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17 July 2022

THE BLIND SPOT

Spotlight on: the 'Uber Files'

The “Uber Files” are not the Uber exposé you are looking for

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What the *gilet jaunes* protests in France could not achieve, a recently published exposé about ride-hailing unicorn Uber is apparently on the verge of doing: getting French President Emmanuel Macron to resign.

According to French media opposition leaders, incensed by revelations that Macron had backed and facilitated the rollout of the Silicon Valley darling in its heyday period from 2014 to 2016, are now calling for the president’s resignation.

And yet, the big mystery at the heart of the whole story is why should “revelations” that have been known for years reemerge in such dramatic form today? Even more inexplicable is how an investigation of this scale could miss the actual story at the heart of the Uber phenomenon: the fact that Uber’s business model was patently suspect from the very beginning and should never have received the massive support from capital markets and the political and media establishment that it did.

Let’s take a closer look at the details of the story but also at the media framing of the whole thing.

On Monday, July 11, *The Guardian* published a series of articles based on “The Uber Files”, a trove of over 100,000 emails, memos, and other internal Uber documents from between 2013 and 2017 that had been provided to the *Guardian* by Mark MacGann, one of Uber's top European lobbyists.

The lead headline framed the story thusly: "Uber broke laws, duped police and secretly lobbied governments, leak reveals". The story aimed to demonstrate that Uber knew it was breaking laws.

Soon after, another story on the same day introduced the leaker: "The Uber whistleblower: I'm exposing a system that sold people a lie." In this story, MacGann admits that the claims he fed to politicians about benefits for drivers and cities had never been true and says he came forward to 'right some fundamental wrongs'.

Subsequent stories provided additional background on the Uber PR/lobbying programme MacGann had supported, including the crucial role played by David Plouffe, Barack Obama's former chief of staff. Also, how Uber had paid prestigious academics to produce findings that would support their PR narratives and how Uber PRs misled drivers about their potential earnings and worked to disrupt driver protests.

The missing links

In some regards, *The Guardian* series represents a noteworthy breakthrough. Despite the significant media attention that Uber has courted throughout the years, this is the first time any mainstream media outlet has bothered to step back and attempt a "big picture" review of the gig economy giant.

Everything in *the Guardian* series is factually accurate and offers readers – especially those not following the saga closely – a good overview of Uber history.

But readers looking for a "big picture" evaluation of Uber will quickly realise that *The Guardian* series has failed to address a number of critical questions. These include:

- Can some of Uber’s bad behaviour be partially justified by the positive contributions it made to the productivity of the urban car service industry and overall economic welfare?
- Were the hyper-aggressive approaches described in the series widespread within Uber or limited to a few out-of-control individuals? If there was bad behaviour that went far beyond what was legal, appropriate, or necessary, why was it never reined in?
- Was this bad behaviour critical to driving Uber’s rapid traffic and valuation growth, or was it largely incidental?
- How do the false claims about the benefits Uber would create compare to what large companies routinely do to create positive public impressions and to increase political/media support? Why did these “lies” remain largely unchallenged?
- While the “Uber Files” ended in 2017, did false PR claims and other problematic behaviour stop after Dara Khosrowshani replaced Travis Kalanick? How did these post-Kalanick changes affect Uber’s marketplace and financial performance?

Uber's economic reality

A point often overlooked in Uber media coverage is that in 12 years of operation the ride-hailing app is yet to produce a dollar of positive cash flow. As of the end of 2021, Uber’s ongoing car and delivery services had produced GAAP net losses of $31bn.

The other too frequently untold truth is that rather than being a beacon of transportation progress, Uber is actually a substantially less efficient, higher-cost producer of urban car services than the traditional taxi operators it has driven out of business. Uber’s business model has never had any ability to profitably produce very large-scale operations at prices the market is willing to pay.

Uber's rapid growth and ability to drive competitors out of the marketplace have never had anything to do with superior productivity driven by technological breakthroughs. They were driven entirely by tens of billions in unsustainable and predatory subsidies provided by investors who had hoped that some combination of network and scale economies would allow Uber to achieve global dominance of the car service industry.

