The sharing economy: what, how and why (not)?[1]

Raïsa Basselier
Economist, National Bank of Belgium

ABSTRACT

Digitalisation is having a growing impact on our daily lives: it has changed the way we connect with others, the way we do business and how we consume. In recent years, electronic platforms have emerged that link individuals with one another, but also offer them the opportunity to share goods or assets or to exchange services. In what follows, we will refer to this phenomenon as the *sharing economy*. Besides increased digitalisation, other factors such as urbanisation, changing cultural values and social norms and financial motives can be identified as the main drivers of this new economy. While statistical data on the size of the sharing economy are still incomplete, there are plenty of indications that it is growing rapidly. Its rising popularity also raises several challenges in terms of adequate regulation, follow-up and taxation.

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[1] This article summarises "The rise of the sharing economy", which appeared in the Economic Review of the National Bank of Belgium, by R. Basselier, G. Langenus and L. Walravens in September 2018. The article is also based on the speech given by Raïsa Basselier for the Belgian Financial Forum in Mechelen on 3 December 2019.

DEFINITION

New forms of economic activity have arisen, centered around digital platforms that, *inter alia*, enable households to share and trade goods or services. These new forms of economic activity are only loosely defined and referred to under various names, such as the collaborative economy, the peer-to-peer economy and the gig economy, which are not entirely interchangeable. This article will continue using the term sharing economy. A key characteristic is that this refers to peer-to-peer exchanges, facilitated by digital platforms, of goods, services, resources or skills which were previously unused or under-used. This is different from e-commerce, which is based on a business-to-consumer relationship.

FACTORS BEHIND THE EMERGENCE AND DEVELOPMENT OF THE SHARING ECONOMY

Digitalisation
Many studies have shown that the sharing economy offers a quick and cheap way of matching supply with demand for goods and services. The main innovation in the business model of the sharing economy lies in the technological platforms and mobile apps which bring demand and supply together and match them in a way which was not possible before (quicker, cheaper and on a bigger scale), including in geographical areas or services sectors where the concentration of players is lower and where new commercial opportunities are now arising. The internet is therefore crucial to the development of the sharing economy. Eurostat figures show that the internet is widespread in Belgium: 87% of the population had internet access in 2018 and two-thirds of internet users had purchased at least one item online in the last year.

Urbanisation
While digitalisation in principle facilitates contacts between people living further apart, urbanisation may also be a driving force of the sharing economy. Davidson and Infranca (2016) claim that many of the initiatives in the sharing economy offer a response to the specific frustrations of living in a busy city. In fact, city dwellers can now avoid having to buy a car (and thus avoid the associated parking problems) by car-pooling or hiring a car with a driver.

Changing values (and wider eco-citizenship)
Changing cultural values and social norms also encourage the development of activities in the sharing economy. First, environmental considerations raised the question of use of resources and individual ownership of specific assets, favouring the development of a new form of consumption. In that connection, an ING survey (2015) shows that many consumers think that the sharing economy is beneficial. For instance, 43 % of the

1 000 Belgians polled agree with the statement that the sharing economy is good for the environment.

As pointed out by Bardhi and Eckhardt (2017), the current generation attaches greater importance to experiences and quick access, rather than actual ownership. Consumer behaviour is changing, especially among the younger generations, and is increasingly based on principles such as flexibility, transience, detachment and speed ("liquid consumption"). This ties in with the fact that an increasing number of people are now prepared to share their possessions with strangers. According to a survey conducted by Nielsen (2014), 54 % of European consumers are willing to share their own goods, while 44 % are willing to use other people’s belongings. Electronic equipment, bicycles or vehicles, sports equipment and tools are the goods that most people are prepared to share. These are typically goods that come with a high purchase price and are often under-used. Although willingness to share is particularly marked among millennials, earlier generations also seem willing to follow the trend.

Moreover, the willingness to share one’s belongings with strangers is also facilitated by increasing digitalisation. The latter has permitted the creation of online reputation and rating systems (Bergh and Funcke, 2016). As a result, in the eyes of consumers, the risks inherent in sharing are lower.

Financial motives

Apart from altruistic motives, financial aspects undoubtedly play a key role in the emergence of this type of economy. According to the 2015 ING survey, a large proportion (48 %) of Belgian respondents stated that their main reason for participating in the sharing economy was to earn money or to save money.

