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Ask: NUS economists

Which industries are vulnerable to the 'sharing economy'?

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For The Straits Times

Q *Which industries will the sharing economy disrupt?*

A Last November, Electrolux chief executive officer Jonas Samuelson made headlines when he revealed that his company is developing a system to share washing and drying machines. With Uber worth over US$50 billion (S$70.8 billion), I do empathise with CEOs wanting to become the Uber of their industries and avoid being disrupted by some 20-somethings from Silicon Valley.

However, before this new mania destroys wealth like the 2000s dot-com bubble, it is worth sorting out the sense and nonsense of the "sharing economy".

First, the sense. In many cities, the taxi industry has been cartelised by vested interests. Under the guise of protecting public interest or promoting entrepreneurship, they beguiled local government into limiting the number of taxis. At one time, the price of taxi licences exceeded US$1 million in New York and HK$4 million (S$730,000) in Hong Kong.

Enter Uber, which brilliantly resolved three essential problems with taxi services in cities like New York. It demolished the constraints on supply imposed by the fixed number of taxi licences, vastly simplified the booking and management of the vehicles from the previous system of telephone booking and dispatching, and ensured accountability of drivers (think about recovering the iPhone that you left in the cab).

For the same three reasons, Uber has not been quite so successful in Singapore, which does not fix the number of taxi licences so rigidly. The taxi operators here already provided fairly efficient booking and management, although they are a step behind in automation to smartphones. And taxi drivers must already provide receipts.

Now, the half-sense. So far, I have not mentioned sharing at all. The original Uber concept was to exploit underused resources: Use your car to serve others! All very laudable. It would certainly increase economic efficiency and conservation of resources.

True car-sharing makes sense in places which are so poorly served by public transport that low- to middle-income people must buy cars. The people who want to "share" their cars are those who need income.

Then how does Uber work in New York and Singapore, where people with low incomes do not own cars? It leases cars to drivers – not very different from the modus operandi of the taxi industry. So much for sharing. In fact, some blame higher-than-expected certificate of entitlement prices on the growth of car-sharing services.

And next, the nonsense.

It is appropriate to regulate the transport industry to manage negative externalities, particularly congestion and emissions. Technology can manage some of these responsibilities more effectively. For instance, Uber's driver rating system is more effective than the city's taxi and limousine commission.

On the other hand, increasing the supply of private-hire cars adds to congestion and emissions while diverting commuters away from public transport. So, to the extent that Uber-like services subvert proper regulation of negative externalities, they are just engaging in regulatory arbitrage. This is private benefit at the public expense.

Finally, as for washing machines, the market is local. Drivers can serve wealthy people who live in other areas. Try that with a washer or dryer. Moreover, there is already a well-established sharing economy in washing machines. They are called laundromats and, unfortunately for Electrolux, they are ubiquitous.

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• This is a monthly series by the NUS Department of Economics. Each month, a panel will address a topical issue. If you have a burning question on economics, write to stopinion@sph.com.sg with "Ask NUS" in the subject field.

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