

## II. The Changing Nature of Employment and Economic Development

*“Dude, get with the program. Every job is a ‘gig’ today.”*<sup>1</sup>

Technology and economic factors are rapidly driving change in the nature of employment and the end result may not be a zero sum game for cities. The rise of alternative work and the emergence of online piecework or “crowdwork” – think Uber drivers – are altering the employment landscape.<sup>2</sup> The shift is happening so quickly that states and the federal government are struggling to catch up. There are serious implications for cities – not just in calculating employment, but adjusting economic development policies to recognize new realities.

How rapid is this change? Oxford University predicts that nearly 30% of jobs in the U.S. will be on-line piecework within 20 years.<sup>3</sup> Intuit projects the sector at 7.6 million jobs by 2020.<sup>4</sup>

A recently released study on alternative work arrangements, based on comprehensive data sets compiled by RAND and Princeton University, draws this conclusion:

“ . . . all of the net employment growth in the U.S. economy from 2005 to 2015 appears to have occurred in alternative work arrangements.”<sup>5</sup>

### Every Worker a 1099er?

Once upon a time, employers were employers and employees worked for them. Life was simple – work for 40 years and enjoy your retirement party! But decades ago companies large and small began to actively develop a parallel workforce: the “1099ers”. The term is derived from the IRS form issued by employers instead of a W-2 to people who are “independent contractors”. Who is and who isn’t a 1099er? The IRS states it quite clearly:

“You are not an independent contractor if you perform services that can be controlled by an employer (what will be done and how it will be done). This applies even if you are given freedom of action. What matters is that the employer has the legal right to control the details of how the services are performed.”

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		RECIPIENT'S identification number		1 Rents		2 Royalties		3 Other income		4 Federal income tax withheld		5 Fishing boat proceeds		6 Medical and health care payments		7 Nonemployee compensation		8 Substitute payments in lieu of dividends or interest		9 Payer made direct sales of \$0,300 or more of consumer products to a buyer (recipients for resale) <input type="checkbox"/>		10 Crop insurance proceeds		11		13 Excess golden parachute payments		14 Gross proceeds paid to an attorney		16 State tax withheld		17 State/Payer's state no.		18 State income					

The definition seems straightforward. But designating employees as 1099ers – and so avoiding certain tax and benefit costs – was catnip to many firms. A number of major corporations embraced

<sup>1</sup> worddetective.com, 2016.

<sup>2</sup> Alternative workers: temporary help, on-call, contract, independent/freelancers

<sup>3</sup> “Your Job Is About To Get ‘Taskied’”, Mary L. Gray, Los Angeles Times, January 10, 2016.

<sup>4</sup> “Dispatches from the New Economy”, Intuit, Inc., January 2016.

<sup>5</sup> “Rise and Nature of Alternative Work Arrangements in the U.S.”, Lawrence F. Katz and Alan B. Krueger, Harvard and Princeton Universities & NBER, March 29, 2016, p. 7.

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the concept. The problem, of course, is there is no such thing as a “1099 employee” – a phrase that could serve as the definition of an oxymoron – as FedEx discovered. For a period of time, FedEx treated its Ground/Home Delivery drivers as independent contractors, not employees. Legal actions against FedEx ensued, and a California decision against FedEx was recently sustained by the federal Ninth Circuit Court. FedEx then raised the white flag and agreed to a \$228 million settlement, and reimbursement of benefits to the plaintiffs.

In an earlier high profile case, IRS audited and found Microsoft had wrongly classified employees as 1099ers. Microsoft not only had to comply with the IRS and retroactively repay benefits, but also settled a suit by former employees for \$97 million.

Court decisions seemed to be clarifying the 1099 issue, but a new and potentially more disruptive factor is complicating the environment: the On-Demand Economy.

### **The On-Demand Economy**

On-line retail is sometimes referred to the On-Demand Economy – a click sends goods to your doorstep. But it’s not just typical retail goods – tablets, sweaters, cell phones, etc. – but also services that are increasingly delivered to the doorstep.

What services? Any service that, in the rationale of the on-demand providers, offers to do for the customer tasks that are considered drudgery and which consume valuable time: Dog walking, laundry, fixing meals, housecleaning – even veterinarian services and marijuana deliveries.

According to a recently released JP Morgan Chase report, an estimated 10.3 million Americans now work in the On-Demand Economy through web-based platforms – the so called “Gig Economy” – amounting to 6.5% of the U.S. workforce. And as that number grows larger, it will impact cities in ways they have not yet anticipated.

Just what is the “Gig Economy”? Think Airbnb, Uber, or TaskRabbit. It is the provision of goods or services through web-based platforms. Airbnb (and the now familiar eBay) connect customers with individuals who rent assets or sell goods. Uber and TaskRabbit and other web platforms connect customers (“Drive me to the Airport”) to workers (“Have Car, Will Travel”).

