

# Independent Contract and Informal Work

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# The Fed's dual mandate: Inflation and employment

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- **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

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- **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

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- 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

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- **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

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- **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

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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

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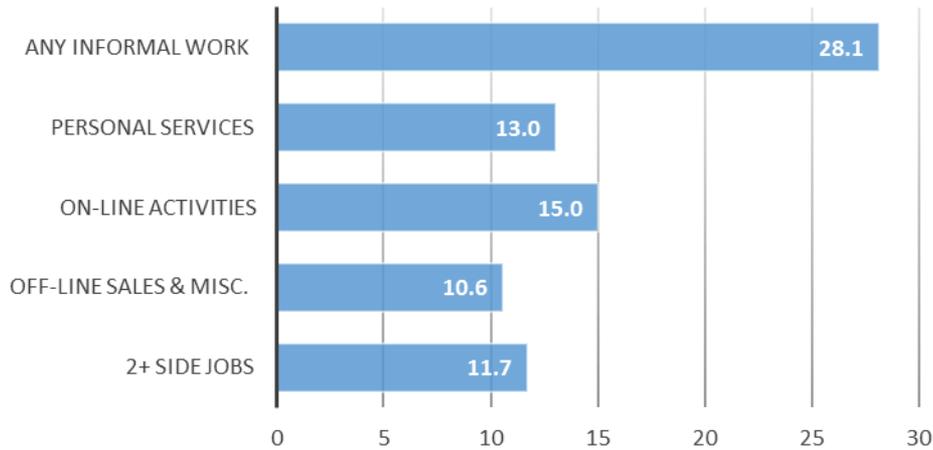
- **Pool data from 2016 and 2017 Survey of Household Economic Decisionmaking (SHED)**
- **Structure of SHED employment questions:**
  - All individuals asked about employment activities in the last month—if any employment, asked about nature of main job
  - Then asked whether did any of 11 or 12 types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

# Data on informal work activities

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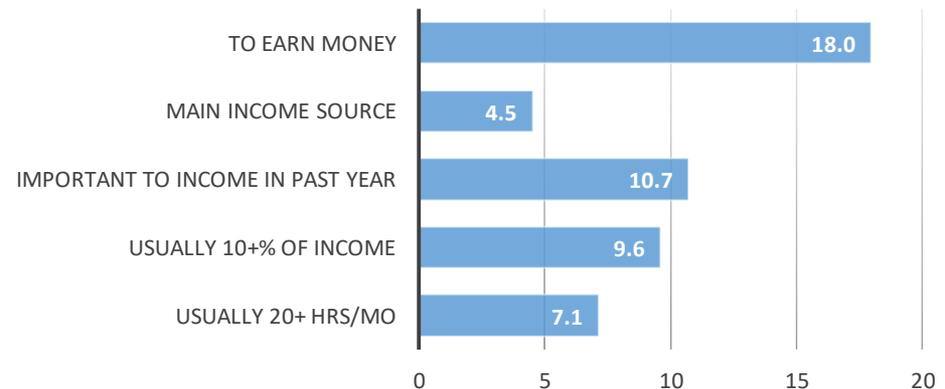
- **3 categories of informal work/side jobs for pay**
  - *Personal services* (e.g., childcare, eldercare, dog walking, house cleaning, yard work)
  - *Online activities* (on-line tasks, renting, selling, driving using ride-sharing apps)
  - *Offline sales, miscellaneous* (e.g., selling at thrift shops, 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

