The Emergence and Development of a Sharing Economy

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The sharing economy is a relatively new phenomenon. It combines various ideas and technologies in order to provide new value to market participants who were previously excluded from the market or had limited access to it. At the same time, it increases competition resulting in lower prices, increases entrepreneurship and household incomes. It also upsurges asset utilization, which may translate into environmental gains. It would seem that a sharing economy is the sum of all things good.

However, these benefits come at a price of damaging traditional businesses that make a living by renting assets. This, in turn, leads to protests, traditional job erosion, shifting the risk to workers and other externalities. Moreover, it is quite difficult to regulate and a tax sharing economy is a headache to administration. In some cases it leads to eradicating a sharing economy completely (the case of Uber in Hungary) or to some extent limiting the externalities but also its benefits (AirBnB in Berlin) .

DEFINING A SHARING ECONOMY

A sharing economy is a phenomenon not easy to define. In most cases it is assumed that to be a part of sharing economy, a platform needs to proclaim it (or be proclaimed as such by the media). This is clearly far too arbitrary to be useful for any analysis. Therefore, a more objective definition may come in handy. Of course, we shall bear in mind that it is still probably not the best definition possible but it is created for a single purpose of setting a clear framework of the presented analysis. Therefore, we shall understand a sharing economy as a market for renting physical assets or money with accompanying services over the Internet using P2P channels.

I am aware that this definition may be somewhat controversial. Many people include the entire P2P market plus companies using the B2P channel in the sharing economy: e.g. sharing knowledge (like Coursera that offers Massive Open On-line Courses or MOOC), pure services (like Task Rabbit that finds temporary employees) and even the sale of items (like eBay). This, hoverer, spans so many diverse phenomena that it is quite challenging to analyze properly. As discussed later, many parts of the peer to peer market have nothing to do with sharing at all.

At the same time, many others focus on the non-profit part of the sharing economy viewing it as a post-capitalist utopia in which people live in harmony freely sharing their resources with one another. Clearly, such phenomenon exist but it is mostly local and very limited compared to the for-profit sector due to human nature and limited resources that can be dedicated to maintaining infrastructure. It is also of little importance to the state due to its scale and limited taxation opportunities.

Finally, sharing existed before the Internet and ignoring it seems unfair, however the explosion of “new sharing” completely opened new modes of operation and allowed for rapid expansion that is of interest. Mixing in traditional tool libraries that work offline with no aid from the Internet (or traditional book libraries for that matter) would not help in understanding the changes that are reshaping asset rental services.

Nevertheless, the definition itself requires some supplementary discussion on crucial issues that help fully understand the scope of the phenomenon:

PEER-TO-PEER (P2P) DOMINANCE

The sharing economy vendors (or providers) are mostly people who do not formally run businesses – which is broadly referred to as the peer to peer market (or P2P). This does not mean that businesses are excluded from a sharing economy – however, in most cases they do not dominate the market. A sharing economy is therefore neither a synonym of P2P, nor does it cover all of it.

In general, the P2P market consists of several sectors: retail business (e.g. via eBay or a yard sale); software and media file sharing (e.g. via the torrent network or platform specific such as the Windows Store); virtual currency (Bitcoin being the most widely known); knowledge sharing (e.g. Massive Open Online Courses or Wikipedia); labor rental (e.g. TaskRabbit or Handy); the P2P financial market (crowdfunding by e.g. Kickstarter and P2P lending e.g. Lending Club); asset rental (e.g. Airbnb).

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THE P2P INFRASTRUCTURE IS OFTEN UTILIZED BY CORPORATIONS AND COMPANIES WHICH ACT IN A MANNER SIMILAR TO OTHER PARTICIPANTS AND AIM TO PROFIT FROM THE NEW BUSINESS MODEL

In the presented article, we shall consider the last sector mentioned above as a sharing economy, but only the portion conducted on-line. Thus, a neighbor borrowing your lawn-mover does not count. Sometimes transactions are borderline between the respective categories. For example, driving services like Uber or Lyft, are a combination of asset rental and labor rental. However, for the sake of clarity, they are included here as a part of the sharing economy.