Just how big is the growing Gig Employment? Uber now claims about 20,000 drivers in the San Francisco area.<sup>6</sup>

Where is on-demand initially flourishing? In dense urban areas with concentrations of wealth, such as San Francisco, New York and Chicago. An indicator of the burgeoning popularity is the development of a new app (“Alfred” – for \$99 per month!) that coordinates all the other on-demand apps for you. Its creators see it as the one-stop solution to queue up all the providers and act as the virtual “air traffic controller”.

According to a particularly sunny report<sup>7</sup> from Sherpa Ventures, a San Francisco venture capital firm (they are investors in a number of on-demand firms), the on-demand economy will grow

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<sup>6</sup> Uber and the World, Will Oremus, Slate.com, January 8, 2016.

exponentially. The report suggests a natural progress of the On-Demand Economy: from instant accessing of digital goods (iTunes, Netflix, Hulu, Google Docs, Expedia, eHarmony) to rapid delivery of physical goods and services (Airbnb, Amazon, Uber). The lynchpins are mobile communications and enabling web applications. Here are some of the report's conclusions:

- The growth will be fueled by more and more people who will want (and demand) more immediate delivery of goods and services – especially for those who feel their time is more valuable doing something else. (Cook for pleasure – otherwise order in!)
- Web-based platforms are recreating the village economy – where you know the butcher, baker and candlestick maker – but now it will be based on connectivity, web-based payment and on-line reputations. (Think of seller ratings on eBay or Yelp).
- Growth will be propelled by the “instant and pervasive access to goods and services tailored to individual needs without the burden of long-term ownership or commitment.”
- Algorithms will determine “value, trust and reputation” of both providers and customers.

The report also concludes that as this segment of the economy grows, it will require more workers to meet the demand. Who will perform these on demand services? Gig employees.

### **Welcome to Gig World!**

Gig employment is really a variation on outsourcing. American companies – particularly tech firms – have used the outsourcing business strategy for years. According to Statisticbrain Research Institute, over 560,000 California jobs have been outsourced since 2001 and 43% of IT firms nationwide outsource.

#### **What's A Gig?**

It's no longer a one-horse carriage or that whirling folk-art toy as seen on Antiques Roadshow. A job as a *gig* has its origins in the slang for a musical engagement (coined by jazz musicians). It referred to a short-term commitment, i.e., playing a “gig” at a club. Now it applies to any short-term job – saxophone not required.

The outsource strategy was once the province of large firms with the resources to qualify and secure outsource workers. But the practice is now spreading to smaller firms – including the start-up and early stage tech firms that Long Beach would like to attract – because of web applications. Apps such as Upwork, Wonolo and 99designs now allow small start-ups to secure the services of freelancers at minimal costs. With enabling apps, small, medium and large firms can find and use Gig workers for IT, web design, PR, marketing – and delivering food. The manager of a high tech accelerator (a business incubator) in San Francisco recently stated, “Literally you have to do nothing now. You just have to sit and make decisions and other people will do all the work for you.”

The availability of Gig workers is worldwide and new apps allow small to large firms to find and hire talent from anywhere. The advantages for firms – and for workers – can be flexibility, a shortening of transaction time and the ability to earn additional revenue. The disadvantages – for workers – are Gig workers are not employees, and so do not receive the benefits typically associated with being an employee – from health insurance to occupational safety requirements. The disadvantage for cities? Gig workers can live in Norway, Vietnam or Brazil – anywhere but *here*. It's possible that those desirable start-up and early stage tech firms so valued by cities could be

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<sup>7</sup> On-Demand Economy 2014, Sherpa Ventures, May, 2015.

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*headquartered* there – but their employees work in a galaxy far, far away. In that case, a city loses much of the economic benefit of the firm that typically results from direct, indirect and induced wages to local employees.

### Examples

Here are just a few examples of HITs that workers have completed on Mechanical Turk.

Select the correct spelling for these search terms

Is this website suitable for a general audience?

Find the item number for the product in this image

Rate the search results for these keywords

Are these two products the same?

Choose the appropriate category for products

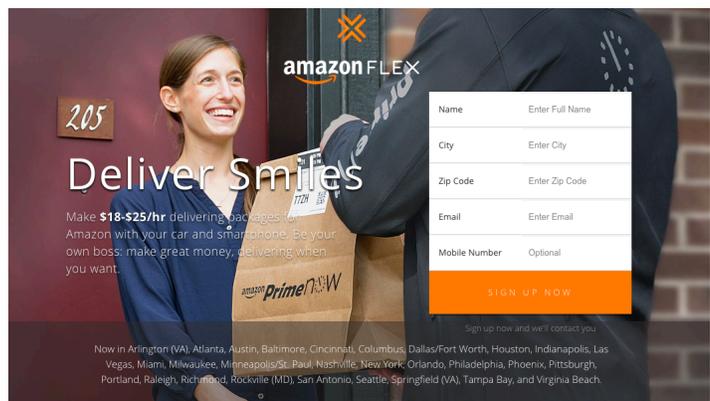
Categorize the tone of this article

Translate a paragraph from English to French

Currently 1,065,971 HITs available.

