Sharing Economy as a Contributor to Sustainable Growth. An EU Perspective

Florin Bonciu, Ana-Cristina Bâlgăr[1]

Abstract: *The paper bases its analytical approach on two assumptions: the first refers to a significant change taking place in the contemporary world economy – the phenomenon of multipolarity – and proposes a new concept, that of multi-level manifestation of multipolarity; the second has in view the need of a new model of sustainable economic growth. In the context of these two points of view, the paper analyses the sharing economy as a potential significant contributor to sustainable economic growth. The conclusion of this research is that sharing economy has a huge potential of involving millions or even billions of participants and of capitalizing the existing assets while providing spill over effects in the economy. The authors expect sharing economy to become a form of economic activity that will complement traditional forms of business while generating positive economic, social and environmental effects.*

Keywords*: economic growth, circular economy, sustainable development, multipolarity*

JEL classification*: F63, F43, L17, O14*

Introduction

As the world population exceeded 7.3 billion by mid November 2015 (World Population Clock, 2015), the climate change has increasingly became a serious and recognized issue while the limits of the current economic growth model are evident, international organizations (such as United Nations with its recently adopted "2030 Agenda for Sustainable Development"), academia or the business environment are looking to solutions not only for increasing the efficiency in utilizing resources, but for entirely new approaches related to what economic growth and development means. As all these approaches, in different formats and from different angles, aim at providing long term sustainability of humankind, the present paper explores the way in which a new and very dynamic form of business – the sharing economy – may contribute to the achievement of this sustainability.

[1] **Florin Bonciu**, PhD, is a University Professor with the Romanian-American University in Bucharest and Senior Researcher with the Institute for World Economy in Bucharest. His activity materialized in 16 books and over 100 papers on issues related to international economics, European integration, international investments and international business. E-mail: fbonciu@gmail.com.

Ana-Cristina Bâlgăr is a Researcher with the Institute for World Economy in Bucharest. Her activity is focused mainly on topics related to global economic issues, international investments and European affairs. E-mail: anacristinabalgar@gmail.com.

The mainstream literature on sustainable economic growth and development refers usually to the challenge of accommodating the growing number of population in the world economy with limited resources and climate change by making use of more efficient technologies that are less polluting and less energy and material intensive as well as by recycling or reducing waste. At the same time, some economic analysis developed in the past 5 years on sharing economy focusing usually on the characteristics and size of this new economic phenomenon. The element of novelty present in this paper consists in an attempt to explore the contribution that can be brought to sustainable economic growth by this new form of economic activity – the sharing economy.

1. The context of the emergence of the sharing economy: multipolarity as the key aspect of the contemporary world economy

1.1. The large scale multipolarity

The description of the world economy as multipolar is usually related to the geopolitical aspects that describe the international context after the second world war. From this perspective, between 1945 – 1990, the world economy was **bipolar** and structured more or less around two centres of economic, political and military power, the United States and the Soviet Union. After 1990, as the Soviet Union ceased to be an international actor, the United States remained the single world superpower and thus the world economy became **unipolar**. Anyway this situation has changed quite rapidly after 2000, and particularly after 2008 (because of the onset of the economic crisis that affected many countries, especially those in the Euro zone) and after October 2014 (when China became the first economy in the world from the GDP point of view expressed at Purchasing Power Parity). Generally speaking, after 2010 the world economy became **multipolar** (O'Sullivan, M. Subramanian, K., 2015, p. 14), being characterized by the existence of a leading power (the United States) interacting with a number of regional or world powers (China, but also India, the Russian Federation, Brazil and a number of others).

