Platform Work, Provider Dependence, and the Social Safety Net

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Written testimony offered to the Senate Standing Committee on Internet and Technology, as part of the public hearing "Examination of the Gig Economy," held to identify the needs of workers and employers operating outside the traditional employee-employer dynamic and determine possible legislative recommendations - including S.6538 – The Dependent Worker Act.

Chairwoman Savino, Ranking Member Jacobs, committee members, Senators and others: I am delighted to have been invited to speak to you about the shifting landscape of workers and employers operating outside the traditional employee-employer dynamic, and share my thoughts on how we might fashion a robust social safety net for the 21st century. Thank you for convening this important hearing.

I hold the Harold Price Chair in Entrepreneurship and am also a tenured full professor at NYU's Stern School of Business. I am also the author of "The Sharing Economy" published by the MIT Press in 2016, and translated into Mandarin Chinese, Japanese, Korean, Vietnamese and Portueguese, in which I introduced the idea of *crowd-based capitalism*, an idea I will explain very quickly in what follows. I have been on the faculty of NYU for 20 years, during which time I have published numerous scientific papers and op-eds about appropriate policy responses to digitally-enabled changes to work arrangements and business models. I'd be happy to provide summaries of my testimony in other settings to anyone interested.

The popular instances of platform-enabled work we see today represent early examples of new and digitally-enabled ways of organizing economic activity. In the future, these new systems will span multiple industries, change what it means to have a job, reshape our regulatory landscape, challenge our social safety net, and restructure how we finance, produce, distribute and consume goods, services and infrastructure. Forward-looking policy that creates and maintains a robust social safety net while anticipating changes to the nature of the relationship (and level of dependence) between individual workers or entrepreneurs and the institutions or companies that facilitate their earnings will be a critical determinant of social stability in the future. For simplicity, I will refer to the individuals (Uber or Lyft drivers, for example) as "providers," and the third-party intermediaries that helps facilitate their economic activity as "platforms."

I wish to make four points in my testimony:

(1) The transition to crowd-based capitalism is already broader than one might initially assume..

(2) There are many different dimensions that could define dependence, and varying levels of dependency that providers have on platforms.

(3) Many social protections in the US are currently structured around one work arrangement which became popular in the second half of the 20th century, but which will be just one of a range of work arrangements in the 21st century.

(4) Creating an employee-employer-like relationship between provider and their platforms may have unintended consequences

Platforms like Uber, Lyft, Airbnb, Doordash, Postmates and Grubhub that are frequently the focus of discussions relating to the classification of providers as independent contractors versus employees are just a few examples of a broader phenomenon that I term crowd-based capitalism. Under this model, many of the economic activities traditionally performed by large hierarchical organizations that employ full-time workers are instead delegated to a distributed and heterogeneous crowd of producers of varying size, independence, and capability. A more detailed discussion can be found in Sundararajan (2018).[1]

A key point to consider here is that there is a dizzying variety and range of different provider-platform relationships that already exist today. Millions of YuTube content creators

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[1] Sundararajan, Arun (2018) "Crowd-Based Capitalism, Digital Automation, and the Future of Work," *University of Chicago Legal Forum*: Vol. 2017 , Article 19.
Available at: https://chicagounbound.uchicago.edu/uclf/vol2017/iss1/19

depend on the YouTube platform for income derived from ad-supported content, the pricing of which is indirectly determined by YouTube's advertising pricing mechanism. Millions of independent sellers depend on the Amazon platform for their sales to tens of millions of Amazon consumers; in this context, some may argue that prices set by these independent sellers are influenced in part by Amazon. Millions of hosts depend on the Airbnb platform for their short-term accommodation revenue; similarly, tens of thousands of personal vehicle and small fleet owners depend on peer-to-peer car rental platforms Getaround and Turo. In the prior two contexts, pricing is either suggested or mandated by the platform. Hundreds of thousands of freelance workers depend on the labor platform Upwork for their clients. In the future, there will be numerous invisible direct-to-consumer commercial kitchens that depend on platforms like UberEats, Doordash, Grubhub and Postmates for their food orders. These examples illustrate the scope and variety of crowd-based capitalism today. In the future, other industries that include healthcare, energy and education are likely to see the rise of platform-based business models as well.

