WILL A NEW CONGRESS HIT THE BRAKES ON INNOVATION?

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KEY FINDINGS

Being critical of the peer-to-peer economy has not stopped candidates and elected officials from using the services it provides.

It remains to be seen if the specter of corporate welfare and protectionism will play out in regards to the peer-to-peer economy.

The use of the peer-to-peer economy by Congress is on track to drastically outpace the last election cycle.

By a factor of four to three, Democrats are using ridesharing more than their Republican colleagues.

INTRODUCTION

Freedom Partners Institute believes that individuals hold the key to their own success, provided government does not get in the way of innovation or create artificial barriers to opportunity. Over the course of our country's history, though, we have seen this play out again and again.

Most recently, Americans saw this at the federal and state levels in the emerging peer-to-peer economy. Enabled by technology, individuals are able to create value for themselves in the simplest of ways. Whether it is by providing transportation with Uber and Lyft, renting out a spare bedroom through Airbnb or supplying a family with groceries through Instacart, we have seen both the rapid growth of an industry and increased opportunity for all Americans. However, with this growth has come the threat of government interference.

Furthermore, history has shown that entrenched special interests and businesses have used federal rules and legislation to fight back against new competition. It is our responsibility to prevent policy makers at all levels from allowing businesses to hide behind regulations instead of improving their products and services.

While to date there has not been substantial federal regulation of the peer-to-peer economy, federal, state, and local policy makers have indicated their support for reclassifying workers, imposing more stringent licensing processes, and outright barring these new, innovative competitors from operating.

Federally, U.S. Senator Mark Warner (D-VA) has stated the necessity for regulators to pass federal guidelines to provide clarity for states, while Democratic presidential candidate Hillary Clinton has stressed the importance of government defining what a "good job will look like in the future."

Looking at Federal Election Commission (FEC) campaign filings, this paper highlights congressional campaign committees' use of ridesharing services, as well as examines candidate rhetoric surrounding these issues. Based on our analysis, we draw some basic conclusions on how peer-to-peer services have transformed the transportation industry and how these leaders' consumption habits prove its convenience. From there, we show how those who have spoken out against these services—and the consequential state- and local-level actions that have followed—give us cause for concern.[1]

While it remains to be seen whether or not we will see the specter of corporate welfare and protectionism play out in the peer-to-peer economy, it is important that we shine a light on the opportunity regulators have to support innovative entrepreneurship. It is our hope that policy makers at all levels will realize government should be encouraging the growth of a new industry, not hindering the success of the people it benefits. And the easiest way for them to do that is to simply get out of the way.

> **“IT REMAINS TO BE SEEN WHETHER OR NOT WE WILL SEE THE SPECTER OF CORPORATE WELFARE AND PROTECTIONISM PLAY OUT IN THE PEER-TO-PEER ECONOMY.”**

THE FINDINGS

During the 2014 election cycle, FEC filings show ridesharing services like Uber and Lyft grew their market share and became the dominant provider of low-dollar rides for congressional campaign committees (Figure 1). These groups captured more than 35 times the volume observed over the 2012 cycle, while taxi groups dropped to only 40 percent of the total market share.

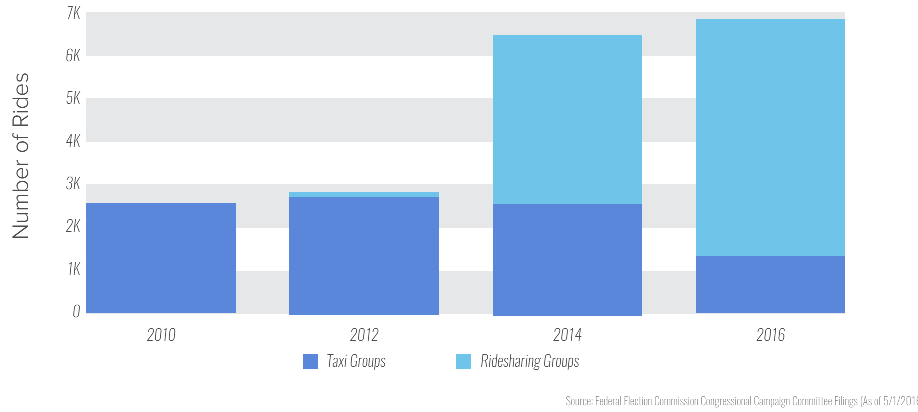
Moving into the 2016 election cycle,

ridesharing has already surpassed the number of similar rides taken during last three cycles combined. These groups dominate the total amount of trips taken in 2016, representing more than 80 percent of total rides appearing in campaign committee filings. Conversely, the share of traditional taxi rides continues to decrease, representing a meager one out of every five rides taken so far during the 2016 cycle, an 80 percent drop in market share from 2012.

