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INDEPENDENT WORK: CHOICE, NECESSITY, AND THE GIG ECONOMY

OCTOBER 2016



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In the 25 years since its founding, the McKinsey Global Institute (MGI) has sought to develop a deeper understanding of the evolving global economy. As the business and economics research arm of McKinsey & Company, MGI aims to provide leaders in the commercial, public, and social sectors with the facts and insights on which to base management and policy decisions. The Lauder Institute at the University of Pennsylvania ranked MGI the world's number-one private-sector think tank in its 2015 Global Think Tank Index.

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Recent reports have assessed the economic benefits of tackling gender inequality, a new era of global competition, Chinese innovation, and digital globalization. MGI is led by four McKinsey & Company senior partners: Jacques Bughin, James Manyika, Jonathan Woetzel, and Eric Labaye, MGI's chairman. Michael Chui, Susan Lund, Anu Madgavkar, and Jaana Remes serve as MGI partners. Project teams are led by the MGI partners and a group of senior fellows, and include consultants from McKinsey offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. Input is provided by the MGI Council, which co-leads projects and provides guidance; members are Andres Cadena, Richard Dobbs, Katy George, Rajat Gupta, Eric Hazan, Acha Leke, Scott Nyquist, Gary Pinkus, Shirish Sankhe, Oliver Tonby, and Eckart Windhagen. In addition, leading economists, including Nobel laureates, act as research advisers.

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INDEPENDENT WORK: CHOICE, NECESSITY, AND THE GIG ECONOMY

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James Manyika | San Francisco
Susan Lund | Washington
Jacques Bughin | Brussels
Kelsey Robinson | San Francisco
Jan Mischke | Zurich
Deepa Mahajan | San Francisco

PREFACE

Anyone who has ever felt trapped in a cubicle, annoyed by a micromanaging boss, or fed up with office politics has probably dreamed of leaving it all behind and going it alone. The intensifying demands of corporate life are making this option more appealing for millions of workers around the world. Today, potentially transformative new digital platforms such as Airbnb, Uber, and Upwork are creating larger, more transparent, and more efficient marketplaces to connect freelancers with buyers of their services.

Independent work has seldom been the focus of policy, in part because the many permutations of such arrangements make it difficult to measure and pin down. MGI set out to illuminate this part of the economy by surveying more than 8,000 respondents across six countries. The results provide the most detailed view available to date on who participates in independent work, why they do it, and whether they are satisfied with their careers. With actions taken by all stakeholders to ease the transition to independent work, it could be a win-win for workers, companies, and the economy.

This research was led by James Manyika, a director of the McKinsey Global Institute based in San Francisco; Susan Lund, an MGI partner based in Washington, DC; Jacques Bughin, an MGI director based in Brussels; Jan Mischke, an MGI senior fellow based in Zurich; and Kelsey Robinson, a McKinsey associate partner based in San Francisco. The project team, led by Deepa Mahajan, included Sanchi Gupte, Valentin Liebhart, Crosbie Marine, Jai Sajjani, Michael Turek, and Antonia Woodford. Lisa Renaud served as senior editor. Sincere thanks go to our colleagues in operations, production, and external relations, including Tim Beacom, Marisa Carder, Matt Cooke, Deadra Henderson, Richard Johnson, Jason Leder, Julie Philpot, Rebeca Robboy, Margo Shimasaki, and Patrick White. We are also grateful to Alan Fitzgerald, Vivien Singer, and Jaroslaw Bronowicki for their research assistance.

This project benefited immensely from McKinsey colleagues sharing their expertise and insights. We are grateful to Rick Cavolo, Michael Chui, Chauncey Holder, Kunal Modi, and Ravi Chandra Chilakamarri Venkata.

Our academic advisers challenged our thinking and provided valuable feedback and guidance throughout the research. We thank Michael Spence, Nobel laureate and William R. Berkley Professor in Economics and Business at the NYU Stern School of Business; Laura Tyson, professor of business administration and economics at the Haas School of Business, University of California, Berkeley; and Andrew Stern, Ronald O. Perelman Senior Fellow of the Richman Center for Business, Law and Public Policy at Columbia University.

We are grateful to the many other experts and academics who generously shared their insights and reactions with us. These include Joshua Angrist and Erik Brynjolfsson of MIT; Jaap Buis of Randstad; Carl Camden, president and CEO of Kelly Services; Sara Horowitz, founder and executive director of the Freelancers Union; Lawrence Katz of Harvard University; Alan Krueger

of Princeton University; and Augustin Landier of the Toulouse School of Economics.

This independent MGI initiative is based on our own research, the experience of our McKinsey colleagues more broadly, and the McKinsey High Tech Practice's research collaboration with Uber, which included data and insights provided by Betsy Masiello, Jonathan Hall, Bo Iverson, Emily Oehlsen, and Rachel Whetstone. We also are grateful to Etsy, eBay, Upwork, and Thumbtack for allowing us to survey their workers and to Airbnb for generously sharing its own survey results with us.

We also benefited from publicly available government statistics in various countries and from the prior research of Lawrence Katz and Alan Krueger; the JPMorgan Chase Institute; the Freelancers Union and Upwork; Kelly Services; MBO Partners; David Blanchflower and Randstad; Augustin Landier; and the US Department of Commerce.

This report contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy and prepare for the next wave of growth. As with all MGI research, this work is independent, reflects our own views and has not been commissioned by any business, government, or other institution. We welcome your comments on the research at MGI@mckinsey.com.

Jacques Bughin

Director, McKinsey Global Institute
Senior Partner, McKinsey & Company
Brussels

James Manyika

Director, McKinsey Global Institute
Senior Partner, McKinsey & Company
San Francisco

Jonathan Woetzel

Director, McKinsey Global Institute
Senior Partner, McKinsey & Company
Shanghai

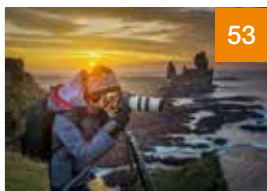


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IN BRIEF

INDEPENDENT WORK: CHOICE, NECESSITY, AND THE GIG ECONOMY

A full-time job with one employer has been considered the norm for decades, but increasingly, this fails to capture how a large share of the workforce makes a living. A narrow focus only on traditional jobs ignores tens of millions who put together their own income streams and shape their own work lives. Although independent work is not a new phenomenon, it does not fit neatly into official labor statistics. This report aims to fill some of the data gaps surrounding it.

- Independent work has three defining features: a high degree of autonomy; payment by task, assignment, or sales; and a short-term relationship between worker and client. Our definition encompasses people who provide labor services as well as those who sell goods or rent assets.
- Our research reveals that 20 to 30 percent of the working-age population in the United States and the EU-15, or up to 162 million individuals, engage in independent work. This is based on analysis of existing data as well as an extensive MGI workforce survey across six countries.
- Digital platforms are transforming independent work, building on the ubiquity of mobile devices, the enormous pools of workers and customers they can reach, and the ability to harness rich real-time information to make more efficient matches. Today these online marketplaces are used by 15 percent of independent workers. But the rapid growth of the largest platforms suggests we have only just begun to see their impact.
- There are four key segments of independent workers: Thirty percent are “free agents,” who actively choose independent work and derive their primary income from it. Approximately 40 percent are “casual earners,” who use independent work for supplemental income and do so by choice. “Reluctants,” who make their primary living from independent work but would prefer traditional jobs, make up 14 percent. The “financially strapped,” who do supplemental independent work out of necessity, account for 16 percent.
- Those who do independent work by choice (free agents and casual earners) report greater satisfaction with their work lives than those who do it out of necessity (reluctants and the financially strapped), a finding that holds across countries, age, income, and education. In fact, free agents report even higher levels of satisfaction than those in traditional jobs by choice. Those working out of necessity, whether as independent workers or in traditional jobs, report similar levels of dissatisfaction with their work.
- Independent work is rapidly evolving as digital platforms create large-scale, efficient marketplaces where workers connect with buyers of services. While this digital transformation unfolds, several other forces may fuel growth in the independent workforce: the stated aspirations of traditional workers who wish to become independent, the large unemployed and inactive populations who want to work, and increased demand for independent services from both consumers and organizations.
- Independent work could have benefits for the economy, cushioning unemployment, improving labor force participation, stimulating demand, and raising productivity. Consumers and organizations could benefit from the greater availability of services and improved matching that better fulfills their needs. Workers who choose to be independent value the autonomy and flexibility.

Despite its benefits, independent work involves some trade-offs. There is more work to do on issues such as benefits, income security measures, access to credit, and training and credentials. Some of these may call for policy changes; others could be solved by innovators and new intermediaries. Tackling these challenges could make independent work a more feasible option for individuals.

THE INDEPENDENT WORKFORCE

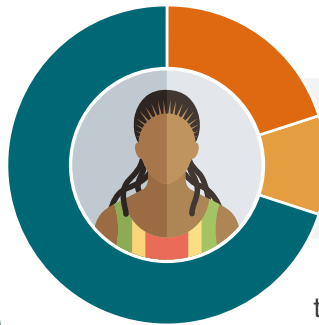


The DEFINING FEATURES of INDEPENDENT WORK:

High level of control and autonomy

Payment by task, assignment, or sales

Short-term duration



In the **United States** and the **EU-15**¹

Independent workers make up **20–30%** of the working age population

this is up to **162 million** people



	Primary income	Supplemental income
Preferred choice	“Free agents” 30% 49 million	“Casual earners” 40% 64 million
Out of necessity	“Reluctants” 14% 23 million	“Financially strapped” 16% 26 million

DIGITAL PLATFORMS



15% of independent workers have used a digital platform



WHAT STILL NEEDS TO BE DONE?

POLICY MAKERS

Collect better data
Address gaps in worker protections, benefits, and income security

INNOVATORS

Explore opportunities to create new marketplaces and tools

ORGANIZATIONS

Consider how digital technologies allow you to utilize external talent

INDEPENDENT WORKERS

Think like a business
Develop differentiated skills

¹ Results from UK, Germany, France, Spain, and Sweden scaled up to EU-15.



EXECUTIVE SUMMARY

The popular concept of work as a traditional 9-to-5 job with a single employer bears little resemblance to the way a substantial share of the workforce makes a living. Millions of the self-employed, freelancers, and temporary workers—as well as individuals renting out rooms on Airbnb, driving for Uber, or selling goods on eBay—are part of a significant trend that we call “independent work.”