The major problem with *The Guardian's* "Uber Files" series is that it totally ignores the economics of Uber's business model. Uber's massive losses are never mentioned. Nor does the series mention the staggering and totally unprecedented $20bn in investor funding, 2300 times the pre-IPO funding Amazon required. It makes no attempt to explain how Uber's investors thought they might eventually generate sustainable profits, much less returns on that level of investment.

In the grand scheme of things, Uber has contributed absolutely nothing to overall economic welfare. Thus there was never any tradeoff of bad behaviour versus benefits produced to consider. The short-term consumer gains it claimed to deliver (lower prices/increased service) were always unsustainable. In reality, the model did not improve the overall productivity of urban taxi services, which means its stock price never had anything to do with future profit potential. Uber's efforts to suppress driver compensation and steamroll local officials trying to enforce longstanding regulations were purely destructive. So too was its effect of driving more efficient competitors out of business, increasing congestion and diverting traffic that weakened local transit systems.

Ignoring economics and focusing on the actions of aggressive lobbyists and local managers in isolation makes it difficult for *The Guardian's* readers to understand what was motivating this behaviour or whether it was limited to a handful of irrational, out-of-control individuals.

The toxic behaviour makes much more sense, however, if one understands that Uber was always misselling its longer-term profit potential and its ability to provide the market with vastly more service at much lower prices. Uber isn’t then just a company with poor-work culture. It’s a company engaged in a confidence trick on society.

Consider all the elements of t*he Guardian’s* stories in that framing, and you begin to see a highly integrated and rational strategy deployed from the outset:

- Deliberately disobeying longstanding laws and regulations.
- Using an unprecedented level of lobbying expenditures to convince politicians that those laws should not be enforced.
- Conducting massive propaganda-based PR campaigns based on manufactured narratives about how letting Uber do whatever it wanted would produce massive benefits for consumers, drivers, and the cities it served.
- Aggressively publicising how the combination of the monomaniacal culture Kalanick had created and the billions in investor cash Uber had raised could be used to obliterate the competition in order to convince politicians and the media that its eventual success was inevitable and any resistance would be futile.

Uber’s investors were pursuing the stratospheric valuation growth that other unicorns had achieved. The foundation of companies like Amazon and Facebook were major productivity and product breakthroughs. Powerful network and scale economies allowed them to achieve dominant industry positions, and once dominant, they could readily exploit anti-competitive market power.

But Uber’s business model lacked any material efficiency or productivity advantages from the beginning. It didn’t have the huge scale or network economies that allowed other unicorns to “grow into profitability.” Its corporate development strategy was to skip the difficult “build a foundation based on major productivity and product breakthroughs” phase of the development journey and move directly to impregnable industry dominance and the ability to exploit artificial anti-competitive market power.

It is absurd to argue that the toxic behaviours reported by *the Guardian* were due to aberrant behaviour by a few bad actors. Uber's investors wanted managers to pursue the company's meteoric growth at any cost and knew that this ruthless, hyper-aggressive behaviour was the only way to deliver it. Uber's investors never uttered a word of complaint about the terrible publicity this bad behaviour was generating until it threatened the huge returns the 2019 IPO was supposed to produce.

As Uber's huge losses and cash drains demonstrate, its rational strategy to use predatory subsidies, PR, lobbying and its hyper-aggressive culture couldn't totally overcome economic reality. Perhaps due to drinking some of the PR Kool-Aid they were serving the public, Uber's investors seemed to think that anything that could be described as an "app-based network" would generate significant value, at least large enough to eventually produce positive cash flow. What's more, the presumption that Uber could use artificial market power to drive profitable growth was also incorrect; Didi had achieved a 95+% share of the Chinese car service market but has never generated meaningful profits.

A political coup, not a business proposition

Uber's explicit political objective was to seize control of a portion of urban transport infrastructure from the voters and taxpayers that had long controlled it and totally destroy the public's ability to exercise any oversight over these services (including safety and insurance rules). Urban car services would only exist if capital accumulators could earn outsized investment returns.