One characteristic of the above mentioned multipolarity is the fact that it refers to countries or single economies. Anyway, to these countries as centres of power we have to add, with some nuances, multi-countries actors, among which a premier place is occupied by the European Union. European Union defines itself in the global arena as a soft power and it can play an important role in trade negotiations (for instance within the World Trade Organization or in the current ones related to the Transatlantic Trade and Investment partnership – TTIP with United States). On the other hand, differing from United States, Russian Federation or China, European Union cannot project hard power across large spaces and, at the same time, is confronted with a declining share of the global output. On the same topic, we can note that particularly in time of crises of whatever nature soft power has a rather limited impact (Friedman, G., 2015, p.241).

For the purposes of this analysis we defined this type of multipolarity referring to centres of power of regional or global scope as **large scale multipolarity**. The large scale multipolarity is part of the new global reality and requires interaction, negotiation and coordination from the part of all entities that are part of the world economy.

1.2. The medium scale multipolarity

Beyond this classic understanding of multipolarity defined primarily on the basis of economic, political and military power of countries another aspect of reality has gradually became evident. If we rank economic powers of the world economy, including, besides countries, large cities or municipalities as well as large multinational corporations, multipolarity gets an entirely different meaning: this can be illustrated by the fact that in 2013 a number of 37 of the world's largest economies were corporations (Buxton, N., 2014, p. 1) while in 2009 already a number of 34 cities were among the top 100 economies of the world (Hoornweg, D., et al, 2010, p.17). Therefore we can say that from an economic point of view in the present day world economy multipolarity also means that countries as economies are accompanied and even challenged by cities and large corporations as economic actors of global relevance. We defined this second type of multipolarity as **medium scale multipolarity** as it refers to an in-between scope of manifestation because of the nature of some of its components, namely municipalities and large multinational corporations that are neither countries/economies nor individual economic actors. This type of multipolarity is hybrid because the entities that interact belong to different categories but are comparable, at least from an economic point of view.

1.3. The individual scale of multipolarity

While the first two manifestations of multipolarity refer to entities that involve a large or at least a significant number of individuals inter-acting with each other as a group (an economy or a corporation), the third manifestation of present day multipolarity has in view **the individual**. This new dimension has been made possible by technology, especially by the information and communication technology (IT&C) and by the large scale use of smartphones that could capitalize the potential of the new communication technologies. The world of today became indeed a "global village" as Marshall McLuhan anticipated with reference to television many decades ago (McLuhan, M.,1962, p.31). Because information and communication technologies allow instant communications across the globe people could carry on a lot of economic and social activities, irrespective of their geographical location. We can say that contemporary world economy is also defined by a new multipolarity, **the individual one**, which goes to the most elementary economic actor that is the individual.

From the perspective of the economic science we consider that **the individual scale of multipolarity** consists in the possibility of the individual to act as an economic actor at a local or global scale, without using a company as a vehicle for carrying out economic activities.

Empirical evidence illustrate that individual scale multipolarity can be identified in almost all segments of economic activity:

- **Production.** The individual scale multipolarity is materialized in the case of production as crowd-sourcing that divides a project or task in multiple elements that are accomplished by a multitude of individuals interconnected by the internet. Examples are represented by talenthouse.com or tongal.com (Paresh, Dave, 2015)

- **Financing.** This part of the economic process is materialized as crowd-funding, already a successful model in which projects or innovations are funded by people across the world that use internet based platforms such as kickstarter.com or indiegogo.com.

- **Consumption.** Initially this side of economic cycle materialized as collective orders (people that order together larger quantities of goods or services and therefore can obtain better quotations). Well known examples are groupon.com or teamdeals.ro. A different approach to individual multipolarity in consumption is materialized in the case of the sharing economy that will be analysed later on.

- **Information, promotion, advertising.** Technology manifested as large scale online retailers or social networks and individual scale multipolarity allowed for reviews for goods and services that influence buying decisions to a significant extent. Such reviews are to be found with all large e-commerce companies like amazon.com or ebay.com but also in the sharing economy.

