Edition No. 9

# Rent Me!

**bergsicht**

CHAPTER 1

## Trivial or eminently important?

To some, it's an increasingly popular means of slashing hotel bills and cutting the costs associated with visiting foreign cities and countries; others have decried it as nothing more than a new way of facilitating the spread of bedbugs and lice on an international and intercontinental scale. There are even those who suspect that the "sharing" economy, of which B&B tourism organised via internet platforms is undoubtedly a part, may herald the dawn of a new socio-political era and the long-sought downfall of capitalism: the way they tell it, a new ethos, a new "Generation Y" is emerging whose members are markedly more prudent in their approach to consumption and chattels than their insatiable, hedonistic "Generation X" predecessors. Indeed, by the joy they derive from (occasional and partial) self-denial shall ye know them.

Well, every understatement or exaggeration conceals a grain of truth, and leisure travel, which has already received a massive boost from budget airlines, has undeniably experienced a further fillip from such accommodation options; to this extent, mild social criticism that tars tourists, bugs and lice with the same brush – as both literal and metaphorical bedfellows, as it were – is not entirely wide of the mark. Equally, alert social commentators are not completely wrong in detecting symptoms of saturation among the now adult offspring of the baby boomers; a change in attitudes was long overdue. However, the value of such submissions does not extend much beyond playful philosophising or cultural cud-chewing, not least as anecdotal evidence is no substitute for thorough analysis. We shall attempt to supply the latter in the remarks that follow, as we outline, explain and contextualise the new phenomenon known as the sharing economy.

Is it worth the effort? We think so. In the case of platforms such as Airbnb (accommodation) or Uber (car rides), we may assume that we are dealing with the tip of an iceberg whose true dimensions we can only conjecture, and, as we have already mentioned, we have come to call that iceberg the "sharing" economy. Not only is it set to shape the internet for the next few years, it will also revolutionise vast swathes of our social and economic lives. Indeed, we shall go so far as to suggest that it may not be an iceberg at all, but rather an emerging continent, and one that is here to stay. The time has come to start mapping this *terra incognita*.

CHAPTER 2

## Revolution, not evolution

Those who belong neither to the ranks of Generation X nor Generation Y – in other words, society's more senior citizens – have the privilege of remembering how life used to function without PCs or mobiles, websites or smartphones, tablets or "clouds". This is a privilege inasmuch as it allows them to discern trends and spot differences between yesterday and today with a facility that would presumably elude those for whom the modern state of technology is simply a given.

From the mid-1980s, computing capacity – a resource that previously had been the exclusive preserve of large firms, universities and weighty government agencies – was made available to literally everyone. The PC and the injection of computing power enabled private and/or smaller firms, institutions, associations and the like to enhance their traditional activities, extend their reach and expand their services. Nonetheless, however revolutionary the introduction of the PC might have seemed at the time, it elicited few real changes in business models or private modes of behaviour, save that processes were carried out with considerably greater efficiency and the economies of scale once enjoyed by large providers were relativised by substantially lower costs for computing capacity and storage space. But this was undoubtedly a kind of revolution in its own right, and the PC represents one of the trends in technological progress that has retained its potency to this day, i.e. emancipation from expensive mainframes towards personal micro-computing and/or the practically private ambit of smaller institutions and companies.

Mobile telephony, which had insinuated itself incrementally from the beginning of the 1990s and expanded at breakneck speed after 1995, initially wrought no decisive changes in business model or private behaviour either, except perhaps in the emerging and developing economies, where the mobile handset made a telephone connection a possibility for one and all, and enabled these populations to leapfrog the long and arduous process of building a landline network altogether; the upward trajectory enjoyed by these regions of the world would doubtless have taken longer without the arrival of the cellphone. In the industrialised world – which had no shortage of functioning communications infrastructure – the principal consequence of mobile telephony has been a general surge in the volume of phone calls. It has also significantly extended availability times for economic agents, while promoting a trend away from long-term planning or arrangements in favour of short-term and/or ad hoc decision-making. Portable telephony, augmented with text messages (and later, picture and video messaging as well) has essentially turned an economy and a society that slept at least once in a while into one of round-the-clock availability and decision-making potential – a perpetuum mobile, as it were – in a development that, as it cheerfully murders sleep with Twitter, WhatsApp and other services, has yet to reach its high-water mark.

