

RESEARCH SUMMARY

Assessing the Impact of Worker Reclassification: Employment Outcomes Post-California AB5

One-third of Americans now earn income through some form of independent contracting. But they are increasingly hindered from doing so by policies such as California Assembly Bill 5 that restrict the operation of independent contractors. In “Assessing the Impact of Worker Reclassification: Employment Outcomes Post-California AB5,” Liya Palagashvili, Paola A. Suarez, Christopher Kaiser, and Vitor Melo show how this policy has led to a decline in employment for affected occupations in the state.

GOAL: TURNING INDEPENDENT CONTRACTORS INTO TRADITIONAL EMPLOYEES

American workers can be classified as either

- (a) traditional employees—workers who get access to employment-based protections and benefits like health insurance, or
- (b) independent contractors—such as freelance musicians, Uber drivers, babysitters, translators, and other workers who have more freedom to decide when and how often to work and to choose their clients.

Thanks to the growth of freelancing, platform-mediated gig work, and other forms of self-employment, the “independent contractors” category is at an all-time high. Yet policymakers have tried to prevent workers from being classified as independent contractors. Their goal is to encourage employers to hire these workers as traditional employees, with all the work-related benefits the latter enjoy. Traditional employees are also subject to more labor regulation than independent contractors.

RESULT: A DECLINE IN EMPLOYMENT

California's Assembly Bill 5 is the country's strictest law for classifying a worker as an independent contractor rather than as an employee. Classifying workers as employees instead of independent contractors, by subjecting them to more regulation, increases the cost of labor, which may lead to a reduction in employment, hours worked, or wages. Palagashvili et al. find that AB5 did not simply alter the composition of the workforce as intended by policymakers. Instead, AB5 resulted in a significant decline in self-employment and overall employment in California:

- Self-employment decreased post-AB5 by 10.5 percent on average for affected occupations
- Overall employment decreased post-AB5 by 4.4 percent on average for affected occupations
- AB5 did not necessarily lead to the hoped-for growth in traditional employment

DANGER: EXTENDING THE CONSEQUENCES OF WORKER RECLASSIFICATION LAWS NATIONWIDE

The above results carry implications for other similar policy and regulatory changes that are being considered in states and at the federal level.

For example, in January 2024 the Department of Labor (DOL) issued a new rule that would make it more difficult for workers to be legally classified as independent contractors. Again, the intention here is to alter the composition of the workforce—more workers would become employees, and fewer workers would be independent contractors. Unintended as they may be, the consequences of the DOL rule would likely be similar to those of California's AB5.