20-30%

of the working-age population in the US and EU-15 engaged in independent work

Although independent work has a long history, it has never been clearly defined or consistently measured in official labor statistics. This report aims to fill in that gap. We used government data and findings from other studies to estimate the size of the independent workforce. To get a deeper understanding, we undertook an extensive survey of more than 8,000 respondents in the United States, the United Kingdom, Germany, Sweden, France, and Spain.¹ Our goals were to size independent work and to understand who does it and why as well as how satisfied they are.

Overall, we estimate that the independent workforce is larger than previously recognized: some 20 to 30 percent of the working-age population in the United States and the EU-15 countries are engaged in some form of independent earning today.² More than half of them use independent work to supplement their income rather than earning their primary living from it. The majority of independent workers, both supplemental and primary earners, pursue this path out of preference rather than necessity—and they report being highly satisfied with their work lives. However, about 30 percent participate out of necessity and would prefer traditional jobs if they could find the right fit.

Most independent workers have actively chosen their working style and report high levels of satisfaction with it.

While only 15 percent of independent earners use them today, digital platforms such as Upwork, Uber, Airbnb, or Etsy have been growing rapidly. These types of online marketplaces could eventually have a transformative impact by efficiently matching a larger pool of workers with consumers of their services.

Independent work has significant growth potential in the years ahead, based on the stated aspirations of individuals and growing demand for services from consumers and organizations alike. This shift could have real economic benefits by raising labor force participation, stimulating consumption, providing opportunities for the unemployed, and boosting productivity. But some key challenges will need to be addressed in order to make this a feasible and satisfying development for workers. (See Box E1, “How we define “independent work”.)

¹ This report does not assess independent work in emerging economies. In those countries, a majority of the workforce is often self-employed or outside traditional jobs.

² We extrapolate the results from the five European countries we surveyed to the full set of EU-15 countries by weighting for population. The EU-15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Throughout this report, when we refer to Europe, we are referring to the EU-15.

Box E1. How we define “independent work”

We look at the full spectrum of ways in which individuals earn income outside of the traditional employee role, focusing on the characteristics of the work itself rather than the legal arrangements surrounding it. Focusing on the characteristics of the work enables us to compare across geographies, as government classifications vary across countries. Additionally, some independent workers choose to incorporate or form some other business entity, while others in the same occupation do not. Our definition thus allows us to count them in the same way since they are performing the same work.

Our definition focuses on three key features:

- A high degree of autonomy: Independent workers have a high degree of control and flexibility in determining their workload and work portfolio. They can decide which assignments to accept based on criteria such as the fee, the desirability of the client, or the timing, and they can change those choices over time.
- Payment by task, assignment, or sales: Independent earners are paid by the task, assignment, contract, or the volume of sales they make. Unlike salaried employees, they are not paid for time not spent working.
- Short-term relationship between the worker and the customer: Independent earners perform short-term assignments, such as giving someone a ride, designing a website, treating a patient, or working on a legal case. Both the worker and the customer acknowledge the limited duration of the relationship. Some contracts may extend for months or even years, at which point the individuals become indistinguishable from traditional employees; we therefore define independent work as assignments lasting less than 12 months.

We distinguish three main categories of independent workers: those who provide labor services, sell goods, and rent out assets (for example, a spare room). All three categories involve an investment of time and effort, but they are not mutually exclusive, and many individuals participate in more than one category.

We use the terms “independent worker” and “independent earner” interchangeably throughout this report. On the other side of the exchange is the buyer of the service or task, which could be an individual consumer, a company, or an organization. We call this party the “customer,” “client,” “buyer,” or “consumer.” Finally, independent work is sometimes facilitated by a third party, such as a staffing agency for temporary assignments or a digital platform that coordinates supply and demand to make the match. Some go further to provide ancillary services such as transaction support and review and feedback mechanisms. We call this party the “intermediary” or “digital platform,” applying similar criteria as those used by the US Department of Commerce.¹ However, intermediaries are not a necessary component of independent work, most of which takes place through direct transactions.

It is important to note what our definition excludes. First, we do not include “fissured workers.”² These individuals are caught in the growing trend of companies splitting off non-core functions (such as technical support, janitorial services, and security) and turning them over to vendors and subcontractors. Although this work is outsourced, most of the people performing it are traditional employees of the subcontractor. We also exclude self-employed people who themselves have many employees and people on long-term or continuously renewed short-term contracts (“permatemps”), a trend in some European countries. These individuals are expected to keep regular work schedules with little autonomy, and they have a continuous relationship with their employer, even if they are legally classified as contractors.

¹ Rudy Tellis Jr., *Digital matching firms: A new definition in the “sharing economy” space*, US Department of Commerce Economics and Statistics Administration, ESA issue brief number 01-16, June 2016.

² David Weil, *The fissured workplace: Why work became so bad for so many and what can be done to improve it*, Harvard University Press, 2014.

THERE ARE UP TO 162 MILLION INDEPENDENT WORKERS IN THE UNITED STATES AND THE EU-15

Historically, much of the labor force was independent until more structured employer-employee relationships became a useful way to organize manufacturing activity in the Industrial Revolution. Although payroll jobs became the dominant working style in advanced economies, independent work remained commonplace in many professions even before the rise of new digitally enabled models.

Despite this long history, the independent workforce is not comprehensively tracked in the United States and Europe. But government data do provide some evidence on the number of people engaged in independent work as their primary source of income (see Box E2, “Data problems and MGI’s survey of independent work”). We use the self-employed and temporary workers as a proxy for our definition of independent work.³ These workers make up 11 percent of the US working-age population and 12 to 17 percent of the working-age population across the five European nations we studied.

Yet government data significantly undercount those who engage in independent work to supplement their income. These individuals may be traditional jobholders who do independent work on the side, or they may be retirees or students who do not fully rely on these earnings. Some 70 percent of Etsy sellers and 60 percent of Uber drivers in the United States have some other form of primary income, for instance.⁴ Other private studies do count supplemental earners among the independent workforce. The Freelancers Union, for example, estimates that 54 million Americans (22 percent of the working-age population) are freelancers or self-employed in their primary or secondary jobs.

MGI conducted its own survey to gain a more comprehensive view into independent work, and we use the results to complement our analysis of official data and findings from other published studies. We conclude that independent work is a much bigger phenomenon than official statistics indicate (Exhibit E1). Across our six survey countries, we find that 10 to 15 percent of the working-age population relies on independent work for their primary income. This is slightly lower than official estimates, largely because some self-employed and temporary workers lack autonomy or control over scheduling and do not fit our definition.⁵ But the MGI survey reveals that another 10 to 15 percent of the working-age population engages in independent work for supplemental income. The vast majority do so by providing services (only 2 to 3 percent of the working-age population in the US and Europe sell goods, and only 1 percent rent out assets).

Overall, our research suggests that there are 54 million to 68 million independent earners in the United States as well as 30 million to 62 million across our five European survey countries. Extrapolating our survey results across all EU-15 countries yields an estimated 60 million to 94 million independent earners.⁶ This adds up to an independent workforce of up to 162 million people in the United States and Europe combined.

More than
50%
of independent
workers in all
survey countries
are supplemental
earners

³ In the United States, a 2016 survey by Lawrence Katz and Alan Krueger found that the share of the US workforce engaged in “alternative work arrangements” grew from 10 percent in 2005 to 16 percent in 2015. This includes on-call workers, contracted-out workers, independent contractors, and temporary help agency employees.

⁴ Jonathan Hall and Alan Krueger, *An analysis of the labor market for Uber’s driver-partners in the United States*, Princeton University Industrial Relations Section working paper number 587, January 2015; *Building an Etsy economy: The new face of creative entrepreneurship*, Etsy, July 2015.

⁵ In fact, we classified about one in three people who reported earning income through a temporary contract and one in five who stated they were self-employed as traditional workers based on their lack of autonomy and flexibility.

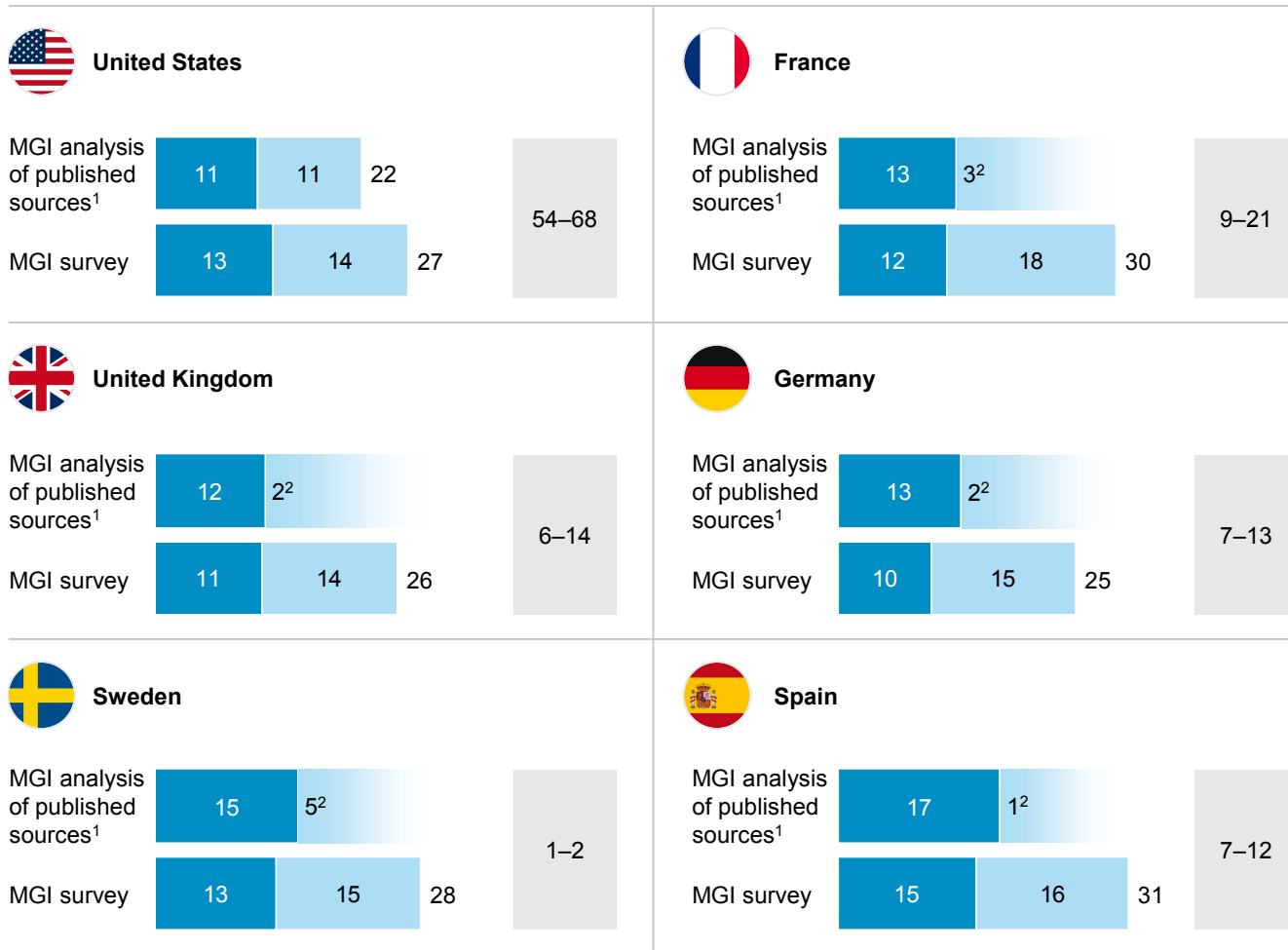
⁶ Our estimates are presented as ranges. The lower end is based on an analysis of government data and other published studies, while the upper end gives results from the MGI survey.

