A SHARING ECONOMY COMES WITH A PRICE

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Our economy is spawning a new sector of micro-entrepreneurs and, while the current overall economic impact is minor (not unlike Amazon in 2000), this technological transformation is expected to explode in the next decade. According to a December 2016 research study by the Brookings Institution, the "sharing economy is expected to grow from $14 billion in 2014 to $335 billion in 2025."

You might ask, what does this sharing economy have to do with financial advising and planning for one's future? While economically helpful for consumers, this trend (not dissimilar to Amazon) has the potential to be incredibly deflationary. Throughout history, deflationary environments have been associated with lower returns on investment, worsen the positions of debtors, and have had a negative effect on growth and economic stability. With debts rising, even during times of prosperity, and public obligations struggling to fulfill their liabilities, deflationary headwinds caused by the rise of the sharing economy has the potential to create a 'perfect storm'.

By any measure, the emergence of the so-called "sharing economy" is one of the most dynamic and little understood economic earthquakes of the still-young 21st Century. This is, in part, because the term sharing economy (also known as the gig economy or collaborative economy) is mostly opaque. The sharing economy is described as "an economic model often defined as a peer-to-peer based activity of acquiring, providing or sharing access to goods and services that are facilitated by a community based on-line platform."

The continued technological transformation of our economy – evidenced by the slow but steady decline of the brick and mortar retail sector – is altering the way we buy, sell and try to maximize dollar value to collective degrees we possibly haven't seen since the Great Depression. It's telling that Uber calls itself a global taxi technology company, a far cry from the pay phone or whistle-for-a-cab eras of our parents and grandparents. It is also telling that Uber does not own one vehicle in their fleet. The same can be said for Soothe, a new service that brings massage services to your home. Airbnb turns homes or apartments into occasional rental properties and the Poshmark online marketplace application turns everyone into a clothes consignment dealer.

This new era is in many respects opposite the 80's, 90's and early 2000's - the good old days of double digit returns, stable careers and rising incomes. In short, the sharing economy is a disruptive force that is joining other work and income-altering forces that are changing the habits of spending, saving and consumption. Not unlike Uber, this emerging economic paradigm is also the antithesis of the more secure and stable workplaces of our parents and grandparents.

New York University business professor Arun Sundararajan, author of the book "The Sharing Economy: The End of Employment and the Rise of Crowd-Based Capitalism," says "a key potential downside is the loss of the social safety net – the insurance, income stability, paid vacations and other fringe benefits that are critical to the well-being of workers…but the old funding model – the employer funds benefits in exchange for a commitment of full-time work – doesn't transition well to the sharing economy."

Traditions are changing before our very eyes and the generational, economic and digital divides are startling. According to a 2016 Pew Research study those who are college educated, live in urban-suburban areas, have relatively high incomes and broadband access, and are under the age of 45, are the main economic drivers of this new economy. Ironically, while we might love the benefits of the sharing economy, as consumers we may not be as enthusiastic as investors or economic participants. The main quandary: is this economic activity reflective of a bigger economy or merely squeezing profit margins while creating more deflationary pressures and zero-sum game outcomes?

Without knowing which scenario will prevail, and how this complex global web of economic trends may influence personal balance sheets, planning for the future requires a modicum of caution. Thankfully, prudence and pragmatism as it relates to the financial planning process is something within our control.

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