

Independent Contract and Informal Work

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The Fed's dual mandate: Inflation and employment

- **Recent debate over Phillips Curve shift—apparent weakening of relationship between unemployment and inflation**
- **Standard indicators used to judge strength of labor market:**
 - Unemployment rate—below 4% (from CPS) and employment growth robust (wage and salary employment from CES)
 - But, labor force participation rate—remains low especially low-educated men and women—and wage growth sluggish (from CPS)
- **Data suggest “structural problems” in labor market not being captured in standard labor market indicators**

One hypothesis: nature of employment relationship changing

- **Widespread media reports, backed by some research evidence, of trend growth in alternative work arrangements**
- **Attention focused on independent contract and other nonemployee (“gig”) work:**
 - Workers in nonemployee arrangements not covered by social insurance programs, employment and labor laws; ineligible for employee benefits
 - Associated with fragmentation of work, reduced worker bargaining power
- **Some evidence that incidence of these arrangements countercyclical (Katz and Krueger 2019)**

Contingent Work Supplement

- Concerns about growth of gig and other nonstandard work spurred funding of the Contingent Work Supplement (CWS) to the CPS in 2017—first time in 12 years.
- CWS found *NO* evidence of increase in any alternative work arrangements
 - *Decline* in those working as independent contractors, independent consultants, freelancers
 - New questions on work obtained through online platforms and mobile apps “did not work as intended”

Reactions to the CWS report

- **Maybe the Gig Economy Isn't Reshaping Work After All**
(Casselman, NYT)
 - CWS throws “cold water on those hyping the explosion of freelancing and the rapidly changing nature of work.” Larry Mishel, EPI
 - Lesson from data: Focus on problems with regular jobs
- **Others skeptical about the numbers:**
 - “You can see the gig economy everywhere but in the statistics.”
(Casselman, NYT)
- **Conflicting evidence: research using administrative tax data shows higher levels and substantial growth in self-employment**
 - Jackson, Looney and Ramnath 2017; Katz and Krueger 2017; Abraham, Haltiwanger, Sandusky and Spletzer 2018

Potential shortcomings of household surveys

- **Independent contractor work may not be reported or be miscoded as employee work**
 - Individuals may not report informal work—may not think of it as a job—and so not get counted as employed in CPS, CWS and ACS.
 - Individuals may be miscoded in surveys as employees when they are being treated as independent contractors or other nonemployees
 - Household surveys may miss secondary job holding that is in the form of independent contract or informal work
- **CWS only asks about main job:**
 - Often independent contractor work supplements income on a main job
(Farrell and Greig; Jackson, Looney and Ramnath, Koustas, Abraham et al.)

Evidence of shortcomings

In this talk, discuss evidence from two studies:

- **Findings from a module on informal work in the Federal Reserve Board's Survey of Household Economic Decisionmaking**
 - “Making Ends Meet: The Role of Informal Work in Supplementing Households' Income” (Abraham and Houseman, forthcoming)
 - SHED module one of several surveys conducted by Federal Reserve Board & Boston Fed find high levels of informal work activity when respondents probed—inconsistent with low rate of second job holding in CPS. (See also Bracha & Burke 2017 and Robles & McGee 2016)
- **Findings from a new module on a nightly Gallup survey about contract work (Abraham, Hershbein & Houseman 2019)**