The internet, with all its immense possibilities, has been working its way into society and the economy for a good 15 years now, and several distinct trends can be discerned. Initially – and this development defined the time before the bursting of the dotcom bubble in 2001 – the internet created a global opportunity for companies and private individuals to present themselves and their undertakings on their own platforms: their home pages. Everything they had previously had to print onto paper and mail to the four corners of the earth (or indeed had not sent, for cost reasons) could now be made available instantly and globally via the web. Not only that, it became possible to remove the dead wood from business models that had previously been freighted with multiple human and technological interfaces and any number of intermediaries, opening them up and deploying them quite literally all over the world. Only those who recognised and understood this new distribution potential would survive and – thanks to the internet and the possibilities it unlocked – go on to surpass, by a huge margin, any commercial success they may have enjoyed in the past. History was less kind to others and they retired from the field. The reduction – indeed the virtual disappearance – of information and transaction costs is unquestionably one of the key characteristics of a trend, clearly attributable to the internet, that essentially allowed manufacturers, downstream production companies and consumers to be linked far more directly. This trend, too, has shaped the operations of every market player to this day: the more directly it is applied, the better, as this cuts out intermediaries' slice of the pie, a core economic priority.

After the implosion of the dotcom bubble, additional, quite different developments occasioned by internet technology and the dramatic reduction in information and transaction costs soon became apparent in the rise of platforms as virtual spaces or territories where people could exchange ideas and receive or provide services. While the multiplicity of such platforms is undeniable, the platform phenomenon as a whole is subject to powerful, heavily centripetal forces and we shall address this matter separately in a later chapter. As was the case with the rise of classic exchange forums in history (the market places of the Middle Ages and the stock exchanges of the modern world), there is a strongly altruistic, indeed cooperative, bent to the genesis of many internet platforms. This is certainly true of today's leading knowledge platforms, such as the Wikipedia internet portal whose innumerable – and continuously updated – entries in 287 languages now contain contributions by thousands upon thousands of unpaid volunteers. Thanks to such unforced labour, Wikipedia has within a very short period of time become the greatest encyclopaedia in history and an archetypal public good, distributing knowledge throughout the world at no charge; it is hard to imagine life without it. Dictionaries like Linguee or Leo, which have long since supplanted the laborious Langenscheidt, have charted a similar course and have even recently learnt to talk, putting the arcane sigils of phonetic spelling out to grass for good. Auction platforms such as Amazon and eBay are a step closer to purely commercial considerations. While not intrinsically charitable organisations, they remain – at first glance, at least – free at the point of use. They finance themselves by providing advertising space for users and taking commissions on transactions. The "business model" of so-called social media platforms such as Facebook or LinkedIn is different again: since the advent of "big data" and various misadventures relating to the NSA, the American intelligence service, we know for a fact that their economic clout is based on the systematic collation of private user data and its monetisation on the advertising market. Many of these commercial platforms are effectively maintaining a public good, which is not a contradiction in itself; it is a phenomenon as old as the hills – take the stock exchanges or market places we have already mentioned, for example.

The wildfire spread of platforms is part and parcel of what might be called "Web 2.0" – a trend that attacked existing business models head-on, eliminating distribution channels, substituting more efficient ways and means, and creating completely new markets and product ranges. Typically, the old principle of "go fetch" is now being enhanced with "come and get it": users are making their self-generated content available to others (sharing), and generally doing it free, gratis and for nothing, as a glance at YouTube makes abundantly clear. The migration of advertising from the traditional media to platforms such as Google or Yahoo, the atrophy of conventional newspaper, book and music publishers, and the enormous popularity of internet services such as Twitter and Facebook conspire to resemble a tectonic shift in a sector that wields much market muscle. A question mark now hangs over the presence of physical bank counters, indeed over the entire network of bank branches or even the existence of supermarkets – and the exponential pace of these developments shows no sign of letting up. This may just be the first chapter in an extremely long and remarkable story.

