TESTIMONY OF MICHAEL BECKERMAN
President & CEO, Internet Association
September 29, 2015

Summary

In my testimony this morning I'd like to outline a few important principles the Internet Association thinks are helpful in guiding this policy debate. But first, I'd like to put the sharing economy in the proper macroeconomic context. Sidecar, Uber and Lyft are neither taxi companies nor transportation companies. They are technology platforms connecting supply and demand. Likewise, Airbnb is not a hotel or lodging company. It too is a technology platform that connects supply and demand. In 1980, for example, if you wanted a ride to the airport, you might pick up the Yellow Pages and look up a phone number for a car service, then call to arrange a pickup. In that pre-Internet age, the Yellow Pages served a similar function that Lyft and Uber do today connecting supply (the driver) with demand (the rider). Today, thanks to the Internet and advances in mobile payments, this connection of supply and demand happens in real time and in a seamless way for consumers.

Based on our advocacy for the Internet industry generally and for the sharing economy specifically, the Internet Association suggests that the following principles should guide the committee as you consider what role you could play in this area:

- First, evidence demonstrating the ***clear benefits*** to consumers must be taken into account. These benefits include increased competition, lower prices, higher quality services, and an overall increase in consumer choice.
- Second, in weighing these clear benefits against any perceived harms, lawmakers should consider whether sharing economy services may, in fact, be ***safer*** alternatives for consumers when compared to their incumbent counterparts.
- Third, in listening to complaints against sharing economy entry into local markets, assess whether these complaints capture ***genuine*** consumer protection concerns, and are not simply complaints against increased competition that benefits consumers.
- Fourth, recognize that sharing economy platforms ***already*** self-regulate through various mechanisms that are hardwired into the technology, such as customer ratings, payment systems, and GPS tracking.

Full Written Testimony

Chairman Burgess, Ranking Member Schakowsky and members of the committee, thank you for inviting me to testify. My name is Michael Beckerman and I am the President & CEO of the Internet Association, which represents the world's leading Internet companies. The Internet Association is the unified voice of the Internet economy and its global community of users. We are dedicated to advancing public policy solutions to strengthen and protect Internet freedom, foster innovation and economic growth, and empower users.

Included in our membership are more than 35 of the world's most innovative companies, including sharing economy platforms such as Airbnb, FlipKey, Lyft, Sidecar, and Uber.[1] As an advocate for these companies at the local, state, and federal level, the Internet Association has witnessed first hand the often heavy-handed and misguided regulatory approaches to these platforms in markets throughout the country. These companies have an extraordinary story to tell. Their story is about job creation, economic growth, opportunity, and life changing flexibility. Ridesharing and home sharing get most of the attention, but those business models are just the tip of the iceberg. Companies like Instacart, Washio, TaskRabbit, GetAround, Handy, and ThumbTack are changing the way we shop, do our laundry, rent cars, and improve our homes. The incredible consumer benefits of the Internet age are matched only by the flexible money earning opportunities for those that opt-in to devoting their time to participation in the sharing economy.

[1] Members of the Internet Association include Airbnb, Amazon, Auction.com, Coinbase, Dropbox, eBay, Etsy, Expedia, Facebook, FanDuel, Gilt, Google, Groupon, IAC, Intuit, LinkedIn, Lyft, Monster Worldwide, Netflix, Pandora, PayPal,

What we are seeing across the country is a tale of two cities. In some communities, policymakers and regulators embrace new technology and competition. In these communities, consumers and the local economy have seen job creation and growth. A couple in Texas, summoning a ride home on a dark and stormy night from the comfort of their smartphone can speak to the consumer-first convenience of ridesharing. A hard working family in Illinois, able to pay their mortgage with the extra money earned from Airbnb, can speak to the life-changing flexibility and opportunity brought by home sharing. Unfortunately in some other communities, policymakers and regulators have put up roadblocks to consumer choice and competition. In these areas, the community is worse off when arbitrary barriers are placed on new entrants. Competition is stamped out, growth is stifled, and opportunities are lost.

