

Opening statement to ride sourcing inquiry on 8/9/2016

Regulatory decisions surrounding the ridesharing industry are of critical importance to the Victorian economy because they will set a precedent for the disruptive potential of the sharing economy more broadly.

The most general principle underpinning our submission is the idea of 'permissionless innovation'.

That is, we believe a quality regulatory system, one that deals well with disruptive technologies and business models, is one that enables innovation by default.

In contrast, a permissioned system is one where unnecessary red tape is applied that stifles the potential for entrepreneurs to bring benefits to consumers.

Further, we must remain wary of erecting any regulatory barriers today that will prevent the emergence of new business models tomorrow.

It should be a guiding principle that any definitions and new regulations, if they are enacted, should be broad enough so that it does not exclude new organisational and technological forms which may later emerge.

A second issue permeating the debates on ridesourcing are the concerns over consumer protection and safety.

These legitimate concerns are best examined by asking a deeper question: "why do we regulate point-to-point transport in the first instance?"

The main rationale for the regulation of point-to-point transport is to protect and maintain the safety of the public.

Government intervention to achieve this goal is largely justified on the basis of 'asymmetric information' problems between drivers and passengers - where passengers lack information about the characteristics of drivers.

The traditional solution to such 'market failures' is through government regulation.

However, enabled by new technologies such as the smartphone and GPS, are changing the necessary scope of government intervention by developing new ways to achieve the safety and consumer protection we Victorians desire.

Self-regulation of ridesharing has proved remarkably efficient. For instance, the growth of reputation mechanisms where drivers and riders rate each other, the use of cashless payment systems through the ridesharing platform, and the removal of anonymity issues.

The implication of this technological progress is that governments must reassess the extent to which imposing state-based regulatory action is necessary.

A further contentious issue is the matter of industry transition and the question of compensation.

Licenses are licenses to drive and operate a taxi. They were not invented to be financial instruments, are not government guarantees of returns, or guarantees of a certain level of income. The risk of regulatory changes should be borne by the license holders.

Disruption and change is the natural state of a vibrant, technologically-innovative market economy.

Furthermore, compensation hinders the competitive and evolutionary adjustment of a market-based economy.

We are concerned about the precedent compensation sets for future disruptive innovations, as taxpayers and consumers might be expected to pay for the barriers to economic progress that have been erected in the past.

Allowing incumbent industries to seek compensation for technological change is a dangerous door parliament should not open.

The IPA believes that new business models which uproot traditional markets, break down industry categories, and maximise the use of scarce resources, should be welcomed.

Over-regulation, however, could suppress this potential economic revolution.

Victoria must adopt a deregulatory approach to ridesharing - one that brings down existing barriers without erecting new ones.

Such a 'permissionless innovation' approach will make Victoria an attractive jurisdiction to future entrepreneurial endeavours.

You can read Darcy Allen and Chris Berg's report, [The Sharing Economy: How Over-Regulation Could Destroy an Economic Revolution](#), [here](#).