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The Gig Is Up

A salutary development for the U.S. economy

Ike Brannon

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California and Massachusetts regulators have decided to allow Uber drivers to be considered independent contractors rather than employees, a distinction crucial to the success of the ride-sharing app. But it’s hardly the last word on the matter. The left has been vilifying Uber as the villain of the new "gig economy," in which more and more workers—especially younger ones—support themselves as self-employed contractors, stitching together a variety of app-enabled tasks. Liberals consider such arrangements largely exploitative—with companies such as Uber getting fabulously rich while the contractors doing the work hustle, scrape, and scuffle for crumbs. Uber corporate employees, after all, enjoy fringe benefits, unemployment insurance, and job security; the drivers do not.

"Uber Is Not the Future of Work," proclaimed Lawrence Mishel of the left-wing Economic Policy Institute in the pages of the *Atlantic*. Bernie Sanders posted Mishel's article on his campaign website and has declared he has "serious problems" with "unregulated" businesses like Uber. Last year Hillary Clinton got in the mix, saying the gig economy raises "hard questions about workplace protection and what a good job will look like in the future."

These arguments distract from some of the key benefits of a gig economy. An economy with a greater proportion of independent contractors is one that is less susceptible to the vagaries of the business cycle. Recessions should be shorter and cause less unemployment if the economy has more independent contractors.

In a recession triggered by a decline in demand—which is the ultimate cause of most recessions—the initial decline in sales that most companies experience forces them to make a determination: Is the decline a short-term phenomenon or something more significant? It's an impossible task, at least at first, so companies typically hedge their bets by keeping idle or underemployed workers on the payroll, since it can be costly to reacquire and train new workers when they need them back. When companies do lay off workers, they would rather not rehire them until they are nearly 100 percent sure they will need them for an extended period of time. This is because so much of the cost of a worker—especially expensive, skilled workers—is in the form of fixed fringe benefits that can't be scaled back. That is why many companies respond to a nascent economic expansion by having existing workers work months or more of overtime before they finally hire reinforcements.

When workers are independent contractors, as they are with Uber, a recession doesn't necessitate that the costs be fully borne by the relatively few people who lose their jobs. In an economy with more independent contractors, a reduction in demand gets spread out. While incomes do fall, there are fewer people without jobs than in a non-gig economy. Gig economies dampen the employment swings within a business cycle—a good thing. Given that it's the young and unskilled whose careers bear the brunt of the long-term costs of any recession, this should be hailed as a welcome evolution in the economy rather than something that needs to be fixed.

Foes of the gig economy would argue their unsteady income in a recession is precisely what is wrong with the gig economy, but I would argue that it's much better for the pain of a recession to be spread out among millions of workers whose livelihoods are modestly dented than for it to be concentrated on a few who lose their jobs altogether. As long as there's a business cycle, hours, employment, or compensation will have to fluctuate to match demand. We should want employment to be last on that list, but so much in our labor market causes employment to fall first. For instance, union contracts can make it very difficult for companies to save money by reducing the hours each employee works.

Corporate profits already fluctuate more than labor market variables over a business cycle, so Bernie-sian suggestions that corporations should somehow bear the brunt of the business-cycle downturns neglect the fact that this already occurs.

When health care costs are some 30 to 40 percent of a worker's compensation, labor markets aren't flexible. For all its faults, the Affordable Care Act did make it less expensive for most people to acquire health insurance on their own, freeing millions of Americans to work for themselves without worrying about access to health insurance.

Nancy Pelosi crowed in 2010 that the Affordable Care Act would help people escape their jobs and do more fulfilling things. That these new, self-directed gigs don't look precisely like Democrats thought they would—apparently the left wanted more buskers and community activists, not cabbies—should be irrelevant.

The gig economy is no disaster. It not only empowers more people to be their own bosses, it has benefits for the rest of the economy too. Before the Democratic party makes the end of gigging a party-platform plank, it might want to look at those benefits and recalibrate its rhetoric.

Ike Brannon is a visiting fellow at the Cato Institute.