It is also worth noting that from when ridesharing came on the scene in 2012 up to May of this year, it has not only over taken taxi's market share by leaps and bounds, but has expanded the overall size of the ride services market by 136 percent. In doing so it has created jobs and opportunities for people where none existed before. This type of innovation and growth should be rewarded and encouraged not stifled.

What makes the congressional campaign transportation market unique is that it is closely monitored and observable through government data. However, increased use of peer-to-peer services is not limited to campaign committees, and similar trends are being observed across the business community.

Figure 1: Ridesharing Groups vs. Taxi Groups

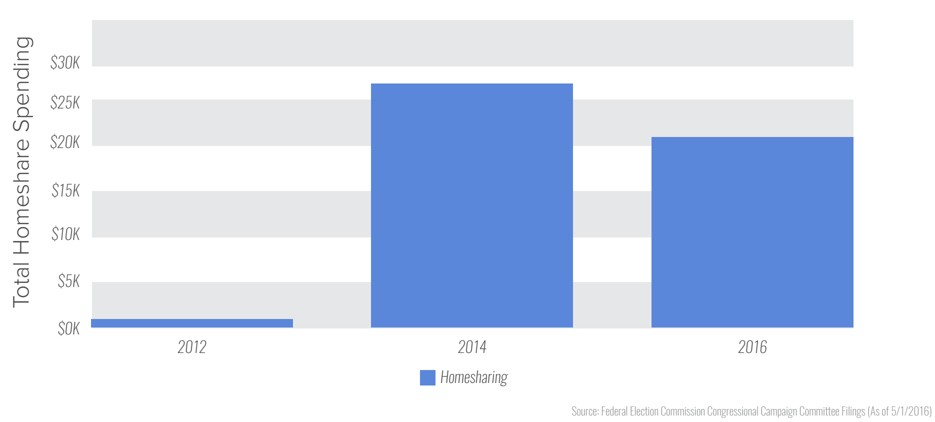


Ridesharing groups have captured more of the short-term congressional campaign transportation market over time.

During the fourth quarter of 2015, Uber rides represented more than 40 percent of total U.S. business car-hire rides, while Certify – a travel and expense report management company – estimated that business usage of vacation rental company Airbnb was up over 250 percent. This trend is also observable through congressional campaign filings where we saw a nearly 2,200 percent increase in total spending on homeshare rentals from the 2012 to 2016 election cycles (Figure 2).[2]

Based on these results, it is clear that providing individuals more choice in services also increases the demand for these services.

Figure 2: Homeshare Spending



Homeshare spending by congressional campaign committees mirrors the trend observed in the ridesharing market.

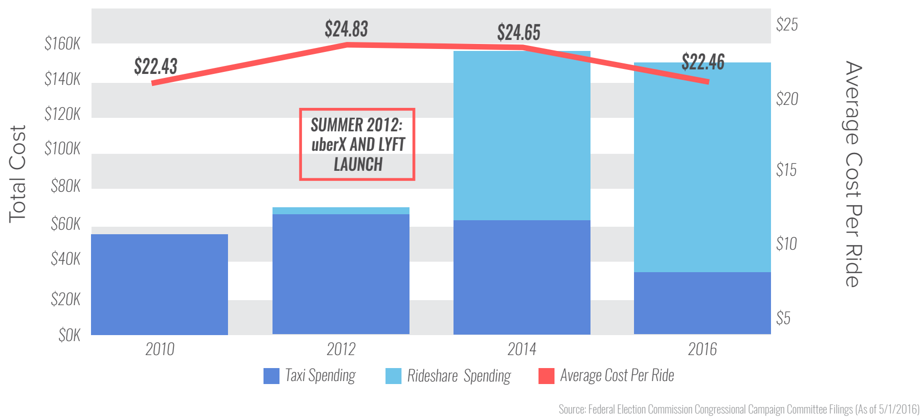
EXPANDING INNOVATION CONTROLS COST

As congressional campaign committees began using peer-to-peer transportation options such as UberBLACK during the 2012 election cycle, demand and the average price per ride increased. However, this changed during the 2014 election cycle when the growth of new, innovative, and lower-cost transportation options stabilized and eventually decreased prices, even as the total number of rides increased (Figure 3).

