

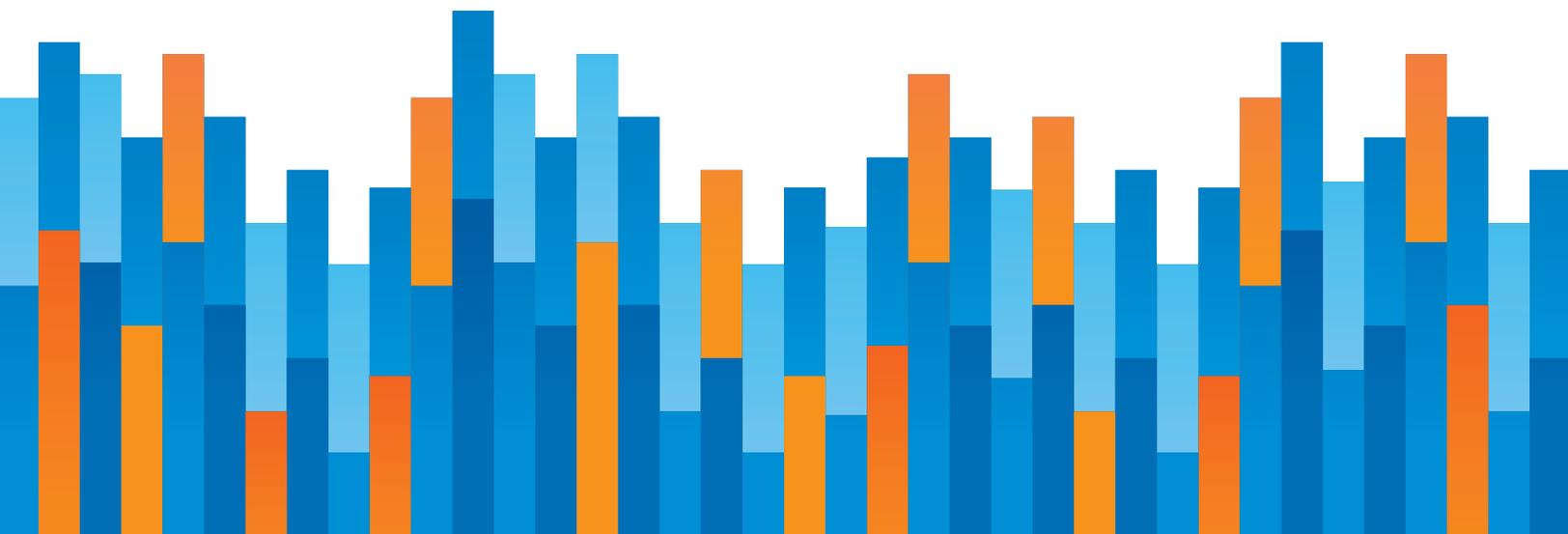


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# GIG? SHARING? THE CHANGING WORKPLACE AND THE NEW SELF-EMPLOYED ECONOMY

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by Adrian Moore  
May 2018





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# EXECUTIVE SUMMARY

Is America evolving away from the traditional workplace? As technology dramatically changes the job market, many workers embrace more-flexible job opportunities, and look for alternative sources for health care, retirement, and other traditional workplace benefits. Others look to government to bring back factory-style work, in which a highly regulated employer/employee relationship typically features:

1. Long-term (usually decades of) secure employment at the same firm, with fixed, full-time hours;
2. Strong unions and collective bargaining to ensure paid sick time, training, overtime and vacation, uniform salary and/or a guaranteed minimum wage, and employer-provided retirement pensions;
3. Collective bargaining by unions;
4. Employer contributions to Social Security, Medicare, health insurance, workers' compensation, etc.;
5. And perhaps even paid maternity/paternity leave, employer matching savings accounts, and governing structures for firing workers (regulations dictating if, when and how private companies are permitted to fire employees).

This traditional paradigm has modified some since the 1950s and declined since its peak in the 1970s, but the view that the traditional workplace is the one best way of working still persists.

## BUSINESSES ARE CHANGING

While the traditional work model provides stable work with life-long benefits for employees who work at or close to 40 hours a week, its benefits greatly drive up the cost of doing business for employers. When the cost of doing business is high, businesses are less productive, less efficient and less competitive. All of these factors serve to constrict local, state and national economies, and to make goods and services more expensive for all consumers—which is everyone. In today’s globalized economy, American businesses have to compete with foreign companies that don’t have to shoulder such expenses, and whose products are therefore cheaper, leading companies to look outside the traditional worker box. These days, the high cost of traditional workers has often made them the “employees of last resort.” As a result, many companies are shifting from fewer full-time positions to more part-time positions, or shedding direct employees altogether through contracting with smaller companies or individuals who can do the same work for less overhead cost. While this dynamic has created more flexible work environments for workers, it has also left many without the kind of benefits workers and families need.

“

*... the high cost of traditional workers has often made them the “employees of last resort.”*

”

## WORKERS ARE CHANGING

The traditional workplace requires companies to care for their employees, and often by extension their families, from cradle to grave. Yet, this approach has strings that are less tolerated in the modern workforce. Many of today’s workers, who average 11.7 jobs between the ages of 18 and 48, likely find staying in one life-long job in order to get benefits more of a cage than a refuge.

For many, the full-time traditional workplace can’t accommodate the life they want to lead. For example, traditional employees can’t typically move beyond commuting distance, change jobs or employers, take more or less time off than is allowed, pursue a career change, customize their shifts or weekly hours, set their own prices for their skill sets, or even take charge of their own pension investments. And many would-be workers, such as

part-timers, students, moonlighters, caregivers and others, are locked out by traditional employment's strict and inflexible full-time demands. As a result, for many of today's workers, the tradeoffs for traditional benefits aren't worth it, and they're choosing flexibility over security through alternative work arrangements.

## THE ECONOMY IS CHANGING

With businesses' increasing demand for part-time or contract employees, and with a burgeoning labor pool of would-be workers seeking that very type of work, the only remaining problem was connecting them with each other.

Enter the internet. Digital Age technology has catalyzed alternative work arrangements through companies that connect businesses and customers with workers and goods. These for-profit digital bulletin boards, called "digital platforms," connect these parties in real time, allowing for workers to be employed independently, using their own tools of the trade to provide individual service to consumers. Digital platform companies, such as Uber and Taskrabbit, allow customers to cut out the middle man and hire workers directly or almost directly, and allow for reviews to be shared and payments to be made securely and digitally. The Digital Age has ushered in this transition to a more flexible economy so comprehensively that, as U.S. Department of Labor Assistant Administrator of Wage and Hour Division David Weil notes, "The direct, two-party relationship assumed in federal and state legislation and embodied in traditional approaches to enforcement no longer describes the employment situation on the ground."

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*"The direct, two-party relationship assumed in federal and state legislation and embodied in traditional approaches to enforcement no longer describes the employment situation on the ground."*

*—David Weil, U.S. Department of Labor*

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So then, what is the "situation on the ground"? Harvard Professor Diane Mulcahy defines it as a change in attitude from "jobs" to "work." The needs of the Industrial Age packaged

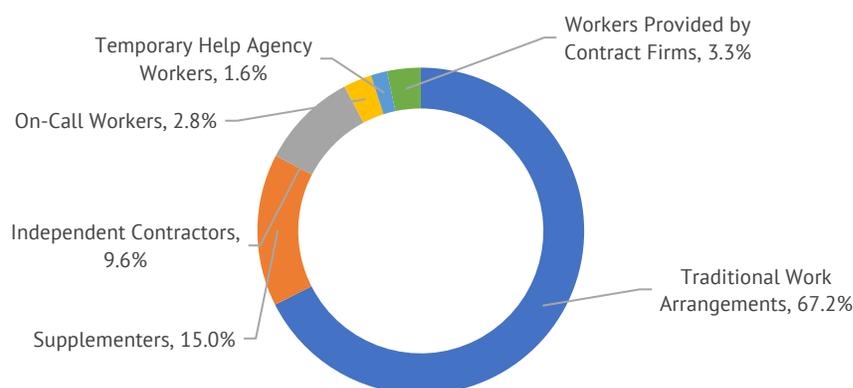
work into standardized, full-time, inflexible, decades-long jobs that best served the economy of the time.

But currently, as automation replaces many manufacturing jobs, the U.S. economy is increasingly a service economy, emphasizing the concept of work as, fundamentally, a series of contracts. The Digital Age’s ability to bring customers, providers, businesses and payment structures together in real-time communication for these services—and for goods as well—is changing the way business is conducted. The U.S. economy is evolving to center on work through independent work arrangements, not prescribed employer-employee relationships. As a result, alternative work arrangements are booming.

## THE “GIG” OR “SHARING” ECONOMY

This alternative work comprises what’s called the “gig economy,” the “sharing economy” and the “fissured workplace.” The scope of these terms often overlaps, creating confusion, but what’s important is what the workplaces have in common—they are not subject to the regulations of traditional workplaces. As a result, the gig economy ranges from less-secure but more-flexible, task-oriented short-term work with high worker autonomy to long-term contracting with more security and less autonomy.

**FIGURE ES1: 32.3% OF U.S. WORKFORCE IN ALTERNATIVE WORK ARRANGEMENTS, 2015**



**Sources:** Author’s calculations compiled from data at Katz, Lawrence F. and Alan B. Krueger. “The Rise in Alternative Work Arrangements in the United States: 1995-2015.”; Eckert, Brian. “How Workers Are Falling Through the Cracks in the Fissured Workplace,” *Classaction.com*. Aug. 30, 2016/Updated Nov. 9, 2017; and Manyika, James et al. “Independent Work: Choice, Necessity and the Gig Economy.” McKinsey Global Institute.

Even without the worker protections that some seek to impose “for the good of workers,” the gig economy is flourishing. When all gig participants, including those supplementing more traditional work and long-term contractors are accounted for, studies assert that the gig economy employs nearly one-third of the U.S. workforce. They also find that the gig economy has been responsible for all or almost all U.S. net employment growth from 2005 to 2015, roughly since the Great Recession.

While some gig work competes with traditional employment, often it tends to fill gaps in the economy, making for new, otherwise untapped transactions. Gig work flourishes because it provides consumers with more choices and, for many workers, gives a new means of working within a particular lifestyle or of weathering hard times. The most comprehensive research of late, from McKinsey Global Institute, finds this breakdown of gig workers:

- 32% “free agents” who choose independent work and derive primary income by it
- 40% “casual earners,” the largest cohort, who supplement their income by choice using independent work
- 14% “reluctants” who derive primary income from independent work, but would prefer traditional work
- 14% “financially strapped” who do supplemental independent work out of economic necessity

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*... the majority of gig workers are supplementing primary incomes (54%) and/or are working independently by choice (72%).*



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This means that the majority of gig workers are supplementing primary incomes (54%) and/or are working independently by choice (72%). These independent workers also report higher satisfaction levels than traditional workers across the board. McKinsey’s survey of 8,000+ workers finds that, among traditional earners, one in six would prefer to be primary independent income earners, a.k.a. gig workers. This is consistent globally, finding 43% of survey respondents preferring self-employment and expressing that autonomy and flexibility are second only to income, which suggests a change in worker priorities.

As gig and sharing services that disrupt traditional industries and employment relationships have emerged, some have reacted by trying to re-impose the traditional work structures on these nontraditional jobs. Many cities are trying to shoehorn ridesharing services into old taxi regulations or AirBnB into hotel regulations. Those who advocate forcing the gig economy to adopt the inflexibility of traditional employment fundamentally misunderstand what many modern customers, workers and businesses want. Unsurprisingly, when the digital platforms that connect gig participants are forced to shoulder traditional employer costs, those platforms typically react by curtailing or closing shop, which hurts everyone. In this way, forcing all jobs, workers and companies into traditional structures, ostensibly for their own benefit, exerts an existential threat on this growing sector of the economy. So a key question becomes, how can the U.S. economy adapt to offer access to traditional-style worker benefits, or something like them, in the gig economy without in turn undermining it?

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*Those who advocate forcing the gig economy to adopt the inflexibility of traditional employment fundamentally misunderstand what many modern customers, workers and businesses want.*

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## **TACKLING THE CHALLENGES OF SELF-EMPLOYMENT**

Retirement savings and income are crucial to long-term quality of life. Access to health care allows workers and their families to live longer, happier and more comfortable lives. Like business owners, independent workers who gig for their primary income are self-employed: They have to provide for their own retirement and health care.

The self-employed have several venues to save for retirement, the most popular being IRAs and 401K plans. But private health care in America has structured itself around the traditional workplace model, without providing many opportunities for gig economy workers. With one-third of the U.S. in the gig economy—although some receive health care through their own additional, or their spouse's, traditional employment—and with so many more people planning on entering the gig economy, it's important that private health insurance is accessible to them. As more and more of the economy moves into less-

structured and more-flexible work, private health insurance will look for ways to adapt to accommodate a worker's varying employment, risk tolerance, income and lifestyle choices. In the current environment of continuous debate over health care reform, the burgeoning gig economy should be taken into consideration, ensuring that changes to the system:

1. Do not create obstacles to health insurance models that are likely to serve this cohort in the coming years.
2. Do not pick winners by creating subsidies, directly or with the tax code, for any one type of worker or work structure.
3. Allow new experiments in risk pooling for insurance to create many opportunities for workers to join with others through clubs, neighborhoods, interest groups, associations or other means of entering into group insurance plans other than employer-based.
4. Allow insurers to provide tiers of insurance benefits at various price points so workers can match insurance coverage with their own needs and desires.

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*But private health care in America has structured itself around the traditional workplace model, without providing many opportunities for gig economy workers.*



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## CONCLUSION

The gig economy is a substantial and growing sector of the U.S. economy, comprising nearly one-third of U.S. workers, and rising quickly. Rather than threatening the entrenched traditional work model, much of the gig economy fills niches in the goods, services and labor market. This allows more workers to serve more customers more cheaply and on their own terms, increasing the workforce and the standard of living for all.

Just as the Industrial Revolution changed the world's economy, so the Digital Age stands to redefine what a "good job" is in the near future on a global basis. The U.S. will be on the

cutting edge of this sea change, as long as we embrace these changes and let consumers and workers vote with their feet for what serves their needs best.

For the gig economy to continue to flourish, policymakers should ensure that legislation preserves the independent nature of gig work. Trying to force gig economy companies, which are not employers, to mimic the traditional workplace model harms workers and consumers. The gig economy emerged from market-driven autonomy and flexibility for both companies and workers, and it thrives despite a few challenges. Accordingly, the market will likely address these challenges—as long as we let it. In an era of health care reform, the gig economy currently is—and should remain—the laboratory of free market solutions.

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# PART 1

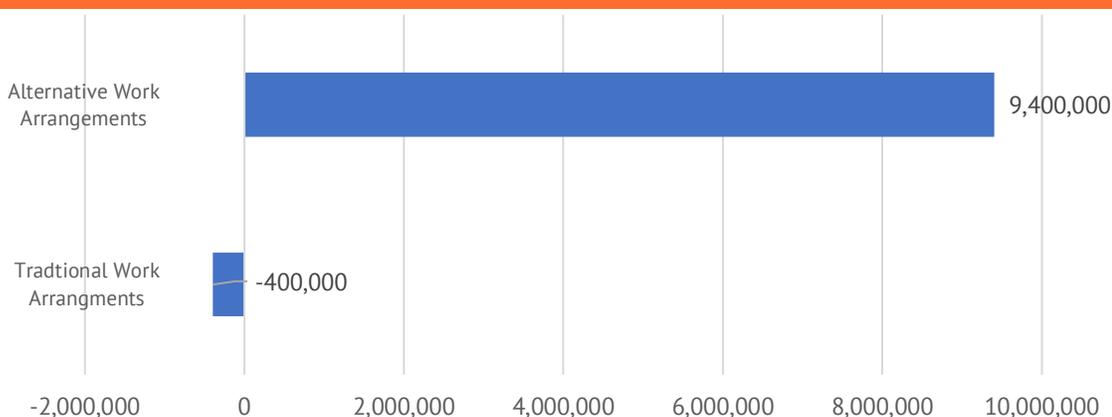
## INTRODUCTION

America's economy is booming and diversifying, providing many opportunities for nontraditional work, which is growing rapidly. At the same time, worker benefits options have not kept pace with labor market changes. And as automation, globalization and technology dramatically change the job market, not all workers want to change with it, preferring a less-flexible but more secure workplace. Unsurprisingly, many Americans look to government to bring back factory-style manufacturing work, in which a highly regulated employer/employee relationship typically features:

1. Long-term (usually decades of) secure employment at the same firm, with fixed, full-time hours;
2. Strong unions to ensure paid sick time, training, overtime and vacation, uniform salary and/or a guaranteed minimum wage, and employer-provided retirement pensions;
3. Collective bargaining through labor unions;
4. Employer contributions to Social Security, Medicare, health insurance, workers' compensation, etc.;
5. And perhaps even paid maternity/paternity leave, employer matching savings accounts, and governing structures for firing workers (regulations dictating if, when and how private companies are permitted to fire employees).