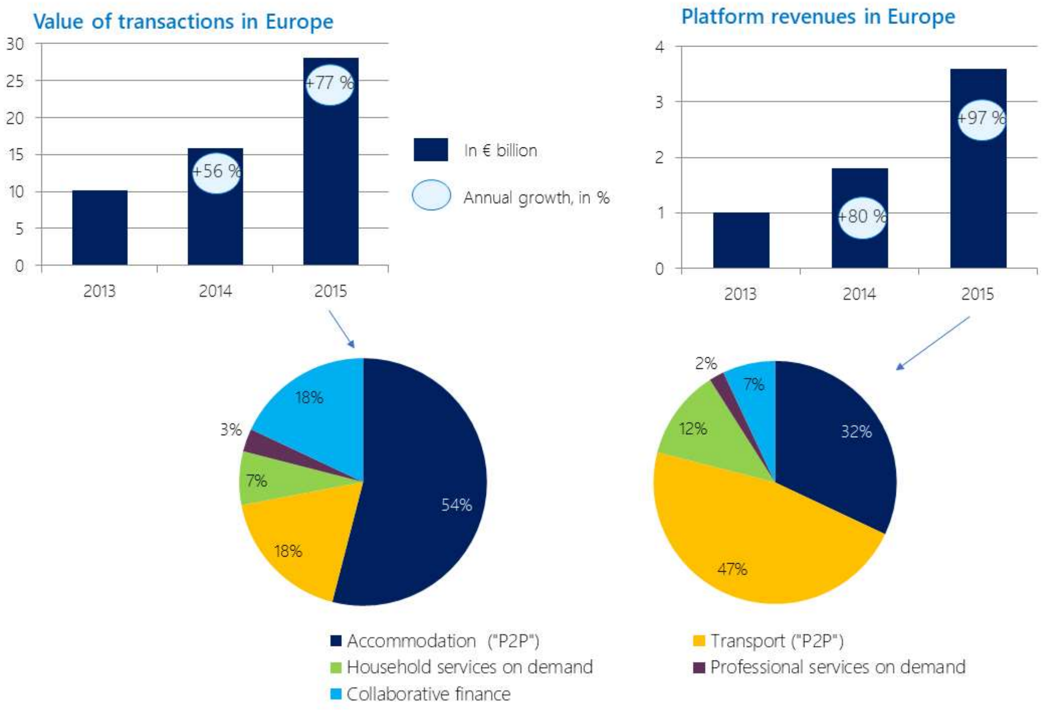
Similarly, the literature states that the financial aspect is the main incentive for participating in this type of transactions (Schor and Attwood-Charles, 2017). Use of the sharing economy may in fact make sense in economic terms, on the one hand because individuals avoid the need to invest in expensive items which are used only infrequently, while on the other hand, they can increase their income by hiring out under-used goods (Lobel, 2016). What is more, users (consumers) benefit from lower prices, one reason being that the platforms reduce transaction costs and do not require a significant marketing budget (Schor and Attwood-Charles, 2017). Just as goods are shared online, opinions are also exchanged on the web. In that regard, the survey by Nielsen (2015) demonstrates the power of publicity by word of mouth. In this connection, no fewer than 78 % of European respondents said they attach considerable importance to the recommendations of friends and family. A smaller proportion of those polled, though still 60 %, also pay attention to the opinions expressed online by consumers unknown to them. Consequently, people place far more trust in those opinions than in traditional advertisements on television or in newspapers and magazines.

ECONOMIC IMPORTANCE OF THE SHARING ECONOMY

Quantitative data on the scale of the activities of the sharing economy are relatively scarce and limited in scope. Nonetheless, the existing studies indicate that those activities have expanded considerably in recent years.

For instance, according to a study by PricewaterhouseCoopers (PwC) published in 2016, the value of sharing platforms’ transactions and revenues in Europe came to € 8.1 billion and € 3.6 billion respectively in 2015, having more than doubled since 2013. The growth of platform revenues is attributable mainly to accommodation and transport activities, which expanded considerably between 2013 and 2015. However, despite this rapid growth, the impact of these platforms on the total economy is still relatively small. In fact, the figure of € 28.1 billion recorded for transactions in 2015 only accounts for around 0.35% of total final consumption expenditure of European households in that year.

Value of transactions and revenues of sharing economy platforms in Europe (2013–2015) and their breakdown in 2015