The boom in the P2P market creates a group of people quite difficult to categorize. They engage in the P2P market regularly and make it their main source of income, and at the same time they do not start a regular business. It is the simplest form of entrepreneurship, libertarian style as it is oblivious to most regulations and taxation. It does not mean they are formally free from regulation or taxation but that they choose to conceal their economic activities and count on impunity due to the small scale of activities and large number of market participants. Such market participants are also part of the sharing economy despite being borderline P2P.

The P2P infrastructure is often utilized by corporations and companies which act in a manner similar to other participants and aim to profit from the new business model. There is a myriad of companies using P2P auction sites (in principle)as a main or supplementary sales channel. Such companies are often very similar to other providers and such a mode of transaction is referred to as 'business to peer' (B2P). It is different from the regular B2C (business to customer) because of the sales channel. Such companies, if engaging in asset rentals, are also included here as a part of the sharing economy.

OLIGOPOLISTIC OR MONOPOLISTIC INTERMEDIARY

The sharing economy was enabled by technological advances based on the Internet. In particular, the rise of offer aggregation platforms that allow participants to introduce their offers and search for them. They drastically reduce search costs. Here we observe clear advantage to scale as more offers translate into greater selection and availability, not to mention convenience as a one stop vendor. Therefore, a given submarket of a sharing economy is usually dominated by few or even one intermediary that earned the status by either early entry or even creating the business model. The competition has a hard time to enter due to the inability to take over sufficient portion of business, so that they become both profitable and attractive to participants. The price competition usually does not work and success stories of late entrants are based mostly on user interface innovation or on specializing in a certain niche.

These intermediaries are often corporations that profit the most from the sharing economy. However, there is tendency for open access platforms that are operated and maintained by market participants to emerge. Despite the cost, the existence of an intermediary has its benefits as well. Firstly, platform operators tend to charge far less than traditional intermediaries[1].

Intermediaries are interested in a broad geographical range of operation and high availability, which in turn translates into higher turnover and hence profit. Therefore, intermediaries often help establish the presence of a shared economy in new regions. There is a well-known case of Uber, which encourages participants from other geographical locations to temporarily move into locations in which the service is starting. The company wants to provide enough drivers at the start so that the system provide sufficient availability for customers. Uber also plans on selling or renting cars to drivers willing to participate in the system to increase the range and density of providers.

PROFIT-BASED AND CAPITALISTIC NATURE

Despite many misunderstandings, a sharing economy is an example of a pure profit-based, capitalistic economy in its earliest form. The word 'sharing' may imply some kind of charity but this is clearly not the case. A sharing economy is based on individual entrepreneurship often ignoring most regulation and taxation and as such

[1] Jane Gross (2008) "Home Health Aides: What They Make, What They Cost," *New York Times*, December 30, http://newoldage.blogs.nytimes.com/2008/12/30/home-health-aides-what-they-make-what-they-cost/

resembles the structure of the 19th century economy. At the same time it is based on capital accumulated by households that so far was mostly idle or underused. A sharing economy is, in many cases, undermining the position of corporations and, as such, might be seen as anti-corporate but definitely not anti-capitalistic. A not-for-profit sharing economy surely exist but is marginal in comparison to the for-profit part.

SELF-CONTROL AND SELF-REGULATION

A sharing economy often spans over many borders or even continents. Therefore, local regulation in many cases cannot be applied. Instead, participants follow the rules that are usually set by a dominating intermediary which are adjusted to reflect changes in the market or are forced by some influential states. The range of power of the intermediary varies: in some cases it influences the terms of transactions (Uber), while sometimes not (Lyft) – even in the same niche. In the event the market operates without an intermediary, the regulations are set jointly by users.

User-based ratings are an important element of self-regulation. Ratings usually go both ways, meaning that both the supplier and customers are rated. This gives a basis for reputation building allowing for relatively safe transactions that often require sizable trust between individuals who have never met in person. This creates a mild barrier of entry for new players that is usually overcome by price competition at the start. The reputation is not shared between platforms at this point so switching platforms is costly for provides and hence makes entry even harder. There are, however, attempts to aggregate ratings of a single user regardless of platform[2].

A rating system and full freedom in choosing transaction partners cause some problems. For example, cases of racial profiling have been reported. It seems that Afro-American users of Airbnb receive on average lower ratings on their room rentals and have a harder time renting a room[3]. This is, however, quite difficult to prove in individual cases and therefore is nearly impossible to eradicate as this policy is the result of general user sentiment and not a platform provider policy. It is also challenging to imagine a policy which could effectively enforce equal treatment.

