Regulation in the 21st Century

Julian Morris

Better Regulation Conference
Geneva, 25 September 2018

Outline of talk

- Traditional regulation: role and problems
- The information economy changes the paradigm
  - The share economy
  - The vapour revolution
- Smart regulation in the 21st Century

ICLE International Center for Law & Economics

Traditional regulation: role and problems

- Purpose: protect consumers, 3rd parties, the environment
- Historically top down
  - Broad outlines crafted by legislators
  - Implemented by agencies
    - Create specific rules – e.g.
      - Minimum quality of products
      - Set or cap prices
      - Maximum emissions to air, water
  - Enforce rules through inspections, negotiation, prosecution

ICLE International Center for Law & Economics

Precautionary Regulation Inhibits Innovation

Baptists   &   Bootleggers

The "share economy" Revolution

- Consumers connect directly with suppliers through websites & apps
- Prices set by algorithms or by mutual agreement
  - Transparent
  - Individualized
- Crowdsourcing of quality
  - Consumers review suppliers
  - Suppliers review consumers
- Competition drives innovation that meets consumer wants

ICLE International Center for Law & Economics
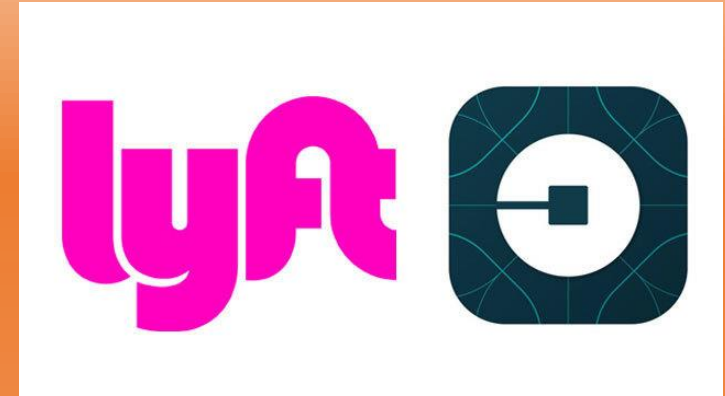
Ridesharing benefits to users

- Ease, cost, and transparency of transaction
  - Automatic payment (avoids cash/additional time, hassle & cost of using card)
  - Fare estimates or fixed fares provided on app
  - Sydney survey: Uber less expensive than taxi for 90% of trips; ave. 40% less
- Shorter wait times:
  - Demand-based pricing means more drivers work when demand highest
  - In SF survey, 90% of rideshare cars arrived in <10 minutes; only 35% of taxis
- Reliability
  - Cars arrive without requiring detailed instructions
  - GPS-based directions enable drivers to travel to destination without need for passenger to know route
  - Simple, effective dispute resolution system

ICLE International Center for Law & Economics

Ridesharing benefits to drivers & public

- Flexible, well-paid work
  - Drivers sign on when they want, where they want

- Less congestion and pollution
  - Increase passenger/car ratio, reducing number of cars on roads
  - Arizona State Uni study: cities with Uber have significantly lower congestion

- Improved safety
  - 10% reduction in drunk driving in Seattle, following introduction of Uber
  - SF survey: 19% of respondents who chose rideshare service because they had been drinking would have driven themselves if no rideshare service available
 - Temple University study: drunk driving deaths fell 5.6% in cities with Uber

ICLE International Center for Law & Economics

The Vapour Revolution

- "People smoke for the nicotine but die from the tar"

- 7,000+ chemicals in cigarette smoke; 70% carcinogens

- 1960s on: Search for a safer cigarette …

- 2003: Hon Lik: electronic cigarette

- Innovations by consumers shared through online forums
  - Led to interoperability standards
    - Wide range of devices
    - Wide range of liquids

- Concerns about liquids, devices shared online
  - Led to further improvements in devices
  - Removal of some potential harmful chemicals