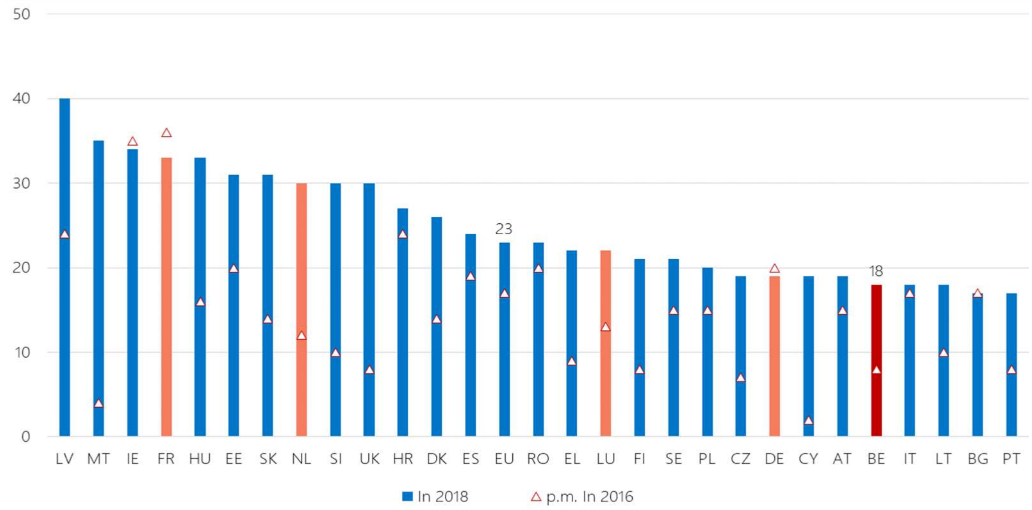
Source: PwC (2016).

The aforementioned study by PwC (2016) also revealed that more than 275 collaborative organisations had been set up in the nine European countries considered.[2] Most of them were based in France and the UK, with each of those two countries having over 50 companies. In Belgium, fewer than 25 collaborative businesses had been created at that time. This finding, which indicates that Belgium is not at the forefront of European development of activities in the sharing economy, is in line with a survey conducted by the European Commission (EC, 2016 and 2018). According the 2018 survey on the use of platforms in the collaborative economy in Europe, only around 18 % of the Belgian population had participated in some form of sharing economy, well below the participation rate seen in the four neighbouring countries. Belgium’s participation is also below the European average of 23%. However, compared to the results from the same survey held in 2016, the use of sharing platforms is rising rapidly. Two years earlier, only about 8% of the Belgian population had taken part in the sharing economy.

Although the sharing economy is currently still small compared to the broad economy, its recent rapid growth suggests that this phenomenon will persist in the future.

Use of a sharing economy platform

(in % of respondents)



Sources: EC Flash Eurobarometer 438 (2016) and 467 (2018) – The use of collaborative platforms.

2 Belgium, Germany, France, Italy, Poland, Spain, Sweden, the Netherlands and the UK.

THE SHARING ECONOMY IN OFFICIAL STATISTICS

As regards the national accounts, there are still many statistical challenges to be resolved in order to measure and identify the sharing economy as a whole. Major challenges include the classification of these activities in existing or future statistical nomenclatures, data requirements regarding transactions made between consumers/households and the feasibility of measuring non-monetary transactions. Some of these issues are illustrated in the box by two practical case studies on the statistical treatment of Airbnb and Uber. These two platforms are not only the most well-known examples (and pioneers) of the sharing economy: being very different from one another, they also lend themselves perfectly to a discussion of the statistical treatment of activities in this form of economy.

Case studies – Uber and Airbnb

Since 2012, Uber has also been operating in Belgium in the form of a private limited company. Consequently, the firm has to submit detailed annual accounts to the National Bank of Belgium's Central Balance Sheet Office. These data can be readily consulted and reveal, for instance, that this firm employed about 12 full-time equivalents (FTEs) in Belgium in 2018 and generated value added close to € 2 million.

Nonetheless, since the Uber drivers are self-employed, they are not direct employees of this platform. In Belgium, these drivers are in fact required to register for VAT; in that respect, they are no different from a traditional, self-employed taxi driver. Although the value added that Uber drivers generate is duly included in the national accounts via their VAT figures, it cannot be separated from the total, as there is no distinct classification.

The case of Airbnb is even less clear. Although this platform also operates in Belgium, the company does not file any annual accounts here. Of course, there are certain registration obligations that apply to rooms or accommodation offered for rent via the digital platform, but all in all, the known administrative data are insufficient, and the significance of this platform can only be estimated via information obtained from the media or on the basis of certain assumptions concerning the number of overnight stays recorded via the platform and the average price charged. Owing to the great uncertainty surrounding such assumptions (and indications that the Airbnb platform is currently of negligible significance in comparison to total Belgian GDP), the National Accounts Institute has opted at this stage not to include Airbnb in its estimates of GDP and is waiting for more formal guidelines from Eurostat.

POLICY CHALLENGES OF THE SHARING ECONOMY

The rapid growth of the sharing economy raises various policy challenges. On the one hand, online platforms and the new way of working that they imply are eliciting a great deal of protest from traditional players (incumbents), who often regard these new players as a form of 'unfair' competition. In particular, taxi drivers and hotel owners have already repeatedly expressed their concern that their competitors in the sharing economy do not (and need not) comply with the same regulatory framework. However, survey evidence from the EC Flash Eurobarometer (2018) suggests that, in Belgium, 62% of respondents use sharing platforms on top of traditional channels. This would support the hypothesis of market expansion, where two types of suppliers can co-exist since they focus on different target groups.