- **Prosumption.** The term "prosumption" has been coined decades ago by Alvin Toffler and reflects a merging of producer and consumer positions. Toffler initially analysed the growing importance of consumer's input into design of products (Toffler, Alvin, 1970, p.124) and then expanded this into the prosumer production as a specific of the third wave society (Toffler, Alvin, 1980, p.264) . A particular meaning of prosumption may have a great future in the form of 3D Printing where the end user will print the product he/she needs. In our opinion, at present this type of economic activity is represented on a large scale by the sharing economy. It is to be noted that prosumption and sharing economy reunite in an original way two of the above mentioned segments of the economic activity, namely production and consumption.

With reference to individual scale multipolarity, similar with the situation encountered in the previous stages of organization of economic activities, not all the people in the world economy have today the possibility to interact in this new, individual centred economy. In order to participate in the individual scale multipolarity an individual has to fulfill at least two conditions:

- To have the possibility to connect to internet, preferably by means of a broadband connection;

- To own some capital (for crowd-funding), some skills (for crowd-sourcing), some experience related to products or services (which translates in reviews published on the internet) or some products that are not used full time or at full capacity so that they can be shared to other people with the assistance of internet based platforms (for the prosumption or sharing economy).

From an economic point of view among the forms of individual based multipolarity mentioned above the sharing economy is, in our opinion, the most flexible and able to scaling up to almost any dimension (ranging from local to global). In our view, based on the current trends and evidence manifested in numerous countries, the sharing economy may become a significant contributor to sustainable economic growth and, at the same time, a new model of economic development that will be complementary to the business as usual approach.

2. Sharing economy as a manifestation of individual based multipolarity

Sharing economy is in principle a method of organizing economic activities on the basis of sharing human and materials resources. Sharing economy is also known under a number of other names although these have a more limited usage: peer-to-peer economy; mesh economy; collaborative economy; collaborative consumption.

The major difference between sharing economy and business as usual approach consists in the fact that sharing economy is based on the idea of **"being able to use something"** instead of **"owning something"**. The underlying assumption is that in many cases (though not in all of them) people are interested in the usage or access to products or services and not necessarily in owning them.

In our view the acceptance and actual implementation by a growing number of people in many countries of the world of this approach (focused on using something and not on the actual ownership) has been supported by the large scale use of the internet and by the so called knowledge based economy/information economy.

The large scale use of digital information (e-books, various software products and especially apps for smartphones, digital pictures and movies, recipes, reviews of products and services, distance learning, virtual reality) familiarized people with the distinction between ownership and usage. We consider that a pioneer of this distinction and maybe the largest promoter of it has been Bill Gates that licenses the use of its software (for instance the Windows operating systems and the Office Suite) to its users instead of selling it to them. Information based products and services have the characteristic that they are not affected by dissemination and thus reduce the importance of ownership or degree of ownership (first owner, second owner, n-grade owner): electronic information remains the same, irrespective of the number of users/copies of the files.

In this context, it is our understanding that the information society that grew more and more complex in the past twenty years has familiarized people with the idea of sharing, using something that offers the needed utility without owning the object that offers the utility (the utility can vary from reading an e-book that you borrow instead of buying it to having access to transport services by renting or sharing a car instead of buying it).

A fundamental characteristic of the sharing economy is the fact that people satisfy some of their needs by **occasional** collaboration instead of interacting with stand-alone companies that sell their products and services **on a regular basis**. The key word here, mentioned in bold is occasional.

The objects of transaction in the sharing economy can be very diverse, from toys to high-end kitchenware or digital cameras, from fashion clothes and bags to do-it-yourself tools, from transport services or cars to accommodation that may range from a room to a castle.

The economic mechanism of the sharing economy is based on **three components**:

a) The ownership of something of interest to others that the owner is willing to share with other users, occasionally, for a limited period of time;

b) The possibility of the owner/provider to inform on a local or even global scale by use of internet about his/her willingness to share the use of a product or service;

c) The availability of a reviewing mechanism for both the person willing to share something (the provider) and the person interested to use the shared product (the user).