This leaves smartphones, tablets and "clouds", which represent the convergence of the aforementioned trends in a single, personalised, mobile device. This combination has not only given the PC legs; these pocket-size computers are now capable of accessing unlimited amounts of data – anywhere! – and of actuating all manner of transactions. While many of these gadgets are diminutive, the generous proportions of a tablet screen mean that these particular human/machine interactions are now possible without recourse to a magnifying glass.

So what is the upshot of all this? A situation that allows individuals to make use of virtually unlimited computing capacity for their own ends, without let or hindrance. In other words, the facility to use text and images to communicate with man and machine, even when on the move; to access platforms disseminating knowledge, expertise, goods and services of all kinds 24/7; and to market one's own offering at costs that – in their direct and thus most tangible form at least – are nugatory.

CHAPTER 3

## The micro-economics of the sharing economy

These information and transaction costs, which have fallen to near zero for platform users, also hold the key to deciphering the phenomenon known as the sharing economy. Is the new generation undergoing a sea change in attitudes? Are the thoughts and actions of Generation Y less beholden to "economics"? Or can the phenomenon be described – and its future development thus better anticipated – using the behavioural models of classical economics after all? We take the latter view.

Let us first consider the alleged selfishness inherent in the economic behavioural model of utility maximisation: such a characterisation, however frequently hawked, is simply incorrect. The term "utility maximisation", which is indeed an axiom of microeconomics, tells us absolutely nothing about the kind of utility an individual is attempting to maximise. There are many people who are extremely committed to building a *bonum commune*, and the many wonderful, monumental cathedrals of the past are testament to this (assuming an absence of slave labour, of course …). Wikipedia is no less than a giant – indeed, global – Gothic cathedral of knowledge, shored up by an infinite array of conceptual and linguistic pilasters and flying buttresses, planned by no architect but instead arising spontaneously, as it were, from shared genetic predispositions and presentiments. A comparable case is to be found in Linux, an operating system in a class of its own that was undoubtedly introduced to the world by the Finnish software engineer Linus Torvalds but has since far transcended him; its countless modules are continually evolving and developing, like new apses being appended to a great cathedral over time. Do the freelance masons working on the cathedrals of Wikipedia and Linux belong to a different tribe from *homo oeconomicus*? Not at all. Their preferences merely incline less towards earning and selling and more towards building and extending.

But now let's consider the participants in the sharing economy in a narrower sense: in other words, those who, in exchange for money or in barter for a non-cash equivalent, use a platform such as Airbnb to make their apartment or house, or a part thereof, available for a set period; those who reckon they can do without their car for a while and so make it available to others on a pay-as-you-drive basis; or even those who, whenever time allows, offer chauffeuring services too. Uber, the American platform that provides just such a service, is gaining ground in Europe as well, and the company's managers have already crossed swords with local authorities and the taxi trade. Does the way these self-denying service providers are turning their backs on utility-maximising *homo oeconomicus* really make them "better people"? What nonsense! Anything but: in deriving economic utility from capital to which they have access but which had hitherto been languishing unused, they belong to a particularly business-minded strain. This available capital takes the form of apartments and spare rooms, which can, at least intermittently, be inhabited more intensively (i.e. by more people); of cars that are driven only one or two hours a day and stand idle the rest of the time; of personal leisure hours that could in fact also be spent chauffeuring, and thus earning some pocket money. For us, there is no question that the sharing economy is a free-for-all of micro-entrepreneurs looking to ensure the efficient use of their (sometimes extremely modest, but nonetheless real) capital.