However, the fastest growing sector of the economy is not this kind of traditional, full-time work, but independent work, also known as the “gig” economy, which does not feature those protections. “Gig” work, a product of digital technology, uses the internet to connect businesses, workers and customers, allowing for a customized work environment. While the Bureau of Labor Statistics stopped studying rates of contingent (a.k.a. “gig” or independent) workers in 2005, teams of researchers have sought to measure the impact of the gig economy.

**FIGURE 1: CHANGE IN NUMBER OF AMERICANS EMPLOYED IN TRADITIONAL VS. ALTERNATIVE WORK ARRANGEMENTS 2005–2015**



Source: Katz, Lawrence F. and Alan B. Krueger. “The Rise in Alternative Work Arrangements in the United States: 1995-2015.” [https://krueger.princeton.edu/sites/default/files/akrueger/files/katz\\_krueger\\_cws\\_-\\_march\\_29\\_20165.pdf](https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf)

While several studies count only discrete types of gig workers—including those supplementing more traditional work (supplementers) and long-term contractors—when combined they collectively show gig work to occupy nearly one-third of the U.S. workforce.<sup>1</sup> Studies assert that the gig economy has been responsible for all or almost all U.S. net employment growth from 2005 to 2015, since the Great Recession, and is growing rapidly.<sup>2</sup> Understanding why demands a look at the rise and decline of the American traditional workplace.

<sup>1</sup> Data compiled from Katz, Lawrence F. and Alan B. Krueger. “The Rise in Alternative Work Arrangements in the United States: 1995-2015.” 7. [https://krueger.princeton.edu/sites/default/files/akrueger/files/katz\\_krueger\\_cws\\_-\\_march\\_29\\_20165.pdf](https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf); and Eckert, Brian, “How Workers Are Falling Through the Cracks in the Fissured Workplace,” Classaction.com; and Manyika, James et al. “Independent Work: Choice, Necessity and the Gig Economy.” McKinsey Global Institute.

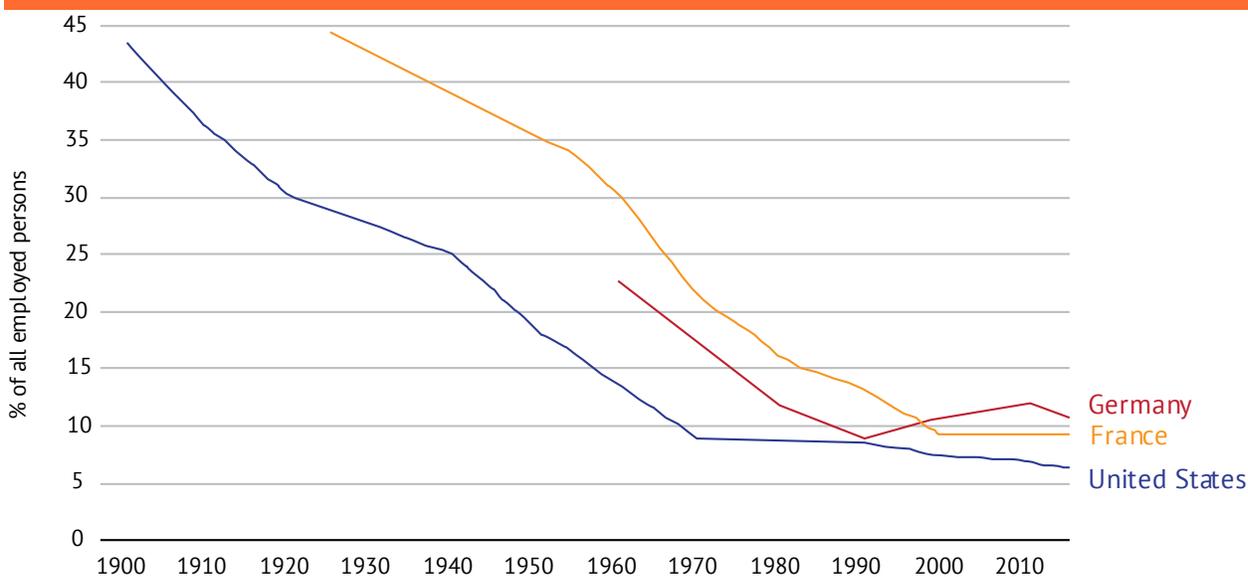
<sup>2</sup> Katz and Krueger. “The Rise in Alternative Work Arrangements in the United States,” 7,” and Manyika et al. “Independent Work.” Exhibit 22. 70.

## 1.1

## HOW DID WE GET HERE? THE RISE AND DECLINE OF THE TRADITIONAL WORKPLACE

The Industrial Revolution transformed our economy from one of farmers and craftsmen doing individualized work to factory workers doing teamwork. As the pervasive use of machines drove down the price of goods dramatically, the standard of living increased for all, fundamentally changing the basis of the economy to manufacturing. These technological advancements drove a radical change in society, the economy and the workplace, as a result of largely self-employed workers on their own private property transitioning to becoming hired shift workers in urban factories.

**FIGURE 2: DECLINE IN SELF-EMPLOYMENT AS ADVANCED ECONOMIES INDUSTRIALIZED (UNINCORPORATED SELF-EMPLOYMENT)**



Note: Data shown for available years

Source: Manyika, James et al. "Independent Work." Exhibit 2.

Since machines don't require down time, some factory owners sought higher production and lower overhead by demanding longer shifts, and some—notably Henry Ford—voluntarily limited work week hours and increased wages in order to retain skilled workers. To protect workers and standardize the work environment, the 1938 Fair Labor Standards Act, part of the New Deal, legislated Ford's eight-hour work day and 40-hour work week, along with a federal minimum wage, overtime pay and child labor restrictions.



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*To stem rampant World War II inflation, the 1942 Emergency Stabilization Act froze wages across the economy, forcing employers to compete for workers using generous fringe benefits, thereby ushering employer-sponsored health care and pensions into the economy.*

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To stem rampant World War II inflation, the 1942 Emergency Stabilization Act froze wages across the economy, forcing employers to compete for workers using generous fringe benefits, thereby ushering employer-sponsored health care and pensions into the economy. While increasing wealth and productivity were already leading to improving benefits, they would likely have accrued to the most valuable and productive workers, rather than to workers whose skills are similar to cheaper workers in other parts of the globe.

By the time the wage freeze lifted, these benefits—initially a flanking movement around government wage freeze regulations—were embraced by the culture, demanded by labor unions, sought by workers, and regulated by the government. For full-time, salaried employees, these protections have evolved to include:

- employer-sponsored health care benefits,
- pensions,
- post-retirement health care benefits,
- paid sick/maternity/vacation time,
- governing structures for firing workers, and
- employer tax contributions to Social Security, Medicare, workers' compensation and disability, and other benefits.

Large labor unions formed to represent workers' concerns, demanding quality work environments and wage and fringe benefits, making the heart of this model a quid pro quo employer/employee relationship that demands decades-long employment in a single company in return for long-term, comprehensive, cradle-to-grave benefits. This quid pro quo suggests that the traditional workplace originally developed to not only protect

workers, but to reduce transaction costs for manufacturing companies by forcing skilled workers to stay put in order to reap benefits. In the factory-based economy of the time, this model was a win-win for employers and employees, and as industrialized countries became wealthier, this model became the norm.<sup>3</sup>

The law’s definitions of “employers” and “employees” continue to shape today’s debates over what constitutes an employer-employee relationship. So legally entrenched is this system that the U.S. economy is essentially built around the highly regulated employer-employee relationship, rather than around the work itself.

When an employee’s work week approaches full-time (typically 30–35 hours per week, varying by state), these regulated traditional workplace benefits kick in, making for high costs of doing business for employers and averaging roughly one-third of all employee compensation.<sup>4</sup> Table 1 shows the breakdown of these costs. Note that it does not include

**TABLE 1: RELATIVE SALARY AND BENEFIT COMPENSATION COSTS  
IN U.S. PRIVATE INDUSTRY**

Wages and Salaries	69.7%
Benefits	30.3%
• Paid leave	6.9%
• Supplemental pay	3.5%
• Insurance	8.0%
• Health benefits	7.6%
• Retirement and savings	4.0%
○ Defined benefit	1.8%
○ Defined contribution	2.2%
• Legally required	7.8%

**Source:** Bureau of Labor Statistics. “Employer Costs for Employee Compensation.” June 9, 2017.

**Table A.** <https://www.bls.gov/news.release/ecec.nr0.htm>

<sup>3</sup> Manyika, James et al. “Independent Work.” Exhibit 3.

<sup>4</sup> Bureau of Labor Statistics. “Employer Costs for Employee Compensation.” June 9, 2017. Table A. <https://www.bls.gov/news.release/ecec.nr0.htm>

overhead costs of traditional employment such as office space, utilities, maintenance, parking, etc. When the cost of doing business is high, businesses are less productive, less efficient and less competitive, making goods and services more expensive for all consumers. In today's globalized economy, American businesses compete with foreign companies that don't have these high expenses, often pricing American companies and their workers out of the market.

Among other factors, this high cost of doing business has led companies, workers and consumers to pursue other options. Accordingly, the manufacturing-era-based traditional model, as a ratio of all employment, peaked in the 1970s, but has stabilized, ebbing and flowing with the economy, since the advent and proliferation of computer technology. Once again, revolutionary technology is realigning and expanding our economy, just as the Industrial Age did in its time, triggering a sea change in the way work is defined. The U.S. economy is evolving to center on work, not prescribed employer-employee relationships, through independent work arrangements.

The terms often used to describe these independent work arrangements, such as “the fissured workplace,” “the gig economy” or “the sharing economy,” overlap in scope, but combine to describe work that has shed the traditional workplace and its regulations. Minor differences aside, these alternative work arrangements use short- or long-term self-employed contractors to make an end run around burdensome workforce regulations and allow a vast labor pool of independent workers to customize their work to fit their lifestyles.

The current research uses varying definitions for each term, causing some difficulty in assessing exactly which research data reflect exactly which workers. To glean common characteristics of this diverse workforce, let's address each one.



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## FISSURED WORKERS

Coined by David Weil, an assistant administrator at the Department of Labor, the term “fissured” refers to companies that have reconfigured their workforce, employing a smaller number of full-time traditional workers to do their core missions, and contracting out ancillary services to other companies.

Weil states that so many jobs have been shed in this way that “The direct, two-party relationship assumed in federal and state legislation and embodied in traditional approaches to enforcement no longer describes the employment situation on the ground.”<sup>5</sup> In other words, the one-size-fits-all traditional employment paradigm no longer serves many modern companies or workers well, and the economy has evolved to circumvent it. These fissured jobs have not been lost, but converted from few full-time, traditional positions to many, often short-term, part-time or temporary positions through subcontracting to other companies. Instead of employment being driven by the traditional employer/employee model, fissuring works around burdensome regulation to pursue the work that companies need done more cheaply. This suggests that if these employment regulations were rescinded, companies would hire more full-time workers and fewer part-time ones.

## THE “GIG” OR “SHARING” ECONOMY

Short-term, specific, direct or semi-direct informal contracting between customers, individuals, companies and workers is known as the “gig” economy. It borrows the term from the music industry, which is characterized by short-term, single-task performances, or “gigs.” The gig economy operates in the sectors of the economy where jobs are more efficiently seen as, and conducted as, discrete chunks of work, rather than standardized, long-term jobs.

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*The gig economy operates in the sectors of the economy where jobs are more efficiently seen as, and conducted as, discrete chunks of work, rather than standardized, long-term jobs.*

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<sup>5</sup> Weil, David. “Enforcing Labor Standards in Fissured Workplaces: The US Experience,” *The Economic and Labour Relations Review*. 22 (2). 33.

For these types of work, the gig economy typically uses the internet to connect people who seek employment on their own terms with clients who would like to hire them. Examples include everything from labor, such as rideshare services like Uber and Lyft, to provision of goods like eBay, to leased assets and services like AirBnB. Workers often provide their own tools of the trade, such as their equipment, cars and homes, cutting out traditional business entirely in favor of a direct provider-to-consumer relationship. These personalizing factors have led to this model being called a “sharing” economy.

This study uses the term “gig economy workers” to represent all factions of this alternative work movement, from long-term contractors in fissured companies to temp agency workers to one-time work “gigs,” focusing on what the workplace has in common:

1. The work tends to be individualized, customizable and scalable, and the workers have a high degree of autonomy, often able to choose and refuse work, similar to self-employed workers.
2. The workers are not direct employees, and often there are no employers, similar to self-employment.
3. The work comprises short-term or long-term contracts that do not fall under traditional full-time employment regulations.

## PART 2

# WHAT SPARKED THE GIG ECONOMY?

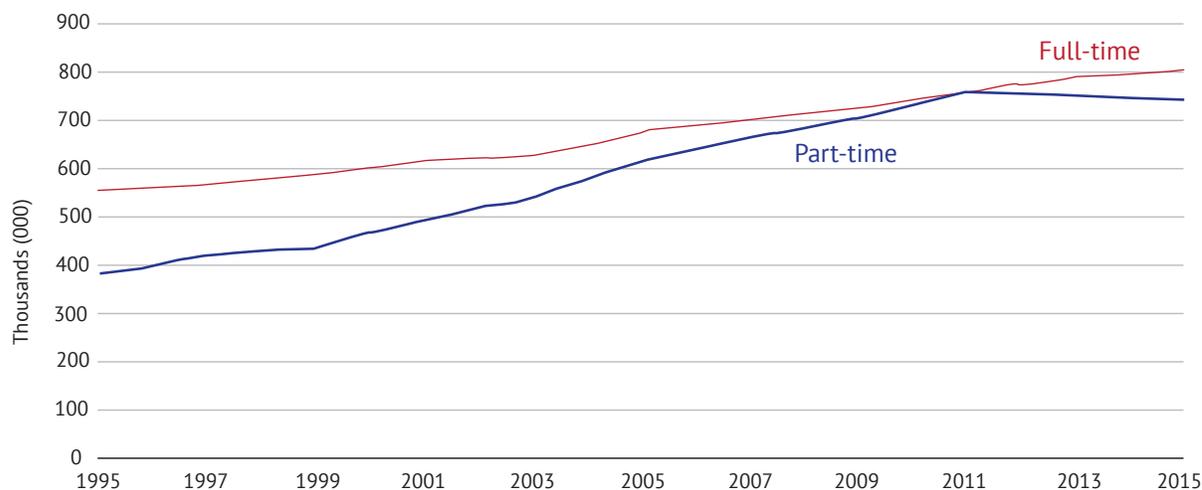
## 2.1

### DECREASING WORKER HOURS

Once a worker is putting in 30–35 hours per week, depending on the state, traditional labor regulations come into play. This gives businesses a strong financial incentive to keep as many workers as possible below full-time status hours, creating a huge market for part-time workers.

Decreasing worker hours is not just a private sector practice. The cost of full-time employees is not lost on government employers either, who pay vastly more for employee benefits than do private employers. For example, public colleges' and universities' tenured staff have some of the most comprehensive fringe benefit packages of all workers, making them especially expensive employees, and virtually unfirable due to tenure. In 1975 30% of college faculty were contracted employees; by 2011 it was 51%, before falling somewhat by 2015.

**FIGURE 3: NUMBER OF FACULTY IN DEGREE-GRANTING POSTSECONDARY INSTITUTIONS, BY EMPLOYMENT STATUS: SELECTED YEARS, FALL 1995 THROUGH FALL 2015**



Source: National Center for Education Statistics, *Characteristics of Postsecondary Faculty*, accessed July 2017, Figure 1, [https://nces.ed.gov/programs/coe/indicator\\_csc.asp](https://nces.ed.gov/programs/coe/indicator_csc.asp)

Part-time status, called adjunct status for teachers, gives the employer, in this case a government employer, the flexibility to hire and fire as desired, to expand or contract labor as needed to meet fluctuating demand, and to avoid expenses by keeping employees below the hours that trigger mandatory provision of traditional workplace benefits. So it's not only private companies that seek to circumvent traditional workplace regulations, but government itself—the source of the regulation.

## 2.2 THE “FISSURED WORKPLACE” AND THE RISE OF CONTRACTING

Curtailing workers' hours is only one way to sidestep regulation. Another means is by reducing the total number of employees below the threshold of regulation. The traditional employment model accumulated an array of employment regulatory requirements that raise the cost of employment (See Box). With all the best intentions, mandated employment practices end up pricing workers out of their own jobs. This leaves businesses looking for new ways to structure themselves and workers looking for jobs.