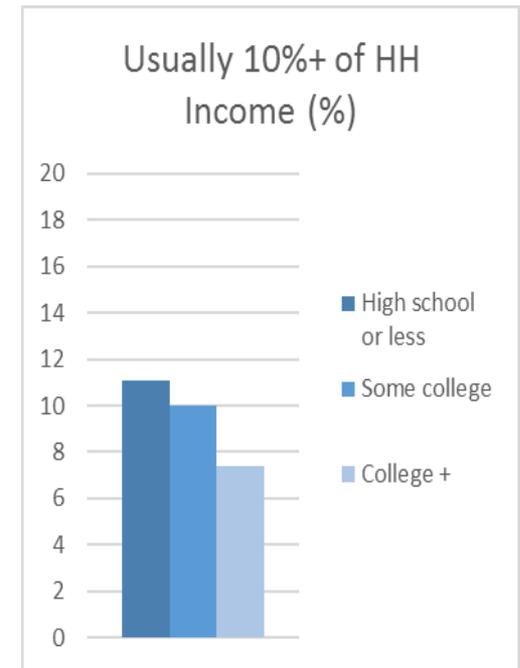
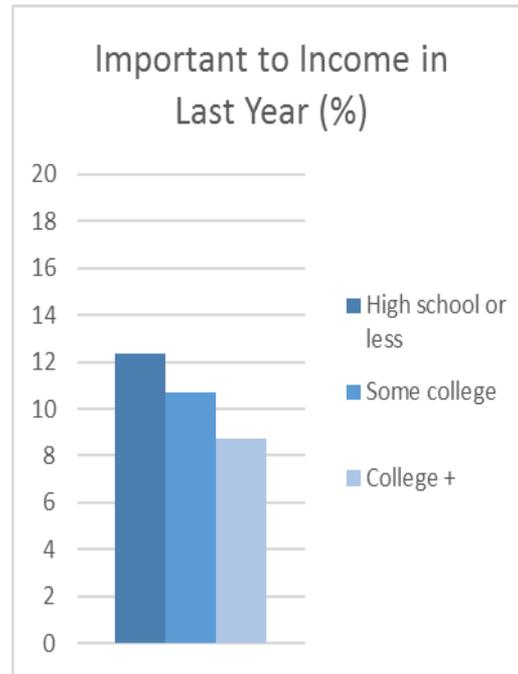
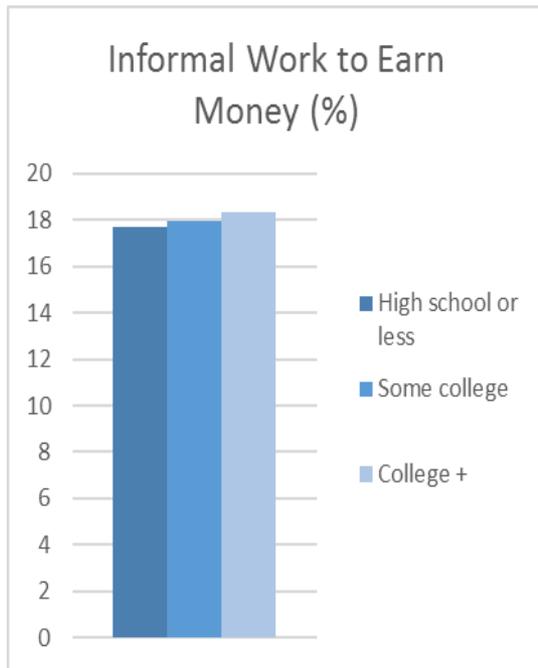


# Who does informal work and why?

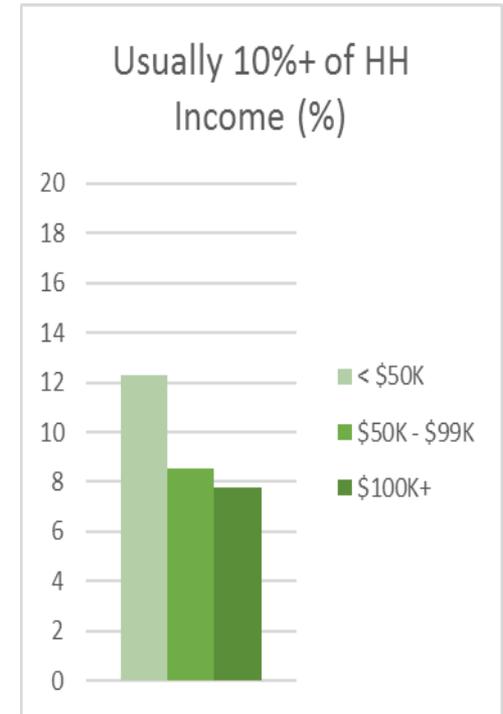
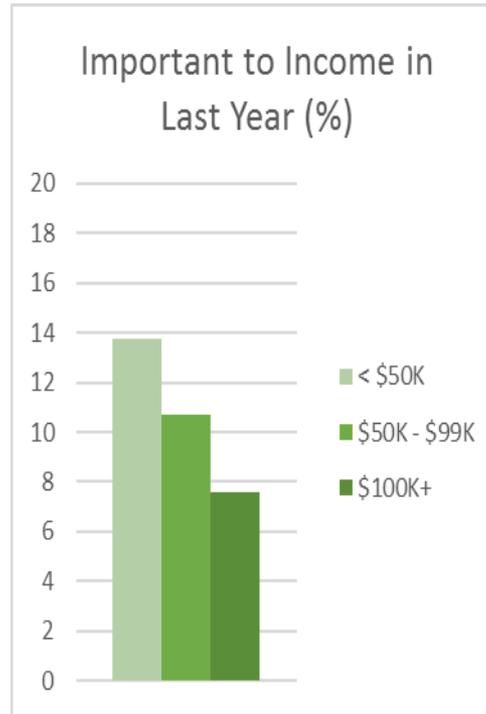
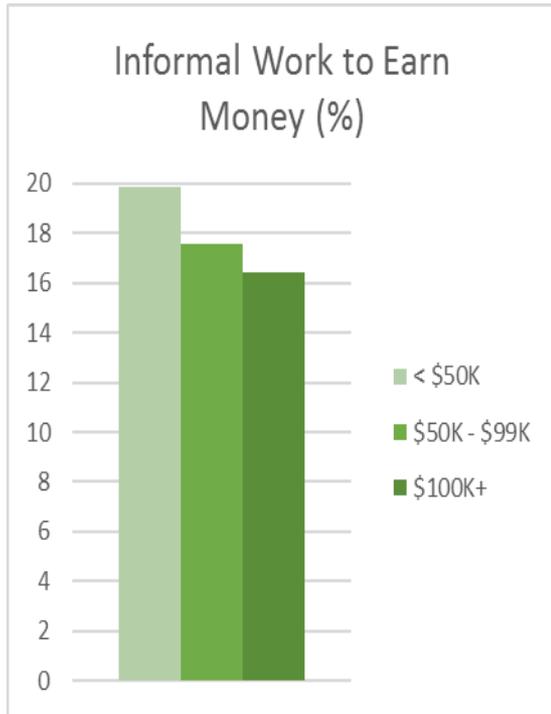
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- Youth, minorities, low-educated, low-income, other economically vulnerable groups, those who are in precarious or nonstandard work arrangements, and the unemployed generally significantly more likely to
  - Do informal work to earn money
  - View 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