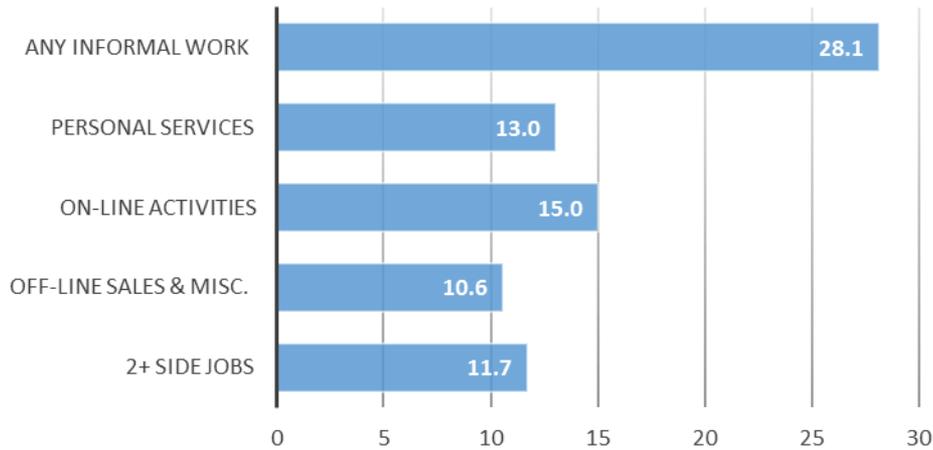
SHED data

- **Pool data from 2016 and 2017 Survey of Household Economic Decisionmaking (SHED)**
- **Structure of SHED employment questions:**
 - All individuals asked about employment activities in the last month—if any employment, asked about nature of main job
 - Then asked whether did any of 11 or 12 types informal work or side jobs for pay that were not part of main job.

Data on informal work activities

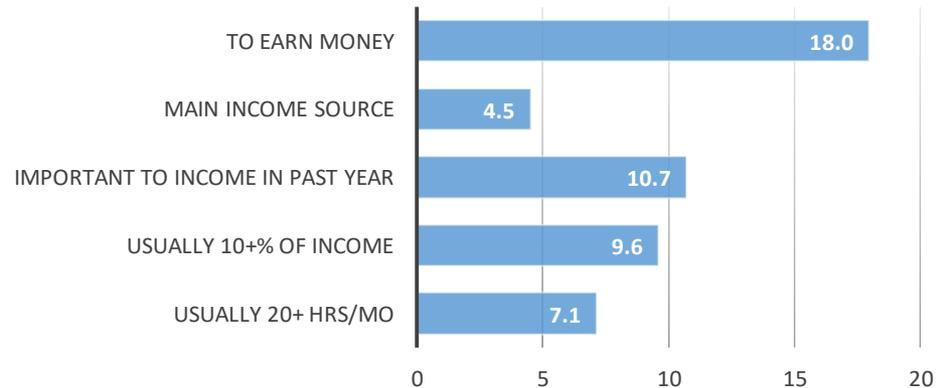
- **3 categories of informal work/side jobs for pay**
 - *Personal services* (e.g., childcare, eldercare, dog walking, house cleaning, yard work)
 - *Online activities* (on-line tasks, renting, selling, driving using ride-sharing apps)
 - *Offline sales, miscellaneous* (e.g., selling at thrift shops, flea markets)
- **Information on why doing informal work and its importance:**
 - Main reason do informal work (including earn money)
 - Subjective assessment of importance to household income in last year
 - % income usually accounted for by informal work
 - Hours usually spent per month in informal work

Informal Work in Last Month (%)



