

The Economist

## Worries about the rise of the gig economy are mostly overblown

But it poses a challenge for tax and benefit systems



IT IS a warm morning on Bondi Beach. Simon and Sophia are drinking coffee on a terrace while athleisure-clad millennials stroll by. The young American couple, both management consultants, came to Sydney from New York for a working holiday. Both found work through Expert360, a platform that connects professionals with firms needing help with tasks. They may use the proceeds to travel around Australia—or simply stay by the surf. “Some people think we’re crazy to travel halfway across the world without a job lined up, but the potential of freelance work made us comfortable with the idea,” says Sophia. “It’s one of the best decisions I’ve ever made.”

On a cold day in Turin, 17,000km away, Cecilia sits in her flat. She has just heard from Deliveroo, a food-delivery service, that it does not need her today. She is glad, she says, as she wipes her dripping nose. But it means a day without earning. When asked what she likes about her job as a rider, she pauses for a long time.

Sophia, Simon and Cecilia all work in the gig (or sharing, or platform) economy, the set of online marketplaces that have developed in recent years for short-term and freelance tasks. Gig workers are often paid “piece rate” (that is, per task completed) rather than earning a salary, like employees. Uber, Handy, Upwork and PeoplePerHour are among the thousands of such platforms worldwide. All sorts of services are on offer, from putting together a PowerPoint presentation to cleaning a house. Young urbanites have grown used to being able to order a meal

to be delivered to their home for Sunday lunch, or to rent someone to accompany them to IKEA, a furniture giant, and help bring home a sofa.

Around a third of Americans and Britons use a mobility app such as Uber. *The Economist's* analysis of data from the Oxford Internet Institute, a department of the university, suggests that, relative to population, more gig-economy vacancies are posted online in Australia than in any other big country. Official statistics on the gig economy are poor, and labour-force surveys are rarely up to the job of tracking people who use online platforms. But data published on September 28th suggest that gig work accounts for 1% of American employment. Other surveys come up with a higher figure. Almost all suggest that the gig economy is growing.

Opinions differ about whether this is good or bad. Boosters point to the flexibility of gigging, which can be particularly useful for people with children, and for the disabled or the elderly. They see it as a useful stopgap between roles, or a way to top up low earnings from a first job.

But others fear the gig economy will bring an end to steady, decently paid employment for ordinary people. Jeremy Corbyn, the leader of Britain's Labour Party, blames it for enabling "a more rapacious and exploitative form of capitalism". "The gig economy is normalising labour conditions it took generations of political struggle to stamp out in this country," thunders an Australian parliamentary report. Elizabeth Warren, an American senator, sees it as part of a broader trend in which "the basic bargain of the old work relationships has become badly frayed". Who is right matters for the future of work—and for policymakers fretting about inequality and how best to protect low-skilled people from chronic insecurity.

### **Daily grind**

In the 20th century the standard type of worker in the rich world was a full-time, permanent employee. Ronald Coase, an economist, argued in 1937 that this made perfect sense. It was cheaper for firms to have people there throughout the working day and order them about than to negotiate and enforce a new contract on the open market for every job that needed doing. In return for coming to work every weekday and following orders, employees received security and predictable pay.

The gig economy overturns that model. It relies on "two-sided markets", which cater to two groups—workers and customers. The more there is of each group, the better for the other. Two-sided labour markets make it easier for economic activity to be organised according to price rather than the boundaries of firms. Accountants, drivers, lawyers and cleaners list themselves online, with descriptions of their experience and availability, and how much they charge. As more people sign up, the platforms have become highly efficient. Clients with tasks that need doing can easily find the skills that they are looking for, without making a permanent hire.

For workers, there are many upsides. The most obvious is that finding work has never been easier. With so many potential customers a click away, someone looking for work on a big platform like TaskRabbit or Uber can almost always find it.

The gig economy also creates paid employment that would not otherwise exist. Ride-hailing firms seem to boost demand for private-hire transport rather than forcing conventional taxis out

of the market altogether. In Australia Airtasker is filled with requests for help with removing spiders, a job that people used to do themselves. “There was a huntsman spider in my room,” writes a panicked customer, after spotting one of Australia’s scariest beasts. “We sprayed it with insect spray and it fell down & we lost it...If it’s alive I need it killed.”

That makes gigging a boon in places where there is little work on offer of the conventional sort. In Italy the official rate of youth unemployment is over 30%. Cecilia, the Deliveroo rider in Turin, has a part-time job as a receptionist and hopes to be taken on full-time one day. Until then, Deliveroo is a lifeline.

Gig work can help smooth out rough patches in the conventional labour market. A report from the JPMorgan Chase Institute, a think-tank attached to the bank, finds that earnings from labour platforms make up for dips in conventional earnings. Data from the Aspen Institute, a think-tank, suggest that the share of giggers working part-time is twice the rate among the workforce as a whole.

Gigs may also help people find their way back into the formal labour market. A paper by Cody Cook of Uber and others finds that roughly two-thirds of Uber drivers in America are no longer active six months after their first trip, suggesting that they may have moved on to pastures new.