No city government anywhere, following deliberative processes open to the public, voted to either suspend all pre-existing taxi regulations or to transfer control of local taxi service to private investors who could not be held accountable if promised levels of service, prices and jobs failed to materialise. But that's what Uber's massive lobbying and PR efforts accomplished.

Uber's investors seemed to believe that simply claiming to be a "tech company" that had produced an "app" eliminated the need to actually understand the industry they were trying to "disrupt."

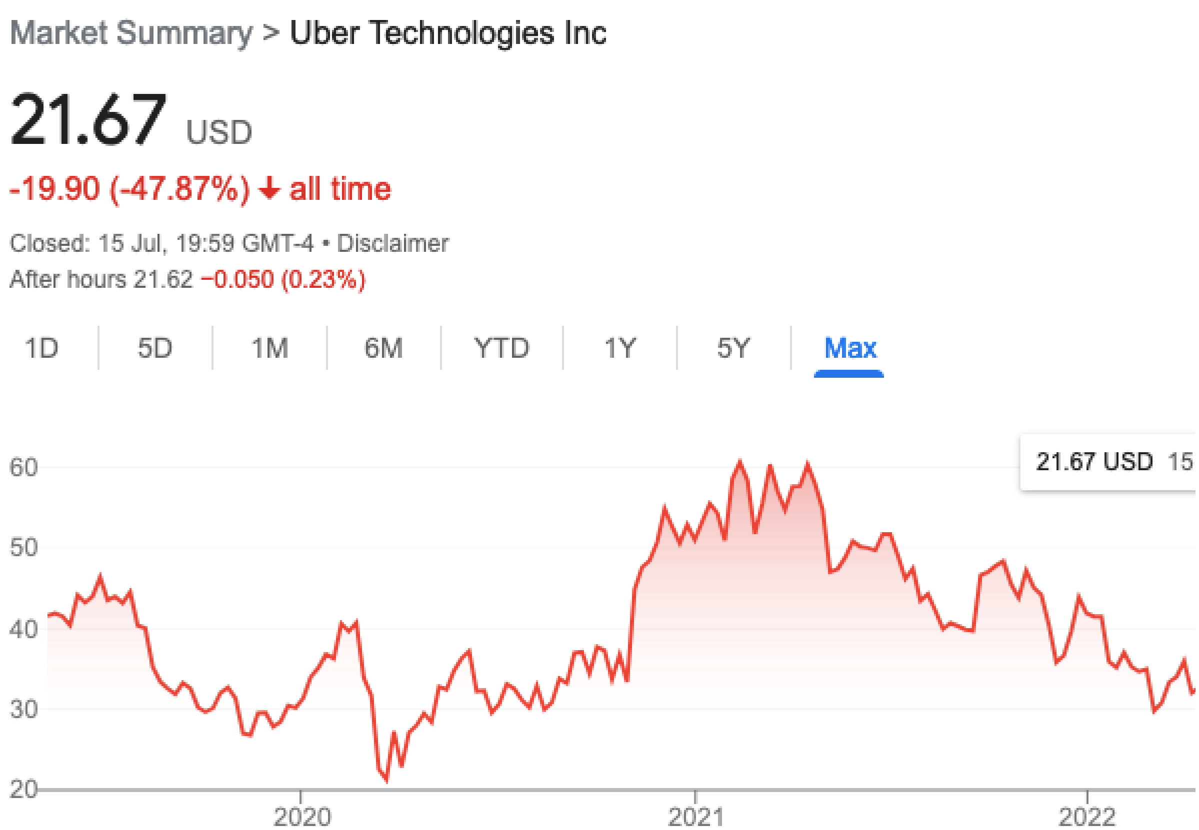
They did not understand that the economics of quasi-public goods like urban transport were radically different to the discretionary consumer industries other tech companies had tried to disrupt. Uber's business model had not solved any of the longstanding problems that had made taxi service unpopular and economically marginal. Uber could never explain why even though taxis and all other forms of urban transport had required public ownership or tight regulation for over a hundred years, they would suddenly become an economic powerhouse worthy of nine-digit stock market valuations if converted to a pure laissez-faire private investor structure.

