BUMPY RIDES

A stakeholder approach to regulatory showdowns between incumbent corporations and platform challengers: evidence from Uber Challenges of the taxi industry

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Introduction

Platform companies do not provide a product or service in the traditional sense, but rather provide an (online) platform for producers that connects them to consumers. Producers in this sense can be either companies themselves, or people offering a service. Platform companies have been around for decades, but technology and innovation have given them the tools to revolutionize the modern economy – products/services become available on-demand in a single marketplace. This has drastically decreased transaction costs and increased consumer access to goods and services. The world economy has become increasingly primed towards platform companies. Venture capitalists are continuously on a quest to discover the next Netflix, private equity firms attempt to build the next Spotify, and stock brokers try to profit off the growth of Uber. Platform giants are taking over: a stunning 60% of all 'unicorns', start-up businesses that are valued at over USD 1 billion, are platform companies. They are so successful that even existing, world leading companies in digital services, technology, financial services, and many other industries are adopting platform models, at least for a part of their business. Massive amounts of money are shifted into making the investments necessary to keep up with the platform businesses that are setting the pace. It goes to show that the way in which we consume will most likely be changed for every industry by platform companies soon.

But the rapid rise of the platform business model has also brought social and legal issues with it. Many platforms have not formed durable relationships with people that offer products/services through the platform. While many platforms claim that their producers are self-employed, often platform producers have a precarious position in the labor market. This has led to criticism about unfair competition. Competitors of platform companies claim that they cannot compete with platforms because they do not play by the legal rules and exploit workers. The disputable relationship between a worker and a platform company has resulted in questionable taxation practices. Since platform companies are driven by technology, issues about privacy of consumers have come to light. Platforms in the ride-hailing industry have caused questions about safety standards to be asked. Many of these issues have arisen because governments and parliaments have been unable to keep up with the rapid technological developments that drive these innovative companies. Because these businesses have entered a regulatory void and governments cannot keep up, the social issues of platform companies go unsolved. It has allowed platforms, in some settings, to make their own rules.

Not every new company is worth the attention of the academic community, but the modern platform business is not just a new company. It represents a distinctly different model of doing business and it is capable of accumulating both market and political power in a completely new way. Understanding how platform companies accumulate political power is critical in understanding how they can be regulated. While their business model is appealing and well-funded, this does not mean they can dominate regulatory reform. Failing to understand how platform companies work, may mean a failure to properly regulate them. If platform companies are regulated inefficiently, this may mean that their detriments are not effectively mediated, while their benefits are not effectively harnessed. For example, a complete crackdown on platform companies may mean that benefits to consumers and growth of product markets may go to waste. On the other hand, domination by platform companies may mean that workers become victims of their employer and inequalities grow.

The emergence of platform companies was not accompanied with adequate regulation – therefore this thesis will analyze the stakeholders that hold a political stake in regulation. It will examine their attitudes, position, and strength in the debate and how they influence political outcomes. To do so, this thesis will examine one of the most successful and well-known platform company to date: Uber Incorporated. It will take the form of a qualitative case study of market entry of Uber in three cities: Stockholm, New York, and Berlin. To properly conduct this case study, first the existing literature about regulation and platform companies will be examined. Secondly, an overview of the methodology will be provided. Third, an analysis of the political landscape in which Uber operates will be given. Fourth, Uber's market entry will be examined. Fifth and final, recommendations to governments and concluding remarks will be delivered.

Literature review

Regulation

Ideology

A relatively obvious starting point into the study of regulation would be to examine the political ideology of governments as the key determinant of their regulatory policy. Wide research has been conducted from this angle by both economists and political scientists (Alesina et al, 1997; Bjornskov, 2005; Benoit and Laver, 2006; Pitlik, 2007; Sakamoto, 2008; Potrafke, 2010). Roughly two segments can be identified within this group of scholars. The first segment of scholars assume that regulation is a direct product of the ideology of a sitting government. In this instance, left-leaning governments are more likely to introduce regulation than right-leaning governments (Bjornskov, 2005; Benoit and Laver, 2006; Potrafke, 2010). This assumption flows from the relatively simple line of reasoning that right-wing governments are more often in favor of small government and adopt more market-oriented policies (Potrafke, 2010). At first glance, however simple the reasoning might be, this hypothesis seems difficult to refute. Politicians on the right say they are in favor of small government, while politicians on the left say they are in favor of government intervention. The second segment of scholars takes a more nuanced approach and argues that political decision making related to the regulatory framework in the early 2000 cannot be seen separately from the political and economic developments that took place in the 1980s (Alesina et al, 1997; Pitlik, 2007; Sakamoto, 2008), when the neoclassical theories of the Chicago school of economics were popularized by politicians.

It is undeniable that the ideas of the Chicago school are closer to right-wing ideology than left-wing ideology. The Chicago school, with prominent members such as Milton Friedman and George Stigler, argued that government interventions in product markets were inherently inefficient and should therefore be minimized. According to them governments should only intervene in markets in a case of market failure or cartel forming. The core responsibilities of governments should be to uphold the rule of law, protect property rights and give free reign to the supply side of the economy (Alesina et al, 1997). Dynamics between supply and demand would result in optimal outcomes. These economic theories were then morphed into a political discourse which has become more commonly known as 'neoliberalism'. While the first segment of scholars would argue that the premises of neoliberalism are inherently more aligned with the political right, others have argued that it was adopted as a new consensus in politics (Alesina et al, 1997; Klees, 1999; Albo, 2002). Therefore, arguing that right-wing governments would simply implement neoliberal policies, while left-wing governments contest them, does not cover it. Rather what happened is that political discourse revolved around *how* political parties are related to neoliberalism.

While the theories of the Chicago school are often referenced by scholars who state that ideology is the main driving force behind regulation, Chicago school scholars themselves have developed entirely different theories of regulation. Stigler (1971) created the theory of regulatory capture, which will be discussed below, and omits ideology from his theory entirely. While the theories of Stigler will be applied to this thesis, it is worth noting that the ideology cannot be completely ignored as a factor.

Regulatory Capture

Stigler (1971) is generally regarded as the creator of the theory of regulatory capture, although many scholars have built on and adapted his theory since its first mention. Scholars such as Posner (1974), Peltzman (1976) and Becker (1983), were amongst Stigler's contemporaries to build on his work, while scholars like Dal Bó (2006), Wren-Lewis (2011) and Culpepper (2016) have conducted more recent research. Regulatory capture theorizes that private enterprises tend to have a large amount of influence over the legislation that is supposed to regulate them. Ultimately, this can lead to a situation where regulation only serves the purpose of the private enterprise and not the public. In this case, the regulation is captured. When Stigler and his colleagues from the Chicago school of economics created regulatory capture, they did so as the political-economic arm of the neoclassical economic ideas they had promoted. Their position on the matter was that drafting regulation would inherently lead to inefficiencies. A logical policy proposal from their standpoint therefore would be to limit the amount of regulation. However, because the theory was so widely studied and adapted, scholars of different academic currents proposed that adaptations to the institutional framework supervising the regulation would limit the likelihood of capture (Posner, 1974, Dal Bó, 2006, Christensen, 2010).

The theory supposes that there is a market for regulation, just like any other product. Therefore, regulation is subject to forces of supply and demand. In the instance of regulation, the supply side is represented by the government and the demand side is represented by the society at large. Underlying this hypothesis are three assumptions. The first assumption is that in their decision making, politicians are always motivated by self-interest. They will only supply the regulation that they perceive to be demanded by society. The second assumption is that regulation is the result of the sum of all private interests. If politicians do not make autonomous decisions, based on their personal beliefs, but rather on perceived demand, then private interests dictate regulation. The third assumption is that the demand for regulation is not solely dominated by the electorate, because private enterprises, civil society and other organizations are influential as well (Dal Bó, 2006). According to Stigler (1971) this means that the interests of private enterprises are overrepresented. In the process of advocating either for or against regulation, corporations have a distinct advantage over consumers.