Exhibit E1

MGI's survey indicates that the independent workforce is larger than previous estimates

Independent workers as % of total working-age population

■ Primary workers ■ Number of independent workers (million)
 ■ Supplemental workers



1 Based on an analysis of government sources as well as other published surveys.
 2 Published sources in Europe that capture supplemental work are limited. We have included gradients to represent the fact that the share of those engaged in independent work is much higher than published estimates in those countries suggest.

SOURCE: US Bureau of Labor Statistics; Freelancers Union; Katz and Krueger, *The rise and nature of alternative work arrangements in the United States, 1995-2015*; Kelly Services; Burson-Marsteller; MBO Partners; Eurostat; UK Labour Force Survey; McKinsey Global Institute analysis

Box E2. Data challenges and MGI's survey of independent work

Independent work has never found a comfortable fit within government labor statistics, and official data collection on this segment of the workforce is insufficient and outdated. In the United States, the government stopped conducting its Contingent Worker Supplement to the Current Population Survey, the key source of information, in 2005.¹ It is also difficult to make cross-country comparisons as governments use varying terminology for certain employment arrangements. A number of studies have attempted to measure the independent workforce, with notably more evidence for the United States than Europe.² Even these remain far from complete, however, and most use differing definitions. But recently, steps have been taken to improve the situation. The US government will run the CPS Supplement next year, and other supporting efforts are being convened through the Department of Commerce.

To provide additional insight, MGI conducted an extensive online survey in June and July 2016, reaching more than 8,000 respondents in the United States, the United Kingdom, Germany, Sweden, France, and Spain. The survey panel was a representative sample of the working-age population in each country controlling for demographics, including age, gender, and income.³ We asked respondents to detail all of their sources of income over the past 12 months, including their primary work as well as any additional income-generating activities. It also asked about their satisfaction with their work lives and about their desired future work arrangement. We did not probe into legal job classifications, hourly wages, or the trade-offs workers would make for independence. These issues will need further research.

¹ In 2015, economists Lawrence Katz and Alan Krueger partnered with the Rand Corporation to conduct a similar survey. See *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

² See, for example, *Freelancing in America: 2015*, Freelancers Union and Upwork, October 2015; and Teresa Carroll, *Agents of change: Independent workers are reshaping the workforce*, Kelly Services, September 2015.

³ Our sample was, on average, slightly more educated than the general population. We also acknowledge that our online survey may not reflect the full extent of workers in the informal economy who are offline, have language barriers, are paid off the books, or do not have official immigration status, since these populations are difficult to survey.

THE INDEPENDENT WORKFORCE IS DIVERSE

The MGI survey reveals that the independent workforce is diverse in terms of age, income levels, educational attainment, and gender—and this holds true across countries. The desire to be your own boss clearly cuts across borders. We also find independent workers in all occupations and industries, roughly mirroring the broader sector mix of each country.

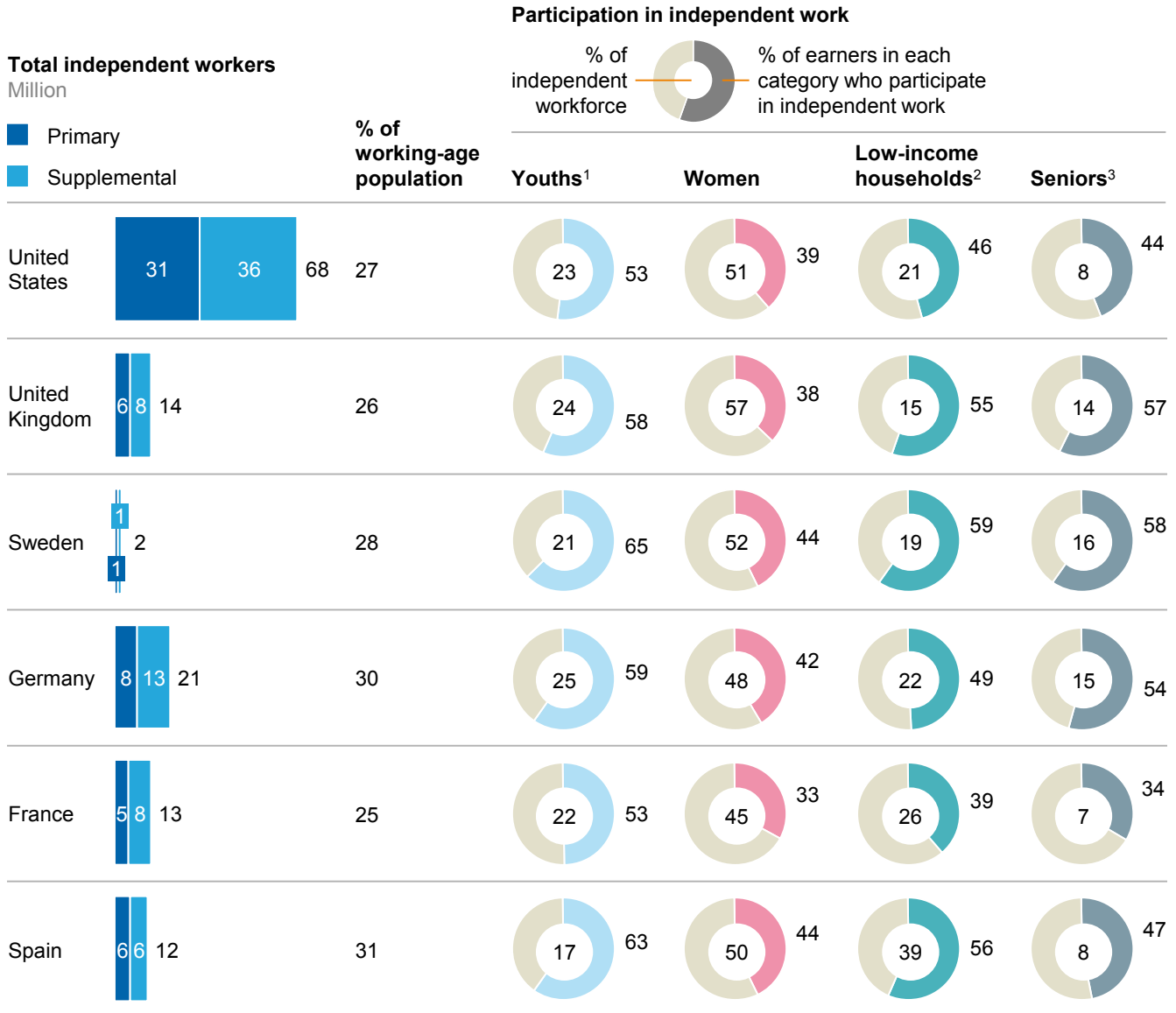
Our survey debunks some common myths. First, independent work is not dominated by millennials. While more than half of those under age 25 participate in all countries, they represent less than one-quarter of independent workers (Exhibit E2). Nor is independent work solely about low-income workers doing one-off jobs to make ends meet. Although 40 to 55 percent of low-income households engage in independent work, they make up less than 25 percent of all independent earners in all countries except Spain. While independent work is prevalent in the construction trades, household and personal services, and transportation, it is also preferred by many professionals such as doctors, therapists, lawyers, accountants, interior designers, and writers.

While the independent workforce share looks remarkably similar across countries, the economic context matters as well. Against a backdrop of persistently high unemployment, Spain, for example, has a larger share of independent earners than our other survey countries, and nearly 40 percent of them are low-income. Working on temporary contracts is commonplace in Spain, creating a two-tiered labor market. Nearly two-thirds of young people in Spain are independent workers, and they are disproportionately in temporary contracts.

Exhibit E2

Independent workers span all demographic groups

Responses from MGI Survey



1 Defined as under age 25.
 2 Defined as below \$25,000 or similar across countries.
 3 Defined as ages 65+.

NOTE: Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; McKinsey Global Institute analysis

MOST PEOPLE DO INDEPENDENT WORK BY CHOICE RATHER THAN NECESSITY

Our research suggests that many independent workers choose this working style because they are attracted by its autonomy and flexibility. Others are driven by economic circumstances and labor market conditions.

There are four key segments of independent workers. We look at whether they earn their primary living from independent work or whether they use it for supplemental income, and we distinguish between those who are independent by choice vs. those who are independent out of economic necessity:

- **Free agents** derive their primary income from independent work and actively prefer it.
- **Casual earners** use independent work for supplemental income and do so by choice. Some have traditional jobs, while others are students, retirees, or caregivers.
- **Reluctants** derive their primary income from independent work but would prefer a traditional job.
- **The financially strapped** do independent work for supplemental income, but they would prefer not to have to do side jobs to make ends meet.

Casual earners constitute the largest segment of the independent workforce in all six countries, followed by free agents (see infographic, “Defining independent work”). Combining these two groups, approximately 70 to 75 percent of independent earners are independent as a matter of preference (with the exception of Spain, where the share is only 58 percent). This echoes other studies showing that roughly 60 to 80 percent of people who freelance do so by choice.⁷ In addition, we found that people who participate in independent work through digital platforms are more likely to do so by choice than those who do not.

1 IN 6
workers in
traditional jobs
would like to
become primary
independent
earners

Although they constitute a minority of the independent workforce, millions of workers are independent out of necessity and not choice.