In my testimony this morning I'd like to outline a few important principles the Internet Association thinks are helpful in guiding this policy debate. But first, I'd like to put the sharing economy in the proper macroeconomic context. Sidecar, Uber, and Lyft are neither taxi companies nor transportation companies. They are technology platforms connecting supply and demand. Likewise, Airbnb is not a hotel or lodging company. It is a technology platform that connects supply and demand. In 1980, for example, if you wanted a ride to the airport, you might pick up the Yellow Pages and look up a phone number for a car service, then call to arrange a pickup. In that pre-Internet age, the Yellow Pages served a similar function that Lyft and Uber do today connecting supply (the driver) with demand (the rider). Today, thanks to the Internet and advances in mobile payments, this connection of supply and demand happens in real time and in a seamless way for consumers.

Based on our advocacy for the Internet industry generally and for the sharing economy specifically, the Internet Association suggests that the following principles should guide the committee as you consider what role you could play in this area:

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- Third, in listening to complaints against sharing economy entry into local markets, assess whether these complaints capture ***genuine*** consumer protection concerns, and are not simply complaints against increased competition that benefits consumers.
- Fourth, recognize that sharing economy platforms ***already*** self-regulate through various mechanisms that are hardwired into the technology, such as customer ratings, payment systems, intense competition, and GPS tracking.

I will elaborate on each of these points now and would be pleased to answer any questions you have about them.

1. Sharing Economy Benefits are Real and Growing

The benefits to U.S. consumers from the sharing economy are real and growing. These benefits include increased competition, lower prices, higher quality, and increased consumer choice for *all* consumers, even those consumers who do not participate in the sharing economy. The sharing economy also benefits U.S. small business owners who supply their services to consumers using sharing economy platforms. The Internet Association submits that these benefits must be kept front-of-mind as the committee considers its approach to the sharing economy.

On the supply side of these two-sided platforms, evidence is mounting that participation in the sharing economy is a net positive for the 'microenterpreneurs' who participate in it.[2] In a survey done earlier this year, Airbnb commissioned the Land Econ Group to study the company's economic impact throughout San Francisco. The survey found:

- The Airbnb community contributed nearly **$469 million** to the San Francisco economy in 2014;
- The average Airbnb host earns **$13,000** per year hosting – money that is spent in the local economy; and
- The Airbnb community supports **3,600** jobs in the local economy.

The Land Econ Group study also found that over the last three years, Airbnb's economic impact in San Francisco has grown from $56 million to $469 million annually (a more than **8-fold** increase).[3]

On the demand side, there is increasing evidence of the benefits to consumers of increased participation in the sharing economy. PriceWaterhouseCoopers calculated that, on a global basis,

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[2] Debbie Wosskow, "Unlocking the Sharing Economy: An Independent Review," https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378291/bis-14-1227-unlocking-the-sharing-economy-an-independent-review.pdf at 14 (2014).

[3] Airbnb public policy blog, http://publicpolicy.airbnb.com/author/davidowen/ (April 19, 2015).

the sharing economy generated **$15 billion** in global revenues in 2013. According to PwC, this figure is estimated to rise to **$335** billion by 2025.[4] A recent industry survey of consumers in the United States, Canada and the United Kingdom suggested about one in four respondents had used one or more 'collaborative economy' marketplaces in the past year.[5] This rapid growth rate suggests that consumers are voting with their pocketbooks and have concluded that the sharing economy is beneficial to them.

Recent academic research tends to validate the confidence American consumers have placed in the sharing economy. In research conducted at NYU, Fraiberger and Sundararajan modeled the benefits to consumers from participation in the sharing economy using transaction level-data from the car rental platform Getaround and U.S. automobile industry data.[6] The NYU study suggests that the sharing economy benefits below-median income users in particular, who also provide a majority of rental supply.[7] The study further concludes that these consumers "will enjoy a disproportionate fraction of eventual welfare gains from [the] sharing economy through broader, inclusion, higher quality rental-based consumption, and new ownership facilitated by rental supply revenues." [8]

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[4] PwC blog, "The Sharing Economy: Sizing the Revenue Opportunity," http://www.pwc.co.uk/issues/megatrends/collisions/sharingeconomy/the-sharing-economy-sizing-the-revenue-opportunity.jhtml

[5] Jeremiah Owyang and Alexandra Samuel, "Sharing is the New Buying," *http://www.web-strategist.com/blog/2014/03/03/report-sharing-is-the-new-buying-winning-in-the-collaborative-economy/* (2014).

[6] Fraiberger and Sundararajan, "Peer-to-Peer Rental Markets in the Sharing Economy," NYU Stern School of Business Research Paper, at p. 1 (March 6, 2015).