Dynamics within the demand side should be interpreted as a struggle between stakeholders to advance their interest with politicians. The group of actors active within the demand side is relatively large: corporations, consumers, trade unions, market supervisors and antitrust agencies. Central to this theory are the corporations and the consumers (Stigler, 1971). According to regulatory capture there is no level playing field between all the groups that are active within the demand side: corporations have a significant advantage over consumers. This is due, largely, to the collective action problem with which consumers are dealing. When a government drafts regulation, many consumers are affected by it, but in a relatively small amount. Meanwhile, only a small number of corporations are affected by it, but in a relatively large amount. As a result, corporations will divert resources and energy to influencing the government officials that are responsible for the regulation in question. For consumers, on the other hand, it is unlikely that they will take any action at all. Consumers are unlikely to care about regulation that is drafted and even if they do it is difficult for them to find likeminded people to form a coalition with and make their voices heard (Dal Bó, 2006; Wren-Lewis, 2011).

Dynamics like these might seem counter intuitive in a democracy. After all, consumers are the only group that can exercise its right to vote. Why will politicians choose to act against the public interest? Stigler (1971), Peltzman (1974), Dal Bó (2006) and Christensen (2010) all provide a discussion on the incentives corporations have to coerce government officials. The threat of disinvestment is both regularly and publicly deployed by corporations. Its general premise is simple: regulation will harm the potential output of the company and will therefore require the company to either decrease their output or move abroad. The threat of disinvestment can be deployed in different forms. If a company provides a (semi-)public service, the threat of failing to deliver that service could hurt politicians as well (Dal Bó, 2006; Christensen, 2010). Furthermore, corporations can make use of the fact that some politicians or regulators are perceived as weak or incompetent (Stigler, 1971). Finally, Bennedsen & Feldmann (2002) argue that corporations have the capacity to research and strategically form coalitions that are in favor of their agenda.

Regulatory capture seems to be fairly accurate in explaining the regulation of a given product market and the dynamics between the players. However, is not able to explain the emergence of platform companies. If firms use regulation to insulate them from competition, how can platform firms still advance in their product markets. Perhaps this is because there is a fundamental difference between platform companies and traditional companies. To understand whether or not platform companies are different from traditional companies it is essential to study the concept of platform companies first.

Platform companies

Platform companies in their current form are a relatively new phenomenon and therefore they are relatively understudied. As of now, there are two schools of thought. The first is that of ‘platform governance’, developed by Gorwa (2019) and based upon the ‘governance triangle’ model, developed by Abbott & Snidal (2009). It analyzes the regulation of platforms through the layers of governance that create its regulation. The second school introduces the term ‘platform power’. It was developed by Culpepper (2016) and Culpepper & Thelen (2018). Van Dijck et al (2019) and Culpepper & Thelen (2020) built upon this work. They assume that in political battles platform companies can benefit from platform power: a symbiotic relationship between corporation and consumer.

Platform governance

Gorwa (2019) attempts to move beyond traditional and more old-fashioned notions of governance that emphasize state-centrism and the ability of the state to ‘*make and enforce rules, and to deliver services.’* Instead, according to Gorwa, the concept of governance must be understood in a much broader sense. Governance is conceptualized not only as the rules the state dictates, but also how life in general is organized and what its structures and regulations are. According to Grimmelmann (2015), platform companies have elevated governance to the digital level. In their perspective the online community is governed by mechanisms such as algorithms, terms of service and content policies. Through these systems platforms can influence the behavior of individuals in a very significant way. Structures like these are then utilized by third parties, such as advertisers, data-brokers and producers of services. Gorwa (2019) calls these actors ‘complementors’. Complementors are, in turn, regulated by the government as well. The governance of governments aimed at influencing consumers is therefore inherently diluted. Platform companies, complementors, governments and consumers are therefore the main actors in the model of platform governance. Several additional actors such as advocacy groups can also be relevant to the model.

The concept of platform governance is interesting in understanding the additional layer of governance of behavior platforms add to society. It is also relevant to understanding how platform companies are fundamentally different from traditional companies in their structure. However, the model fails to explain how platform companies can ‘beat’ traditional companies. Gorwa (2019) fails to extrapolate a source of additional political power from his reasoning. Therefore the question remains: how can platform companies beat the respective regulatory hegemony of traditional businesses?

Platform power

Culpepper (2016), Culpepper & Thelen (2018), Van Dijck et al (2019) and Culpepper & Thelen (2020) developed an approach that shares similarities with platform governance but also has differences. These scholars have adopted the concept of 'platform power' as a new and intrinsic quality that large platform companies can possess. They argue that platform power is derived from three types of power that they can accumulate because of their model: infrastructural power, economic power and political power. The notion of infrastructural power of platforms was first introduced by legal scholars such as Cohen (2016), Lynnskey (2017) and Rahman (2018). They recognized the similarities platform companies showed with the monopolies mentioned earlier, that kickstarted the legal debate in academia. They argued that the most significant economic infrastructure of the 21st century is that of information technology. Platform companies can accumulate information in such a way that they become dominant.

A second feat that strengthens their power is the economic power they accumulate. Culpepper & Thelen (2020) argue that economies of scale are very significant in the platform economy. Consumers are connected to producers, while producers are connected to consumers. Both can become dependent on the platform because of its position in the market. Alternatives become unavailable to both producers and consumers as the scale of the platform grows. Abandoning the platform can therefore mean abandoning the market, at least in the most profitable way (Culpepper & Thelen, 2020).

While platform power recognizes the influence of infrastructural and economic power, Culpepper & Thelen (2020) argue that they ultimately culminate in political power. This is due, for a large part, to the strong cultural connection consumers have to the platform. Platform services like Uber, Spotify and Airbnb have become part of a lifestyle. Consumers are alway close and connected to these services through their smartphones. The economic and infrastructural power are important components of platform power, but they are insufficient. The adoption of the service as a lifestyle generates a new type of political influence. While platform power does not disregard the importance of lobbying spending, it supposes that there is more to it (Culpepper & Thelen, 2018). In that sense, platform power is at odds with the concept of platform governance, discussed earlier. It goes beyond the dimension of firm influence. Platform companies in this sense are not 'just companies'. Defying a platform company does not just result in economic repercussions for politicians. It can also result in a backlash they face from the consumers that make use of platform services (Van Dijck et al, 2019).

Because the academic literature about platform power is still relatively new, it remains as of yet untested. Diving deeper in the dynamics that create platform power can provide valuable insights about how platform power is formed and how it can be contested. For example, the assumption that platform power will inevitably be formed because of the symbiotic relationship the company forms with the consumer should be proved. In some cases, for example, the platform company might not be capable of reaching a sufficient scale to develop the economic and political power. What if consumers do not prove to be a hotbed for brand loyalty or lifestyle change? In other cases, platform companies might challenge the existing interests of existing businesses. How will regulatory battles between existing interests and its challengers be decided? Existing regulation cannot be disconnected from potential revisions of regulation. The position of the business elite that was established before the rise of platform companies cannot be ignored either. This thesis will attempt to provide deep and meaningful insights into these questions and issues.

Research question

The research question of this thesis will be formulated as follows: 'How do economic and political factors influence how governments in various Western political systems react to the emergence of platform companies?' In order to answer the research question this thesis will assume that the dynamics of regulatory politics as suggested by the theory of regulatory capture are predominant in dictating the regulatory framework. Regulatory capture theory argues that private enterprises will try to use their market power and financial wealth to influence regulation in such a way that they are protected by it from competitive forces. It suggests that they are able to do so, because their interests are condensed and unison, while the interests of consumers, are diffuse and variegated. Meanwhile, because platform companies have made their consumers dependent on them to deliver a service, they can activate and channel the interests of their consumers to formulate so-called 'third party interests'. They can be used to challenge the regulatory hegemony that private enterprises previously had.

