



Research Report

# **The Gig Economy in the U.S.**



Texas Workforce Investment Council

# Research Report on the Gig Economy in the U.S.

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## Introduction

Texas Government Code, Section 2308.104, charges the Texas Workforce Investment Council (Council) with strategic planning for and evaluation of the Texas workforce system. One of the areas of focus in the workforce system strategic plan is a commitment to the continuous improvement and innovation of the workforce system. The collection of accurate data is critical to evaluating the workforce system and making informed decisions. The Council determined a need to identify and define the growing workforce that makes up what is known as the gig economy. In a gig economy, temporary, flexible on-demand jobs are commonplace and companies tend toward hiring independent contractors and freelancers instead of full-time employees. Technology is the bridge between traditional employment and jobs in the gig economy. The possibility for the gig economy to become an engine of economic and social transformation increases as technology continues to evolve. The gig economy potentially represents a significant shift in the labor force composition that can impact both the U.S. economy and the Texas workforce system.

Traditional work is typically described as a full-time job with set work hours that may also include benefits. However, the defining features of work have started to change along with shifting economic conditions and continued technological advancements. Shifts in the economy have contributed to the creation of a new workforce segment characterized by independent and contractual labor. These on-demand gigs benefit both workers and the economy, and help to support job growth and household incomes in the post-Great Recession labor market. Such gigs often feature flexible hours, low or no training costs, and generally few barriers to worker entry. Now widely known as the gig economy, the growth of this workforce has created the need for policy makers and stakeholders to understand and evaluate the increasing number of nontraditional jobs and workers.

There is no universally accepted definition for the range of activities that fall into the gig economy or for who should be counted as a gig worker. As a result, research on this subject has produced a wide range of estimates for how many people are using digital platforms to work or otherwise earn money.

A considerable degree of confusion exists regarding how gig workers are defined and counted. Thus, it is difficult to judge the exact size and impact of the gig economy on the overall workforce system and the economy. To ensure the Texas workforce system remains responsive to an evolving economy, a complete understanding and evaluation of the gig economy is important. Key terminology for understanding the potential impact of the gig economy on the workforce in the years to come is presented in the next section.

## Definitions

*Digital platform* – the software or hardware of a site. For example, Facebook is a digital platform. Uber is a digital platform. The two types of digital platforms related to the gig economy are *labor platforms*, where individuals perform tasks or assignments, and *capital platforms*, where individuals can sell goods or rent assets.

*Gig economy* – a labor market characterized by the prevalence of short-term contracts or freelance work, in particular those on-demand jobs whose rapid growth can be attributed to the upsurge of digital platforms in recent years.

*Gig worker* – an individual who operates in an environment in which temporary positions are common and in which organizations contract workers for short-term arrangements.

*Freelancer* – a person who is self-employed and is not necessarily committed to a particular employer long-term.

*Contingent worker* – someone who works for an organization but is not considered a permanent employee. Contingent workers are also known as freelancers, consultants, seasonal or temporary employees, and independent contractors.

*Nonemployer firm* – a firm that has no paid employees (sole proprietorship), has annual business receipts of \$1,000 or more (\$1 or more in the construction industries), and is subject to federal income taxes.

*Independent worker* – a person who provides services to another party in an independent and non-subordinate manner.

*Independent contractor* – a person, business, or corporation that provides goods or services to another entity under terms specified in a contract or within a verbal agreement.

## Research Scope

Recent U.S. economic developments offer both opportunities and challenges for how to effectively promote widely shared economic prosperity in a changing labor market. The rise of nontraditional and contingent employment relationships fostered by new technology platforms creates new earning opportunities, but not without obstacles. Now, in the wake of a recession that drove years of high unemployment, innovative peer-to-peer collaboration and technology savvy millennials have spurred what is being described by some as the beginning of a labor market transformation, more commonly known as the gig economy. Consumers and workers alike now use online technology and applications, or apps, to contract for specific, on-demand services such as cleaning, landscaping, shopping, cooking, driving, and catering. This research report delves further into defining and classifying these gig workers, in particular how and where they operate. In addition, this research examines the types of activities gig workers



participate in, as well as estimates of the size of the national gig workforce. Finally, the report addresses the potential implications that the rapid growth of the gig economy may have on the workforce system.