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> CHEAP ALTERNATIVES EXIST BUT WE DO NOT PICK THEM DUE TO A HIGH SEARCH COST, SAFETY AND RELIABILITY ISSUES

THE SHARING ECONOMY AS A DISRUPTIVE FORCE: MARKET PERSPECTIVE

The sharing economy is a technological innovation that is changing the face of market for asset lending. The traditional approach of a lending economy

[2] Juliet Schor (2006) *Debating sharing economy*, http://www.geo.coop/sites/default/files/schor_debating_the_sharing_economy.pdf

[3] Hardin, B., Luca, M. (2014) *Digital Discrimination: The Case of Airbnb*, Harvard Business School Working Papers.

bases its operation on near constant and reliable availability. This allows market participants to earn a premium over the value of the invested capital. In other words, we were willing to pay quite a lot for a room at a hotel (as compared to monthly rent for an apartment in a given city) mostly because we knew the hotel is there and is offering a room on a constant basis. We used taxi services because we could be quite sure that when called we will get a car within a reasonable time and probably will not get robbed by the driver. The same goes for many other services like car rentals, bike rentals etc. Cheap alternatives exist but we do not pick them due to a high search cost, safety and reliability issues.

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AGGREGATING PORTALS ARE RESHAPING THE MARKET

Prices are high because vendors have to maintain a large capital base that is designed to meet a near peak demand and hence is underutilized for most of the time. The prices are also kept up by the entry barriers for competition –again arising mostly from high capital requirements. Therefore, the supply side of asset lending was, in most cases, limited to large corporations due to their access to capital, extensive distribution (essential before the Internet) and reputation.

Aggregating portals are reshaping the market. A single citizen with a spare room cannot offer availability due to small capacity. Therefore, the spare room will, in most cases, remain empty which is somewhat ironic. For a regular person, the cost of advertising, promotion or even simple bookkeeping is often a sufficient deterrent. This is why one person is not effective competition for hotels and, in most cases, will not even attempt to enter the market.

However, if we aggregate several hundreds of such individuals we are able offer a room base larger than most hotels with much larger price and standard range with a much greater geographical coverage. The problem of reputation is alleviated by the reference system known from other P2P markets. A vendor with dozens of positive feedback is usually considered trustworthy. This offer applies to most B2C market for accommodation and is usually far superior to what hotels may offer, especially with respect to price.

The sharing economy started its expansion with the rental of relatively homogenous assets broadly held and underutilized by the citizens. These are rooms, means of transportation (mostly cars) and money. Due to a comparative advantage on many levels – including minimal regulation and taxation, participants of a sharing economy are quickly eroding the market for incumbent players. This often leads to protests, especially in the case of vocal groups such as taxi drivers which start with public demonstration, roadblocks and sometimes end with sheer violence against new entrants on their territory.

THE SHARING ECONOMY AS A DISRUPTIVE FORCE: GOVERNMENTS’ PERSPECTIVE

As noted before, a sharing economy generates tension between incumbent market players and new entrants via sharing economy channels. It creates various effects undesirable from the governments' perspective:

> THE SHARING ECONOMY ALLOWED THE VACANCY RATE FOR SHORT-TERM RENTALS TO BE DECREASED AND THEREFORE MANY OWNERS DECIDED TO SWITCH FROM LONG-TERM TO SHORT-TERM RENTALS. THIS CAUSED A SHORTAGE OF APARTMENTS FOR CITIZENS AND PRICE HIKES

SOCIAL UNREST

Groups threatened by new entrants are at times vocal in their disappointment especially if they operate in a highly regulated environment that so far guaranteed their prosperity. So far, the most vocal group have been taxi drivers. Their protests can paralyze a city or even lead to physical assaults on competing drivers and their cars. The frustration of incumbents is understandable as they often operate in a regulation-heavy and taxed environment and hence are unable to compete with entrepreneurs unburdened with such issues. The reaction of the state ranges from the minor harassment of sharing economy players (such as more frequent tax authorities controls), up to an outright ban as in the case of Uber in Hungary.