Although the reluctants and the financially strapped together constitute a minority of independent earners, the magnitude of the problem is still striking. Scaling up the results of our survey suggests that 50 million Americans and Europeans are independent out of necessity, and more than 20 million of them rely on independent work as their primary source of income. For them, independent work is simply better than the alternative of unemployment or an undesirable traditional job. Temporary workers are clearly part of this story. Many are not in temporary roles by choice; they would prefer the perceived stability of a traditional job.

While many independent workers want traditional jobs, the MGI survey also reveals that roughly one in six people in traditional jobs would like to become a primary independent earner. In absolute numbers, this group totals more than 42 million people in the United States and the EU-15. In fact, for every primary independent worker who would prefer a traditional job, more than two traditional workers hope to shift in the opposite direction.

⁷ A 2015 Freelancers Union and Upwork survey (*Freelancing in America: 2015*) found that 60 percent of freelancers became independent by choice, an increase of seven percentage points from 2014. A survey by MBO Partners has shown consistently over the past few years that six in ten freelancers do so by choice.

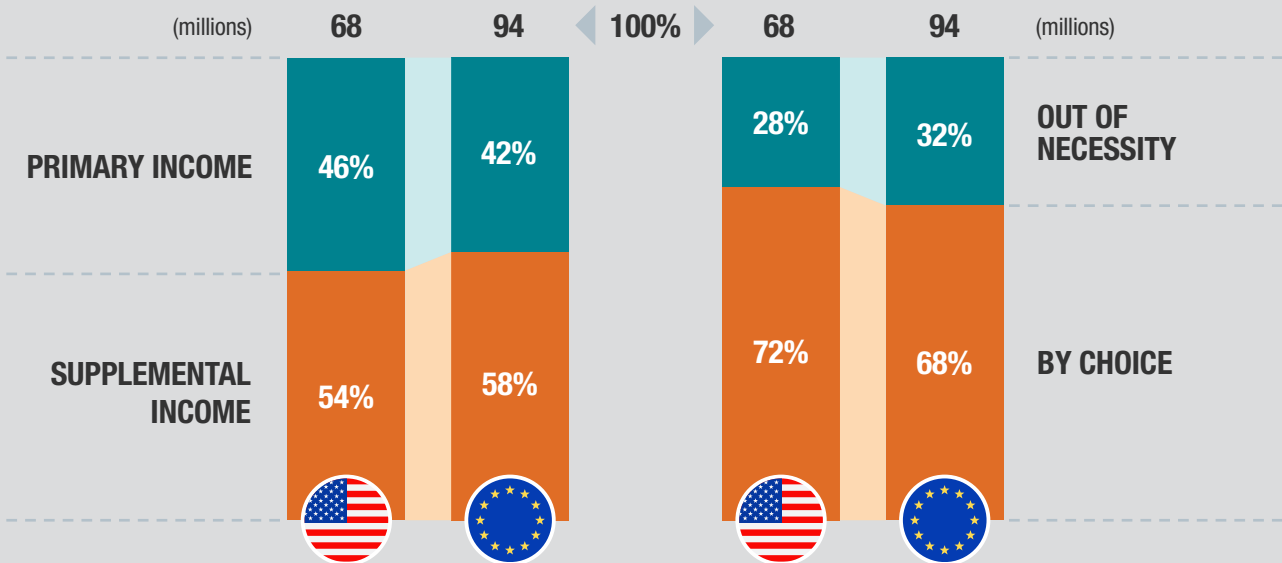


FOUR SEGMENTS OF INDEPENDENT WORKERS

“Independent work is my ...”

	PRIMARY INCOME	SUPPLEMENTAL INCOME
PREFERRED CHOICE	<p>FREE AGENTS</p> <p>Derive their primary income from independent work and actively choose this working style</p> <p><i>Example: A self-employed plumber or a chiropractor in private practice</i></p>	<p>CASUAL EARNERS</p> <p>Use independent work to supplement their income and do so by choice. Some have traditional primary jobs, while others are students, retirees, or caregivers.</p> <p><i>Example: A hobby crafter who sells scarves or a professor who gives paid speeches</i></p>
NECESSARY CHOICE	<p>RELUCTANTS</p> <p>Derive their primary income from independent work but would prefer traditional jobs</p> <p><i>Example: A short-term temporary worker who would prefer a more permanent job</i></p>	<p>FINANCIALLY STRAPPED</p> <p>Do independent work to supplement their income but would prefer not to have to do side jobs to make ends meet</p> <p><i>Example: A janitor who doubles as a housepainter on the weekends</i></p>

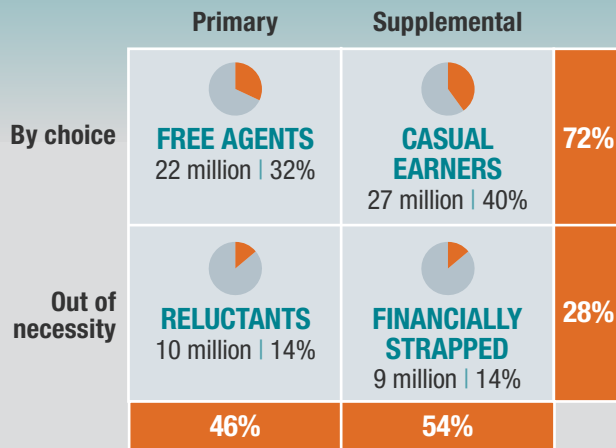
THIS SEGMENTATION VARIES SLIGHTLY IN THE UNITED STATES AND THE EU-15¹





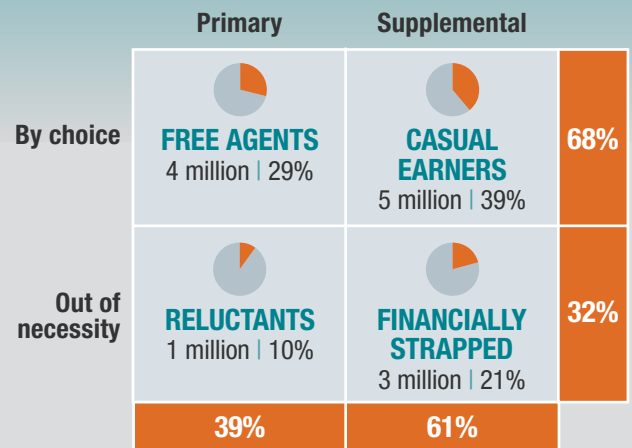
UNITED STATES

68 million independent workers



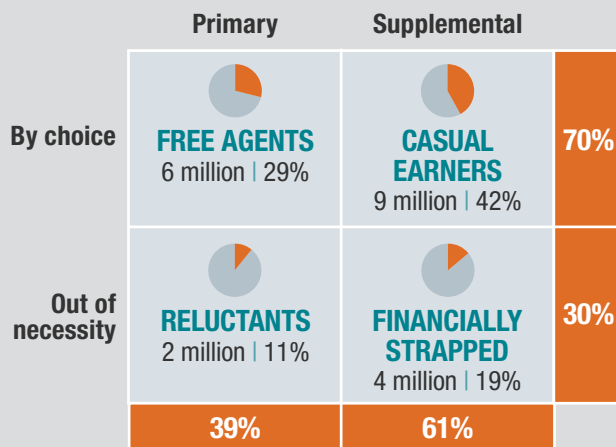
FRANCE

13 million independent workers



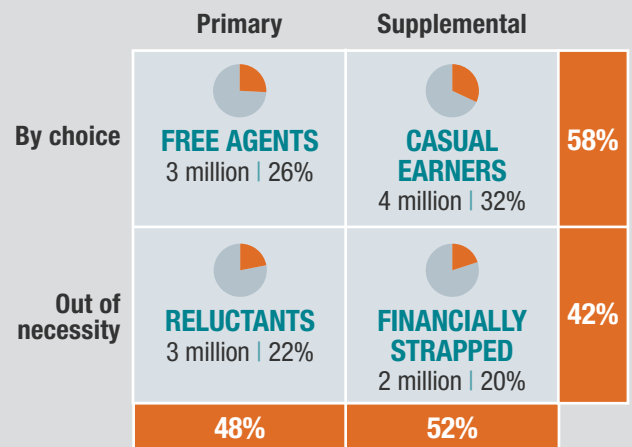
GERMANY

21 million independent workers



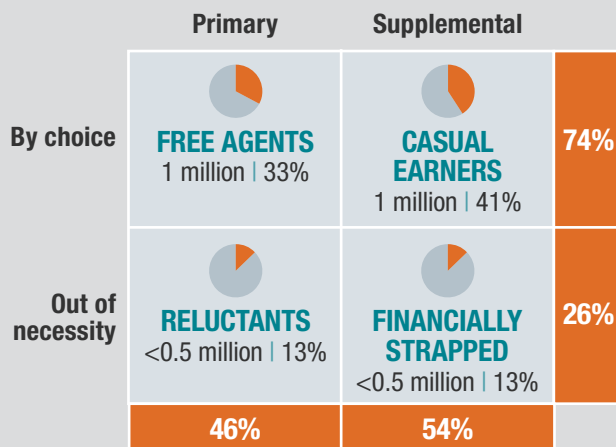
SPAIN

12 million independent workers



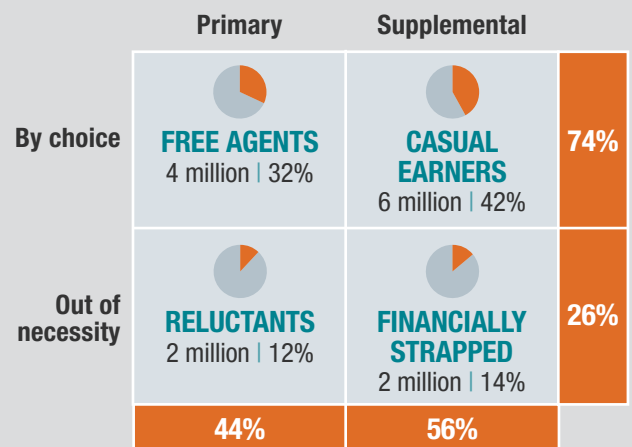
SWEDEN

2 million independent workers



UNITED KINGDOM

14 million independent workers



INDEPENDENT WORKERS BY CHOICE REPORTED HIGHER LEVELS OF SATISFACTION THAN ANY OTHER GROUP IN OUR SURVEY

The MGI survey asked respondents to rank their satisfaction on 14 aspects of their work life. Free agents report higher satisfaction than those who choose traditional jobs on 12 of the 14 dimensions we measured, and they are just as satisfied on the remaining two dimensions (Exhibit E3). They are more engaged in their work, and they relish the chance to be their own boss and have more control over their hours. Free agents cite higher satisfaction than traditional workers across issues ranging from the creativity they can express to opportunities for learning and recognition. They are happier with their overall level of income and are just as satisfied as traditional workers on income security and benefits. These observations hold regardless of gender, age, education level, or household income.

