

BANKER & TRADESMAN

DIMMING PROSPECTS

Is Ridesharing Economically And Socially Sustainable?

Trouble Ahead For Ridesharing Firms As Self-Driving Cars Come Online

By [William F. Lyons Jr.](#) | Oct 30, 2016

[Reprints](#) | [Print](#)



William Lyons

There can be no doubt that ridesharing firms have radically changed the mobility landscape. To call Uber a disruptor would be an understatement. They have completely reorganized the urban transportation landscape across the globe in a very short period of time. However, one often ignored aspect of their growth is that they have succeeded because of the people who drive for them. Those very same people will likely be irrelevant inside of the next decade.

Uber and its progeny started (for ease of understanding, I will use Uber to describe the entire rideshare industry) as a way to make the existence of privately owned cars more efficient and productive. The original concept of ridesharing rested on the idea that many urban Americans were not using their automobile for most of the day, and would be willing to drive for extra income during the time they were not at their primary employment. This driving time could be performed at the driver's discretion, presumably when they were not at their full time job.

This original concept worked until some drivers dropped their full-time jobs in favor of driving for Uber, thereby making Uber their full-time job. This worked fine until Uber's drivers sought status as employees, instead of as contractors. They sought benefits and tips, and a number of other concessions. In other words, they wanted to be just like employees everywhere. Uber had no choice but to accept that it would need to offer benefits – and it did.

In addition to the concessions that Uber had to offer its drivers, it lost a key battle to minimize regulation of rideshare products in Austin, Texas. As a result of the ballot initiative in Austin, Uber and its peers were required to implement more strict security practices for their drivers. In protest, Uber pulled out of the market, saying the regulations made offering its service uneconomical.

The growing demands of the workforce plus the increasing regulatory requirements will put increasing economic and social pressure on ridesharing companies. At some point, these companies will no longer have such a competitive edge against traditional taxis and other transportation companies. It is unclear what will happen to the rideshare industry when this point is reached.

Perhaps more importantly, the entire rideshare industry is barreling towards the day when rideshare cars will be driverless. This will likely occur in the next five to 10 years, as commercial fleet owners reach the point where shuttles and rideshare vehicles can be operated autonomously. In fact, Uber is experimenting with a (so-called) driverless fleet in Pittsburgh, Pennsylvania. While this is hardly a huge innovation given the progress in autonomous vehicles made by Tesla and Google (among others), it clearly telegraphs Uber's intent and spells the end of the 160,000 drivers who work for Uber.

True sustainability includes not only environmental sustainability, but also economic and social sustainability. This means that a given activity must have a reduced impact on the environment, but must also improve the economic and social aspects of society. Economic outcomes must improve, as measured by GDP or corporate finances. Social outcomes must improve, as measured by a reduction in poverty or an increase in employment, health or education. Given the trajectory of the ridesharing industry, it is hard to imagine a set of circumstances where the economic and societal aspects of the ridesharing industry could be described as sustainable.

The Uber phenomenon was created to make the private ownership of automobiles more economical and more efficient, based on a theory that people would drive part time for additional income. The rideshare firms were so successful that they transformed their business model into a model of full employment for their drivers – drivers who wanted to be treated like full-time employees. Like many of the firms of the golden age of industry, they were so successful that they created a whole generation who wanted more from their relationship with their new employer, and were prepared to organize to achieve their desired outcome. Rather than take decades (as it did in earlier times), it took less than two years for the business model to be placed on its head.

Soon, the very Uber drivers that made the startup company one of the most successful ever (based on market cap) and then forced Uber to change their business model to accommodate the demands of a growing workforce, will be out of a job. That is, perhaps, the greatest irony of the sharing economy. But it is true. And it demonstrates just how unsustainable the ridesharing economy really is over the long run.