

App-Based Workers Want to Keep Their Gigs—and Gain Flexible Benefits

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App-Based Drivers/Transportation Network Carriers

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Good morning, Chair Friedman, Chair Peisch, and members of the Special Joint Committee on Initiative Petitions. It is an honor to testify before you.

My name is Liya Palagashvili, and I am an economist at the Mercatus Center at George Mason University. My research focuses on labor regulations, the gig economy, and the evolving nature of work.

Today, I will make three points:

1. The gig economy is expanding the diversity of jobs in our labor market and providing flexible, side-income opportunities for thousands of workers in Massachusetts. These jobs are merely gigs and should be treated as such.
2. Attempts to regulate properly classified gig workers as employees will likely result in a loss of gig jobs that will not be offset with an increase in the number of W-2 employees.
3. Innovative policies that allow workers to maintain their flexible side jobs while providing them with access to flexible benefits will better serve this workforce.

The Gig Economy Is Expanding the Variety of Jobs and Side-Income Opportunities

Let me start with a personal story. When my family and I moved to the United States, we found that it stood true to its reputation as the land of opportunity. Traditional, W-2 employment was readily available, and my parents also pursued other sources of income through independent contracting.

For many families, like it was for my parents, that don't come from privileged backgrounds, the availability of side hustles—or gigs—outside of the traditional employment arrangement is essential to meeting financial goals.

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The key point here is that not all jobs come in the same size and shape. It's OK, and, in fact, healthy to have a labor market that delivers all types of different work opportunities to serve the diverse needs and wants of workers.

Most workers may prefer the structure and benefits of a nine-to-five job and may want to head home at the end of the day. Other workers may look for side hustles or gigs to earn a little extra income to supplement their full-time salary.

Consider that in 2023, 89.8 percent of all jobs in the US and 90.5 percent of all jobs in Massachusetts were traditional, W-2 employment jobs.¹ Traditional, W-2 jobs are not scarce. The presence of the gig economy enhances the labor market by providing opportunities outside of the world of W-2 jobs, so that workers can pursue side income.

The data on app-based workers as side hustlers is unquestionable.

Let's start with the official IRS tax records. Tax data show that app-based workers are primarily supplemental earners who have full-time jobs elsewhere. I will quote directly from the IRS report on this: **“The exponential growth in the online platform economy for labor is driven by individuals whose primary annual income derives from traditional jobs and who supplement that income with platform-mediated work.”**²

This finding from the IRS report confirms what we see in the companies' own data:

- Lyft: 96 percent of drivers work elsewhere or are students in addition to driving
- Doordash: 90 percent of “Dashers” worked less than 10 hours per week on delivery

Economist Jonathan Gruber, head of the economics department at MIT, found a similar pattern in his recent study:³ the vast majority of those who drove with Uber were doing it on a supplemental basis and were either full-time employees, students, or retirees.

Data from Massachusetts tells the same story: in Q4 2023, 85 percent of drivers and 94 percent of couriers in Massachusetts were online with Uber less than 40 hours per week, on average.⁴

The supplemental nature of independent contracting work is supported by every other study I've seen on this question, regardless of the data used or the organization that conducted the research.

¹ Data calculated using the “worker classification” variable on primary earnings from IPUMS, Current Population Survey (CPS) in 2023, (database), accessed March 2024: https://cps.ipums.org/cps-action/variables/CLASSWKR#codes_section. This is also consistent with the 2017 Contingent Worker Supplement to the Current Population Survey, which found 10.1 percent of all US workers were in alternative work arrangements outside of traditional employment.

² Brett Collins et al., “Is Gig Work Replacing Traditional Employment? Evidence from Two Decades of Tax Returns” (Working Paper, Internal Revenue Service, Washington, DC, March 25, 2019).

³ Jonathan Gruber, “Designing Benefits for Platform Workers” (NBER Working Paper Series 29746, National Bureau of Economic Research, Cambridge, MA, February 2022).

⁴ Uber shared this information with me.

For example, the progressive-leaning Economic Policy Institute used social security data to analyze the recent rise of self-employment activity, and it concluded that **“the increase is primarily among people who are doing so to earn supplementary income and for a short amount of hours. The increase in the various self-employment activities has not occurred in people’s ‘main job’ or as their main source of income.”**⁵

Other types of independent contractors, such as those in the creative industry, tend to look more like full-time freelancers, but this is not the case for gig workers using app-based transportation and delivery platforms.

If I had to choose one “biggest myth” about the gig economy, it would be this one—let me repeat this point again: most gig workers treat their jobs as merely “gigs.” For the most part, these are not full-time or part-time employment opportunities for them.

Policies That Aim to Reclassify or Regulate Gig Workers as Employees Are Counterproductive

My second point is about policies for gig workers. There is a temptation to reclassify or regulate gig workers as employees. These policies are counterproductive. And, they go against the desires of most gig workers. Allow me to provide a recent, real-world example as evidence.