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## Federal Laws & Regulations According to Number of Employees

The Department of Labor (DOL) administers and enforces more than 180 federal laws. These mandates and the regulations that implement them cover many workplace activities for about 10 million employers and 125 million workers. **Note:** There may be state and local laws that will apply in addition to federal rules. Some of the more commonly applicable federal laws based on employer size include the following:

### One or more employees:

- Fair Labor Standards Act (FLSA)
- Immigration Reform and Control Act (IRCA)
- Workplace Postings Requirements
- Occupational Health and Safety Administration
- The Uniformed Services Employment and Reemployment Rights Act (USERRA)

### 15 or more employees:

- Americans with Disabilities Act (ADA)
- Pregnancy Discrimination Act (PDA)
- Title VII of the Civil Rights Act (Title VII)

### 20 or more employees:

- Age Discrimination in Employment Act (ADEA)
- Consolidated Omnibus Reconciliation Act (COBRA)

### 50 or more employees:

- Family and Medical Leave Act (FMLA)
- Employer Shared Responsibility Under the Affordable Care Act (ACA)
- Workforce Adjustment and Retraining Notification Act (WARN)

Source: Content directly from <https://epix.solutions/employment-laws-regulations-impact-organization-size-number-employees-2/> accessed 7-10-17

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In today's highly competitive markets, goods and services need to be as inexpensive as possible, leading businesses to reconfigure their workforces to retain only core-mission-essential full-time workers—and outsource the rest. For example, a large medical office or hospital might retain medical staff as full-time workers, but contract out for billing, file storage and retrieval, intermittent legal services and janitorial work.

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*When hiring regulations constrain businesses from expanding and reducing their workforce as needed, contracting out becomes very attractive.*

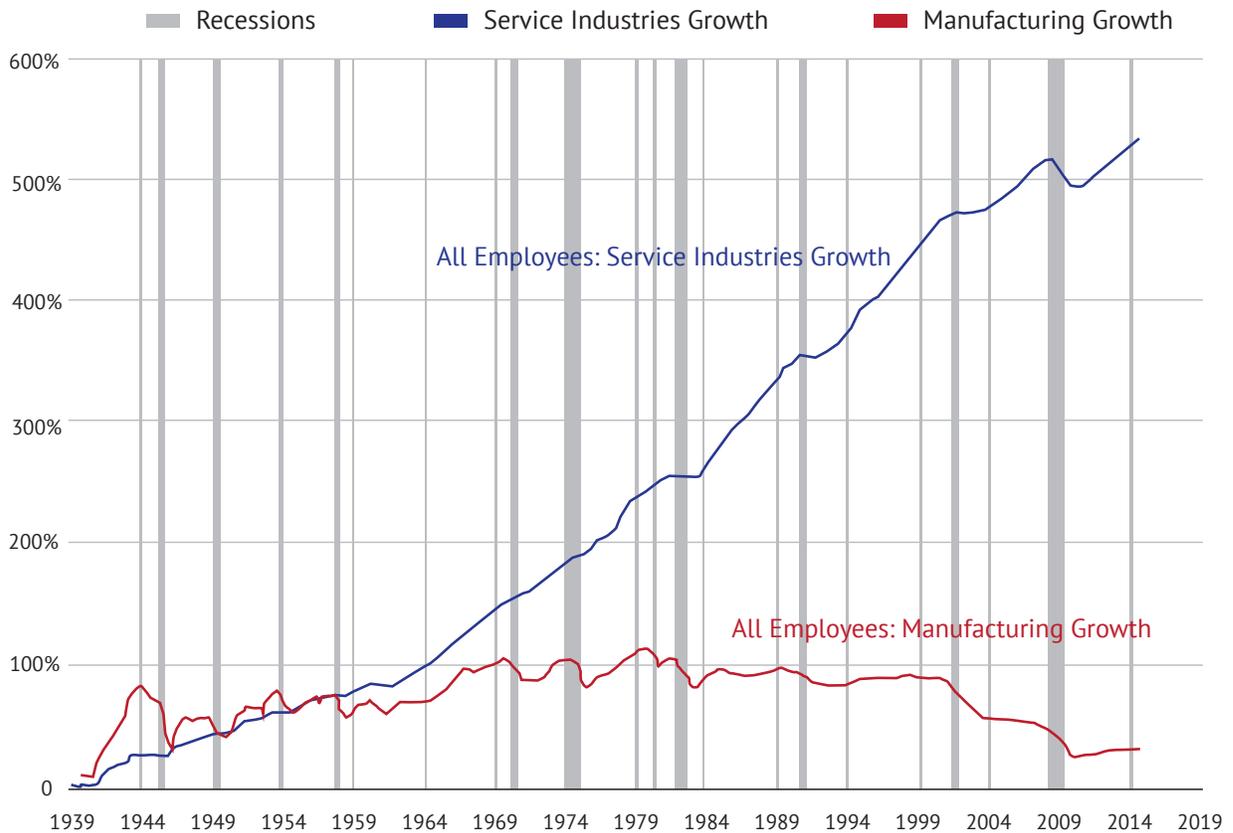
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The rise in health care and other expenditures, and the laws that force employers to provide these benefits, give businesses belt-tightening incentives to outsource all possible business processes on a contract basis. This is especially true for intermittent or seasonally fluctuating work. When hiring regulations constrain businesses from expanding and reducing their workforce as needed, contracting out becomes very attractive. For short-term or intermittent tasks such as occasional legal advice, or low-skilled labor such as office cleaning, hiring an expensive, long-term, full-time employee makes little financial sense compared to a contracted out worker who does not add to the number of direct employees or trigger the requirement for benefits packages, and who can be laid off at any time.

As services comprise a larger fraction of the U.S. economy compared with goods, contracting makes even more sense. Goods manufacturing is well-suited to team-oriented shift work, but services can often be done on a flexible schedule, for the convenience of workers, businesses and consumers. In services it's relatively easy for a worker's hours to fluctuate with the business cycle—an advantage uniquely provided by contracting.

**FIGURE 4: SERVICE INDUSTRY VERSUS MANUFACTURING EMPLOYMENT GROWTH SINCE 1939**



Source: Short, Doug. "The Epic Rise of America's Services Industry." *Business Insider*. September, 2014. <http://www.businessinsider.com/growth-of-us-services-economy-2014-9>

The hyperconnectivity of the internet overcomes geographical distance, which makes contracting easy to implement. Not only does that save on the costs of hiring, but also results in fewer office workers, which means less overhead in terms of office square footage, office furniture, parking spaces, etc. and all the utilities and insurances that come with them. Many critics of this trimming of non-core functions and streamlining of operations see it as threatening the traditional workplace. They seek to enact ever more stringent regulations of the workplace in order to prevent this "fissuring," but all this does is make contracting out even *more* attractive to businesses.

### “CONTRACT CITIES”

Government agencies, which don't have a bottom line or competition, would seem to be unaffected by these economic trends, but the combined repercussions of highly regulated workplaces and less tax revenue filling their coffers during the Great Recession led many to shed ancillary functions through contracting.<sup>6</sup> When budgets shrink, government agencies seek ways around their own regulatory red tape. Like private companies, they have found that hiring out everything from services, such as printing and fleet maintenance, to their core missions themselves, such as foster care placement and pothole repair, are generally cheaper by contract, because of lower rates of pension and health care expenditures. More important than cost, they're flexible—fluctuating with the needs of government, which is something direct government employment can't do. Indeed, some unincorporated communities that are unhappy with county services have formed “contract cities,” whereby some or virtually every aspect of government service is provided by contract with other public or private entities, managed by a skeleton crew of city employees.<sup>7</sup>

## 2.3

### CHANGES IN WORK CULTURE/DEMANDS

Employers are not the only ones evolving away from the traditional employment structure. This kind of inflexibility was built on a one-breadwinner-per-family paradigm, a social condition that doesn't fit many American lifestyles anymore. For families, it puts all the eggs in one basket, so that losing or changing jobs means all is lost: pension, health care, etc. Not only does this prevent workers from bettering their circumstances, whether that means better-paid or better-suited employment, it also keeps employers from finding workers who might be happier and therefore more productive at their jobs. In a 2015 Gallup poll, less than one-third of employees consider themselves “actively engaged” at work; the rest are unhappy and “doing the minimum necessary.”<sup>8</sup>

<sup>6</sup> See for example National Contract Management Association. “Annual Review of Government Contracting, 2016 edition” or Reason Foundation, *Annual Privatization Report 2016*, <http://reason.org/news/show/annual-privatization-report-2016>

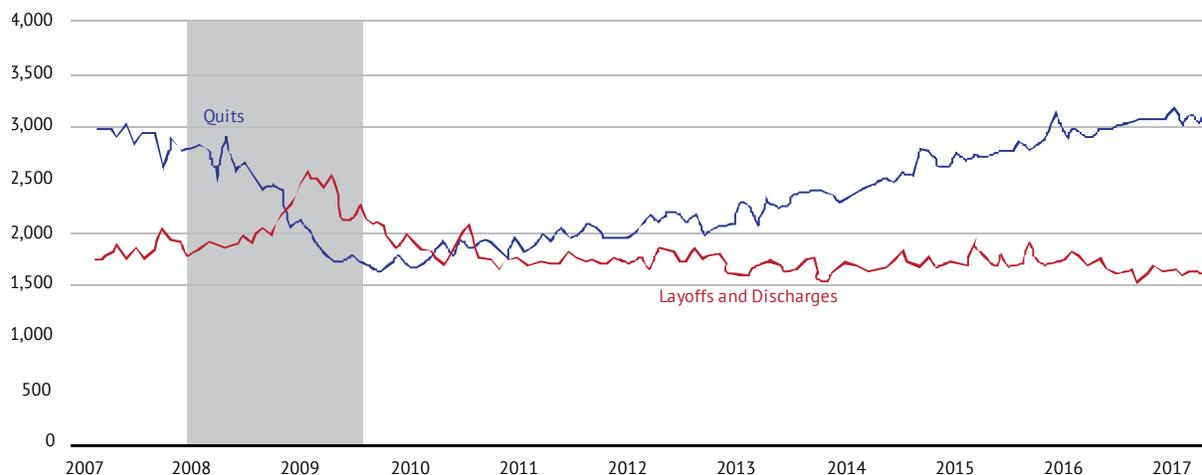
<sup>7</sup> On Georgia contract cities see Kenny, Harris. “Georgia Contract Cities Continue to Evolve.” *Annual Privatization Report 2013*. Reason Foundation. May 6, 2013. <http://reason.org/news/show/1013361.html> and Gilroy, Leonard. “Colorado's Contract City, Part 1: Public Works Contracting 2.0 in Centennial, Interview with Centennial, Colorado Mayor Cathy Noon and City Manager John Danielson.” Reason Foundation, June 24, 2013. <http://reason.org/news/show/1013421.html>

<sup>8</sup> Gallup Polls. “Employee Engagement in U.S. Stagnant in 2015.” <http://www.gallup.com/poll/188144/employee-engagement-stagnant-2015.aspx>

And many of today's employees, who are molding part-time work around other responsibilities, especially those with high needs for flexibility, already have benefits through a spouse. Restrictive legislation that favors full-time traditional work keeps these people out of the job market, and denies them opportunities that would likely otherwise go unfilled.

Another consideration is that, in terms of the workplace, Americans are highly mobile. The Bureau of Labor Statistics reports that those born in the latter years of the Baby Boom (born 1957–1964) held an average of 11.7 jobs (men 11.8/women 11.5) by the time they were 48 years old.<sup>9</sup> While some may argue that this high level of job disengagement has been out of necessity, BLS also finds that, as of December 2016, of those who left employment, almost twice as many left by choice, rather than being laid off or discharged (See Figure 5).

**FIGURE 5: QUILTS AND LAYOFFS AND DISCHARGES: SEASONALLY ADJUSTED, IN THOUSANDS**



**Note:** Shaded areas represents recession as determined by the National Bureau of Economic Research (NBER).

**Source:** Bureau of Labor Statistics. Job Openings and Labor Turnover Survey. July 11, 2017.

Surprisingly, even during the Great Recession, over a third of separations were by choice (37.1%). At a time when economists would expect workers to hang on to their jobs no matter what, over a third decided not to. This means that a sizeable cohort of workers is less interested in remaining in the same job for decades, even during a recession.

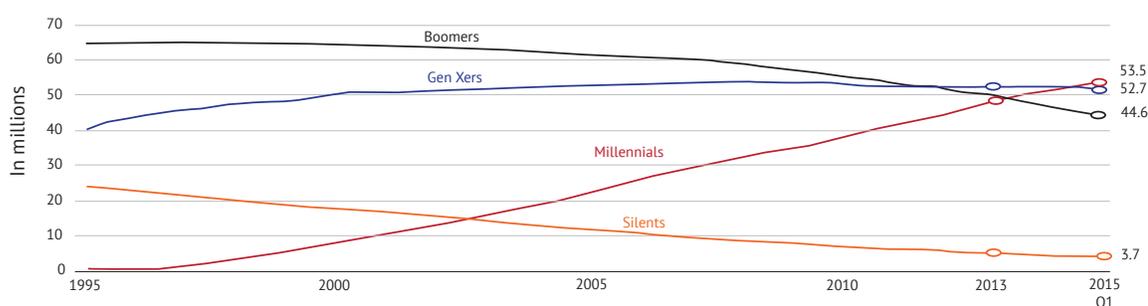
<sup>9</sup> Bureau of Labor Statistics. "Number Of Jobs Held, Labor Market Activity, And Earnings Growth Among The Youngest Baby Boomers: Results From A Longitudinal Survey." <https://www.bls.gov/news.release/pdf/nlsoy.pdf>

It's not just that workers move jobs more often these days; it's that technological change and globalization are changing the jobs themselves. Workers have to be adaptable, and so a variety of work experience is now an asset to the worker and to employers. As firms have to change and adapt, having workers that can shift along with the firm, rather than having to rehire, is an asset.

## WORK-LIFE BALANCE AND THE MILLENNIAL GENERATION

Millennials, who now form the largest cohort of the American labor force (see Figure 6),<sup>10</sup> value work-life balance flexibility above all other aspects of work, excluding salary (See Figure 7). This reflects a global prevalence, with international Millennials listing their top three non-salary work priorities as “work-life balance,” “opportunities to progress” and “flexibility, such as remote working and flexible hours.” Even the traditional workplace has noted the value employees put on flexibility, leading many companies to adopt flexible working conditions such as telecommuting. According to one analysis, 95% of employers say telework has a high impact on employee retention, and 36% of employees would choose it over a pay raise.<sup>11</sup> This shows that job flexibility is of such paramount benefit to modern workers that traditional employment itself is changing to accommodate it.

**FIGURE 6: U.S. LABOR FORCE BY GENERATION, 1995–2015**



**Note:** Annual averages plotted 1995–2014. For 2015 the first quarter average of 2015 is shown. Due to data limitations, Silent generation is overestimated from 2008–2015.

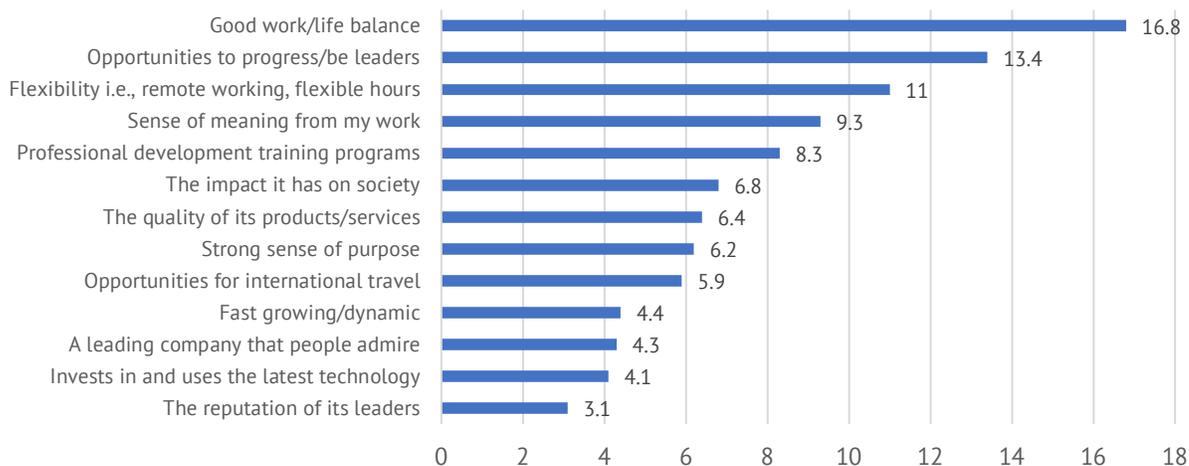
**Source:** Pew Research Center tabulations of monthly 1995–2015. Current Population Surveys, Integrated Public Use Microdata Series (IPUMS)

<sup>10</sup> Fry, Richard. “Millennials surpass Gen Xers as the largest generation in U.S. labor force.” Pew Research Center. May 11, 2015. <http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/>

<sup>11</sup> Global Workplace Analytics. “Advantages of Agile Work Strategies For Companies.” <http://globalworkplaceanalytics.com/resources/costs-benefits>

### FIGURE 7: FACTORS INFLUENCING MILLENNIALS' CHOICE OF ORGANIZATION TO WORK FOR (RELATIVE DEGREE OF IMPORTANCE, EXCLUDING SALARY)

Question: For each of the following groups of four, please indicate what would be the strongest reason for choosing to work for an organization and what would be the weakest?