Methodology

Hypotheses

From the literature review and research question, it is possible to distill two hypotheses that will be tested in this thesis. The **first hypothesis** focuses on the dynamics between regulatory capture, existing regulatory regimes and the introduction of platform companies. It formulates an assumption about how taxi companies will behave in a regulatory struggle. Taxi companies, like other companies, do not favor the harsh conditions of a well-functioning market. Instead they will try to insulate themselves from market forces in order to protect their position. If they are presented with the opportunity, they will work together in order to capture their regulators and strengthen their position in the market, should any competitors come along. The **second hypothesis** aims at explaining how platform companies can still exist in such a closed environment. It supposes that platform companies survive because they form close symbiotic relations with their customers, a trait which their opponents do not possess. In order for platform companies to form a strong and durable symbiotic relation with their consumers, they will need certain criteria in which they can function. While entrenched interests might have a stronger position to combat platform companies upon their arrival, heavily regulated markets also provide fertile ground for platform companies to grow. That is to say, because heavily regulated markets often have high prices and a low quality of service and because platform companies are aimed at achieving improvements in exactly those areas, platform companies can offer the most value added in heavily regulated markets. This leads to the following two hypotheses:

1. *Hypothesis A*: When unchallenged, taxi companies will try to insulate themselves from competition by capturing their regulators;
2. *Hypothesis B*: Market entry will be easier in uncaptured markets, but market domination will be more likely in captured markets.

Operationalization

The operationalization of this thesis depends on the demarcation of stakeholder interests for regulatory capture and defining the impact of social issues surrounding platform companies. With regards to stakeholder interests, this is relatively straightforward. The presented theoretical considerations provide an identification of stakeholders and an institutional composition to focus on. Therefore, an analysis of the process of decision making surrounding the regulation is necessary. The impact of competition authorities on overall legislation must also be examined. Then it must be established whether there are third party interests and if they are capable of fomenting opposition. Finally, this theoretical substantiation will be compared to the actual regulation that is in place to draw conclusions about the level of regulatory capture that is present. For the relation between social services, social issues, and the rejection by consumers of the platform, this is a little more difficult. In order to establish the level of success that opponents of Uber can achieve it is necessary to look at the relative strength and positioning of stakeholders. In order to do so this thesis again takes an institutional approach. However, because Uber triggers social issues, this time it is more relevant to look at the entrenchment of actors besides corporations.

Research design

The point of this research is to examine differences in outcomes and extrapolate possible causal relations from there. Therefore, the most appropriate research model is the qualitative comparative case study. Cases will thus be selected on their differences, within the confines of being located in Western developed and democratic countries. In order to get results that are generalizable, the instance that is being examined, the market entry of a platform firm, must be similar in different environments. The emergence of Uber, Inc. has therefore been selected as the platform company that will be studied. Uber is one of the most widely spread platform companies and has developed the same or similar models in every market they have entered. The instances of market entry by Uber will be selected on the difference of their environments. To make a selection the model of Varieties of Capitalism has been deployed. A Liberal Market Economy (LME), a Coordinated Market Economy (CME) and a hybrid version have been selected: Sweden as the CME, United States of America as the LME and Germany as the hybrid version.

Finally another operational choice has to be made. These countries have not only made different choices towards taxi market policy, they have also made different choices as to what level of government regulates the market. Sweden, for example, is characterized by a highly centralized set of regulations for taxis, while the United States and Germany take a more decentralized approach. In order to accommodate this, cases will be selected on the municipal level. For each country, the largest taxi market has been selected. In Sweden this is the city of Stockholm. In the United States this is New York City and in Germany this is the city of Berlin.

Data collection and analysis

Data for this research will be collected mainly from four sources: the academic literature, governments and policy makers, (economic) think tanks and news outlets. For the first section, on the institutions governing the taxi markets and its regulation, this thesis depends mainly on official documentation and reviews of regulatory policy. However, academic documentation and literature also provide useful insights on the dynamics of the market. The second section, which will cover the accumulation of platform power, depends largely on news coverage and academic literature that has covered Uber's arrival and growth in the market of each case.

In the first section, patterns in the governance of taxi markets will be examined and compared to the framework of regulatory capture. From there on this thesis will attempt to judge the extent to which regulatory capture has occurred. The second section covers the platform growth of Uber and the social issues which have come up. Especially important will be to see what issues Uber has evoked and how stakeholders have responded to that. It will then attempt to analyze what causal relations have played a role in the final regulatory outcome.

Capturing the market

Why regulate taxis at all?

Scholars have long argued that the taxi industry is often one of the most captured industries (Dempsey, 1996; Moore & Balaker, 2006; Weir, 2019). But why? In order to analyze the regulation of taxi markets, first it is essential to answer the question why taxi markets should be regulated at all. After all, from an economic standpoint it seems likely that the taxi market is capable of being perfectly competitive if it is not regulated. In theory, if a driver takes a car on the road and picks up passengers to make a profit, there seems to be little reason for the government to intervene. Supply and demand dynamics could regulate the number of drivers on the road and set the prices for customers. In this scenario, the market could go completely unregulated and the risk of regulatory capture would subside. Extensive research has been conducted on this subject, especially during the 1980s, resulting in a rejection of taxi market regulation (Weir, 2019). They theorized how deregulation would result in lower fare prices, lower operating prices, higher quality of service, innovations, and higher demand (Moore & Balaker, 2006). While some governments have moved ahead with a large-scale liberalization of the market, some governments remain hesitant to deregulate their taxis. One likely reason is because the supposed benefits of deregulation are not undisputed, and several social issues are of significance. Deregulating the taxi market could result in market failure in several ways. These imperfections in the market are used by firms as leverage to exercise influence, which ultimately can result in regulatory capture (Dempsey, 1996; Weir, 2019).

Even though taxi companies do not have structural power in the same way as Multinational Corporations (MNCs) have (i.e., a credible threat of disinvestment), they do have leverage over governments (Dempsey, 1996; Moore & Balaker, 2006; Weir, 2019). This is because taxis have a different type of leverage over their governments, which has swayed taxi regulation in favor of businesses more than in other markets. First of all, this is because supply and demand in the taxi market does not always result in optimal outcomes. Secondly, this is because taxis contribute to a public goal: that of mobility (Moore & Balaker, 2006).

The first indications that the taxi market did not behave like a regular market were seen in the 1930s, after the stock market crash of 1929. With the economy in shambles, low skilled, unemployed workers were looking for ways to make any money at all. One of the few professions they could turn to was to become a taxi driver (Moore & Balaker, 2006). This was stimulated by the fact that supply and demand in the taxi market do not meet centrally, but according to the need of dispersed users of taxi services.

For desperate drivers the sense that being at the right moment, at the right place was simple to understand and to act upon. Because of this drivers kept pouring into the sector and a rampant excess supply of taxis was created. The result of this was often cut-throat competition which led to chaos at taxi stands, including physical fights. Road safety during this period decreased dramatically, because drivers were overworked (Dempsey, 1996; Weir, 2019). During this era of the depression taxi companies were engaging in irresponsible practices as well (exploiting their workers and cooking their books). Taxis avoided all financial responsibility in the case of accidents. Economists argued that there was something like too much competition, which did not allow reaching the certain levels of scale perceived as efficient for taxi companies (Moore & Balaker, 2006). In a market of such excessive supply reaching that level of scale was nearly impossible, as many operators were unable to stay in business (Pagano & Knight, 1983). This situation provided governments with ample reasons to interfere with the market. Controlling fare rates and setting quantitative limits on the number of drivers therefore became common practice.

Several other issues play a role in the decision to interfere in taxi markets as well. First, excess supply of cabs does not necessarily have to result in cut-throat competition, but it does always contribute to congestion within cities. Congestion is one of the main challenges city planners in urban centers are being confronted with. As the urban population increases the challenge of mobility within cities is only growing, which makes it attractive for municipalities to keep the roads clear and set quantitative limits (Farren et al, 2016). Second, governments have cited the safety of the public as a reason for implementing regulations. Because of the public function the taxi market fulfills, governments want to ensure that taxi drivers are qualified to be safe drivers and that their cars are in good shape. Moreover, they want to make sure cab drivers are trustworthy. Mandatory strict drivers' tests, visual tests, background checks and vehicle inspections are therefore common practice (Farren et al, 2016). Third, the taxi sector is prone to swindles and scams. Especially when driving tourists, drivers can get away with asking unreasonably high fees or purposely taking longer routes relatively easily (Dempsey, 1996). Fourth, municipalities want to ensure service to all areas of the city. Taxis are an essential part of providing options of mobility. Especially seniors and disabled people are dependent on taxis to get around town. Because taxi companies provide not just a commercial service but help fulfill a public goal, municipalities want to provide incentives to taxi companies to provide service in areas that would otherwise not be profitable (Weir, 2019). Fifth, governments can accrue revenue from regulation, by putting prices on permits, licenses, tests, inspections and congestion taxes. Especially for municipal governments, this can be lucrative (Farren et al, 2016).