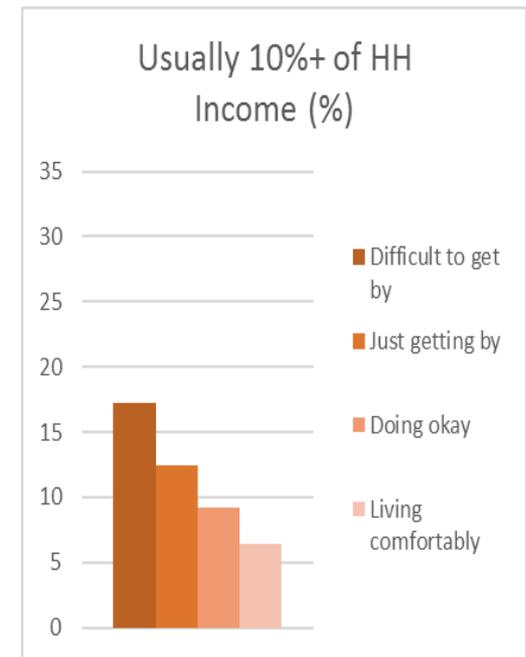
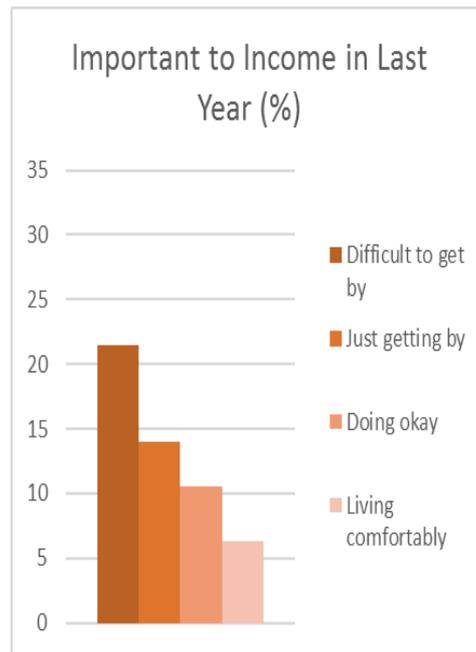
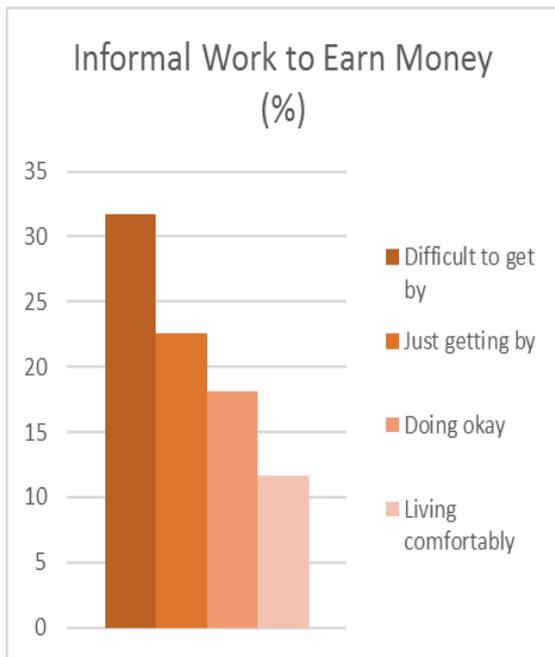
# Informal work by education