Casual earners also rate their satisfaction higher than those who solely hold traditional jobs on five of the 14 dimensions we measured and are equally satisfied on the others. Some may have turned hobbies into paying assignments, or they simply enjoy work that provides a change of pace from their primary activities.

People who actively chose their working style reported greater satisfaction than those who felt forced by circumstance.

By contrast, people who do not work in their preferred manner—whether they are independent or in traditional jobs—are notably less satisfied than those who are able to follow their preferences. However, in comparing these two subsets, those working independently out of necessity report being happier with the flexibility and content of the work they do but less satisfied with their level of income level and their income security. In fact, independent earners working out of necessity mainly like the flexibility of the work while those by choice enjoy myriad attributes of the work. Expanding economic opportunities and income security policies for this group should be a priority.



Exhibit E3

Independent workers report higher levels of satisfaction on many aspects of their work life than traditional workers

Satisfaction scores from MGI survey
(95% confidence)

■ Satisfaction higher than traditional workers
■ Satisfaction not significantly different
■ Satisfaction lower than traditional workers

In your work life, how satisfied are you with ¹	By choice			By necessity	
	Traditional by choice Mean rating ³ (n = 2,594) ⁴	Independent Compared to traditional ²		Traditional by necessity Mean rating ³ (n = 774) ⁴	Independent by necessity Compared to traditional (n = 637) ⁴
		Free agents (n = 668) ⁴	Casual earners (n = 772) ⁴		
The topics/activities you are working on	4.60	Work topic		4.32	Work topic
Overall work life	4.58	Overall work life		4.30	
The number of hours you work	4.52	Hours worked		4.34	
Independence in your work life	4.49	Independence	Independence	4.33	Independence
The atmosphere at your workplace	4.46	Atmosphere	Atmosphere	4.26	Atmosphere
Your boss	4.40	Boss	Boss	4.21	
Your level of empowerment	4.34	Empowerment		4.06	
The creativity you can express at work	4.33	Creativity		4.08	
Your income security	4.33			4.10	Income security
Your benefits (e.g., health care)	4.31			3.99	
Your ability to choose your working hours	4.31	Flexible hours	Flexible hours	4.16	Flexible hours
Your opportunities to learn, grow, and develop	4.24	Opportunities		4.06	
Flexibility regarding where you work	4.20	Flexible location	Flexible location	4.13	Flexible location
Recognition you receive	4.13	Recognition		3.91	
Your level of income	4.01	Income level		3.89	Income level

1 Question asked: "How satisfied are you with your current overall work life?" Select from a 6-point scale. "In your work life, how satisfied are you with [attribute listed]?" Select from a 6-point scale.

2 Free agents and casual earners are compared to traditional workers by choice, independent by necessity to traditional by necessity.

3 Weighted average of satisfaction scale: 6 = completely satisfied, 5 = mostly satisfied, ..., 1 = completely dissatisfied.

4 Total unweighted number of respondents. Not all respondents answered all of the subquestions.

SOURCE: McKinsey Global Institute analysis

DIGITAL PLATFORMS FOR INDEPENDENT WORK ARE TRANSFORMATIVE

Despite their extensive media coverage, digital “on-demand” or “sharing economy” platforms such as Uber, Lyft, TaskRabbit, Upwork, Freelancer.com, Thumbtack, Airbnb, and the like facilitate only a small fraction of independent work today. Our own survey finds that only about 4 percent of the working-age population has used digital platforms to generate income.⁸

But these platforms have grown rapidly in the past few years, and 15 percent of independent workers have used them to earn income. Those who sell goods are most likely to do so—in this case, by listing on e-commerce marketplaces such as eBay and Etsy. Between 25 and 40 percent of those who earn independently by leasing assets use digital platforms such as HomeAway, Airbnb, or VRBO. Platforms for offering services, such as Uber, TaskRabbit, and Upwork, were used by only 6 percent of independent earners in the United States and the EU-15 (Exhibit E4).

Exhibit E4

Independent workers who sell goods or lease assets are more likely to use digital platforms than those who provide labor services

Responses from MGI Survey
United States and EU-15



	Population	Share that have earned income from a digital platform %	Number of digital platform users	
All independent workers	162 million	15	24 million	
Workers who provide labor	150 million	6	9 million	Example platforms <ul style="list-style-type: none"> Freelance Physician Deliveroo TaskRabbit Uber Upwork
Workers who sell goods	21 million	63	13 million	<ul style="list-style-type: none"> Etsy eBay DaWanda
Workers who lease assets	8 million	36	3 million	<ul style="list-style-type: none"> Airbnb Boatbound Getaround BlaBlaCar

1 EU-15 based on population-weighted extrapolation from five countries surveyed: United Kingdom, Germany, France, Spain, Sweden.

SOURCE: McKinsey Global Institute analysis

As digital platforms expand, they could have a transformative effect when applied to the labor market. Decades ago, Ronald Coase noted that companies gather many functions within one organization because it was too cumbersome and costly to coordinate all

⁸ This is in line with *Paychecks, paydays, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016, which found that 4 percent of US adults earned money through these “gig economy” platforms.

transactions through an external marketplace. But the Internet is dramatically reducing those costs, making it possible to conduct more transactions beyond the boundaries of a firm. Digital platforms that create marketplaces for labor services further amplify that benefit. Markets for independent work could be transformed in several ways:

- **Larger scale.** Digital matching platforms establish huge webs of connected users and create transparent markets in which buyers and sellers find each other with a few clicks. For activities that do not require in-person services, the potential scale of the market is global, given the ubiquity of connected and smart digital devices.
- **Faster and better matches from real-time information.** Digital platforms accelerate matching. Efficient search algorithms can match to the specifics of the task, good, or asset being offered or sought. They may be combined with real-time information that allows for more seamless and efficient coordination between the two transacting parties, even down to time and location.
- **Richer information signals and ancillary services.** Digital platforms enable workers and clients to share profile data and endorsements; often the platform itself collects data that help provide credibility for both independent workers and their customers, before and after the transaction. Buyers and sellers can build trust immediately because ratings and reviews are aggregated from past interactions. They further remove risk by instituting a payment infrastructure and a protocol that has to be followed as a condition of participation.
- **Near-zero marginal costs.** The cost of adding more participants is negligible for the platforms themselves, and the barriers to entry for new workers to join can be similarly low. Individuals can easily create a profile and start looking for assignments right away on a platform such as Freelancer.com. Independent artisans can set up shop for free on Etsy and post listings for 20 cents each.

Digital technologies have made it possible for new players to enter ecosystems of independent work and provide better matching mechanisms, in some cases creating new demand and making new types of independent earning activities possible.

The real question underlying the growth of digital platforms for independent work is not how the numbers could grow. It is whether digital platforms could begin to challenge established notions of how companies are organized. Technology makes it conceivable that the old model of a corporation with employees in an elaborate hierarchy of specialized functions could one day give way to leaner core organizations that rely on a loose network of external providers for many activities. Just as working models changed in the wake of the Industrial Revolution, the nature of work may be evolving again as the digital revolution takes hold.

THE INDEPENDENT WORKFORCE COULD GROW LARGER IN THE YEARS AHEAD

Several factors point to further growth potential for the independent workforce. In the MGI survey, approximately 14 percent of those in traditional jobs and people who are not currently working reported that they would like to become independent primary earners—and say they are “somewhat likely” or “very likely” to pursue this aspiration.

In addition to drawing people out of traditional jobs, independent work may reengage some portion of the inactive and unemployed population. Government data reveal 232 million adults in the United States and the EU-15 are inactive, unemployed, or work less than full time—and at least 100 million of them would like to start working or increase their hours (20 million in the United States, and 84 million in the EU-15). Flexible opportunities are especially well suited to students, retirees, the disabled, and caregivers who stay at home—

15%
of all independent workers have earned income through a digital platform

groups that already make up roughly 40 percent of casual earners in the MGI survey. The senior segment in particular bears watching. Airbnb reports that seniors represent its fastest-growing host demographic (10 percent of its hosts already being over age 60), and a quarter of Uber's drivers are over age 50.

While many people want to join the independent workforce, some independent workers in the MGI survey say they would prefer traditional jobs. Netting out these effects, and holding all else constant, we find that 30 to 45 percent of the working-age population would like to earn either primary or supplemental income through independent work and consider themselves at least somewhat likely to pursue the option. If they were able to pursue the working style they prefer, the independent workforce could potentially grow to 76 million to 129 million Americans and 89 million to 138 million across the EU-15.⁹

On the other side of the transaction, there is reason to believe that demand could grow for the services provided by independent workers. Digital platforms are expanding marketplaces for many types of consumer and household services, including driving, cleaning, and grocery shopping. Indeed many innovators are experimenting with providing matching platforms for a growing array of such services as defined by the consumers and households themselves or the tasks that workers are willing to take on. We asked survey respondents about their willingness to pay someone else to do certain household chores and combined their responses with government data on household time use.

We estimate that 6.2 billion hours of additional household work per year in the United States and 8.5 billion in Europe could potentially be done by independent workers, creating millions of new opportunities for independent workers. For companies, too, there is room for further growth in using independent workers. We analyzed more than 150 occupational categories to assess which types of work could most easily be performed independently and found ample opportunity for growth in corporate demand.

INDEPENDENT WORK COULD CREATE ECONOMIC BENEFITS BUT CHALLENGES NEED TO BE ADDRESSED

In addition to the effects on individual satisfaction expressed in our survey, independent work can have broader benefits. Digital business models have lowered transaction costs for consumers, delivering better-quality products and services and putting new conveniences at their fingertips. Companies and organizations benefit from scalability: they can keep core operations focused on what they do best and call in independent service providers exactly when they need them. This flexibility can allow organizations to add entirely new capabilities—for example, calling in writers and designers to create a one-time marketing project when the core team lacks publishing expertise. The availability of independent workers is particularly valuable to startups that cannot afford full-time employees for certain functions such as accounting, legal advice, or web design.