Level of government

One of the factors that influences the regulatory regime of taxi industries across developed economies is the layer of government that dictates regulation. Stigler (1971) already suggested that local governments were more easily captured than governments at the national level. Since then, scholars have built on this and suggested that a causal relation exists between the size of a firm and size of the government with regards to ease of capture (Dal Bó, 2006; Wren-Lewis, 2011). A smaller firm can capture municipal governments, while they may stand no chance of capturing a government agency at the national level. This is especially true for taxi companies because of the eminently local interests in taxi markets. Understanding the dynamic between the local government and the taxi firm, goes along with understanding how taxi regulation is shaped. Taxi companies often operate at the local or regional level. While there are taxi companies that operate at the national or even global level (e.g., Uber), their influence often still flows through the municipalities in which they are active. That is because these companies do not have the structural power that MNCs companies have on the national level, as was mentioned earlier. Instead, to create leverage taxi companies are reliant on the partnerships they create with municipalities. They are able to do so because they contribute to public goals. While regulatory capture by the taxi branch at the national level is not impossible, it is less probable.

When analyzing Western markets, there does not seem to be a common understanding about what level of government provides optimal outcomes for taxi regulation. Even scholars are divided about this subject (Frazzani, 2016). Furthermore, when performing an analysis about the outcomes of regulation and decentralization, it is important to understand that it is not solely the quantity of responsibilities that have been given to local governments that are relevant. The type of responsibilities that have been awarded to municipalities must also be taken into account, as some regulations have a more significant impact on the market than others.

Achieving regulatory capture for corporations is all about creating barriers-to-entry for competitors, in order to effectively capture rents. Therefore, those pieces of regulation that make it most difficult for new companies to enter the market are most treasured. Capping the number of vehicles that are allowed on the streets is one of the most effective instruments. However, quality regulation for vehicles and drivers or setting fare rates can also increase the price to enter the market and therefore be effective. This can limit competition and result in inefficient market outcomes, which benefit corporations. These instruments will be the focal point of this chapter.

Stockholm

In the case of Stockholm, this is relatively straight forward. Swedish taxi services are regulated through three pieces of regulation: the Taxi Services Act, the Taxi Services Ordinance and the Swedish Competition Act. The Swedish Transport Agency is the supervisory body that enforces this legislation. All of these laws are written and amended by the 'Riksdag', Sweden's national houses of parliament (Frazzani et al, 2016). While the Swedish Transport Agency does have quite a bit of freedom in its mandate, ultimately it responds to the Riksdag as well. Nearly all the instruments of market governance are dictated by these pieces of legislation, which leaves very little room for municipalities to influence regulatory outcomes. The Taxi Services Act does provide municipalities with a limited ability to regulate their respective markets. Most of these so-called delegated competencies pertain to ensuring the provision of service in sparsely populated areas (Taxiförbundet, 2018). While this does provide taxi companies with the ability to form partnerships with the municipality, there is almost no favors that they can get in return. All legislation pertaining to driver's quota's, quality assurance, safety and licenses are set at the national level. Therefore, for Stockholm taxi companies, it has been traditionally hard to capture regulation, secure rents and achieve insulation from competition. Swedish taxi markets are relatively liberalized, and competition is encouraged by national authorities. The Swedish government can be regarded as a relatively impartial judge to both taxi companies amongst themselves and towards Uber.

New York

Because of the strong federal system of the United States, the federal government, as opposed to Sweden, has very little to say about the taxi market in New York City. In general, the United States federal government has delegated competencies on the regulation of taxi markets to the states. In many cases, these states have delegated most of these competencies to the municipalities. That is the case for New York City as well. National politics only influence regulation through setting political norms. When municipalities draft regulation, they look at one another for inspiration and best practices. (Rajgopal & White, 2015; OECD, 2018). While little research has been conducted on the influence of federal lawmakers on local regulation in taxi markets before the emergence of Uber, this is becoming more and more relevant as federal politicians are becoming more and more vocal about the platform economy in general and Uber specifically.

In New York City most executive responsibilities lie in the hands of the Taxi and Limousine Commission (TLC) (Cetin & Yasin Eryigit, 2013). In terms of local government agencies, the TLC is a very powerful agency. It has a very high degree of regulatory freedom to intervene in the market, although ultimately it receives its mandate from the city council. The TLC is made up of nine commissioners, with five of those representing one of New York's boroughs and four appointed as general members (Wyman, 2013). Together, the municipal council and the TLC decide on all types of regulation pertaining to barriers-to-entry: price caps, quantitative caps, safety, and licensing. The complicated system that has been set up for the appointment of commissioners and intricate sharing of responsibilities between municipal council and the TLC, creates avenues for influence of the sector. Throughout the decades that the TLC has operated in New York City, taxi companies have used these avenues to influence decision making. They have built long lasting partnerships and invented systems that protect their interests. One of those systems is the medallion system. Medallions are taxi licenses but are regarded as private property by the TLC. That means they are tradeable and auctionable. Because of quantitative limits on the medallions, and the potential revenue of taxi driving in New York City, the price of medallions reached USD 1 million in 2014 (Alley, 2016). Companies are firmly protected by these mechanisms and they benefit from the upwards pressure this puts on prices. Market entry by competitors is nearly impossible as the number of cabs is capped and buying licenses on the private market was extremely expensive. Therefore, a company like Uber would have to mount large odds or be poorly protected from legal action if they fail to adhere to regulations.

Berlin

In Germany, the division of regulatory competencies between layers of government is complicated. Berlin, like New York City, is located in a federal state. However, Germany is less decentralized than the United States. Responsibility for regulation is therefore shared more equally between the federal, state, and municipal government. Within Germany, Berlin is a remarkable case. Berlin is one of only three cities that do not report to a state government. It means that Berlin has a higher level of autonomy than other German cities do (Zvolska et al, 2019). Just like in Sweden, Germany has an all-encompassing piece of legislation on taxis: the Personenbeförderungsgesetz. While this law sets the framework for taxi regulation, it delegates a vast number of competencies to the states. In essence, it provides them with instruments, tools, and definitions to regulate their market, however, it also sets some limits. Most significantly, it defines what is a taxi, what is a for-hire-vehicle (FHV) and what is carpooling. Additionally, it allows municipalities and states to implement nearly any regulatory tool they want, as they see fit. That means they authorize the use of price-setting, quantitative restrictions, any number of safety and quality restrictions and even conditions on the color of the cars (Taxiförbundet, 2018).

Arguably, the influence of norms is bigger in Germany than it is in the United States. Many German municipalities use similar practices in regulating their industries, even if they are located in completely different states. Often, municipalities also work together. They harmonize regulation in order to work together in enforcement of legislation or to create linking taxi zones (Rienstra et al, 2015). This makes the Berlin institutions, just as the New York institutions, relatively easy targets for capture. The city of Berlin has entered into deep partnerships with its operators, which led to high demands of taxi drivers but also insulate them from competition. Its regulations have created costly barriers to entry with regards to training drivers, acquisition of a carpark that meet the requirements and generally starting a taxi business. Companies that are new in the market and fail to adhere to regulation, just as in New York, are therefore vulnerable targets for legal challenges.

Antitrust policy

Competition law and antitrust agencies are regularly at odds with regulatory agencies or the goals of regulation. Much like the theory of regulatory capture, antitrust agencies are often aware of the risk regulations pose to free and fair competition. Therefore, market watchdogs regularly challenge regulatory initiatives or standing regulation. How disputes between regulatory agencies and antitrust agencies are settled depends to a large extent on the institutional framework (OECD, 2018).

