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UBER

Innovation in
Society

Henrique
Schneider



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PREFACE

Uber is fascinating at many different levels. Its 68 billion US dollar valuation is higher than that of General Motors, Ford Motor Company, or Honda Motor Co. Ltd (Chen 2015). On the other hand, Uber seems to consistently be running at a loss (Biddle 2015; Kosoff 2015; McAlone 2016). Then again, Uber's business model, with all its intricacies such as surge-pricing and the differentiation of service levels, has been a constant subject in business schools and in the media. But this book is not about that.

Much has been written on Uber as a business, and much has been written on some aspects of Uber. But there is more to Uber than its valuation, its profits or losses, or even its impact on the labor market. The “big picture” about Uber—its innovation, their consequences, and their place in society—has been left out.

This book is written for those interested in the “big picture”. They can be business majors or the general public; people affected by Uber or entrepreneurs looking for an innovation of their own; consumers or lawmakers. This book is directed to all those who not only want to think about specific aspects of Uber's actions but also about the whole of what the company represents.

That “big picture” is about innovation. And since innovation has repercussions across the whole of society, this book is about Uber as an agent in society. It explores the meaning of Uber as an innovator and at the same time as an agent in society. This situation, of course, is not special let alone exclusive to Uber. But this technology platform that many consider a taxicab company is a good example of the interplay of innovation,

differentiation, regulation, and social acceptance. And that is the subject of this book.

As any given company needs a wider society in which to function, the innovator needs other companies offering similar products from which the innovator wants to distinguish itself. Innovation is therefore always—but not exclusively—a social phenomenon. As such, any analysis of the innovation started by Uber also demands examination of its consequences. Therefore, this book attempts to do both.

It is the Gordian knot of economics, innovation, regulation, and the social acceptance of these dynamic processes that form the subject of this book. It is not proposed here how to untangle or how to cut the knot, but simply how to deal with it. Dealing means how to come to terms with this interplay. The trade-offs are, on theoretical level, that Uber's innovation is more incremental than it seems; and, on a practical level, that regulating innovation—especially Uber—is a worse idea than it seems.

A circular structure will be followed: A theoretical background is offered in a first chapter, "Society and the Market-Process". This focuses on the meaning of society, the market process, and, especially, innovation. The second chapter, "The Market-Process and Uber", is about Uber as an innovator. It asks what kind of company Uber is and how it specifically innovates. In the third chapter, "Uber and Society", the circle is closed and the consequences of Uber's innovation as well as some responses to it are assessed.

The ideas expressed here are the fruit of many discussions with Israel Kirzner, Eirik Harris, and Yang Xiao. The public controversies about regulating Uber in the USA and Switzerland were also influential factors. In that context, Simon Jäggi, Rasoul Jalali, Felix Engelhard, and the different people and symposia at George Mason University's Law and Economics Center offered a lot of insight. Katharina Faulkal was conscripted as critic. Palgrave's "Pivot" team and the three anonymous reviewers contributed extensively to the framing of the arguments and their development.

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Society and the Market Process

Abstract This chapter defines the fundamental concepts needed to describe and assess Uber. All social interaction is understood here as a set of cooperative practices. These practices establish themselves as individuals voluntarily engage in interaction and exchange. They are not necessary for the individual but considerably ease the individual's life. Market processes are cooperative practices of the exchange of goods, they are open-ended, undetermined, and non-causal. In market processes different degrees of innovation arise. Schumpeterian innovation radically changes market processes, creatively destroying them. Kirznerian innovation occurs when individuals are alert and take advantage of gaps in the market processes. In either case, innovation is not only driven by entrepreneurs and agents in the market processes. In most cases, innovations themselves are impacted by the cooperative practices of a society.

Keywords Uber • Market process • Society • Innovation • Creative destruction • Incremental innovation

The “big picture” begins with its framing. Terms such as society, market process, or innovation need definitions and a framework to show how they interact. This first chapter lays out the groundwork for understanding Uber in terms of the “big picture” approach this book takes. At the same

time, this first chapter serves as an introduction to the subject of the book and as theoretical background for the arguments that will matter in the two forthcoming chapters.

Offering a “big picture” view, this book narrates the following story. There are several ways in which innovation can occur. Accordingly, there are several ways in which innovations have consequences on other market agents, on the economy and on society, as a whole. However, innovation is a dynamic process, and so are the adaptations and responses to it. The best way for a society to deal with innovation is to allow it to unfold while being open to reactions, many of which take innovation even further. Dealing with it through legal regulation is, on the other hand, generally a bad or even the worst idea.

Let us take Uber as an example: Uber is innovative. But it is differently—maybe even less—innovative than most assume it to be. The taxicab or platform’s innovation is one of evolution rather than revolution. It is society as a whole that has to adapt and respond to Uber’s changing of the transportation market. Bringing Uber’s innovation to a halt by regulating it does little good to the overall economy and to society. In order to cope with Uber and the platform economy, other agents and society need openness and low (or no) barriers to market entrance.

Granted, the storyline sketched above may seem opaque and/or counterintuitive. Who are the other market agents? What is society? If society wants regulation, why not regulate? How can Uber be at the same time innovative and not so innovative? These are just some of the questions arising, and they warrant answers.

It is this first chapter’s task to answer some of them. While it concentrates on the theory sustaining the “big picture”, the second chapter applies it to Uber in order to gain a better understanding of how innovative the platform—or taxicab-company—is. The third chapter explores how Uber and “society” interact. In other words, the first chapter frames, the second fixes the image, and the third evaluates its aesthetics, or content. A last chapter, the Conclusion, examines whether or not the storyline above is accurate.

This chapter defines two crucial terms: society and the market process. But bare definitions will not suffice. The most important feature of both is how they interact. Often, the term “market” is thought of as something different from society; but it is not. In reality, market processes are cooperative practices like many other such practices that constantly take place in human society. After exploring this relationship, the chapter reviews