The world of high tech and big data manipulation and analysis is especially fertile ground for Gig work. CrowdFlower, Clickworker, CloudCrowd are among the many crowdworker sites. But the Big Kahuna is Amazon, which created its Mechanical Turk site in 2005, and now boasts of having over 500,000 workers around the globe. It's piecemeal for the Global Economy at the microtask level. "Requesters" (employers) post microtasks ("Hits") with remuneration rates. "Providers" (employees -- folks signed on to Turk) respond.

And Amazon isn't stopping there. (Would anyone be surprised?) Amazon Prime and the dream of same day delivery has sparked another Amazon initiative: Amazon Flex. Amazon Flex, as Amazon states on its website, is a "flexible opportunity for Delivery Partners looking to turn free time into supplemental or part-time income. The available delivery blocks may fluctuate week to week and are not guaranteed." It's Uber without the hassle of passengers. Quick, you decide: better to deliver a silent box or a somewhat inebriated, unhappy commuter? And really: Who wouldn't want to "deliver smiles"?



The who-is-a-1099er issue is getting more complicated with the emergence of online piecemeal – those Uber drivers again – and lawsuits are piling up like cordwood. A major class action suit against Uber goes to trial this June. [Breaking News! One Uber lawsuit was settled, but several more were filed.] Homejoy, a Gig Economy home cleaning service, folded in 2015; its CEO stated the "deciding factor" was four pending misclassification lawsuits.<sup>8</sup> Task-sharing apps – from dog walking to ridesharing – are creating a class of folks who do the work but, according to the app firms, are not employees. The JP Morgan Chase report focused on an emerging issue:<sup>9</sup>

A key question concerns the nature of platform work and employment. Within a traditional employer-employee relationship, workers can usually expect benefits like access to unemployment insurance, employer contributions to Social Security, and worker's compensation, among others. Typically, no such "social contract" exists in the Online Platform Economy, and some policymakers and labor advocates have raised concerns about whether workers on these platforms are misclassified as independent contractors and therefore entitled to these and other protections under the law.

<sup>8</sup> "Meet the Gig Economy Companies", Cole Stanger, International Business Times, March 15, 2016.

<sup>9</sup> "Paychecks, Paydays and the Online Platform Economy", JPMorgan Chase & Co. Institute, February 2016.

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The legal tangles are myriad – ADA, insurance, IRS classification, etc. Red flags have even been raised in the heady merger and acquisition world: VC firms that bankrolled 1099-model startups may face exposure to class action lawsuits where Gig employees “allege they are not contractors but misclassified employees.”<sup>10</sup> Major think pieces are discussing the impact of an Uberified world: “Uber’s longer-term impact on labor standards is quite unclear, however, and it may have dark implications for the future of low-wage work more generally.”<sup>11</sup>

Or consider this statement that CrowdFlower’s founder made to a tech audience: “Before the Internet, it would be really difficult to find someone, sit them down for ten minutes and get them to work for you, and then fire them after those ten minutes. But with technology, you can actually find them, pay them the tiny amount of money, and then get rid of them when you don’t need them anymore.”<sup>12</sup>

As a character from a 1970s movie might say: “It’s an unregulated world out there, baby.”

### **Implications for Long Beach**

What are the issues that cities, including Long Beach, are confronting in Gig World? Only a few: regulation, taxation, fairness, safety, privacy, discrimination, labor standards and impact on wages, to begin with. If a significant portion of the future labor force is engaged in on-line piecework, the ground rules for cities change. For example, should every 1099er have a business license? Do business attraction efforts make sense if on-demand workers are not residents? How do cities measure retention or attraction efforts if employment numbers aren’t reflective of economic activity? Why pursue start-up tech firms if their workforce is not local? Do minimum wage ordinances apply?

How many Gig workers are there in Long Beach? The answer is: Who knows? We know lots of things about the Long Beach economy because there is accessible data. We know how many businesses there are (business licenses); we know the unemployment rate (EDD); we know sales tax revenue from retailers. But: How many Uber drivers? How many Airbnb rentals? How many dog walkers, dry cleaner picker-upers, etc.?

And then there’s this: More than one prognosticator has suggested that combining online piecework (such as through Uber) with online auctions (through an eBay type service) could push wages – or rather, “payment for services” – into a perpetual downward spiral: “My bid is that I will do that job for \$1 less than anyone else.” And so it goes.

### **Recommendations**

Long Beach needs to proactively monitor the Gig Economy and its implications. Recommendations include:

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<sup>10</sup> “Does Silicon Valley Have a Contract Worker Problem?”, Kevin Roose, New York Magaine, September 2015.

<sup>11</sup> “Uber and Employment Change”, Brishen Rogers, University of Chicago Law Review, December 2015.

<sup>12</sup> “How Crowdworkers Became the Ghosts in the Digital Machine”, Moshe Z. Marvit, The Nation, February 5, 2014.

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- Work with the California League of Cities to develop policies that protect the interests of cities.
- Monitor any legislation proposed in Sacramento dealing with Gig employment issues.
- Request that the City Attorney provide updates on legal issues, lawsuits and trial decisions as warranted.
- Direct Pacific Gateway Workforce Investment Network to track developments in the Gig employment realm, and provide regular updates to Council.