Stockholm

In Sweden, the relationship between antitrust agencies and competition law is, again, relatively straightforward. Compared to other countries, Sweden has adopted a rather revolutionary approach. In the early 1990's the government launched a legislative overhaul of its competition law and regulatory standards precisely to address the relationship between antitrust agencies and regulatory agencies. This overhaul consisted of large-scale product market liberalizations, of which the taxi market was one of the first. Large chunks of regulation that had been self-contained were now housed under the umbrella of the Swedish Competition Act. Furthermore, large scale institutional reforms were implemented, to settle the hierarchy between regulatory agencies and antitrust agencies, in favor of the antitrust agencies. Before the 1990s regulatory agencies Sweden had a crowded organizational landscape. Many laws had their own government agency to enforce it. During the product market liberalizations of the 1990s, most of these agencies were closed down. Meanwhile, all antitrust competencies were united in a single agency, the Swedish Competition Authority (SCA), and subsequently shored up. The SCA was given its own courts to enforce decisions and settle disputes. Parliament and government were denied the right to overrule decisions by the SCA and appeals could only be brought to the judicial system (Goranson, 2006).

This provided a tremendous setback for corporations who attempted to influence regulation. Not only were product markets rigidly liberalized, but instruments used to take control of the market had to be evaluated by the SCA. New pieces of legislation had to adhere to the standards set out in the Swedish Competition Act. Politicians can therefore only create regulation with regards to quality assurance and consumer safety (Taxiförbundet, 2018). Although regulations in these areas can be used to foment regulatory capture, there seems little evidence that these attempts are successful. In fact, in the case of the taxi market, Swedish government officials have indicated that they are looking at even deeper deregulations of the taxi market. Denying Uber its market entry therefore seems to become even more difficult.

New York

Although the USA is often perceived to be the most market-oriented country in the world, its institutional and legislative infrastructures are very complicated. It is not common practice for sector specific agencies to operate at the same level of government as the antitrust agency that is responsible for their supervision. Sector specific agencies are often organized at the state or municipal level, while antitrust agencies generally operate at the federal level (OECD, 2018). This design is prone to cause inefficient outcomes. Antitrust agencies suffer from a lack of know-how on state specific regulations. Moreover, inefficiencies and anti-competitive regulation at the state or municipal level are hard to detect for a federal agency. Antitrust agencies often do not have the manpower to effectively supervise every market (Conway et al, 2006).

New York's taxi operators benefit from the awkward relationship between regulators and competition watchdogs. The fact that antitrust agencies are unaware of anti-competitive practices in specific markets has provided the opportunity to taxi operators to insulate themselves with regulation. New competitors, who do not adhere to regulations, can be targeted with lawsuits, as antitrust agencies do not have the tools to enforce competition (Conway et al, 2006). Meanwhile, new competitors, such as Uber, are unable to retaliate with legal action. Therefore, Uber in New York is almost entirely dependent on the goodwill of local politicians for a successful market entry.

Berlin

Germany probably has one of the most well-known and well renowned antitrust watchdogs in the world: the *Bundeskartellamt.* The reputation and functioning of the *Bundeskartellamt* are so well established that it is often used as a blueprint by other countries. Within the German institutional framework, the *Bundeskartellamt* has a strong position. It acts completely independently from the government and it has handed out hefty fines in the past, to deter uncompetitive behavior. Therefore, the *Bundeskartellamt* can provide a powerful ally to new competitors. However, the weakness of the antitrust agency is that its scope is rather limited. In Germany, regulation policy and competition law are hardly interwoven. While the competition law is strict, it is solely limited to preventing corporations from achieving too much market power by forming monopolies or cartels. Therefore, situations can occur in which the *Bundeskartellamt* is ready and willing to act, but unable to do so (OECD, 2013).

This situation provides incumbent corporations with the possibility to accrue an array of regulations that will insulate them from competition. However, the *Bundeskartellamt'*s authoritative reputation does give it political weight as well and its monopoly commission has taken a strong interest in the taxi market. It has promoted liberalizations and argued that the market would benefit from easier market entries for new competitors, of which Uber is the prime example (CPI, 2015). Meanwhile, the European Union is slowly but steadily harmonizing regulations of goods and services as part of the perfection of the single market. While this process is strongest for goods that can be traded, other sectors are influenced by it as well (Thatcher, 2002).

Trade unions

Trade unions are a third stakeholder that helps determine outcomes in regulatory policy battles. Unions are important because they represent the voice of a group that is critical to producers; the voice of employees. Therefore, they attempt to bargain collectively so as to improve working conditions. However, trade unions often feel that they need to present a holistic solution to economic problems, in order to be taken seriously. Because of this, they often insert themselves in discussions about regulation as well. Moreover, trade unions are not as static as they are made out to be. Regularly unions and employers have similar interests. Because unions represent the employed, they want their members to keep their jobs. They can provide trusted allies to corporations.

However, what is perhaps most important is the fact that trade unions are strong voices in what is perhaps the most intense debate surrounding platform companies; the position of workers. Union structure influences both the scope of issues it addresses as well as its approach to it (Fiorito & Jarley, 2006). Larger trade unions are more likely to address macroeconomic issues, both because of their capabilities and the scope of their rank and file. They are therefore capable of addressing issues from a more holistic point of view. Smaller unions have virtually no capabilities to influence macroeconomic policy and will therefore not divert resources to try and do so. Furthermore, their rank and file is often smaller and less diversified.

Stockholm

Workers in Sweden enjoy high levels of union membership and especially high numbers of collective bargaining coverage. Sweden has a reported union membership of around 65% of the working population. Meanwhile, 90% of Swedes work in a sector that has collective bargaining coverage (OECD, 2018; Eurofound, 2018; ETUI, 2018). The high level of membership and coverage ensures that Unions are involved in many aspects of the Swedish economy. It also means that its rank-and-file is more diversified. Taxi workers have their own union, but with regards to the platform economy Unionen, which is Sweden's largest union, has been most vocal and influential. This means that Unionen does not just have the interests of employed taxi drivers in mind, but rather that of the sector and its role in the economy as a whole. Unionen has therefore not clung to the interests of existing taxi companies, but rather explored the opportunities that new companies like Uber bring. However, they are aware of the detrimental effect Uber's business model can have on working conditions in the industry and have been vocal about those as well (Wallin, 2017).

Unionen has been quite effective in advocating the benefits and detriments of the Uber business model, mostly because of their high membership numbers, and because the rights of trade unions are exceptionally well entrenched within the Swedish system of social dialogue. Unions and employers are regularly consulted by the government on social matters and fulfill the role of adviser to the government. Social dialogue and the interests of workers has enjoyed strong support from consecutive governments in Swedish political life since the end of the second World War. The social partners have been pivotal in enabling the government to engage in product market liberalization as well. While trade unions are well organized, strongly institutionalized, and independent organizations, they do not favor conflict with employers. Rather, the Swedish model is characterized by harmony in the social dialogue. Both employers' organizations and unions recognized the necessity of product market liberalization, because of Sweden's export oriented economy (Teague, 2009). Because the Swedish trade unions favor competition, they have been positive, yet critical of Uber.

New York

While the Swedish model is characterized by high membership numbers and bargaining coverage, the United States model of industrial relations is almost exactly the opposite. Across the United States trade union membership is low, at around 10%. Collective bargaining coverage is equally low, at around 11% (OECD, 2018). US trade unions are almost always sector specific and membership per union generally does not exceed more than a couple of thousand people. Therefore, American unions tend to focus on very basic worker issues, such as wages, working conditions and working hours. American unions rarely pay attention to the economy as a whole or bigger developments that might influence work, such as the development of the platform economy. In many ways, the New York Taxi Workers Alliance (NYTWA), the biggest taxi drivers union in New York City, is a typical American union. While the NYTWA presents itself as a union, it does not officially hold union status. This is due to the hostile labor laws of the New York state. New York's labor laws make it incredibly difficult for unions to organize workers, bargain collectively and organize strikes (Johnston, 2018).

Because of the narrow focus of the NYTWA, it solely focuses on the core issues of the working conditions of the New York City taxi worker. This has negative adverse effects. Its limited scope and weak position in the labor market have made the NYTWA focused on only employed drivers. Therefore, the NYTWA is not interested in creating a better taxi market. Because of the precarious position of taxi drivers, the NYTWA has become dependent on taxi companies who have provided them with only the most basic protection. New companies and drivers are perceived as a threat to that position (Wyman, 2013).