Uber is not the only company to make claims about the benefits it creates that ultimately do not withstand scrutiny. But Uber's hyper-aggressive lobbying and PR activities went way beyond what other Silicon Valley-financed startups were doing at that time.

The issue was not the specific claims about job creation and happy drivers that MacGann feels remorseful about. The bigger, much more serious PR/lobbyist "lies" were that Uber was a legitimate company that could eventually produce sustainable profits and broader economic benefits. Also, that Uber should be granted full laissez-faire freedoms, without any evidence that this could produce substantially more efficient taxi services than had existed previously. And that it should be free to operate without any accountability for actually producing the sustainable benefits for consumers and cities it promised, and without any protections for the companies and jobs destroyed by its highly predatory behaviour.

The narratives Uber was manufacturing were designed to conceal Uber's actual economics and to mislead investors and the cities whose taxi services had been decimated by Uber's pursuit of unicorn-like valuations.

These narratives created the widespread perception that Uber was a highly innovative and successful company that had revolutionised urban transport, and which could achieve the long-term growth and profit potential to justify its massive (currently $42bn) valuation.



These perceptions remain powerful despite overwhelming financial evidence to the contrary and despite the fact that all of the narrative claims that created this perception are demonstrably false.

Empowering Uber's counter-narratives

By ignoring Uber's economics, *The Guardian* has allowed Uber PRs to undermine the series by claiming that all of the bad behaviour reported is down to a small number of aberrant people who no longer work there. Uber has further claimed the behaviour was inconsistent with board-level objectives and strategies, and that all of the problems from that era were solved when Dara Khosrowshani replaced Kalanick.

Uber does appear to have shaved off some of its rougher practices. For example, the use of Greyball technology to obstruct law enforcement has been eliminated.

But there's little evidence that the change in CEOs did anything to solve Uber's core problems. After four years, Khosrowshani has done nothing to solve the problem that Uber's business model is incapable of generating sustainable profits. And Uber is still manufacturing narratives designed to conceal Uber's actual economics and to mislead investors about its growth and profit potential. It continues aggressively lobbying to prevent any meaningful public oversight just as it did when MacGann worked there.

Ignoring economics also allowed Emmanuel Macron to undermine the series by arguing that he was only helping Uber to support innovation and job-creation as any smart politician would. The more substantive criticism of Macron (and other openly pro-Uber politicians) is that he was aggressively working to help Uber drive existing French taxi operators out of business without any evidence this would actually produce meaningful benefits for French consumers, workers or cities.

He was not trying to ensure that a new competitor would have the "level-playing-field" opportunity to compete so that the "marketplace" could determine the outcome. He was working to rig the marketplace so a company with $20bn in financing (but no actual competitive advantages) could destroy operators who were willing to obey existing laws but had much less financing. Pro-Uber politicians like Macron cannot be judged independent of evidence about the economics of Uber and the urban transport business.

Uber PRs still claims it has vastly improved urban car services, even though the highly subsidised service and fares that fueled its initial popularity are distant memories, and anyone who has recently tried to take an Uber knows it is now charging much higher fares and providing much less service in most cities than traditional taxis used to.

But since *The Guardian* series has completely ignored the $31bn in losses and all other financial evidence, it has no way to respond to the false PR claims Uber has used to confuse its readers.

Other minor problems

Despite suggesting that the files MacGann gave *The Guardian* included new, shocking stop-the-presses Snowden/Manning-type revelations, almost all of the bad behaviour presented was publicly known when MacGann was still employed by Uber.

Everyone in Silicon Valley knew that “Uber broke laws, duped police and secretly lobbied governments” in 2017. When Susan Fowler published her exposé of systematic sexual harassment at Uber in 2017, it was immediately accepted that Uber could be guilty of behaviour this bad. And while it was useful for *The Guardian* to remind its readers about some of the nasty behaviour that fueled its growth, it failed to supplement what was in MacGann’s files with readily available evidence about the full scope of the bad behaviour that resulted from Uber’s “meteoric-growth-at-any-cost” strategy.

My 2017 *Transportation Law Journal* article on Uber cites 88 different news reports directly critical of Uber's behaviour in the time period covered by “The Uber Files”. These included numerous issues *the Guardian* did not mention including:

- Arbitrary cuts to driver compensation.