[7] *Id.*

[8] *Id.*

2. Sharing Economy Benefits Must be Weighed Against Perceived Harms

Although the Internet Association submits that the benefits to consumers from sharing economy platforms are concrete and growing, this does not mean that consumer protection has no role to play in this space. The important question is not *whether* consumer protections should apply to the sharing economy, but rather *how* and *when* they should apply.

The Federal Trade Commission, using the mandate given to it by Congress, has in recent years been actively engaged in policy research and development on sharing economy issues. In the words of the FTC: "A forward-looking regulatory framework should allow new and innovative forms of competition to enter the marketplace unless regulation is necessary to achieve some countervailing pro-competitive or other benefit, such as protecting the public from significant harm." [9]

The Internet Association agrees with the FTC that a balanced regulatory framework should take into account protecting the public from significant harm. However, in so doing, we also ask that the committee consider the ways in which sharing economy platforms may, in fact, be *safer* alternatives for consumers versus incumbent providers of the same service. Our experience has shown that, when dealing with sharing economy entry, regulators often labor under the misplaced assumption that the sharing economy bears the hallmarks of the Wild West when it comes to safety and consumer protection. In reality, the facts and evidence point in a different direction.

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[9] Letter to the District of Columbia Taxicab Commission from the FTC Office of Policy Planning, Bureau of Competition, Bureau of Consumer Protection and Bureau of Economics at p. 3 (June 7, 2013).

For example, although opponents of ridesharing platforms often cite safety concerns as a ground for regulation, there are several reasons why ridesharing can be considered *safer* than taking a taxi. These reasons were captured by the National League of Cities in a recent report on the sharing economy and cities. According to the report, "advocates for sharing economy services [] argue that ridesharing services can *increase* safety by providing easily-accessible transportation alternatives."[10] Ridesharing provides an easy and safe alternative for intoxicated drivers. Similarly, since ridesharing services are non-cash businesses, they may increase safety for riders and drivers alike. And systems tracking every ride using GPS technology could also help ensure both driver and rider safety. [11]

These pro-ridesharing safety arguments find empirical support in a recent survey conducted by Zendrive, a leading driving analytics firm, in San Francisco.[12] The study looked at data from passengers' cellphones, Zendrive measured over 1,300 miles' worth of rides in San Francisco, including taxi and rideshare rides and – for comparison – the average driver. According to the Zendrive study, taxis were found to be speeding over 50% more than rideshares, and this figure increased during peak hours.[13]

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[10] National League of Cities, "Cities, the Sharing Economy and What's Next," at p. 25 (2015). (emphasis added).

[11] *Id.*

[12] Are Rideshares Really Safe? A Study of Rideshares v. Taxi in San Francisco (December, 2014), http://blog.zendrive.com/post/104915142448/taxi-vs-rideshare-in-sf; *see also,* http://www.marketresearchworld.net/content/view/5934/76/

[13] *Id.*

3. Regulation Should Only Capture Genuine Consumer Protection Concerns

In listening to complaints about the sharing economy from incumbent players and entrenched interests, the Internet Association encourages the committee to think about whether those arguments truly reflect a genuine concern for consumers, or whether they are, in fact, complaints against increased competition as a result of sharing economy entry. It is very important to distinguish between genuine and pretextual complaints in this context because the committee should only be concerned with consumer protection, and not with protecting competitors from lower prices and higher quality that actually *benefit* consumers.

In many respects, today's sharing economy experience mirrors that of the early commercial Internet. Since its early years, the Internet has played its part in the ongoing process known as creative destruction. Of course, the Internet did not invent creative destruction; as the Austrian economist Schumpeter first explained in 1942:

"The opening up of new markets, foreign or domestic, and the organizational development from the craft shop to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism."[14]

It is a truism that the Internet has "incessantly revolutionized" many markets in recent decades. The Internet has, since its inception, lowered entry barriers for new entrants, search and transaction

[14] Schumpeter, Capitalism, Socialism, and Democracy, at p.83 (1942).

costs for consumers, and generally corrected information asymmetries in many markets, from contact lenses[15] to wine.[16]

As with the early Internet, today's sharing economy platforms are spurring increased competition and consumer choice in our economy. To date, the sharing economy has disrupted competition in two sectors in particular, namely transportation and lodging. These sectors have operated for centuries relatively uninterrupted by innovation and the benefits that innovation brings to consumers. The recent introduction of new technologies, such as the smartphone and trusted payments systems changed this sleepy competitive landscape. These new technologies lowered entry barriers for sharing economy apps to match supply and demand in either side of their two-sided platforms in ways considered to be impossible less than a decade ago. And the results of this new entry are clear: prices have gone down and quality has gone up.