## **Defining and Classifying Gig Workers across the Nation**

*What are the two types of platforms where gig workers operate?*

Gig workers in general require a place to find their gigs or to sell and rent their items. Digital platforms are online businesses that match workers with tasks and sellers with a marketplace for selling. Two types of digital platforms host this quickly growing segment of the workforce: labor platforms such as Uber or TaskRabbit, where individuals perform tasks or assignments, and capital platforms such as Etsy, eBay, or Airbnb, where individuals sell goods or rent assets. The fastest growing of the two are labor platforms, which are largely influenced by ride-sharing platforms such as Uber and Lyft.

*What are the age demographics for gig workers?*

This growing workforce segment is driven by the millennial generation. The JPMorgan Chase Institute reported that more than five percent of millennials (ages 18-34) earned income from an online platform over a 12-month period, compared to a national average of 3.1 percent. An age gap in participation existed for both types of platforms. Compared to adults older than 52 (baby-boomers), 18-34 year olds were nine times more likely to earn income on labor platforms and five times more likely to earn income on capital platforms.

*What are the different ways to classify earners in the gig economy?*

*Independent workers*

No one-size-fits-all label can cover all gig workers. However, a 2016 McKinsey study<sup>1</sup> separates gig workers into four distinct segments of independent workers. (Figure 1) McKinsey lists two factors to be considered for independent workers: whether they rely on independent work for their main livelihood, and whether they actively chose to be independent or simply turned to it for lack of a better alternative. Many individuals rely on independent work for their “primary” source of income. This group includes people who devote most of their time to a single independent activity. Examples include a plumber or a chiropractor, as well as those workers who piece together different types of work to generate the majority of their income, such as a wedding planner who also teaches fitness classes.

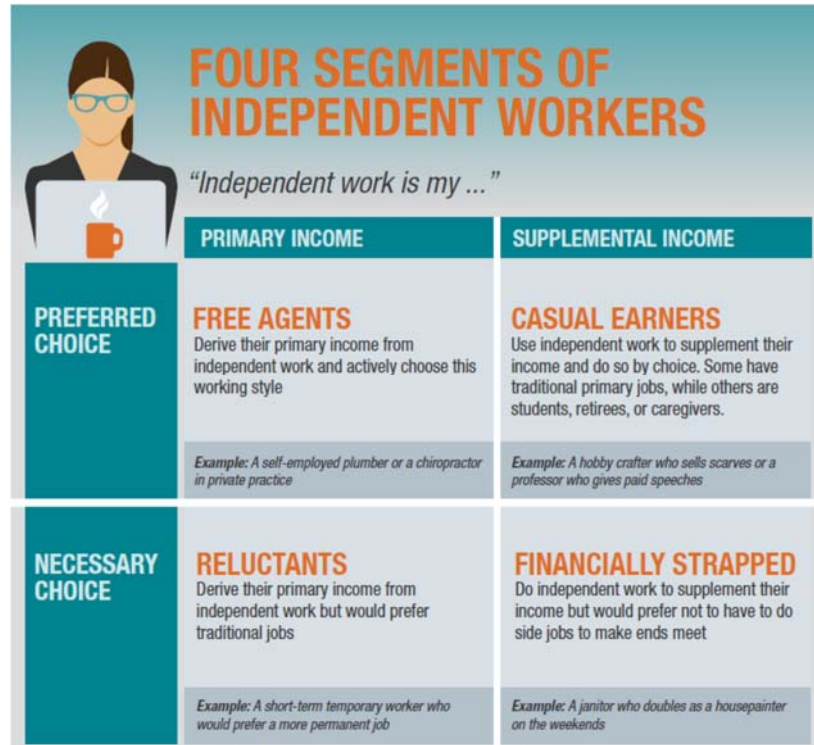
In contrast, “supplemental” earners are either traditional payroll jobholders who engage in independent work on the side or those who have some other primary activity and do not rely on this work as their main income. Some examples of supplemental earners are students,

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<sup>1</sup> McKinsey Global Institute, (October 2016). *Independent Work: Choice, Necessity, and the Gig Economy*.

retirees, and caregivers. These individuals are traditional employees, but because of their other income-generating activities, they fall into the McKinsey definition of independent workers. A college professor who accepts a paid speaking engagement would be a supplemental independent earner. So would a full-time radiology technician in Austin, Texas, who rents out a spare room in his apartment on Airbnb during the South by Southwest music festival.

