The Sharing Economy and Consumer Protection Regulation: The Case for Policy Change.

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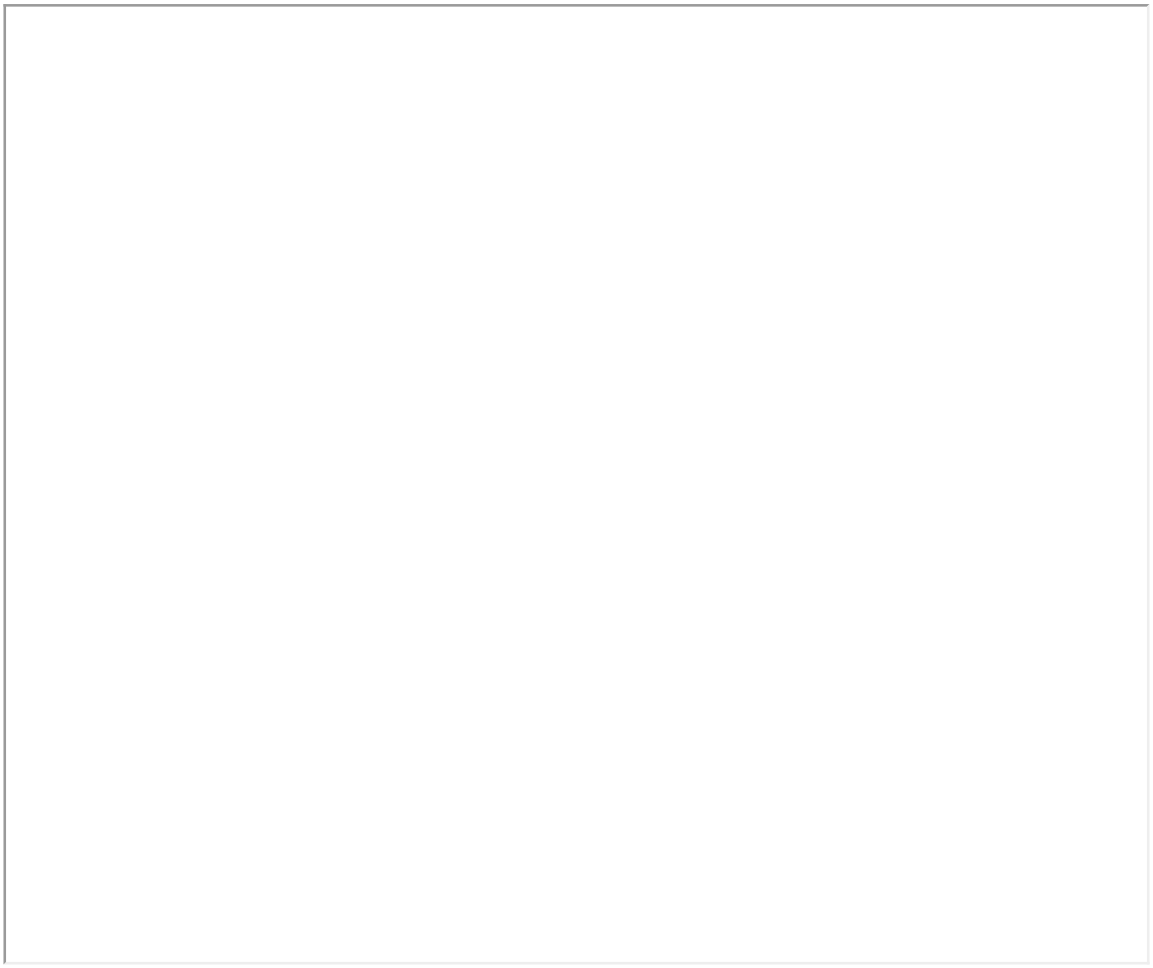
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Why did we select this research?

The rise of the sharing economy has been rapid and transformative. It has changed the way many Americans commute, shop, vacation, and borrow. It has also disrupted long-established industries and has confounded policymakers unsure of how or even whether to regulate these new markets.

Key Findings

- While many regulations are initially justified with the hope they will serve the public interest, the reality is many persist even when they no longer correct any identifiable market failure. As generations of economists, historians, and other scholars have noted, powerful and politically well-connected incumbents have an incentive to “capture” the regulatory system that is supposed to constrain them. This is because, by limiting entry or by raising rivals’ costs, regulations can be useful to the regulated firms. Though regulations often make consumers worse off, they are often sustained by political pressure from consumer advocates because they can be disguised as ‘consumer protection’.
- Regulation often undermines competition, resulting in higher prices, fewer choices, lower quality service, or some combination thereof. In particular, if firms are insulated from competition from new entrants, they can obtain some measure of monopoly or pricing power. This diminishes consumer welfare while enhancing producer profit.
- The internet helps entrepreneurs accomplish several things that regulation has failed to achieve. Specifically, it allows innovators to offer an expanded range of goods and services, greatly expands the information available to consumers, and provides strong reputational incentives for firms to improve the level of service being provided.
- The internet and information technology gives the public access to a broader range of goods and services.
- The internet and information technology offer consumers more information about products and services and empower consumers to come together and act on that information.
- Information technology has facilitated the creation of countless reputational feedback mechanisms across the online ecosystem - such as product rating and review systems - that give consumers a more powerful voice in economic transactions.



Reference

Koopman, C. Mitchell, M. & Thierer, A. (2015) The Sharing Economy and Consumer Protection Regulation: The Case for Policy Change. *The Journal of Business, Entrepreneurship & the Law*, Vol. 8(2): 528-545.

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