Independent work also has the potential to create macroeconomic benefits. First, it may increase labor force participation and the number of hours worked in the economy. The flexible opportunities associated with independent work are well suited for the 100 million inactive adults in the United States and the EU-15 who say they would like to start earning or work more. For the unemployed, independent work may provide a critical bridge to keep earning income while they search for new jobs. Second, there are avenues for potentially increasing productivity. Independent work enables people to specialize in doing what they do best and what makes them feel engaged. Engagement typically has the effect of increasing productivity, although this effect must be balanced against the fact that many independent workers have to spend time on administrative and marketing tasks. Capital

29M+
58M

supplemental independent earners + non-independent workers in the EU-15 and US who want to be primary independent earners and think it is likely they will do so

⁹ The low end of this projection is based solely on respondents who said they were “very likely” to pursue their preferred working style; the higher projections include both “very likely” and “somewhat likely” responses.

productivity may be increased as well, as currently underutilized assets (such as cars and spare rooms) are put to work. Online marketplaces allow niche products and services to connect with consumers, potentially stimulating long-tail demand. New and innovative types of digitally enabled services could boost consumption.

But much of the public debate surrounding independent work is polarized. This is heightened by the fact that this shift is occurring against a backdrop of general anxiety about the quality of jobs and how digital technologies are changing the world of work for everyone. Some of the concerns raised in this debate are felt most acutely by independent workers—but others apply more broadly in a world where fewer traditional workplaces offer job security and a full slate of benefits.

A shift toward independent work could deliver broad benefits, but questions surrounding benefits, income security mechanisms, and other worker protections need to be addressed.

One area of concern for independent workers is their limited access to income security protections, such as unemployment insurance, workers' compensation, and disability insurance. Minimum wage and antidiscrimination laws may not apply to them, and retirement security is a concern. The delivery of benefits is a key question. One option for bridging some of the gaps involves allowing independent workers to form pools in order to create their own marketplaces and benefits, a system that already works in the construction industry and in Hollywood. But any proposal will have to tackle multiple angles, starting with who would pay for such benefits and how they would be earned and tracked for workers with multiple clients and employers. Other potential hurdles include reduced access to credit, the risk of not being paid for work that is already performed, and complex tax filing, licensing, and regulatory compliance requirements.

Governments, intermediaries, and innovators have taken some preliminary steps to tackle some of the issues surrounding independent work, but a great deal still needs to be addressed. Furthermore, the challenges and opportunities posed by independent work need to be considered in the context of broader changes taking place in labor markets, including the effects of automation and globalization.¹⁰ Below we consider some of the challenges and opportunities facing specific stakeholders:

- **Policy makers.** The first policy priority is obtaining better data on the independent workforce through new and more regular government surveys, with up-to-date categories and criteria. More broadly, labor market policies developed for the industrial era often do not apply to the world of independent work. It may be time to modernize the safety net and worker protections to better reflect the realities of today's labor market.¹¹ Some countries have created a classification of worker that falls between a traditional employee and independent contractor, offering some labor market protections. In the United States, there is a growing support for constructing a more portable system of benefits that is tied to workers themselves, not to a single employer.

¹⁰ Jacques Bughin, Susan Lund, and Jaana Remes, "Ten new work orthodoxies for the second machine age," *The Global Talent Competitiveness Index*, forthcoming.

¹¹ For more on these issues, see Seth Harris and Alan Krueger, *A proposal for modernizing labor laws for twenty-first-century work: The "independent worker,"* The Hamilton Project at the Brookings Institution, December 2015.

- **Intermediaries and innovators.** These players have a clear opportunity to step into this space and to create other types of new products, services, and solutions tailored to independent workers. These could include, for example, financial solutions for smoothing out income between assignments or offering shared office space that can be booked in increments. Educators and industry groups could build widely recognized credentials and develop flexible courses and training programs to enable independent workers to advance their careers.
- **Workers.** Lifetime employment at one company is largely a relic of the past, putting the onus on individuals to map out their own career trajectories, looking for their own business opportunities and taking charge of developing their own skills along the way. Independent and traditional workers alike would be well served by developing differentiated skills and services to avoid becoming part of a low-wage generalist pool. In addition, each independent worker has to operate like a self-contained small business. This demands administrative skill and foresight to prepare for peaks and valleys in earnings, to perform all tax and legal compliance, and to manage their own retirement savings.
- **Organizations.** For companies and other organizations, hiring independent workers requires careful consideration. If properly managed, this shift can allow companies to become more agile, efficient, and productive; it can also allow them to add new capabilities and undertake projects that would not otherwise be feasible. But companies cannot make this change lightly. They need to consider the trade-offs, including the possibility of greater churn. It can be unwieldy to manage someone's work externally and riskier to entrust the worker with confidential or high-profile projects. Project teams need to be designed with the right mix of internal and external talent—and business leaders also have a responsibility to ensure that external contractors are treated fairly and ethically.

•••

The independent workforce is starting to show up on the radar of policy makers, academics, and companies. It has also tapped into a desire on the part of many individuals to redefine their relationship to the world of work and exert more control over their own time and destiny. The development of digital platforms may fuel growth in the market for individual services. A number of challenges will have to be addressed to ensure that independent work is a positive development for workers—and for economies as a whole.





1. SIZING THE INDEPENDENT WORKFORCE

In most high-income economies, the 9-to-5 job with a single employer has been a cultural norm for decades. But for a large share of the labor force in Europe and the United States, that norm does not reflect the reality of their working life. Whether by choice or out of necessity, millions have scrapped the model of keeping set hours and collecting a regular paycheck from one corporate employer.

Both blue-collar and white-collar workers are opting to make their primary living by piecing together assignments and taking control over their own schedules. Even more (including some who hold down traditional jobs) do independent work to generate supplemental income. Whether it involves providing services, selling goods, or leasing out assets, the options have widened for individuals to put together multiple income streams. This report considers all of the various ways that people make money outside of traditional employer-employee relationships.

~162M
size of independent workforce in the US and EU-15, counting both primary and supplemental earners

Just as working models changed in the wake of the Industrial Revolution, the nature of work may be evolving again as the digital revolution takes hold. Digital platforms for independent earners are still in their infancy, but their rapid growth could accelerate the shift to independent work and even generate new demand. By creating bigger and more transparent markets where individuals can offer their services, digital platforms represent a potentially transformative business model that could change our thinking about how work is organized.

Some observers celebrate the shift away from traditional structured employment as a trend that gives millions of people greater autonomy and the ability to create their own work-life balance. But others decry it as a sign that the social contract between employers and workers is eroding. Successfully managing this transition starts with clearly defining independent work, measuring its prevalence, understanding the motivations of those who participate in it, and assessing how digital platforms might change the game.

The Industrial Revolution moved much of the workforce from self-employment to structured payroll jobs. Now the digital revolution may be creating a shift in the opposite direction.

WHAT IS INDEPENDENT WORK?

In advanced economies, the majority of workers continue to occupy what we refer to as traditional jobs—that is, they are full-time or part-time employees who have ongoing relationships with a single employer. Because this has been the predominant employment arrangement in advanced economies for decades, it has also been the major focus of labor market and economic policies.¹² But many other types of work arrangements are possible.

¹² Independent work is widespread in emerging economies as well, but in those countries, much of the workforce has long been self-employed or outside traditional jobs, and the trend is toward adding more formal jobs. This report instead focuses on advanced economies where traditional jobs have long been the norm but now the pendulum may be beginning to swing the other way.

Some have been commonplace for many years, while others have grown out of new digital business models.

Our definition of independent work hinges on autonomy and the short-term nature of the business relationship

We define “independent work” as the increasingly broad range of ways in which individuals earn income outside of the traditional long-term employer-employee relationship. Our definition focuses on the characteristics of the work itself rather than the legal arrangements surrounding it. The independent workforce includes the self-employed, independent contractors, freelancers, some small business owners, and many temporary workers, including those who get short-term assignments through staffing agencies.¹³

Media coverage of the “gig economy” has created the perception that most independent workers are driving for Uber or performing household chores through TaskRabbit. But these activities are actually a small subset of independent work, which spans the full range of skill levels and income brackets. While independent work is prevalent in the construction trades, household and personal services, and transportation, it is also widespread within certain types of specialized knowledge-intensive occupations, such as lawyers, tax accountants, architects, interior designers, and writers. It is common for university professors to supplement their income by writing textbooks or consulting, activities that qualify as independent work. Many health-care professionals, including doctors, dentists, and therapists, are self-employed and would fit our definition.

Because no single criterion can fully capture the nature of independent work, we focus on three defining features:

- **A high degree of autonomy.** A key feature of independent work is that individuals can exercise control over their workload and work portfolio, giving them a greater degree of flexibility than traditional workers who must work within parameters set by their employers. Independent workers can decide which assignments to accept or reject for a variety of reasons (such as the fee being offered, the desirability of the client, or the timing of the task), and they can change those choices over time based on economic need, personal reasons, and other factors. While their clients or customers may set deadlines or have expectations about how quickly a particular task must be completed, independent workers can choose whether to accept that assignment or not. On the whole, independent workers have more flexible schedules and autonomy than traditional workers in determining when and how they choose to work.
- **Payment by task, assignment, or sales.** Rather than earning a fixed salary, independent workers are paid by the hour, day, contract, or task. An independent tax accountant gets paid based on hours spent or tax forms filed; a dentist is paid by the number of patients seen; and a freelance editor is paid by the hour or the assignment. Their income is therefore dependent on the amount of work performed. Unlike a salaried employee, they are not paid for time not spent working. Additionally, many self-employed workers find that their income is driven by their business revenue, which is a function of the goods they sell or the number of clients they attract. As a result, independent workers often have more variable income than workers with a fixed salary. However, we recognize that many traditional workers are paid hourly, by commission, or by piece rate, and many are given highly variable schedules, so this criterion alone is not sufficient to distinguish independent work.
- **Short-term relationship between the worker and the client.** Independent earners tend to perform short-term assignments, such as giving someone a ride, designing a

¹³ We exclude the traditional employees of temporary staffing agencies.

website, treating a patient, or working on a legal case. Both the worker and the customer acknowledge and accept the limited duration of the relationship, and independent workers will often work for multiple clients in succession or even simultaneously. Some independent work involves contracts that may extend for months or even years, at which point the nature of the working style becomes indistinguishable from that of a traditional employee. For the purposes of this research, we define “independent work” as assignments or contracts of less than 12 months. Some self-employed independent workers may have a long-term relationship with a client or customer (as with a doctor and a patient, or a housecleaner and a homeowner). But each time services are provided, it is a discrete event, and payment is received on those terms. Either party could choose not to reengage in the future without any ramifications.

Combining these criteria helps to identify an independent worker as someone who chooses how much to work and when to work, who can move between jobs fluidly, and who has multiple employers or clients over the course of a year. In short, independent workers are ultimately their own bosses. Exhibit 1 lists a number of examples and shows which ones fit within our definition.