High prevalence of informal work in population overall

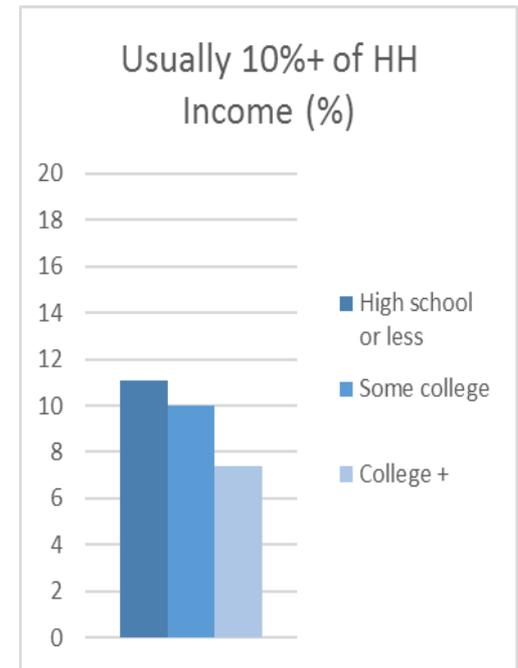
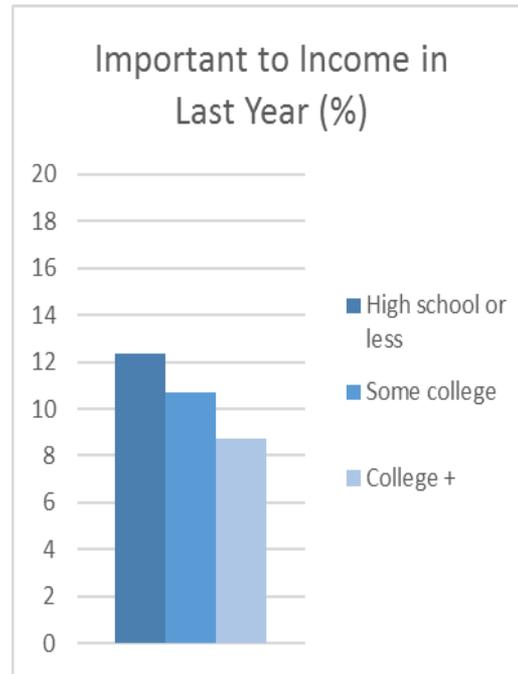
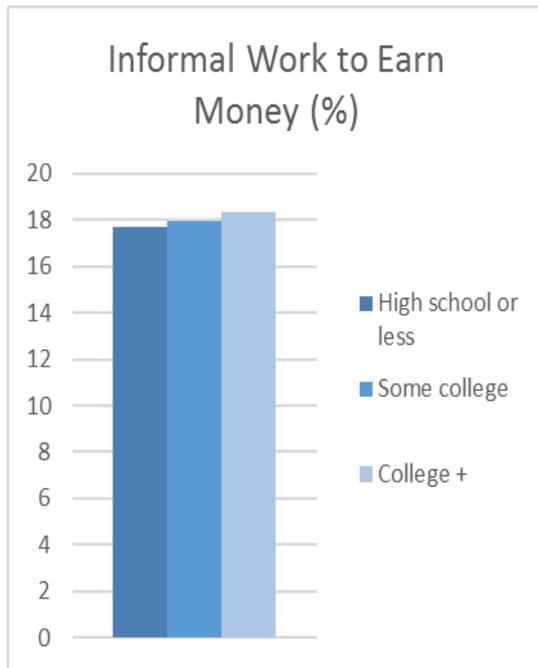
Importance of Income from Informal Work



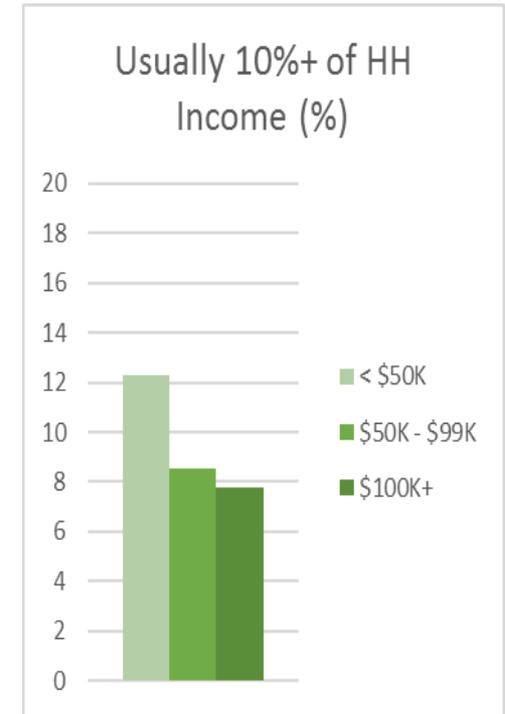
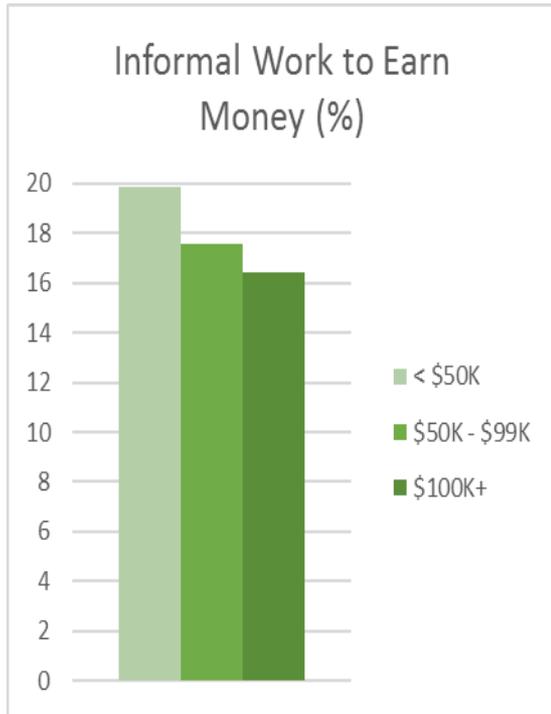
Who does informal work and why?