That such things have become possible is closely linked to the dramatic lowering of information and transaction costs and the rise of the platforms that facilitate such exchanges. There have always been B&Bs, just as people have long been trying to set up car-share schemes, and farmers have a long history of pooling resources to buy and run expensive machinery; Switzerland's *Alpgenossenschaft* farming collectives have always been a kind of sharing economy – so there is nothing new under the sun. Or is there? Indeed there is. The realisation of sharing economy models does not require recourse to cooperative structures (which are sub-optimal as regards the allocation of ownership and responsibility), so the sharing approach is ultimately more economically efficient. These platforms – and the reduction of information and transaction costs to next to nothing – make it possible to scale up such models to orders of magnitude that could impact entire economies. We understand that the taxi trade is up in arms against Uber, and the consensus round the hotel-trade campfire seems to be that Airbnb is a threat. *Mirabile dictu*, it's not just student accommodation that's on the market for short-term lets; luxury flats with views of the Spanish Steps or the Eiffel Tower are also up for grabs.

In essence, the virtual elimination of information and transaction costs has spawned opportunities for capital (i.e. its direct use, beneficial use or consumption) to be sliced and diced ever more multifariously and precisely. Thanks to this granularity, providers may tweak their offering to suit their own preferences – on a whim, as it were. You don't need to keep rotating your "rooms to let/no vacancies" sign according to whether or not you are in the mood for welcoming visitors into your home, and, for the moment at least, you don't need to qualify as a taxi driver (if driving is your game), or give notice at your old job and go to work for a taxi licence-holder. Today: mine host with the most, generous to a fault; tomorrow: reclusive hermit with the shutters down – anything's possible with the internet.

The significance of the temporal dimension to the granularity of what's on offer and the real-time tracking of the service provider's preferences should not be underestimated – this goes to the heart of what is new and so compelling about the sharing economy. It is certainly no flash in the pan amid the wider convolutions of the leisure economy, but rather a megatrend whose onset is just becoming apparent. So let's allow ourselves a little more theory: in micro-economic terms, what we are witnessing is the utility allocation of the overcapacity inherent in semi-exclusive private goods. Private goods such as a piece of chocolate or a sandwich are fully exclusive – once eaten, they are gone; cars and apartments that can be made available for shared or multiple use, either selectively (amongst your circle of friends or within a social community, for example) or non-selectively (through an auction procedure or on a "first-come-first-served" basis), are – and this is the point – imperfectly exclusive. Whether you went through with a deal or not used to depend on two cost factors: on one hand, the information and transaction costs, and on the other, the opportunity costs ("Do I feel like it right now?", "Are there better alternatives?"). Technical progress is reducing such questions to the opportunity costs alone, and systems are now capable of adequately reflecting the variations in preferences that play a part in determining such opportunity costs.

Can this really be seen as an incipient megatrend? Let's take a look at a few figures. An article published on 9 April 2014 in the Tages-Anzeiger, a Swiss daily newspaper, suggests that some 4,500 Swiss hosts advertise their homes on Airbnb, 1,000 of which are in Zurich. There are about 4,500 hotel businesses in Switzerland with some 250,000 beds available. In this country at least, Airbnb's share of this market currently amounts to fractions of one percent, but with around 3 million homes, the potentially available space is enormous … By comparison with global hotel chains, Airbnb's 550,000 advertised rooms or apartments currently rank it fifth behind Intercontinental (680,000), Marriott and Hilton (670,000 each) and Wyndham (640,000), and ahead of Starwood (340,000). The Wall Street Journal estimates the value of the firm, which is still privately owned, at approximately USD 10 billion. There have been megatrends with humbler origins.