Source: Deloitte. *The 2016 Deloitte Millennial Survey*. Figure 11. <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-millennial-survey-2016-exec-summary.pdf>

Over time, more workers seem to want the flexibility to travel, move, change careers, share parenting duties, etc., seeking work they can shape into their lives rather than shaping their lives around work. And many people simply wish to set their own price for their skills without having to open their own brick and mortar business—an expensive endeavor in itself with considerable upfront costs for everything from business licenses and insurances to property taxes.

## 2.4 PENT-UP DEMAND AND A WILLING LABOR POOL

“Fissuring” businesses and the rise of the service economy created a huge demand for part-time and/or short-term employees, and a willing labor force has been poised to respond. Huge and growing reserves of willing workers are not interested in full-time, long-term work.<sup>12</sup>

<sup>12</sup> Tuttle, Brad. “These 6 Million People Have No Interest in Full-Time Jobs.” *Time*. Aug 18, 2015. <http://time.com/money/4001805/part-time-workers-millennials/>

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*Huge and growing reserves of willing workers are not interested in full-time, long-term work.*

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For example, as more Baby Boomers enter their retirement years, the senior workforce demographic has increased.<sup>13</sup> Many of these seniors seek short-term employment to bring in extra cash, stay productive and mentally sharp, and keep in the company of others.<sup>14</sup> Without the demands of full-time, inflexibly scheduled work, they can have the best of retirement (travel, leisure, etc.) and supplemental income.

Students and moonlighters are also a big part of the gig economy. The high costs of college have spurred demand for gig work that flexes with school schedules. And many people who seek short-term work already have access to health care and retirement income through their spouse or other family member, or through a full-time job that they supplement by moonlighting. The gig economy allows them to leverage that advantage by being able to secure work without the employer having to provide unnecessary benefits.

The labor pool for short-term work has always been substantial, including:

- Stay-at-home caregivers,
- Full-time workers looking for supplemental income,
- Workers interested in incrementally forging a career change without quitting their current employment,
- Workers between permanent jobs,
- Workers with traditional benefits through spouses.

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<sup>13</sup> Pew Research Center. "Number of older Americans in the workforce is on the rise." January 7, 2014. <http://www.pewresearch.org/fact-tank/2014/01/07/number-of-older-americans-in-the-workforce-is-on-the-rise/>

<sup>14</sup> Pew Research Center. "America's Changing Workforce: Recession Turns a Graying Office Grayer." September 3, 2009. <http://www.pewsocialtrends.org/files/2010/10/americas-changing-workforce.pdf>

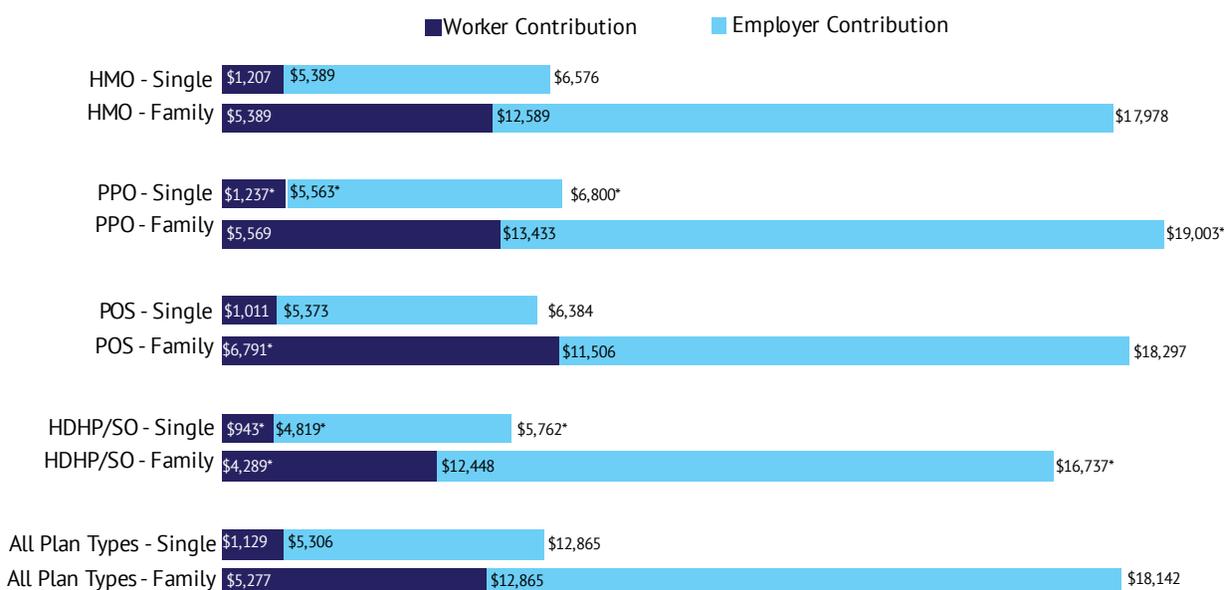
These jobseekers and others are cohorts ripe for opportunities for flexible, short-term work. As businesses demand more short-term or contract workers, this growing cohort of workers reaches out for short-term or contract work. In the traditional workplace, this has always been the province of temp agencies, which suffered from large information challenges in efficiently matching employer needs with worker skills.

## 2.5

## RISING HEALTH CARE EXPENSES

Health care has become more expensive in recent years. While many workers feel the pinch of their own health care contributions, employers must pick up the lion's share of the tab, as shown in Figures 8 and 9. Moreover, as health care costs have nearly tripled in 14 years, even as wages have slumped, both workers and employers have had to increase their contributions. Health care costs seem poised to continue to rise, which workers and employers will find increasingly burdensome. See Figure 10.

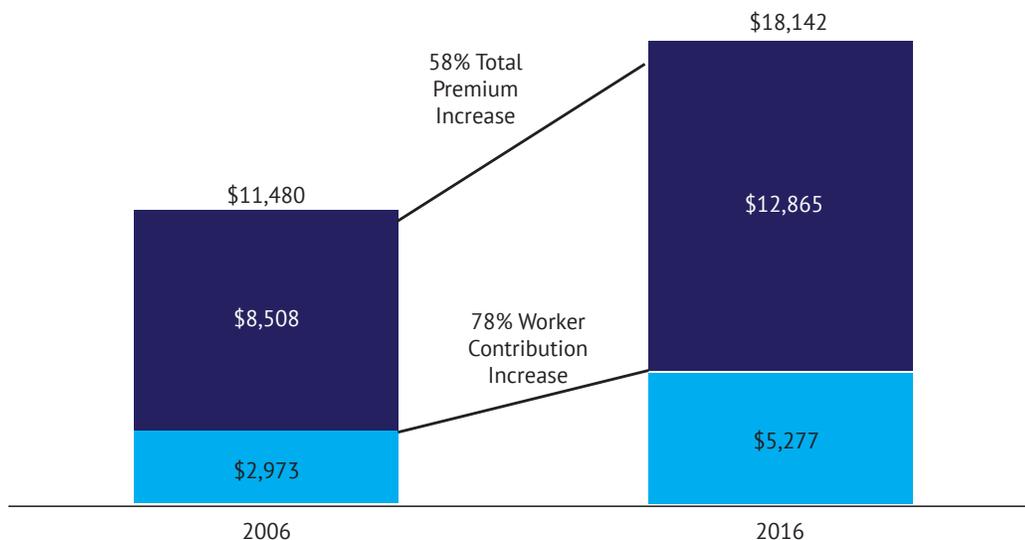
**FIGURE 8: AVERAGE FIRM AND WORKER PREMIUM CONTRIBUTIONS AND TOTAL PREMIUMS FOR COVERED WORKERS FOR SINGLE AND FAMILY COVERAGE, BY PLAN TYPE 2016.**



\* Estimate is statistically different from All Plans estimate by coverage type ( $p < .05$ ).

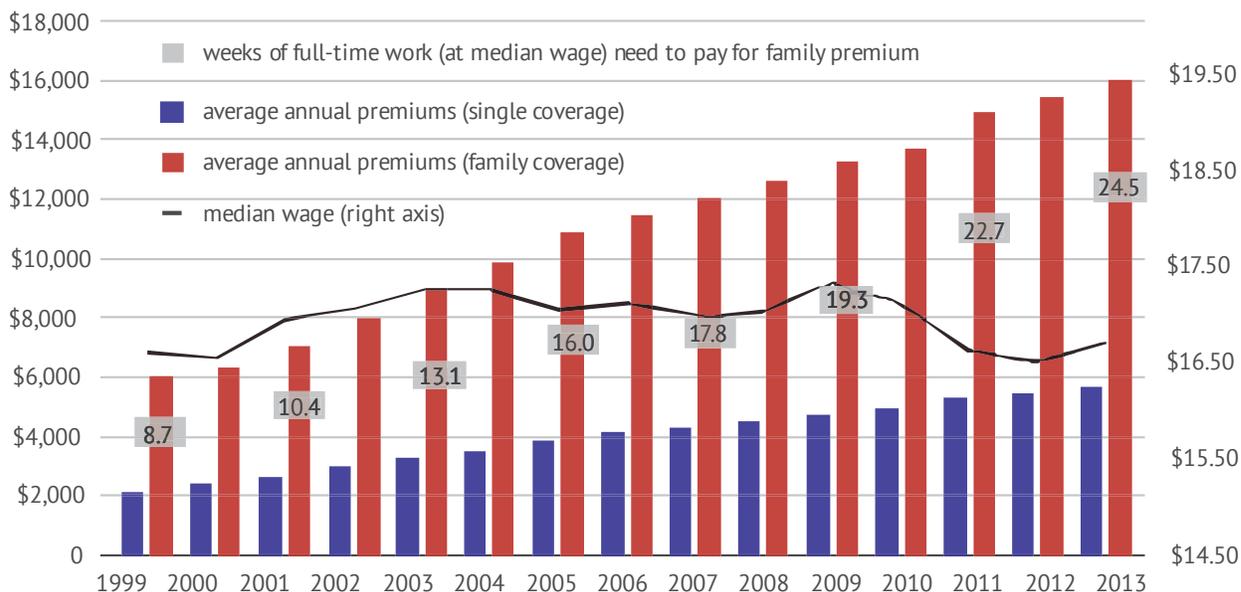
Source: The Henry J. Kaiser Family Foundation. 2016 Employer Health Benefits Survey. <http://www.kff.org/report-section/ehbs-2016-summary-of-findings/>

**FIGURE 9: AVERAGE ANNUAL HEALTH INSURANCE PREMIUMS AND WORKER CONTRIBUTIONS FOR FAMILY COVERAGE, 2006–2016**



Source: The Henry J. Kaiser Family Foundation. *2016 Employer Health Benefits Survey*. <http://www.kff.org/report-section/ehbs-2016-summary-of-findings>

**FIGURE 10: THE HEALTH CARE COST CRUNCH, 1999–2013**



From Gordon, Colin. *Growing Apart: A Political History of American Inequality*. <http://scalar.usc.edu/works/growing-apart-a-political-history-of-american-inequality/job-insecurity-employment-based-benefits>

## 2.6

## THE DIGITAL REVOLUTION

As companies outsource or reduce their workers' hours, they create a demand for part-time and/or short-term contract work, but for many years have lacked a means to connect with the labor pool—until the Digital Age. The internet spurred a digital marketplace for companies, customers and workers to connect and match skills to needs in a finely grained and immediate way. Online sites for freelancers are easy to join, using a global bulletin board to directly connect large pools of supply and demand, provide for secure transfers of payment, allow for mass sharing of profiles and reviews to aid in decision-making, and enable work that can be done remotely—fostering self-employment-type transactions on a large, pervasive, even global scale.

The internet connects businesses seeking to streamline operations with part-time and/or short-term workers, filling market holes with willing participants. This enables more workers, businesses, customers and individuals to get the kind of short-term peer-to-peer contracts that each party does by choice. The ubiquity of mobile devices has expedited immediate transactions and real-time information, changing whole industries, such as hired rides and accommodations. Because these transactions are typically direct from producers to consumers, they eliminate human intermediaries, making prices cheaper for consumers.

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*Additionally, for many of these freelancing-type transactions, workers get to call their hours and their rates, choose their clients, and work for many companies to maximize their work opportunities.*



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Additionally, for many of these freelancing-type transactions, workers get to call their hours and their rates, choose their clients, and work for many companies (often all at the same time) to maximize their work opportunities. These freer relationships characterize the gig economy. In this way the gig economy fundamentally reduces the friction of transactions—what economists call “transaction costs”—that tend to reduce the consummation of desirable transactions through higher prices and reduced opportunities to trade.<sup>15</sup>

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<sup>15</sup> Munger, Michael. “Tomorrow 3.0.” *The Independent Review*, 20 (3), Winter 2016. 391–395.

## PART 3

# HOW BIG IS THE GIG ECONOMY, WHO ARE GIG ECONOMY PARTICIPANTS, AND HOW DO THEY OPERATE?

There has always been a very small, gig-type economy, even before the Digital Age. For example, whenever we hired the neighbor kid to mow our lawn, we made a task-oriented, short-term, peer-to-peer voluntary business transaction with an autonomous party, who had the option to refuse. But without the hyperconnectivity of the internet, these transactions were few and far between, being normally face-to-face and therefore extremely limited geographically.

The Digital Age transcended those geographical bounds. The booming, internet-enabled market triggered a proliferation of online and app-based employment and exchange

intermediaries such as Upwork, e-Lance, Uber, Lyft, Taskrabbit, Thumbtack, Airbnb, etc. called “digital platforms.” These offer a direct or almost-direct consumer-to-provider connection for goods and services, which has transformed the way business is conducted. Businesses or customers who need to rent a room or hire a sign painter and individuals who want to rent out a room or find work as a sign painter can now find each other, research each other’s track record, hammer out details, forge a contract and submit payment—all without leaving the office or living room.

Gig economy participants can be divided into three categories:

1. the sellers of goods and the customers who buy them,
2. those who rent assets such as rooms, and their clients,
3. the independent workers who freelance their labor and the businesses or individuals who hire them.

Technically, the “gig economy” is the portion of trade characterized by short-term, task-oriented, autonomous, direct or almost-direct transactions between workers and the businesses or individuals who hire them. But in common use, the “gig economy” usually means all alternative work arrangements—anything that isn’t unemployment or full-time or part-time traditional work—including long-term contracting (as used in this study as well). It specifically describes these autonomous transactions, mostly between strangers, many of whom have connected through the internet either directly or almost directly through intermediaries called “digital platforms.”

## 3.1

### WHAT IS THE ROLE OF DIGITAL PLATFORMS?

Digital platforms provide online intermediaries whereby people can connect anonymously and remotely with gig workers for employment, or to contract for services, each one of these peer-to-peer transactions being a “gig.” Importantly, providers of services and goods have the option to refuse or accept each gig, which gives them complete autonomy. In contrast, traditional employees cannot refuse to do the work assigned by an employer and cannot turn off their time clock at will. Crucial to the proliferation of the gig economy has been the opportunity to reach customers on mobile devices, now ubiquitous in our society, to make real-time efficient matches between customers and providers for better service. Because of this networking function, digital platforms are hired administrative

intermediaries, more like sophisticated interactive bulletin boards than employers. That's why digital platforms are known as "nonemployer firms."

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*... digital platforms are hired administrative intermediaries, more like sophisticated interactive bulletin boards than employers. That's why digital platforms are known as "nonemployer firms."*

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These intermediaries also provide a secure means of online payment and a venue to share reviews and information on the providers of work or goods to help customers make informed choices. For example, rideshare customers can read reviews of various drivers and their vehicles by other customers, and, since rideshare drivers are autonomous independent workers and not employees, they can read reviews done by fellow drivers of repeat customers and elect to provide a ride or not. A transaction occurs when both parties agree.

As a benefit of its digital nature, these networking platforms also allow for the generation of business data for many useful purposes. For example, researchers have used data from the digital platforms that serve as intermediaries for transactions, to include payment for goods and services, to calculate the spread of the gig economy—and the results are staggering.