There is also the fear that a sharing economy will substitute stable paying jobs for uncertain ones. This shift in the workplace actually predates the sharing economy. The number of blue-collar jobs dropped as the factories from the developed world were outsourced to cheaper regions. We observe income stagnation in the middle class group in the most developed countries which is the price we pay for decreasing inequality worldwide[4]. The debate is whether a sharing economy will deepen the problem. So far, such a link has not been identified[5].

UNEXPECTED ASSET UTILIZATION SHIFTS

Static assets utilization patterns may shift in quite unexpected manners towards more efficient solutions – which translates into

[4] Milanovic, B. (2016) *Global Inequality: A New Approach for the Age of Globalization*.

[5] Bernhardt, A. (2014) *Labor standards and the reorganization of work: gaps in data and research*.

higher returns for owners. At the same time, benefactors of the *status quo* are facing price increases, which may also cause social problems. The best known case concerns apartment rentals in large cities.

For an owner of an apartment, long-term rental was an optimal solution up to now. The revenue per day was much smaller than in the case of short-term rentals but at the same time it was much more reliable. The sharing economy allowed the vacancy rate for short-term rentals to be decreased and therefore many owners decided to switch from long-term to short-term rentals. This caused a shortage of apartments for citizens and price hikes. Such a phenomenon was observed in the case of Berlin, where authorities severely limited the operations of Airbnb (a short-term rental platform) e.g. by allowing only spare rooms to be rented, or in Paris, where inspectors were set to harass Airbnb providers with inspections. Of course, we may doubt the efficiency of such regulations as they can be dealt away with one way or another. On the other hand, Airbnb provides evidence that its operations are actually beneficial to the city as tourists stay longer and spend more (estimated EUR 100 million in 2013)[6].

REGULATION AND TAXATION RESISTANCE

The P2P market is very resilient to regulation and taxation. It is somewhat difficult to cover and control due to numerous participants. Moreover, in most of the cases it is challenging to distinguish e.g. carpooling that is encouraged from for-profit operations. How often does a person need to share his or her car in order to be considered an entrepreneur? This is a blurry line and it seems unlikely that the situation will change anytime soon. Participants are sometimes singled out and forced to start a company (and pay any taxes due) but these cases are rare due to the time and cost involved. As the scale of operation of each participant is small, the prosecution is unlikely and therefore not considered an issue by the provider.

This creates a large area of business operations that is outside the scope of both regulation and taxation creating unfair competition. As an effect, incumbent tax-paying entities are pushed out of the market so the budget impact is twice as hard. Moreover, dominating intermediaries in most cases pay zero taxes in the country sharing economy participants operate (or anywhere else, for that matter) and are mostly out of regulatory reach too. It seems mostly unfair as the intermediary captures a significant portion of profit from the business activities in a given country. However, this problem is not isolated to the sharing economy as tax optimization in multinational corporations concerns all industries. Here it may be limited by eliminating the intermediary. Yet, that happens due to market participants activities usually in case the intermediary is too greedy and demands too high a fee. Such an action is therefore not aimed at tax revenue maximization and cannot be induced by the state. At the same time, a state-owned intermediary might be an option but is unlikely to be successful.

What we observe in general are local regulatory skirmishes of sharing economy platforms and state and local authorities. The main point of disagreement is the decision whether the platform is merely an intermediary or an employee that should take responsibility for wages and activities of its unconventional employees. Governments tried to force the latter interpretation but mostly failed. Despite several visible cases as the aforementioned cases of Hungary or Berlin, the regulation

[6] http://web.archive.org/web/20150322021438/http://publicpolicy.airbnb.com:80/wp-content/uploads/2013/09/Berlin-Airbnb-economic-impact-study.pdf

mainly seems to turn into a friendly[7] sharing economy as restrictions are alleviated (e.g. zoning or minimum rent time). Providers are usually open to mild concessions in exchange for freedom in operations.

SHARING ECONOMY: MAIN SECTORS

I Transportation

With number of cars per household exceeding two in many developed countries, it seems that means of transportation would be the most underutilized assets. As far as transportation goes, a sharing economy can be divided into several categories:

Pure Rental

This is the purest form of a sharing economy and at the same time the least developed one. The reason is that people are often unwilling to share a car (which for most people is one of the most expensive assets they possess) with a complete stranger unsupervised. Still, such a market exists and gains traction as sharing platforms try to alleviate the problem by insurance. For example, Turo is offering a USD 1 million insurance policy for the rented car. As of now there is no single worldwide platform that dominates global markets. In most cases each country or region has its own local player. The largest company in Europe is Divy that operates in France and Germany. The business model is sometimes imitated by companies e.g. Zipcar (subsidiary of Avis) but they offer a fleet of their own cars and hence are not a part of sharing economy even as B2P.