CHAPTER 4

## What else could we share?

Overcapacity of non-exclusive private goods – so, besides cars and accommodation, what other kinds of capital are condemned to an unused or underused existence? In the spirit of political correctness and suitability for minors, we shall refrain from dwelling on the "sharing" economy merits of the world's oldest profession with respect to the efficient use and allocation of human capital. But things are inevitably pointing in that direction ... In a modern society, where leisure time is increasingly prevailing over work, more and more human capital is becoming available. Sociologists and psychologists lament the loss of meaning in modern life and, if they are right – that is, if the majority of people are essentially at a loose end – then it is highly likely that platforms that seek to find uses for people's leisure time (and these already exist) will flourish. The lines of demarcation between neighbourly help, voluntary work and a part-time job based on barter or non-cash remuneration will become fluid, and here too, the principle of granularity will apply in respect of the materials and time allocated. Today, you'll be mowing the neighbour's lawn, tomorrow, making spaghetti in the old people's home and the day after, getting a back massage at home. Self-evidently, the greatest potential for allocation of unused or underused human capital is to be found amongst pensioners, who are getting healthier and living longer – and who, in the long run, must have something better to do with their leisure hours than clogging up public transport at the most inconvenient times. A clarion call for better allocation of the unused capacity of (existing) human capital is inherent in the verticalisation of western societies to accommodate the co-existence of four generations; we are waiting for an internet app that will simply and easily permit those in the prime of their twilight to post their requests for help, human warmth and other support.

Aside from such instances of the sharing economy, which may well be opening new socio-political doors, we have identified another area where platforms can make great strides into unused or underused territory, and that is in private financial capital and its capacity for risk. We have been observing quasi-banking platforms such as Prosper (USA) or Cashare (Switzerland) for quite some time now. On the demand side, such trends are all about making micro-credit available to businesses; on the supply side, the focus is on facilitating investments that are highly diversified and relatively low-risk, but still financially attractive. Such platforms allow these firms to transform risks, stake sizes and maturities without ever actually "playing banker", i.e. exposing their own balance sheet. The technical term for this is "peer-to-peer" lending; the peers should be in the plural in both cases, however, as algorithmed diversification, and thus atomisation of individual exposure, is the whole point of such platforms. It's interesting to note that these systems piggyback off social networks in order to improve their chances of selecting the "right" kind of clients; a similar development could quite feasibly gain traction in the small loans arena (and why not in mortgage lending, come to think of it?!) in conjunction with existing social networks such as Facebook.

It is hard to gauge whether or not the assumption of insurance risks will be attractive to unused private capital in the same way. Logically, wherever unused private capital is available for risk-hedging, it should be; but assuming insurance risks requires specialised statistical risk assessment as well as strategies to prevent insurance fraud. A customer insuring himself against a risk can initially be sure of only one thing: the certainty of a loss (in the amount of the premium paid). We are yet to be convinced that peer-to-peer insurance can square the circle of highly asymmetrical incentives on both sides. Be that as it may: the sky is pretty much the limit when it comes to co-ownership or co-use of private capital – potentially everything can be shared, from art to parking spots to golf clubs.

The sharing economy will not stop at private individuals and their little stashes of capital. We suspect there is far larger potential to be found among companies – in their tangible assets in the first instance. What stroll around an industrial company hasn't turned up a gaping underuse of machinery? Processing centres that cost millions, most of which lie idle, storage facilities that were planned on far too grand a scale, newspaper presses that could meet the needs of half a country: "sharesies" are still to be found only in homeopathic quantities. The same is probably true of financial capital, large amounts of which companies have famously been squirreling away over the last few years. Why shouldn't it be made available to other companies via algorithmed risk, stake size and maturity transformation? The prerequisite, of course, is that, here too, the right level of granularity must be found in respect of what is offered and for how long, and it must be possible to plot preferences immediately. But one thing is clear: capital allocated in such a way is no longer necessarily obliged to make a detour across a bank's balance sheet.

CHAPTER 5

## What about governance?

Can the sharing economy flourish whatever the conditions? Or are stability, a functioning constitutional state and a critical mass of public order a *sine qua non* for Airbnb-style accommodation services to take root? Or, to turn the question on its head: do such platforms simply rely on the smooth running of a state under the rule of law, without paying for such public goods?