ICLE International Center for Law & Economics
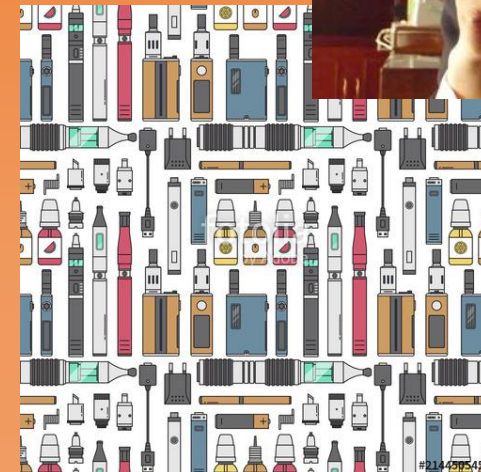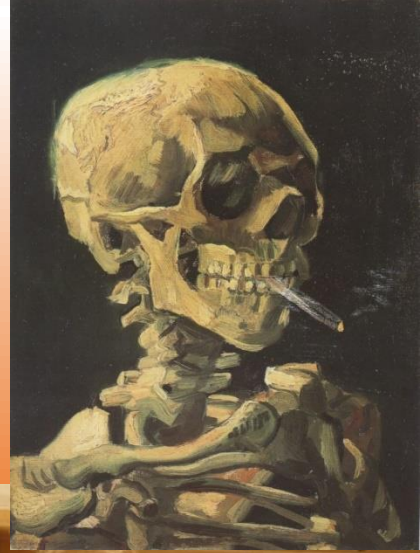
# Relative harms of alternative nicotine delivery systems
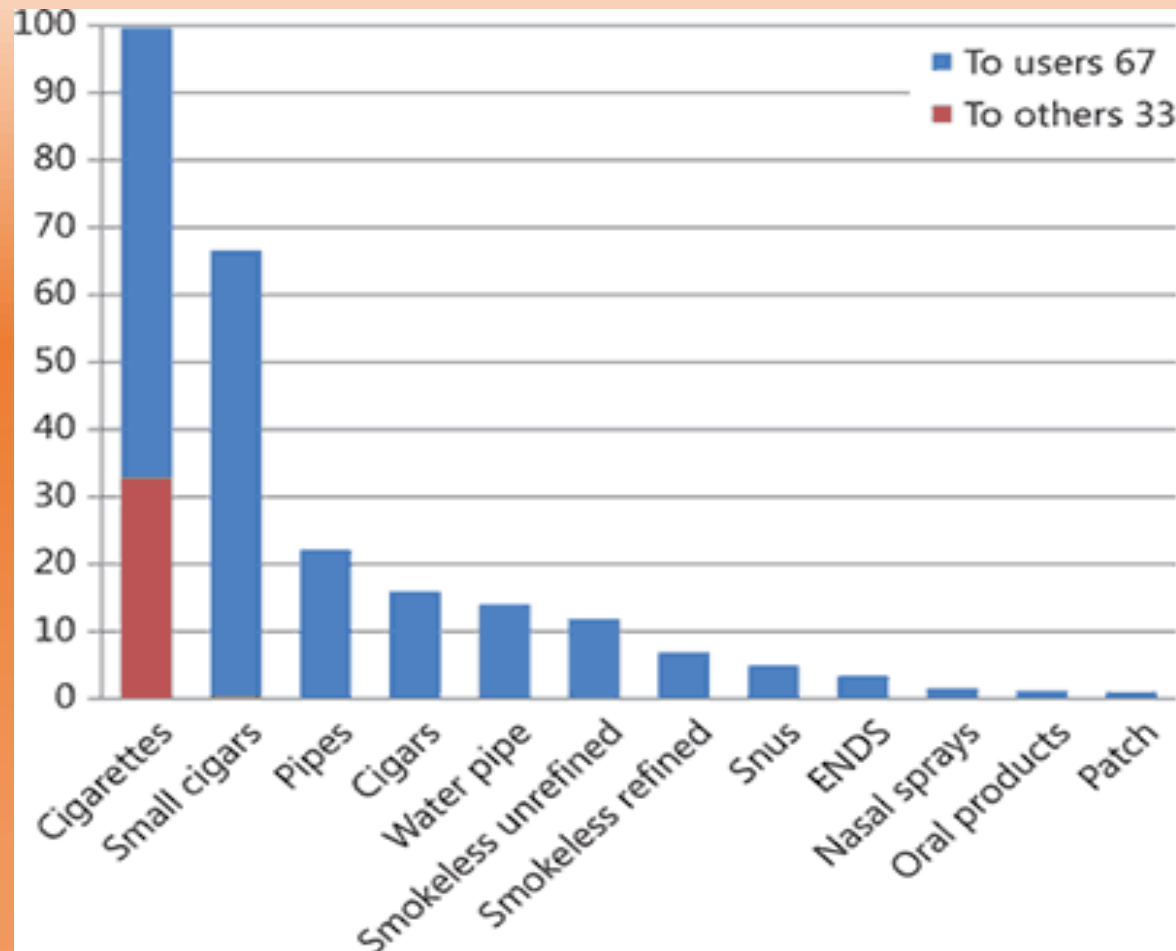
"Although it is not possible to estimate the long-term health risks associated with e-cigarettes precisely, the available data suggest that they are unlikely to exceed 5% of those associated with smoked tobacco products, and may well be substantially lower than this figure."