Figure 1



Source: McKinsey Global Institute, 2016

The independent workforce can be split between those who actively choose this working style and those for whom it is the best available option. Many earners prefer the freedom and flexibility of independent work. They value being their own boss, setting their work hours, and concentrating only on work that interests them. The dermatologist who opens a private practice can decide how many patients he will see each day. The freelance graphic artist can say no to dull assignments. The app developer can code at night and sleep during the day. The Uber and Lyft drivers can schedule their hours around classes or family priorities. These people enjoy the perks of being independent and would choose to remain so even if they had the option to switch to a traditional job.

The McKinsey survey estimated that 30 to 45 percent of the working-age population would prefer to earn either primary or supplemental income through independent work and consider themselves at least somewhat likely to pursue the option. If they were able to pursue the working style they prefer, independent workers could potentially grow to between 76 and 129 million Americans by this measure.

Additionally, a Pew Research Center report<sup>2</sup> surveyed non-institutionalized adults ages 18 or older. Table 1 shows the demographic diversity of Americans who earn money from various digital platforms. There are pronounced demographic differences between Americans who earn money from labor platforms where users contribute their time and effort, versus those who earn money from capital platforms where users contribute their goods or possessions.

Table 1

	<b>All U.S. adults</b>	<b>Gig workers</b>	<b>Online sellers</b>
	%	%	%
Male	48	45	56
Female	52	55	44
White	65	43	70
Black	12	19	7
Hispanic	15	21	13
18-29	22	42	26
30-49	34	39	48
50-64	26	15	18
65+	19	4	7
Less than \$30,000	26	49	29
\$30,000-\$74,999	35	35	40
\$75,000 or more	38	14	30
College grad+	28	21	38
Some college	31	37	37
HS grad or less	41	42	25
Employed full-time	43	44	56
Employed part-time	18	24	15
Not employed	39	32	41
Covered health ins.	87	77	87
Retirement account	40	27	49
Have pension plan	22	8	19
Rent current home	33	56	37
Student	11	23	17

Source: Pew Research Center, 2016

Note: All adults based on non-institutionalized adults ages 18 or older. Whites and blacks include only single-race non-Hispanics. Hispanics are of any race. Other includes non-Hispanic persons reporting single races not listed separately and persons reporting more than once race. Full-time workers are those working 35 hours or more per week and 50 to 52 weeks in that year. Part-time workers are those working under 35 hours per week. Source: Survey conducted July 12-Aug. 8, 2016. "All adults" figures (excluding retirement account and pension plan) based on Pew Research Center tabulations of 2014 American Community Survey (1% IPUMS).

The Pew Research Center study found differences between those who depend heavily on the money they earn from these platforms and those who describe their income as merely "nice to have." The study indicated that workers who describe the income they earn from gig work as "essential" are more likely to come from low-income households, to be non-white, and to have not attended college. They are less likely to perform online tasks for pay, but more likely to gravitate towards physical tasks such as ride-hailing, landscaping, catering, cleaning, and similar services. They are also significantly more likely to say that they are motivated to do this sort of work because they need to be able to control their own schedule or because there are not

<sup>2</sup> Pew Research Center, (November 2016). *Gig Work, Online Selling and Home Sharing*.

many other jobs available to them where they live. Nearly a quarter of those who utilize digital gig platforms for work are students.

### *Freelancers*

A 2016 study of freelance workers<sup>3</sup> found that from 2014 to 2016, the freelance workforce grew by 2 million workers, from 53 million to 55 million. It is estimated that this workforce earned \$1 trillion in 2016, representing a significant share of the U.S. economy. Sixty-three percent of freelancers say they started more by choice than necessity, an increase of 10 percentage points from 2014. In addition, full-time freelancers reported feeling positive about their work. The majority of freelancers reported leaving a full-time job to make more income freelancing than they did with a traditional employer. Full-time freelancers also have the ability to work less than 40 hours per week (36 hours per week on average), and the majority feel they have the right amount of work.

The freelance worker study identified five types of freelancers:

- *Independent Contractors* (35 percent of the independent workforce / 19.1 million professionals) – “traditional” freelancers who don’t have an employer and instead do freelance, temporary, or supplemental work on a project-to-project basis.
- *Diversified Workers* (28 percent / 15.2 million) – people with multiple sources of income from a mix of traditional employers and freelance work. This could be someone who works the front desk at a physical therapy office 20 hours a week and augments his income by driving for Uber and doing freelance writing.
- *Moonlighters* (25 percent / 13.5 million) – professionals with a primary, traditional job who also moonlight doing freelance work. One example could be a corporate-employed web developer who does projects for nonprofits in the evening.
- *Freelance Business Owners* (7 percent / 3.6 million) – freelancers who have one or more employees and consider themselves both freelancer and business owner. An example could be a social marketing expert who hires a team of other social marketers to build a small agency, but still identifies as a freelancer.
- *Temporary Workers* (7 percent / 3.6 million) – individuals with a single employer, client, job, or contract project for which their employment status is temporary. This could be a data entry worker employed by a staffing agency and working on a three-month contract assignment.