The ownership of something is essential for entering the new economic mechanism and this is a common point with the business as usual approach in the market economy as ownership is also an essential element for trade. But ownership is just the prerequisite, it is therefore a condition that is necessary but not sufficient.

The second element is equally important as availability of products or services for sharing is useless if other people are not aware of the possibility. Therefore the possibility to disseminate information about the willingness to share is also a prerequisite. The large scale availability of internet and the very low cost of access contributed a lot to the dissemination of information.

And finally, the third element, the reviewing mechanism, is also essential for providing trust among the partners acting within the sharing economy. The reviewing mechanism is affected by a certain lag because we need a number of interactions between providers and users and their respective reviews in order to obtain a relatively objective assessment of the characteristics and reliability of both. But the global scale of interactions in the sharing economy and the global accessibility of reviews help a lot in overcoming this initial issue.

Therefore the emergence of the sharing economy can be explained by the interaction and fusion of a number of long term trends, among which technological trends, the unequal distribution of ownership of products and services and particularly social changes represented mainly by the ubiquity of social networks.

One interesting observation which confirms once again the applicability of dialectics has been made by a representative of PriceWaterhouseCoopers. He mentioned that in a way the sharing economy represents a return (in a different context) to the pre-industrial era when people organized in smaller agricultural communities used to share their limited resources and tools on the basis of mutual trust and long term bilateral experience (Hawksworth, J., 2014).

Nowadays the sharing of products and services became an option because many people have products either in excess or which are only partially used, while other people are no longer interested to own products but rather to have access to the benefits. The trust in this case is represented by the interned based reviews regarding both the ones who offer to share and the ones who accept to use the shared goods or services, reviews which are public at a world scale (PriceWaterhouseCoopers, 2015).

From 2008 – 2009 till 2015 the dynamics of the sharing economy has been impressive and according to some studies the trend is expected to continue at least for the coming decade. A comparison of the sharing economy with the traditional rental sector show that in 2013 the sharing economy had a global value of 15 billion US$ while the traditional rental sector a value of 240 billion US$. Due to this very high dynamics in 2025 the two types of economic activity will be equal, each with a value of approximately 335 billion US$ (Vaughan, R., Hawksworth, J., 2014, p. 2).

Taking into account several types of economic activities encountered in the sharing economy which refer to production, consumption, funding and information-promotion-advertising (crowd-sourcing, collective buying, crowdfunding, accommodation and transportation sharing, e-content sharing - such as books, music or movies) the most promising activities as number of participants and, implicitly, as value of transaction are accommodation and transportation sharing and crowdfunding. But the flexibility of the sharing economy is so great that the next decade may bring a huge number of new activities and an equally huge number of participants, especially from the 3 billion new members of the middle class which are estimated to emerge in the Asia-Pacific area (Ernst & Young, 2013, p.4).

The most difficult challenges will be related to the implementation of technical, quality and safety standards and to fiscality. Implementation of standards has in view both the providers of the sharing economy and the users. For providers the main issue refers to the insurance against the potential accidents or damages that may result from the sharing of goods and services. A typical case here may be the damage produced to a rented room or object by the user. At the same time, for users the main issue refers to the safety conditions related to the use of the shared objects or services and the settlement mechanisms to be applied in case of accidents or damages resulted in the process of sharing. As for fiscality, it is just a matter of time before the authorities will be interested to tax the more or less occasional revenues resulted from economic activities related to sharing economy.

Some analysts also mention as a challenge for the providers in the sharing economy the difficulty to maintain originality and authenticity while the volume of activity increases but in our view this will not be an issue as in case of sharing economy the key factor is availability of reasonable use of products and services at an affordable price.

3. Sharing economy as a significant contributor to sustainable economic growth

The idea of sustainable economic growth has a long history that in contemporary terms can be traced back to the first report to the Club of Rome, Limits to growth (Meadows, et al., 1972). In more than four decades the accent in advocating sustainable growth has shifted from resources to demographics to global warming while the rationale for it varied from responsibility to future generations to survival of the existing ones.

