

Uber's disruptive war on economic welfare

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My background—transport economics

40 years of experience

- Rail, transit, mostly airlines
- Links between regulations, industry structure, competition and strategy
- Alliances, Mergers, Bankruptcies
- Testified before Congress, DOT

Independent

- No financial links to any taxi industry competitors or regulators

Two major publications on Uber

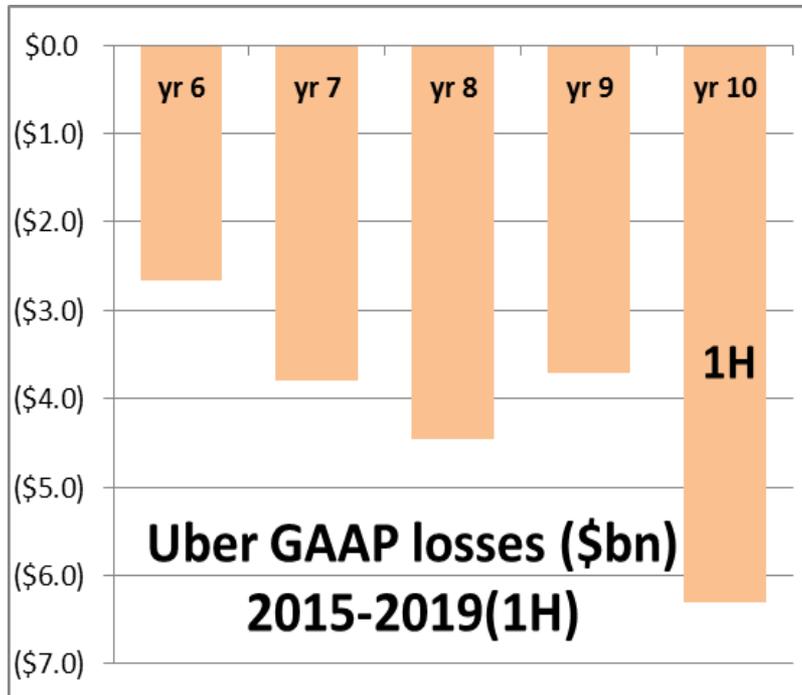
- 2017 Transportation Law Journal article "*Will the Growth of Uber Increase Economic Welfare?*"
- 2019 American Affairs Journal article "*Uber's Path of Destruction*"

Uber: everything we've learned about transport economics is wrong

Central control of capital assets/labor using sophisticated planning systems	Critical to profitability given volatile demand, competition	Uber: no direct control no demand data, no scheduling tools, primitive pricing tools
Scale/network economies	Never produced any tendency to high concentration	Taxi economies so big—now “winner take all”
Demand peaks, backhauls	Huge high-cost problem	Nothing in Uber model reduces these costs
Variable pricing	Valuable only if it increases <u>both</u> asset and revenue productivity	Uber pricing does neither
Technological innovation	Huge, but little impact on industry structure or market shares	Uber innovations more powerful than diesels, jets and containers

Uber has no hope of sustainable profits in competitive markets

- \$20 billion in losses last 4 ½ years---not “growing into profitability” like Facebook or Amazon
- Uber economics totally uncompetitive--actually higher cost/less efficient than traditional operators



- All of Uber’s growth due to massive predatory subsidies
- Market unwilling to pay anything close to true cost of Uber service
- Reversing losses this huge would require one of biggest turnarounds ever

Margin gains not from efficiency but from unilaterally cutting driver pay ~40%

- **Major labor market failure—Uber’s entry and stronger economic conditions should have increased driver wages but driver pay now at (or below) minimum wage**
 - Pre Uber drivers take home pay \$12-17/hr--Uber now \$9-11/hr
- **Uber used lies and deception to attract drivers**
 - Said NY drivers earned \$90K; gross revenue was take home pay
- **Uber shifted vehicle costs/risks to drivers, eliminated the limited “independence” drivers used to have**
- **But these huge, unilateral labor→capital wealth transfers (~\$3 billion since 2016) still don’t get Uber anywhere near breakeven**

Uber's PR narrative claims (1)— constantly changing, consistently wrong

- **Customers chose our superior product in competitive markets, and our powerful technology can overwhelm incumbents in any market anywhere**
- **Existing laws/regulations can't apply—ridesharing economics totally unlike taxi economics**
- **Uber is fighting a battle against corrupt regulators desperate to block our innovation and job creation in order to protect the "Evil Taxi Cartel"**
 - Real victims: billionaires breaking laws to pursue monopoly
- **For the first time, customers can get a car "at the touch of a button" even on Saturday night**
 - Only due to especially large subsidies—peak taxi service costs 4-5X more than midday capacity

Uber's PR narrative claims (2)— constantly changing, consistently wrong

- **Because we have the same huge scale economies as other tech companies, our startup losses will soon become big profits and our growing margins will allow us to eventually displace private car ownership**
- **Labor laws can't protect our drivers because we aren't a transportation company, we're a software company, and drivers aren't critical to our business**
- **We'll have driverless cars by 2018—and profits will soar once we get rid of drivers**
- **Uber is the "Amazon of Transportation"—with many years of profitable expansion ahead**