During the 2010 election cycle, congressional campaign committees spent an average of $22.43 per ride on ground transportation services. With the introduction of more luxurious transportation options such as UberBLACK during the 2012 election cycle, the total spent on transportation increased 27 percent while the average cost per ride shot up more than $2 to $24.83.

When lower-cost ridesharing options such as UberX and Lyft launched in the summer of 2012 and were active in the first full election cycle during 2014, spending on ridesharing services increased to nearly 24 times the amount spent during the previous cycle. During the

Figure 3: Taxi & Rideshare Costs



Ridesharing groups have increased the total amount spent on rides while average cost per ride has remained stable.

2014 cycle, total ground transportation spending more than doubled – to $160,000 – while the average cost per ride began to decrease, to $24.65. It becomes clear that congressional campaign committees were finding the on-demand technology a much more convenient way to travel and embracing it with their patronage.

This election cycle, the total spent on ridesharing services is already 65 percent larger, or almost $50,000 more than the total spent on all ground transportation services during the 2012 election cycle. Furthermore, rideshare spending is already 24 percent greater than it was during the 2014 cycle, while total spending on taxis is 46 percent lower.

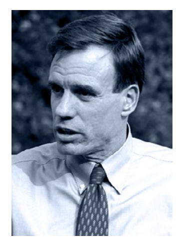
Ridesharing creates a scenario where all participants benefit. Providers are able to control their own hours and drive their own cars, while consumers can request rides at their own convenience. This has led to innovative services like Uber capturing more than a three-to-one share in the congressional ground transportation market, while lowering the average cost per ride to $22.46. This trend in cost-controlling innovation is something we expect to see further exaggerated in future election cycles and, moreover, the peer-to-peer market as a whole.

REGULATORY IMPLICATIONS

Digging deeper, we also analyze the differences in party-line spending because these dynamics have big implications on how legislatures navigate the peer-to-peer economy. The nature of oversight changes when someone is both regulator and consumer, and it is important to see if rhetoric matches action (Figures 4, 5, 6). Due to ridesharing groups offering greater benefits for consumers, taxi companies are seeing their customer base disappear. In 2015 alone, taxi companies in New York, Boston, San Francisco, and Chicago filed for bankruptcy. Instead of adapting to a changing market, taxi companies continue to pour hundreds of thousands of dollars into lobbying at the state and local levels

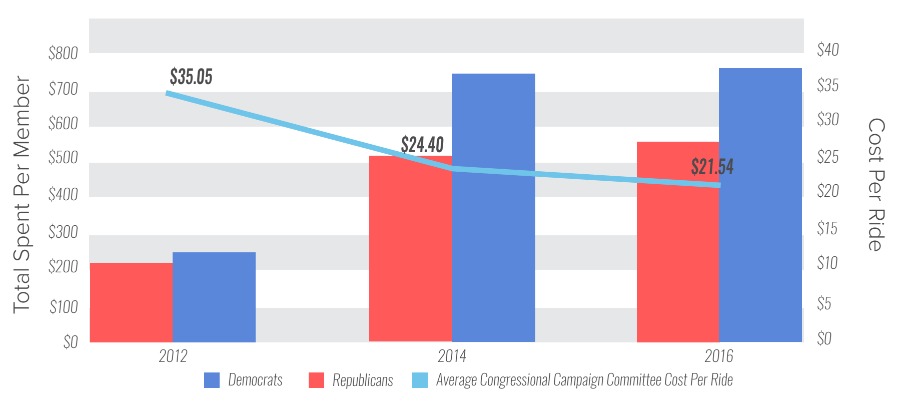
DEMOCRATIC PRESIDENTIAL CANDIDATE HILLARY CLINTON: "I'll crack down on bosses that exploit employees by misclassifying them as contractors or even steal their wages."[4]

SENATOR ELIZABETH WARREN (D-MA): "Technological advances have helped create new wealth. But it is policy – rules and regulations – that will determine whether workers have a meaningful opportunity to share in that new wealth."[5]



SENATOR MARK WARNER (D-VA): "We have a responsibility to provide clarity and predictability instead of allowing inconsistency and confusion as these issues are litigated on a case-by-case and state-by-state basis."[6]

Figure 4: Average Rideshare Spending & Costs



The average Democrat who rideshares spent more than the average Republican over the past three election cycles.

in an attempt to have ridesharing banned from entry. In 2014, taxi companies outspent ridesharing groups $3,500 to $1.[3]

In response, state lawmakers began protecting taxi groups by banning ridesharing options from operating. Lawmakers defended themselves by citing problems with workers' rights and privacy complaints. Most recently this has been seen in New York and Nevada.