In our view, sharing economy may have a significant contribution to sustainable economic growth first of all because it allows an increase in living standards and quality of life using existing resources and secondly because it promotes less energy intensive values than the consumer society. In order to substantiate these two aspects we provide the following arguments based on the context of the emergence of the sharing economy and on the spill over or multiplication effect of this type of economic activity.

Regarding the context of the emergence of the sharing economy, this has been made possible and supported by 2 phenomena. The first one is represented by the availability of a variety of products and housing capacity that are only partly used, especially in developed countries. The existence of this availability can be explained by the technological progress that made possible large scale production of everything and, at the same time, diminishing costs. This material prerequisite has been accompanied by the “consumer society” model that promoted buying more and more things as a life style. The result of this trend is represented by assets valued at 5.35 trillion US$ (that is almost 7 % of global nominal GDP in 2014) which are unused, partially used or under-utilized and that can be traded, exchanged or shared (Matofska, B., 2015, p.5).

The second phenomenon is represented by the possibility to connect in a selective way a variety of sharing opportunities with a variety of short term needs for products and services that do not require ownership. This matching of sharing supply with sharing demand would have remained a mere possibility without a peer review mechanism that would provide trust on both sides of the economic equation. Due to the internet access penetration rate this possibility to connect goes to the level of the individual and can reach an unprecedented number of people in the world economy.

The spill over or multiplication effect results from the fact that sharing information about the unused or under-utilized assets may lead to the share of their utilization which, in turn, can generate a lot of new economic activity. Some examples may illustrate this statement: the share of a do-it-yourself tool like a drilling machine may determine the borrower to buy some materials for home improvement which otherwise would not have been bought; sharing/renting an unused room or a whole house during holiday or week-end may generate the use of utilities (electricity, water, gas) that otherwise would not have been used. And sharing a car as a transportation service may further increase mobility of users which may further increase consumption by the fact that more mobile people are reaching more places and therefore interact with more opportunities to buy.

The experience up to now indicates a very fast dissemination of sharing economy practices. Some examples may be illustrative. Set up in March 2009 as a taxi transport alternative in San Francisco Bay area, Uber reached a global presence and a market valuation, in May 2015, of about 50 billion US$, that is more than 80 % of companies listed in Standard & Poor’s Top 500, many of which are 20 – 50 years old, and meant doubling its revenue each 12 months (Myers, Chris, 2015). Operating in the business of accommodation services, Airbnb, founded in August 2008 in San Francisco, operated in 2015 in over 34,000 cities from 190 countries and has been valued in June 2015 at 25 billion US $ (O’Brien, Sara Ashley, 2015).

Sharing unused or sub-utilized assets and/or services means also an increase of consumption without a proportional increase on the demand of resources which is in other words a definition of a more sustainable growth. At the same time, as the sharing economy means more personal interaction, this approach may lead to an economy with a human face as the providers are individuals and not impersonal corporations. In its turn more personal interaction may lead to other economic activities, small but extremely numerous, which may lead to innovation, flexibility and high dynamism.

While all the above statements are well supported by evidence it is the clear perception of the authors that the sharing economy will not replace business as usual, nor is it a model without shortcomings. But in a period when due to technology and social networks the individual can have a global presence, the sharing economy is a bottom up solution in its early infancy but maturing fast that can, in our opinion, solve more problems that it creates.

Conclusions

During the past decade, globalization, technology and multipolarity have merged together reaching more and more the level of the individual. While states and corporations continue to exist and will do so in the foreseeable future a new dimension of multipolarity has emerged and is becoming ubiquitous: multipolarity manifested as a global network of connected individuals.