In each of these preceding examples, there is a common thread — the platform typically collects payment from the consumer and remits it to the provider. In some cases, prices are set by the platform. In other cases, prices are suggested by the platform but not mandated. In other settings, pricing is independently set by the provider. There is thus a lot of variety when it comes to dependence on the pricing dimension.

Pricing aside, there are numerous dimensions along with the providers vary in their level of dependence on these different platforms. These dimensions include: whether production financing is made available to providers, whether merchandising support is made available to providers, whether centralized customer support is made available to customers, whether logistics capabilities are made available to providers, whether customers are assigned to providers, whether insurance, escrow or other forms of risk minimization are provided by the platform, and whether the platform requires exclusivity from providers. A more detailed discussion of these dimensions can be found in Sundararajan (2016).[2]

My analysis of 100 peer-to-peer platforms in 2014-15 revealed that there was tremendous variation across platforms along these different dimensions. The point I wish to highlight here is that there is not merely diversity in the degree of dependence but in the sources of dependence as well. Why does this matter? Well, it was relatively straightforward to frame the individual-institution relationship in the second half of the 20th century as being employee-employer or not. In contrast, the individual-institution relationships in the world of work in the 21st century are decidedly more diverse and complex.

Although we have witnessed a steady growth in these alternative arrangements for individual earning over the last decade, much of the social safety net in the United States is still structured in a way that makes a full-time employment relationship a prerequisite for individual benefits and protections. Under our current model of funding the social safety net, certain responsibilities have been assigned to the institution — the employer. Certain protections have been correspondingly put in place for the individual — the employee. Certain roles have been taken on by the state. To better prepare for the 21st century world of work, it is important that we revisit what the responsibilities of these three parties — the individual, the institution and the State — should be in situations where there are differing levels of dependency that the individual (or the provider) has on the institution (or the platform). Specifically, the level of independence that a provider has with regards to their relationship with the platform is typically higher than the level of independence an employee has with regards to their relationship with their employer. Thus, it may not be reasonable to expect the same level of responsibility or contribution from a platform as we do from a traditional employer. In contrast, legislation aimed at creating funding models that extend basic protections to all workers, irrespective of their categorization, through the creation of new individual-platform-government partnerships, could stand the test of time.

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[2] Sundararajan, Arun. *The Sharing Economy: The End of Employment and the Rise of Crowd-Based Capitalism*. The MIT Press, 2016.

Finally a critical benefit of access to platforms markets is their ability to expand work opportunities, a shift that seems likely, everything else being equal, to rebalance labor market power in favor of the worker or provider There is indeed recent evidence that online labor markets can act as a substitute for shrinking local income opportunities. Thus, when determining the right categorization of providers, whether it be as dependent workers or as employees, considerations must include the effects this will have on worker bargaining power, the effect this categorization has on the likelihood of labor market monopsony or oligopsony (a higher level of institutional power), and any dampening effects on innovation.

For example, recent legislation in California State aims to categorize certain platform providers as employees. While the intent of the legislation may indeed be to help the individual, there may be a number of unintended consequences: (1) The change in the relationship between providers and platforms to one of employee-employer could shift power in the labor market away from the individual and in favor of the institution by lowering provider flexibility and increasing the dependency individuals have on a single platform. This kind of dependency generally leads to lower wages. (2) Platforms with greater scale that can spread full-time-employee work more easily across demand could gain a competitive advantage over smaller platforms, making the likelihood of market concentration higher. (3) New gig economy platforms will struggle to emerge; indeed, the current generation of local sharing economy platforms were able to start and grow by tapping into a flexible and part-time gig workforce that could evolve as they scaled, something that is harder to do when the commitment of employment is required for all provider supply. (4) Access to alternative work as a supplementary source of income will diminish. Indeed, a recent McKinsey study has estimated that 20% of the US workforce supplements full time employment income with part-time non-employment work.

Again, thank you for convening this important hearing, Forward-looking policy that creates and maintains a robust social safety net while anticipating and reacting to changes in the relationship between individual workers or entrepreneurs and the institutions or companies that facilitate their earnings will be a critical determinant of social stability in the future. I would be delighted to participate in any future efforts by this committee or by the Senate in this regard.