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Invited Testimony of Josiah Neeley
Texas House Committee on Economic and Small Business Development
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Good morning. My name is Josiah Neeley and I am the Texas director for the R Street Institute, which is a nonpartisan research organization. The R Street Institute has done extensive research on the sharing economy, also known as the peer-production economy. We put out a yearly Ridescore report that ranks the 50 largest cities in terms of vehicle-for-hire regulation and a yearly Roomscore report that assesses regulation of short-term rentals in large cities and popular tourist destinations.

Most of the discussion of the sharing economy has focused on two particular industries: ridesharing and short-term rentals. But it is important to note that both the potential and the reality of the sharing economy extends far beyond these areas. The largest sharing-economy company, for example, is not Uber or Airbnb, but eBay. Successful sharing-economy companies range from Etsy, which has created a massive international market for crafts, to TaskRabbit, which provides a market for simple home repairs, moving help and errands, to EatWith, which allows people to open their homes as "restaurants" for an occasional meal.

What all these companies have in common is that they use new technologies to connect buyers and sellers, while vastly reducing the overhead and transaction costs that traditionally have required these services to be done through middlemen. According to the U.S. Department of Commerce, sharing-economy companies typically exhibit the following characteristics:

1) They use information technology, such as web-based platforms or mobile "apps," to facilitate peer-to-peer transactions.
2) They rely on user-based rating systems for quality control.
3) They offer worker flexibility in terms of deciding working hours.
4) To the extent that tools or assets are necessary to provide a service, workers own these assets.

Unsurprisingly, the size of the sharing economy is substantial, and has enormous potential for growth. This is particularly true when one considers that most Americans have yet to engage in the sharing economy personally. A recent survey by

PWC found that 18 percent of Americans have used one of the major sharing economy services as consumers, while 7 percent of the U.S. population has provided services via the sharing economy. Based on the these soon-to-be tapped markets, global revenues of the major sharing-economy sectors are expected to increase from roughly $15 billion in 2014 to around $335 billion by 2025.

The expansion of new alternatives for consumers is a boon to the economy. The added competition from the sharing economy will, of course, put pressure on some existing companies to adapt if they want to continue to be successful. Revenues for taxicab companies, for example, have fallen considerably after the introduction of ridesharing services in some localities.

It is important to note that sharing economy companies often appeal to different market segments than traditional services. For example, a recent study from Boston University found the introduction of Airbnb into the Austin market was associated with an 8-10 percent decrease in hotel revenue. This decrease, however, was "non-uniformly distributed, with lower-priced hotels and those hotels not catering to business travelers being the most affected." In other words, short-term rentals may appeal to families on vacation, while hotels remain a better fit for most business travelers.

Given the potential benefits of the sharing economy for Texas, the state should not seek to limit the entry of new business models by passing restrictive regulation, and should seek to eliminate existing regulations that have the same effect. The state should also be prepared to step in when localities try to block new entry into a marketplace in favor of incumbent companies.

I would be happy to answer any questions.