The media completely ignored the economic evidence refuting Uber's claims

- **Ignored actual losses and absence of scale economies--not "growing into profitability"**
- **Ignored subsidies that explained popularity, growth**
- **Ignored bogus "technological innovation" claims**
 - Why weren't innovative apps crushing competition in any other industry?
- **Ignored unprecedented funding needs—why did Uber need 2300x more than Amazon pre-IPO?**
- **Ignored obvious link between Uber's business model and "cultural"/sexual harassment issues**
 - Startups with positive cash flow do not need to harass journalists, obstruct law enforcement, sabotage competitors, or attack rape victims

Won't succeed; but need to understand what Uber did was totally unprecedented

- **First startup to incur ten years of staggering losses but remain widely seen as a successful company with huge profitable long-term growth potential**
- **First startup to create all of its ~~\$100~~ \$60 billion IPO value completely out of thin air**
- **Not just another “tech bubble” company but one of the most innovative and disruptive startups ever**
- **Keys: two critical strategic breakthroughs**

Uber's innovation(1): first startup to skip all the hard parts of corporate development

- **Uber rejected the Amazon/Google/Facebook template**
 - First, build sustainably profitable foundation, based on powerful efficiency breakthroughs, proven in open market competition
 - Then push valuation into stratosphere by exploiting anti-competitive market power based on sustainable industry domination
- **Uber was the first startup to completely skip the hard powerful efficiency and market competition parts**
- **First startup to raise \$10 billion to fund the predatory subsidies needed to bulldoze lower cost incumbents**
- **Uber's monomaniacal "growth-at-all-costs" culture was always an integral part of this strategy**
- **Early investors and Kalanick always fully aligned on this strategy for pursuing dominance/market power**

Uber's innovation(2): Treat business development as an entirely political process

- **Never an “economic actor”—always a “political actor” exclusively using political techniques**
 - PR/lobbying massively funded, using propaganda-style political narratives
 - Monomaniacal culture crushed all legal, journalistic, political critics, creating image of massive power
- **First startup to create its own alternate reality bubble, independent of any objective evidence**
 - Divert attention from hopeless economics---If Uber's success is inevitable and resistance is futile, no one needs to examine data
 - Successfully blocked tech world, business media, VCs and Wall Street from looking at competitive economics or financial results
- **Pursued total industry control--completely outside legal/democratic processes**
 - Needed total control to exploit market power, prevent future entry

Why has Uber's innovative strategy been so successful for so long?

Propaganda really works

- **Uber offered simple, easy answers**
 - Subsidies falsely validated those answers
- **Transformed complex economic issues into a simple "winner-take-all" game**
- **Once emotionally invested, people won't consider contrary evidence**

Staggering media malfeasance

- **Repeating simple narratives easier than digging into industry issues**
- **Never admit narratives were wrong**

Strategy will fail because

- **Never achieved the dominance needed to create Amazon-like market power**
- **Never had big scale/network economies**

Uber's disruptive war on efficiency, competitive markets and economic welfare

Anti-efficiency—skip the hard parts of business development

- **Disrupt the idea that corporate value should be based on powerful competitive advantages and sustainable profits, so that investors can create billions in value out of thin air**

Anti-market—political power shifts capital to less efficient uses

- **Disrupt the idea that information about superior efficiency should determine a company's success, so that investors can exploit raw political and artificial market power**

Anti-economic welfare—private wealth at expense of rest of society

- **Disrupt the idea that the purpose of capitalism is to increase overall economic welfare by allocating resources to more efficient uses**

Endnotes--Transportation Law Journal and American Affairs articles

- **Hubert Horan, *Will the Growth of Uber Increase Economic Welfare?* 44 *Transp. L.J.*, 33-105 (2017)**
 - *Includes detailed analysis of Uber's competitive economics, the origins and evolution of Uber's PR narratives, the components of Uber's strategy for producing shareholder returns, and Uber's financial results through mid-2017 Available for download at: · https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2933177*
- **Hubert Horan, "Uber's Path of Destruction" *American Affairs Journal*, vol 3, no 2 (Summer 2019), pp.108-133.**
 - *Provides an overview of Uber economic issues and financial results through the 2019 IPO. Available for download at: <https://americanaffairsjournal.org/2019/05/ubers-path-of-destruction/>*
- **Recent online articles about the Lyft and Uber IPOs**
 - Can Uber Ever Deliver? Part 18: Lyft's IPO Prospectus Tells Investors That It Has No Idea How Ridesharing Could Ever Be Profitable, Naked Capitalism, 5 Mar 2019
 - Can Uber Ever Deliver? Part 19: Uber's IPO Prospectus Overstates Its 2018 Profit Improvement by \$5 Billion, Naked Capitalism, 15 Apr 2019
 - Can Uber Ever Deliver: Part Twenty: Will the "Train Wreck" Uber/Lyft IPOs Finally Change the Public Narrative About Ridesharing? Naked Capitalism, 30 May 2019