While independent earning always involves work, we also broaden our lens to include people who earn income by selling goods (either physically or via e-commerce) and those who rent out assets (for example, by listing a spare room on Airbnb). These activities involve an investment of time and labor, and they can provide a way to earn either a primary living or supplemental income. In reality, some of these activities can overlap: a worker may have to own assets such as a computer and software, a goods seller has to put in labor to make goods and to pack and ship them to customers, an Uber driver is offering both labor and the brief use of his car, and an Airbnb host may clean the rented unit after each guest leaves. But we make a distinction based on the core attribute that is subject to supply and demand matching. The designer’s time and effort, not the software, is what matters in the marketplace.

Our definition of independent work hinges on autonomy and control; being paid by the assignment or sales; and its short-term nature.











It is also important to clarify the terminology we use for the two or three different parties that may be involved in independent work. We use the terms “independent worker” and “independent earner” interchangeably to denote individuals who provide services, sell goods, or rent assets. On the other side of the exchange is the buyer of the service or task. We call this party the “customer,” the “buyer,” the “consumer,” or the “client.” Finally, independent work is sometimes facilitated by a third party, such as a temporary staffing agency or a digital platform that coordinates the match. We call this party the “intermediary” or “digital platform,” applying similar criteria as those used by the US Department of Commerce.¹⁴ However, intermediaries are not a necessary component of independent work, most of which still involves direct transactions.

We exclude contractors or temporary workers who are not truly independent. Among the exclusions are so-called permatemps who have long-term contracts and are expected to work regular hours. We also exclude people who are regular employees of a company’s subcontractors (see Box 1, “Distinguishing independent work from fissured work”).









¹⁴ Rudy Tellis Jr., *Digital matching firms: A new definition in the “sharing economy” space*, US Department of Commerce Economics and Statistics Administration, ESA issue brief number 01-16, June 2016.

Who fits into MGI's definition of independent work?

Independent work

 <p>Primary earning</p> <p>◀ Becca cleans houses for multiple clients</p>	 <p>▶ Antonia is a freelance editor</p>	 <p>◀ Michael is an Uber driver</p>	<p>On-demand</p>	<p>Supplemental</p> <p>▶ Jan is a high school teacher who does private tutoring</p> 
 <p>◀ Francois is an IT expert hired for three months by a large corporation</p>	<p>▶ Julie has a two-month placement through a temporary agency</p> 	 <p>◀ Marisa is an interior designer</p>	<p>Temporary work</p>	<p>Small businesses</p> <p>▶ James is a therapist with his own practice</p> 
 <p>◀ Deepa sells handmade pottery on Etsy</p>	<p>Selling goods</p>	<p>▶ Jacques rents his vacation home on Airbnb</p> 	<p>Short-term rentals</p>	

Other forms of work

 <p>▶ Rüdiger has a "minijob" as a dishwasher in a restaurant</p>	 <p>▶ Kelsey's tech firm has contracted her out to a client</p>	<p>Permanent employment</p>  <p>▶ Sanchi is a full-time employee who telecommutes</p>	 <p>▶ Quinn works full-time for a cleaning service that has a contract with a hotel</p>	 <p>▶ Jai is a part-time employee</p>
 <p>▶ Crosbie has a 36-month contract working a regular 40-hour week</p>	<p>Long-term contracts or fixed working schedules</p>	 <p>▶ Lisa has a tenant on a yearly lease</p>	<p>Long-term asset rentals</p>	 <p>▶ Susan sold her old skis on eBay</p>
			<p>Occasional selling of used goods</p>	

Source: McKinsey Global Institute analysis

Box 1. Distinguishing independent work from fissured work

In recent decades, many large corporations have undergone a fundamental structural change. They have split off non-core functions that were once managed internally, turning over these functions—and the jobs associated with them—to vendors and subcontractors. This has altered the nature of the employment arrangement for the workers involved.¹ But so-called “fissuring” does not fit our definition of independent work because the individual workers do not have autonomy, flexibility, and control over their schedules.

Franchising, for example, enables parent companies to create and control a business model that others replicate, thus spreading a brand without assuming the full burden of goods delivery or cost control. An individual may buy a janitorial franchise from Coverall, which brings in clients and sets prices and boundaries but leaves expenses and payroll to each franchise owner. The franchise owner is likely self-employed but may lack control over the time he works due to guidelines set by the parent organization. Any employees may have traditional jobs, although their employer is the local franchise rather than Coverall.

Subcontracting firms are the prime examples of fissuring. Companies often contract out functions such as customer service, technical support, or travel booking to external providers. Hotel maids, for example, typically work for property management companies rather than individual hotels, although the various guidelines they follow are set by those hotels.

Fissuring is one dimension of the larger trend of companies becoming leaner and hiring externally for certain roles so they can focus on what they do best. But this particular practice has come under fire, since many larger companies outsource to small enterprises that compete fiercely on price. Doing so can increase their margins and remove liabilities—but many fissured workers receive lower pay and fewer benefits than what the purchasing organization offers its staff employees. Because most of these workers are traditional employees of subcontracting companies, they do not fit in our definition of independent work.

¹ For a deeper discussion of this issue, see David Weil, *The fissured workplace: Why work became so bad for so many and what can be done to improve it*, Harvard University Press, 2014.

The future of independent work looks a lot like its past

Western culture has long taken it for granted that most jobs require workers to be present in an office or on a worksite eight hours a day from Monday to Friday. But this framework—and indeed the entire concept of work being built around the employee-employer relationship—is actually a relatively recent construct.

As recently as 1900, the United States was still largely an agrarian economy, and nearly half of the US workforce was self-employed (Exhibit 2). The Second Industrial Revolution upended that way of working, ushering large numbers of people off the family farm, onto factory floors, and into the kind of traditional employer-employee relationships that look familiar today. By 1970, the share of unincorporated self-employed workers had declined to just 6 percent of the labor force, roughly in line with its level today (although this is only part of the broader universe of independent work). Similar trends unfolded in Europe, although data gaps make this retrospective harder to trace. In France, for example, self-employment declined from over one in three workers in the mid-1900s to around one in ten today.¹⁵

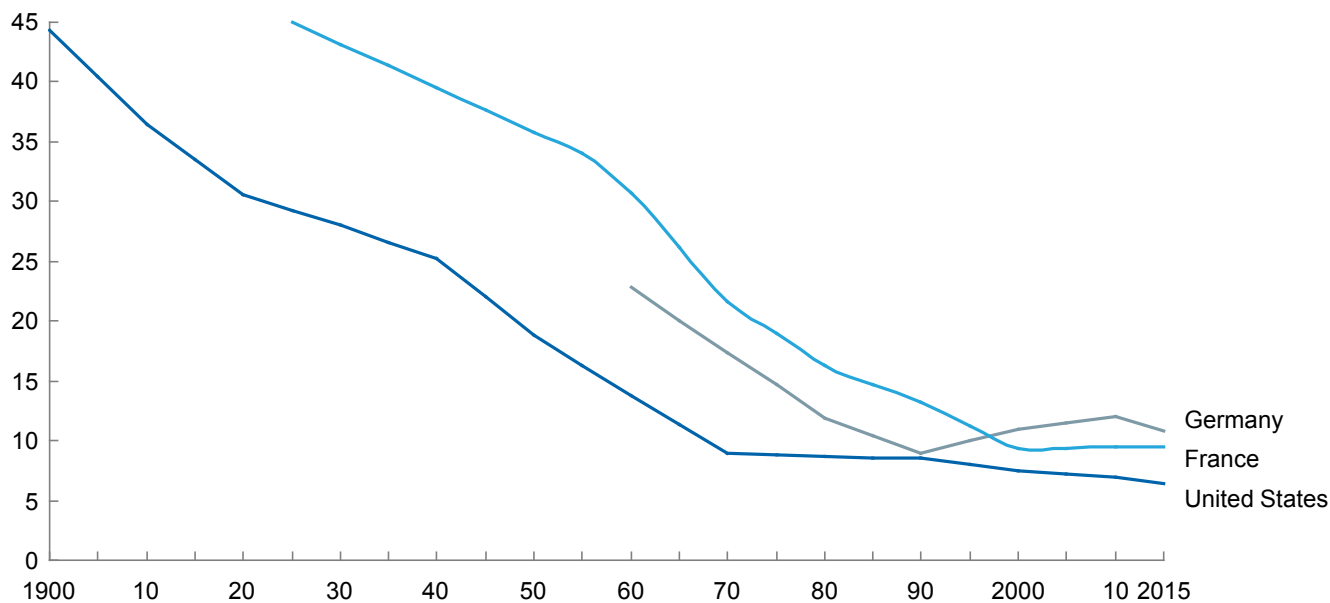
¹⁵ David Blanchflower, *Flexibility@work 2015: Self-employment across countries in the Great Recession of 2008–2014*, Dartmouth College and Randstad, May 2015. One major exception has been the United Kingdom, where self-employment rates doubled from only 7.5 percent in 1960 to 15 percent in 2015 (although rates started at a much lower base than in other Western European countries).

Exhibit 2

Self-employment was more common historically but declined as advanced economies industrialized

Unincorporated self-employment

% of all employed persons



NOTE: Data shown for available years.

SOURCE: Sundararajan, *The sharing economy*; Lebergott, *Manpower in economic growth*; BLS; *Flexibility@work*; Tomka, *A history of twentieth-century Europe*; McKinsey Global Institute analysis

Starting with Adam Smith's famous example of a pin factory, the efficient, mechanized production that emerged during the Industrial Revolution depended on standardizing not only machinery and processes, but also the way labor was deployed. Long hours and six- or seven-day workweeks were commonplace as most factory owners sought to keep assembly lines humming and maximize output. The fight for a more humane eight-hour workday became the defining cause of the labor movement in the late nineteenth and early twentieth centuries. Unions engaged in a protracted and sometimes bloody struggle to shorten working hours in both the United States and Europe.¹⁶

A turning point in that fight in the United States came courtesy of Henry Ford. In 1926, the Ford Motor Company adopted a regular five-day, 40-hour-a-week schedule for its factory workers, reducing their six-day-a-week schedule and the length of their shifts. Ford himself was quoted as saying, "It is high time to rid ourselves of the notion that leisure for workmen is either lost time or a class privilege." But he was also following a business instinct: Ford guessed correctly that well-rested factory workers would be more productive, and their newfound leisure time would boost consumption across the economy. The company later extended this policy to its office workers, setting a precedent that would catch on for white-collar work across the United States.¹⁷

A decade later, the 40-hour workweek was enshrined in US law with the 1938 signing of the Fair Labor Standards Act, one of the central legislative planks of the New Deal. The law

¹⁶ See, for example, James Green, *Death in the Haymarket: A story of Chicago, the first labor movement, and the bombing that divided Gilded Age America*, Pantheon, 2006.