## 3.2

### HOW BIG IS THE GIG ECONOMY?

The variable definitions of gig economy work make for difficulty in standardized counting, but many attempts have been made to quantify it. Researchers often use different terms and definitions for gig participants, or seek an answer to a particular question that skews results. For example, some are measuring the stability of employment, so they don't include long-term contractors in their definition of the gig worker; others focus on independent workers as a means of calculating displacement of the traditional workforce, so they only count primary income independent workers and not moonlighters/supplementers, who account for the vast majority of gig workers. Some count

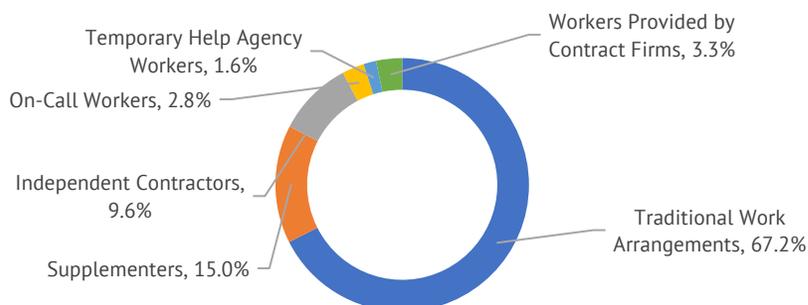
individual gigs as workers, even though one worker may have many gigs. For these reasons the current body of research occupies a range.

Katz and Kreuger, in their study “Alternative Work Arrangements,” find that approximately 10% of the U.S. working age population (16+) do independent work as their primary income. The McKinsey report adds supplemental earners, who account for the vast majority of independent workers, and calculates the independent workforce at approximately 27% of the working age population, but even that underrepresents the true total, as it excludes:

- “fissured workers” (workers who moved from full-time to long-term contract work with the same company—the result of companies splitting off non-core functions). These workers account for the largest portion of independent workers—over ten times as many as short-term independent workers;
- self-employed who have employees;
- “permatemps” (more prevalent in Europe, these are temporary workers who have near-permanent positions with companies, so as to avoid the heavy regulations of full-time hires)
- Workers who are offline or have language barriers or are paid off the books.

Compiling data from the McKinsey Global Institute’s Independent Work report, the Katz and Kreuger CWS report and Classaction.com’s Fissured Workplace report provides a more accurate representation of the gig economy’s size that accounts for the two largest cohorts—supplementers and independent contractors. This suggests the gig economy is even larger, at nearly one-third of the U.S. economy, than each data set alone reveals. But it’s important to recognize that not all gig work, for example non-internet-derived work, can be measured. It can therefore be assumed that any data-based measure of the gig economy, to include this one in the figure below, is understated.

### FIGURE 11: ESTIMATED 32.3% OF U.S. WORKFORCE IN ALTERNATIVE WORK ARRANGEMENTS 2015



**Sources:** Author's calculations compiled from data at Katz, Lawrence F. and Alan B. Krueger. "The Rise in Alternative Work Arrangements in the United States: 1995-2015."; Eckert, Brian. "How Workers Are Falling Through the Cracks in the Fissured Workplace," *Classaction.com*. Aug. 30, 2016/Updated Nov. 9, 2017; and Manyika, James et al. "Independent Work: Choice, Necessity and the Gig Economy." McKinsey Global Institute.

A 2014 survey by The Freelancers Union found that 34% of the U.S. labor force is doing at least some freelance work.<sup>16</sup> Generally, most analysis puts the number at around 25%–30% of the working age population when long-term contractors and supplemental earners are included; most agree that most new jobs in the U.S. since 2001 are "contingent" (a.k.a. "gig" or independent work).<sup>17</sup> Interestingly, a Brookings study finds that 81% of the growth in "ride and room" gig economy took place in the nation's 25 largest metro areas, suggesting that the gig economy is chiefly an urban practice at this stage.<sup>18</sup>

Many studies focus on primary income gig workers and significantly undercount those who supplement (retirees, students, moonlighters, etc.), who account for the majority of gig workers. This may be because supplemental workers, by definition, also have primary income from elsewhere, so this cohort likely overlaps significantly with traditional workers. While the Bureau of Labor Statistics stopped counting contingent workers in 2005, it plans to resume in 2017. At any rate, the variation in metrics used suggests that the gig economy is underreported. Analyzing data from the Bureau of Labor Statistics' *Contingent Workers*

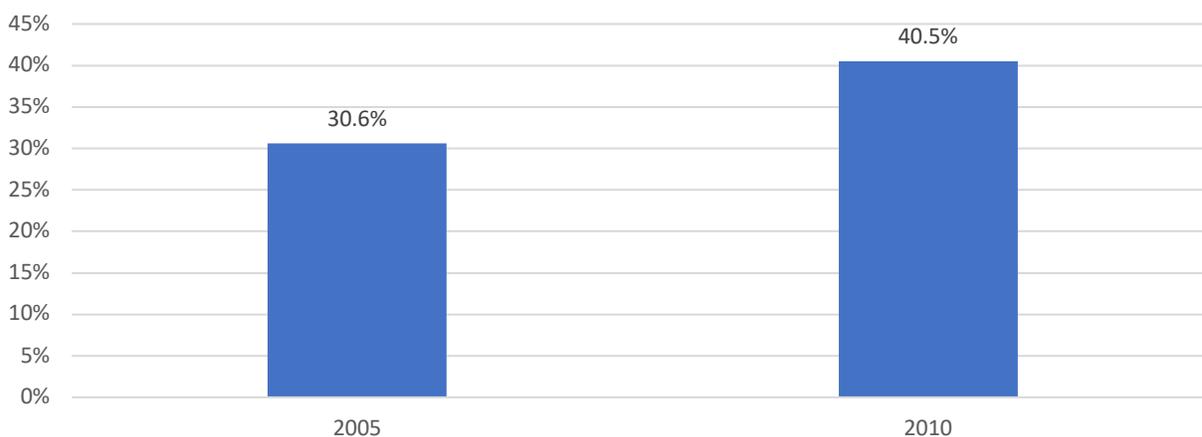
<sup>16</sup> Freelancers Union & Elance-oDesk. *Freelancing In America: A National Survey of the New Workforce*. [https://fu-web-storage-prod.s3.amazonaws.com/content/filer\\_public/c2/06/c2065a8a-7f00-46db-915a-2122965df7d9/fu\\_freelancinginamericareport\\_v3-rgb.pdf](https://fu-web-storage-prod.s3.amazonaws.com/content/filer_public/c2/06/c2065a8a-7f00-46db-915a-2122965df7d9/fu_freelancinginamericareport_v3-rgb.pdf). accessed July 29, 2017.

<sup>17</sup> Katz and Kruger. "The Rise of Alternative Work Arrangements."

<sup>18</sup> Hathaway, Ian and Mark Muro. *Tracking the gig economy: New numbers*. Brookings. October 13, 2016. <https://www.brookings.edu/research/tracking-the-gig-economy-new-numbers/>

Survey and the *General Social Survey*, the Government Accountability Office found—with an expanded definition of alternative work arrangements to include part-time workers—the gig economy grew substantially, from about 30% of employed workers in 2005 to about 40% in 2010.<sup>19</sup>

**FIGURE 12: SHARE OF WORKERS IN ALTERNATIVE WORK ARRANGEMENTS**



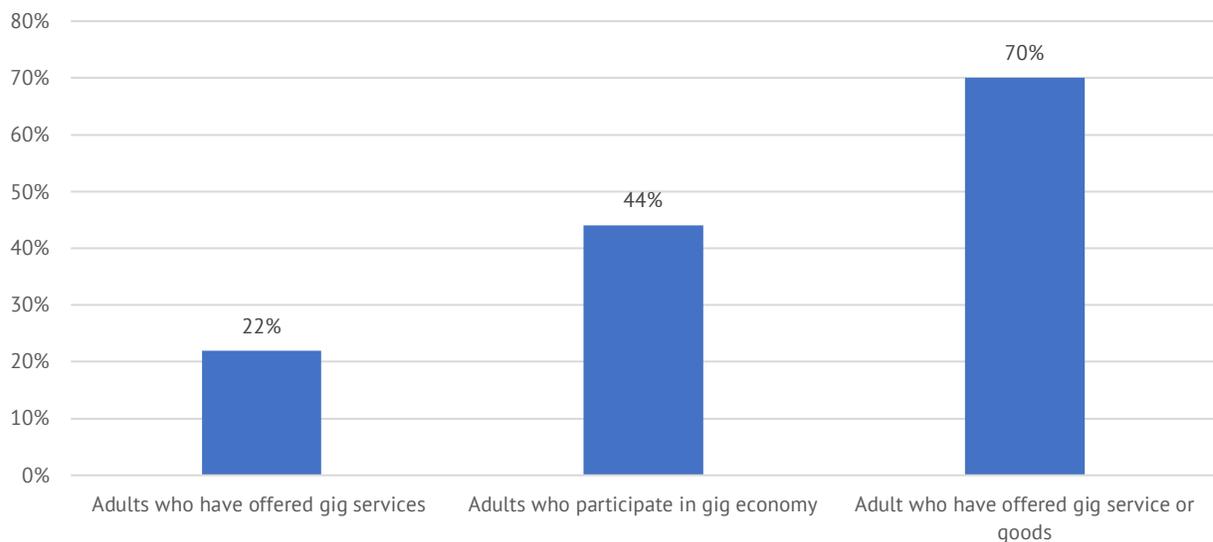
Source: GAO. “Contingent Workforce: Size, Characteristics, Earnings, and Benefits.”

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*The difficulty in measuring the gig economy does not diminish its importance, as its customer base is wide.*  
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The difficulty in measuring the gig economy does not diminish its importance, as its customer base is wide. A *TIME* magazine poll finds that 44% of U.S. internet users have participated in the gig economy and 22% have offered some good or service. When consumers of these goods and services are added in, the rate jumps to 70%.<sup>20</sup> This suggests that the gig economy’s well-being is a major factor in the U.S. economy.

<sup>19</sup> Government Accountability Office (GAO). “Contingent Workforce: Size, Characteristics, Earnings, and Benefits.” April 20, 2015. <http://www.gao.gov/assets/670/669899.pdf>

<sup>20</sup> Steinmetz, Katy. “See How Big the Gig Economy Really Is.” *TIME*. Jan 06, 2016. <http://time.com/4169532/sharing-economy-poll/>

**FIGURE 13: PARTICIPATION IN THE GIG ECONOMY**

Source: *TIME*. “See How Big the Gig Economy Really Is.”

Still other attempts to measure the gig economy examine the income generated by major gig digital platform companies. For example, the McKinsey report notes:

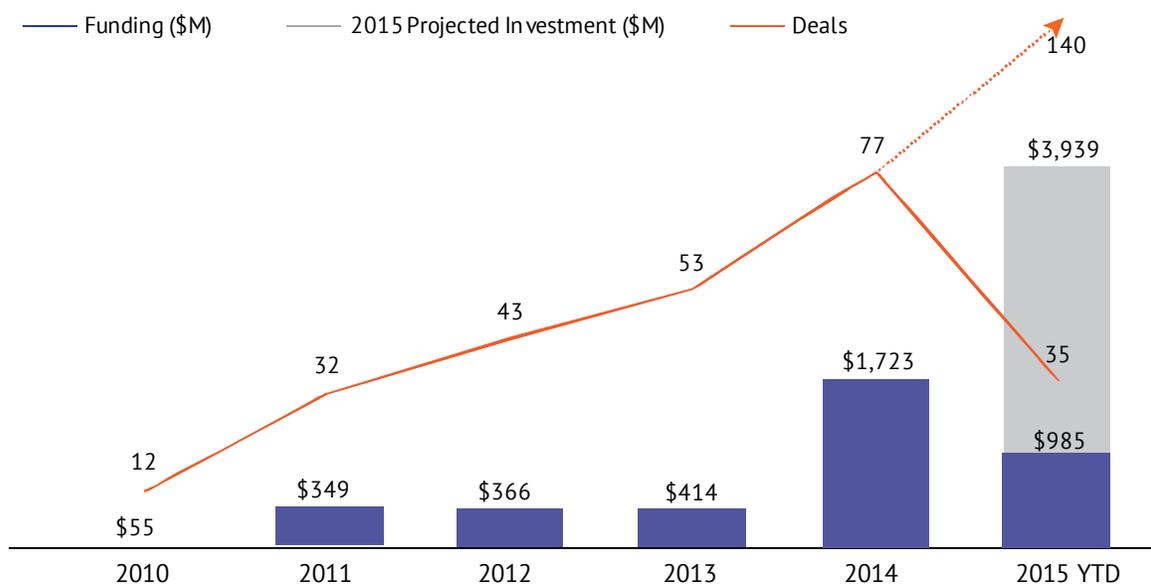
*Consider the pace of Uber’s growth. Founded just seven years ago, the company doubled the number of rides it handled daily from one million in 2014 to two million in 2015, enlisting some 160,000 active drivers in the United States by the end of 2014.*

*Airbnb, another breakout platform, has grown to include some two million listings worldwide. In the summer of 2010, approximately 47,000 guests stayed in Airbnb properties—and by the summer of 2015, that number was 353 times larger, at nearly 17 million guests. Today some 650,000 hosts worldwide operate on the platform, and more than 60 million guests have stayed in their properties. Paris, the top city on the site, has some 40,000 listings.<sup>21</sup>*

One report calculated that “Venture capital funding for on-demand mobile platforms has skyrocketed in recent years, going from \$57M in 2010 to more than \$4B in 2014.”<sup>22</sup>

<sup>21</sup> Manyika, “Independent Work.” 68.

<sup>22</sup> CB Insights. *The On-Demand Report*. <https://www.cbinsights.com/research-on-demand-report> Accessed July 29, 2017.

**FIGURE 14: ON DEMAND MOBILE SERVICES FINANCING TREND: JAN. 2010–APR. 2015**

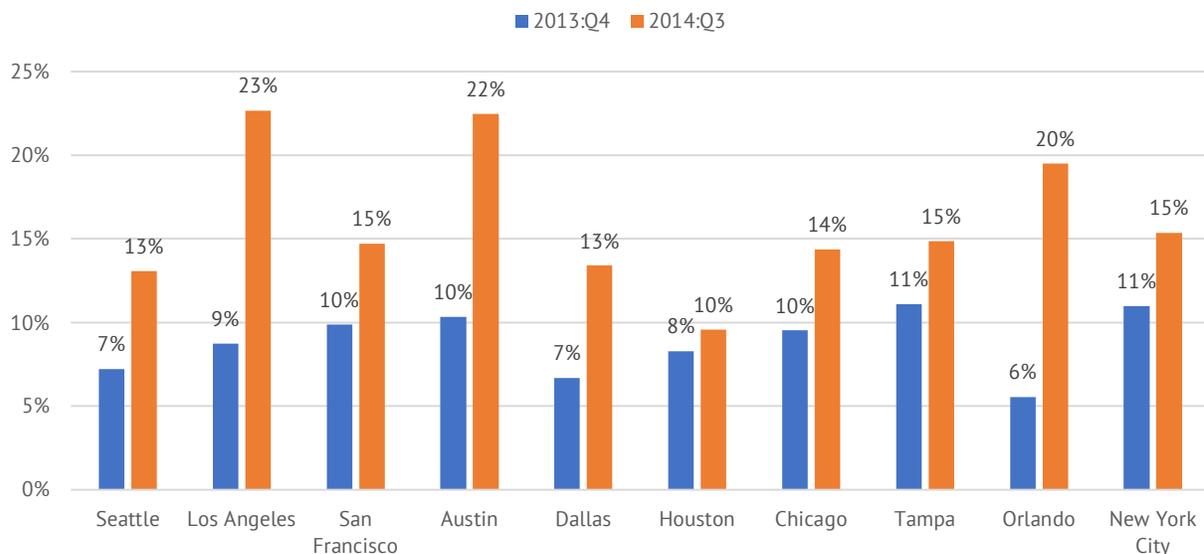
Source: CB Insights. *The On-Demand Report*.

Another way to get a feel for the size of the sharing economy is by tracking 1099 tax forms, which are issued by businesses to contractors for any work paying over \$600 from one employer over one calendar year (see Figure 15). Indeed, some have renamed the gig economy as “the 1099 economy,” as distinguished from the traditional “W-2” economy. This only covers significant employer/contractor relationships (gigs over \$600), which is still underreporting, but provides an idea of the increase in contracting.

By whichever measure, it’s clear that the gig economy is growing, both on its own and as a competitor to traditional employment in certain industries. Mark Muro, Senior Fellow at Brookings’ Metropolitan Policy Program, assigns the gig economy “potential for a huge realignment in the very nature of employment...a picture here of a potentially seismic reorganization.”<sup>23</sup>

<sup>23</sup> Wells, Nick. “The ‘gig economy’ is growing—and now we know by how much.” CNBC. 13 Oct 2016. <https://www.cnbc.com/2016/10/13/gig-economy-is-growing-heres-how-much.html>

**FIGURE 15: 1099 CONTRACTOR INCREASE BY STATE (PERCENTAGES OF 1099 CONTRACTORS TO TOTAL WORKFORCE)**



### 3.3

## IS THE GIG ECONOMY A THREAT TO TRADITIONAL EMPLOYMENT?

Some argue that gig work reduces the value of labor in economic production.<sup>24</sup> But it is also apparent that most gig work is by choice and empowers workers. Change can certainly look threatening, especially to groups that have a vested interest in traditional employment. For example, a rise in self-employment makes labor unions less relevant, even if it does employ more people. For the economy and independent workers, more employment is a win, but for some others, like unions and some full-time employees, it could be a loss. Importantly, the gig economy favors some industries over others.