Other niches of transportation rental are also present. Bike rentals are the most prominent ones with companies like SPinlister or AirDonkey. We may also expect new and larger means of transportation to be rented out in the future – including airplanes, boats or yachts. These innovations are yet to come but we may be fairly certain they are on their way.

Carpooling

Driving a car is costly and causes externalities such as pollution and congestion. Therefore carpooling was encouraged long before the Internet, especially during wartime[8]. The rise of the Internet helped smooth the process. The best known carpooling platform is Blablacar, which was founded in 2006 as one of the earliest sharing platforms. At the beginning, the P2P section was free and B2B (carpooling for employees) was supposed to bring in money. However, this plan did not work and the B2B part was scrapped and the company started to monetize on the P2P part of its operations by taking a cut over what a driver requires (in some countries it is still free of charge). Drivers are not riding for profit so the money they ask should reasonably cover part of the expenses. Due to its non-profit nature, Blablacar is much less harassed by authorities than the for-profit Uber. Blablacar limits the information it provides – so far we know that the total distance traveled with the service is over 5 billion kilometers and it generates about a EUR 250 million savings for drivers every year[9]. It is also the only type of sharing economy sector that has a proven track record in improving the condition of the natural environment as it cuts greenhouse gases emissions[10].

[7] http://qz.com/589041/uber-pulled-off-a-spectacular-political-coup-and-hardly-anyone-noticed/

[8] http://www.shareable.net/blog/the-history-of-carpooling-from-jitneys-to-ridesharing

[9] http://www.wired.co.uk/article/blablacar

[10] Martin, E. W., Shaheen, S. A. (2010) *Greenhouse Gas Impacts of Car Sharing in North America*, Mineta Trans-

Taxi Service

This sort of economic activity has little to do with asset rental and is therefore borderline sharing economy as the *service* part dominates the *renting* part. The idea is an extension of carpooling where the non-profit restriction is waived. One may, of course, still use it for carpooling but it is mostly used as a means to earn money. There are several platforms offering such services including: Summon, Lyft, Via, Haxi (and several others are now defunct, like Sidecar) but still the best known and the biggest one is Uber, which operates in 66 countries and 492 cities[11].

The dominance of Uber is so strong that other platforms which are dominating local markets (e.g. Haxi in Scandinavia) have teamed up to ensure their survival.

In 2015, Ola Cabs (India), Didi Chuxing (China), Grab (Singapore) and Lyft (USA) created a partnership to keep Uber from dominating their markets (with the exception of Lyft, they are the dominant players in their markets). Irrespective of this, the capitalization of Uber in just six years exceeded the capitalization of traditional companies such as: General Motors, Ford or Herz and Avis. It seems soon the market will go through a round of consolidation and possibly monopolization.

Uber clearly thrives to innovate and expand. It creates a system that raises prices at peak demand so that drivers are drawn to operate during these hours. It also offers differentiated price levels depending on the services rendered: starting with the cheapest UberX, UberXL uses larger cars that can accommodate at least six passengers, UberSelect offers luxury sedans and UberBLACK offers limos. Moreover it is trying to enter into similar markets: Uber Rush is a bike delivery company in New York, Uber Cargo delivers goods via Uber drivers, UberPool is competition for Blablacar. Uber is also researching self-driving cars and financial services for its drivers to allow them to buy a car. Clearly, many of these activities reach far beyond a sharing economy.

II Accommodation

The idea of sharing one's apartment with strangers seemed even more risky than in the case of a car. However, in 2003, Couchsurfing appeared and it allowed using someone else's house. As in the case of carpooling, it was relatively easy to turn the practice into a business model by introducing payment and a commission on top of it. This was performed by Airbnb, which is now the dominating player on the market and its value is estimated at USD 24 billion – more than the Marriott hotel chain[12] with over 2 million properties in 191 countries listed and over 60 million stays[13]. The runner-up is Wimdu, which offers similar services.

The market is not only limited to humans. DogVacancy offers a chance to rent a place to stay for your pet instead of using a pet hotel. It seems that the market will be branching out into new areas including: garages, safes, parking spots, storage rooms, and private pools. The sky is the limit.

portation Institute Report 09-11,San Jose, CA: Mineta Transportation Institute.

[11] https://www.uber.com/our-story/

[12] The secret match of Airbnb's $24 billion valuation http://www.wsj.com/articles/the-secret-math-of-airbnbs-24-billion-valuation-1434568517

[13] https://airbnb.com/about/about-us

III Other Assets

Many other types of assets are also rented via a sharing economy. In particular, assets which are expensive and rarely used such as sports equipment (surfboards, snowboards) via Spinlister. The scale is, however, still relatively small.

> IN TIME, SOCIETIES WILL UNDERSTAND THAT THE SHIP OF LIFELONG EMPLOYMENT WITH BENEFITS HAS SAILED

THE SHARING ECONOMY: OTHER PLAYERS

The sharing economy attracts other players as well. There are constant entrants who try to become new intermediaries as the benefits to be reaped are huge. Most of them fail miserably or are taken over (as of now out of forty five P2P platforms reviewed by Collaborative Consumption in period 2010-2014 only nine are still in operation)[14] but there are companies trying to earn money on such attempts – for example as the Share Engine which helps create P2P sharing platforms.

[14] http://www.collaborativeconsumption.com/2014/12/18/failure-mapping/

There is also a growing platform of organizations supporting and researching the sharing economy. These include:

- OuiShare which strives to create an international network of collaborators;
- *Shareable* – a leading online magazine about sharing the economy;
- The European Sharing Economy Coalition

and a multitude of local ones like NASE, ShareNL and others.

WHAT NEXT?

When deciding about a regulatory future of the sharing economy we have to take a broader economic context into consideration. Traditional long term employment is, in most cases, a thing of the past for a majority of the society. It started with the de-industrialization and outsourcing to cheaper countries. It resulted in an amazing reduction of economic inequality worldwide but created tensions in developed countries. Therefore, these changes are resisted by the society and are politically hard to accept. They are also disliked by the state due to a decreased traditional tax base and troubles in funding the welfare state. Decreasing worker protection is thus avoided but it is often necessary even at a high political cost – the case of France is the best recent example. However, in time, societies will understand that the ship of lifelong employment with benefits has sailed. A sharing economy can both deepen the problem and help to alleviate it.

On the one hand, it tends to decrease the number of stable jobs in industries affected. On the other, it allows many currently unemployed people to make a living. In fact, for many individuals it becomes the main source of income and they rearrange their lives to accommodate chances provided by the sharing economy[15]. In fact they become entrepreneurs even if they try to avoid the formal side of such a decision. This, in turn, creates a situation in which there is an uneven ground of competition for various entities. There are several possible ways of tackling this problem.

BANNING CONTROLLABLE ENTITIES DOES NOT SEEM LIKE THE BEST IDEA AS IT WILL TURN ENTIRE MARKETS INTO A SHADOW ECONOMY

The first one is the outright ban of the sharing economy. This approach was used in many places worldwide including Germany and Hungary and some regions of the US[16]. However, there are several problems related to such a decision. Firstly, it completely removes all benefits of a sharing economy for the citizens. This may even lead to organized protests of people who would benefit from introducing it and we have seen such cases in the cities where Uber was banned e.g. in Quebec or Sao Paolo[17]. Secondly, a current centralized P2P platform might be easy to ban but regulatory pressure will bring technological solutions. In the early days of file sharing, it was enough to force companies such as Napster to stop illegal activities. Over time, file sharing evolved into torrent networks which basically have no central point and therefore they are impossible to destroy. It is easy to imagine a similar technology for any sharing economy submarket. This underground sharing economy will eventually appear for various reasons including further avoidance of taxation and regulation, limitation of intermediary fees and ideology but it is in the best interest of a state to make it a marginal phenomenon. Therefore, banning controllable entities does not seem like the best idea as it will turn entire markets into a shadow economy.

