Q&A: Will New York's Lyft, Uber driver salary changes spread?

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Changes to how Lyft and Uber drivers get paid in Manhattan will impact New York City's taxi drivers, too. But what will happen with traffic as the changes come into effect? Credit: Dan McCoy, NARA

Lyft, Uber and companies like them have rewritten what transportation looks like in the 21st century. They've been living in a four-wheeled wild west, though, without many restrictions on what they do and how they do it.

A new set of rules came into being last week in New York when the city adopted recommendations put forth by Michael Reich, professor of economics and chair, center on wage and employment dynamics at the Institute for Research on Labor and Employment at UC Berkeley, and James Parrott, an economist at The New School in New York. For the first time, drivers will have an earnings standard to fall back on.

Berkeley News sat with Reich to discuss how the new rules on paying drivers came to be and if San Francisco Bay Area users of ride share services will soon find themselves following the New York model.

Berkeley News: Uber and Lyft are both headquartered in San Francisco. Why was this deal struck in NYC?

Michael Reich: Uber and Lyft operate in all the major urban markets in the U.S. The app-rides industry is very lightly regulated in most locations. But New York City's Taxi and Limousine Commission (TLC) has substantial regulatory power over Lyft and Uber, as well as taxis.

What led the TLC to initiate this policy?

In New York, the 100,000 or more taxi, Lyft and Uber drivers have banded into their own organizations. They have been telling the TLC that driver pay is too low and that many of the drivers are very stressed financially and mentally. Indeed, over a half-dozen drivers committed suicide within a six-month period. As a result, the TLC wanted to study the pay and working conditions of the drivers and possibly establish a minimum earnings standard.

Keep in mind that the drivers are independent contractors, not employees, and therefore they are not covered by the New York City minimum wage (going up to $15 on December 31, 2018). All expenses are paid by the drivers. Companies save by not having to pay employer taxes for Social Security, unemployment and other charges.

What was the purpose of your study?

The TLC commissioned James Parrott, an economist at The New School, and me to conduct a study of the industry in New York. We wanted to obtain a detailed picture of driver pay, after expenses, as well as how much the companies were making on each ride. We used data that the TLC collects from all the companies and a driver survey; we looked at drivers' expenses: fuel, depreciation, insurance.

Our study is the first to have data on the industry as a whole. Previous studies—most commissioned by Uber—have used data on Uber only. But many drivers work with multiple companies.The Uber-only studies suggested that the drivers are mainly part-time and they have a lot of flexibility to gain additional income by using the car they already own.

What did your study find?

We found that full-time drivers accounted for 80 percent of the rides in New York City and that most of these drivers had made substantial investments to acquire a vehicle so they can operate in the industry. Their pay is indeed low, not just because fares per trip were low, but also because most drivers have too few paying trips per hour. They cruise without passengers about 40 percent of their working time.

Our proposal established a minimum earnings standard per trip and a reward for companies who increased the use of their drivers during their working hours. The companies could increase driver utilization simply by limiting the supply of new drivers. The drivers would benefit by getting more paying trips per hour. We estimated that the effects on passengers—fares and wait times—would be minimal, that service would not be disrupted and that traffic congestion would be eased.

How was your report received?

We released our study on July 2, 2018. The study received national attention, including in all the media in New York City. Very soon after, the New York City Council voted to approve the general policy recommendation in our report. In his subsequent op-ed in the New York Daily News, Mayor de Blasio credited our report for making the policy recommendations credible and compelling.

What has happened since?

The TLC has been putting together the detailed regulations. At an October hearing, many drivers testified that their expenses were much higher than our report estimated. We then recalculated their expenses with better methods and newer data and the TLC used our estimates in their final proposal. That proposal was passed on December 4. The changes go into effect in January.

Why is this decision a big deal?

Ninety-six percent of the drivers will get a pay increase of about $10,000. It is a big deal for their families and communities. Moreover, this is the first time that workers in the gig economy will be subject to an earnings standard. It will be interesting to see whether other cities follow

New York.

What about the taxi drivers? Haven't they been hurt by the rise in competition?

They have, and the new TLC policies will help them by creating a minimum driver pay norm. The taxi drivers' organization supported the policy change. However, it remains to be seen whether the policy will help the taxi drivers.

Is something similar planned for San Francisco and the Bay Area? And how badly (or not) is it needed in this area?

The San Francisco Metropolitan Traffic Commission has found that the growth of Uber and Lyft in the city has substantially slowed down traffic. There are no local studies of Uber and Lyft driver earnings, in part because the companies have resisted providing the city with the data they are required to provide in New York. One San Francisco supervisor has proposed a tax on Uber and Lyft rides. His concern seems to be about easing traffic congestion.

Last April, the California Supreme Court ruled in an unrelated case that most independent contractors should be classified as employees. The number of independent contractors working in California has soared in recent years. The California Legislature will be reviewing the Supreme Court decision. It is possible that all Uber and Lyft drivers in California might have to be reclassified as employees and therefore subject to minimum wage laws. That is already the case in other countries, such as the UK.

Lyft is saying it is going to go public soon and trade on one of the stock markets. Is what happened in NYC likely to help or hinder the stock price?

Uber has also announced it wants to go public. Uber has lost many billions of dollars in bad bets on autonomous cars and on failed expansions in Asia and Latin America. But both Uber and Lyft make very large profits in their existing urban markets. The driver pay policy could squeeze those profits some, but we estimated that their profitability will remain high, well above other companies that are also basically software platform intermediaries, such as Visa and MasterCard.

More information: James A. Parrott and Michael Reich. Report for the New York City Taxi and Limousine Commission. An Earnings Standard for New York City's App-based Drivers: July 2018 Economic Analysis and Policy Assessment.

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