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Chairman Graves, Ranking Member Velázquez, Members of the Committee, I appreciate the opportunity to share with you this afternoon some thoughts on the economic context for peer-to-peer business models.

In 1988, a quarter century ago, I drove a stranger's Nissan Sentra from Washington, DC, to Seattle, WA. In the process I earned $250, with the added bonus of moving both myself and my stuff across the country. The vehicle's owner made out well too; she got her car transported 3,000 miles for less money than she would have had to pay for a commercial service, and certainly at a lower opportunity cost of time than she would have incurred if she drove the car herself.

Peer-to-peer. Win-win.

This personal anecdote is intended to support my first point, which is that peer-to-peer businesses were around long before the Internet. Indeed, there was a time in this country and elsewhere in the world (roughly until the end of the 19th century) when the peer-to-peer economy *was* the economy. Large corporations providing consumer services simply did not exist. Regulation governing consumer services was minimal. People provided services on a personal basis to other people who were very much like them.

There were no call centers, no focus groups or strategic planning retreats. The archetypal entrepreneur hung up a shingle on Main Street. While not to be taken literally, this image correctly reflects a world in which barriers to entrepreneurial entry were very low.

Markets in the 19^{th}-century and earlier were not the anonymous and abstract entities they sometimes appear to be today. They were physical spaces where people met to exchange items that, in many cases, they themselves had created or harvested. This of course is what markets are fundamentally about: realizing the productive possibilities of *people.*

At its human core, then, the peer-to-peer or "sharing" economy is not a new phenomenon. Were Alexis de Tocqueville to write about the United States of today he likely would see a distinctly American character in the peer-to-peer businesses such as Sidecar and 1000Tools. The question is, therefore, whether there is anything fundamentally new about the sorts of peer-to-peer businesses that have been proliferating in the past five years. The answer is yes. The difference between the past and the present is the platforms over which people find one another, conclude transactions, and establish reputations.

The triad of revolutions in computation, communications, and algorithmic power that have unfolded over the past half-century have, as we have been hearing, dramatically lowered the costs of finding the provider of a service, assessing their reliability, and concluding a contract to engage their services.[1] Two decades ago, the first Internet commerce companies brought consumer markets into new "virtual" spaces. Companies like eBay and Amazon (via Amazon Marketplace) made it newly possible for regular folks to find and exchange goods across large distances. Peer-to-peer businesses employ the same sort of powerful platforms to enable the exchange of services. Since services make up more than 84% of the economy, this is a big deal.

My colleague Lisa Gansky, author of *The Mesh* and cofounder of the photo-sharing site Ofoto, illustrates the popularity of peer-to-peer business models by comparing the Intercontinental Hotel chain with the room-sharing site Airbnb. Intercontinental Hotels have been around for 62 years, and they have an inventory of 650,000 hotel rooms of which they own 100%. In contrast, Airbnb has been around for five years and has an inventory of 500,000 listings, of which it owns 0%. This means that Airbnb has unlocked latent assets comparable to 62 years of cumulative investment within the corporate world, and it has done so with essentially no capital outlay beyond its investment in the platform itself.

In 1988, when I took the trip in the Nissan Sentra to which I alluded at the outset, the costs of finding a car-sharing match were sufficiently large that the relevant peer-to-peer services were limited to trips across the country. Today, costs have dropped to the

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[1] Butler, Patrick, Ted W. Hall, Alistair M. Hanna, Lenny Mendonca, Byron Auguste, James Manyika, and Anupam Sahay, "A Revolution in Interaction," *McKinsey Quarterly* no. 1 (1997): 4-23.

point that using peer-to-peer car-sharing services makes sense for trips across town or down the street.

Participants in peer-to-peer marketplaces are clearly drawn by the straightforward gains from trade that are made possible by lower search and transactions costs. Simply put, buyers pay less than they would without the service, and sellers earn more—if only because they often would not be able to bring their service to market without the peer-to-peer platform.[2] Furthermore, buyers have access to previously unavailable options in the marketplace, while sellers have opportunities to diversify their sources of income and increase their financial resilience.