For example, before the ridesharing revolution, taxis had a virtual monopoly on hired rides in U.S. cities, which determined the number of legal taxis that could operate, the types of vehicles that could qualify as taxis, and the rates that drivers could charge. Such regulations artificially anchor the number of taxis supplied below the number of taxis demanded, denying many would-be consumers the option of using the service, and creating

<sup>24</sup> See for example, Autor et. al. "The Fall of the Labor Share and the Rise of Superstar Firms." MIT and NBER. May 1, 2017. <https://economics.mit.edu/files/12979>

excess profits for those who hold scarce taxi medallions or licenses.<sup>25</sup> Drivers, and therefore eventually consumers, pay for those excess profits.

When the internet provided a means for connecting demand with supply, and innovative entrepreneurs perceived the opportunity, on-demand mobile companies blossomed. This industry had exactly the characteristics that favor gig economy entrants: a highly regulated industry with pent-up consumer demand, a willing labor pool, and a way to effect the business model—in this case via digital platform.



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*New York City taxi cab medallion values have fallen to around \$250,000, a fifth of what they were worth before the ridesharing revolution.*

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So is this an example of the end of traditional employment in the taxi industry? Possibly. But the better question is, is that a bad thing? After all, the whole structure of service is evolving, benefitting almost all—except the cities' coffers. New York City taxi cab medallion values have fallen to around \$250,000, a fifth of what they were worth before the ridesharing revolution.<sup>26</sup> And that's in a market where ridesharing is fairly restricted. Chicago tells a similar story, where taxi medallions that sold for around \$350,000 in 2012 are now worth around \$50,000 thanks to competition from ridesharing services.<sup>27</sup> Traditional taxi owners must purchase these expensive medallions and pass the costs on to their drivers and customers. With such high expenses, it's no wonder that over a third of traditional taxi drivers work more than 50 hours a week.<sup>28</sup> Indeed, many rideshare drivers are former cabbies who

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<sup>25</sup> Moore, Adrian and Ted Balaker. "Do Economists Reach a Conclusion on Taxi Deregulation?" *EconJournalWatch*. 2006. 3 (1). <https://econjwatch.org/articles/do-economists-reach-a-conclusion-on-taxi-deregulation>

<sup>26</sup> Furfaro, Danielle. "Taxi medallions reach lowest value of 21st century." *New York Post*, April 5, 2017. <http://nypost.com/2017/04/05/taxi-medallions-reach-lowest-value-of-21st-century/>

<sup>27</sup> Puccinelli, Mike. "How Bad Is Chicago's Cab Market? Plunging Taxi Medallion Prices Tell The Tale." CBS Chicago. April 13, 2017. <http://chicago.cbslocal.com/2017/04/13/chicago-taxi-medallion-prices-plunge/>

<sup>28</sup> Hall, Jonathan V. and Alan B. Krueger. "An Analysis of the Labor Market for Uber's Driver-Partners in the United States." Jan. 22, 2015. Table 4. <https://irs.princeton.edu/sites/irs/files/An%20Analysis%20of%20the%20Labor%20Market%20for%20Uber%E2%80%99s%20Driver-Partners%20in%20the%20United%20States%20587.pdf>

say it has increased their income (59% say this), possibly because their cost of doing business is so much less. And 73% say they have more control over their schedules.<sup>29</sup>



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*Indeed, many rideshare drivers are former cabbies who say it has increased their income (59% say this), possibly because their cost of doing business is so much less. And 73% say they have more control over their schedules.*

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Cost isn't the only improvement in the industry. Rideshare customers summon drivers electronically via a cellphone app rather than standing out on the street. This makes arranging for a ride physically safer, both in terms of street crime and standing in traffic in harm's way. It's also vastly more comfortable, especially in inclement weather. To keep up with the competition from ridesharing, municipal taxis have developed apps of their own so that customers need not stand in the weather to hail them. To remain competitive with gig drivers, traditional drivers evolved their business model, which results in better ride services for customers. Better communication makes for more business transactions—a win for everyone. Without the competition from ridesharing, taxis likely would not have evolved to serve their customers better.

Moreover, many taxi drivers elect to moonlight as rideshare drivers to earn extra money. Is that a win for workers and consumers or a loss for traditional employment? At any rate, it's important to remember that all participants in the economy are consumers, so a win for consumers is a win for everyone.

Another win for consumers has been the proliferation of rooms for rent through a broad range of digital platforms such as AirBnB, Homeaway, VRBO (vacation rentals by owner) and many others. Certainly this new competition has hurt the hotel industry's bottom line. To the extent that traditional hotel workers may be laid off or not hired because of that suggests some supplanting of traditional employment by the gig economy in this industry. And yet, homeowners who offer rooms for rent are leveraging their assets to improve their

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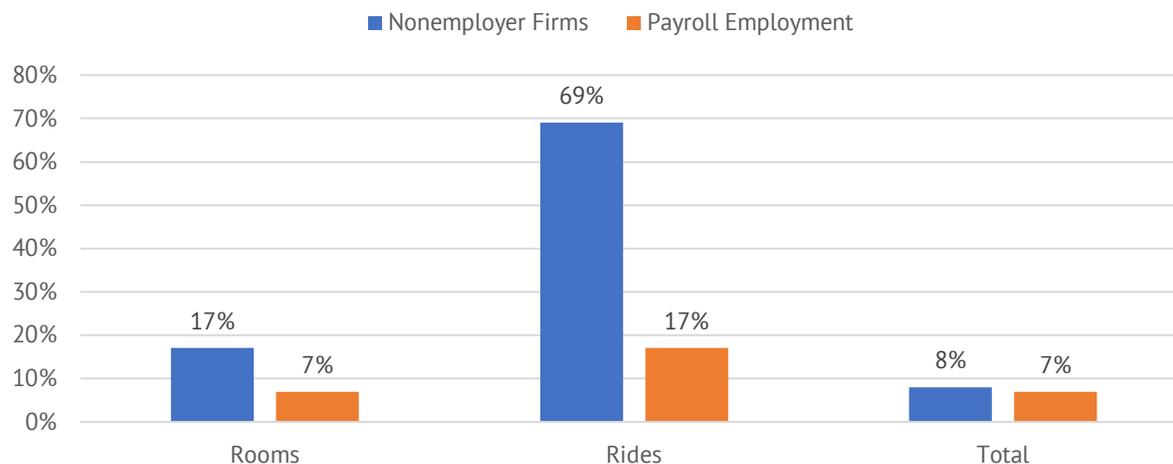
<sup>29</sup> Sherk, James. *The Rise of the "Gig" Economy: Good for Workers and Consumers*. October 7, 2016. [http://www.heritage.org/jobs-and-labor/report/the-rise-the-gig-economy-good-workers-and-consumers#\\_ftnref15](http://www.heritage.org/jobs-and-labor/report/the-rise-the-gig-economy-good-workers-and-consumers#_ftnref15)

own financial circumstances, which is also a transaction in the marketplace: jobs are transferred, not lost. Moreover, it's also possible that customers might not have been able to afford hotel prices, so the leased rooms are filling gaps in the economy and serving a new customer base—a net gain in terms of the greater economy.

The sea change under way in traditional taxis and hotels suggests that these industries are ripe for transformation, with high demand from customers who want better or different service. If prices weren't so high and/or quality so low or constrained in these traditional industries, the gig economy would not have got a foothold. In the evolve-or-die world of the free market, consumers determine which businesses serve them best. Figure 16 shows that the gig economy is transforming these industries, eroding the ability of cities to “sell” the right to do business, as with medallions, and providing more jobs and services.

“  
... the gig economy is transforming these industries, eroding the ability of cities to “sell” the right to do business, as with medallions, and providing more jobs and services.  
”

**FIGURE 16: CHANGE IN NON-EMPLOYER FIRMS AND EMPLOYMENT BY SECTOR (PERCENT CHANGE 2010–2014)**



**Note:** Includes NAICS code industries 4,853 and 4,859 (rides); 7,211 and 7,231 (rooms)

**Source:** Brookings analysis of Census Bureau and Moody's data

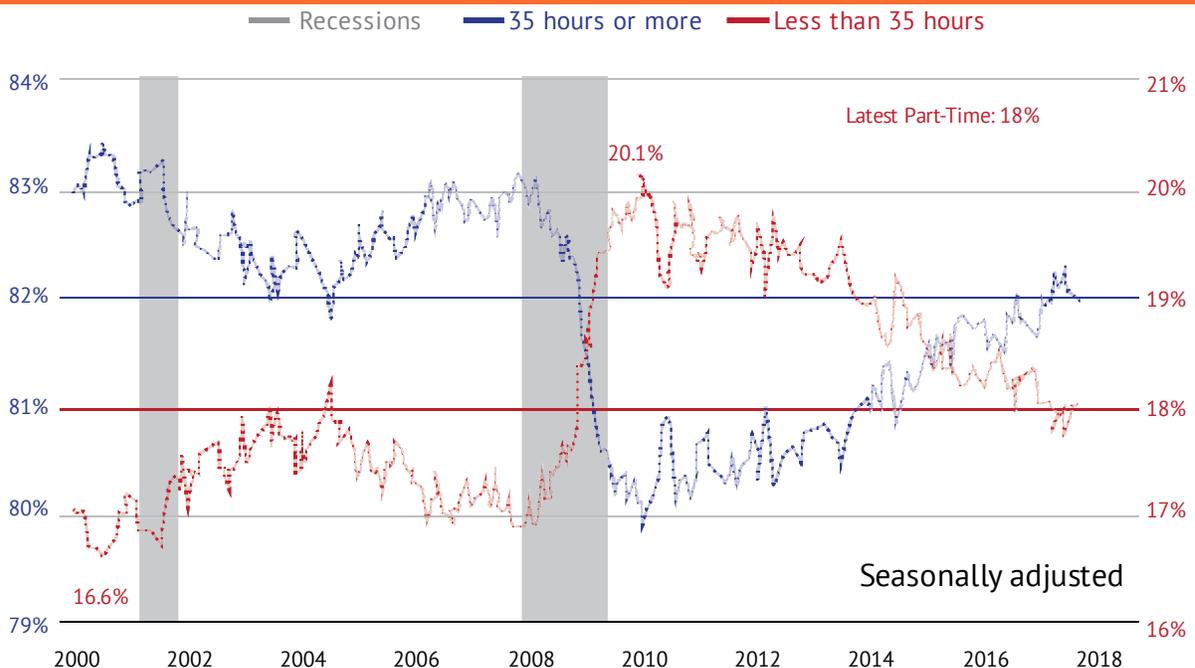
In other sectors of the economy, contingent workers are also more likely filling gaps than stealing traditional jobs. For example, it's hard to know if someone selling handcrafted jewelry on Etsy is stealing customers from established brick and mortar jewelry stores with traditional employees, or if she's serving an untapped market. Or if a maid hired from a digital platform would have been hired from a professional agency if the internet didn't exist. We can't know what might have been without the internet, but unquestionably, this filling of gaps gives all consumers more choice in goods and services and, for many workers, provides a new means of weathering hard times.

## 3.4

## THE GIG ECONOMY AS SAFETY VALVE DURING RECESSIONS

Figure 17 shows how part-time employment rises during recessions as full-time employment falls, forming a financial safety valve. While these data are not specifically representative of contingent workers, it does follow logically that various “pick-up work” offered through the gig economy functions as the kind of part-time or short-term employment that smooths out oscillations in the economy for individuals and families.

**FIGURE 17: FULL-TIME VS. PART-TIME EMPLOYMENT:  
PERCENT OF TOTAL EMPLOYED, AGE 16 AND OVER (AS OF AUGUST 2017)**



Source: Mislinski, Jill. “The Ratio of Part-Time Employed: August 2017.” August 5, 2017.

<https://www.advisorperspectives.com/dshort/updates/2017/09/05/the-ratio-of-part-time-employed-august-2017>

And yet, whether gig workers are stealing traditional jobs is probably best answered by the workers themselves. Would they rather be working full-time at traditional jobs? Are they merely scraping by until a traditional job offer comes along? The next section addresses such questions.

## PART 4

# HOW SATISFIED ARE INDEPENDENT WORKERS?

### 4.1

## WHY WORKERS GIG

The most detailed research of late comes from the McKinsey Global Institute Report, which looked at the gig economy in the United States and parts of Europe by surveying over 8,000 people.<sup>30</sup> Because gig economy workers are not technically employees but self-employed workers, McKinsey's report calls them "independent workers" or "contingent workers," and finds that the appeal of the gig economy is largely choice and flexibility.

For example, an attorney who needs to schedule around her children's school hours may offer piece work out of a virtual, online office. Or a stay-at-home parent might offer editing services through a digital platform such as e-Lance or simply on a personal website. Or a college graduate still looking for work in his field may advertise his skills on a multitude of digital platforms or his own website, working independently at short-term projects until a full-time job prospect appears. Services like Amazon's Mechanical Turk show the wide

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<sup>30</sup> Manyika, et al. "Independent Work."

variety of possible tasks both demanded and supplied in a gig setting. Independent workers, especially those with high autonomy and flexibility needs, may juggle several gig jobs that combine to provide primary income, or merely supplement household income.

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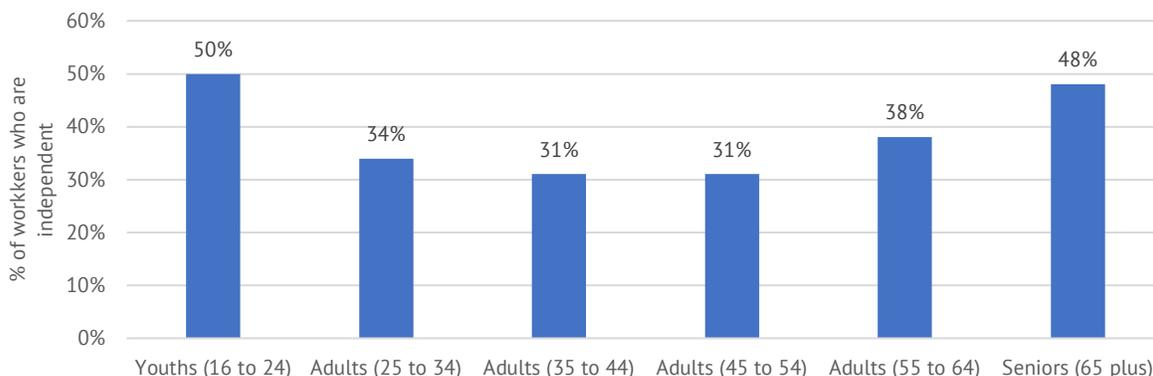
*Independent workers, especially those with high autonomy and flexibility needs, may juggle several gig jobs that combine to provide primary income, or merely supplement household income.*

”

### IT'S NOT JUST THE KIDS

Contrary to popular thought, McKinsey finds that only a quarter of U.S. gig workers are low income earners trying to make ends meet, and many are professionals, such as doctors, lawyers, therapists and accountants. The average age of U.S. independent workers is roughly 40, with Millennials accounting for less than a quarter of gig workers. Young people and seniors are disproportionately represented: half of age 16–24 earners and 48% of U.S. earners over 65 are independent workers.