- Willfully false claims about driver earnings (that subsequently led to a $20mn FTC fine).
- Scheduling algorithms that sharply limited the flexibility it had promised drivers.
- Reneging on promises to share operating data with city governments concerned about congestion.
- Attempts to sabotage Lyft financing efforts.
- Spamming competitors with false orders.
- Harassment of critical journalists and legal foes.
- Lawsuits claiming Uber had stolen Waymo intellectual property.
- The systematic sexual harassment of female Uber staff.
- The theft of police reports about a customer who had been raped in an Uber vehicle.

What's more, while *The Guardian* series appropriately notes David Plouffe's role in developing Uber's huge lobbying programme, it has understated his importance. Contemporaneous news reports had not only noted how useful Plouffe's Democratic Party contacts were to Uber in the Democratic cities that were Uber's biggest markets, but also explained how Plouffe's work at Uber was a major departure from traditional tech industry lobbying practices.

Instead of just reacting to legal/regulatory challenges, Plouffe structured Uber's lobbying as a proactive political campaign. Tech companies had avoided avoiding major lobbying expenditures until they had achieved a sustainable market position, but Plouffe made lobbying one of Uber's top priorities while still extremely immature. Uber employed more lobbyists in Nevada than the entire casino industry and more lobbyists in California than Walmart, Bank of America or Wells Fargo.

The "Uber Files" noted the importance of the contacts Plouffe had developed as Barack Obama's Chief of Staff. Although, oddly (especially for a UK newspaper), *The Guardian* did not mention similarly close ties between MacGann's direct superior, Rachael Whetstone, and Conservative Party leadership, as news reports at the time had. *The Guardian* mentions that Whetstone had previously lobbied for Google in Brussels but failed to note that she was the granddaughter of one of the key drivers of the UK libertarian movement who had funded the think tanks that had laid the groundwork for Margaret Thatcher's election, personally managed a major "rebranding" of the Conservative party, and was the godmother of one of Prime Minister David Cameron's children.

The "lies" about benefits for drivers and job creation that MacGann acknowledges merely scratch the surface of what *The Guardian* could have told its readers about Uber's false PR narrative claims.

Subsidising your way to self-driving fleet fantasies

Uber's growth was not based on customers freely choosing its superior service in competitive markets as it claimed. It was driven by billions in subsidies that totally distorted customer choices and were explicitly designed to eliminate competition.

Uber's competitive success, meanwhile, was not based on the powerful cutting-edge technology it said would allow it to overwhelm incumbents in any market anywhere - it was based on those same predatory subsidies. This is why its efforts to enter markets like China and Russia were such disasters.

Other questionable Uber narrative claims included the following:

- That it should be free to ignore existing car services because laws applying to car services ordered by telephone could not possibly apply to car services ordered by smartphones.
- That it should be free to ignore existing labour laws governing car service drivers because it wasn't actually a transportation company but was merely a software company.

- That it deserved a unicorn valuation because its enormous scale and network economies would drive the costs of Ubers so low that they would massively displace car ownership and transit system usage.
- That it would introduce driverless taxis by 2018 and become a more powerful provider of autonomous vehicles than Tesla, Waymo, Mercedes, or Toyota.
- That these driverless taxis would massively improve its profitability even though the much higher cost and capital burden of these unproven vehicles dwarfed Uber driver compensation.
- That huge synergies between taxi services, food delivery, and scooter rentals would allow them to become the “Amazon of Transportation”.
- That “flying taxis” would become a major contributor to future profits.

All that said, it’s not fair to be too harsh. *The Guardian* has attempted a “big-picture” review of Uber that is still incredibly meaningful. They have correctly focused on bad behaviour and Uber’s major investments in lobbying and PR. What they have reported is entirely accurate. It is the broader media’s continuing reluctance to shine a light on the fundamental bad economics of the business that continues to exasperate us.

There is ample published evidence to support Uber’s economic failure. *The Guardian’s* failure to place the analysis in the context of Uber’s competitive economics and financial performance – despite ample published evidence – has significantly limited the value of the exercise.