Before answering this question with an unqualified "yes", it is worth taking a closer look at these platforms' "inner governance" (their self-regulation, as it were), for there is such a thing. It is well-known that Airbnb managers regularly arrange incognito test stays with their customers. People who use the programme are invited to share their experiences with the community, and the services advertised on the net sport a rating; this appraisal then complements the photos of the accommodation published on the web. Here, just as with every other area of the internet, the precautionary principle (there is nothing that can't be faked!) should be applied. Peer review is nonetheless an extremely potent means of self-regulation as it engenders an anticipatory effect. It is also worth remembering that conventional hotel services are themselves by no means immune from spoofing. Rumours abound about ancillary companies whose sole purpose is to pen positive reviews for advertised tourist services ... All in all, platforms that take self-regulation seriously will probably have the best chances of survival – and thus the highest stock market listings.

However, a civil society, embedded in a functioning state under the rule of law, is indeed a prerequisite if the sharing economy is to proliferate; it makes quite a difference if the private overnight stay you are planning is in Palermo or Mumbai, as opposed to Oslo or Zurich. This was confirmed by the boss of Sharoo, the most recent car-sharing platform to pop up in Switzerland and a joint venture by Migros, Mobiliar and Mobility (SBB), in a recent (3 October 2014) article in the Tages-Anzeiger: "Trust is a massive issue". However – without a civil society and order promulgated by a state under the rule of law, trust cannot flourish.

And this speaks to the minefield facing most of the services offered within the sharing economy: the relationship that platforms, service providers and their customers enjoy with the state, which in civilised corners of the world forms the backbone of civil society and the rule of law. Airbnb has been forced to reach a settlement with the San Francisco authorities in respect of the collection of visitor taxes, but how much VAT is paid can only be guessed at – most service providers are likely to fall considerably short of the legally stipulated minimum turnovers. And I wonder if they even declare the revenue from stays in their own homes as income? And where do the platforms declare the commissions and advertising revenue they earn? These are serious questions, as there is no doubt that the platforms have a stake in the *bonum commune* and should pay their fair share – no ifs or buts.

The matter of state regulation is less straightforward. It is no secret that both hoteliers and the taxi trade bemoan both the regulatory burden and the inspection and maintenance costs they have to shoulder, while the new service providers have been allowed to prosper unencumbered by any oversight whatsoever. Those who understand the economics of supervision, however, will also know that most restrictions and regulations are not rooted in the state's inherent craving for control, but instead mostly stem from the sector itself. The reason is simple: every additional stipulation allows established businesses to keep the competition at arm's length. The principal purpose of trade associations of every stripe is to maintain – and where possible reinforce – the cartelising aspects of regulation. Or at least this is how lobbying defines itself. It is thus in the nature of the beast that highly regulated sectors of society or the economy – and these include both the hotel and the taxi trade, and, unquestionably, banking to boot – are especially vulnerable to business models that can disrupt the cosy, cartel-like conditions they have engineered for themselves. From the lofty vantage point of an economic agent interested only in greater efficiency, there is no justification for placing growth-hampering bureaucratic hurdles in the path of the sharing economy simply in order to prolong the life of such cartels.

CHAPTER 6

## Deflation and dispute?

We began our observations on the sharing economy with anecdotal examples of hotel stays in popular tourist destinations and taxi journeys in populous city locations, before drilling down to a much more fundamental level in order to identify micro-economic characteristics and touch on underlying fiscal and regulatory conditions. In the following, we would like to turn our attentions to two macro-economic considerations.