In 2019, California enacted Assembly Bill 5 (AB5)—making it more difficult to hire independent contractors so that companies would be forced to hire workers as employees instead.

The question is, What happened in California as a result of the policy? Did more workers become employees?

In a new study, my co-authors and I provided the first and only aggregate, empirical investigation of this policy.⁶ Here’s what we found:

- Contrary to the goals of the lawmakers, we found no consistent evidence that traditional (W-2) employment increased for affected occupations in California post-AB5.
- Instead, we found that AB5 is associated with a significant decline in self-employment and overall employment for affected occupations in California.

On average, 1 in 10 individuals may have lost self-employment opportunities in California in affected occupations, while there is no consistent evidence of an accompanying increase in traditional employment opportunities in those same occupations.

The findings of our study on AB5 are consistent with the anecdotal evidence from news outlets like the *New York Times* and the *Los Angeles Times*, which highlighted these job losses.⁷ In practice, the policy

⁵ Lawrence Mishel, “Social Security Data Confirm Same Old Pattern,” *Working Economics Blog, Economic Policy Institute*, June 28, 2018.

⁶ Liya Palagashvili et al., “Assessing the Impact of Worker Reclassification: Employment Outcomes Post-California AB5,” (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, January 31, 2024).

⁷ Makeda Easter, “The AB5 Backlash: Singers, Actors, Dancers, Theaters Sound Off on Freelance Law,” *Los Angeles Times*, February 12, 2020; Marc Tracy and Kevin Draper, “Vox Media to Cut 200 Freelancers, Citing California Gig-Worker Law,” *New York Times*, December 16, 2019.

made existing, legitimate contracting work illegal, so workers lost their jobs. And most of these contractors didn't just become employees, as lawmakers intended.

Additionally, it is important to emphasize that almost every single study on the gig economy indicates how workers on these platforms, especially women, really value the flexibility of work—significantly more than the average person.⁸

And, from the worker's perspective, this makes sense. What I have found is supplemental earners in the gig economy do not want another employment job. They already have one. They want the ability to pursue side-hustles on their own time and at their own pace, in between their work, school, or personal obligations.

Flexible Benefits for a Flexible Workforce

Finally, there is a tendency to assume that independent contractors are merely misclassified employees. Misclassification does occur, and research shows it tends to be concentrated in a handful of specific industries.⁹ In those cases, an independent contractor truly resembles a typical employee with specific work hours and break times, reporting to a boss, having to ask for days off, and so forth. This is illegal. Massachusetts can address these issues of misclassification by more carefully enforcing existing laws.

Those who use app-based platforms for their side hustles, however, are nothing like a typical employee. These workers decide where to work, how often to work, and when to work. They can work for five minutes today, two hours tomorrow, and then never open the app for the remainder of the year.

Instead of regulating app-based workers as employees, policymakers can **enhance** the position of these gig workers by allowing them to maintain their flexible and supplemental jobs while offering them the option to access flexible benefits. The challenge is that laws in the state and at the federal level restrict employers from providing independent contractors with benefits. If an employer were to provide benefits to their independent contractors, those workers would likely have to be reclassified as employees and consequently lose their flexible side jobs. To remedy this, policymakers can create legal certainty that gig workers are indeed contractors and allow these companies to offer workers a menu of benefits.

The path of flexible benefits for flexible workers can address the shortcomings of gig work without eliminating it. Indeed, surveys of independent contractors show that the vast majority of these workers do not want to become employees, but instead would like to have access to flexible benefits not tied to any particular employer.¹⁰

⁸ For an overview of this, see Liya Palagashvili, "Understanding Nontraditional Work Arrangements and the Policy Landscape for Self-Employed and Gig Workers" (Report, American Enterprise Institute, Washington, DC, July 2023).

⁹ See, for example, Natwar M. Gandhi, "Tax Administration: Issues in Classifying Workers as Employees or Independent Contractors" (Statement, United States General Accounting Office, Washington, DC, June 20, 1996).

¹⁰ Bureau of Labor Statistics, "Contingent and Alternative Employment Arrangements—May 2017," news release no. USDL-18-0942, June 7, 2018; Tito Boeri et al., "Solo Self-Employment and Alternative Work Arrangements: A Cross-Country Perspective on the Changing Composition of Jobs," *Journal of Economic Perspectives* 34, no. 1 (2020): 170–95.

Conclusion

The three parts of the bottom line can be summarized like this:

1. The gig economy is offering flexible, side-income opportunities for a large segment of working Americans. In a world where nearly all jobs are W-2 employment, gig jobs enhance labor markets and worker livelihoods.
2. Policies that aim to reclassify and regulate gig workers as employees are counterproductive.
3. Instead, policymakers should address the shortcomings of the gig economy and pursue innovative reforms that offer workers the best of both worlds: flexibility plus benefits.

Thank you.