Berlin

Germany's model of industrial relation could best be characterized as a hybrid version of that of the United States and Sweden. Historically, Germany has had a strong tradition of unionism in its industrial relations. However, as in many other Western countries, union membership and collective bargaining coverage have been on the decline. In 2016, Germany's union membership was 17% (OECD, 2018). The collective nature of its industrial relations system is still reflected in its collective bargaining coverage, which is relatively high at 56% (OECD, 2018). German taxi drivers are not represented by a specific union although they are sometimes represented by national unions. An example of that was an attempt by the *Vereinte Dienstleistungsgewerkschaft* (Verdi) to negotiate a Collective Labor Agreement (CLA) for taxi workers (Eurofound, 2014). However, the lack of a strong ground base amongst drivers made this difficult and negotiations broke down rather quickly. In general, the interests of German drivers are poorly represented. Therefore, similar tendencies can be identified amongst German drivers as are visible in New York. German drivers have a strong connection to their employer and often align themselves with their employers interests.

However, that does not guarantee similar outcomes for platform companies in New York as in Berlin with respect to trade unions. Whereas New York's system of industrial relations is characterized by very small scale organizing and bargaining, as well as hostile labor law, the German system is generally welcoming to unions. Collective bargaining is often conducted at the national or sectoral level and large influential trade unions do exist (Eurofound, 2018). These trade unions have a more positive attitude towards platform companies. However, it is likely that it will take a while before the implementation of platform regulation from other sectors will ripple through to the taxi sector.

Platform challenges

Platform's toolbox

As discussed earlier, platform companies are different from traditional private enterprises in several ways, from a political economic standpoint. They accumulate market power and structural power in a different way and exercise their structural power differently. From these assets they derive their strength, both in markets and in politics. It allows them to achieve enormous economies of scale (Gorwa, 2019). Therefore, they are often compared to natural monopolies, like energy grid or public transportation companies. However, nobody particularly cares for their energy grid provider or public transportation company.

Combining their economic assets with a strong marketing campaign is what gives a platform company like Uber the potential to be a political juggernaut. Through their company branding, platforms build structural power in an entirely new way. Platform companies have become part of our lifestyle and their names have become part of our lingo, especially for younger generations. Not only are consumers dependent on the company, but they also feel sympathetic towards it. A symbiotic relationship between the consumer and the company has been established (Culpepper & Thelen, 2020). This has turned the dynamics of regulatory politics and regulatory capture on its head because regulatory capture suggests the absence of consumers in the political equation is beneficial to producers. It gives platforms the potential to turn the regulatory capture of the existing private enterprises in their respective sectors on its head. It also has consequences for the way they conduct their lobbying campaigns.

Uber illustrates this case perfectly. As argued earlier, taxi companies are champions of insulating themselves from market forces by seeking government protection. This has increased prices, transaction costs and waiting times while it has decreased the quality of service. These are all reasons for consumers to avoid taxis unless they have no other choice. If they do take a cab, they will not enjoy their ride. Uber has changed this. The Uber app was able to decrease transaction costs, prices and waiting times while increasing the quality of service (Cramer & Krueger, 2016). They have made cab rides convenient, not only for existing regular consumers. They have tapped into an entirely new market of consumers as well (Correa et al, 2017).

Regulatory capture suggests that business power is exercised, in a very concrete way, through lobbying politicians and regulators and the manner of success depends on the leverage a company holds. In some ways, this is not different for platform companies (Dal Bó, 2006). Large and well-funded platform companies such as Amazon, Airbnb, Netflix and Uber spend huge amounts of money on their public affairs campaigns in the political capitals of Europe and the United States (Collier et al, 2018). The tactics of these companies vary and rely on assets that businesses have over politics, but for platform companies they are aimed at highlighting the benefits they are providing to consumers and the economy as a whole. Because the main asset of a platform company is the symbiotic relationship they have with consumers, the success of their campaign depends almost entirely on maintaining this relationship.

While the symbiotic relationship is strong, it is not set in stone. Citizens can choose, consciously or subconsciously, to vote as either consumers or as taxpayers (Culpepper & Thelen, 2018). Consumers will act in their own best interest and prefer decreases of prices, decreases of transaction costs, and increases in quality of service. They will look favorably on companies that provide that. Taxpayers on the other hand, will have the interests of society on their minds. They will evaluate corporations on their contributions to societal goals, such as contributions to social security, paying taxes and general good conduct in the way they interact with their environment.

It is important to highlight once again that politicians do not make decisions based on perfect knowledge about the opinions of their electorate. They decide through the so-called 'punishing recoil mechanism'. The punishing recoil mechanism assumes that politicians make their decisions based on what they think will look favorable with their electorate (Dal Bó, 2006). For traditional businesses, the punishing recoil mechanism is triggered mainly by the leverage that company has over politicians, such as for example the threat of disinvestment. The fallout from such a decision by a company might scare politicians, who will be activated to fulfill their interests. For platform companies triggering this punishing recoil mechanism is mainly about activating the consumers. Therefore, lobbies by platform companies are characterized by public campaigns, as opposed to traditional business.

Understanding Taxi wins and Uber's woes

With the support of consumers, i.e., the electorate, the political position of platform companies seems solid. However, there are some factors that can threaten such position. Platform companies can lose the support of consumers because voters do not always reason as a consumer, they can also reason as a taxpayer. In this respect, platform companies are rather vulnerable. While all companies run reputational risks, platform companies do so even more. Because of their brand-new model and rapid innovation, they often enter a realm that is completely unregulated. Governments have not made policies that fit platform companies, simply because they have never existed before and governments in many countries have been slow to respond. Some governments have put initial constraints in place, but coherent, holistic approaches to the platform economy are rare (Lynskey, 2017; Feld, 2019). Without a legal framework to regulate them, platform companies are prone to form their own norms, which are often not in line with the norms of the public (Gorwa, 2019). Ever since platform companies started to grow and became part of the daily lives of millions, controversy has followed suit. Uber has been plagued by social issues such as labor disputes, tax evasion and safety concerns since its early days (Thelen, 2018). This complicates the political arena in which struggles over regulation are decided.

In order to ultimately capitalize on their consumer alliance, Uber, and platform companies like it, often conduct highly public lobbies. This is easily illustrated by the capacity Uber has to dominate headlines. The spotlight ensures that Uber is discussed, which contributes to their brand recognition and allows them to put issues on the political agenda. However, the risk that it backfires is omnipresent. Public outcry ensues on a regular basis (Edward, 2020). Attention for the company can easily invite journalists to shed light on negative issues, especially when journalists are aided by competitors or political opponents. It resulted in a nearly equal amount of media attention to negative issues as to benefits to customers and broader public interests. The question that remains, however, is whether or not customers will act on this. How many people will actually change their behavior and delete their Uber app based on a negative newspaper article? There is little evidence indicating that the majority of consumers will boycott a platform if they disagree with their conduct. However, what hurts platforms the most is not consumer opposition, it is the lack of consumer support. According to the stakeholder model of regulatory capture, if the political voice of support for a company grows quieter, the political voice of its opposition becomes more influential. In the case of Uber, the political voice of the opposition can be either that of a competitor or a trade union.

Evidence from the cases

Stockholm

In Sweden, Uber struggled to build platform power. At first glance, operating conditions for Uber were favorable. However, the lack of regulatory capture and high levels of competition in the Swedish taxi market weakened Uber's business case. Uber Sweden AB launched its first ride hailing service in 2013 in the Stockholm metro area. The company was ambitious for the Stockholm market and immediately offered a wide range of service from budget options to group vehicles and luxury cars. Swedish taxi companies and authorities were unusually welcoming towards Uber. Uber's largest competitor in Stockholm even published a statement welcoming Uber, saying that: "Uber is giving the taxi market a chance to develop by coming at it from a lifestyle point of view" (NRC, 2015). They recognized that platform companies like Uber could give a boost to the market and reduce costs. Liberalization had made Swedish taxi companies accustomed to competition and therefore open to innovation. It was expected that Uber could boost the market with its branding and that taxi companies could profit off that by developing a similar user experience. In the initial roll-out phase of Uber, no lawsuits were filed by competitors and the government watched the market entry with interest. Meanwhile, Swedish trade unions had taken an interesting position as well. Whereas trade unions in other Western countries had often chosen to vehemently oppose the platform economy, Swedish unions were intrigued. Because of their strong position and large size in the labor market, Swedish unions can take a credible and strong position on macroeconomic issues. They did so with Uber as well. The Swedish Unions, and especially the largest union, Unionen, were confident that they could force platforms to negotiate Collective Labor Agreements (CLAs). In this they saw an opportunity. The digital character of the employment relationship was seen as beneficial because adherence to CLAs could be supervised in real time, whereas non-digital enforcement of CLAs requires spot checks, interviews and data collection.