Although creative destruction can and does benefit consumers in the form of lower prices and increased quality, it also creates anxiety on the part of market incumbents. As Schumpeter correctly concluded back in 1942, "The resistance which comes from interests threatened by an innovation in the productive process is not likely to die out as long as the capitalist order persists."[17] Fast-forward to the sharing economy in 2015 and this observation still holds true. Incumbents are unlikely to ever admit that they oppose competition from new entrants and so, as in

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[15] *See, e.g.,* Report from the Staff of the Federal Trade Commission, "Possible Anticompetitive Barriers to E-Commerce: Contact Lenses", at p. 1 (March 2004). ("While eye care providers still control the prescription process, consumers now not only purchase more lenses with greater frequency but they also have a greater choice of lens suppliers and modes of delivery. These changes have caused tension among eye care practitioners, bricks-and-mortar lens sellers, contact lens manufacturers, Internet lens sellers, and state officials over issues such as licensing contact lens sellers, contact lens prescription release requirements, and methods of verifying prescriptions.")

[16] Report from the Staff of the Federal Trade Commission, "Possible Anticompetitive Barriers to E-Commerce: Wine" (July 2003).

[17] Schumpeter, Capitalism, Socialism, and Democracy, at p.132-3 (1942).

the Internet's early days, they will dress their concerns up as pre-textual consumer protection[18] concerns. This is predictable behavior, but it ought not to dictate policymaking by this committee today any more so than it has in the past.

4. Many Consumer Protections Are Hardwired Into Sharing Economy Platforms

While the Internet Association agrees that consumer protection has a role to play in the sharing economy, we also submit that it is important for the committee to consider the unprecedented ways in which technology *already* enables the sharing economy to self-regulate to protect consumers.

At the FTC's June 9 workshop on the sharing economy, several panelists described how consumer protections are already hardwired into sharing economy platforms - through, trusted payment mechanisms, customer rating systems, and GPS tracking. Some have argued that these mechanisms diminish the need for government regulation in the sharing economy when compared to other sectors.[19] From an economic standpoint, this argument withstands scrutiny.[20] If the core purpose of regulation is to correct market failures due to information asymmetries between buyers and sellers,[21] and those asymmetries are corrected by technology, then the need for government intervention *is* diminished. In light of this, the Internet Association submits that the committee

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[18] *Id.* at p. 21.

[19] The Consumerist, Nobody Really Knows What to Do About Regulating the Sharing Economy, Kate Cox, http://consumerist.com/2015/06/10/nobody-really-knows-what-to-do-about-regulating-the-sharing-economy/ (June 10, 2015).

[20] Anne Hobson, Christopher Koopman, Matthew Mitchell, and Adam Thierer, "How the Internet, the Sharing Economy, and Reputational Feedback Mechanisms Solve the 'Lemons Problem'" (Mercatus Working Paper, May 2015) http://mercatus.org/sites/default/files/Thierer-Lemons-Problem.pdf

[21] George A. Akerlof, "The Market for 'Lemons': Quality, Uncertainty and the Market Mechanism," Quarterly Journal of Economics 84, no. 3 (August 1970).

should show restraint before assuming that additional consumer protections are appropriate in the sharing economy space.

In sum, the sharing economy is an exciting innovation that collapses distance between those offering services and those consuming services. The end results of this unique arrangement are increased quality and lowered costs. The sharing economy provides clear benefits to consumers, and evidence of this fact must be taken into account before taking legislative or regulatory action. These benefits include increased competition, lower prices, higher quality services, and an overall increase in consumer choice.

Lawmakers should consider whether sharing economy services may, in fact, be safer alternatives for consumers when compared to their incumbent counterparts. In listening to complaints against sharing economy entry into local markets, assess whether these complaints capture genuine consumer protection concerns, and are not simply complaints against increased competition that benefits consumers. In fact, safety is hardwired into sharing economy platforms through mandatory, two-way customer rating systems, and end-to-end GPS tracking.

Thank you for allowing to me to testify here today. I look forward to answering your questions.