The second approach assumes that all providers in a sharing economy must be registered companies. This is basically bringing the standards of a regular economy into a sharing economy. Clearly, this is a better idea than the previous one but it also has its drawbacks. The biggest one is that it eliminates all casual users from the market as the cost of running the company due to regulations in most European countries is a successful deterrent for most small-scale operations[18]. We

[15] http://www.blogtrepreneur.com/how-to-make-a-career-out-of-airbnb/

[16] http://www.reuters.com/article/us-uber-hungary-exit-idUSKCN0ZT0RS
http://www.bbc.com/news/technology-31942997
http://www.ktva.com/uber-signs-agreement-to-stop-operating-pay-settlement-to-alaska-808/
http://www.reviewjournal.com/news/nevada/uber-temporarily-suspends-operations-nevada

[17] http://www.cbc.ca/news/canada/montreal/uber-quebec-protest-government-ride-hailing-taxi-1.3559167
http://www.euronews.com/2015/07/05/pro-uber-protests-in-sao-paolo-after-city-ban

[18] Chittenden, F., Kauser, S. and Poutziouris, P. (2002). *Regulatory burdens of small business: A literature review*. SBS Research Directorate.

have to bear in mind that this will affect the poorest fraction of providers which is not socially acceptable. These are the people who may augment their budgets with the extra cash from renting out their assets.

The third (and preferable) approach is to create a set of super simple rules for occasional entrepreneurs. These are people who engage in the simplest economic activities (not necessarily limited to a sharing economy) based on renting out their skills or assets but who cannot legalize their activities due to a high cost. Limiting such an activity seems pointless under the current conditions (or under any conditions for that matter). The rules should be minimal – including taxation. In particular, in the case of a sharing economy the turnover tax seems feasible as the data about transactions should be obtainable from intermediaries as a condition for operation in a given country or in the EU in general. The tax could be even collected and paid by the intermediaries themselves. This way it would be very simple for participants and very difficult to avoid. The success of such an approach is clearly visible in the case of a capital gains tax that is often collected by banks without the intervention of clients.

The tax rate should be set in such a way that it would be beneficial for participants to start a regular business at a certain scale. Therefore, it should be effectively higher than the regular income tax. This approach would level the playing field for regular companies and occasional providers.

This system relies on the cooperation of intermediaries and hence diffused P2P networks would be much harder to control. This, however, is the problem there is no need to tackle it before it arises.

CONCLUSIONS

It seems that in many industries the times of large corporations are over and along with them stable jobs are a thing of the past. We see the resurgence of entrepreneurship in the simplest form that was dominant for ages before the industrial revolution in the form of local entrepreneurs that serve local needs with minimal outside help. This includes a sharing economy's local rental companies no longer overwhelmed by large corporations. A large capital base is often no longer needed and technology removes barriers of entry in many cases. People who decided or were forced to switch to self-employment decide on the parameters of their work on their own but at the same time are devoid of benefits and security. They also find it is much easier to escape regulation and taxation. This is not easy to accept by many and it created a lot of political tension in developed countries as people are used to stable, life-long employment. These phenomena started long before the sharing economy mostly in the form of outsourcing production and many services to poorer countries and most likely will continue long after it becomes business as usual.

A sharing economy is a new disruptive technology which is now reshaping the way we work and consume. It allows many to increase their income by renting underutilized assets. But on the other side, traditional businesses are threatened due to uneven competition terms. It is up to regulators to set a framework which is both fair and captures the benefits of a sharing economy.

An oppressive approach will most likely fail as the economic incentives for a sharing economy are large. It can be expected that if current platforms are not allowed to operate, then decentralized

P2P networks will emerge and these are almost impossible to control or shut off. At this point, any attempt at regulation or taxation is doomed to fail. The best example is the futile war with torrent file sharing networks that operate in a similar manner.

The current architecture of the solution that relies on well-defined central intermediary is advantageous. It gives the governments a chance to introduce regulation and taxation and so far these platforms proved to comply with reasonable proposals. Still, heavy regulation or taxation is not an option even if introduced together with the intermediaries as they would lose clients that move to less regulated venues. Moreover, the burden of calculation and paying the taxes could be switched on the platforms themselves in exchange for the right to operate in a given country. Differentiating tax rates between various activities would also be quite easy. At the same time, regular companies using P2P channels (B2P) could be entitled to a tax refund. This would level the playing field for various entities and if calibrated properly, it would also encourage to transform from occasional provider into a company at a certain scale of operations. Therefore, with a responsible policy, we could get the best of both worlds. ●

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