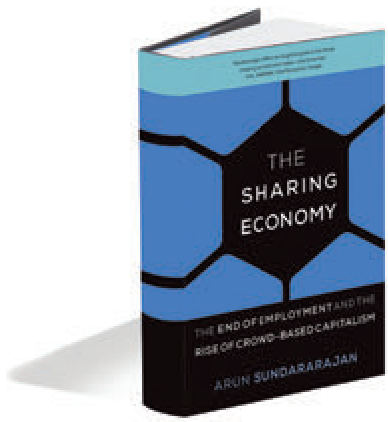
Yours and Mine



Arun Sundararajan

The Sharing Economy

The End of Employment and the Rise of Crowd-Based Capitalism

MIT Press, Cambridge, Massachusetts, 2016, 256 pp., $26.95 (cloth).

The sharing economy is transforming commerce right before our eyes. Thousands are skipping the hassle of standing on a corner in the rain to hail a cab and are simply summoning an Uber or Lyft to whisk them to the airport. Others are selling their knitting on Etsy, letting strangers stay in their home through Airbnb, or having their weeds pulled by a gardener hired via TaskRabbit. Countless "workers" are flocking to Amazon's Mechanical Turk to complete "Human Intelligence Tasks" for just pennies.

Sharing economy expert and New York University Stern School of Business professor Arun Sundararajan tackles the myriad issues these developments have spawned in his path-breaking book.

Sundararajan knows his stuff. He's an award-winning scholar who writes with a clarity that masks the complexity of his subject. Citing his own research and that of many others, he explains how organizations whose main purpose is to create the supply needed to meet consumer demand are driving today's economy. He explores how these developments spell the end of employment as we know it and what society should do to shield the American worker from the worst Darwinian aspects of crowd-based capitalism.

Sundararajan divides the book into two logical parts, cause and effect, with each of eight main chapters addressing a concrete topic. If you're befuddled by the notion of blockchain technology and bitcoin or wonder exactly how a "platform" differs from a "hierarchy," you'll find the answers in this enormously helpful and comprehensive book.

Sundararajan identifies five core characteristics of the sharing economy. It's largely market based, puts underutilized capital to use, relies on crowd-based networks, and blurs the lines not just between the personal and the professional, but also between employment and casual work.

What generated this crowd-based capitalism? Apple's Steve Jobs and the iPod, says Sundararajan. The iPod was the first successful mass-market product developed primarily for consumers, rather than for business or government, and ever since, the most important innovations—think the iPhone, iPad, and Facebook—have centered on the consumer.

Trust is essential to this economy. Our 20th century relatives would have been reluctant to allow strangers to drive their cars or stay in their homes while they were on vacation on a mere promise to pay. Yet thousands of people do these things every day because the digital economy has created a network we can trust.

It has generated positive spillover effects by putting underused assets to work and expanding economic opportunity. Yet it has also spawned negative externalities—your neighbor might not like the comings and goings of your Airbnb "guests"—and weak regulation has certainly helped the sharing economy grow. For example, Airbnb might struggle to survive if its casual hosts had to meet the same fire, safety, and other regulations that govern conventional hotels.

Sundararajan advocates giving regulatory responsibility to the peer-to-peer marketplace and allowing new self-regulatory organizations to fill the gap. But he may be overestimating the private sector's ability to provide sufficient consumer protection. Although keeping government regulators at bay may seem necessary to incubate the sharing economy, consumers may have to suffer through lots of dangerous rides, filthy apartments, and ruined gardens before the "collaborative" market sorts things out.

Trust is essential to the sharing economy.

I would have liked to see additional data on compensation. For example, Sundararajan asserts that workers can generally expect to earn a higher hourly wage through freelance assignments than through traditional channels, citing plumbers in San Francisco as evidence. But this assertion is misleading for two reasons. First, hourly wage data don't include benefits, which typically account for 20 to 30 percent of total compensation. Second, it's one thing to earn a wage premium for an hour or so of freelancing, but it's another to find a year's worth of freelance work at that rate. Many freelancers would love to make the kind of money—about $66,500 a year—San Francisco's plumbers earn.

This point doesn't detract from the high quality of Sundararajan's book, which is essential to understanding how today's crowd-based capitalism beats yesterday's industrial revolution. In Adam Smith's world, the market's invisible hand led supply and demand to intersect. In Sundararajan's world, the invisible hand is still at work. It's just that it now has help from peer-to-peer funding, impersonal platforms, blockchain technology, and those ubiquitous apps.

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