The first concerns the question of what significance the (in our opinion, highly likely) expansion of the sharing economy will have for business as a whole. Will it galvanise the economy? Will it create new jobs? Will interest rates rise as a result? Will there be opportunities for investors? Well, we think the situation is going to be similar to the beginning of the 1990s, when whole new continents were unveiled to the world economy in the wake of the implosion of the Soviet bloc, and globalisation was able to spread its wings across this newly expanded world as a result of the communications and internet revolution. A further, real supply-side shock will be delivered as previously unavailable capacity reaches the market – with correspondingly deflationary consequences. Airbnb stays cost between a quarter and half as much as occupying a hotel room of the same rating and the savings on Uber journeys are of a similar order. Sharoo intends to provide a Mini for 10 CHF per hour and/or 60 CHF per day. There is no doubt that some will lose out in the throes of such structural change – hotels that are already operating on the knife-edge between profit and loss, for example (and who have no particular right to survival in that they are bereft of beauty, charm, cleanliness or cosiness); or the cookie-cutter car-hire firms that can all be equally relied upon to have just rented out the very last car of the model you had espied on their website and had set your heart on; or the banks, whose money transfer business is slipping between their fingers thanks to the transactional capabilities of the smartphone, and whose balance-sheet business is under threat from peer-to-peer lending. Will this trend create any new jobs? Yes and no. Where inefficiency is eliminated, companies that have become obsolete will disappear. Where human capital engages in work in its leisure time, no actual "jobs" are created, but rather "occupations" for sole traders, i.e. self-employment for freelancers. However, as the efficiency attained promotes the overall productivity of a society and by those terms generates growth, we can nonetheless assume that the net impact on job creation will be positive. Will interest rates rise? No. Economic growth will take place against a deflationary backdrop and in any case will be barely discernible as such for a considerable time as the usual measuring techniques fall short of private households. Will there be opportunities for investors? Yes – you can always short-sell shares in hotel chains and car-hire firms, or possibly even car manufacturers.

The second consideration concerns the position occupied by certain platforms. These enablers of the sharing economy are critically important. Previous experience and the evidence of particular web-based platform providers suggest that some of them enjoy a natural monopoly. A natural monopoly comes about when enormously high fixed costs and extremely low marginal costs create a situation in which the overall cost of providing goods is cheaper with only one provider than if several providers were to compete for a share in the demand for those goods. On the internet, the block of fixed costs effectively equates to leading the field in data collection; a second or third-placed provider will in fact never be able to catch up. The industry watchword "winner takes all" sums up the monopolistic situation neatly, but how you become the "winner" is probably a matter of chance. It is, however, highly likely that you won't reach the top of the heap – which is not to say that there are not plenty of people trying, in a sector still permeated by a distinctly "gold rush" atmosphere … It goes without saying that a natural monopoly may well be a licence to print money.

Societies and politicians have thus always had a highly ambivalent relationship with natural monopolies – one need think only of the history of the railway or telephone companies. Holders of natural monopolies lie open to the accusation that there is something parasitic about the way they rake in the return on their exclusive position, and Mathias Döpfner, the CEO of publisher Axel Springer, has recently made just such a point – couched in entirely civil terms, but no less unequivocal in its import – about the untrammelled power of Google, the meta-platform that towers head and shoulders over all others (FAZ, 16 April 2014). He called on the American company to exercise self-restraint in its own interest, before a "heavyweight politician" beats them to it and "calls for Google's breakup". There is indeed no getting round Google these days. The search engine we all click on countless times a day for our updates boasts a global market share of 88 % (compare Yahoo's 4 %); the Android mobile telephony system belonging to Google holds somewhere north of 80% of the market (Apple is on 15 %); the Google browser Chrome is steadily creeping up on its current competitors Internet Explorer, Firefox and Safari; and, with a global market share of more than 30 %, Google is clearly also leading the field in advertising (Adwords). A service provider that fails to climb the rankings in Google by whatever means possible has only a slim chance of reaching the sunlit uplands of success, and it is this "climbing the rankings" – by whatever means – that has become the biggest bone of contention, as Google algorithmically privileges its own palette of services and sets monopolistic prices for its ranking fees. In a letter to the Financial Times (5 September 2014) that claimed the search engine is nothing more than a service offered to internet users, Google's CEO, Eric Schmidt, laconically remarked that nobody was forced to use it: Google is not the "gateway to the internet"; there are always "other providers".