Uber became the largest app-based taxi platform in Stockholm, relatively quickly. However, its market share is small compared to the successes it has enjoyed in cities in the US. In 2016 the Swedish Competition Authority estimated that Uber controlled about 10% of the taxi market. Larger taxi companies control the most significant part of the market share, at around 35-40% whereas independent drivers also make up a formidable share at around 20% (Frazzani et al, 2016). No numbers on the current situation in the Stockholm taxi market are available, but the Swedish Taxi Association estimates that in 2020 around 4,000 Uber drivers are active in the Stockholm Metro area, which would make Uber a large operator, but by no means dominant (Taxiförbundet, 2020). The lack of explosive growth, despite having the freedom to operate, can be explained by the state of the Stockholm market. Because of the liberalizations of the 1990s, cabs had already been in competition for some 25 years before Uber arrived. Stockholm already enjoyed a high quality of service and low waiting times (Edquist & Henrekson, 2013; Fölster, 2014). Uber's competitors were quick to adapt to Uber, by building ride hailing apps of their own.

Uber's first regulatory confrontation came in 2015, when Swedish news sources discovered that Uber drivers had not reported their earnings accurately to the Swedish Tax Agency (Frazzani et al, 2016).

Political opinions about Uber changed as reports were published stating that three out of every ten Uber drivers did not properly pay their income taxes. The Swedish Taxi Association subsequently opened their own investigation and found out that seven out of ten drivers did not properly report their income. According to the calculations by the Swedish Taxi Association, Uber drivers in Stockholm collectively failed to pay around SEK 700 million (approximately EUR 68 million) annually. It meant the end of the laissez faire policies surrounding Uber (Thelen, 2018). The government announced that it would establish the Taxi and Ridesharing Committee (TRC) to draft recommendations for legislative reforms. Furthermore, trade unions filed a lawsuit contesting Uber's cheapest option, UberPOP, arguing that this was effectively a taxi service and that therefore, drivers needed a license and a taximeter, to which courts agreed. For a while, Uber's faith in Stockholm seemed to hang in the balance. However, the recommendations of the TRC, which were all adopted by the *Riksdag,* were accommodating towards Uber (Ouishare, 2016). Uber was not done any favor, however. The taxi sector was heavily represented in the TRC and advocated liberalizations that would provide room for innovations, largely because they had made significant investments in innovations that were similar to Uber. The TRC proposed to make the state mandated taximeters optional, because ride hailing apps could perform the same function. This meant that the platform ride hailing business got a boost, but Uber was not favored above its competitors.

New York City

New York City's case is very different from that of Stockholm. Uber's operating conditions within the city seemed relatively poor due to the taxi industry's strong influence on city hall and excessive regulation. However, this did provide Uber with favorable conditions to build platform power as its business case was quite strong. New York City was one of the first markets Uber set its eye on after its initial launch in San Francisco in 2009. Uber's operations in San Francisco had not fully reached maturity yet, by the time New York City operations commenced (Alley, 2016). At that point, the platform economy in general was still only taking its first steps. Uber and other app-based platforms were mainly perceived as a fun little gadget and it was mainly used by young people working in the IT sector. In May of 2011, when Uber started hosting its services in New York City, the average price of an Uber ride was still one and a half times as expensive as a regular yellow cab (Jin et al, 2018). However, the charisma and confidence of the company and its leadership made sure that the company did receive a lot of attention. Meanwhile, Uber largely defied regulation and operated under its own terms. Its goal and message was that Uber was going to revolutionize the ride hailing industry and make travelling around the city comfortable and easy (Wallsten, 2015). Taxi drivers were initially positive about Uber. Uber brought them business and, initially, offered good fares. The NYTWA paid no mind to Uber, as the company seemed insignificant at its worst and profitable at its best. Operators of yellow cabs and other taxi businesses in the city largely ignored Uber at first. It allowed Uber to expand its operations and scale relatively undisturbed (Alley, 2016).

On the demand side Uber was little more than a fun gimmick at first. But as the scale grew and the technology was perfected, it became a lifeline for New Yorkers. Uber challenged the high prices, poor service and long waiting times that were characteristic for the New York taxi market. Taking a cab slowly but steadily became an affordable, comfortable option. This is illustrated not only by Uber's market share, but also by the market size. Both grew month over month in rapid numbers. Before Uber and other ride hailing apps arrived, regular cabs on average completed somewhere between 450,000 and 500,000 rides per month. In 2018 Uber drivers completed around that number of rides by themselves, with regular cabs still completing somewhere between 200,000 and 250,000 rides monthly. Meanwhile platform competitors of Uber had also entered the market which completed another 250,000 rides monthly on average (TLC, 2020). On the supply side, Uber tapped into the existing market of drivers but also recruited new people as service providers. Because it largely ignored existing regulation, anyone could sign up to the app as a driver and start providing services through Uber. This is illustrated by the explosive growth of for-hire-vehicles in the city reaching a peak of over 86,000 in April of 2019, whereas the number of regulated taxi drivers remained steady at around 12,000 (TLC, 2020).

Once incumbent companies and drivers noticed the potential that Uber had, resistance was quickly mobilized. Issues about unfair competition due to the nature of Uber's business model dominated the debate. Contrary to the developments in Stockholm, resistance to Uber was not kickstarted by the media. Instead, taxi drivers which were organized in the New York Taxi Workers Alliance (NYTWA) sought protection from city hall and the TLC (Wallsten, 2015). They aligned themselves with their employers and organized strikes against Uber. Because of the structure of the NYTWA the strikes were largely ineffective. As the NYTWA almost solely organized licensed drivers, a large portion of Uber drivers was never involved in the organized opposition. While unlicensed drivers might have participated if they had been involved by the NYTWA, they kept on driving through the strikes (Johnston, 2018). The protests were ineffective in hurting Uber, but they were effective in activating city hall and the TLC. Mayor De Blasio proposed the introduction of quotas on the number of FHVs that were allowed on the roads and most of the city council was initially in favor. Mayor De Blasio's pushback on Uber is significant and exceptional. Uber's popularity had been rising month over month and its number of users as well. Electoral support for the taxi industry was non-existent. Defying Uber in a highly publicized setting was bold, but in the end proved to be too much. As part of a harrowing and savage public affairs campaign, Uber updated the app to add a 'De Blasio'-setting to the app. The setting showed users the waiting times and prices they would be confronted with if De Blasio's proposal was passed. The update also added a button that would instantly send an email to a city council member, informing them of the user's opposition to the proposal. In the end, the mayor and city hall folded, which allowed Uber to operate largely unregulated (Griswold, 2015). While attempts to regulate Uber have been revamped recently, Uber's position in the taxi market remains strong. Platform based ride hailing companies enjoy significant benefits over regular taxis as their operating costs are much lower and their model is more efficient.

Berlin

At first glance, Uber in Germany seems to enjoy many of the same benefits as Uber in New York. However, its regulatory battle has proved much more troublesome for the company. A swift legal crackdown on Uber by its competitors has cut Uber off from its customer base, which has severely hampered its ability to build platform power. In 2013 Uber tested the waters in Germany by offering luxury services during the Berlin Fashion Week (Nietsch & Schott, 2020). The aim of the operation was mainly publicity and mostly targeted the Fashion Week venues. Uber considered the experiment a success. Existing taxi operators had not indicated opposition to Uber's operations, although had not been seriously harmed by them either. Uber took this as an indication that it could move forward. In early 2014 Uber expanded its business by rolling out a service that would make an affordable option available to the public (Nietsch & Schott, 2020). Alongside the budget taxi they also expanded their luxury options. Berlin's taxi companies had learned from the situation in New York City and were quick to respond. They published statements opposing Uber and filed lawsuits at local courts. In multiple cases taxi companies won lawsuits which saw restrictions being placed on Uber. Substantial fines would be imposed if Uber broke the court rulings. Because of these legal victories, confidence among taxi companies grew. They pressed on to the federal courts for a national ban on Uber and in 2014 the judges agreed. The courts ordered Uber to apply for the same permits as regular taxi companies and to adhere to the same rules. The decision effectively shut down Uber in Germany (Rienstra et al, 2015).