- Youth, minorities, low-educated, low-income, other economically vulnerable groups, those who are in precarious or nonstandard work arrangements, and the unemployed generally significantly more likely to
 - Do informal work to earn money
 - View informal work as important to income in last year
 - Usually rely on informal work for 10% or more of household income
 - Usually work at least 20 hours/month in side jobs

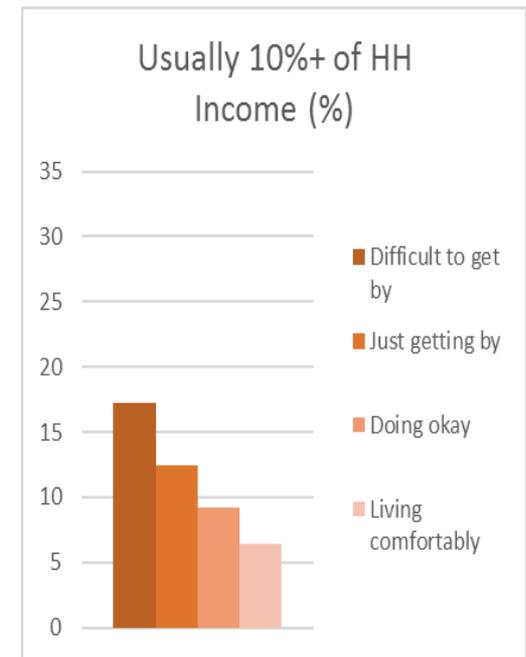
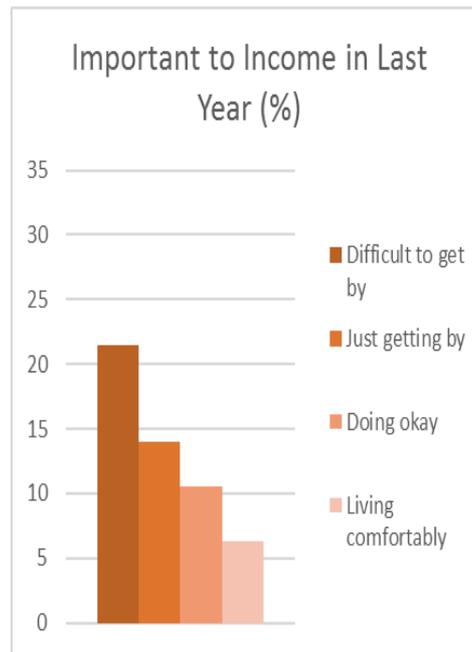
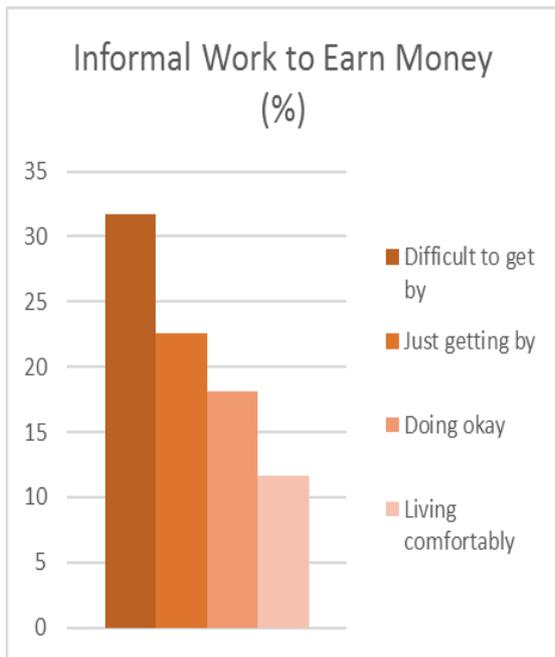
Informal work by education



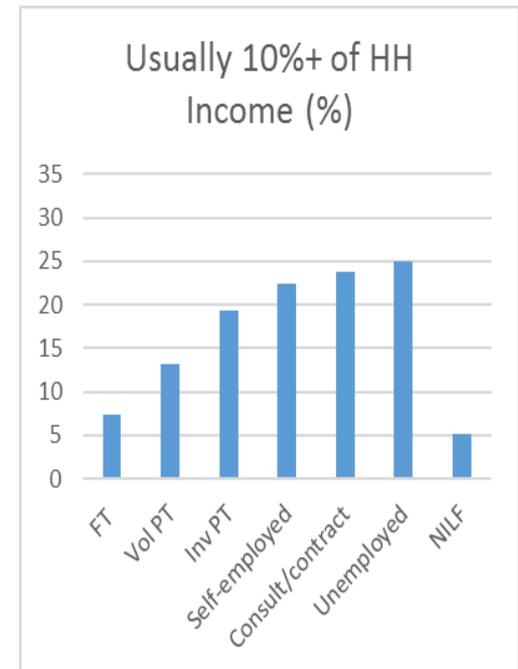
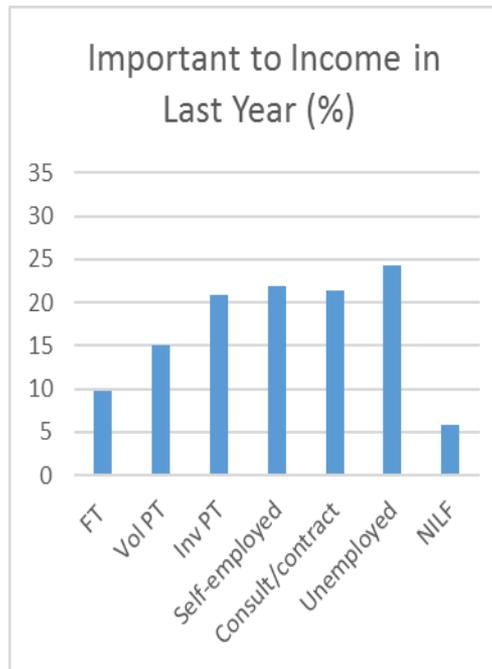
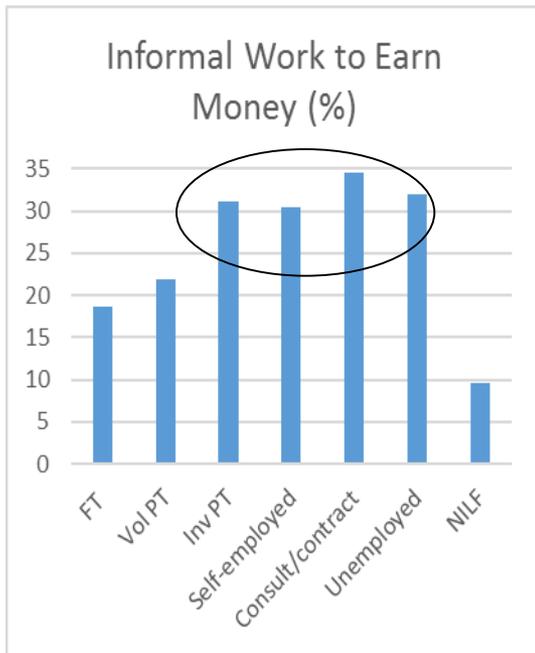
Informal work by household income



Informal work and financial stress



Informal work by work arrangement on main job



Gallup survey module

- **Module adds 14 questions on contract work to Gallup Education Consumer Pulse Survey:**
 - Nightly phone survey
 - Respondents age 18-80
 - 4 waves spread out across a year — each data collection lasts about a month & yields about 15,000 completed responses
 - Testing question wording: for 4 sets of questions, respondents randomly assigned to alternative versions
- **Final module just completed, yielding total of 60,000+ responses**

Goals of Gallup Module

- Uncover miscoding of employment status as employee
- Capture all forms of work for pay—including informal work that may not be reported in government surveys

I will focus on findings pertaining to these two issues.

Module also designed to

- Probe older workers on independent contract work
- Measure contract company work
- Measure work secured through online platforms or mobile apps

Testing whether individuals misidentify as employees

- Basic Gallup question to identify employees:
“Thinking about your WORK SITUATION over the past 7 days, have you been employed by an employer - even minimally like for an hour or more - from whom you receive money or goods? (This could be for one or more employers.)”
- Individual working on a contract basis for company might reasonably (and accurately) respond “yes” to this question.
- Follow-up module question probes whether worker is an employee or nonemployee:
 - Version 1: *“Were you an employee on this job or were you an independent contractor, independent consultant or freelance worker?”*
 - Version 2: *“Did this employer take any taxes out of your pay?”*

Similar versions asked for those with 2+ employers

Employee miscoding in Gallup: findings

- Incidence high among Gallup respondents. Among those who indicate that they are “employed by an employer”
 - 10.8% state that they are an “independent contractor, independent consultant, freelancer” and not an “employee”
 - 8.9% state that their employer does not take out taxes from their pay
 - Difference between 2 versions significant

CPS question wording may suffer from similar problems of interpretation

- **Basic work question in CPS:**
“Last week, did you do ANY work for either pay or profit?”
- **To distinguish whether those doing work are employees or self-employed, respondents asked:**
“Were you employed by government, by a private company, a nonprofit organization, or were you self-employed or [if applicable] working in the family business?”
- **Person working on contract basis may report being employed by organization—may not think of themselves as being self-employed.**
- **CWS provides some evidence of employee miscoding in CPS**
 - 15% of independent contractors were reported as being employees on main job (1-2% of all workers coded as employees on main job)

Capturing all sources of work activity

- **Gallup survey shows considerably higher rates of secondary job holding than CPS.**
 - 20% report multiple work activities
 - Incidence especially high among those with independent contract work in main job.
- **Gallup survey with supplemental module questions may be better designed to capture work activity than CPS:**
 - Question wording in standard Gallup survey designed to capture low hours work with language about working for employer or in self-employment “*even minimally like for an hour or more*”
 - Gallup self-employment question provides clear, expansive definition of self-employment
 - New module question probes for additional, informal work that may not have been reported.

Discussion of Gallup and SHED Findings

- **Gallup findings consistent with those of earlier studies pointing to significant understatement of self-employment/independent contractor work in household surveys.**
- **Both Gallup and SHED suggest considerably higher levels of second job holding than that found in CPS**
- **Strong association between secondary jobs, often informal work and precarious/nonstandard/self-employment arrangements on main job**
 - Informal contract work may be a manifestation of problems with those jobs
 - Informal work strongly associated with people whose main jobs typically do not have benefits
- **Development of consistent, high quality time series on contract and informal work would help Fed and other policymakers understand degree of slack in labor market.**