The study noted that the outlook for independent workers is positive. Two million more people are doing independent work than two years ago, which is a reflection of how the economy is shifting and how technology is enabling the independent workforce and rewarding a freelance lifestyle.

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<sup>3</sup> Freelancers Union and Upwork. (October 2016). *Freelancing in America: 2016*.

*What commonalities exist among the various definitions of workers?*

Gig workers, independent workers, and freelancers, though defined differently, all share common characteristics. For one, their rapid growth in number can mainly be attributed to a surge in the use of digital platforms. A fast-growing segment of gig workers, mainly millennials, use Uber, TaskRabbit, Thumbtack, and other platform firms that are transforming industries by connecting workers with customers in new ways. Other platforms, such as app stores and YouTube, are creating entirely new task oriented occupations or occupational branches where gig workers such as independent workers and freelancers can operate. In addition, existing organizations are creating digital and social media marketing departments and jobs, many of which are contingent on workers contracted for tasks in place of the traditional employer-worker relationship. Finally, even the more casual earners operate on online technology capital-based platforms, such as eBay, Etsy, or Airbnb, where individuals sell goods or rent assets to supplement their incomes.

### **Capturing Data and the Number of Gig Workers**

Federal government data sources have had difficulty calculating how many gig workers are in the workforce. The two main federal workforce-related sources that have attempted to count these workers are the U.S. Bureau of Labor Statistics (BLS) and the U.S. Census Bureau.

#### *Bureau of Labor Statistics*

Gig workers could be in contingent or alternative employment arrangements, or both, as measured by BLS. Contingent workers are those who do not have either a contract or an implied contract for long-term employment. Alternative employment arrangements include earners who are independent contractors (also called freelancers or independent consultants), on-call workers, and workers provided by temporary help agencies or contract firms.

The data BLS has for these types of workers are over a decade old. In 2005, contingent workers accounted for roughly two to four percent of all U.S. workers. About seven percent of workers were independent contractors, the most common alternative employment arrangement, in that year. BLS plans to collect these data again in 2017. It will be interesting to see how much this contingent worker population has grown, especially over the last 12 years.

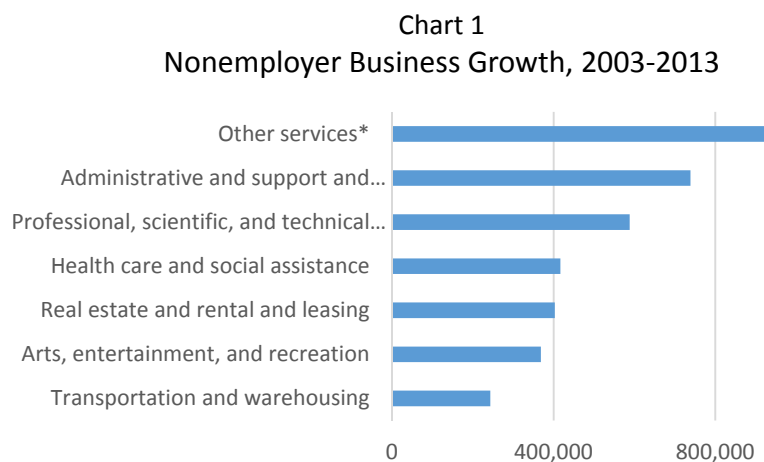
Other, more recent data from BLS may capture a great number of gig workers, but these workers are not broken out separately. For example, gig workers may be included in counts of workers who are part-time, self-employed, or hold multiple jobs. But these counts also include workers who are not part of the gig workforce.

#### *U.S. Census Bureau*

Nonemployer statistics data, created by the Census Bureau from tax data provided by the Internal Revenue Service, offer another angle to examine the gig economy. Many gig workers fit

the Census Bureau definition of a nonemployer firm: in general, a self-employed individual operating a very small, unincorporated business with no paid employees (sole proprietorships).