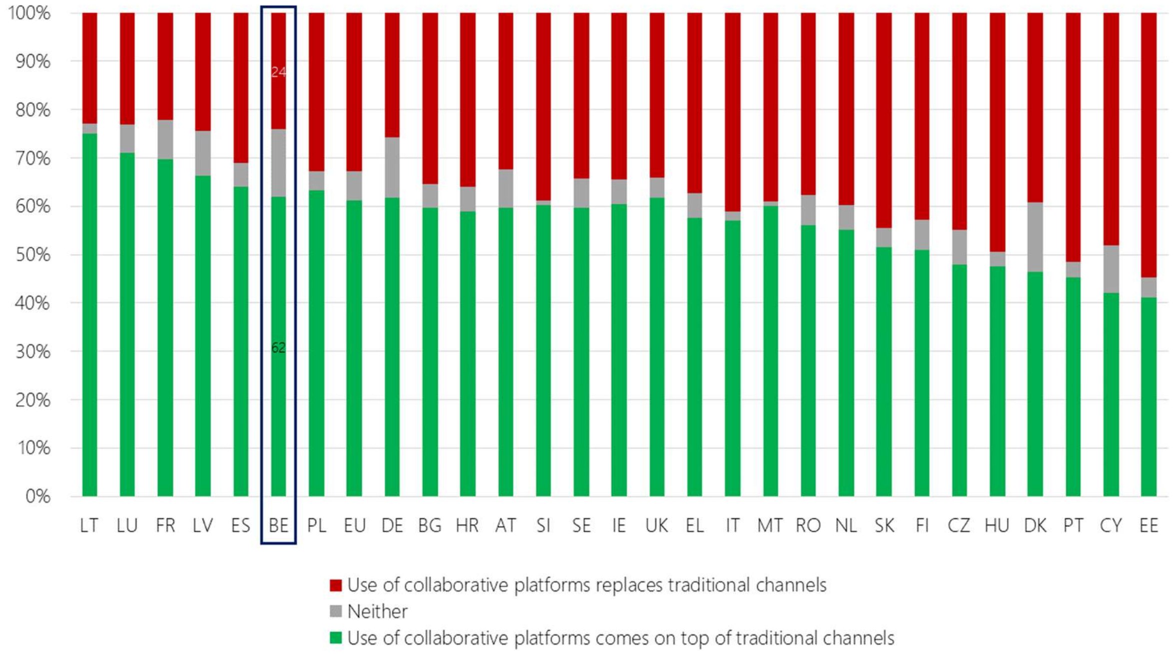
In addition, there is a risk that the continued growth of activities relating to these platforms will be undermined by opposition 'from within': for example, there has already been much discussion in the media about some of the drawbacks of these platforms for sharing-economy workers. The digitalisation of the economy naturally implies a change in the traditional employment relationship. The flexibility of this type of activity generally also comes with volatility (in terms of job security and income). According to a study by the European Parliament (2017), in most cases, those offering goods or services via platforms are in fact self-employed. They are therefore not covered by employment law protection measures applicable to employees, e.g. as regards working time, night work, working conditions, etc. This raises the question as to how existing social security should be adapted or reformed to offer protection to sharing-economy workers too.

All in all, regulatory frameworks are adapting only slowly to the rise of the sharing economy. As regards social security, a key question is whether special rules should apply to sharing-economy workers or whether the existing systems for self-employed workers should be better developed, as a growing share of the workforce will be self-employed. There is also a need for a consumer protection system that applies equally to peer-to-peer relationships.

As regards taxation, a new provision effective from 15 July 2018 accords full tax exemption to supplementary income received by individuals via approved platforms up to an annual maximum of € 6 000. In order to be approved, a platform must meet some conditions. However, those conditions make hardly any distinction between business activities and only concern registration, the registered office and the company number. Considering that it is not compulsory for platforms to apply for such approval, some incomes are still likely to end up in the grey area.

Use of collaborative platforms: complementing or replacing traditional channels?

(in % of respondents)



Source: EC Flash Eurobarometer 467 (2018) – The use of collaborative platforms.

The risk of the absence of a specific framework, and the resulting issues, is that ad-hoc measures may be taken at various levels of power, leading to a mish-mash of regulations that would be anything but conducive to growth. In general, the competent public authorities need to achieve the right balance between ensuring a level playing field while not stifling the expansion and dynamism of the sharing economy with excessive regulation.

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