Royal College of Physicians

David Nutt et al. "Estimating the Harms of Nicotine-Containing Products Using the MCDA Approach," *European Addiction Research*, 2014

ICLE International Center for Law & Economics

Daily Smoking Among 8th, 10th and 12th Graders in U.S. Fell following Introduction of E-cigs
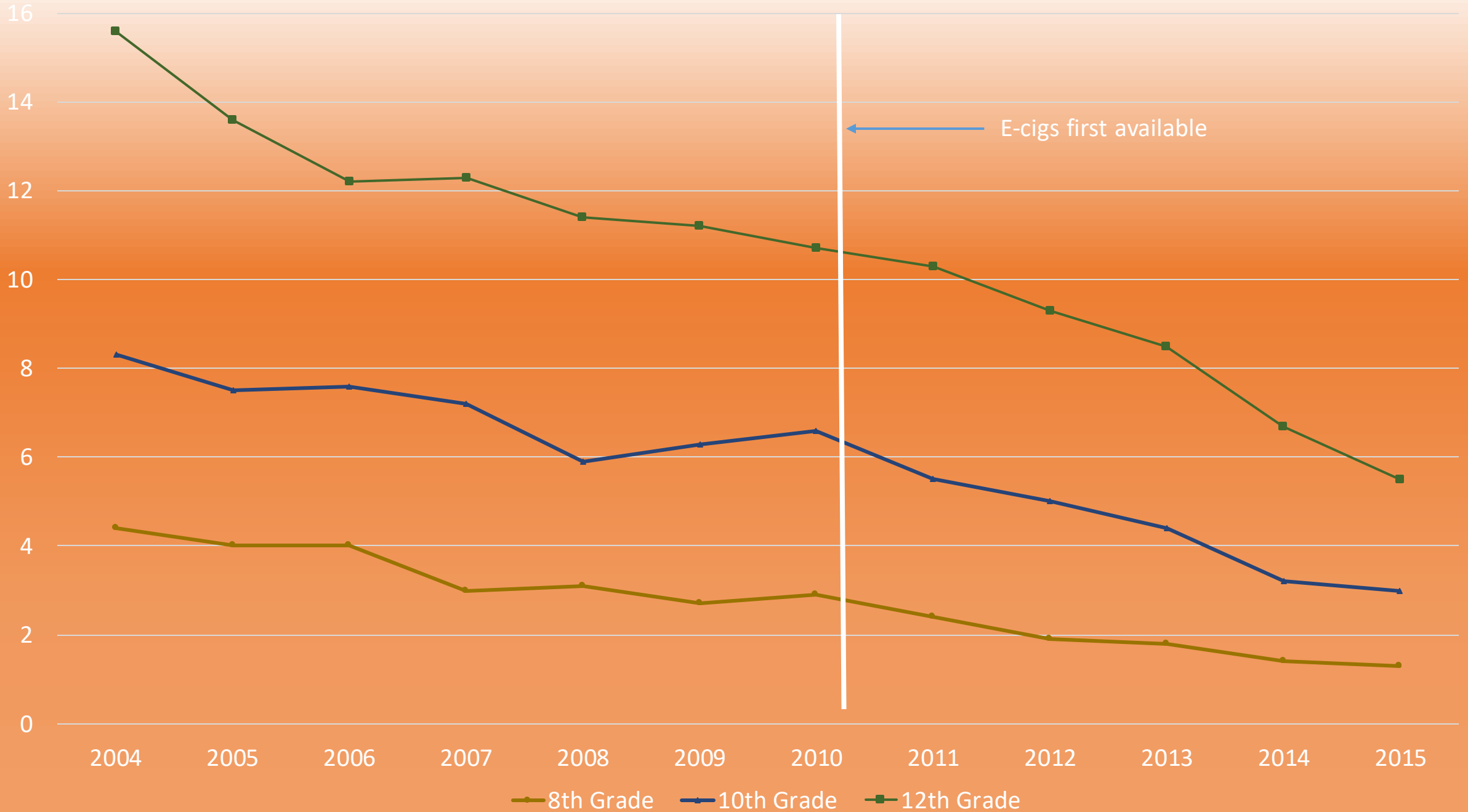
In UK: dramatic reduction in regular smoking among Children (11-15)