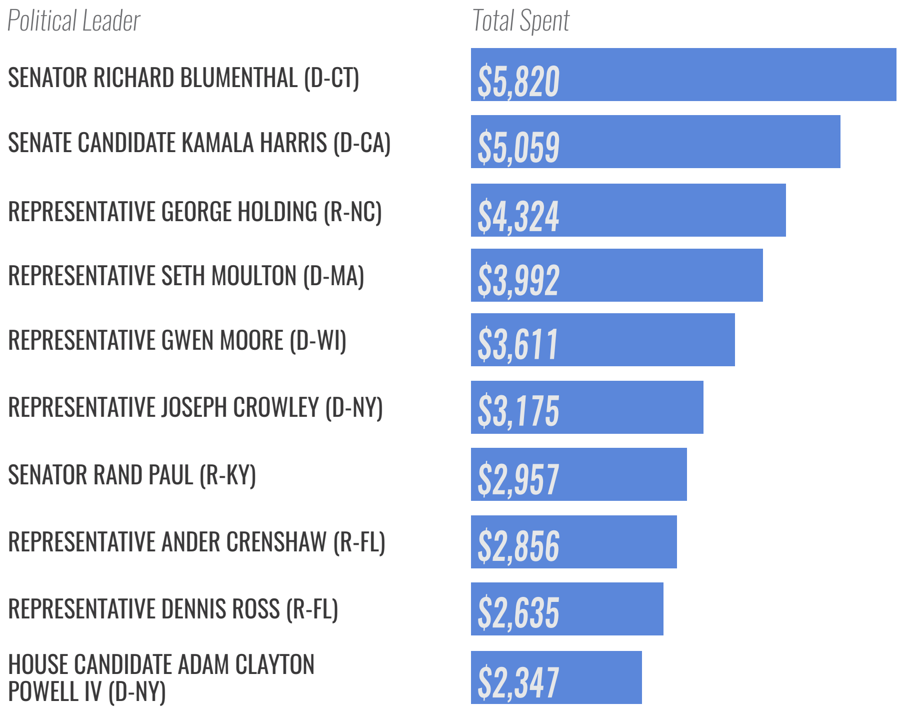
At the federal level, policy makers are seeing this as an opportunity to intervene and are using discrepancies in state policies as an excuse to impose regulations over these companies.

In turn, this creates a political system that incents lawmakers to pick winners and losers by punishing those innovative companies providing solutions to an antiquated way of doing things. We demonstrate this by showing how policy positions are not always indicative of consumption habits.

Being critical of the peer-to-peer economy has not stopped candidates from using these services. When examining campaign operating expenditures, we identified more than $18,000 spent on ridesharing services over the past two election cycles by congressional campaigns whose candidates who have directly advocated further regulating ridesharing groups.

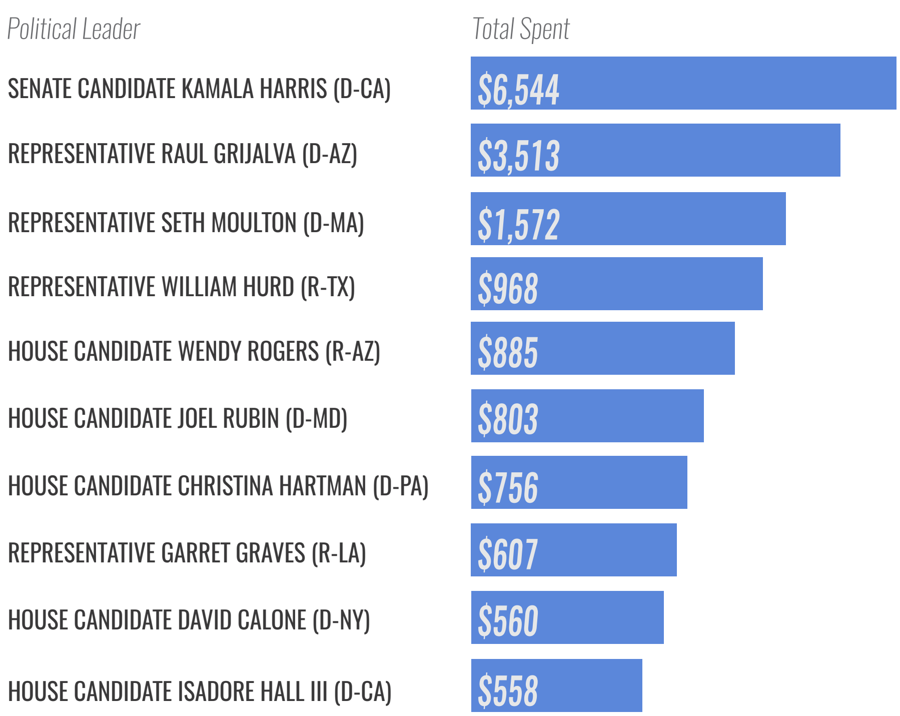
In one case, a lawsuit filed by former Nevada Attorney General and U.S. Senate candidate Catherine Cortez Masto claimed Uber was endangering the public. Yet just in the past year alone, Cortez Masto's campaign spent almost $2,200 on Uber rides. Senator Mark Warner's campaign expensed nearly $1,700 on these services during ridesharing's debut election cycle and the 2016 cycle, yet he is now advocating more restrictive policies.[7]