Drivers who were part of an established taxi firm were not eager to choose the side of Uber. Although Uber's model might have been profitable for drivers during the short period that it was operable, working for an established company offers security. Recruiting from the existing pool of drivers was therefore difficult. Uber was able to make inroads with attracting new drivers. Drivers without taxi licenses were eager to use their own cars and work for the company. However, expanding the business was incredibly difficult for three reasons. First, the court rulings enforced regulations for Uber that were costly and made their business model redundant. For example, arbitrary regulation requires taxis to return to their dispatch center after they have made a drop off, before they can make a new pick up. This drastically increased Uber waiting times. Secondly, the speed with which lawsuits had been filed and court decisions produced ensured that Uber had not been able to build a ground game. Third, even though Uber had vowed to stay in operation, Uber had trouble keeping drivers on the platform because taxi companies organized sting operations to expose unlicensed drivers.

But despite the fierce resistance by Berlin's taxi sector, the support for Uber is increasing. Uber's continuous outcries over excessive regulation seem to have found resonance with Germany's urban population. In early 2019 the federal transport minister proposed adaptations to the federal Passenger Transportation Act. The news resulted in a hailstorm of publicity and reactions. Uber responded positively to the announcement that the requirement for FHVs to return to their base after they have completed a drop off, would be overturned. Taxi operators responded furiously, wishing to protect their privileged position. Their resistance remains strong (Marcus, 2020). Because of the absence of strong trade unions for taxi drivers, the drivers have turned to their employers for protection. It has resulted in a concerted effort to block any reforms to the Passenger Transportation Act. Operators and their employees have threatened to go on strike and block traffic throughout the city of Berlin. Now, Uber is unable to offer counter leverage.

While Berliners look favorably upon Uber, the company has no way of connecting with its potential client base. This lack of concrete connection to the client base seems to have severe implications for Uber. Taxi operators were able to activate their municipal and state governments. In negotiations between federal MPs, state and municipal politicians and the ministry of Transportation a compromise was reached that would provide Uber some leeway, but far from operating comfortably (Marcus, 2020). Slowly but steadily Uber is creating access to its potential customer base. However, so far it has been unable to foment platform power on a scale that is comparable to that of Uber in New York. The regulatory struggle in Berlin is far from over and the position of regular taxi companies is still comfortable. However, if Uber can attract more customers and drivers, it has the potential to fundamentally change the German regulatory framework in the future.

Concluding remarks

This thesis has sought to answer the research question: ‘How do economic and political factors decide how governments in various Western political systems react to the emergence of platform companies?’ In order to answer this question a qualitative case study has been conducted into the market entry of ride hailing platform Uber, into three distinct markets; the taxi markets of Stockholm, New York city and Berlin. The research has shown that taxi companies attempt to insulate themselves from competition by pushing for regulation, when provided with the opportunity. It shows that local governments are more likely to give into the demands of taxi companies. It has also shown that complicated antitrust structures hamper effective competition policy in markets and that trade unions are either strong and form opposition to excessive regulation or are weak and supportive of excessive regulation. Institutional frameworks and trade unions are of influence to regulatory policy. However, this research also shows that platform companies introduce new factors. Platform companies have the potential to gather large amounts of platform power that very few traditional businesses can gather, due to their ability to bind both consumers and producers to the platform. Its ability to gather market power in such a way, breaks the traditional way of forming regulatory policy in two ways. It puts pressure on the symbiotic relationship between weak trade unions and their employers. Meanwhile, it creates a new symbiotic relationship between consumers and platform companies. The activation of consumers in regulatory policy is new and when successful it has the potential to revolutionize regulation.

The case studies show that while these patterns are definitely present, actors and institutions in the field shape and guide them. The political potential of platform companies is largely disarmed by liberalized product markets. A platform company thrives in an environment that is very restrictive, because its business case rests on circumventing those restrictions. In liberalized products markets fewer of those restrictions are present and therefore platform companies can fail to become dominant. In heavily regulated sectors, the attitude of market actors is especially important immediately upon arrival of the platform company. The initial reaction of the government will be to support the entrenched interests of the incumbent companies. If a concerted effort is made to shut the platform down, either through legal or political challenges, upon the arrival of the platform company, it can be successful. However, if incumbent companies do not immediately challenge platform companies, platform power is built. An attempt to shut down the platform later on is likely to be unsuccessful as consumers have been activated and the political cost has become too high.

While this thesis provides a good indication of the political dynamics of platform regulation, some questions remain to be answered by further research. The case of the city of New York has shown a path to dominance and regulatory overhaul in favor of platform companies. In New York this happened swiftly and decisively. The cases of the cities of Stockholm and Berlin are as of yet undecided. While Uber is allowed to operate in Stockholm, as of yet its dominance is not asserted, due to strong competition from incumbent competitors. For the survival of platform companies market dominance is the most optimal outcome. Further research is necessary to see if platform companies can also become dominant in unregulated environments. The same goes for the case of Berlin. While Uber is shut down in Berlin at the moment, the political struggle goes on. Further research is necessary to investigate whether platform companies have the ability to break regulation, even if they are obstructed from reaching their potential customer base.

Recommendations

While the amount of platform power that a company can accumulate depends, to a large extent, on the institutional framework of a country, this does not mean that politicians and civil society are powerless. There are two different categories of lessons that can be drawn from the performed analysis. The first are lessons about a revision of the institutional framework. The second are more concrete, direct policy directions that a government can take. While the revision of an institutional framework may be disregarded as unrealistic or politically infeasible, it must be discussed. Digitalization and technological innovation are here to stay. Their impact on the world economy and the daily lives of people is only going to increase. Because of the composition of democratic governments, decision making is inherently relatively slow. Therefore, the regulation of these disruptions is always going to lag behind. An institutional framework and civil society that identify the detrimental effects of these innovations and can guide and shape them outside of legislation are crucial.

An institutional framework that ensures healthy competition in product markets can be very beneficial. As illustrated in this thesis, the amount of platform power that innovations such as the Uber app can achieve depends on the appeal of the innovative new business model. It also depends on the way existing competitors can successfully react to their new competitor. Therefore, harmonizing regulatory policy and competition law is crucial in managing the impact of technological innovations. Moreover, the way in which platform companies have an impact on the world of work, depends to a large extent on the position of workers in the labor market. Workers that have a well-protected position are less liable to lose out to new innovations and are therefore more likely to both embrace platforms and harness its benefits. Precarious workers will be less likely to embrace platforms, but rather cling to the employers that provide them with a small amount of protection. This position can then be undermined by existing workers or consumer demand. Providing precarious workers with protection can be done in two ways. Redrafting labor laws to accommodate collective bargaining and organizing workers in trade unions is one way. However, while some research has been conducted in organizing practices of platform workers, this is as of yet inconclusive as to the impact this has. A second way in which this can be done, is through providing ample protection to workers, to make them less dependent on their employer. Enforcing a durable employment relationship between the platform company and the worker can be one way to do it. Some countries have even done it by introducing the concept of 'flexicurity': a labor market policy which offers little employment protection, but high levels of unemployment benefits and re-education programs (Andersen & Svarer, 2007).

Then there are also policy decisions that can be made relatively quickly and do not require a revision of the institutional framework. As illustrated earlier, platform power is built through a shock market entry and a rapid dependency of consumers on the platform. Blocking a platform company from entering the market is one way of putting a halt to the accumulation of platform power. However, a hybrid option could provide an outcome. The issues that platform companies bring with them are by now well known. Governments could draft up conditions for market entry that harness the benefits of the model but mediate its deficiencies. The best way to do so, would be to not to distinguish between platform companies and regular suppliers. The institutional setup may complicate this political process, but governments should be aware of the future benefits this may reap for them. While incumbent producers with well entrenched interests may protest and resist now, the benefits it offers to consumers in the future may prove rewarding enough.

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