Between 2003 and 2013, all industry sectors experienced growth in nonemployer businesses. The “other services” sector added nearly one million nonemployer businesses during that time, the most of any sector. (See chart 1.) Many of the occupations in this sector involve on-demand services, such as house cleaning, pet sitting, and appliance repair, making them well-matched to gig employment. The Brookings Institution’s analysis<sup>4</sup> of nonemployer statistics across the entire economy suggests that some 86 percent of nonemployer firms are actually self-employed, unincorporated sole proprietors. In other words, these individuals are earning income as independent contractors or freelancers. In the rides and rooms industries, characterized by the quick growth of ride-sharing and room-sharing platforms such as Uber and Airbnb, some 93 percent of the nonemployer firms are freelancers or contractors. These are exactly the types of workers who seek part-time work in the gig economy.



Source: 2003–2013 Nonemployer Statistics, U.S. Census Bureau.

\*This industry sector includes repair and maintenance; personal and laundry services; and religious, grant making, civic, professional, and similar organizations.

Overall, there is currently no accurate way to count the gig economy workforce. The expectation is that in the coming years many more studies will be done and federal agencies will continue to grapple with definitions and estimation methods. The best way to capture the most accurate data for this workforce population is to access data directly from the digital platform firms that host the one-to-one gig worker exchanges. The fact that this data is proprietary to each platform, compounded by the lack of any universal reporting system, makes it extremely difficult to track at this time.

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<sup>4</sup> Brookings Institution. (October 2016). *Tracking the gig economy*.

## Other Sources

Studies reviewed for this research, including those by McKinsey Global Institute, Freelancers Union, Brookings Institution, and Pew Research Center, used sources such as Moody's Analytics<sup>5</sup> and ad hoc surveys with various underlying assumptions in combination with sections of the U.S. Census Bureau and Bureau of Labor Statistics data.

## Discussion on the Growth of the Gig Economy

The workforce environment is changing significantly and rapidly for U.S. workers. Through the increasing prevalence of the gig economy and other nonstandard work arrangements, the traditional relationship between the employer and worker is evolving for many.

This can mean greater access to the labor market for some, or reduced access to the comfort of traditional workplace benefits and a steady income for others. As previously noted, the only real and accurate way to measure this workforce population is through accessing the digital platform data directly, which is nearly impossible at this point in time. Nevertheless, gaining an understanding of these evolving workforce trends and where they are headed is vital to ensuring real opportunity for the future workforce.

Most U.S. job growth over the last 10 years was in temporary, part-time, freelance, and other contingent work. Temp agencies now employ a record share of the U.S. workforce, and, according to the McKinsey study, 20 to 30 percent of the working-age population in the U.S. engages in freelance-type work.

As a result, for several years experts have discussed the impact of the gig economy on the labor force. There is a growing consensus that the real impact of the gig economy looks much more like Wonolo<sup>6</sup> and similar on-demand labor startups who provide workers for large companies.

It has always been logical for a highly skilled worker to be hired on a project basis, such as a freelance advertising specialist who is hired to create a brand for a new company. Now, the gig economy offers businesses the capability to automate job recruitment and task assignment, such as hiring short-term workers to fill in at a warehouse for a five-hour shift.

This change in management strategy continues to stimulate an increasingly contingent workforce. On-demand digital platforms are important because they are a new model for managing a service-based workforce, a model that is easily transferrable. Today, the gig

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<sup>5</sup> Moody's Analytics is a subsidiary of Moody's Corporation and provides economic research regarding risk, performance, financial modeling, and data related to the evolving marketplace.

<sup>6</sup> Wonolo connects workers with immediate hourly or daily jobs from the biggest and best brands, allowing workers to work where they want, when they want, and for whomever they want. Wonolo works like Uber. Businesses post "gigs" via the Wonolo app, and the startup's algorithms push them to a pool of about 30,000 workers in eight cities, much like Uber pushes ride requests to its drivers.

economy makes up a small percentage of the entire U.S. labor force. However, true widespread workforce transformation may occur if labor platforms like Wonolo achieve the growth and success of ride sharing platforms like Uber.

## **Next Steps**

### *The Texas Gig Economy*

As Council staff continues its research on evolving trends in the labor market, the gig economy has been identified as containing a growing workforce population that can impact the state's future competitiveness. As such, this research report was intended to define, categorize, and present data related to the gig economy. The collection of accurate data is essential for the Council to effectively evaluate conditions that can affect the Texas workforce. The Council will next look at Texas-specific data in order for the Texas workforce system to remain responsive to evolving economic trends that will impact the state.





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