncomfortable truth for established market participants is that the reason these new entrants have proven so popular is because they are providing a high quality service at acceptable prices and filling the needs of consumers.

The sheer volume of legal trouble every P2P platform runs into shows that the regulatory status quo needs to be adjusted to accommodate not just the current players in the sharing economy but future ones too.

The P2P economy blurs the line between business and non-business activities. This distinction is crucial, because market regulation only catches business activity – someone using their savings to buy some shares does not need FCA authorisation, but someone who does it "in the course of business" does. Similarly, driving your children to school every morning does not require you to get a taxi license but what if you were also to take your neighbour's children for a small fee? How many would you have to take before someone would take notice?

Traditionally, the distinction has been made based on factors such as the scale of the activity, the proportion of which the profit from the activity comprises your overall livelihood, or the time spent daily on the activity. Clearly, these indicators are of limited use because the issue lies in the collective impact – if all providers individually fell below any threshold that was set, collectively they may still produce a market impact significant enough to threaten traditional providers.

Eatwith.com, has clearly benefited from some hindsight. It runs a fairly strict vetting procedure for any budding restaurateurs, having their staff check the applicant's home and try the food, and there is a lengthy application form designed to prevent any individuals looking to use the service for improper purposes. They also have an insurance scheme covering all their participants in case anything does go wrong.

The most powerful (and cheapest) tool at their disposal is by far a clear mechanism for leaving customer feedback. Ebay was perhaps the first platform to use a similar idea, with much success. It is in the interest of the providers not to poison their clients, in the interest of Airbnb hosts to ensure their guests feel safe, and in the interest of Uber drivers that they get the customers to their destinations safely and on time. As long as platforms provide sufficient information, the risk argument does not stack up.

Regulators should act as mediators rather than as defenders of the status quo and their assumption should be that new entrants are positive rather than treating them with suspicion.

3. CROWDFUNDING

Crowdfunding has grown rapidly because of a need to bypass traditional lending institutions which have contracted their balance sheets. The industry is also appealing for many because it allows individuals to invest smaller or larger amounts according to their preferences. However, the new FCA rules stop people who are not classed as sophisticated or high net worth individuals from investing more than 10% of their net investible portfolio in unlisted shares. This may well reduce the pool of liquidity available for people wanting to start a business. Given that crowdfunding platforms contain clear information and warnings about risk, this regulation seems unnecessary. The FCA should seriously examine if the damage to the industry has actually been worth any possible increase in consumer protection.

4. BRITAIN SHOULD BE OPEN FOR BUSINESS

Recent comments by ministers and the ongoing consultation being carried out by Debbie Wosskow show the quite different attitude to the Sharing Economy in the UK. Rules which threatened people with £20,000 fines for renting out their properties for less than 3 months are being swept away. This creates a great opportunity to attract new start-ups in the UK and successful companies from abroad.

However, the UK must also be prepared for backlash from existing market participants and from regulation obsessed politicians. If a future government decides to enact tight new regulations or fails to abolish antiquated rules, then the UK's Sharing Economy would be placed at serious risk.

Reports of Westminster Council opposing deregulatory moves are concerning and so are comments from Labour about Uber. In a press release, the party states in respect to the company that “It is vital that a court decides if it fits into the UK’s regulatory framework.” However, the point is surely that Uber should fit within the regulatory framework and if it doesn’t then the rules must be changed to allow Uber and any other peer to peer innovators to operate freely. Also, using questions over tax to shut down the fast growing industry would be an unacceptable way for a government to behave.

The global annual revenues of companies operating in the Sharing Economy are estimated to rise from £9bn today to £230bn by 2025. If the UK can establish itself as a place which welcomes these entrepreneurs, then the country is well placed to benefit from the sector’s expansion. The Government should therefore use the ongoing consultation as a beacon that the UK will eliminate needless red tape and welcome new entrants.

By providing more choice, improving quality and cutting prices, peer to peer market participants are cracking open industries which are ripe for innovation. Families and businesses which want to make better use of their assets and take part in the Sharing Economy should be free and welcome to do so.

5. MUST BE READ:

CityAM: Uber aims to rid London of a million cars
CrowdFund Insider: P2P Growth more than doubles in the UK
Telegraph: Government poised to embrace the Airbnb economy

6. MUST BE READ ON CAPX:

Printing our way to medical breakthroughs
Why are tech start-ups so overvalued?

Adam Memon, Jan Zeber and Tim Knox
Centre for Policy Studies

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