What is the Gig Economy
Understanding Independent Contracting and Gig Work in California

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Background:
The confusion about gig work
How many gig workers are there in the U.S.?

600,000? 55 million?
Two sources of confusion:

1. Conflating different types of work
2. Conflating different ways that workers use independent contracting
TYPES OF PAID WORK

Employees

- Regular W2 workers
- Contracted W2 workers (e.g. working for subcontractors, franchises or temp agencies)

Independent contractors

- Traditional
- On-demand labor platforms
Upshot:

Focus on understanding the full universe of independent contractors, including but not limited to platform workers
Workers’ income sources across all jobs in the U.S., 2014

- Wages only: 87%
- Self-employment income only: 7%
- Wages and self-employment income: 6%

Source: Jackson, Emilie, Adam Looney, and Shanthi Ramnath (2017)
Upshot:

Focus on all the ways that workers generate income, not just on their main job
What we think we know:
The basics
1. Independent contractors do lots of different types of work, for a wide range of earnings

- Low-wage:
  - Janitors, maids, and housekeepers
  - Personal care aides, home health aides, childcare workers
  - Retail sales workers

- High-wage:
  - Construction trades workers
  - Beauty salon barber shop and nail salon workers
  - Truck and taxi drivers
  - Real estate brokers and sales agents
  - Media and communications workers (e.g. motion pictures)
  - Teachers
  - Business operations specialists (e.g., in management consulting)
  - Financial specialists
  - Counselors and social workers
  - Doctors, nurses and other health practitioners
  - Lawyers and judges
  - Computer occupations

Source: Bernhardt and Thomason (2017)
2. On-demand labor platforms = small percent of workforce

- In a given month in the U.S, about 1 percent of workers use an on-demand labor platform; the large majority are in transportation
- About two-thirds of users are active 3 months or less
- Labor platform income = about 20% of annual income
  - But during active months, platform income is about half of earnings

Source: Farrell, Greig, and Hamoudi (2018)
3. Independent contracting is not replacing W2 jobs

Figure 2: The 1099 Gig Economy, as a Share of the Tax Workforce, 2000-2016

Source: Collins et al. (2019)
Better data and research are needed

• Better data on **prevalence** and **trends over time**, including tax data and company administrative data

• Better understanding of how and why workers use gig work as **supplemental income**

• Better understanding of how workers use gig work **throughout the life cycle**, including into retirement

• Better data on **earnings** that accurately take into account costs, e.g. TNC drivers

• Research to document **variation in job quality** outcomes, especially **misclassification**
The state of current research
CPL project: unique partnership with CA Franchise Tax Board

Goal: Analyze individual taxpayer data to shed light on independent contracting in California, including on-demand platform work.

Data: Individual taxpayer data for the years 2012-2017, including information on wages and salaries; 1099 income; and other sole proprietor income.
Phase 1 questions

1. How many independent contractors are there in California? Have their numbers increased over time?

2. How do workers combine independent contracting (IC) with regular work? Is IC work for supplemental income or main employment?

3. What is the income, demographic, and industry profile of independent contractors?

4. Which industries rely the most on independent contracting? Where have we seen the biggest increases, if at all?
The problem of non- and under-reporting of sole proprietor income

- IRS audits show significant non-reporting and under-reporting of income by sole proprietors

- Some estimates using Collins et al. (2019) data for California:
  - 13% of 1099 recipients in 2016 didn’t file taxes
  - Of 1099 recipients who filed taxes in 2016, 38% didn’t file a Schedule SE

- Our data:
  - We don’t yet have complete 1099 data, so all of our results to date are incomplete (we’re only relying on Schedule C to measure independent contracting).
How many independent contractors were there in California in 2016?

<table>
<thead>
<tr>
<th>CPL study</th>
<th>Percent</th>
<th>Using Collins (2019) California data</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incomplete - does not yet include 1099 data</td>
<td></td>
<td>Does include 1099 data</td>
<td></td>
</tr>
<tr>
<td>W2 only</td>
<td>85.7</td>
<td>W2 only</td>
<td>79.5</td>
</tr>
<tr>
<td>Schedule C only</td>
<td>7.9</td>
<td>Self-employment income only</td>
<td>10.1</td>
</tr>
<tr>
<td>W2 and Schedule C</td>
<td>6.4</td>
<td>Mix of W2 and self-employment</td>
<td>10.4</td>
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<tr>
<td>Total</td>
<td>100.0</td>
<td>Total</td>
<td>100.0</td>
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</tbody>
</table>

Source: CPL analysis of CA taxpayer data

Source: CPL analysis of California data reported in Collins et al. (2019)
How do workers mix independent contracting and W-2 jobs?

Incomplete - does not yet include 1099 data

Source: CPL analysis of CA taxpayer data
Sources of workers’ earnings, 2016

<table>
<thead>
<tr>
<th>Total earnings decile</th>
<th>Row %</th>
<th>W2 only</th>
<th>Schedule C only</th>
<th>W2 and Schedule C</th>
<th>Schedule C median share of total earnings (among mixers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ($1-$7,641)</td>
<td></td>
<td>71.7</td>
<td>23.2</td>
<td>5.0</td>
<td>.40</td>
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<tr>
<td>2 ($7,641-$14,020)</td>
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<td>75.8</td>
<td>15.8</td>
<td>8.3</td>
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<tr>
<td>3 ($14,020-$20,558)</td>
<td></td>
<td>80.2</td>
<td>12.1</td>
<td>7.7</td>
<td>.31</td>
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<tr>
<td>4 ($20,558-$27,595)</td>
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<td>87.0</td>
<td>7.0</td>
<td>6.0</td>
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<tr>
<td>5 ($27,595-$35,834)</td>
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<td>89.1</td>
<td>5.1</td>
<td>5.7</td>
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<tr>
<td>6 ($35,834-$45,896)</td>
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<td>90.6</td>
<td>3.8</td>
<td>5.6</td>
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<tr>
<td>7 ($45,896-$59,253)</td>
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<td>91.2</td>
<td>3.0</td>
<td>5.7</td>
<td>.06</td>
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<tr>
<td>8 ($59,253-$78,901)</td>
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<td>91.4</td>
<td>2.6</td>
<td>6.0</td>
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<tr>
<td>9 ($78,901-$115,795)</td>
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<td>91.2</td>
<td>2.4</td>
<td>6.4</td>
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</tr>
<tr>
<td>10 ($115,795+)</td>
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<td>88.8</td>
<td>3.4</td>
<td>7.8</td>
<td>.06</td>
</tr>
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Incomplete - does not yet include 1099 data

Source: CPL analysis of CA taxpayer data
Data on platform workers in California

• In a given month in California, ~1.3% of workers use an on-demand labor platform; the large majority are in transportation (Farrell, Greig, and Hamoudi 2018)

• This estimate is in line with other studies

• 1099 data are needed to get actual counts of workers
Questions?
Sources:


