

Social Protection for Independent Workers in the Digital Age

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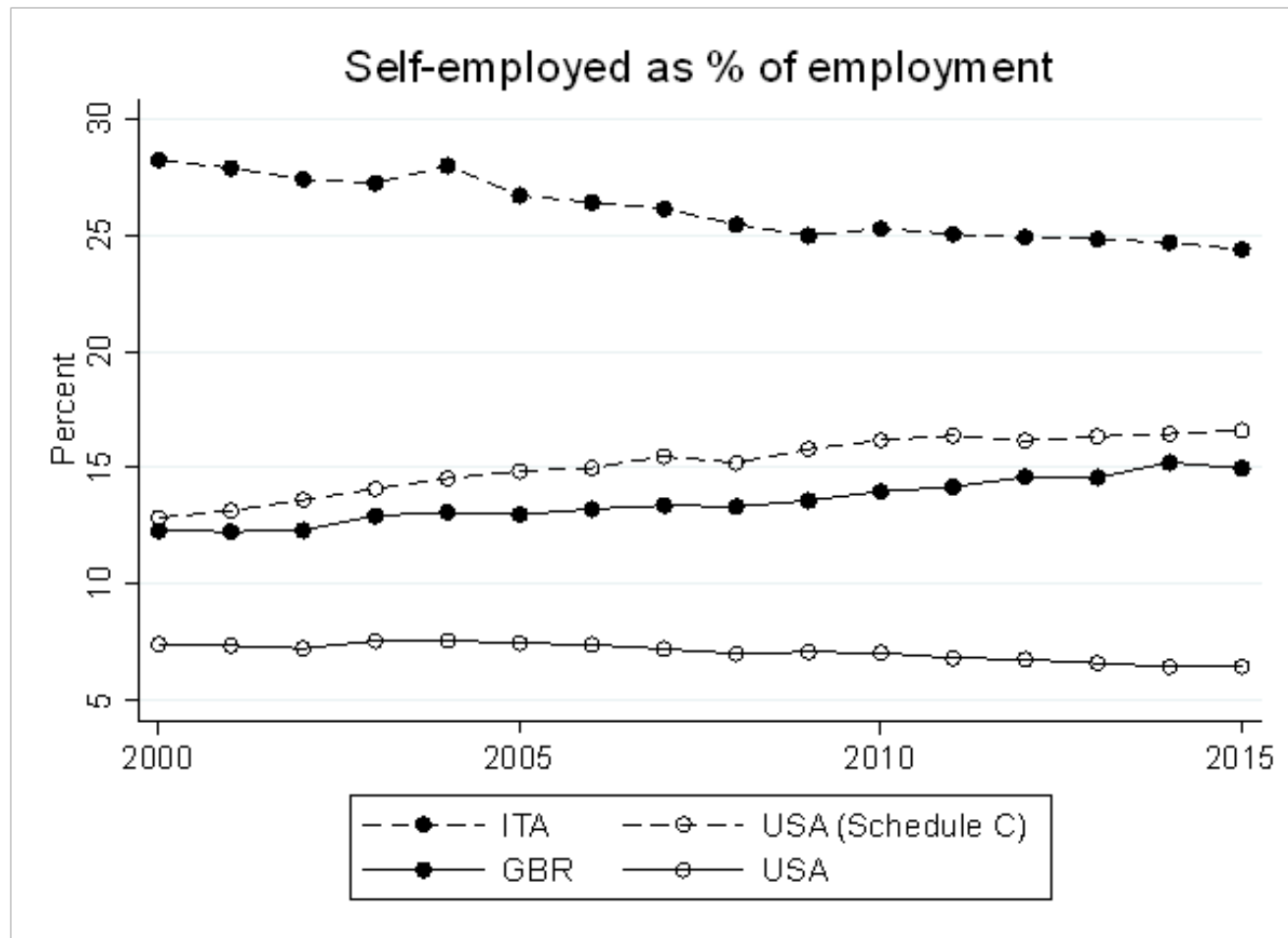
London School of Economics

XX European Conference of the Fondazione Rodolfo De Benedetti

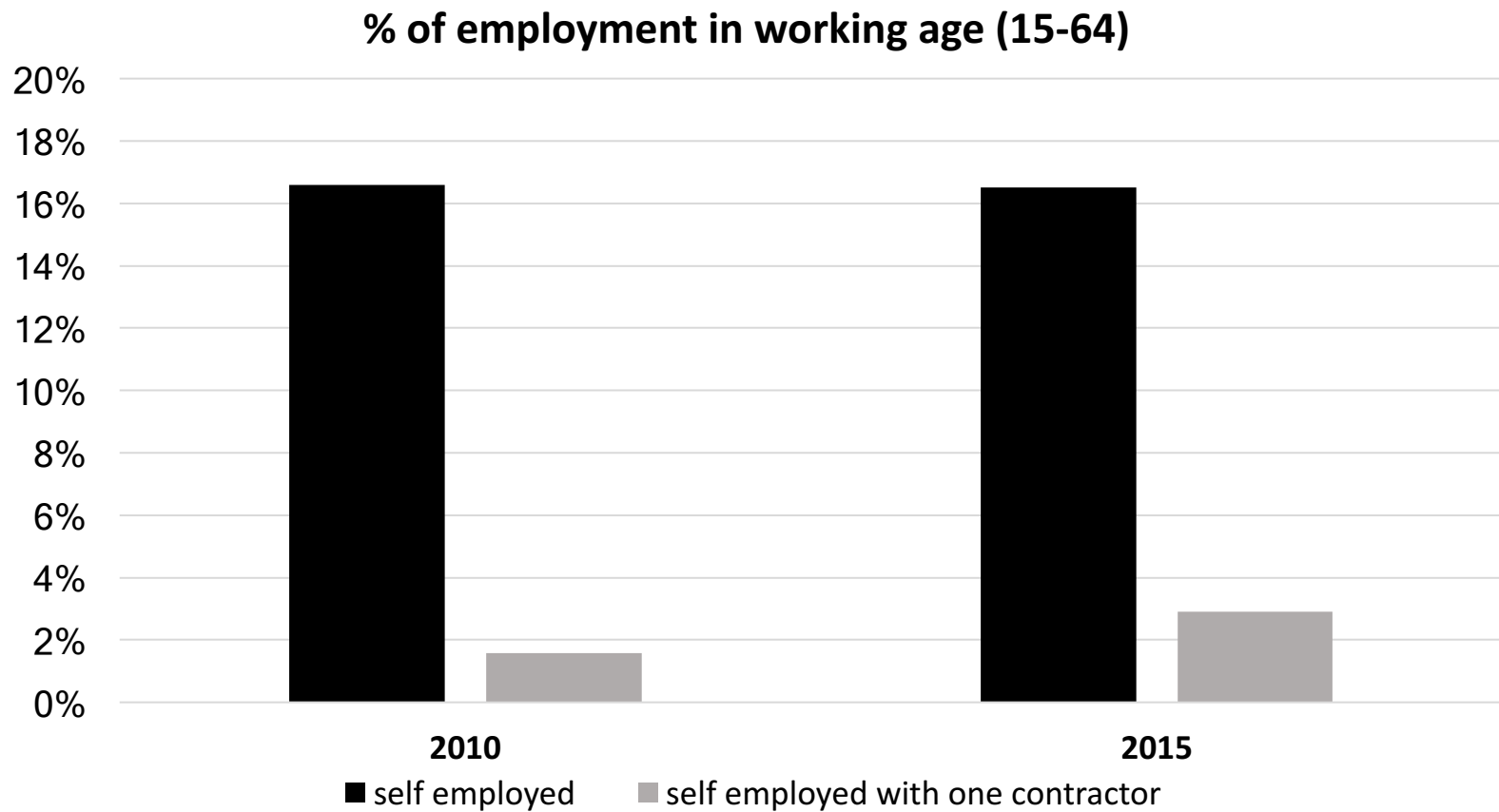
Pavia May 26th, 2018

The rise of alternative work arrangements

- International labour markets recently characterised by rises in “atypical” work arrangements
 - Self-employment (freelance, contract workers, agency workers)
 - On-call jobs, zero hours contracts
- Drivers:
 - Technological change (digitalisation)
 - Fissuring of traditional workplace (Weil, 2014)
 - Preferences for flexibility (Mas and Pallais, 2017)
 - Weak labour markets (Katz and Krueger, 2017)
 - Labour market policies (Datta, Giupponi and Machin, 2018)



The rise of the «dependent-independent» (Euro area)



Challenges for economists and policy makers

- Understand employment conditions of independent workers
 - Need for flexibility vs. hour constraints
 - Protection against labour market risk
 - Degree of business risk taking
- Provision of social protection
 - Reform of social security to increase coverage of social insurance and extend social insurance benefits to independent workers
- Macroeconomic implications
 - Labour market slack may no longer be captured by unemployment alone
 - Larger “reserve army” of underemployed workers potentially undercutting wages
 - Intensive margin of employment and degree of employment protection is becoming increasingly important in European and US labour markets
 - Minimum wages are no longer a wage floor

Outline

1. Evidence from comparable surveys in three countries
 - Italy
 - UK
 - US
2. Social protection for non-standard workers
3. Wage setting (macro implications)

Three surveys of independent workers

- Comparable surveys of self-employment, alternative work arrangements and the gig economy
 - Italy
 - UK
 - US
- Collect novel data on:
 - Demographics
 - Job characteristics, contractual conditions
 - Preferences for flexibility
 - Need for social protection

How many self-employed and gig-workers?

	Self-employed as % of WAPOP	% of self-employed who are also gig- workers	Gig-workers as % of WAPOP
Italy	15	2.5	2.6
UK	12	8	3
US	12	14	-

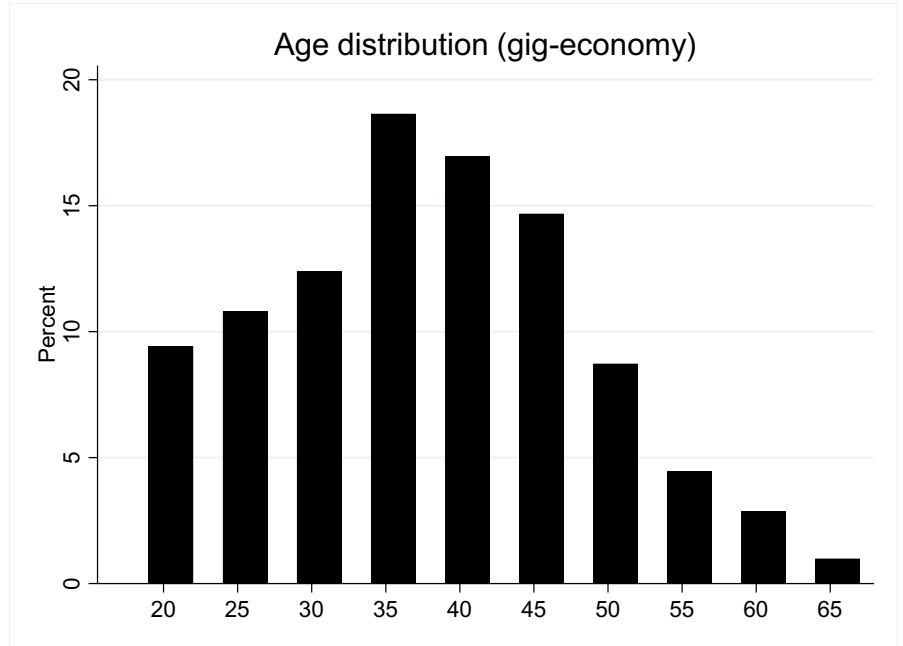
Source: The data on self-employed as % of WAPOP are from OECD for Italy and UK, and from IRS and OECD for US. The data on gig-workers are from fRDB Survey (Italy), LSE-CEP survey (UK) and Princeton Self-employment Survey (US).

The Italian survey

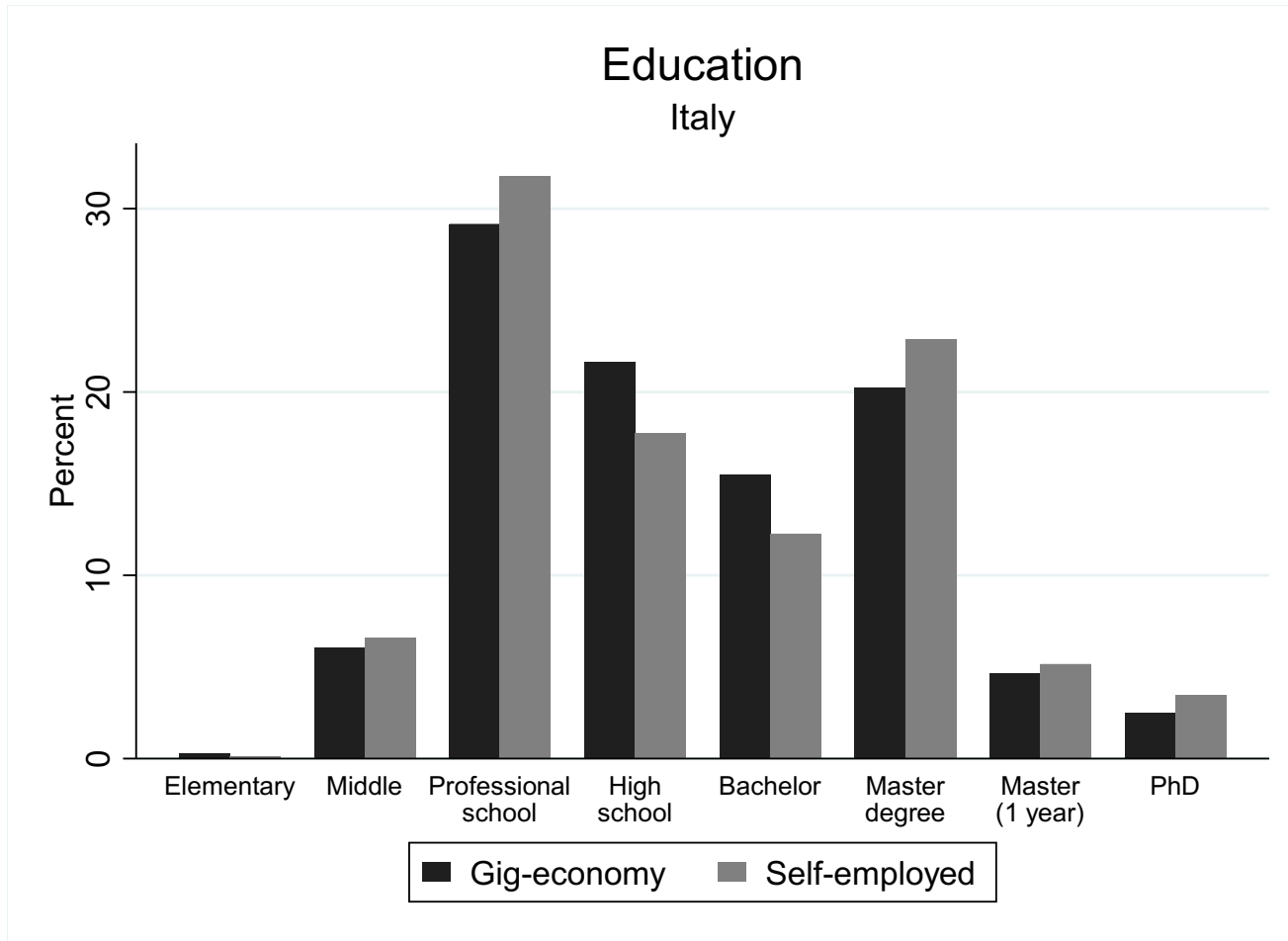
- Demetra web panel. Representative of working age population
- On line survey with 15,000 respondents
- Carried out between May 8 and May 15 2018 (thanks to fRDB!)
- Focus on GIG workers (jobs organized via on line platforms)
- Elicited willingness to pay for social insurance
- Literacy about the social protection system

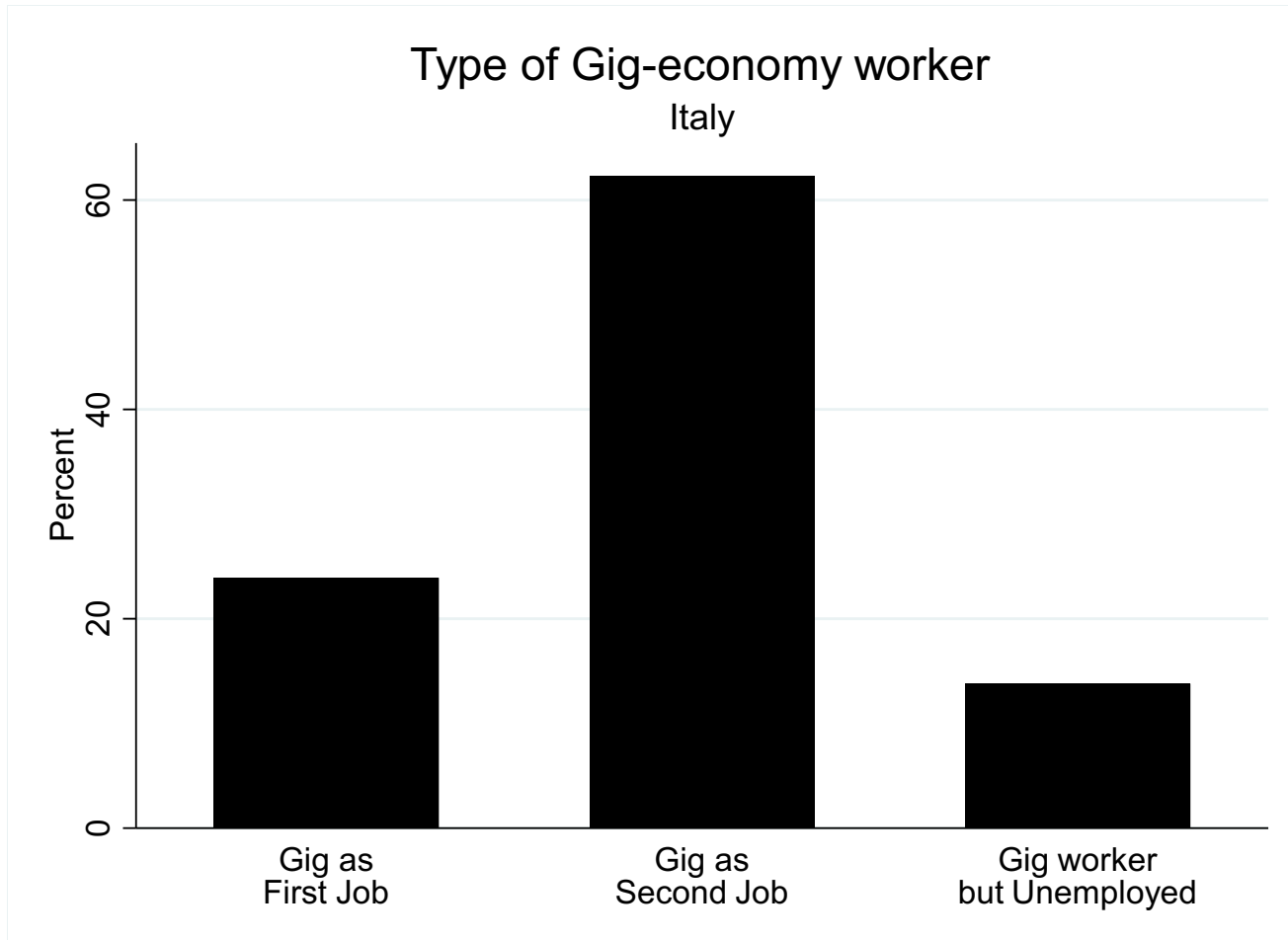


Median=40



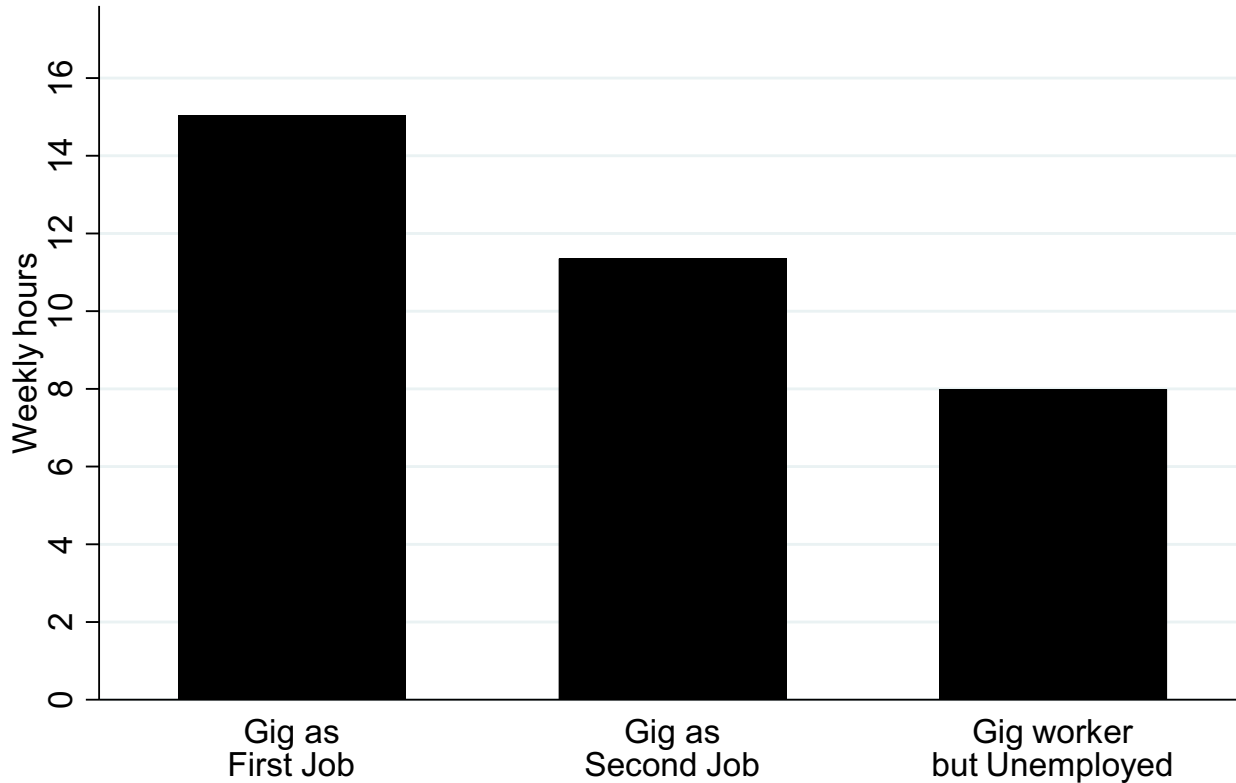
Median=37

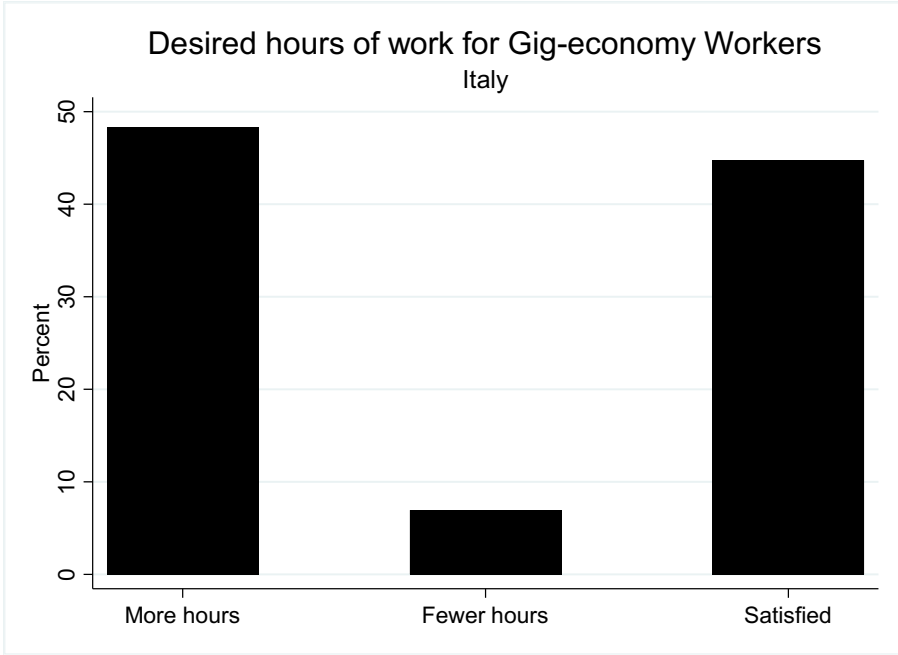


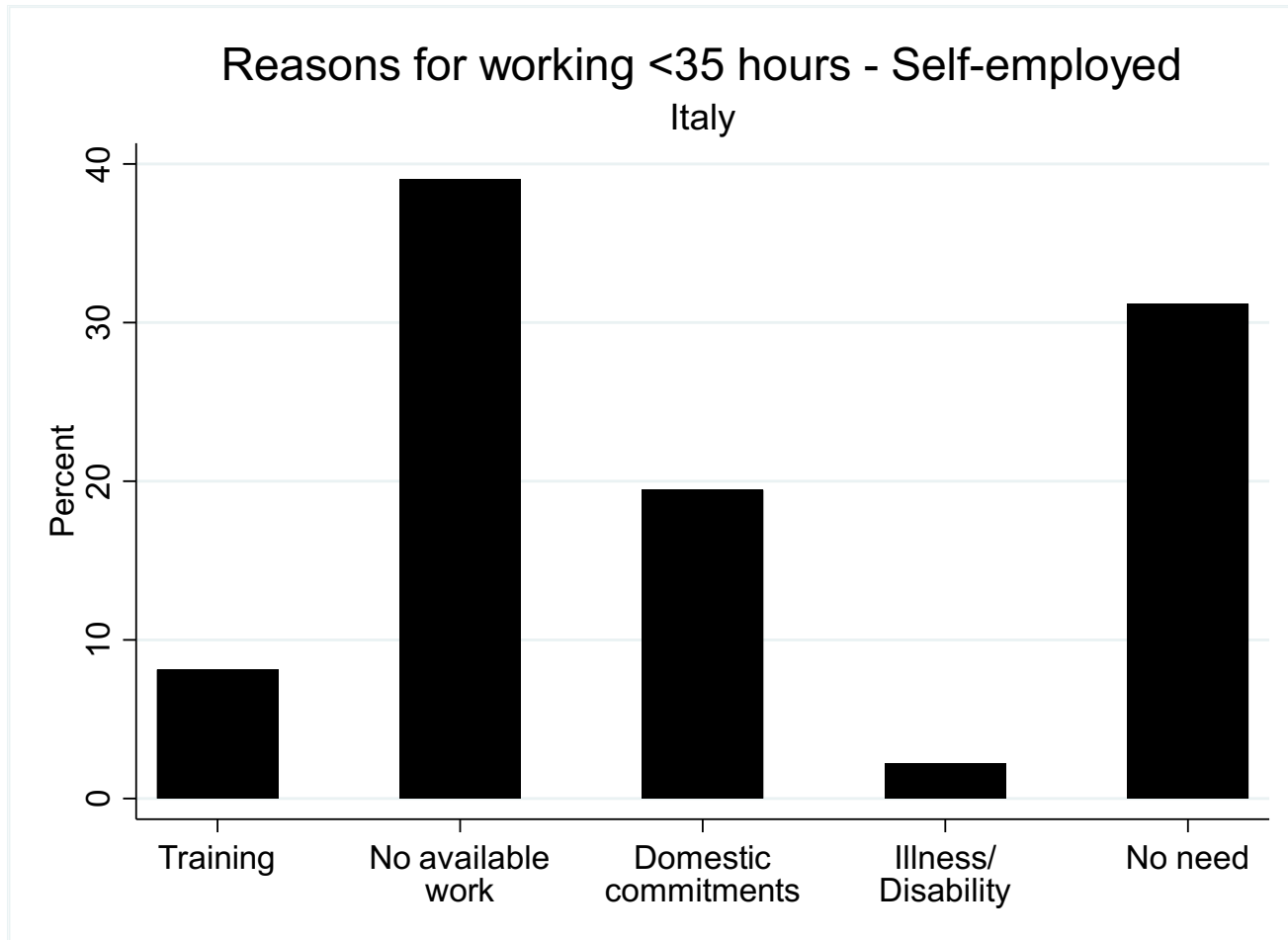


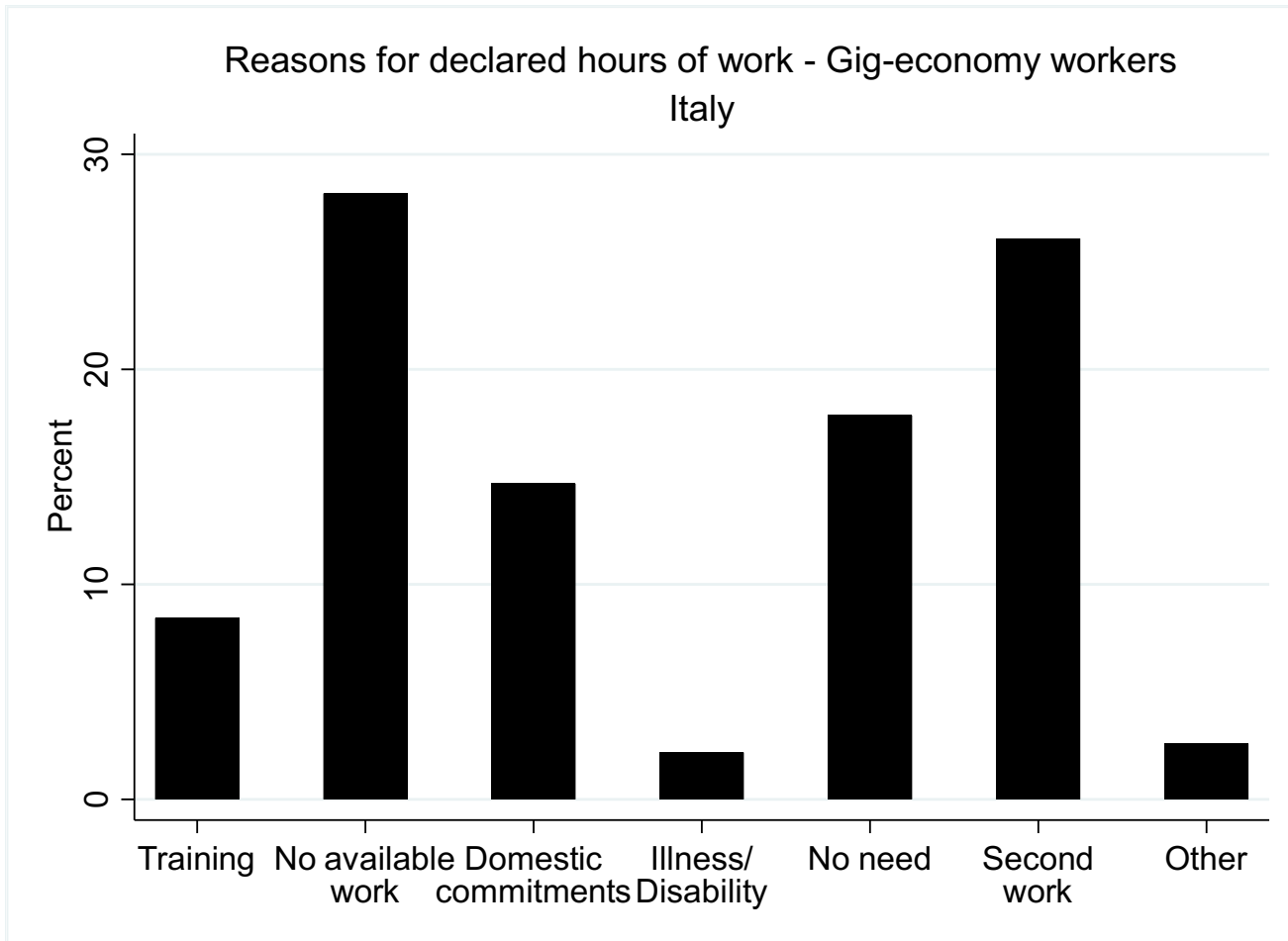


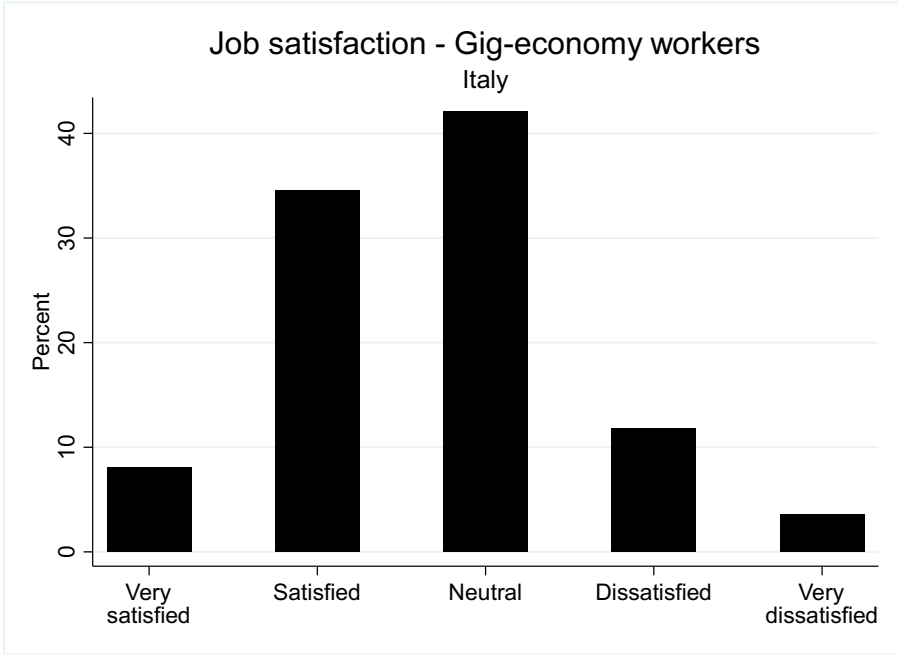
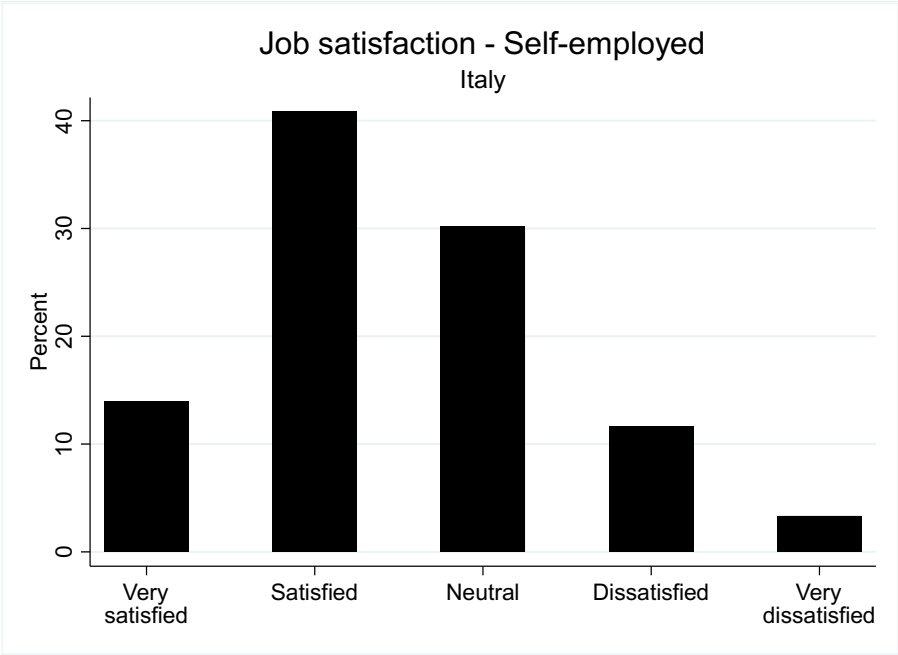
Weekly hours of work by type of Gig-economy worker Italy

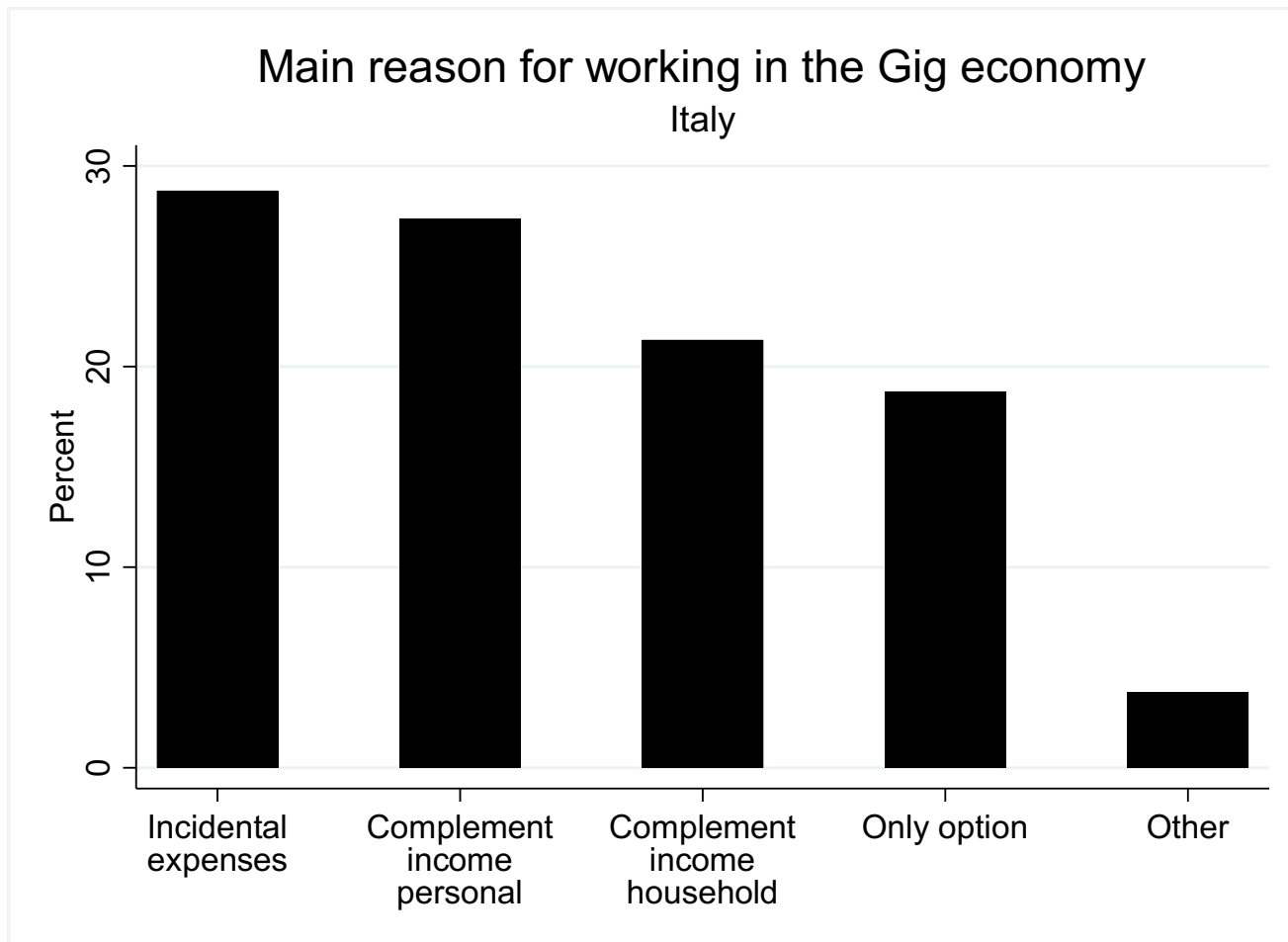


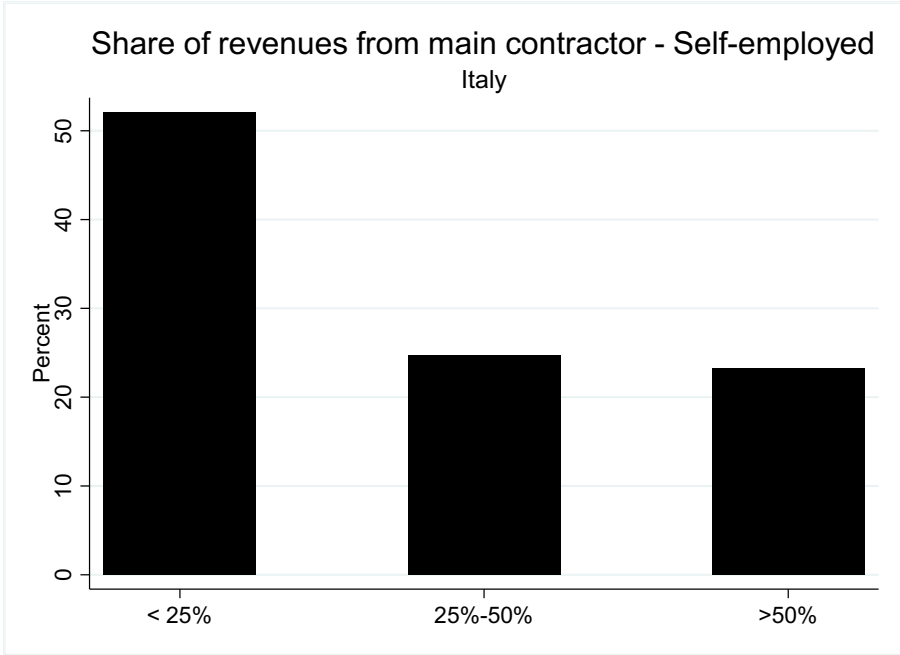
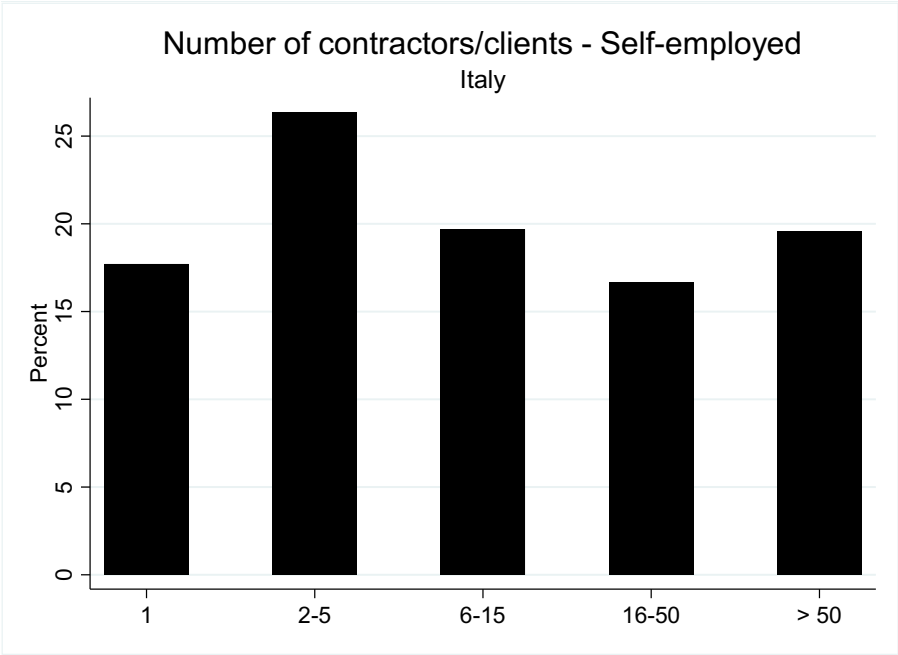












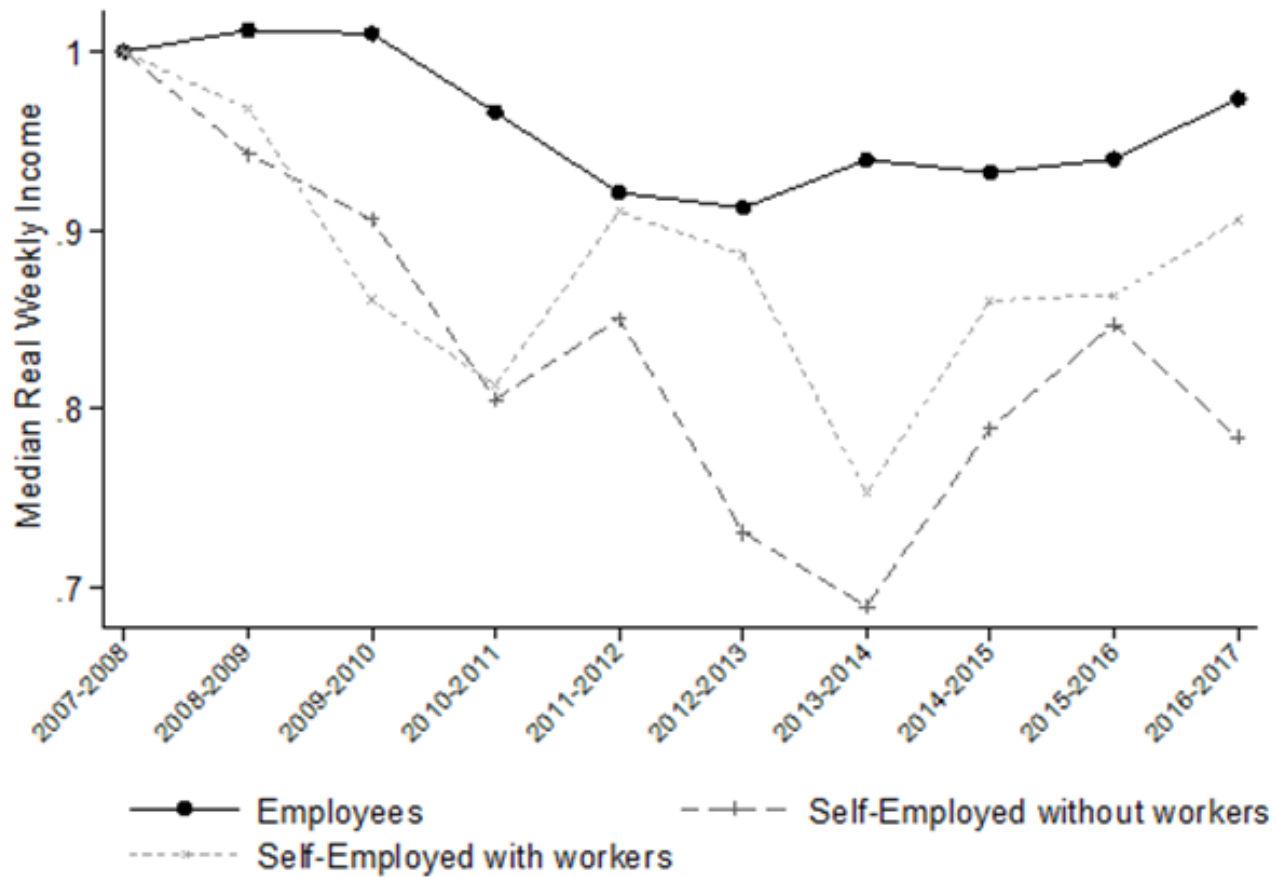
Income Insecurity

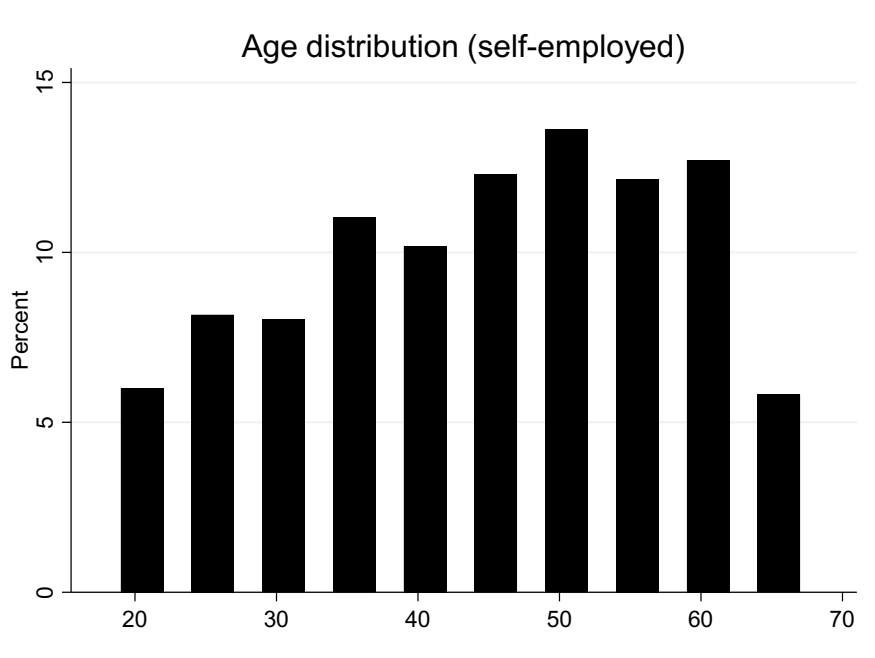
	Self employed	Gig-workers
<i>Suppose you have an unexpected expense of 500 euros. Based on your current economic situation, how would you cover it?</i>	%	%
With the money currently i my checking/savings account or with cash	48.44	40.14
Pay it with my credit card	15.65	15.65
By starting a bank loan or a line of credit	2.6	4.42
By borrowing from a friend or a family member	15.45	19
By selling something	6.54	8.36
I wouldn't be able to pay for the expense right now	11.31	12.43
Total	100	100

The UK survey

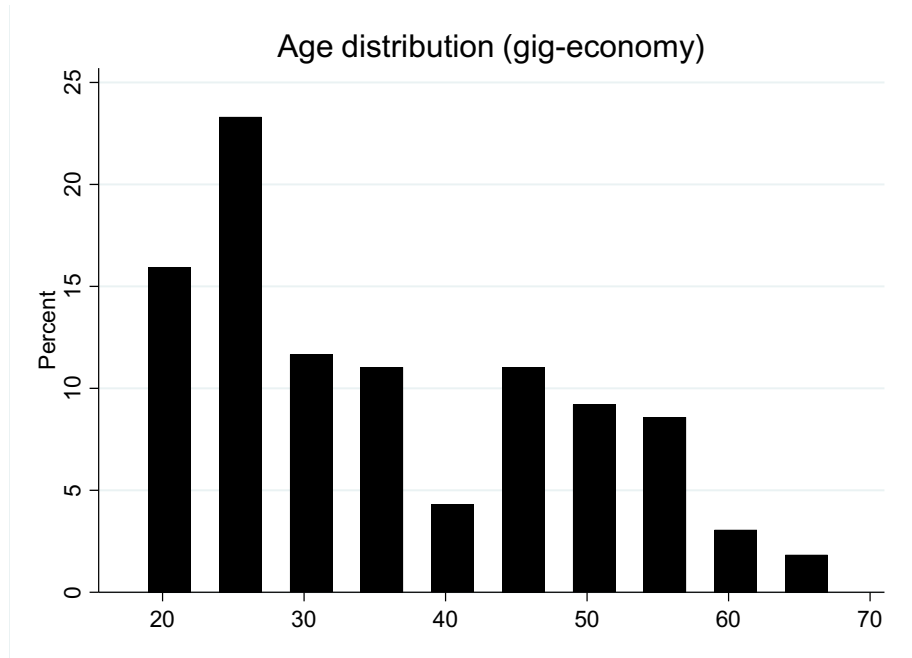
- Trends in self-employment with and without employees
- LSE-CEP Survey of Alternative work arrangements
 - Online survey of 20,000 respondents
 - Representative of the UK population 18-65
 - Conducted between February 5 and March 2, 2018
- Focus on preferences for flexibility and social protection
 - Self-employed and gig-economy workers
 - Zero hours contracts (no minimum guaranteed hours)



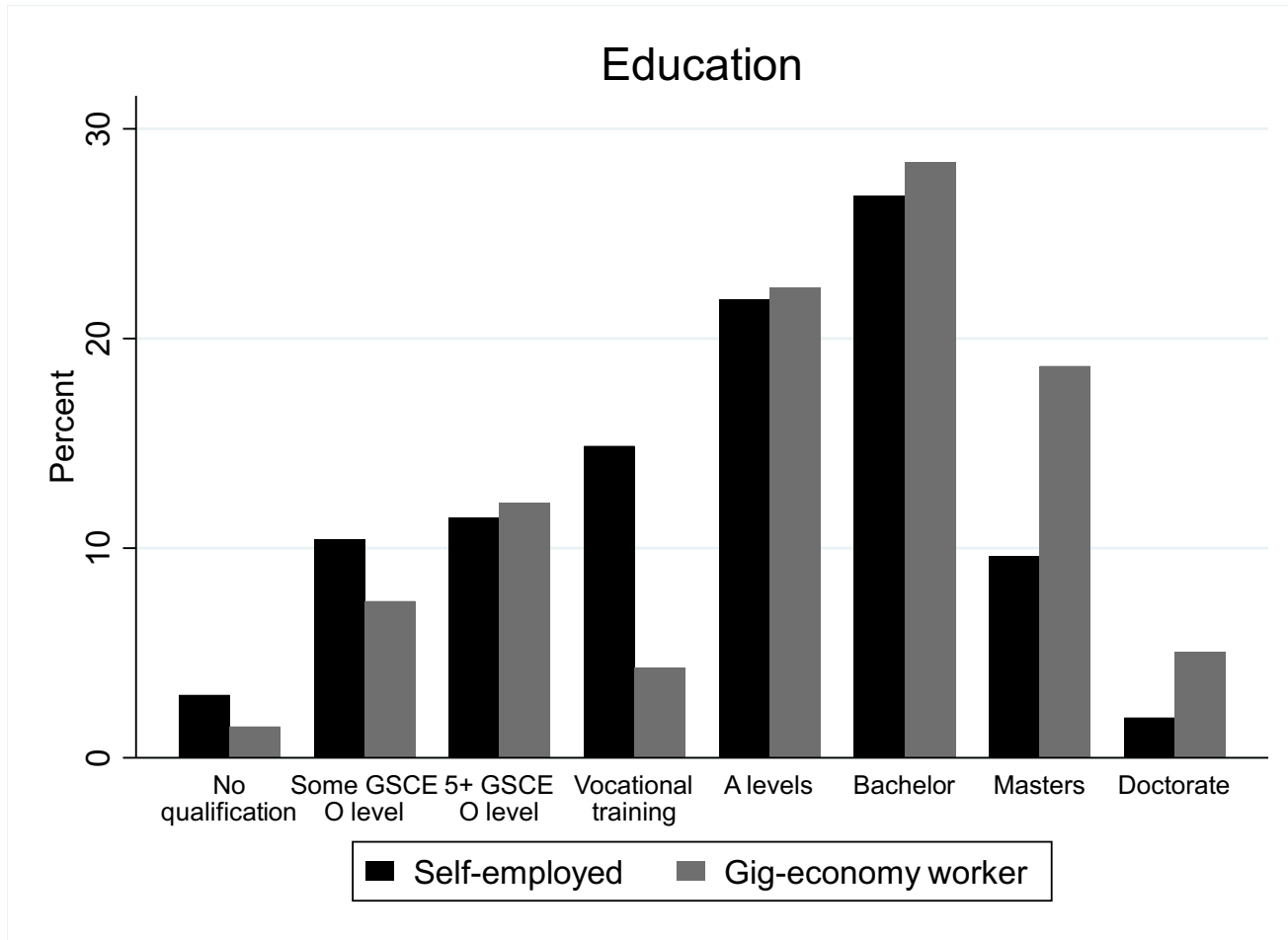




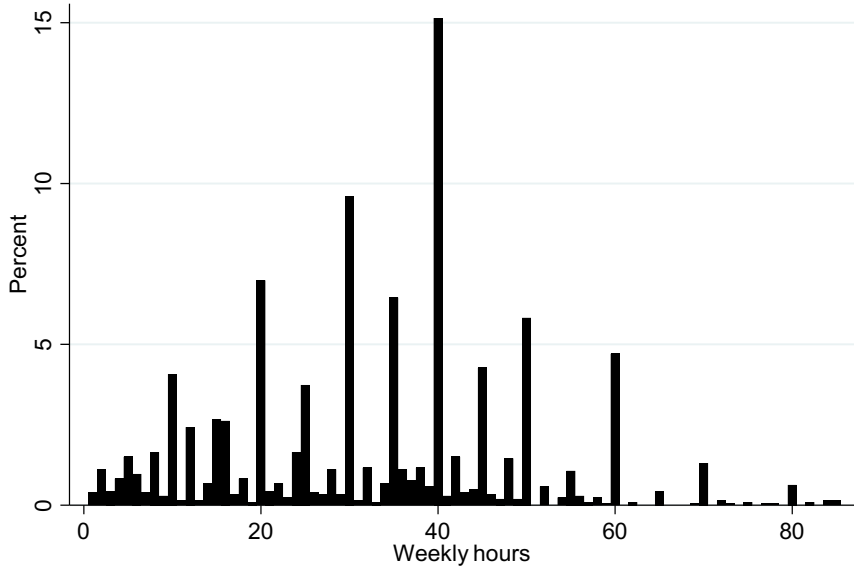
Median=45



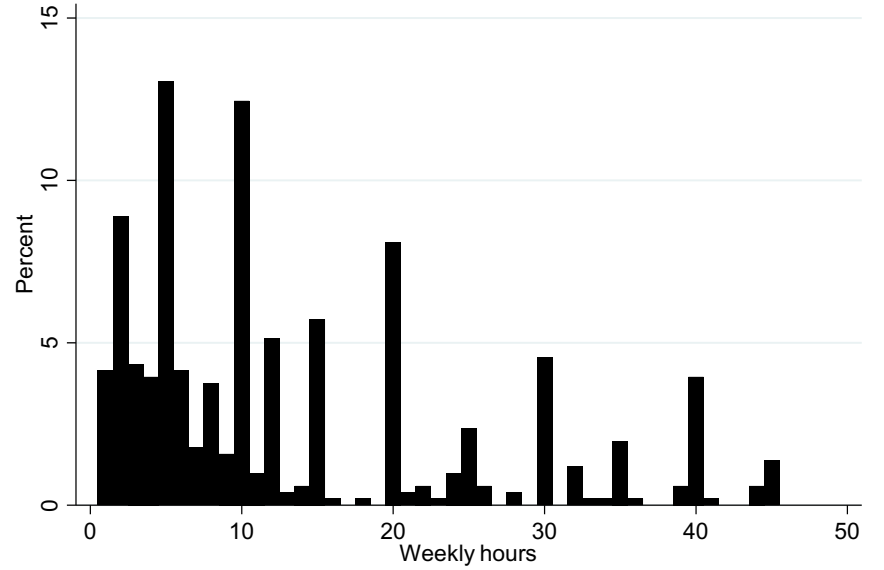
Median=30



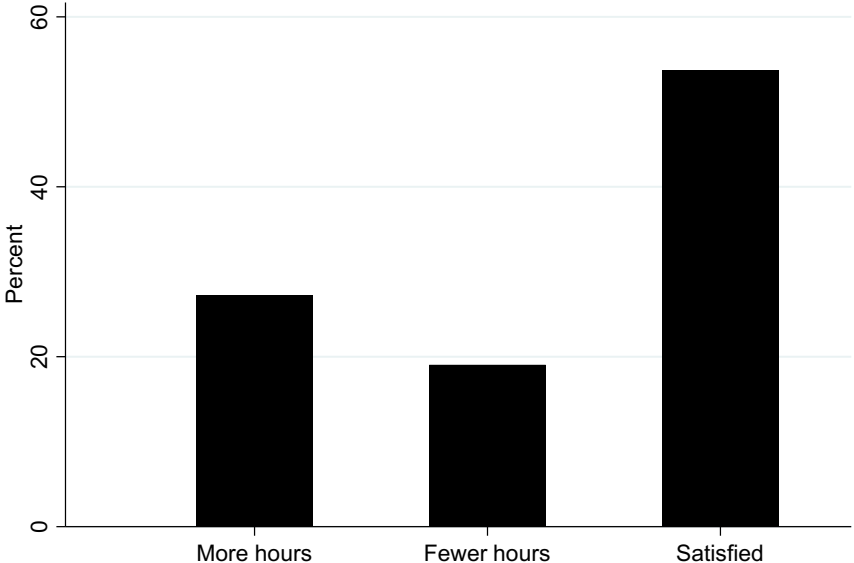
Distribution of weekly hours for self-employed



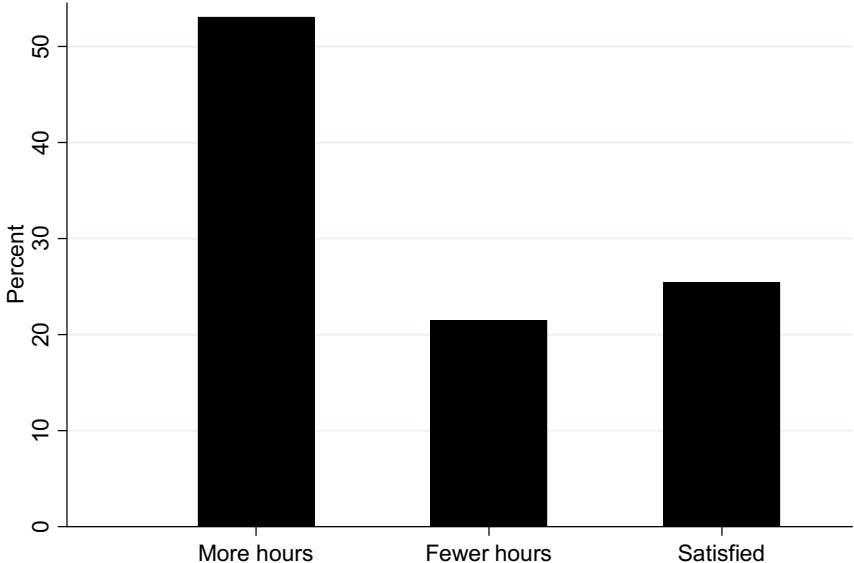
Distribution of weekly hours for gig-economy

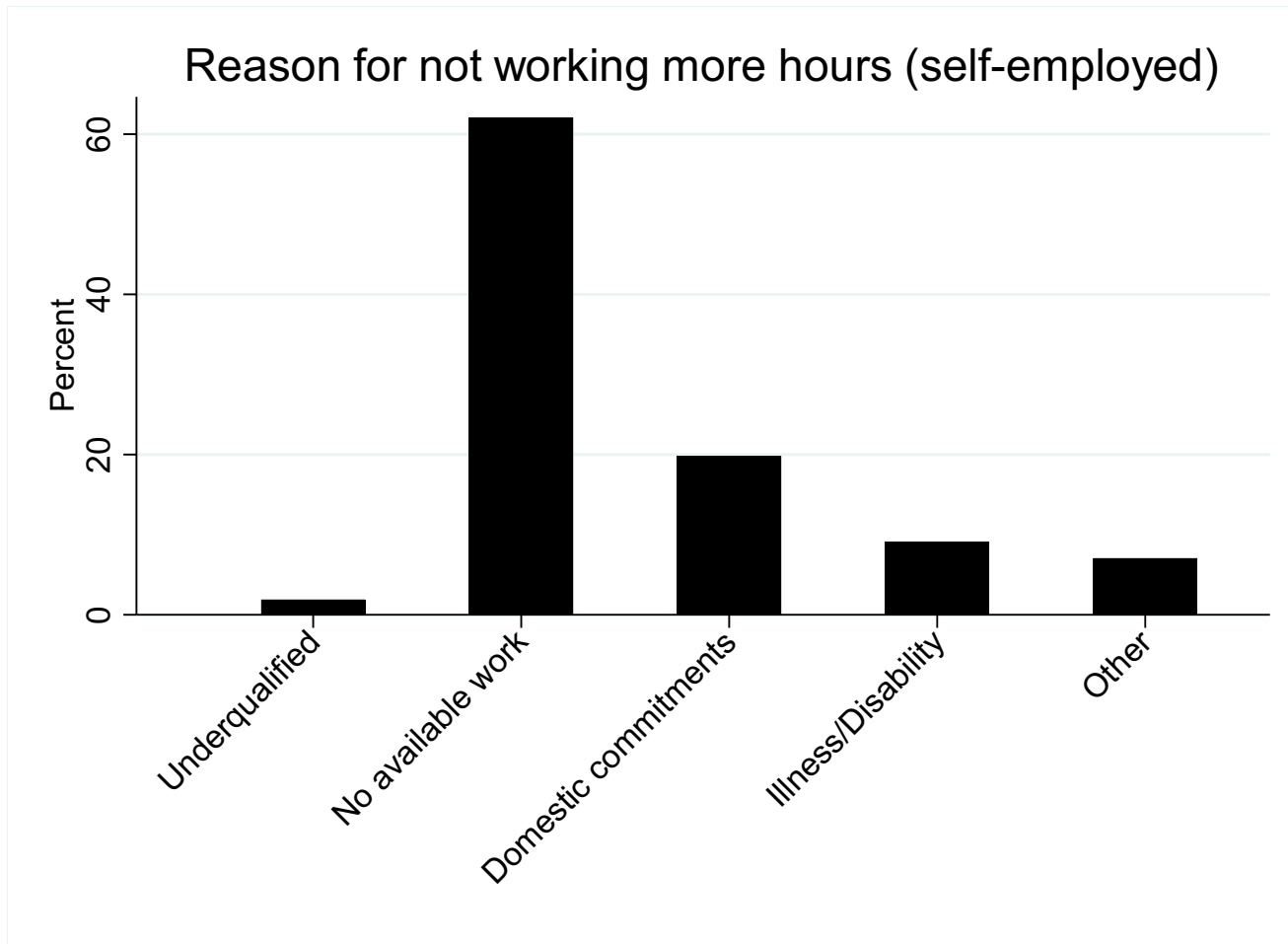


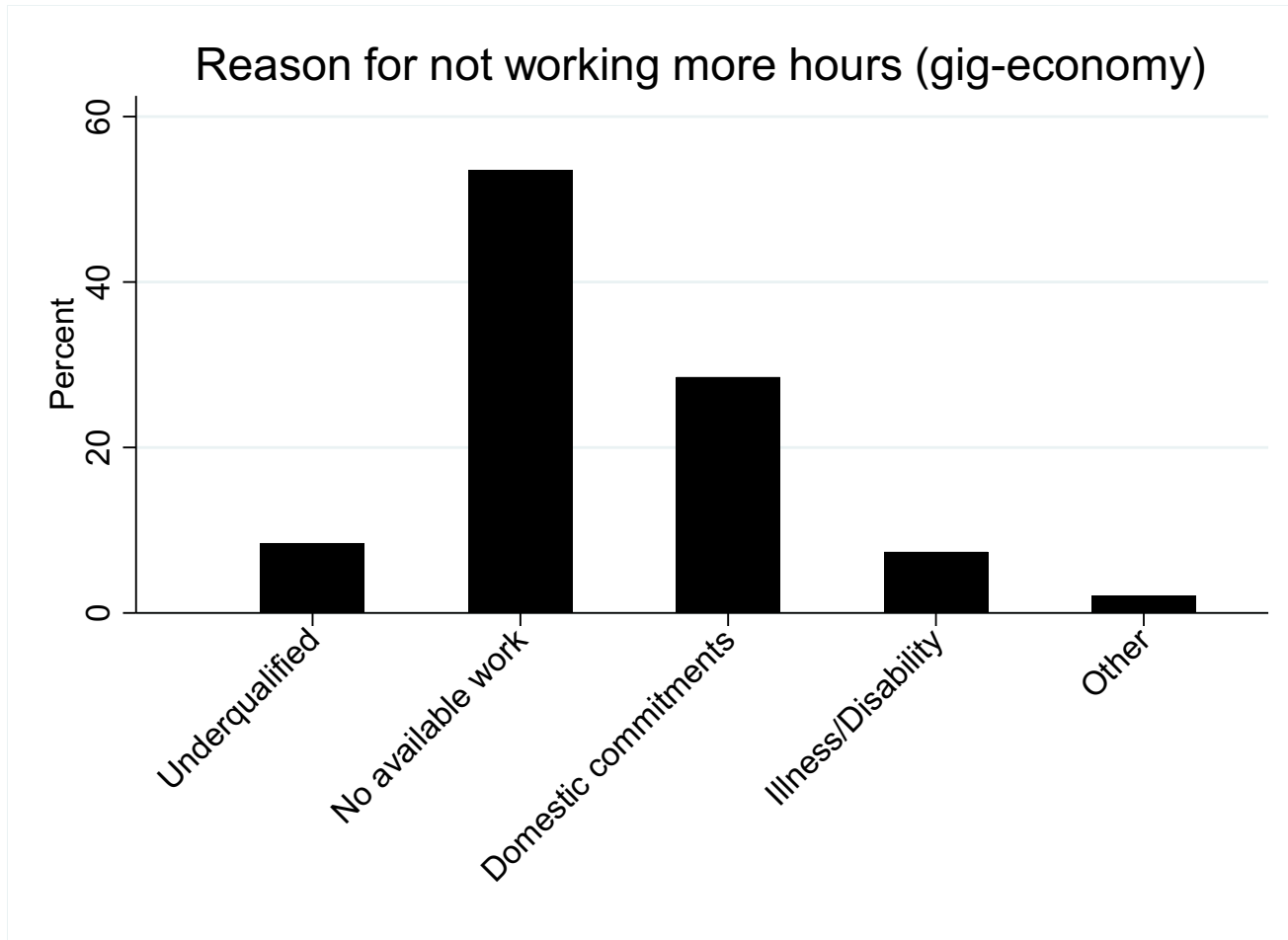
Desired hours of work for self-employed

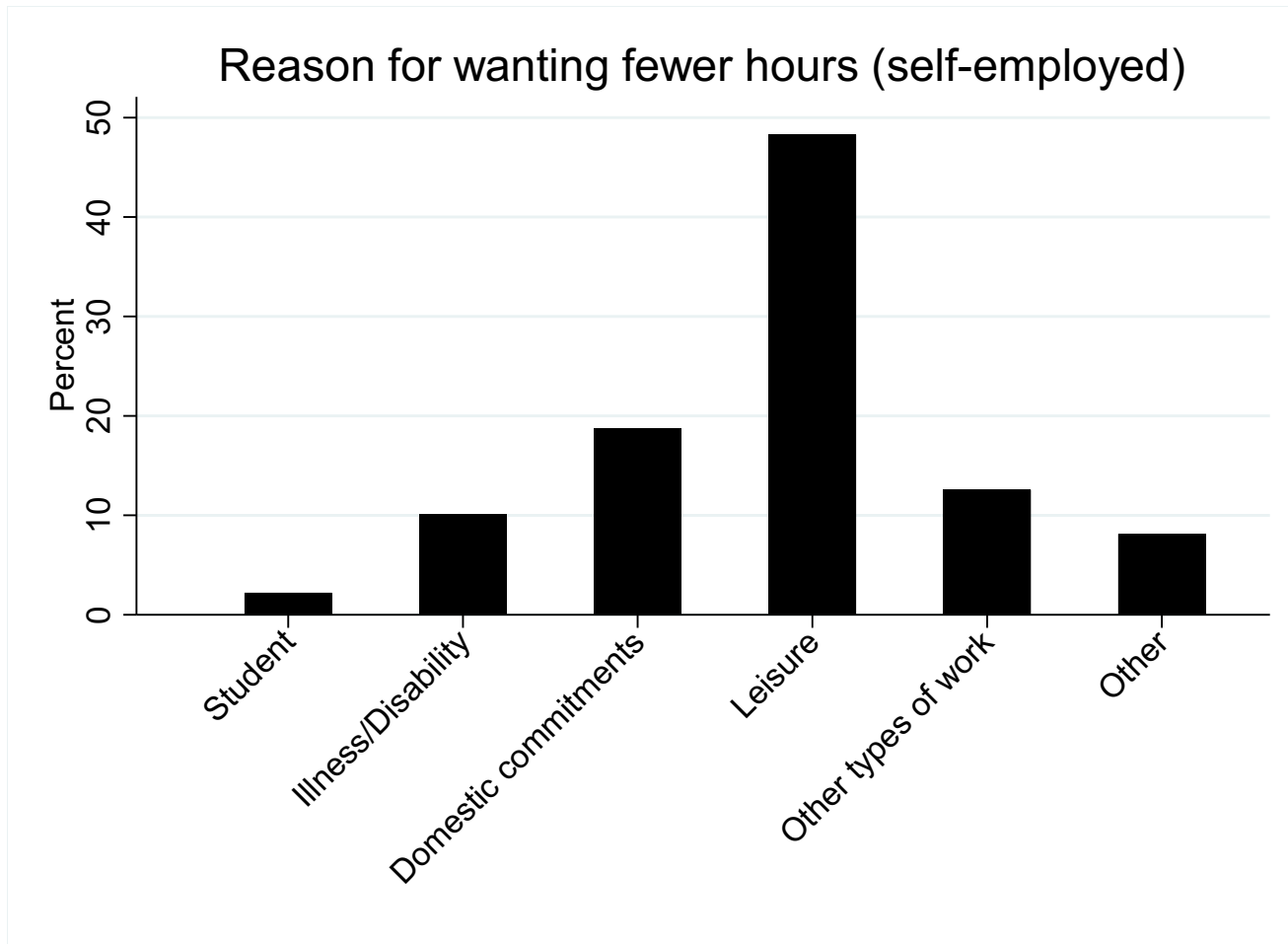


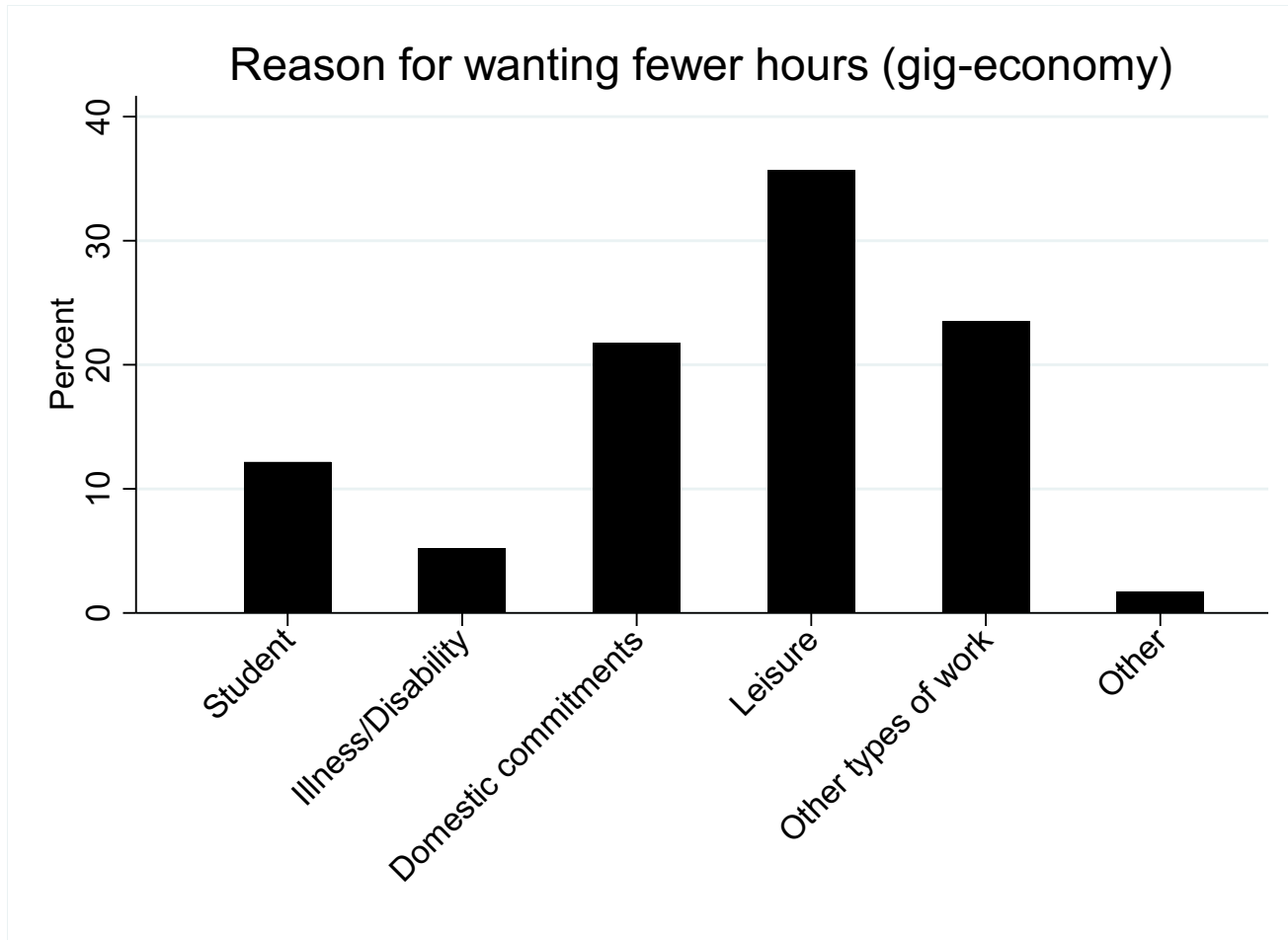
Desired hours of work for gig-economy workers

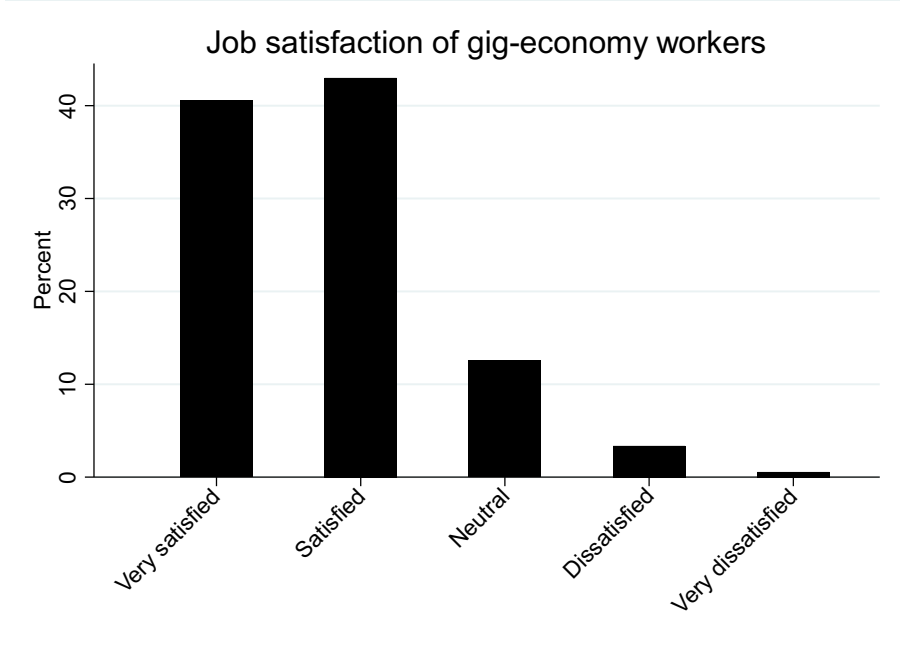
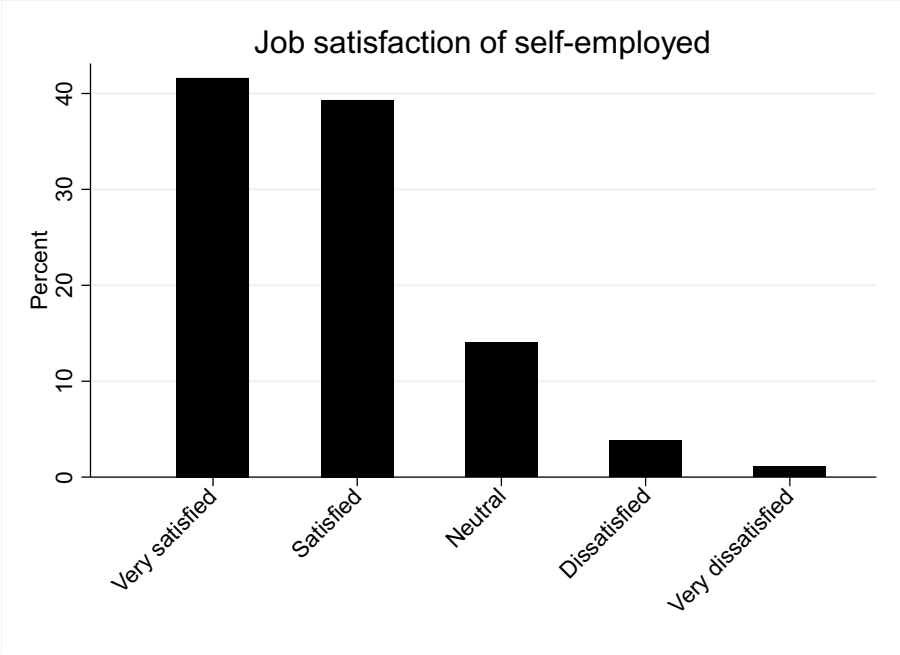


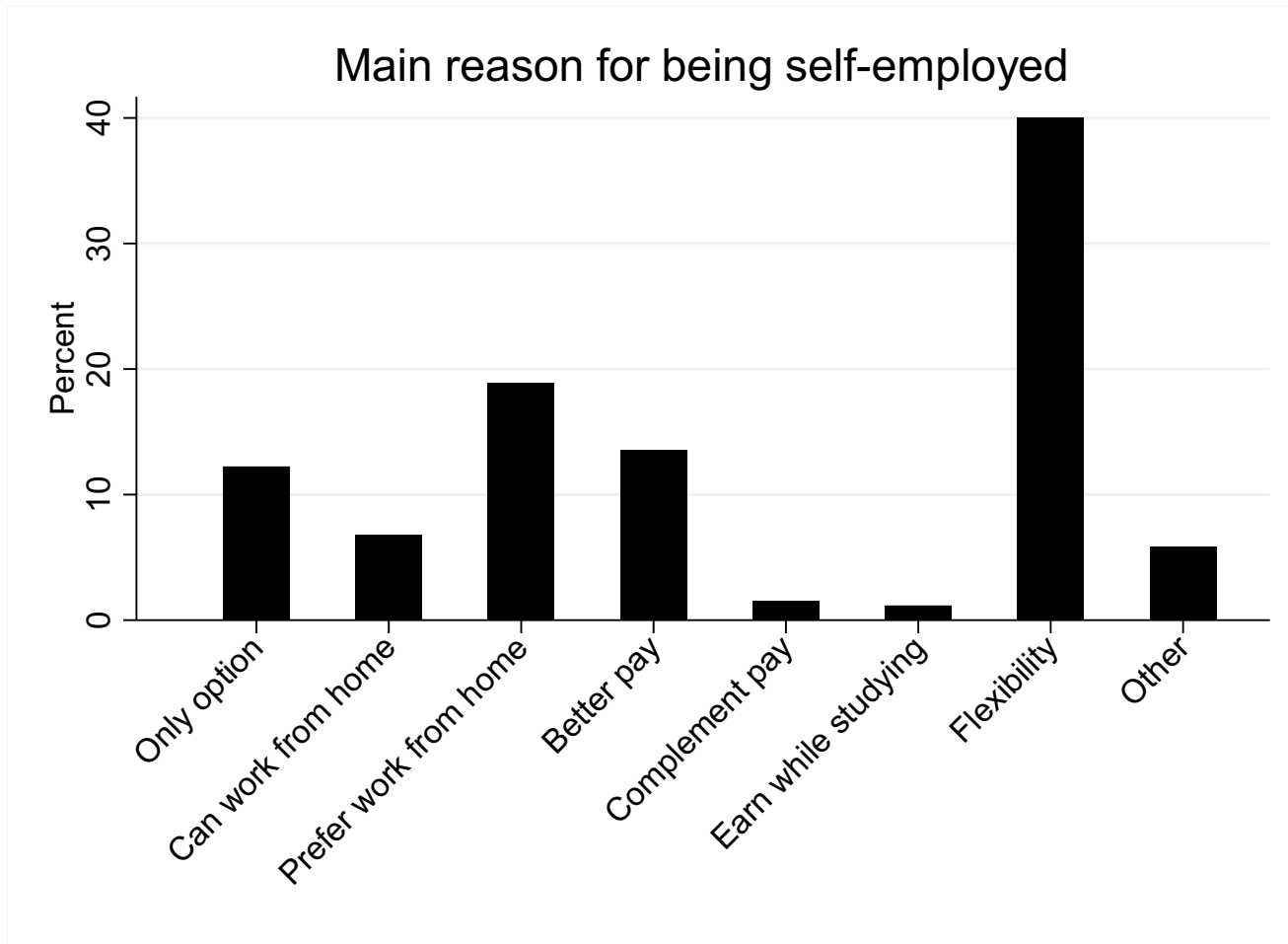


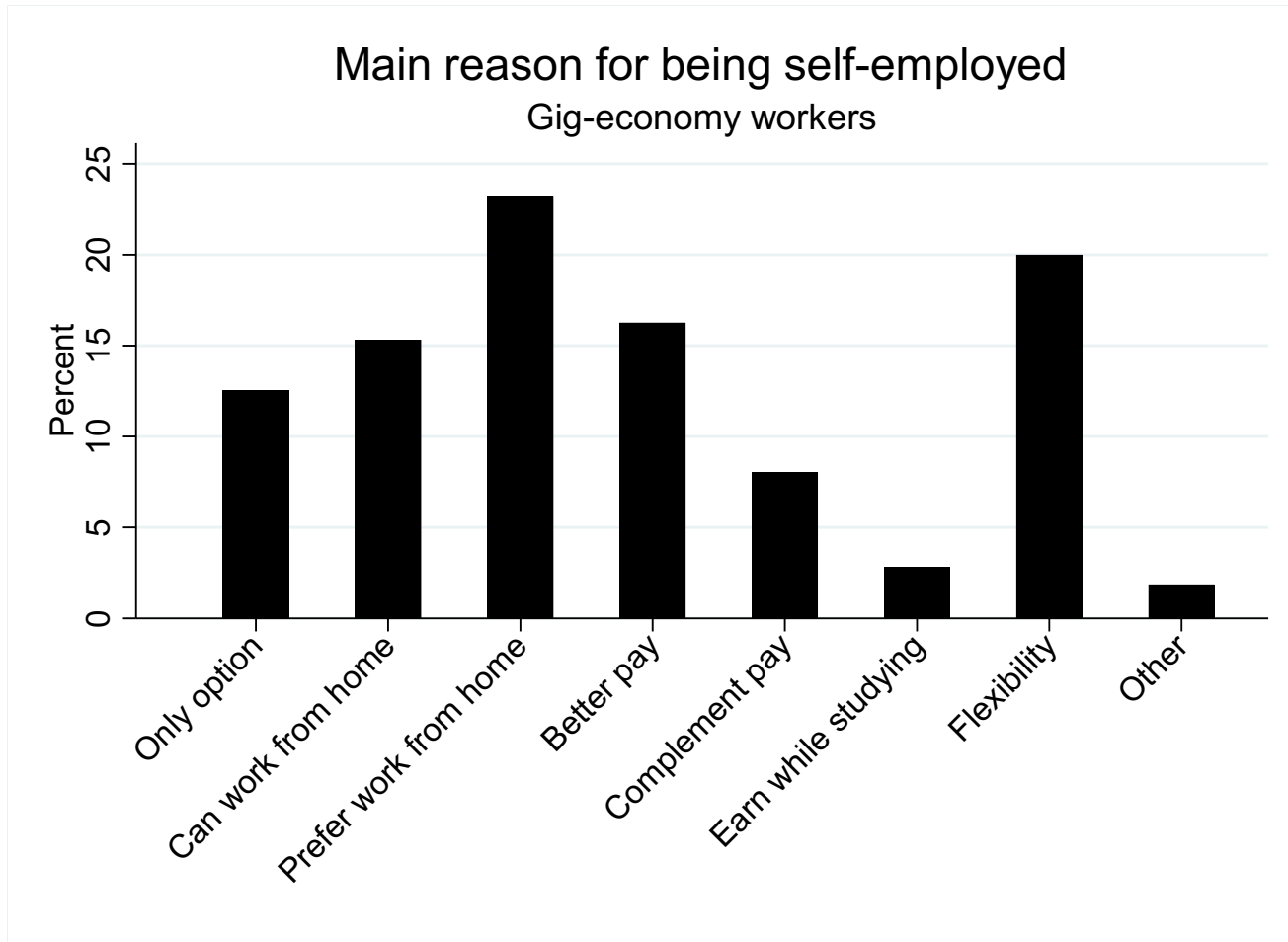


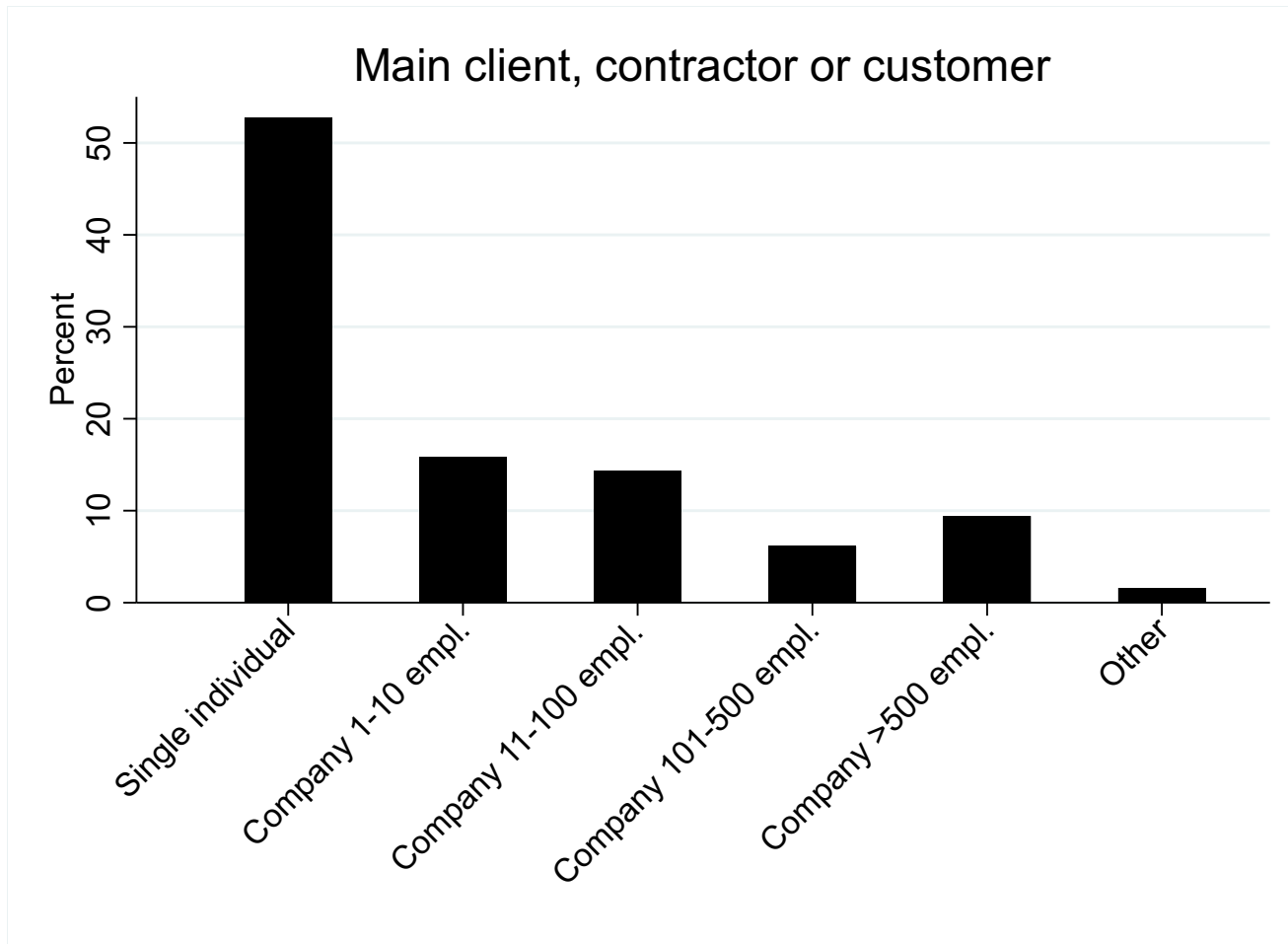












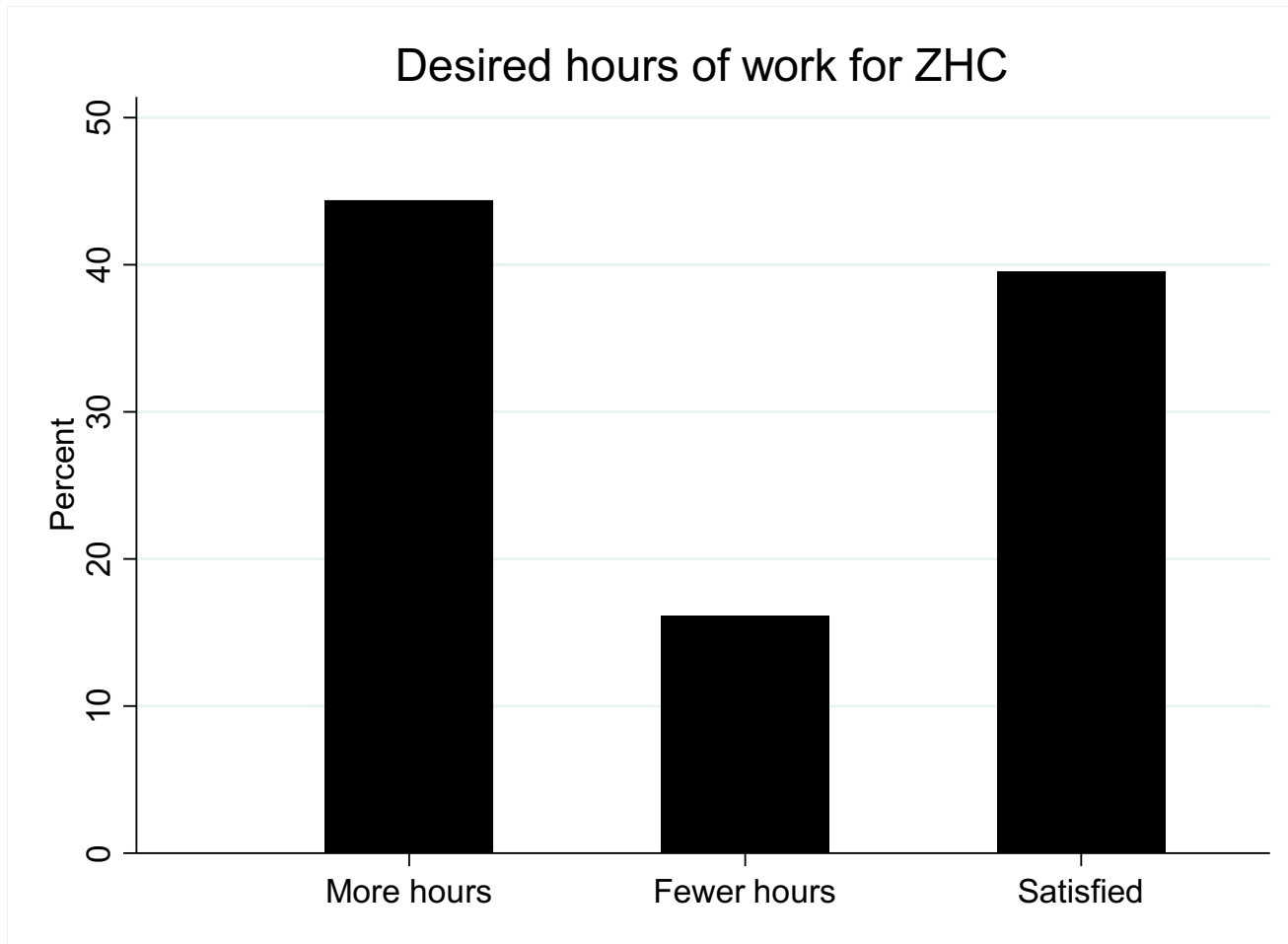
Income insecurity

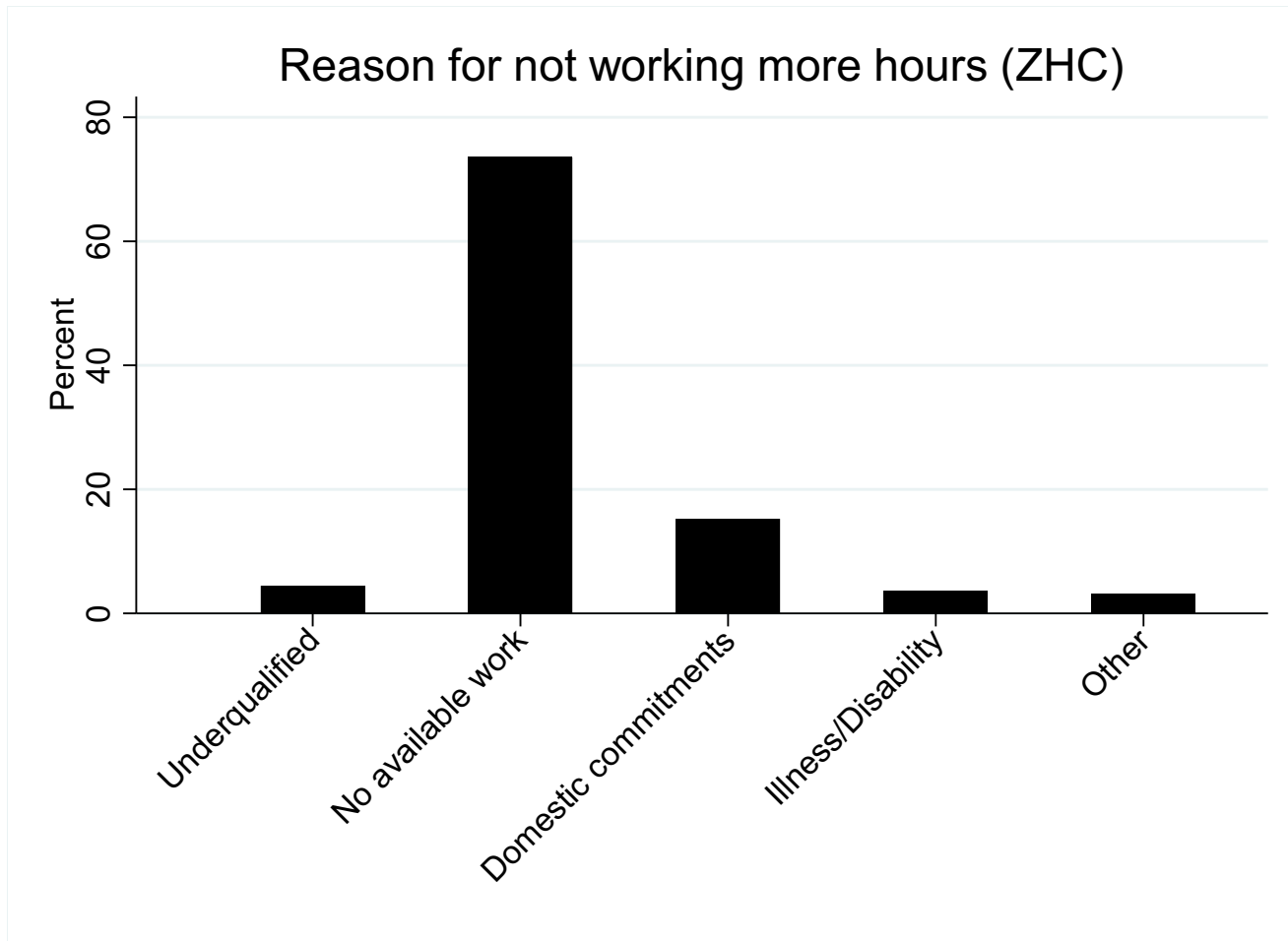
How would you pay for an emergency expense of £500,00?

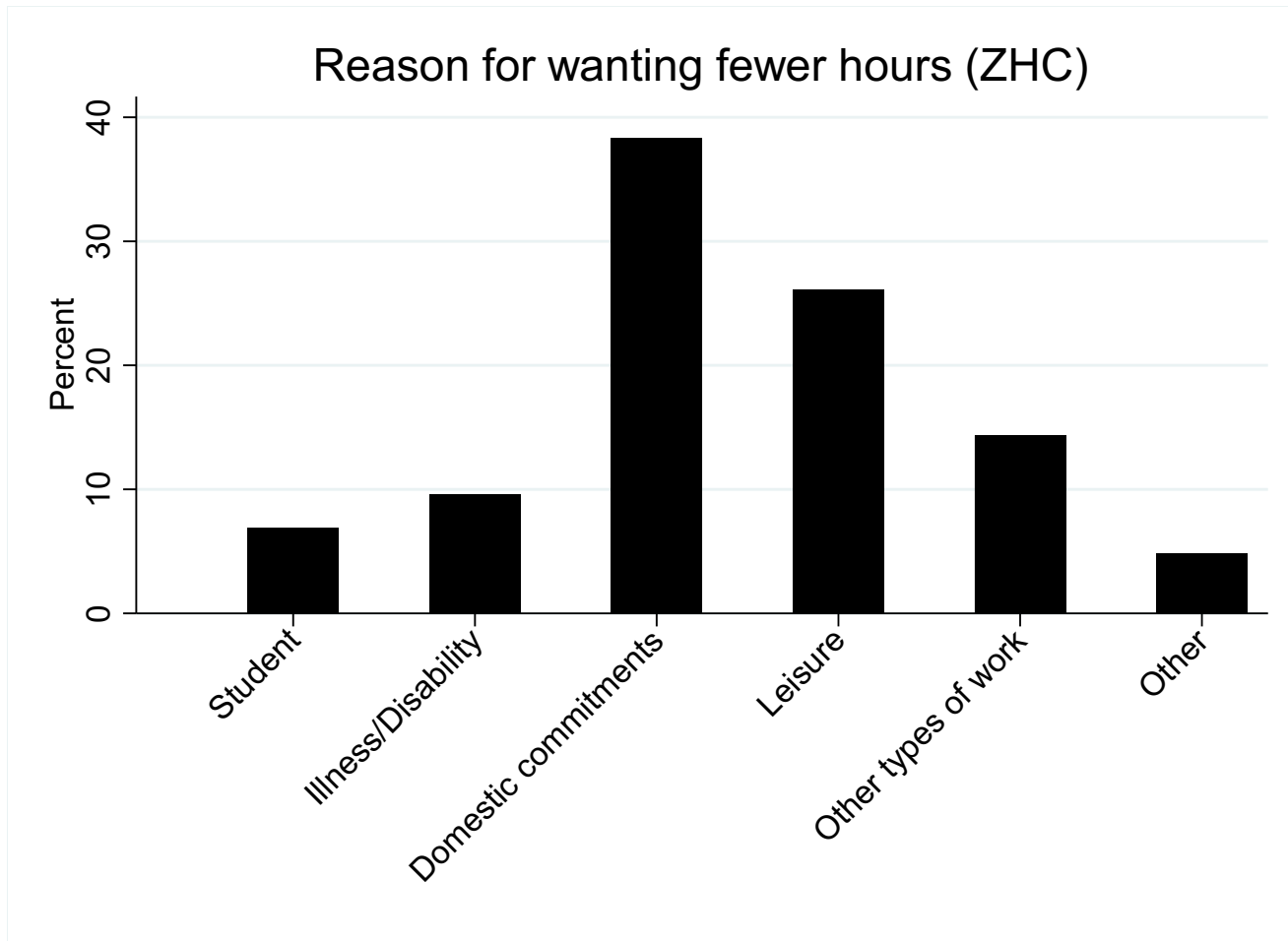
	Self-employed	Gig-workers
Put it on my credit card and pay it off in full at the next statement	0.19	0.28
Put it on my credit card and pay it off over time	0.19	0.29
With the money currently in my checking/savings account or with cash	0.37	0.29
Using money from a bank loan or line of credit	0.06	0.17
By borrowing from a friend or family member	0.13	0.16
Using a payday loan, deposit advance, or overdraft	0.02	0.07
By selling something	0.08	0.07
I wouldn't be able to pay for the expense right now	0.19	0.09
Total	2,131	535

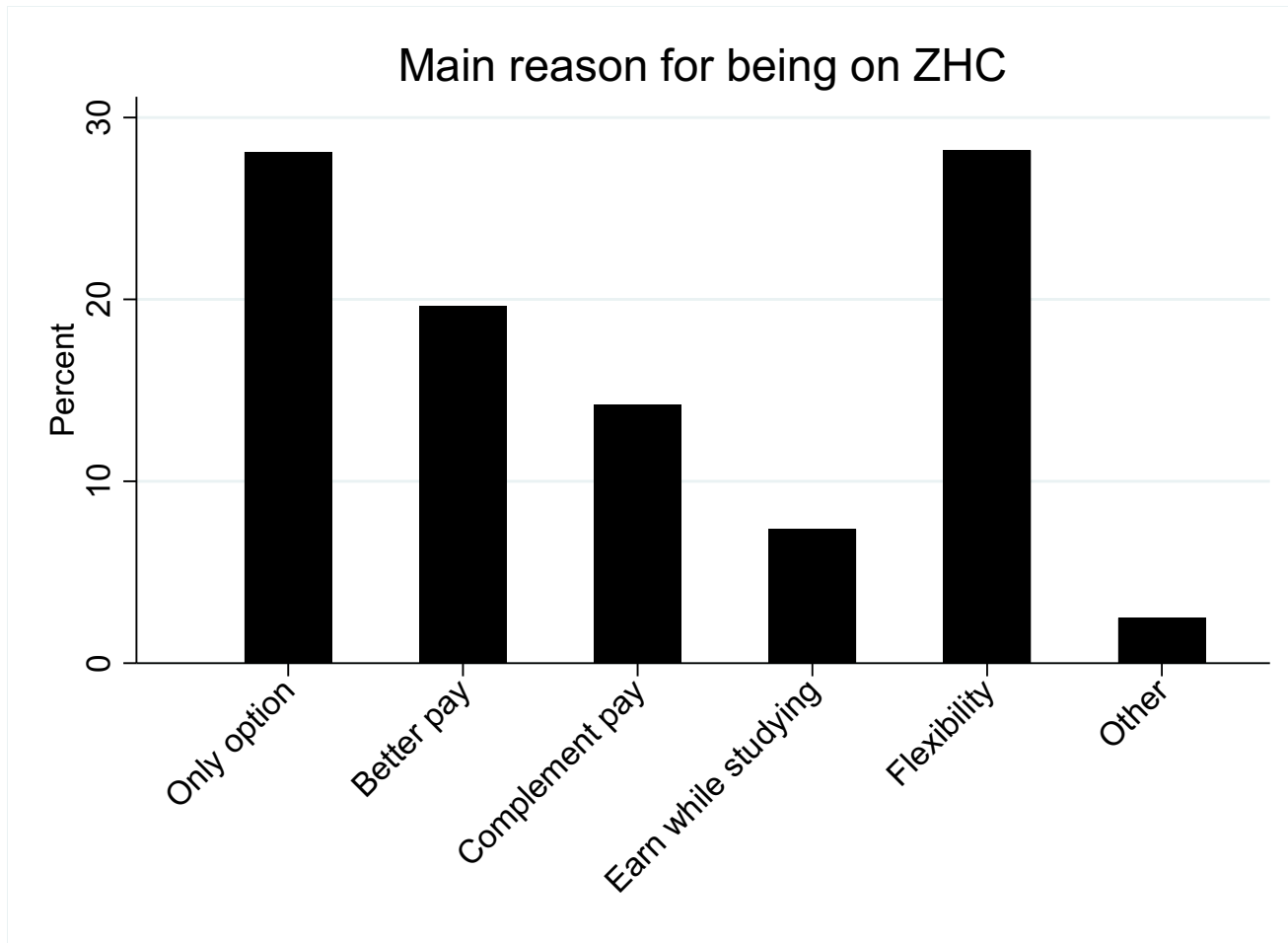
Zero hours contracts

- Contracts with no guaranteed hours or times of work
- Around 2.7% of all workers are recorded as being on ZHC (LFS, 2017)
 - More likely to be younger, female and lower tenure
 - Work 10 hours less than average employee + work unpaid hours
 - Low pay, large proportion on minimum wage
 - Concentrated on accommodation/food, retail, education and health care industries
- Zero hours contracts: necessity or choice?
 - Stark dichotomy between workers who value flexibility provided by ZHC jobs, and workers who would rather work more and more regular hours





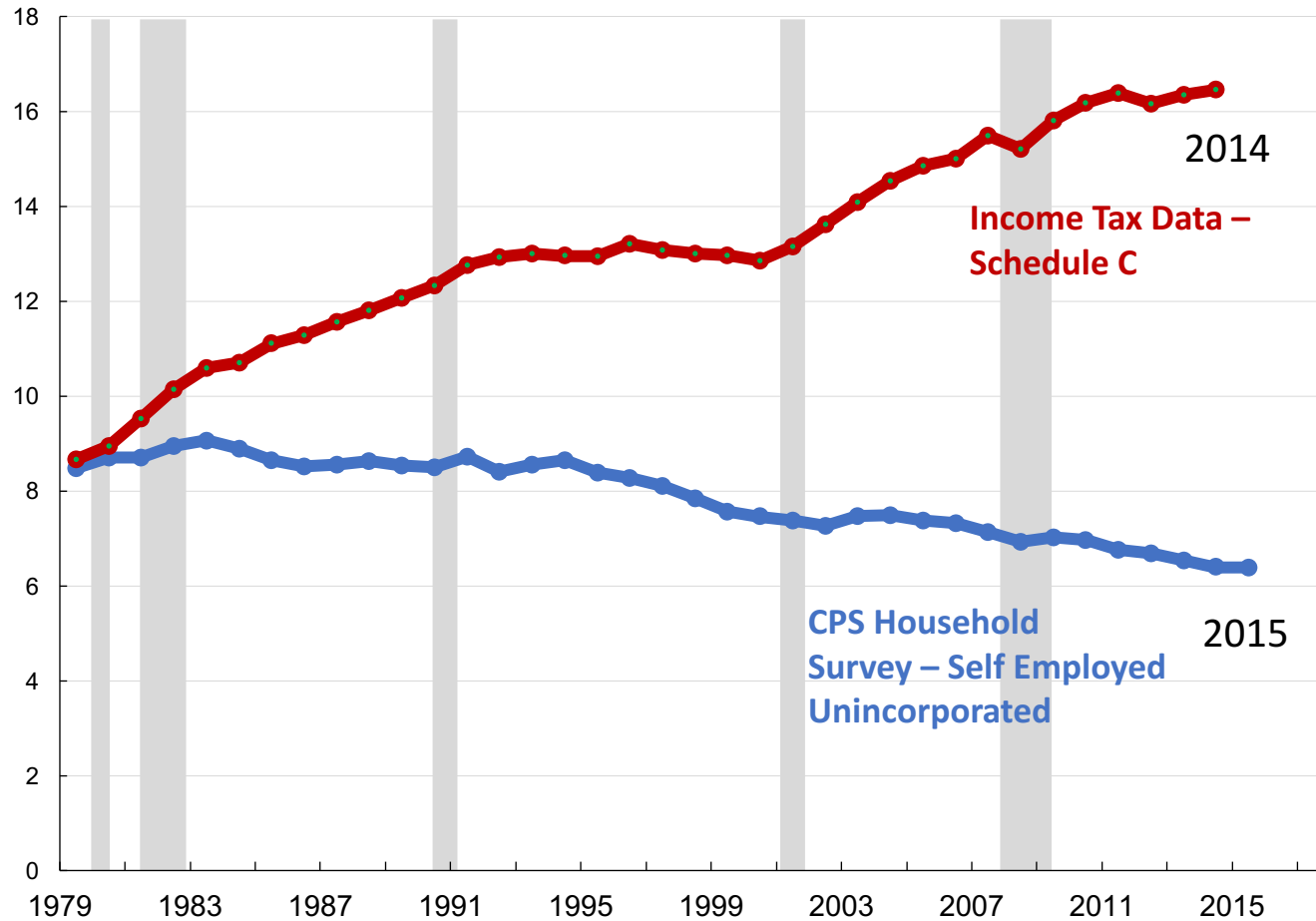




The US survey

- Survey using Qualtrics software and panel of respondents conducted April 24-27, 2017 (week after Tax Day)
- Sample of 10,368 respondents recruited mainly from online ads and social media drawn from 4 million
- Paid \$1.50 each to participate
- Drop those outside of U.S., whose only work was filling out surveys, jibberish responses, & speeders
- Weight sample to match 2011-15 ACS distribution of self-employed workers in terms of Age, Sex, Education, Race and Household Income
- A/B Experiment on CWS self-employment question

IRS vs. CPS data on Self-Employment as a Share of CPS Total Employment



Source: Current Population Survey; IRS Statistics of Income Publication 1304 (Table 1.3)

Note: Shading denotes recession

Hours constraints

- 40% worked less than 35 hours in self-employment last week
- 33% would have preferred to work more hours last week
- 15% were part-time for economic reasons (<35 hrs & couldn't find full-time work, slack work/business conditions, or seasonal) – twice as high among those with self-employment only
- In CPS, self-employed more likely than traditional employees to be part-time for economic reasons
- Traditional employment often entails implicit contract for full-time, steady work

Summary

- GIG workers are more constrained in the choice of hours than other persons classified as self-employed
- For the most they would like to work more hours
- Lower degree of satisfaction with the job in Italy
- Main reasons to accept gig jobs are to complement pay, work from home and have flexibility in hours
- Evidence of liquidity constraints for these workers (mainly in Italy)

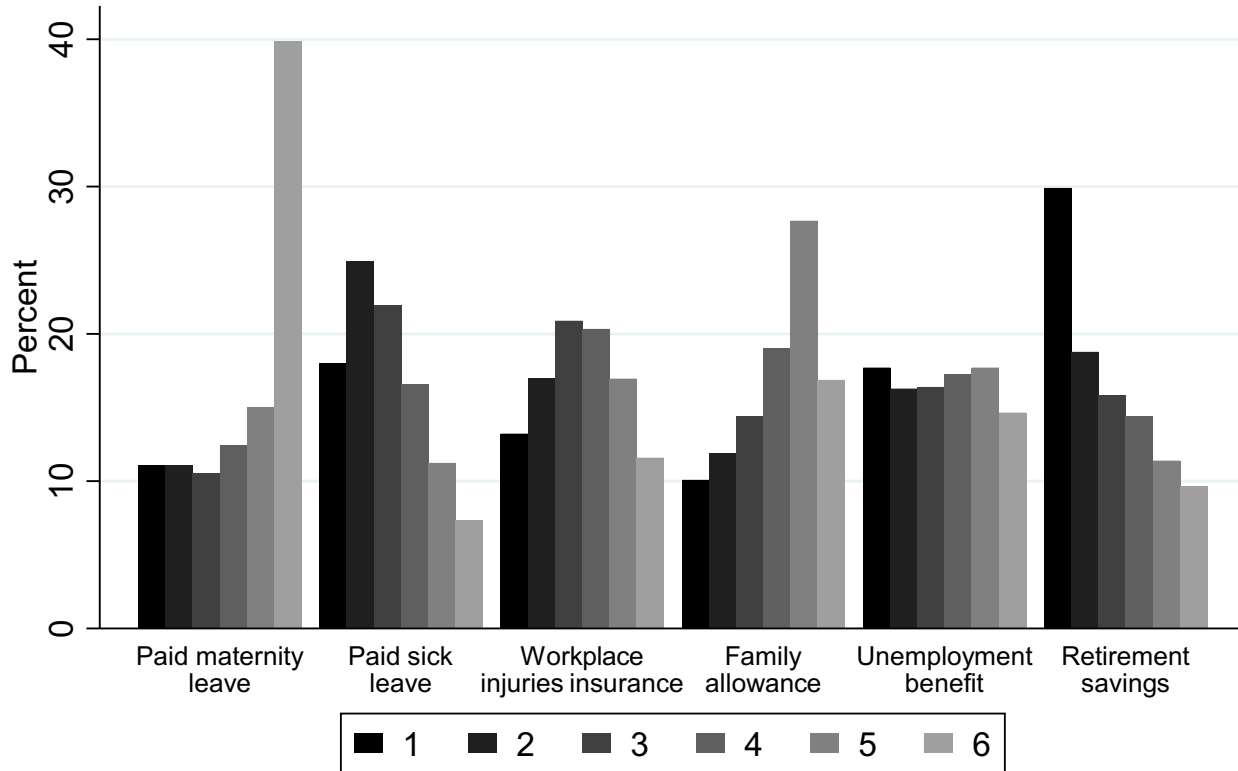
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 - Italy
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2. Social protection for non-standard workers
3. Wage setting (macro implications)

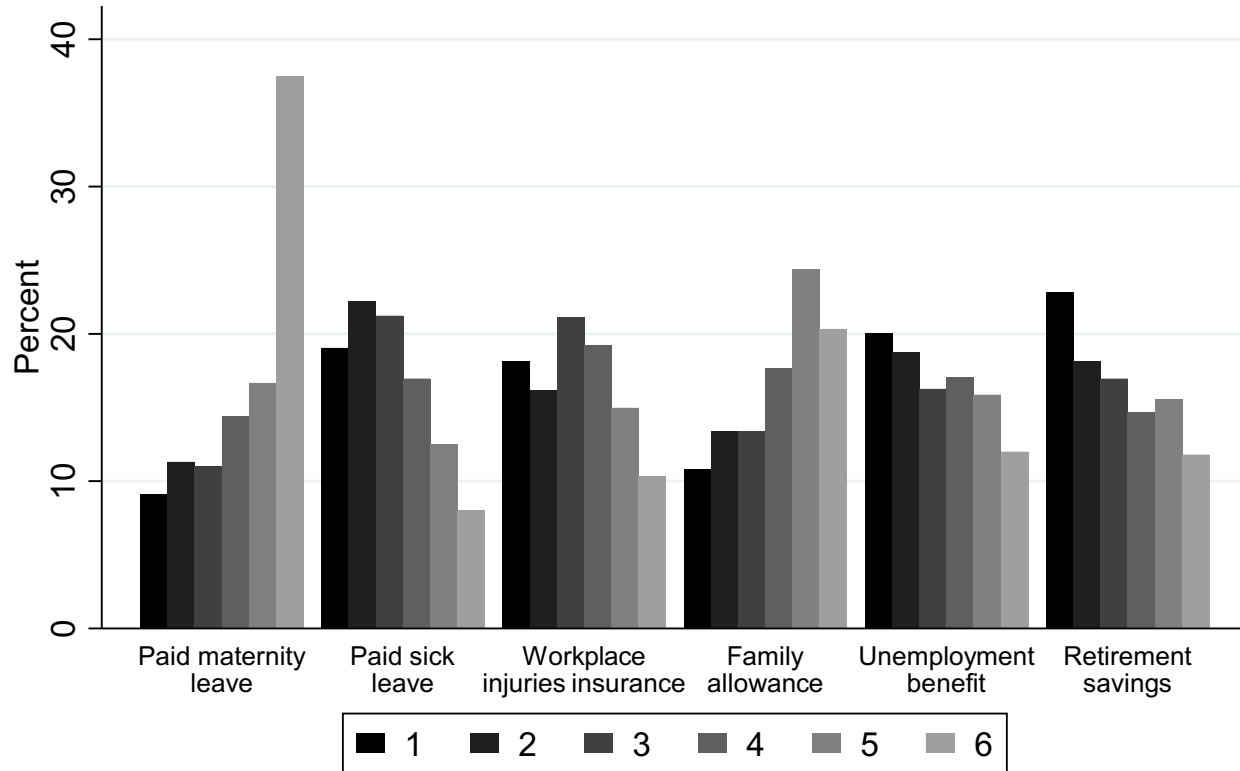
Coverage of social security

- Usually self-employed workers not covered by contributory social protection against unemployment risk, and sometimes maternity and sickness
- Moral hazard (and adverse selection) stand on the way of social insurance for independent workers
- How strong is the demand for social protection among self-employed people and platform workers? Which type of insurance are they willing to buy?
- Back to the surveys

Ranking of various benefits - Self-employed Italy

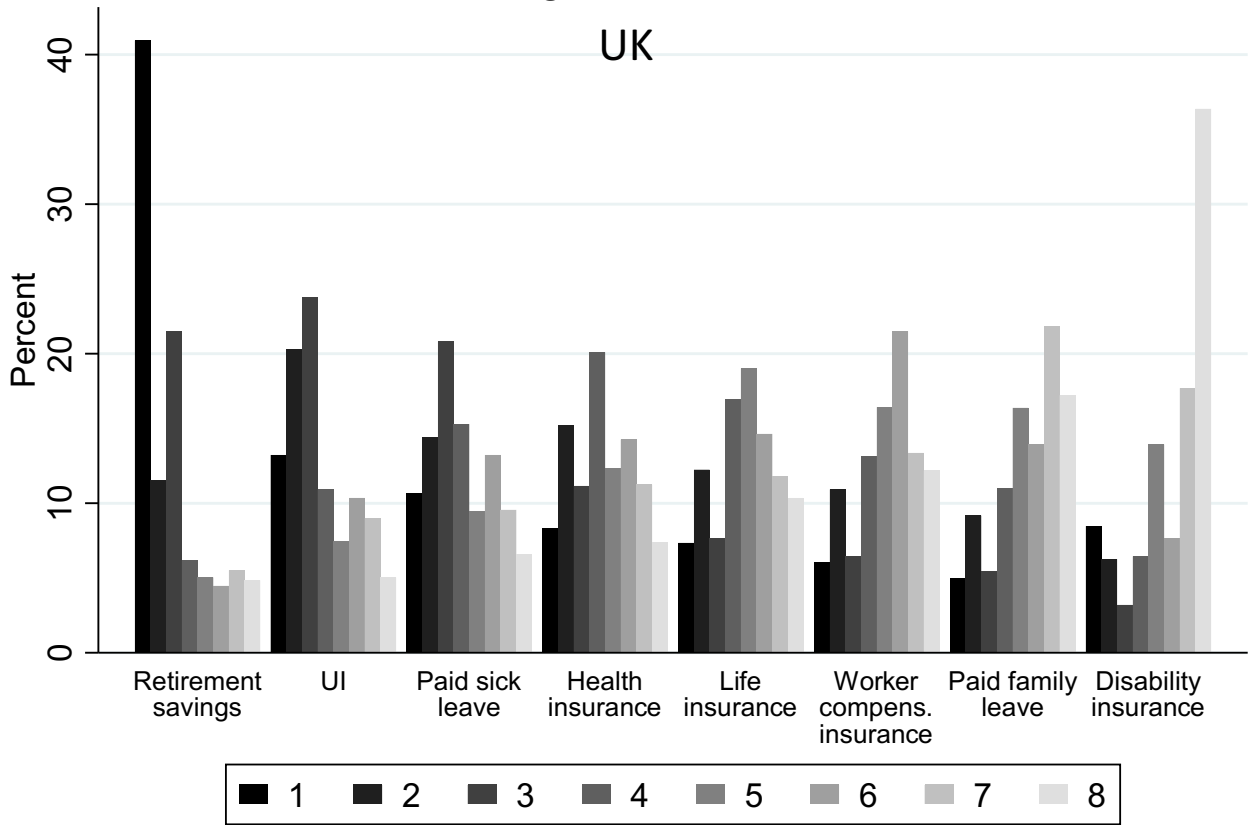


Ranking of various benefits - Gig-economy workers Italy

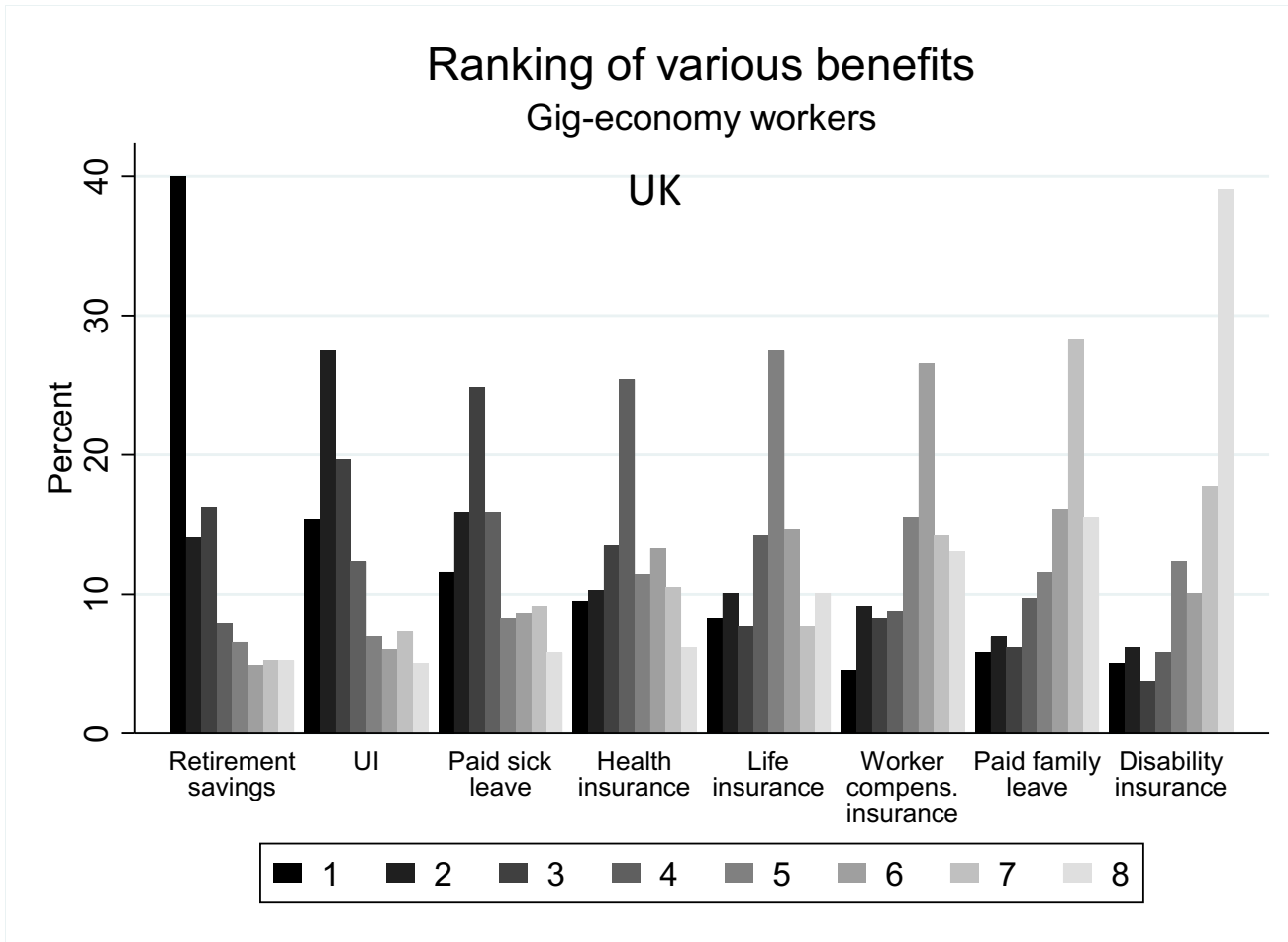


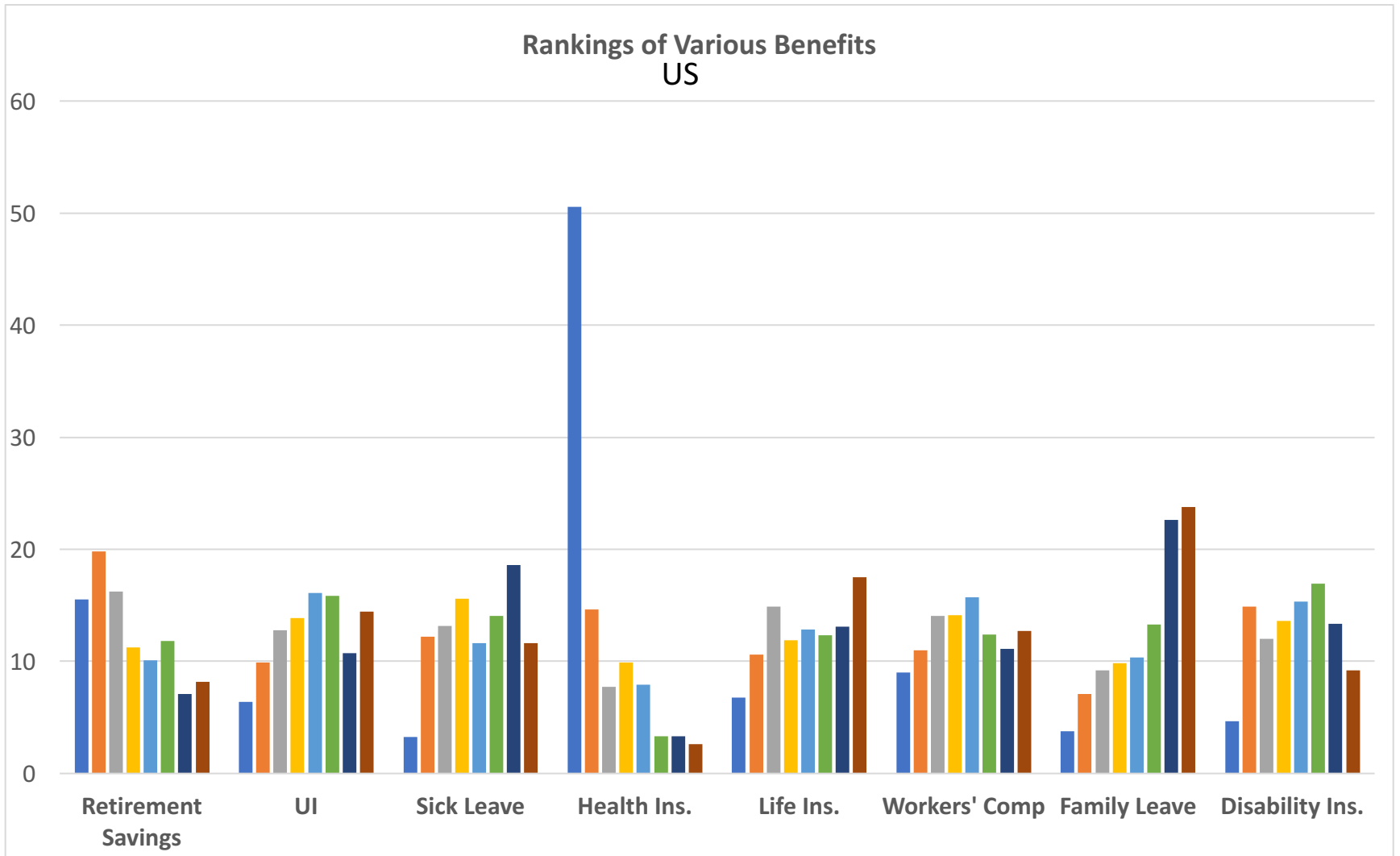
Ranking of various benefits

UK



Ranking of various benefits Gig-economy workers



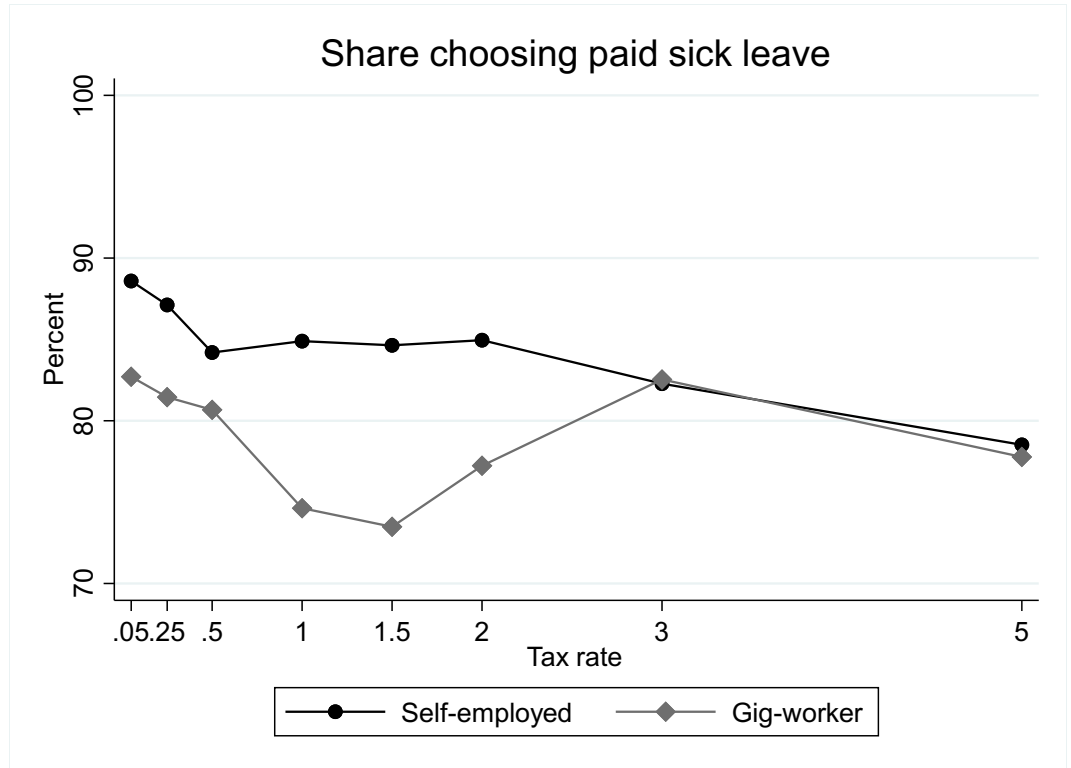


Willingness to pay for sickness insurance (RCT)

Respondents asked to choose between:

Option 1: No paid sick leave

Option 2: Paid sick leave provided by social security (INPS) conditional on social insurance contribution at tax rate $X\%$ (varied randomly across individuals)



Summary

- Demand varies from country to country
- In Italy and UK stronger demand for retirement savings and unemployment insurance, in the US for health insurance
- In Italy GIG workers have much lower WTP for sickness insurance than self-employed.
- Stronger demand for work injury insurance (case of riders)

Policy options

- Very difficult to extend compulsory unemployment insurance to the self-employed and the GIG workers (limited examples)
 - Voluntary schemes? Adverse selection
 - Unemployment insurance with no employer?
 - Means-tested benefits with volatile labour earnings?
- Problems of moral hazard even with sickness insurance
- Draw on subsidized occupational insurance?
- Change the status of gig workers and self-employed with just one contractor into dependent employment?
- Use the traceability of on-line matching to enforce social security contributions and prevent abuse?

How to define unemployment for the self-employed?

- Sweden: closure of their business
- Austria: contribution to the unemployment insurance required since the startup
- Belgium: company should go bankrupt and they did not reach minimum income threshold in the previous two year
- Italy: short unemployment insurance for exclusive collaborators «collaborazioni coordinate e continuative» (DISCOLL)

Experience with the DISCOLL

- Unemployment benefit for exclusive collaborators who involuntarily lose their job
 - Extended to PhD students and researchers on temporary contracts
- Concerns about moral hazard, but low take up

	Claimants	Potential beneficiaries	Claimants as % of beneficiaries
2015	18403	232000	8%
2016	9864	121000	8%
2017(*)	12481	156000	8%

Notes: (*) Provisional data

Source: INPS

Pro's and Con's of Shared Security Account where Broker (or Hirer) of Indep. Contractors Pays Into a Benefits Fund

Pro's

- Independent workers covered by safety net
- Scale economies and reduced administrative burdens from pooling workers to provide benefits
- Prevents free riding by requiring hiring party to contribute to benefits
- Comprehensive solution that maintains flexibility and creates new social contract for 21st Century economy, especially if applied to all workers

Con's

- Workers likely to bear the costs of benefits through lower fees
- Risk of adverse selection in “cafeteria” plan
- Hours proration is problematic because workers can work on multiple jobs at once or devote effort to personal tasks during work time (WA: 25% of fee up to \$6/hour)
- Only affects a small (but growing) slice of self-employed workers if confined to brokers
- Part of Independent Contractors' fee is a return on capital

Pros and cons dependent employment status

Pro's

- Link social security contribution to employer
- Easier to define unemployment spells and to tie means tested benefits to earnings
- Possibly less adverse selection?
- Mitigates transfer of demand/productivity risk from employer to independent worker

Con's

- Payment on a hourly basis rather than linked to productivity (but possible to have piece rate pay and enforce accordingly hourly minima)
- May not satisfy individual's preferences/need for flexibility
- Risk of worsening of employment conditions (e.g. zero hours contracts)

Pros and cons social security platforms

Pro's

- They can reduce administrative costs for employers
- Improve risk sharing if payments are deposited at social security before the task is carried out
- Improve collection of social security contributions and awareness of workers that contributions are not taxes but insurance premia

Con's

- May be costly for liquidity constrained and/or small firms
- Hard to implement/monitor given evolving nature of online economy
- Relationship with umbrella companies to be defined

Example of the INPS platform for occasional workers

PORTAFOGLIO ELETTRONICO - Riepilogo importi riferiti all'utilizzatore di Libretto Famiglia		
Importi versati ?	Importi utilizzati ?	Limiti economici ?
VERSATO NELL'ANNO	UTILIZZATO NELL'ANNO	RESIDUO NELL'ANNO
N° Titoli Libretto Famiglia 20	N° titoli libretto Famiglia 12	Compensi € 4.904,00 *
Versato € 200,00 	Compensi € 96,00	Costi € 6.130,00 *
Contabilizzato € 200,00	Costi € 120,00	Limite annuo netto € 5.000,00
Tot. Storico € 430,00	Tot. Storico € 300,00	
Titoli corrispondenti 43	Titoli corrispondenti 30	
<small>Rif. importo contabilizzato</small>	<small>Rif. importo lordo</small>	
		<small>* NB : i compensi già erogati a prestatori categoria c.8 art.54-bis sono calcolati nella misura del 75%</small>

Outline

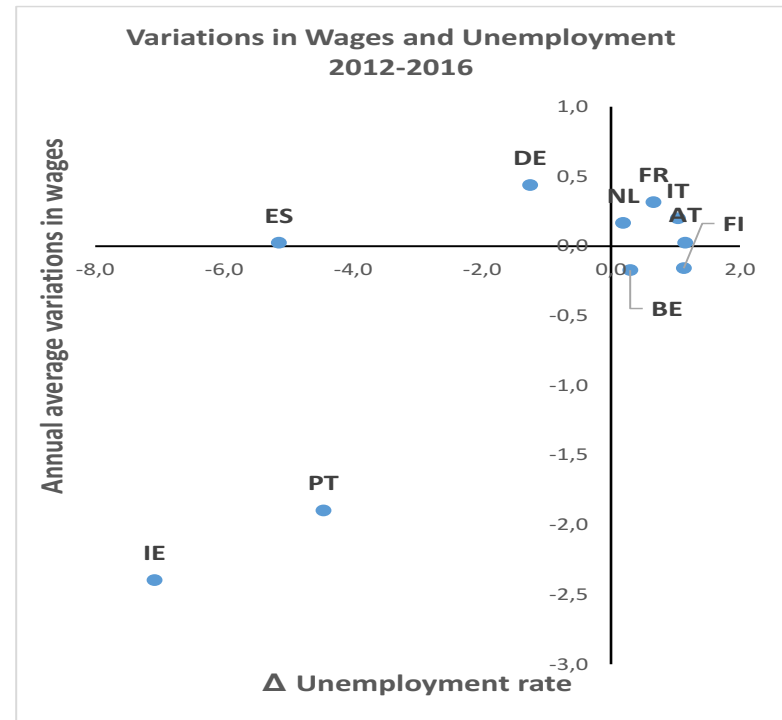
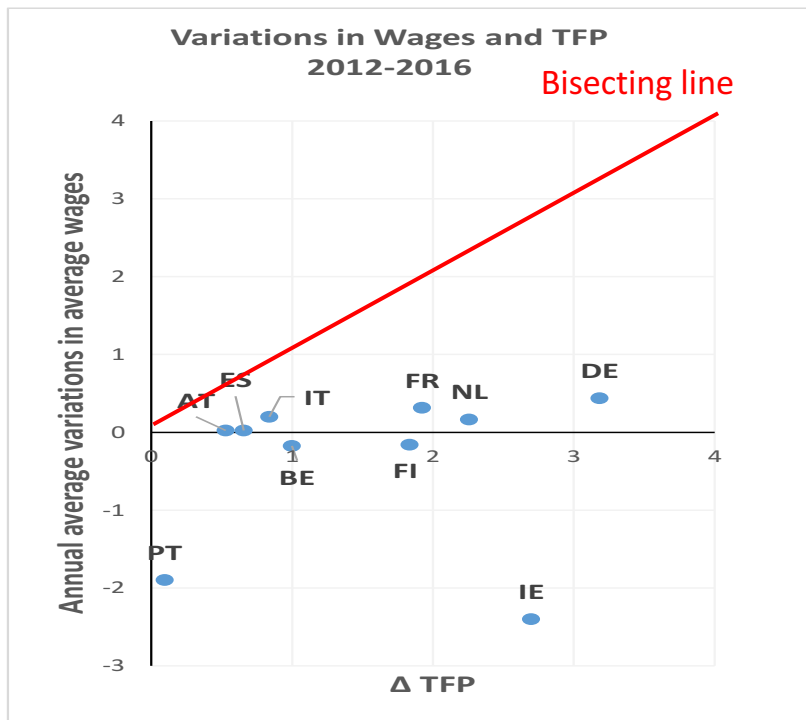
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3. **Wage setting (macro implications)**

Does spread of alternative forms of employment explain why do wages not grow during the recovery?

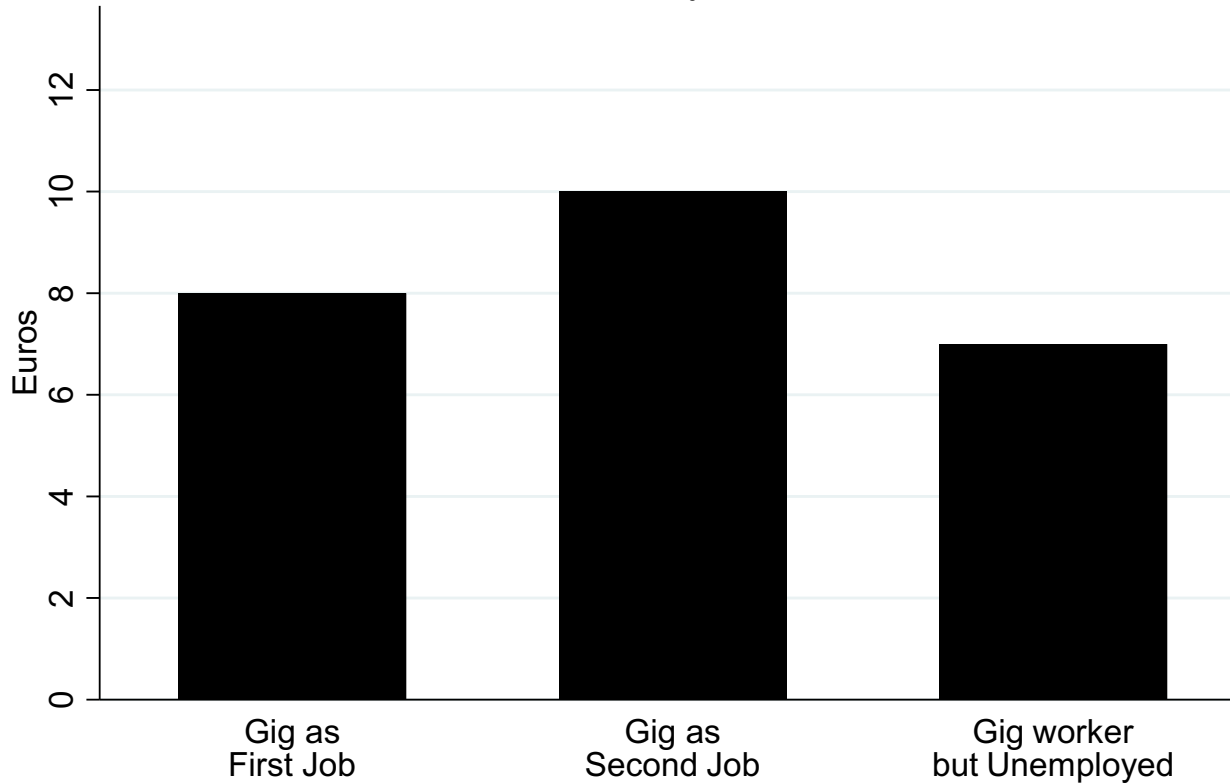
<p>VOX CEPR's Policy Portal</p> <h2>Overcoming Eurozone wage inertia</h2> <p>Marco Buti, Alessandro Turrini 06 October 2017</p>	<p>Institute for New Economic Thinking</p> <h2>With Official Unemployment This Low, Why Are Wages Rising So Slowly?</h2> <p>By Servaas Storm</p> <p>FEB 26, 2018 INCOME & WEALTH EMPLOYMENT & JOB STRUCTURE</p>
<p>Social Europe</p> <h2>Why Won't Wages In Europe Rise As They Should?</h2> <p>by <i>Thorsten Schulten and Malte Luebker</i> on 9 August 2017 @ThorstenSchult6</p>	<p>The Big Read Eurozone economy + Add to myFT</p> <h2>Eurozone's strange low-wage employment boom</h2>

- Alternative work arrangements responsible for almost all of net employment growth in US from 2005 to 2015

Wages are not coping with productivity growth (and unemployment declines)



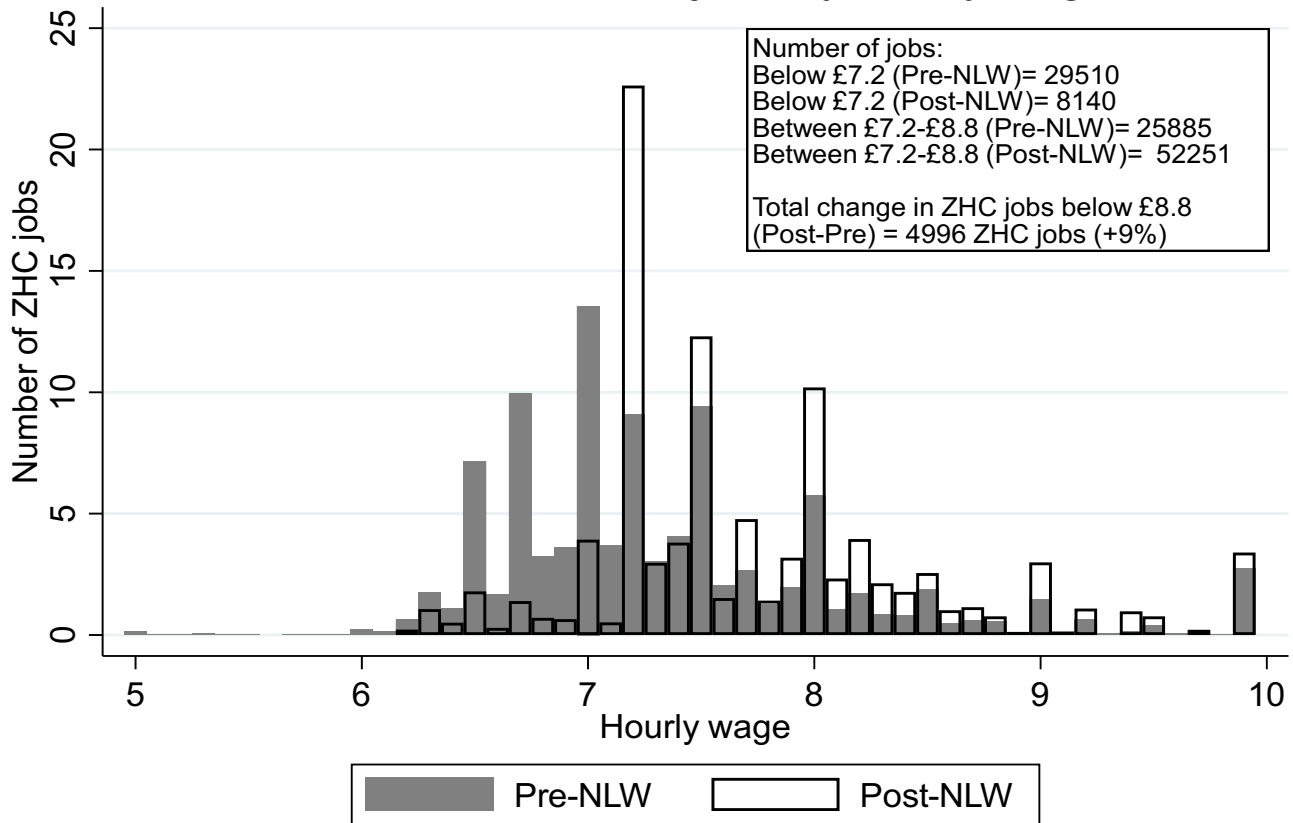
Median hourly wage by type of Gig-economy worker
Italy



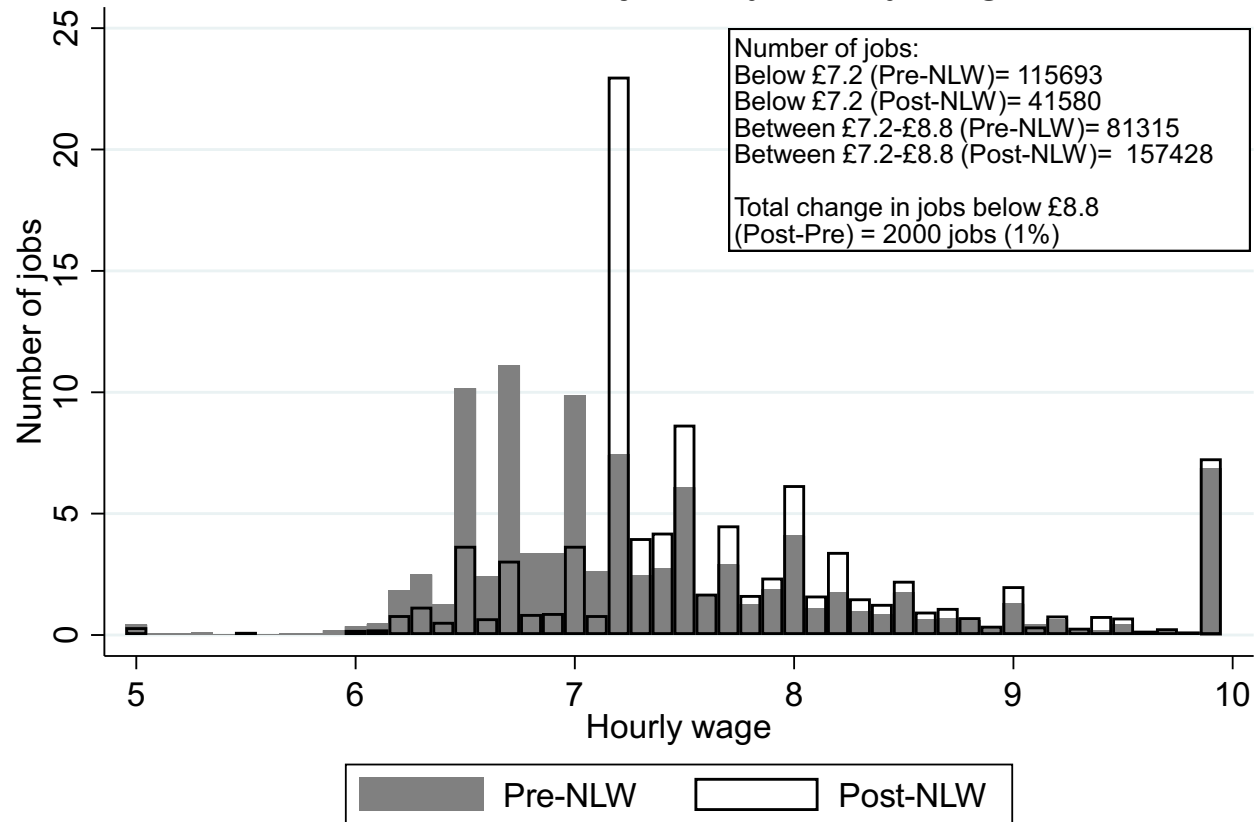
Minimum wages and zero hours contracts

- Are ZHCs inherently low-paid jobs (tasks, skills, flexibility...) or are minimum wage uprates responsible for increased ZHC utilization?
 - ZHCs can help employers buffer wage cost shock due to minimum wage increases
 - Transfer burden of insecurity onto employees, potentially worsening their employment conditions in spite of wage increase
- Study causal effect of National Living Wage introduction on ZHC utilisation⁽¹⁾
 - NLW increased minimum hourly rate for adult workers to £7.20 from April 1, 2016
 - Context of English adult social care sector (care homes and domiciliary care)
- For a domiciliary care worker paid at MW, hourly wage up by 7.5% and probability of being on ZHC up by 4.7%
 - Should we have a higher minimum wage for ZHC workers (Taylor Review, 2017)?

Distribution of ZHC jobs by hourly wage



Distribution of jobs by hourly wage



Final remarks

- Alternative work arrangements have increased in recent years, even in countries in which traditional self-employment is declining (e.g. Italy)
- Evidence that new self-employed are particularly hourly constrained and would like to work more hours
- Heterogeneity in pay, but significant component with low pay
- Strong demand for social protection, notably unemployment and retirement in Europe and health insurance in US
- Need to redesign social transfers and wage floors