Smart nation, sharing city

The Straits Times | September 6, 2014

The 'shareconomy' is booming, and Singapore is well-placed to take advantage of it. Framing regulations is a challenge but outlawing this new economy would be a mistake.

By Ayesha Khanna & Parag Khanna

THE rise of the "shareconomy" is profoundly changing much of the world's daily economic routines. Mediated by the Internet, the sharing of goods, services and labour becomes a spontaneous and efficient transaction amid a growing marketplace of offerings. A plethora of service firms – such as Uber, Lyft and RelayRides for urban transportation, Airbnb for housing, TaskRabbit, Fiverr and Mechanical Turk for tasks, and Favor and Instacart for grocery delivery – have popped up, allowing people to more easily share their homes, driving services as well as willingness to do chores. Crowdfunding platforms such as Kickstarter and Lending Club are part of this trend, for they allow mass participation in grants, loans and investments in entrepreneurial start-ups.

The shareconomy is a highly efficient form of peer-to-peer capitalism. Its participants mutually determine the value of goods and services on a transactional basis. Businesses build (and lose) their reputations through the transparent feedback mechanisms Web-based platforms allow, creating an eco-system that rewards those that constantly improve their service. The shareconomy also boosts a culture of entrepreneurship, since participants compete to offer novel and high-quality services, characteristics much valued in consumption-oriented economies.

Evolution in regulation

WHILE such a system empowers individuals and enables a more inclusive economy, and the technology helps decouple ownership from utilisation and reduce transaction costs, the shareconomy is also chaotic, fraught with consequences that require a rapid evolution in regulations.

What started as an income boost for people to share their homes or cars has become a formidable disruptive force. Forbes estimated that revenues from the shareconomy were over US$3.5 billion (S$4.4 billion) last year, bringing substantial benefits to the so-called "99 per cent" of the masses. During the recent soccer World Cup in Brazil, more than 100,000 people used home-sharing websites to find rooms in the country, given its deficit in formal hotel accommodation. In Singapore, Urban Redevelopment Authority (URA) guidelines suggest minimum six-month periods for rental of private property. Housing Board flats, too, cannot be let out to tourists. This summer, two HDB residents lost their flats after the board found they were being rented to tourists. While there is a valid regulatory point that HDB flats are subsidised housing intended for the owners to live in, elderly residents are also encouraged to rent out rooms in their flats to augment their income – albeit to long-term tenants, not tourists.

Under what conditions would URA and HDB allow residents to rent out their rooms on a platform like Roomorama? Could loosening up on this be beneficial to Singaporeans? According to Airbnb, half of its hosts in the United States are in the low- to moderate-income bracket and 90 per cent of its global hosts are home owners renting out their primary residence. If the same is true in Singapore, then it would be hard to make the case that home-sharers are trying to just cash in and make a quick profit.

Policy innovation

LEGAL battles continue in major cities such as New York, London, Paris and

Berlin about shareconomy services that benefit consumers but undermine organisations by not paying similar taxes. Nonetheless, progressive cities are embracing the shareconomy.

Seattle, for example, has deregulated its transportation and hospitality sectors, recognising that incumbent policies have granted monopolies to taxi companies and large hotels. But monopolies can also emerge from within the shareconomy, making it incumbent upon regulators to ensure a level playing field.

Does allowing companies flooded with venture capital funding to run loss-making operations to gain market share make an economy more competitive? Should governments allow shareconomy firms to have data-sharing partnerships with telecoms when they could give them an unfair advantage in knowing customer habits and movements? Framing rules for shareconomy companies is a complex undertaking, but outlawing them completely would be a mistake.

Singapore could bolster its "smart nation" status by developing rules, specialised services and insurance products related specifically to the shareconomy. For example, TaskRabbit, which allows people to take on errands like putting together Ikea furniture, has imposed a minimum wage and launched an insurance scheme in the US to protect workers' rights. Similarly, the tyranny of technology platforms not centred on human values and experiences must also be constrained.

So-called "algorithmic scheduling", by which employers use technology platforms to automatically change workers' shifts and hours to optimise business cycles, disrupts family life and causes physical stress. As services converge with software, governments need to enhance their own technical skills and partner the private sector to monitor and maintain fairness.

Service review manipulation, for instance, must be prevented to help avoid consumer bias. Only authentic reviews by customers who have used the specific services should be allowed, as enforced by Airbnb and Expedia.

The complex financial dimensions of the shareconomy also require policy revisions. As more people shift into portfolio careers involving transactional micro-activities, data collection on labour markets will become more complicated. New accounting and reporting standards will be needed to calculate wages, assess and forecast incomes, and categorise workers within the growing ranks of the "self-employed". Together with data-sharing guidelines, such standards will help determine when and how much to tax shareconomy-related deals.

Nano-workers

WHILE part-time labour is not new, the shareconomy enables freelancers to become nano-workers, shifting between employers not monthly or daily but multiple times within the same day. As the United States and Europe experience stubborn unemployment and wage stagnation, the option of a diverse portfolio of even modest income streams becomes essential salvation. Today, almost 18 million Americans are surviving on part-time, project-based incomes.

While Singapore has very low unemployment, the impending automation of services also points to the need for empowering the local shareconomy. According to a recent paper by Oxford University, almost 50 per cent of all services in the OECD (Organisation for Economic Cooperation and Development) are at high risk of becoming automated. The shareconomy provides opportunities to smooth income disruptions for displaced workers as they upgrade their skills and move to new jobs.

Indeed, with the help of data from shareconomy companies, governments can identify individuals whose skills are at risk of automation and provide subsidised training programmes to help them move to higher-paying jobs.

The shareconomy is an inevitable trend at the intersection of individual entrepreneurialism and technological connectivity – forces that Singapore wants to strategically embrace. Though its disruptions have left many taxi companies disgruntled and hotel owners feeling threatened, the overall shareconomy has the potential to increase and distribute economic activity, crucial benefits for cities with highly stratified incomes such as Singapore.

Link to article

Download article (PDF)