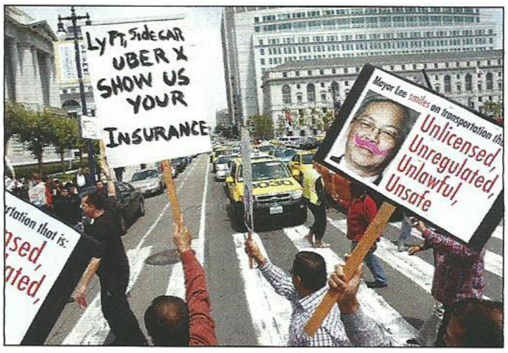
The Sharing Economy

Rent out a bedroom for a day; pay a stranger for a lift; borrow a dog. The new economy is causing jitters in corporate boardrooms

What is its guiding principle?
The idea is that the stuff we own – our cars, houses, power tools, tents, cameras, skis and even, to some extent, our time – often sits idle. (The average car is unused 92% of the time.) Using sharing websites on the internet, we can now lend those goods to others and make a bit of money on the side. The poster child of the "sharing economy" is Airbnb, a San Francisco start-up founded in 2008 by two cash-strapped housemates. Joe Gebbia and Brian Chesky bought several air mattresses and let them out to people attending a design conference near their home. They made $1,000 in a weekend and built a website, putting people needing a bed for the night in touch with those with one to rent. Five years later, 11 million people have used Airbnb, which lists more than 500,000 domestic properties available worldwide.



A protest against Lyft and Uber in San Francisco

And did others quickly latch on to this "sharing" idea?
Yes, in all sorts of areas. Now we have "Lyft" and "Uber" for ride-sharing, operating in dozens of cities; "EatWith" for sharing suppers with chefs in their homes; "Spinlister" to rent bicycles; "ParkingPanda" to borrow a parking space; "TaskRabbit" to assign chores; BorrowMyDoggy.com; and countless others.

But is there really anything new about this?
Before WWII, arguably the shared economy was most of the economy. Only in the last 70-odd years have cheaper goods and access to credit allowed most of us to buy things for ourselves instead of asking our neighbours and family first. But what we are now witnessing, as enthusiasts for the sharing economy see it, is a profound change in attitude, particularly among young people, who are much more sceptical than previous generations about owning physical items – housing, cars, even newspapers and DVDs – preferring to use social networks to gain hassle-free "access" instead. "There's a feel-good factor at play here," says Sarah McKinney of Forbes magazine. "At a time when there is so little trust in government, politicians, large corporations and media conglomerates, there's something reassuring about these businesses whose success depends upon people trusting each other."

But is there real money in it?
In April, Airbnb raised between $450m and $500m from investors, who valued the business at around $10bn, more than huge hotel chains such as Hyatt or the InterContinental Hotels Group. It is on track to be the largest hotelier in the world by next year. Meanwhile Uber and Lyft, which vet drivers and then connect them to passengers via an app (passengers pay a "donation" for their ride) are disrupting taxi markets all over the world. Lyft, which operates in 64 US cities, raised $250m from investors earlier this year; Uber is now live in 36 countries, including the UK.

Is this helping our economies?
Economists say the real financial value of the sharing idea is not so much what it does for the digital platforms, which earn a small commission for each transaction, but for those taking part. It allows millions of homemade businesses, "nano-enterprises", to flourish, creating new kinds of jobs and freeing up cash to spend on other things. "eBay's impact hasn't been on the thousands of tech jobs it created for eBay," says Arun Sundararajan of New York University, "but on the hundreds of thousands of sellers it created." Airbnb claims to have injected $632m into the New York economy last year: its renters earned an average of $7,530 hiring out their rooms. In the UK, the collaborative economy has been forecast to account for as much as 15% of GDP within a decade.

How have the corporations reacted?
With horror, outrage and imitation. Last year ConvergEx, the New York market strategists, argued that the new sharing mindset could lead to a "catastrophic" long-term fall in home-ownership, car sales and other big ticket purchases with "an effect similar to that of the Depression". Traditional businesses in competition with new sharing networks insist they are illegal, sidestepping reams of taxes and regulations designed to protect consumers. The Hotel Association of New York points out that short-term rents of 30 days or less are forbidden in standard leases – making most Airbnb ads unlawful – and that Airbnb hosts should pay taxes like legitimate hotels. The rush to introduce car-sharing schemes around the world, meanwhile, is running into even more serious challenges from existing taxi firms over insurance, licences and the safety of passengers (see box).

What has been the response of the sharing firms?
To make some concessions. Airbnb has removed from its site about 2,000 "hosts" in New York who own multiple properties, and is experimenting with collecting "occupancy taxes" from its users. Uber and Lyft have strengthened their insurance policies. All sharing companies now rely on eBay-style ratings to encourage trust and weed out unscrupulous users. But they still insist most complaints are from frightened cartels or city authorities, worried about missing out on their slice of the action. "Most of the rules that the sharing economy is breaking have little to do with protecting the public," says The Economist, which has dubbed it "one of the great unforeseen benefits of the digital age". And that's why plenty of big companies are getting involved.

How are they doing that?
Tech giants like Google are backing new schemes – such as Sidecar, in which owners rent out their cars – while retailers such as the US DIY store Home Depot are renting out tools to compete with online sharers. Daimler, which owns Mercedes, is rapidly expanding its car2go service in which users rent Smart cars by the minute; General Motors has invested $3m in RelayRides, a car-sharing service, hoping that drivers sharing a Chevy will be more likely to buy one. All seem to be buying into the idea that ownership isn't always the most efficient way of using things.

Taxi wars

Captain John Baily is thought to have set up London's first taxi rank, by the Maypole on the Strand in 1634. Before then, wealthy families would hire out carriages and footmen to the lower nobility, but Baily brought some rigour to the operation. A former adventurer and comrade of Sir Walter Raleigh, he kitted out four coaches, dressed his drivers in uniforms and told them what to charge. The business boomed from then: by 1760, there were more than 1,000 "hackney hell carts" on the streets of London. Over centuries of mechanisation and regulation ("taxi" comes from the German *taximeter*, the key to an honest trade), the business morphed into the one we recognise today.

Uber and Lyft, which after a background check enable members of the public to charge strangers for rides around town, could be the biggest threat to Baily's taxi model since its inception. As a result, cities and cab companies are fighting back. Uber, which also links users to licensed taxis, is facing court battles in Toronto, Montreal, Boston and California, and has been banned outright in Brussels. In London, black-cab drivers were set to stage a mass protest on 11 June to object to the use of Uber's fare-calculating software, which they believe is a taximeter by another name.