And many gig workers appreciate the flexibility. Bujar, an Albanian living in Turin, works for a food-delivery service while studying computer engineering. Though he must arrange shifts in advance with a supervisor, rather than switching on an app and working when he pleases, he enjoys a level of autonomy that is unusual in conventional jobs. When an exam is coming up, he quits temporarily.

Bujar’s experience of gigging highlights another fact: the pay can be quite good. He does not think he could make as much elsewhere. He used to work as a chef, with long, unpredictable shifts, earning €5 (\$6) an hour. These days he earns more like €10 an hour, he says.

Of course, many gigs—making deliveries, cleaning and taxi-driving—are not lucrative. But such work never paid well. For people in low-skilled jobs, gigging can mean an upgrade. A paper by Thor Berger of Lund University, and Chinchih Chen and Carl Benedikt Frey, both of Oxford University, finds tentative evidence that the average hourly earnings of self-employed taxi drivers in American cities rise after Uber moves in. That may be because Uber drivers are more productive, spending less time waiting for a passenger.

At the other end of the labour market, coders and consultants can sell their expertise across the world to the highest bidder, with three or four gigs on the go at once. Workers on Expert360 can earn thousands of dollars a day.

### Shifting up a gear

Research by Paul Oyer of Stanford University suggests that on average gig workers may make more per hour than conventional employees do, after taking account of things like age, sex and

level of education. But since gig workers often miss out on employer-provided benefits, such as pension contributions, whatever wage advantage they appear to enjoy may in practice be smaller. A new paper by academics at Oxford University finds that the typical Uber driver in London earns well above the minimum wage.

But that is not the whole story. For low-skilled workers with poor bargaining power, the gig economy has an important downside. That is what critics have in mind when they fret about the end of the old ways of working.

The problem is the way different types of workers are treated in law. Gig-economy firms portray themselves as intermediaries in the two-sided market of workers and jobs, rejecting any idea that they are employers. For example, according to the “participation agreement” between Mechanical Turk, a platform run by Amazon, and people seeking to use it to find gigs: “Workers perform Tasks for Requesters in their personal capacity as an independent contractor and not as an employee of a Requester or Amazon Mechanical Turk.”

### **Lumpen labour**

Classing workers as self-employed contractors rather than employees has big consequences. Employees have various legal rights, typically including sick pay and protection against unfair dismissal. Unlike self-employed people, they are entitled to the minimum wage. Is it a different story for labour sourced on Mechanical Turk? “You decide how much to pay Workers for each assignment,” the firm says.

For some gig workers, that is not much. Many earn less than the minimum wage. Gig workers often save little for their pensions. Couriers all have stories of people they know who have been injured while riding and had to take time off, unpaid.

It is standard for self-employed people to have fewer rights than employees. That is the flipside of being able to pick and choose when they work, and for whom. Yet are gig firms right when they say that they are mere intermediaries between customers and millions of self-employed workers? Or are they something more?

Many do not simply set up their platform and sit back, letting all-comers join and set about striking bargains. Since they want repeat business, they try to control the quality of the work done. In Australia Expert360 accepts just one in six of the consultants who apply to sell their services through the platform. Lyft, like other ride-hailing services, operates a five-star rating system for its drivers. “Anything more than 4.8 is awesome,” it tells them. “If your rating drops below 4.8, you may want to consider ways to improve it. Consistently low ratings can put you at risk of deactivation.”

In some cases, gig-economy platforms and their workers are in effect being integrated into conventional businesses. Last year IKEA snapped up TaskRabbit. Taskers will help IKEA customers to assemble furniture. Every second restaurant in Sydney displays an Uber Eats, Deliveroo or Foodora sticker in its window.

All this makes it harder to sustain the argument that platforms are no more than marketplaces. And increasingly, workers are clubbing together to demand that the platforms treat them more like employees. In 2016 Foodora riders in Turin called a strike after the firm switched from paying per hour to paying per delivery. (They failed to get the decision reversed.) Organising isn't easy, however. Few gig workers are in unions, precisely because they are not recognised as employees.

Some gig workers have turned to the courts to make their argument, with mixed results. A labour tribunal in Turin recently rejected Foodora riders' claims that they were really employees. Last year Australia's Fair Work Commission, an industrial-relations tribunal, ruled that an Uber driver was self-employed, not an employee. But in 2016 a tribunal in London ruled that Uber drivers should receive the minimum wage, describing the company's view of itself in London as "a mosaic of 30,000 small businesses [ie, the drivers] linked by a common 'platform'" as "faintly ridiculous". (Uber is contesting the ruling.) In April California's Supreme Court made it more difficult for companies to class workers as independent contractors. More cases, including a date for Uber in Britain's Supreme Court, loom.

On such hearings much depends. If the courts rule that vast swathes of gig workers are in fact employees, they could raise costs, killing innovation and hitting jobs. Yet inaction brings risks, too. If a growing chunk of the workforce has to make do with poor pay and worse pensions, governments will eventually have to pick up the pieces. The battle over the gig economy has a long way to run.

This article appeared in the Finance and economics section of the print edition under the headline "Serfs up"