Figure 5: Top 10 Spenders on Ridesharing Services During the 2016 Election Cycle



Source: Federal Election Commission Congressional Campaign Committee Filings (As of 5/1/2016)

Figure 6: Top 10 Spenders on Homesharing Services During the 2016 Election Cycle



Source: Federal Election Commission Congressional Campaign Committee Filings (As of 5/1/2016)

Why strangle an emerging market that is adding value to all those who choose to participate?

LOOKING FORWARD

Peer-to-peer services are emerging as a more convenient and cost-effective way of connecting consumers with innovative entrepreneurs, and ridesharing represents only one part of that economy. Self-employed providers have the freedom to make ends meet in an economy where labor force participation is near a 40-year low, while consumers are able to take advantage of these perks through lower prices.

Millions nationwide are already embracing this evolving community, yet, our current political landscape suggests that with more innovation comes the threat of overregulation.

During the coming decade it is crucial that lawmakers embrace freedom of choice and abstain from imposing excessive and overbearing regulations. If regulators and administrators continue to cater to antiquated industries by picking winners and losers, they will drive this innovative community into extinction.

One thing is clear: Innovative startups are igniting a thriving new economy and creating a new normal for what consumers expect. Congress is already showing a willingness to crack down on innovative new services. Most recently, Senator Elizabeth Warren (D-MA) said "Technological advances have helped create new wealth. But it is policy – rules and regulations – that will determine whether workers have a meaningful opportunity to share in that new wealth." We agree with Senator Warren that all individuals should have an opportunity to share in that new wealth.

However, the idea that more laws and more regulation will achieve this goal is misguided. The best way policy makers can help bring more opportunity to all Americans is to simply stay out of the way.

"MILLIONS NATIONWIDE ARE ALREADY EMBRACING THIS EVOLVING COMMUNITY, YET, OUR CURRENT POLITICAL LANDSCAPE SUGGESTS THAT WITH MORE INNOVATION COMES THE THREAT OF OVERREGULATION."

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1 Federal Election Commission candidate disbursement data last updated 5/5/2016 and is taken from the 2010, 2012, 2014 ,2016 election cycles. "Candidate Disbursements," Disclosure Data Catalog, Federal Election Commission, Accessed 5/5/16

2 B.R., "Uber Is Now More Popular Than Taxis Or Car Rental With Business People," *The Economist*, 1/22/16

3 Stan Oklobzija, "Will Big Taxi's Massive Political Spending Advantage Leave Ride-Sharing Groups Stranded?," Sunlight Foundation, 7/31/14

4 Kate Rogers, "In Economic Address, Hillary Clinton Calls Out 'Gig' Economy," *CNBC*, 7/13/15

5 "Strengthening The Basic Bargain For Workers In The Modern Economy," Senator Elizabeth Warren, 5/19/16

6 Press Release, "Warner Responds To California Labor Ruling On Uber Drivers," Senator Mark Warner, 6/17/15

7 Pro-regulation candidates expenditure data last updated 5/5/16 and is taken from FEC 2016 candidate summaries for Bernard Sanders, Hillary Rodham Clinton and Catherine Cortez Masto; and the 2014 and 2016 candidate summary for Senator Mark Warner. "2016 Candidate Summary," Disclosure Data Catalog, Federal Election Commission, Accessed 5/5/16