

# UBER MARKETS

Uber and Airbnb are part of a wider market revolution changing the way the world does business, writes **Evan Mulholland**.



**EVAN MULHOLLAND**

Media and Communications  
Manager at the Institute  
of Public Affairs.



**T**he last few decades have delivered us a monumental shift in how we receive goods and services.

Disruption has enabled people to get what they want, at a price and delivery time that works for them.

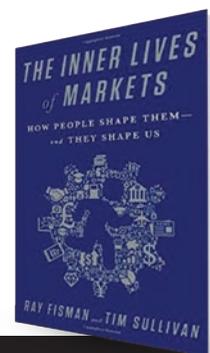
We often delve into issues of markets with an optimistic view of great efficiency and service for people. But with efficiency comes responsibility to the consumer. We are finding that even without regulation and governance arrangements, markets often naturally solve issues of consumer welfare through ratings and reputation.

Markets are ever evolving. In *The Inner Lives of Markets*, Ray Fisman and Tim Sullivan describe how even among the freest of markets and technologies, there are still distinct limitations to meeting genuine customer need without mistreatment by the buyer or the seller.

So as a result of this natural skepticism of the buyer, sellers go out of their way to prove their sense of social good to the buyer. They use the example of how eBay sellers will say that they are going to donate a portion of their sale to charity, and how this is received by the consumer to make them more receptive to the seller.

Our evolving markets are also changing the way we interact and transact. Uber, Airbnb and Google all make up part of this phenomenon, but this technological change can also match patients to hospitals, organ donors to blood type, and formulate distribution methods or aid. These are examples of two-sided markets.

All conversations about markets, especially those with friends interested



**The Inner Lives of Markets:  
How People Shape Them  
and How They Shape Us**

By Ray Fisman and Tim Sullivan

in politics and economics, line up on two sides. One side fears innovation and change and believes pure free markets are a crypto-libertarian plot out to deregulate everything and enslave us all. The other side thinks free markets are the solution to everything and can solve all of the world's problems and more.

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Fisman and Sullivan tell the tale of William Vickrey, a Nobel Prize-winning market revolutionary. He believed that everyday decisions presented a series of optimisation problems to be solved. Vickrey was bemused by the established view of the world as a fully optimised place. Much of his work, as Fisman and Sullivan point out, involved observing apparent deviations from optimised efficiency and then providing solutions.



fascinated to describe, the only task confronting the prospective bidder is figuring out how much he or she would be willing to pay for whatever is on offer.

Although this book focuses on economic examples of this in America, this battle over market forces echoes in Australia too. In February this year, Unions NSW Secretary Mark Morey gave a speech to the ALP conference criticising Labor for going along with Malcolm Turnbull’s innovation agenda, arguing that start-ups can mean a raw deal for workers as they often pay less than established companies and don’t always offer decent employment rights.

This was highlighted again last month when Unions NSW released a report, *Innovation or Exploitation: Busting the Airtasker Myth*. They criticised Airtaskers for using the ‘cloak of innovation to pursue archaic and outdated labour practices’.

For those unaware of Airtasker, it’s an app where you can put up a task, at the price you expect to pay. For example, when I recently moved house I needed some furniture put together, so I put the task description up on Airtasker and said I would be willing to pay up to \$100. Within minutes I had around ten people bidding to build my furniture. Like Uber, people doing the tasks are rated so customers can see if they cast trust the person providing the service. And like Uber, customers are rated by the service providers.

My experience with Airtasker is just one example of structured examples of market fairness being turned on its head. Instead of me competing with fellow buyers, sellers compete for the task that I need done. And in an altered version of the Vickrey auction, I, the consumer, enter the price I think is appropriate.

Technologies such as Uber and Airbnb have operated aggressively outside the regulatory system of state-based taxi and hotel laws.

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Legend has it that Vickrey came up with his model of congestion pricing—allowing prices to fluctuate in real time as a function of whether extra customers are overloading capacity—while commuting on a near empty late-night train home. Vickrey argued that a late night fare should cost much less, making it more attractive to commuters packed into peak hour trains.

We see this model applied today through surge pricing on the ride-sharing Uber app, a modern version of Vickrey’s congestion theory where prices increase when demand is high, smashing through the fully optimised view of many of his colleagues. On Uber, when demand is at a peak, the prices for consumers increase through a surge;

this encourages more drivers to get on the road to take advantage of the extra money they would receive and looks after the consumers who need to get home.

➤ **UNIONS ARE NOT AT ALL PROGRESSIVE IN THEIR OUTLOOK ON WORK. IN THIS CIRCUMSTANCE, THEY ARE STUCK IN THE PAST.**

Vickrey, however, is most famous for his second price sealed-bid auction, now described as the Vickrey auction. This is where the highest bidder pays the runner-up price rather than his own, and the bidder does not know what the other bidders are bidding for the item. As Fishman and Sullivan are



■ Taxi drivers protest against Uber in Toronto, Canada in December 2015 | Shutterstock

Practically everywhere they have launched, governments have had no choice but to deregulate legislative mechanisms to allow for their entry.

Platforms such as Airtasker and Freelancer offer a distinct challenge to Australia's highly regulated workplace relations framework. The cost and accessibility of hiring services like a handyman or a cleaner are regular problems faced by the consumer—just as inflexible hours and underemployment is a huge problem for handymen and cleaners.

Unions NSW criticises Airtasker for encouraging a race to the bottom pitting workers against each other in reverse auctions for work, using the 'independent contractor' label to circumvent minimum wage rates, workers compensation and basic

employee safety nets.

But consumers are voting with their feet, highlighting the impracticalities of regulated industries everywhere. Our over-regulated industrial relations system is no different.

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But it's not just consumers who are better off because of this market advancement; it's the workers. This is what Unions NSW fails to understand. A cleaner for a large company on the

minimum wage can build a profile on Airtasker and clean in her spare time to make some extra money for her family. In the same way, an unskilled young person can deliver for Deliveroo or UberEats simply by owning a bicycle.

Unions are not at all progressive in their outlook on work. In this circumstance, they are stuck in the past. Applications like Freelancer provide forward-looking opportunity and the dignity of work for low skilled workers—prospects that would not be afforded to them under our current industrial relations framework.

Fisman and Sullivan's *The Inner Lives of Markets* provides a detailed, compelling and often witty insight into how markets have shaped the way we live and how we are shaping the markets of tomorrow. 