



POLICY SPOTLIGHT

The Gig Economy—Paving the Path for Independent Workers

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Over the past few decades, new technologies and digital platforms have ushered in the rise of the independent workforce. This workforce is made up of the individuals across the United States who engage in freelance work, contract work, consulting, and other types of self-employed or “gig” work. The growth in this part of the economy has extended job opportunities to Americans who might otherwise have remained outside the workforce.

While workers in the gig economy face various challenges that should be addressed by policymakers, some recent public policy solutions are counterproductive because they threaten to severely limit these job opportunities. To better address the needs of independent workers, policymakers should understand (a) the real differences between independent work and employment and (b) the value of independent work to those who engage in it, most of whom would like to keep their “nontraditional” work arrangement because of the flexibility it affords them.

1099 WORKER OR W-2 WORKER?

Independent workers are classified as “self-employed” or “independent contractors” (1099 workers), and those in traditional employment jobs are classified as “employees” (W-2 workers). This means that independent workers have often been beyond the purview of the labor laws and regulations that apply to workers classified as employees. Many digital platforms are currently facing legal challenges for misclassification of employees as 1099 contractors.

MAKING THE CASE FOR INDEPENDENT WORK

There are significant differences between employees and independent workers (beyond the fact that, for

the latter, jobs are nonpermanent). Specifically, independent workers rely less on team production and coordination and concentrate more on individual output. For example, workers such as musicians, graphic designers, and drivers are more likely to be freelancers than is a human resource coordinator, whose job requires greater interdependent teamwork.

Policies such as California’s Assembly Bill 5 and the proposed federal Protecting the Right to Organize (PRO) Act overlook these differences. Instead, they attempt to fit both types of jobs into the same legal worker classification. Policymakers should bear in mind the following key factors as they consider proposals to change the operation of the gig economy for those who work in this sector:

- **Labor force participation:** Independent work represents opportunities for those otherwise unable to take a job in traditionally inflexible, nine-to-five employment. New restrictive laws could limit work options and hurt rates of participation, particularly among women.
- **Women and the gig economy:** Women tend to favor jobs that allow greater independence, more freedom to make decisions, less structure for the worker, and shorter work weeks. For primary caregivers in particular, independent work can provide the flexibility and time required to care for a child or parent.
- **Growth trends in the sector:** When transportation companies (e.g., Uber, DoorDash) are excluded, women constitute a greater share of income earners on digital platforms than men do. At the e-commerce website Etsy, for instance, more than 85 percent of independent sellers are women.

KEY TAKEAWAY

Independent workers don't have access to employment-based healthcare and retirement benefits. This has led some policymakers to favor legislation making it harder to classify workers as independent contractors. Such reform efforts display the implicit expectation that employers will respond to the legislation by reclassifying all contractors as employees. But the policy change in California resulted in independent workers losing their jobs entirely instead of being reclassified.

As the US workforce continues to evolve, flexible or portable benefits—that is, benefits not tied to a particular job or employer—may provide a better way forward for independent workers than attempts to reclassify them.

FURTHER READING

Liya Palagashvili and Paola Suarez, “Employee vs. Independent Worker: A Framework for Understanding Work Differences” (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, March 2021).

Liya Palagashvili and Paola Suarez, “Women as Independent Workers in the Gig Economy” (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, March 2021).

Liya Palagashvili, “Consequences of Restricting Independent Work” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, April 2021).

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