'Sharing economy' surge creates labor conundrum

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They drive for Uber, deliver groceries for Instacart, run errands for TaskRabbit, and rent spare rooms on Airbnb.

Are these the new, empowered participants in the "sharing economy," or workers being exploited by well-funded technology companies?

That is an open question as millions of people shift from traditional employment to freelance "gig" work, giving them more independence, but without the social safety net of employees.

Some 18 million US workers now earn a significant portion or all of their income outside of traditional employment, and another 12.5 million took on part-time independent work, according to MBO Partners, a firm which providers services for independent contractors.

A separate study by financial software group Intuit found 25 to 30 percent of the US workforce is "contingent" and that 80 percent of large corporations plan to increase their use of a "flexible workforce" in coming years.

Inuit said that by 2020, more than 40 percent of the labor force will be "contingent."

But cracks have begun to appear in the model developed by Uber and other peer-to-peer services. Lawsuits in several jurisdictions argue that on-demand workers are not independent contractors, but employees entitled to unemployment insurance, workers compensation and other benefits.

"These firms have ignored the issue because they view themselves as a marketplace, not as an employer, and now it is biting them in the back," said MBO founder and chief executive Gene Zaino.

Politicians are taking notice. Democratic presidential front-runner Hillary Clinton said recently she would "crack down on bosses who exploit employees by misclassifying them as contractors."

"This on-demand, or so-called gig economy is creating exciting economies and unleashing innovation," she said in June. "But it is also raising hard questions about work-place protections and what a good job will look like in the future."

Yet without a flexible workforce of independent contractors, "the sharing economy could be stopped in its tracks," said Christopher Koopman, a research fellow at George Mason University's Mercatus Center.

"We would not see the dynamic, innovative environment we have today."

A 'ton of flexibility'

Koopman said those choosing to work on these platforms "are getting a ton of flexibility, so there are tradeoffs. They can work when they want and how they want."

But he acknowledged that policymakers need to set clear rules to avoid disputes and uncertainty.

This uncertainty led to the shutdown in July of Homejoy, an online platform for home cleaning services which faced litigation from workers claiming they should be classified as employees.

Some analysts say current laws are not adapted to these new models where people earn money through shopping services like Postmates, meal preparation like Feastly and pet-sitting like DogVacay.

Simon Rothman at venture capital firm Greylock Partners says a key to helping this thriving sector is "unbundling" benefits such as health care, insurance and retirement from the workplace.

"Gone are the days of a social contract with employers for lifetime employment—it's an old model it doesn't exist anymore. This is a secular shift that will impact everyone," Rothman said in a blog post.

Rothman said this new sector is likely to be worth some $10 billion in the United States this year, and if allowed to grow, "offers a viable new path to sustaining the middle class."

'Share the scraps'

But Robert Reich, a former US labor secretary who is now a University of California professor of public policy, argues the trend is taking us back in time before most countries enacted labor standards.

"The new on-demand work shifts risks entirely onto workers, and eliminates minimal standards completely," Reich said on his blog about the "share the scraps economy."

"In effect, on-demand work is a reversion to the piece work of the 19th century—when workers had no power and no legal rights, took all the risks, and worked all hours for almost nothing."

MBO Partners founder Gene Zaino said however that his firm's research shows most people who become independent are happy they did so.

"It's consistently about control and flexibility" of work, Zaino told AFP.

Zaino said that "it's not so much about the money," but noted that "the fastest growing segment is people earning over $100,000 a year."

This $100,000-plus group has grown 45 percent over the last five years, totaling 2.9 million people, according to MBO.

'Decoupling' benefits

Arun Sundararajan, who heads New York University's Social Cities Initiative, said policymakers should seek to "decouple" traditional benefits from the workplace to help gig workers.

"What they are looking for is not to be a full-time employee," Sundararajan told AFP.

"They want the nice things of being a full-time employee—income stability, insurance benefits, which have been tied to employment."

One solution is a model enacted in the United States for retirement, which allowed most employers to eliminate defined-benefit pension plans in favor of portable savings, known as 401k plans, with tax incentives and contributions from employers and workers.

"This good be a good template," the NYU professor said. "We have to think about similar structures for the other aspects of the social safety net."

Sundararajan said finding solutions is key to unlocking the potential for a vibrant new economic sector.

"There are different kinds of work that are productive, but we are still thinking in a 20th century mindset," he said.

Zaino said it will take time for new policies "because there are so many competing interests" and that the private sector will have to sort out the issues, probably by adding money to gig workers to allow them to get benefits.

"A whole new industry is being born where we are helping people get those types of benefits and services individually and have them portable," he said.

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