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)
  
  o CWS throws “cold water on those hyping the explosion of freelancing and the rapidly changing nature of work.” Larry Mishel, EPI
  
  o Lesson from data: Focus on problems with regular jobs

• **Others skeptical about the numbers:**
  
  o “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**
  
  o 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
High prevalence of informal work in population overall
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 to Earn Money (%)
- Important to Income in Last Year (%)
- Usually 10%+ of HH Income (%)

[Bar charts showing data by education level: High school or less, Some college, College +]
Informal work by household income

- Informal Work to Earn Money (%)
- Important to Income in Last Year (%)
- Usually 10%+ of HH Income (%)
Informal work and financial stress

![Graph showing informal work to earn money](image)

![Graph showing important to income in last year](image)

![Graph showing usually 10%+ of HH income](image)
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.