As this is a new and highly complex field, the many and various antitrust authorities – who in principle have plenty of sophisticated and stringent legislation at their disposal and have shown themselves unabashed about cavilling on the ninth part of a hair in other areas of the economy – have been relatively inept in their response. An antitrust investigation opened against Google by the European Union in November 2010 concluded in May 2012 that there were four areas of critical concern (including the one described above). The third round of the investigation, under the aegis of Commissioner Almunia, took place in September 2014, with no prospect of finding a solution to the problems. As a result of all this, the new EU Commission, with its new leader at the helm, will probably now have to go back to square one as the political pressure gauge continues to rise. As with other natural monopolies throughout history, one might be tempted to conclude that the Google case is an accident waiting to happen.

CHAPTER 7

## Internet 3.0: socio-political process

Precisely because we believe the sharing economy to be anything but a passing fad in the disparate universe of internet developments and applications; because we believe that greater temporal and material granularity, combined with the possibility of mapping highly individualised and ephemeral preferences, will lead to a massive expansion in the exploitation of existing capital stock; because we anticipate that many business models previously thought inviolate will begin to feel the pinch, resulting in bankruptcies and redundancies; because we are aware of the significance of platforms in bringing this new class of micro-entrepreneurs into being, we suggest paying very close attention indeed to this trend.

For one thing, the palpable euphoria surrounding it should be met with a healthy dose of scepticism. In the broader context of more recent developments on the internet, we have recently beheld stock-market flotations that are reminiscent of the best of times before the dotcom bubble burst. Rocket Internet, Zalando and others continue to forge ahead with assembling the block of fixed costs that befits a natural monopoly, but are now being quoted at prices that suggest they have already achieved this status. Things were like that in railway construction as well, once upon a time, and it is far from certain that sufficient total returns can be generated when marginal costs are close to zero; these companies have never yet made it into the black. We see two possible outcomes: either such platforms are ultimately no more than intermediaries in the classical sense (in which case they will have to eke out their paltry economic existence as one competitor among many) or they will become genuine "winners" – at which point their heads will be above the political parapet.

Furthermore, we recommend taking the ramifications of the sharing economy very seriously. What is unfolding is essentially the culmination of everything that technological progress has brought us over the last 40 years: unlimited computing capacity on an individual level combined with an opportunity to exploit all and any of the free capacity such an individual might have lying fallow. The economic and social consequences can only be guessed at, but one thing is already certain: all previous moulds of socio-political discourse (e. g. left/right or progressive/conservative) will be broken.

The monopolistic position of the likes of Google is thus a thorn in the side of more than just those directly affected, such as Mathias Döpfner, and criticism of such events may take an extremely fundamental turn. In preparing this commentary, we were reminded of an interview with the German-Korean philosopher Byung-Chul Han (Zeit Online, 05/2014) in which he mourns the loss of liberty occasioned by the sharing economy. The exploitation of others for which the capitalist system has been criticised has now been supplanted by exploitation of the self – and under the banner of volition and the fig-leaf of freedom, no less. Ways must be found to protect people from what they want. This is far-reaching and radical thinking, although unfortunately the sage misses a trick in neglecting to explore the exceptional position of the platforms that enable such self-exploitation. Nonetheless, if such unmistakable unease is growing across the political spectrum – from those on the right, along the Axel-Springer-Strasse, to those a good way off to the left in Prenzlauer Berg – it is not without some relevance to current affairs.

For our part, we have reservations about the pertinence of the capitalist model to platforms that have so blatantly achieved monopoly status or are systemically programmed to achieve it. Market places are predicated on a degree of equality and a certain solidarity amongst participants, and the capitalist corporate model is at odds with such values and endeavours. The logical consequence of striving to achieve the greatest possible return on investment is self-preference (*vide* Google). Because they tended to be more compatible with politics, cooperative approaches, such as those once the default solution for stock exchanges, may ultimately have been a better option than the organisational structure of the joint-stock company introduced thereafter.

The second age of the internet, with its principal feature the irresistible rise of large platforms, is approaching its apogee, and the third age will principally be beset by questions of governance. Who will be allowed to do what, and with which data? What level of influence can be countenanced and what will be considered beyond the pale? To what extent can "self-exploitation" be abetted? To whom should the monopoly profits netted by the middlemen be rendered? Plenty of food for thought – to be shared with others.

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