**FIGURE 18: YOUTHS AND SENIORS DISPROPORTIONATELY PARTICIPATE IN INDEPENDENT WORK RESPONSES FROM MGI SURVEY**



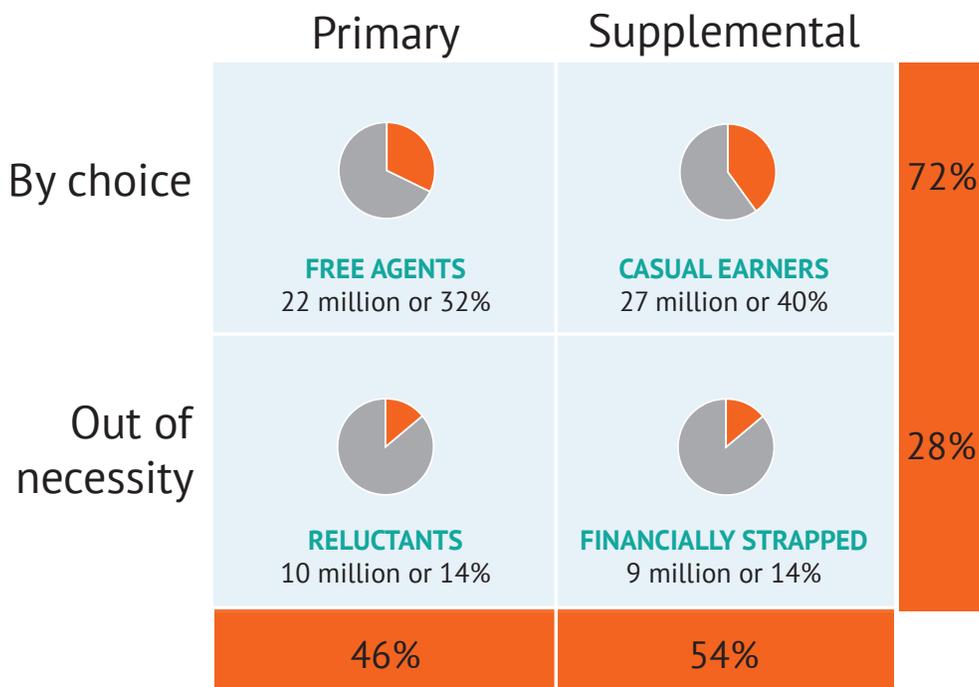
Source: Manyika, James et al. “Independent Work: Choice, Necessity and the Gig Economy.”

The McKinsey report further distinguishes independent workers according to their goals, some choosing independent work, and some doing it out of financial necessity.

Of U.S. independent workers surveyed:

1. 32% are “free agents” who choose independent work and derive primary income by it.
2. 40%, the largest cohort, are “casual earners” who supplement their income by choice using independent work.
3. 14% are “reluctants” who derive primary income from independent work, but would prefer traditional work.
4. 14% are “financially strapped,” and do supplemental independent work out of economic necessity.

**FIGURE 19: U.S. 68 MILLION INDEPENDENT WORKERS**



Source: Manyika, James et al. “Independent Work: Choice, Necessity and the Gig Economy.” 9.

Notably, the “free agents” and “casual earners,” who do independent work by choice, comprise well over two-thirds of all gig workers, compared to American independent workers who are “reluctants” or “financially strapped.” Also, the “casual earners” and “financially strapped,” both of which are supplementers, comprise over half of all independent workers. This means that the majority of contingent workers are supplementing primary incomes (54%), and/or are working independently by choice (72%).

The McKinsey report also finds that “reluctants,” who are distinguished by the fact that they’d rather be in full-time traditional work, are largely temporary workers looking for permanent, traditional work.<sup>31</sup> This makes sense, as many temp workers in traditional brick and mortar temp agencies used temp positions to “shop” for traditional work, enabling them to try out companies and jobs that might have led to more structured employment. This means that some “reluctants” are likely using the gig economy as a means to secure permanent work, which is another function of the gig marketplace. Just because that coveted job has yet to appear doesn’t mean the gig economy is doing them a disservice. On the contrary—they are using the gig economy as a job placement service. Additionally, the fact that there even are “reluctant” or “financially strapped” contingent workers lends further weight to the idea that the gig economy can function as a financial safety valve, providing alternative work opportunities during times of high unemployment in traditional work structures.

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But what this breakdown also tells us is that, since most independent workers are supplementers, it’s likely the traditional full-time workplace anchors these workers or their households. In other words, workers are likely to seek out contingent work when they have some stability features of the traditional workplace model already in place, which the gig economy mostly complements, rather than supplants.

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<sup>31</sup> Ibid.

## 4.2

## HOW SATISFIED ARE GIG WORKERS?

Unsurprisingly, McKinsey found that independent workers laboring by choice (free agents and casual earners) are more satisfied; those doing it out of necessity (reluctants and financially strapped) are less satisfied. Comparing independent workers with traditional workers in both choice groups, McKinsey finds “free agents” to have the highest satisfaction of any group; “not by choice” independent workers also reported more satisfaction than those employed traditionally not by choice, i.e. out of necessity. As such, independent workers are overall more satisfied with their work than traditional workers.<sup>32</sup> Importantly, the McKinsey study—and therefore these findings of high satisfaction among giggers—excludes long-term contractors, whose employment is the most stable of the gig economy. Unsurprisingly, a GAO study of the satisfaction of long-term contractors rates them at a whopping 85% satisfied.<sup>33</sup>

McKinsey also finds that “30–45% of the working age population would like to earn either primary or supplemental income through independent work and consider themselves at least somewhat likely to pursue the option.” This would mean one-third to one-half of working age adults value independent work for its own sake. Other research has similar findings. For example, a study of the self-employed in 23 countries found they are substantially more satisfied with their work than traditionally employed persons, mainly due “to the more interesting jobs and to the greater autonomy that self-employed persons enjoy.”<sup>34</sup>

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*The McKinsey survey indicates that among traditional earners, one in six, or 42 million people in the U.S. and Europe, would like to be primary independent income earners.*

”

<sup>32</sup> Ibid, Exhibit 15.

<sup>33</sup> GAO. “Contingent Workers.” Table 12.

<sup>34</sup> Benz, Matthias and Bruno S. Frey. “The value of doing what you like: Evidence from the self-employed in 23 countries.” *Journal of Economic Behavior & Organization*. 68, Issues 3–4. December 2008. 445–455. <https://doi.org/10.1016/j.jebo.2006.10.014>

The McKinsey survey indicates that among traditional earners, one in six, or 42 million people in the U.S. and Europe, would like to be primary independent income earners. “For every primary independent worker who would prefer a traditional job, more than 2 traditional workers hope to shift in the opposite direction.”<sup>35</sup> This is consistent globally, where a study finds 43% of respondents preferring self-employment, expressing that autonomy and flexibility outweigh income, suggesting a global trend in worker priorities.<sup>36</sup> McKinsey finds that at least 20 million people in U.S. who are not working full time would like to work more, an inactive cohort that includes retirees, students, the disabled and caregivers—the very workers who could benefit most from the flexibility of independent work.<sup>37</sup>

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<sup>35</sup> Manyika et al. “Independent Work.” 7.

<sup>36</sup> Blanchflower, David G. *flexibility@work 2015: self-employment across countries in the Great Recession of 2008-2014*. Randstad. May 2015, [https://www.randstad.de/polopoly\\_fs/1.5492701/download/downloadFile/flexibility%20at%20work\\_2015english.pdf](https://www.randstad.de/polopoly_fs/1.5492701/download/downloadFile/flexibility%20at%20work_2015english.pdf)

<sup>37</sup> Manyika, et al. “Independent Work.” Exhibits 24 and 25.

## PART 5

# WHAT ADVANTAGES PROPEL THE GIG ECONOMY FORWARD?

The Digital Age has cut some workers out of the market but made provision for others, especially new and innovative individuals and businesses. Through lower overhead costs for businesses, more consumers can afford goods and services. As it grows in popularity, the gig economy provides increasing benefits to all participant groups.

### 5.1

## LOWERING THE COST OF LIVING

Without the overhead of increased office space and worker benefits, businesses have lower costs and are able to pass that savings onto consumers, creating a lower cost of living for all. Through the fissuring of the workplace, a small cadre of employees does full-time work and all other expertise is hired out. This saves money through the ability to scale up or down easily without having to lay off and rehire workers. Not only business, but government can also reap these benefits, which means less expense for taxpayers, lowering the cost of living for everyone.

## 5.2

**FLATTENING OF THE ECONOMY**

When the middle man is cut out of business transactions, consumers spend less by going directly to providers, and vice versa. For example, an electrician who used to work for a company can, if he desires, work independently instead, calling his own hours, and advertising for and communicating with customers via the Web—and keeping all of what he earns. An antique store owner who used to pay dearly for a well-located brick and mortar building that would lure shoppers inside can now sell his wares online without all that overhead, marketing them to specific sites to appeal to likely customers, or to a whole world of shoppers. Likewise, a fashion-savvy entrepreneur can buy designer clothes from a thrift store, put together outfits, and sell them on line for a substantial mark-up. This is the end of the middle man—rather than merely shuffling goods from manufacturers through chains of retail layers (the traditional middle man) to customer, she repackages or repurposes them to attract a direct online buyer.

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*With near-zero start-up costs, entry into the gig economy is easy and virtually immediate, allowing for more start-up businesses.*

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## 5.3

**INCREASING ENTREPRENEURSHIP, PRODUCT AVAILABILITY AND DIVERSITY OF MARKET**

With near-zero start-up costs, entry into the gig economy is easy and virtually immediate, allowing for more start-up businesses. Moreover, budding entrepreneurs can build their businesses gradually until they can safely change careers. As the gig economy offers more to customers, more customers seek it out, creating a demand for even more entrepreneurs, sparking a virtuous cycle that results in a more robust economy. Supply rises to meet demand, holes in the market are filled, and consumers get better service, raising the standard of living. More entrants to the market bring more diverse products and greater product availability.

## 5.4

## INCREASING JOB PARTICIPATION RATE

Two main groups of work-seekers historically have trouble gaining traditional employment: the ultra-inflexibles and the disenfranchised.

Those who have to work around inflexible schedules, such as students and caregivers, have neither the volume of time nor the schedule gaps for a traditional job. This leaves many stay-at-home parents with huge gaps in their résumés when they do go back to full-time work. The gig economy gives these ultra-inflexibles opportunities to get work and in some cases to continue their careers during times when traditional full-time work is precluded.



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*Independent work also provides opportunities to the disenfranchised, who often end up being supported by taxpayers otherwise. For example, veterans with less-than-honorable discharges, post-incarceration felons, the physically and mentally disabled, the elderly, some minorities, foreigners and non-English speakers..*

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Independent work also provides opportunities to the disenfranchised, who often end up being supported by taxpayers otherwise. For example, veterans with less-than-honorable discharges, post-incarceration felons, the physically and mentally disabled, the elderly, some minorities, foreigners and non-English speakers. For example, Juan Paolo Luciano had a hard time finding a job, getting turned away when interviewers found out he was deaf, until he tried driving for Uber.<sup>38</sup> He has now been a rideshare driver for almost three years.

Independent work can enable people with difficulty getting conventional work to enter the labor force, giving them a “foot in the door” with companies and customers so they can prove their value as workers. Even better, they gain the satisfaction of providing for themselves and their families.

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<sup>38</sup> Taylor, Susan Johnston. “Why your next Uber driver might be deaf.” *Quartz*. January 11, 2017. <https://qz.com/878979/disability-opportunities-and-challenges-in-the-gig-economy-why-your-next-uber-driver-might-be-deaf/>

## PART 6

# WHAT CHALLENGES HOLD THE GIG ECONOMY BACK?

We know that 70%–85% of these independent workers do so by choice and demonstrate the highest satisfaction rates of all U.S. workers, and that the gig economy is growing without any sign of stopping. This signals that modern workers increasingly want the freedom to continually choose their work, and whether and when and how much they work, which conflicts with the goals of traditional employment—to secure the most predictability and stability in the workplace through long-term and regulated employer-employee relations.

It's understandable that our long experience with the traditional workplace paradigm leads us reflexively to try to “fix” the inherent instability of the gig economy by forcing independent work into our comfortable, high-regulation, traditional box—but that only exacerbates the problem. The greatest obstacle to the gig economy is a failure to understand that trying to make gig work more secure by adding workplace regulations undermines the dynamic itself. Examples abound.

## 6.1

## FAILURE TO UNDERSTAND WHAT INDEPENDENT WORKERS WANT

With the best of intentions, unions have fought for decades to protect workers from being overworked by holding employers to a 40-hour work week. But many Uber and Lyft drivers want to work more than that to earn more money. Since the gig economy often provides workers with the freedom to call their own hours, some drive for both Uber and Lyft at the same time, so they can continually choose the best rides from each service, maximizing their efficiency and income.<sup>39</sup> In this way, with the best of intentions, restrictions such as maximum work hours undermine workers' own preferences.

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### FIGHTING FOR GIG WORKERS' RIGHTS IN SEATTLE: MISUNDERSTANDING WHAT WORKERS WANT

In December of 2015, the Seattle City Council passed an ordinance giving independent contract drivers—including app-based companies such as Uber and Lyft, taxi companies and for-hire vehicles—the right to unionize for collective bargaining.<sup>40</sup> Seattle City Councilman Mark O'Brien said "The intent of this legislation is to create an environment where innovation can continue to happen, but not at the expense of the workers."<sup>41</sup>

But innovation is not what's happening. Instead, Seattle union leaders and drivers are hotly debating who should be allowed a vote. Should a 10-hour a week driver get the same union voting power as a 40-hour a week driver? Nobody is asking the big questions: What do these workers want, and does a 10-hour a week driver want the same things as a 40-hour a week driver?

The Seattle unions have favored the full-timers, giving their votes more weight, likely because full-timers may vote for many traditional workplace benefits. But most gig workers are supplementers, and the autonomy they value is mutually exclusive with traditional workplace restrictions.

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<sup>39</sup> See Fink, Erica. "Uber threatens drivers: Do not work for Lyft." CNN. August 5, 2014. <http://money.cnn.com/2014/08/04/technology/uber-lyft/index.html> and Van Maldegiam, Scott. "How To Drive For Uber And Lyft At The Same Time." July 28, 2016. <http://therideshareguy.com/how-to-drive-for-uber-and-lyft-at-the-same-time/>

<sup>40</sup> Beekman, Daniel. "Seattle unveils rules for unionizing Uber, Lyft drivers." *Seattle Times*. Published 11-23-16, updated 1-18-17. <http://www.seattletimes.com/seattle-news/politics/city-unveils-rules-for-unionizing-uber-lyft-drivers/>

<sup>41</sup> Wire report. "Seattle allows Uber, Lyft drivers to unionize." 14 Dec 2015. CNBC. <https://www.cnbc.com/2015/12/14/seattle-allows-uber-lyft-drivers-to-unionize.html>

Importantly, digital platforms are not employers, but companies that charge customers a service fee to connect them with potential independent workers, which is why these companies are called “nonemployer firms.” If these nonemployer firms were to be forced to provide benefits, how would that work? For example, from which company would simultaneous drivers of both Uber and Lyft receive benefits? Who would pay for health benefits, a retirement package or sick leave? Which company would be forced to pay Social Security, Medicare and worker’s compensation contributions, etc.? Both? Neither? Indeed, if a driver sustained a work-related injury while working for both companies at the same time, who would pay for that? And how many hours a week would a driver work to get benefits? Twenty? Thirty? What of drivers who work five hours one week and thirty-five the next and then take the following week off completely?

This is where such good intentions go off the rails: the failure to recognize that these are self-employed workers, not employees, and digital intermediaries are not employers in the customary sense of the word. Self-employed people secure their own portable health care and retirement. Entrepreneurs start and stop businesses regularly, but their personal health care plans and retirement accounts move with them. This is the appropriate model for gig workers.

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*By far the easiest route to destroying the gig economy is by forcing gig workers to be defined legally as “employees,” as several current class-action lawsuits intend.*

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Seattle isn’t the only battleground. By far the easiest route to destroying the gig economy is by forcing gig workers to be defined legally as “employees,” as several current class-action lawsuits intend. The end of the independent worker is the end of the gig economy.

And fighting against the gig economy would not only affect workers. The reason these nonemployer firms flourish is because customers use them. The exponential growth in digital platforms directly reflects consumer demand. If these companies didn’t provide quality services at acceptable prices, they would fail.

## 6.2

## FAILURE TO UNDERSTAND WHAT BUSINESSES WANT

Change brings turbulence, prompting traditional workers to seek protection from competition and change, and all too often public officials heed them. As gig and sharing services that disrupt traditional industries and employment relationships have emerged, some have reacted by trying to reimpose traditional employer/employee relationships. For example, many cities are trying to shoehorn ridesharing services into old taxi regulations or AirBnB into hotel regulations. Unsurprisingly, when the digital platforms that connect gig participants are forced to shoulder traditional employer costs, those platforms typically react by curtailing or closing shop, which hurts everyone.

It is easy to see the gig economy as just reslicing the pie—a zero-sum game of replacing traditional work with independent work.<sup>42</sup> But much independent work fills holes in the economy that would not be taken by full-time workers, and pressures to conform to the traditional paradigm result in fewer jobs. For example, office cleaning company WeWork effectively laid off most of its independent workers in New York City after they tried to unionize and seek higher wages.<sup>43</sup>

If WeWork closes up shop in a city, it doesn't make an equivalent number of full-time, traditional office cleaning jobs simply appear. All the costs and barriers to traditional office cleaning work that made WeWork more competitive still exist. It merely shrinks the economy, to the detriment of nonemployer firms, consumers and workers.

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<sup>42</sup> Gregg, Melissa. “The Doublespeak of the Gig Economy.” *The Atlantic*. Sept. 11, 2015.

