

## **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](#).*

## OTHER ISSUES NOT IN STATEMENT

### Compensation

#### **On the comparative efficiency of a ridesharing tax**

There will be public establishment costs of setting up new procedures within the SRO.  
There will be private costs to providers, in terms of outlay and in time spent on compliance.

We reject the principle of compensation because license holders should bear the riskiness of the financial investment they have made, and that such a package compensates for the natural process of technological change.

Nevertheless, if we do compensate then we believe this should be funded from consolidated revenue, not from imposing another new tax or levy:

1. The costs of each individual driver complying with such a system may potentially impose substantial red tape;
2. The effects of a tax imposed directly on the point-to-point transport system may be more distortionary due to its impact on relative prices as compared to dispersing that cost more broadly across Victorians;
3. And third, we believe that there is a genuine threat that this will not simply be a temporary levy and may be maintained as some form of continuing industry assistance into the future.

As such, compensation should be funded through consolidated revenue but that this should be administered in such a way of revenue neutrality.

Finally, if we do implement a tax then it is important there are clear and direct boundaries around the extent of such a tax so that the government remains accountable to sticking with that plan.

#### Taxes that hang around:

There is a compelling analogy here with international competition displacing domestic manufacturing. At the federal level, the car manufacturing industry received over \$30 billion of 'transitional' industry assistance between 1997 and 2012, yet the Productivity Commission found that this has "forestalled, but not prevented, the significant structural adjustment facing the industry". Indeed, such support "tends to hinder rather than promote adjustment".

RICHARD HOLDEN REPORT: We also direct the attention of the Committee to a report by Professor Richard holden suggesting that if there is to be compensation, even if it is not economically justified for the reasons I have just outlined, then, that money should come from consolidated revenue not from a new tax. This is because, quoting the report "since the policy is made by government and the beneficiaries are a diffuse and dispersed set of individuals, it is sensible that compensation, in the event it is deemed appropriate, is paid by the government from consolidated revenue."

Remuneration: The ridesharing model should operate outside the jurisdiction of the Fair Work Act, and the committee should not seek to change this through regulation. We firmly believe the decisions about the distribution of fees and charges between riders, drivers and platforms should be left to the voluntary decisions of the market. We must make sure the labor markets and rules of contract are adaptable and flexible.

Data: Ridesourcing is actually providing a new market previously unattainable by the taxi system. Estimates by Deloitte this year (2016) suggest 61 per cent of UberX rides are new to the market.

### Disability

Line:

We are optimistic about the ride sharing market to solve this problem, and ride sharing at it's heart connects drivers with people in need of rides.

Two issues:

- Funding for people with a disability could be provided in various ways: e.g. government tender, voucher system, etc. Ideally, any government provision of funding would empower the consumer or their carer the choice of provider that suits their needs the most.
  
- Regulatory barriers should not be raise that would discourage or prohibit ride sharing operators from being able to compete in this market segment.