

The “App Economy” versus Vested Interests

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Main objectives to research:

- 1) To theorize industrial relationship between new (“app” or “gig” or “cognitive”) economy and vested interests who have rents (above normal profits) to lose due to *creative destruction* brought on by new economy competition
- 2) To give several specific and topical examples of suppression of new economy by vested interests as predicted by our theory
- 3) Extend the research showing how dominant firms may be engaging in rent-seeking, as would a public choice model predict

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We know from work of Oliver E. Williamson that many real world markets are not perfect competition, but rather are specific to a time and place, with strong relationships built through trade and common-interests.

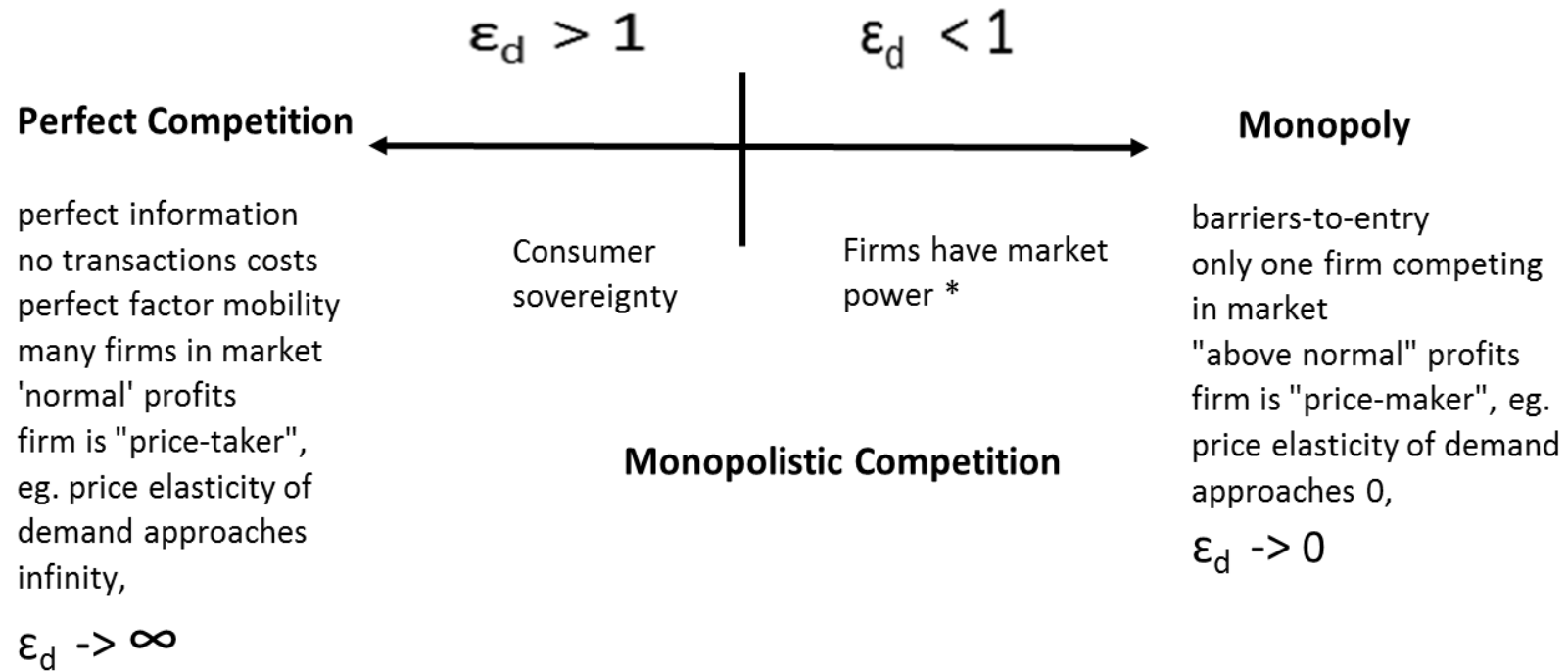
In other words factors of production are not “perfectly” mobile but rather embedded in social relations, creating “asset specificity”.

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“Asset specificity” can encourage rent-seeking as self-interest can include skewing public policy towards protectionism and maintenance of market power without value-creation.

One main form that rent-seeking takes is creating barriers-to-entry for those who would like to compete against these then (vested interests) protected oligopolies.

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* Nutter and Eihorn 1969 show that firms with consistent above normal profits in the long-term do so because they are granted special treatment under regulation giving them market power. **Any more recent citations?**

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New economy is threat to well-organized special interests as is decentralized and therefore hard to tax, regulate and labor-organize.



Photo of anti-rideshare taxi strike in downtown London, September 2015

In September 2016 London Mayor Sadiq Khan announces a £65m program for London's black cabs to include subsidies for new vehicle purchases and a city-provided and paid-for cab app. In addition 20 new London bus lanes are added, which can be used by black cabs but not rideshare drivers (*The Telegraph* 2016).