This multipolarity appeared as a social phenomenon, in relation to social networks and (almost) free of charge global communications (based on various messengers like Hangouts from Google Yahoo messenger or Skype, followed by Whatsapp, Viber and others), but started in the past 5 - 6 years to develop also an important economic component represented by the sharing economy.

The sharing economy marks an important shift in the behaviour of individuals that may choose to share goods and services instead of buying them. This approach covers nowadays almost all types of economic activity (design and research, production, information and advertising, consumption) and presents the benefit of allowing for better living standards, with a lower cost and without increasing consumption.

From this perspective of allowing more people to have access to existing goods and services by sharing them without increasing production (and therefore consumption of energy and raw materials) the authors of this paper consider that the sharing economy can have an important contribution to sustainable economic growth. In this context a Nobel laureate in economics spoke about the long term effects of the sharing economy as generating efficiency and productivity gains, but also new jobs that may replace the jobs lost due to the use of robots (Spence, Michael, 2015).

Given the fact that more and more people, including a large number from developing countries, will enter the middle class and will have goods that are only partially used we estimate that the sharing economy will continue to grow under a great variety of forms of manifestation.

From the point of view of the economics this type of activity will mark a shift from a relation between individual end users and companies (individual to company) to a relation between individual end users and individual occasional suppliers (individual to individual). From this perspective the sharing economy is fundamentally defined by an economic relation between individuals as well as by its occasional character.

The sharing economy may develop substantially in the coming years without attempting to replace the business as usual approach to economic activities. The sharing economy has a complementary character by definition and will allow for a better usage of resources and a more human interaction in the economic relations process.

REFERENCES

- Buxton, Nick (ed.): *State of Power 2014*, The Transnational Institute, 2014, p.1
- Ernst & Young: *Hitting the sweet spot – The growth of the middle class in emerging markets*, 2013, p.4
- Friedman, George: *Flashpoints – The Emerging Crisis in Europe*, Doubleday, 2015, p.241
- Hawksworth, John: *The sharing economy has gone mainstream*, Financial Director, September 22, 2014
- Hoornweg, Daniel (coord.), et al: *Cities and Climate Change: An Urgent Agenda*. World Bank, Urban Development Series, Vol. 10, 2010, p. 17
- Matofska, Benita: *What We Know About Sharing Economy*, Compare & Share, March, 2015, p.5
- McLuhan, Marshall: *The Gutenberg Galaxy – The Making of Typographic Man*, University of Toronto Press, 1962, p.31
- Meadows, Dennis; Meadows, Donella; Randers, Jørgen ; Behrens III, William W.: *The Limits to Growth*, Universe Books, 1972
- Myers, Chris: *Decoding Uber's Proposed $50B Valuation*, Forbes, 2015, at page http://www.forbes.com/sites/chrismyers/2015/05/13/decoding-ubers-50-billion-valuation-and-what-it-means-for-you/
- O'Brien, Sara Ashley: "*Crazy money*" - Airbnb valued at over $25 billion, CNN Money, June 27, 2015, at page http://money.cnn.com/2015/06/27/technology/airbnb-funding-valuation-update/
- O'Sullivan, Michael; Subramanian, Krithika : *The End of Globalization or a more Multipolar World?*, Credit Suisse Research Institute, September 2015, p.14
- Paresh, Dave: More big brands are tapping creative crowdsourcing sites, *Los Angeles Times*, January 27, 2015
- PriceWaterhouseCoopers: *The Sharing Economy*, 2015, p.16
- Spence, Michael: *The Inexorable Logic of the Sharing Economy*, Project Sindicate, September 28, 2015
- Toffler, Alvin: *The Future Shock*, Bantam Books / Random House, 1970, p.124
- Toffler, Alvin: *The Third Wave*, Bantam Books, 1980, p. 264
- Vaughan, Robert, Hawksworth, John: *The Sharing Economy: How will it disrupt your business*, August, 2014, p. 2
- World Population Clock, at page http://www.worldometers.info/world-population/