E-cigs first available
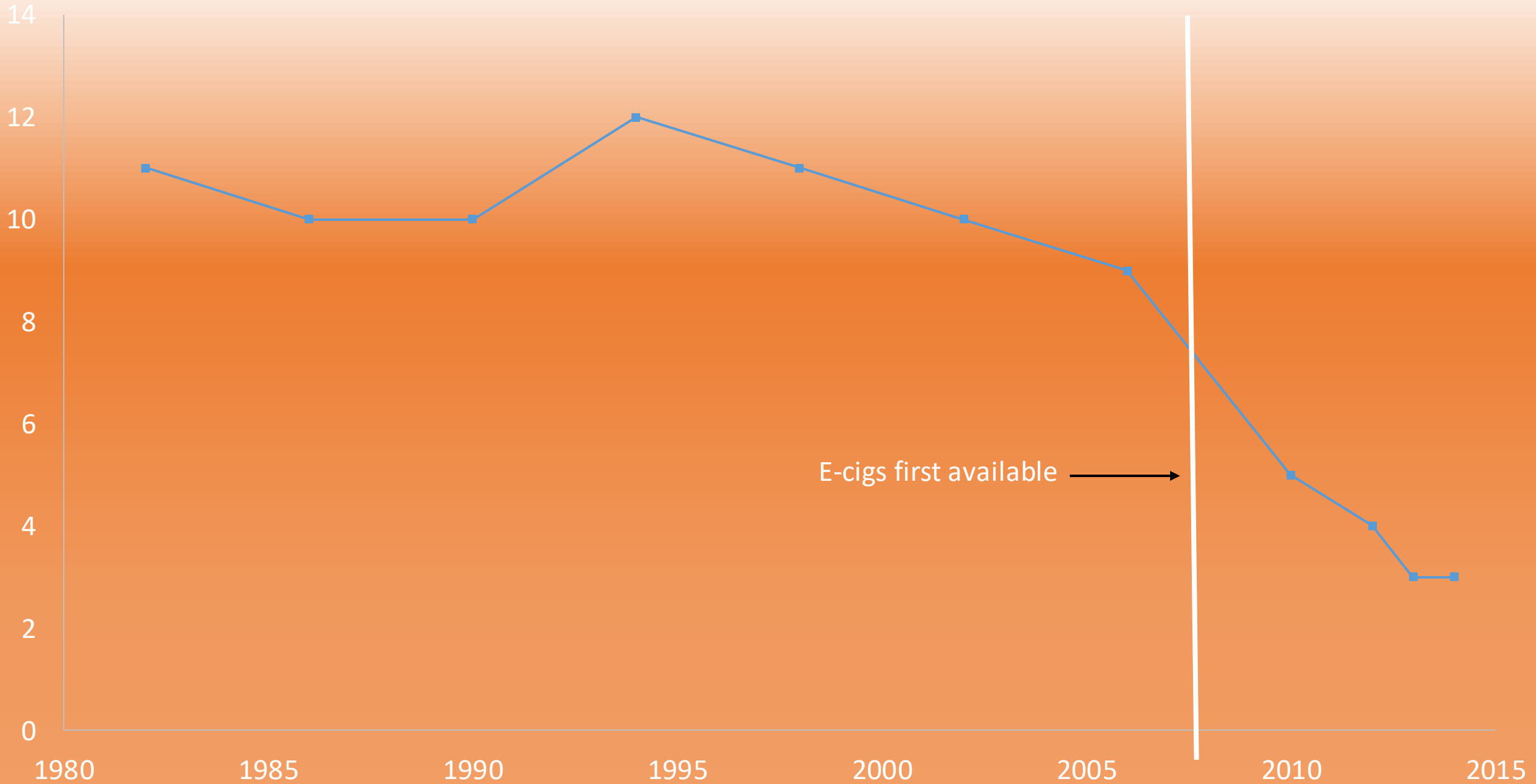
What are the lessons?

Choice and competition, combined with the ability to share information online, have driven innovation that has enabled consumers to obtain products and services that meet their needs in ways that are as or more effective – and less harmful.

ICLE
International Center
for Law & Economics

Push to Apply 20th Century Regulation

- Taxi companies, medallion owners, unions want ridesharing services to be regulated as taxi services
  - Would drive up costs without improvements in quality
- Hotels want Airbnb etc. regulated as hotels (or banned)
  - Would limit supply, drive up costs; few benefits to consumers
- Some tobacco, pharma cos and ideologues want new nicotine products banned or regulated as medicines or tobacco products
  - Would limit competition & choice, drive up prices & *reduce* quality
  - Fewer smokers would switch => net harm to society

ICLE
International Center
for Law & Economics

Smart Regulation in the 21st Century

- Self-regulation appears to be highly effective
  - Standards established by companies and 3rd parties
    - Background checks by Uber, Lyft, etc.
    - Quality standards for vapor products (AFNOR, BSI)
  - Information sharing by consumers and producers
    - In-app. reviews/ratings by riders and drivers
    - Online forums

- Gentle nudges might help:
  - Require compliance with product/service standards
    - For rideshare operators: background checks; automobile safety checks
    - For e-cigs: compliance with quality standards, GMP
  - Some limits on marketing and sales of e-cigs:
    - Classify as consumer products but limit sales to minors
    - Permit advertisements with reasonable restrictions on marketing to minors

ICLE

International Center
for Law & Economics

Thank you!

Contact me: jmorris@laweconcenter.org

ICLE International Center for Law & Economics