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Examples of Apps v. Vested Interests

App

Vested Interests Opposed

Uber, Lyft

Taxi unions; city politicians, finance and regulatory authorities; public transportation unions

Airbnb

Hotel lobby associations; hotel worker labor unions; public housing and finance authorities; city politicians and regulatory authorities

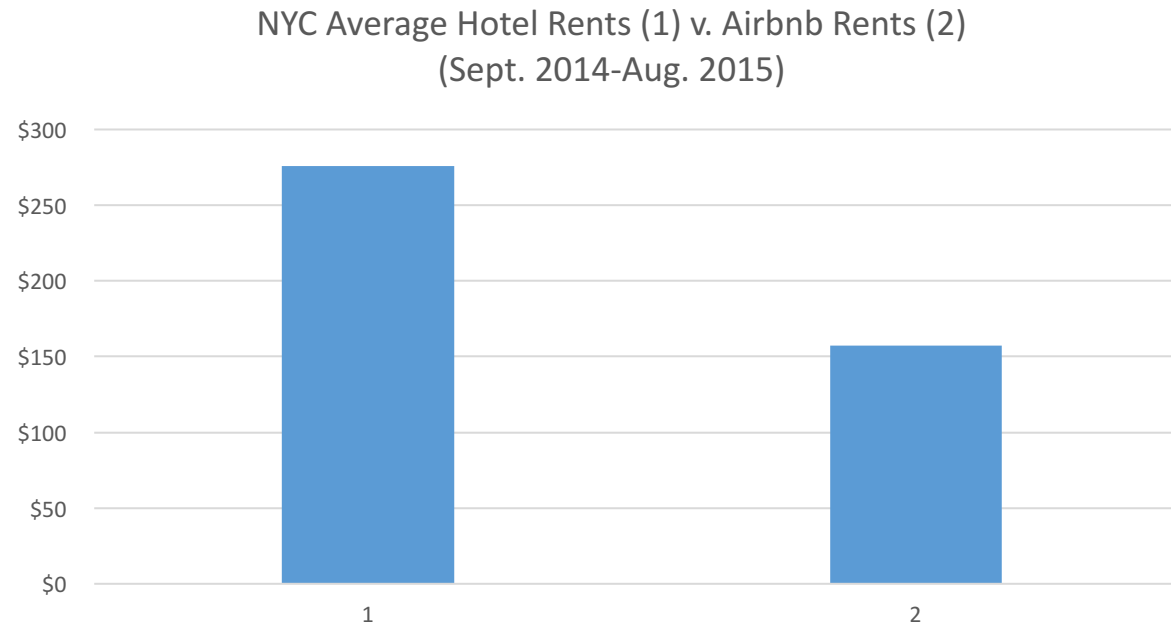
Youtube

Recording Industry Association of America; songwriter guilds; corporations with rent-seeking intellectual property rights protection

Bitcoin and other crypto currencies

Central banks, treasury departments, commercial banks

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One complaint made against Airbnb is that this platform increases the cost of visiting New York (and therefore housing prices in NYC), relative to hotels. This is not true.

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Examples of vested interest actions against new economy:

Paris taxi strikes and riots against Uber

San Francisco fines against Airbnb (service vs. platform)

New York law against medium term rental advertisements

US IRS declaration of Bitcoin as asset and summons to Coinbase for release of names of all Bitcoin users

London’s plan to promote “black cab” taxi-drivers as public transportation with subsidies

EU fines against Google for “monopoly” behaviour

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More recent examples of actions against new economy:

“New York City Limits Growth of Ride-Hailing: A Cap on Uber and Lyft, Council Votes to Restrict Vehicles and Set Pay Rules for Drivers” *NYT*, August 9, 2018.

“San Francisco Rejects Deals for Scooters to Disrupters”, *NYT*, August 31, 2018.

“‘Overtourism’ and the Role of Technology”, *NYT*, August 30, 2018.

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Eventually the dominant firms engage in rent-seeking in the form of regulatory capture:

“Airbnb’s charity case: \$10m to show how it could aid city”, *NY Post*, August 16, 2018.

“Uber and Lyft Are Begging Government for a Monopoly on Self-Driving Cars: From free-market upstarts to incumbent cronies?”, FEE, March 01, 2018.

“The Zuckerberg Hearings Prove Government Shouldn't Regulate Facebook: The answer to the outrage mob isn't for the government to help Facebook entrench its position with some cronyistic regulation”, FEE, April 15, 2018

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Conclusion One:

As theorized and shown with examples we are in a new, app, economy where entrepreneurship / independent contracting is changing labor relationships and transaction costs in certain industries, moving these service sectors towards more perfect competition and therefore resulting in increasing standards of living.

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Conclusion One (cont.):

Further to the new economy moving towards more perfect competition and therefore resulting in increasing standards of living...

One theory for why there has not been increased CPI inflation as expected with the unprecedented monetary easing since the Financial Crisis of 2008 (only recently being tapered) is that new economy technological advance (especially Amazon) has reduced consumer prices.

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Conclusion Two:

The internet revolution is occurring with or without the concurrence of the state. An intelligent state might seek ways to gain as well from the tech revolution. This might start by allowing more competition and negotiation and less regime-specific lawsuits, regulatory burdens and labor blockages and even riots in certain cases.

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<https://www.youtube.com/watch?v=WfJQmuYIFCg>

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Thank you.