<https://www.theatlantic.com/business/archive/2015/09/gig-economy-doublespeak-new-labor/404779/>

<sup>43</sup> Whitford, Emma. “90% Of WeWork Cleaners Jobless After Contract Termination.” *Gothamist*. Aug. 25, 2015.

[http://gothamist.com/2015/08/25/wework\\_janitors\\_union.php](http://gothamist.com/2015/08/25/wework_janitors_union.php)

## 6.3

## FAILURE TO UNDERSTAND WHAT CONSUMERS WANT

Consumers are choosing gig economy goods and services in every greater numbers, embracing its less regulated environment and trusting market competition empowered by customer feedback and technological intermediation to protect them. Yet, in an abundance of caution, many public officials seek to regulate gig activities, heedless of the economic consequences.

For example, citing a need to protect consumer safety, the city of Austin, with much encouragement from the cab industry, required Uber and Lyft to fingerprint their drivers in addition to conducting their regular background checks. Seeing this as a major encumbrance, Uber and Lyft left Austin on May 9, 2016.

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But one wonders if consumers were Austin’s primary concern, since the city charges every taxicab driver around \$300 a week to lease a taxi permit. Having built their own lucrative monopoly taxi markets, cities like Austin have huge financial incentives to shield their taxicabs from competition.<sup>44</sup> Meanwhile, to meet demand for rides, disenfranchised drivers and consumers pursue illegal workarounds in the name of affordable, quality service:

*Drivers are also finding work via private Facebook groups, not all of which are operating entirely legally. The biggest—Arcade City Austin which has more than 39,000 members—has been subject to fines for failing to obtain a city license, the Statesman has reported. Smaller Austin Underground has more than 8,000 members. Riders post their location, destination and contact information and driver’s [sic] scoop up rides, often sharing their defunct Uber and Lyft profiles.<sup>45</sup>*

<sup>44</sup> Michels, Patrick. “Seeking Worker Rights for Cab Drivers.” *Texas Observer*. <https://www.texasobserver.org/seeking-worker-rights-for-cab-drivers/>

<sup>45</sup> Taylor, Harriet. “What happened in Austin after Uber and Lyft got up and left.” *CNBC*. 18 Aug 2016. <https://www.cbc.com/2016/08/18/what-happened-in-austin-after-uber-and-lyft-got-up-and-left.html>

Customers clearly want these services, even without the regulatory protections political leaders in Austin demanded. Indeed, there is no evidence that being a ridesharing passenger is less safe than riding in a taxi, and the power of the online feedback of passengers to drive out shady or unsafe drivers is likely far more effective than the occasional random inspections by local government officials that taxis get.

As with taxis, throughout the gig economy most workers and consumers are showing a preference for new approaches to providing goods and services that inherently exclude old regulatory constraints. Consumers are making their choice and betting that the market will work to provide them what they want.

## PART 7

# HOW IS THE GIG ECONOMY CHANGING THE NATURE OF WORK?

### 7.1

## EXPERIMENTING WITH NEW HEALTH CARE IDEAS

Although it is fraught with problems, the Affordable Care Act is the first widespread opportunity to secure health care outside of employment in many decades. While many previously uninsured Americans are now covered, many of the insured lost their plans or saw their premiums rise substantially. As Congress tussles over a replacement plan, the innovative free market offers some unexpected but refreshingly simple options.

For gig workers, the marquis example is the Freelancer's Union insurance program.<sup>46</sup> It offers a group health insurance plan for freelance and gig workers. Acting as a voluntary collective for insurance purposes, these independent workers can get similar health insurance benefits to traditional employees.

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<sup>46</sup> Munro, Dan. "How Sara Horowitz Is Disrupting Healthcare For The 'Gig' Economy." *Forbes*. Oct. 2, 2014. <https://www.forbes.com/sites/danmunro/2014/10/02/how-sara-horowitz-is-disrupting-healthcare-for-the-gig-economy/#7257a7264f3d>

Another good example of innovation is Clinica Mi Pueblo, a chain of eight cash-only, no insurance, low-cost health care clinics that has sprouted up to serve primarily Hispanic communities in Southern California.<sup>47</sup> The clinics keep costs to a fraction of typical costs by avoiding the exorbitant administrative costs of dealing with complicated and laborious insurance paperwork. They post their prices on their website and walls of their clinics, so patients can shop just like they do for any other good or service in the free market. This practice, which is largely absent from traditional medical insurance, keeps prices low, as is evident by Clinica Mi Pueblo's menu of services.



- |  |                          |
|--|--------------------------|
| › General Medical Visit \$30                 | › X-Ray \$80             |
| › Specialty Visit \$ 60                      | › Ultrasound \$130-\$160 |
| › Medical check-up & Consultation \$95-\$175 | › Echocardiogram \$250   |
| › General Urine Examination \$5              | › Electrocardiogram \$40 |
| › Glucose Blood Test \$10                    | › MRI \$350              |
| › Hemoglobin Test-Anemia \$10                | › Endoscopy \$300        |
| › Complete Analysis for men \$120            | › Colonoscopy \$450      |
| › Complete Analysis for Diabetes \$120       | › Spirometry \$45        |
| › Complete Blood Analysis \$95               | › Audiometry \$45        |
| › Influenza Test \$35                        | › Hemogram \$25          |

<sup>47</sup> Perry, Mark J. "An antidote for Obamacare: Cash only medicine with transparent pricing and no insurance—the future of medicine?" American Enterprise Institute. March 26, 2017. <https://www.aei.org/publication/an-antidote-for-obamacare-cash-only-medicine-with-transparent-pricing-and-no-insurance-the-future-of-medicine/>

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Unlike traditional or nationalized health insurance, free-market clinics and hospitals such as the comparatively low-cost Surgery Center of Oklahoma—which bills itself as “the free market-loving, price-displaying, state-of-the-art, AAAHC accredited, doctor owned, multi-specialty surgical facility in central Oklahoma”—would be an affordable option for young and/or healthy individuals, encouraging healthy lifestyles.<sup>48</sup>

With the most common procedures offered by these low-cost clinics, more-costly care could be insured against individually, just like any other insurance, preferably by the insured pooling their numbers for the best rates, such as with Freelancer’s Union. Most importantly to today’s mobile society, insurance should be portable, allowing workers to take advantage of the best job opportunities available to them.

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As more and more of the economy moves into less-structured and more-flexible work, health insurance will need to adapt to accommodate a worker’s varying employment, risk tolerance, income and lifestyle choices. In the current environment of continuous debate

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<sup>48</sup> Epstein, Jim. “Oklahoma Doctors vs. Obamacare.” *Reason*. November 15, 2012. <http://reason.com/reasonTV/2012/11/15/the-obamacare-revolt-oklahoma-doctors-fi> . And see <https://surgerycenterok.com/>

over health care reform, the burgeoning gig economy should be taken into consideration, ensuring that changes to the system:

1. Do not create obstacles to health insurance models that are likely to serve this cohort in the coming years.
2. Do not pick winners by creating subsidies, directly or with the tax code, for any one type of worker or work structure.
3. Allow new experiments in risk pooling for insurance to create many opportunities for workers to join with others through clubs, neighborhoods, interest groups, associations or other means of entering into group insurance plans other than employer-based.
4. Allow insurers to provide tiers of insurance benefits at various price points so workers can match insurance coverage with their own needs and desires.

## 7.2

## EVOLVING FROM EMPLOYER-PAID PENSIONS TO EMPLOYEE RETIREMENT ACCOUNTS

Over the past several decades, in traditional jobs, defined benefit (employer-paid, nonportable) pensions have given way to more defined contribution (e.g. 401K, employee/employer-paid, portable) pensions. Between CYs 1977 and 2007, defined benefit plans in the U.S. decreased in participation by 31% (8.7 million fewer workers) and defined contribution plan participants increased by 358% (52.3 million more workers).<sup>49</sup> The Bureau of Labor Statistics explains the trend this way:

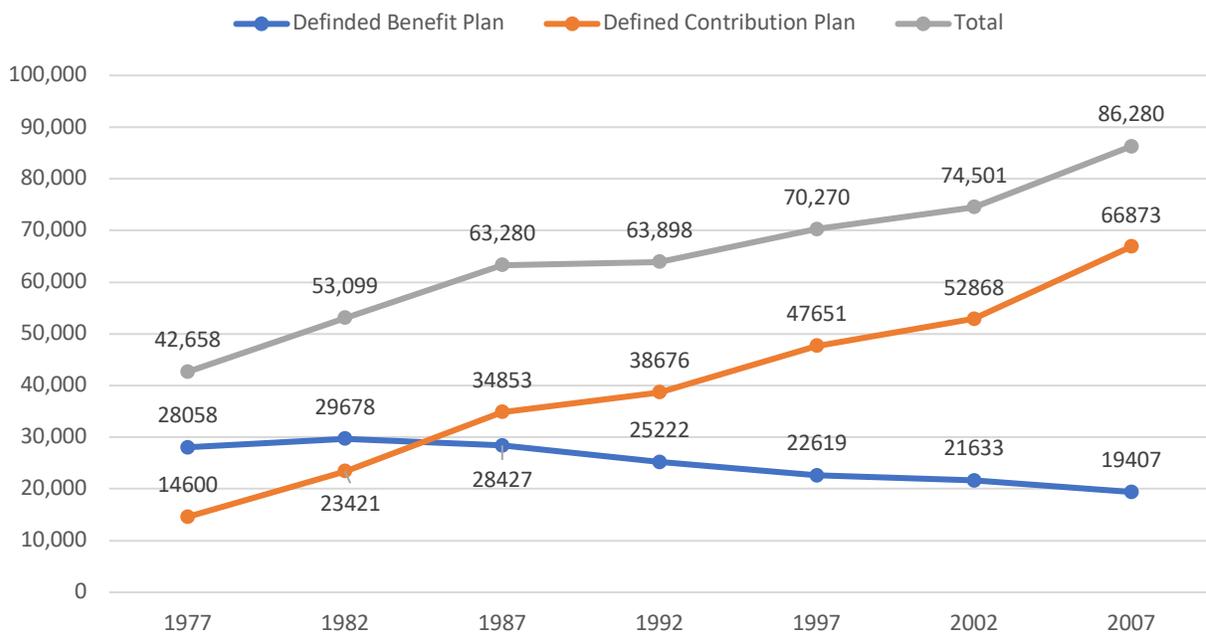
*One explanation given for the changes in retirement coverage is the shift in the labor force toward different occupations and industries over the last decade. Particularly relevant is the relative decline in employment among full-time workers, union workers, and workers in goods-producing establishments.<sup>50</sup>*

<sup>49</sup> Treasury Inspector General For Tax Administration. *Statistical Trends in Retirement Plans*. August 9, 2010. <https://www.treasury.gov/tigta/auditreports/2010reports/201010097fr.pdf>

<sup>50</sup> Costo, Stephanie L.. "Trends in retirement plan coverage over the last decade." *Monthly Labor Review*. February 2006. 58–64. <https://www.bls.gov/opub/mlr/2006/02/art5full.pdf>

This means that even the traditional workplace is trending toward more employee-sponsored, more-portable pensions, within the regulatory framework of what employers must provide.

**FIGURE 20: NUMBER OF ACTIVE PARTICIPANTS IN EMPLOYER-SPONSORED RETIREMENT PLANS (IN THOUSANDS) BY TYPE OF PLAN (CYS 1977–2007)**



Source: Treasury Inspector General For Tax Administration. *Statistical Trends in Retirement Plans*. Figure 3.

For the independent worker, who may be working part-time for several companies, many of which are likely to be nonemployer firms, employer-sponsored pensions don't make sense. Just like other self-employed workers, gig workers are responsible for saving for their retirements, investing where they wish and according to their income and risk tolerance.

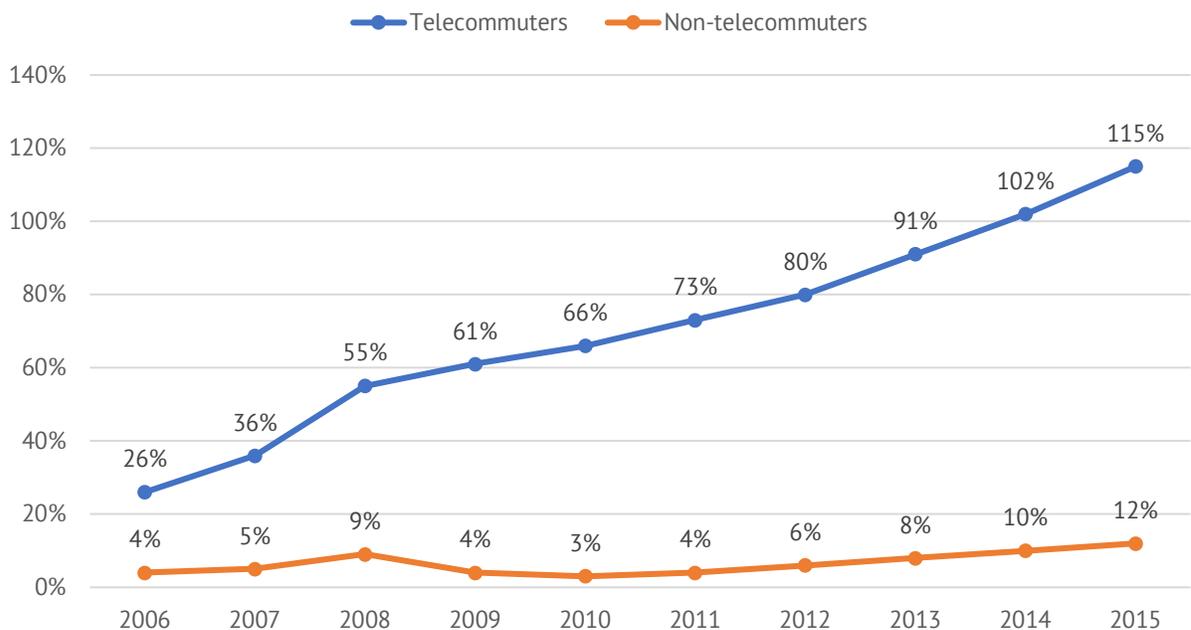
## 7.3

### SPARKING WORKPLACE CHANGE IN THE WHOLE ECONOMY

To compete with the flexibility offered by the gig economy and to meet Digital Age workers' preferences, many traditional workplaces have changed, offering more-flexible

hours and telework options (see Figure 21). In this way, the popular demand for independence and autonomy spurs changes beyond the gig economy, and even workers in traditional settings have benefited from more-flexible work environments. As work tacks in the direction of worker demands for flexibility and choice, businesses and customers reap the benefit of simply having a more satisfied workforce.

**FIGURE 21: TELECOMMUTING GROWTH\***



Source: Global Workplace Analytics and FlexJobs. *2017 State of Telecommuting in the U.S. Employee Workforce*.

<http://globalworkplaceanalytics.com/2017-state-of-telecommuting-in-the-us>

\* This figure shows relative growth. Only about 3% of the workforce telecommutes, so while the growth rate is rapid, the absolute values are still fairly small. In 2015 there were 121.5 million in the U.S. workforce of which about 3.6 million telecommuted.

Another change in the economy is adding value to assets. Those who lease rooms for rent, use their personal vehicles for ride-sharing, and use their own computers or other tools for independent work are leveraging underutilized assets and putting untapped skills to use, creating more personal and overall economic wealth.

As the nature of work changes, today's students prepare themselves for new economic models. Harvard Professor Diane Mulcahy tells her MBA students to "look for plentiful work, not increasingly scarce jobs."<sup>51</sup> All indications suggest that she's right. Private businesses, workers and even government agencies are trending away from traditional "jobs" and toward "work."

The gig economy was spurred by market demand and technological evolution, so free-market solutions are uniquely positioned to address its challenges. This is what getting out of this new economy's way looks like; this is how the U.S. can lead this global movement and define its cutting edge. Through the gig economy, more and more workers are tailoring their work to fit their lives. This freedom defines the gig economy, and for many makes it "a good job" to have.

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<sup>51</sup> Mulcahy, Diane. "Why I Tell My MBA Students to Stop Looking for a Job and Join the Gig Economy." *Harvard Business Review* blog. Oct. 20, 2016.

# ABOUT THE AUTHOR

**Adrian Moore, Ph.D.**, is vice president of policy at Reason Foundation. He leads Reason's policy implementation efforts and conducts his own research on a wide range of economic policy topics. He has published numerous articles and studies on regulatory impacts and reforms, including many on taxi markets and deregulation. He is co-author of the books *Curb Rights: A Foundation for Free Enterprise in Urban Transit*, published in 1997 by the Brookings Institution Press, and *Mobility First: A New Vision for Transportation in a Globally Competitive 21st Century* published in 2008 by Rowman & Littlefield. Dr. Moore earned a Ph.D. in economics from the University of California, Irvine. He holds a master's in economics from the University of California, Irvine and a master's in history from California State University, Chico.