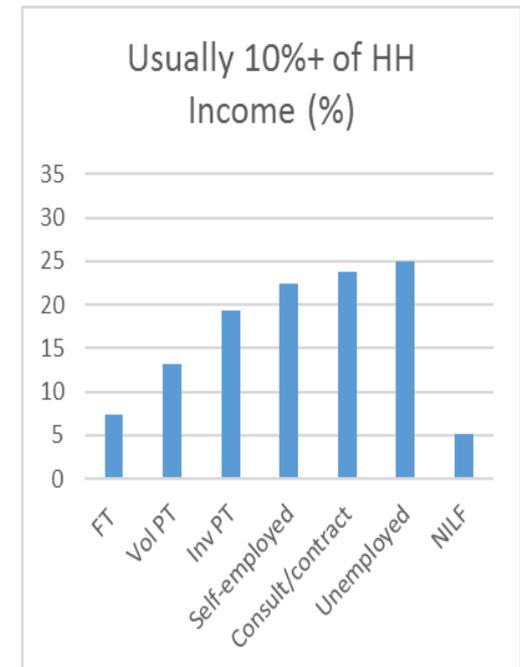
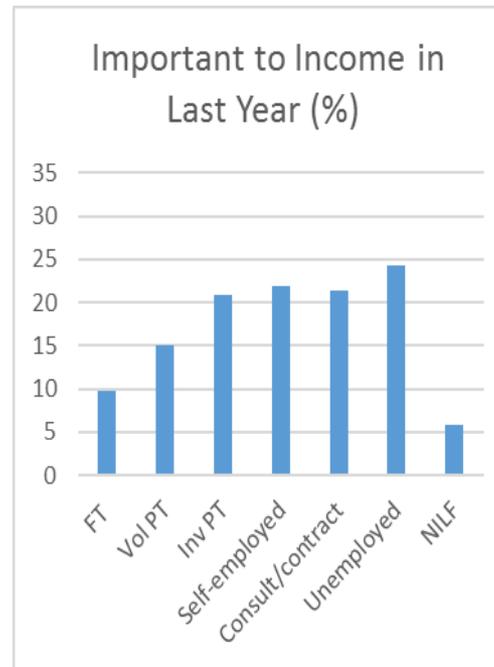
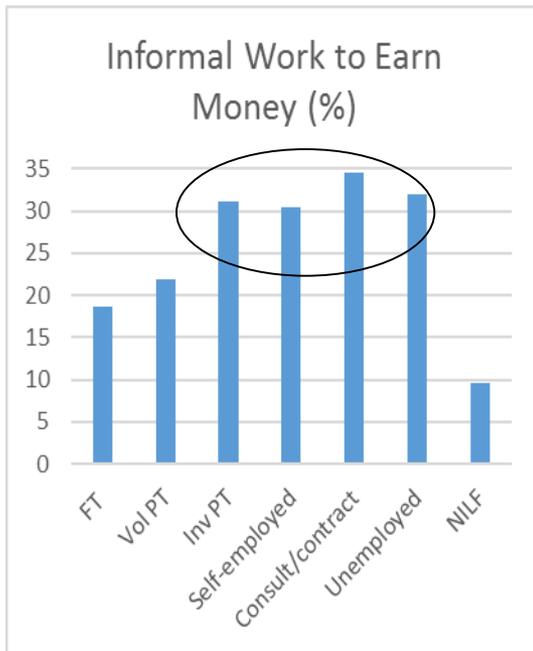
# Informal work by household income



# Informal work and financial stress



# Informal work by work arrangement on main job



# Gallup survey module

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- **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

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- 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

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- 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

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- 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

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- **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

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- **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

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- **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.**