Buyers and sellers alike also report deriving a Tocquevillian satisfaction from participating in such markets.[3] They enjoy exchanging services on peer-to-peer platforms not just for the pecuniary benefits they derive but also for the sense of connectedness they experience with others in a community. In some cases these communities are geographically defined, in others they are organized by areas of interest. Such

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[2] See, for example, Etsy, “Redefining Entrepreneurship: Etsy Sellers’ Economic Impact” (2010). https://www.etsy.com/blog/news/files/2013/11/Etsy_Redefining-Entrepreneurship_November-2013.pdf

[3] See, for example, Sonari Glinton, “For Ridesharing Apps Like Lyft, Commerce Is A Community,” National Public Radio: All Tech Considered (2013). http://www.npr.org/blogs/alltechconsidered/2013/11/14/245242805/for-ridesharing-apps-like-lyft-commerce-is-a-community

connections themselves have economic value, as informal relationships built across social and geographical boundaries create what sociologists have come to term "weak ties," which can materially enhance the success of entrepreneurial ventures and other collaborative undertakings.[4]

Of course, new business models that gain market acceptance almost invariably invite challenges from incumbents. New peer-to-peer businesses are no exception. Wherever peer-to-peer platforms have gained traction across the country, regulatory challenges have followed. Invoking regulatory equity, for example, taxi drivers have sought to slow the growth of car- and ride-sharing services like Sidecar. Invoking consumer safety and production, hotel and restaurant owners, respectively, have sought to slow the growth of room-sharing services like Airbnb and the proliferation of food trucks in urban areas that has been accelerated by ratings platforms such as Yelp. These, of course, are largely local issues.

So what does all this mean for the formulation of policy at the federal level?

From the standpoint of the United States Congress, the peer-to-peer business models that matter are the ones we've not yet seen.

It is instructive to ask ourselves why we are focused today on local transportation, hospitality, food service, and the rental of consumer goods as the most significant domains of innovation in peer-to-peer business models. The reason, arguably, is that

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[4] Granovetter, Mark S. "The Strength of Weak Ties." *American Journal of Sociology* 78, no. 6 (May 1, 1973): 1360–1380.

these are industries in which regulatory complexity is relative low. In contrast, there has been relatively little innovation of peer-to-peer business models within healthcare, energy, and education, where regulatory complexity is relatively high. These three industries together comprise more than a quarter of U.S. GDP. The greatest macroeconomic impact of peer-to-peer business models for the United States thus will be realized when we have established the training, certification, licensing, and auditing mechanisms at all levels of government that allow neighbors to earn their livelihoods by taking care of neighbors, and by providing power to their communities and offering validated, work-relevant training to people anywhere who seek expanded opportunities.

In more general terms, the bottom line is this: shared prosperity requires not only innovations that scale-*up* to create new wealth but also innovations that scale-*out* to create new opportunities.

Let me be very clear on this point. Much of my own work, as well as important research conducted over the past decade at the Kauffman Foundation in Kansas City with which I have been affiliated, is about the value to society of scale-*up* innovation—particularly via new entrepreneurial entrants. This research has demonstrated that the small proportion of new ventures that scale-up rapidly are responsible for a disproportionate share of value creation in the economy.

But here's the problem we've run into: while some scale-ups create a large number of new jobs, many do not. Companies like Apple, Google, Facebook, Instagram, and Twitter have all achieved valuations in the tens and even hundreds of billions of dollars, but they directly employ far fewer people per dollar of revenue than their Fortune 500 counterparts did a generation ago.

This is where peer-to-peer platforms come into play. By their very structure, peer-to-peer platforms scale-out success to reach tens of thousands, even hundreds of thousands, of people with opportunities to create viable livelihoods for themselves. They create new and enticing invitations to latent producers within the economy to employ their individual assets[5] and talents[6] to create new economic value.

The significance of peer-to-peer business models thus is not effectively measured by adding up the share of GDP they represent in terms of monetized transactions. These innovations in work are rushing in at the fringes of the advanced economies to fill the void left behind as large corporations continue to "lean up"—that is, to shrink their payrolls by employing algorithms and machines to perform routine tasks previously performed by people. As Gansky puts it, "We're in a period of exploration. While we might be looking at a relatively small magnitude of overall economic activity now in the peer-to-peer economy, it's happening at a time when all the tried-and-true industries are going through significant transformations." Steven Straus, former managing director of the Center for Economic Transformation at the New York City Economic Development Corporation, looks at the same phenomenon from the standpoint of service providers: "We currently have about three job seekers for every available job and 11 million people looking for work—so the growth of the sharing economy isn't surprising."

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[5] See, for example, Lyft, Sidecar, and Airbnb.

[6] See, for example, Task Rabbit, Zaarly, and Mealku.

In the coming decades, the United States and other advanced industrialized economies will no sooner return to the routinized, manufacturing-centric economy of the 20th century than to the agrarian economy that preceded it. The issue is not whether new livelihoods based on peer-to-peer business models are better or worse than the Industrial Age jobs that are disappearing from large corporations. The real point is that when jobs are eliminated in the process of digital disruption, they will not be coming back in their old form. As that happens, we humans have no choice but to fall back on our fundamental social skill set: creating and sharing with one another. There is, however, one big difference: unlike our isolated ancestors of millennia past, Americans in this century are empowered by architectures of collaboration that allow for the creation of new and diverse livelihoods at unprecedented rates. Therein lies the potential of today's peer-to-peer economy.