¹⁷ See Douglas Brinkley, *Wheels for the world: Henry Ford, his company, and a century of progress, 1903–2003*, Viking, 2003, and Jean-Yves Boulin et al., eds., *Decent working time: New trends, new issues*, International Labour Organisation, 2006.

required a host of sweeping labor reforms, including the eight-hour day and the 40-hour workweek, a federal minimum wage, overtime pay, and restrictions on child labor. The act also contains definitions and exceptions that continue to shape today's debates over what constitutes an employee-employer relationship.¹⁸

European nations had developed many types of workforce protections decades before the United States. Germany was the first country to develop a social insurance program in the late 1800s, as Otto von Bismarck implemented workers' compensation, a form of health insurance, and retirement benefits. The British followed suit, with the Beveridge Plan establishing the nation's first unified social security scheme in the 1940s.¹⁹ Later unions gained strength and began to bargain with companies over hours, wages, working conditions, and more. The 1960s and 1970s were characterized by an increased level of regulations and protections in Europe: France raised the minimum wage from 40 percent of the average wage to 50 percent; Italy passed legislation governing procedures for firing workers; and Germany set policies using "harmonized action" (coordinating representation from unions, employers, and associations).²⁰

45%

unincorporated self-employment in the US in 1900, compared to 6.5% today

By the 1980s, however, some were faulting the rigidity in certain European labor markets for persistently high unemployment. Many countries took some steps toward deregulation to encourage companies to hire. Italy and Spain, for example, introduced "atypical contracts," fixed-term contracts that could be used for any activity and required no or low levels of severance pay. While these moves lowered unemployment, they gave employers access to lower-cost labor and removed incentives to grant workers traditional employment contracts.²¹ In some cases, this has created two-tiered labor markets with traditional, full-benefit workers on one side and atypical workers with few protections on the other. In France, traditional contracts remain dominant, but the share of non-traditional contracts more than doubled from the mid-1980s to the late 1990s.²² In 2015, almost two-thirds of new employment contracts were for less than one month in duration—and the odds that these jobs will become traditional dropped rapidly from 62 percent to 25 percent in the past three decades.²³

In low-income countries today, most of the labor force is self-employed—just as it was in the United States and Europe before the Industrial Revolution took off. But as incomes rise, more people tend to move into formal jobs. According to International Labour Organisation (ILO) statistics, only about 30 to 40 percent of adults are traditional employees in the lowest-income countries, a share that rises to 60 to 70 percent in middle-income countries and 80 to 90 percent in high-income countries (Exhibit 3).

Over the past half century, manufacturing employment in advanced economies has been shrinking as a share of total employment as service sectors begin to dominate—and for many jobs in service sectors, the rules that make sense on factory floors no longer seem relevant. Even more profoundly, this shift to a service-oriented economy has coincided with the digital revolution, which opens up entirely new ways of working, as we examine below.

¹⁸ For more on the passage and provisions of the FLSA, see Jonathan Grossman, "The Fair Labor Standards Act of 1938: Maximum struggle for a minimum wage," *Monthly Labor Review*, June 1978.

¹⁹ "From Bismarck to Beveridge: Social security for all," *Magazine World of Work* 67, International Labour Organization, December 2009.

²⁰ Horst Siebert, "Labor market rigidities: At the root of unemployment in Europe," *Journal of Economic Perspectives*, volume 11, number 3, summer 1997.

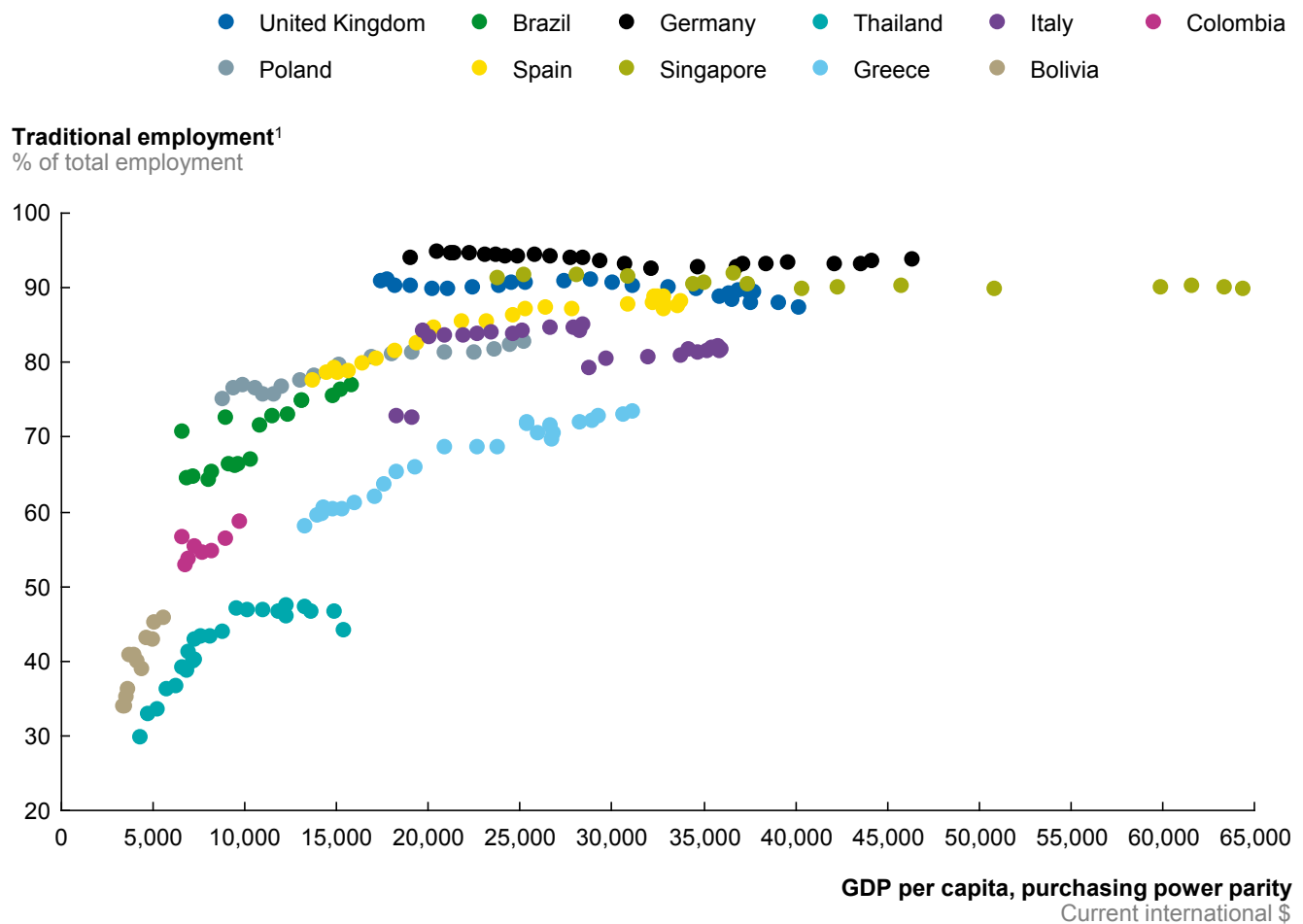
²¹ *Precarious employment in Europe, Part 1: Patterns, trends, and policy strategy*, European Parliament, July 2016.

²² *Ibid.*

²³ Anne-Sylvaine Chassany, "New world of work: Outsiders battle in France's dual jobs market," *Financial Times*, August 10, 2015.

Exhibit 3

As countries become wealthier, traditional employment becomes the norm



1 We define traditional employment as what the ILO calls “stable employment,” including all employment outside of own-account self-employment or contributing family workers.

SOURCE: ILOSTAT; World Bank; McKinsey Global Institute analysis

SOME 20 TO 30 PERCENT OF THE WORKING-AGE POPULATION IN THE UNITED STATES AND THE EU-15 ENGAGES IN INDEPENDENT WORK

This report aims to create a comprehensive and nuanced picture of independent earners—and the first question to tackle is the size of the independent workforce. Sizing solely based on available official data would suggest that approximately 11 percent of the working-age population in the United States and about 14 percent in the EU-15 engage in independent work.²⁴ However, government labor statistics do not capture the full range of possible work arrangements, given the array of business structures and even terminology that independent workers themselves use.

We have brought together data from three distinct sources: officially published government data, analysis of several third-party private surveys, and our own survey, which asked respondents about all of their sources of income. MGI’s survey reached thousands of respondents from a representative population sample in the United States and five European countries (France, Germany, Spain, Sweden, and the United Kingdom).

²⁴ The working-age population includes ages 15 and up. The EU-15 countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

Government data suggest that roughly 10 to 15 percent of working-age people earn their primary income through independent work

We begin our analysis by examining government data on various employment arrangements. However, the official statistics have some important limitations. One of the biggest gaps is the fact that government labor market surveys ask respondents about their primary occupations—so by definition, they ignore activities that generate supplemental income. (For more on these data issues, see Box 2, “Data difficulties in measuring independent work.”)

Independent work may not be a new phenomenon, but it has never found a comfortable fit within official government data.

Despite its limitations, government data do offer an initial view into the prevalence of independent work in the United States and Europe. The self-employed and temporary worker categories most closely match our definition. Using US Bureau of Labor Statistics (BLS) data on self-employment and Katz and Krueger’s survey of other alternative work arrangements (which replicated the government’s Contingent Work Supplement survey), we find that 11 percent of the US working-age population makes their primary living from self-employment, temporary work, or contract work.²⁵ In Europe, 14 percent of the working-age population in the EU-15 countries are self-employed or temporary workers (Exhibit 4). Together, these two categories account for 10 to 15 percent of working-age adults in the United States and in most European countries.

10-15%

of working-age adults in the US and EU earn their primary living from independent work

But the figures vary somewhat across countries, from 11 percent in the United States to 18 percent in Spain. In general, the highest shares of independent workers are found in countries such as Greece, Italy, Poland, and Spain where incomes are lower and economic growth has been persistently weak. In these countries, some 15 to 20 percent of the workforce is self-employed or in temporary employment. In some European countries, including Greece, Spain, Portugal, the Netherlands, and Poland, more than three-quarters of temporary workers are involuntary.

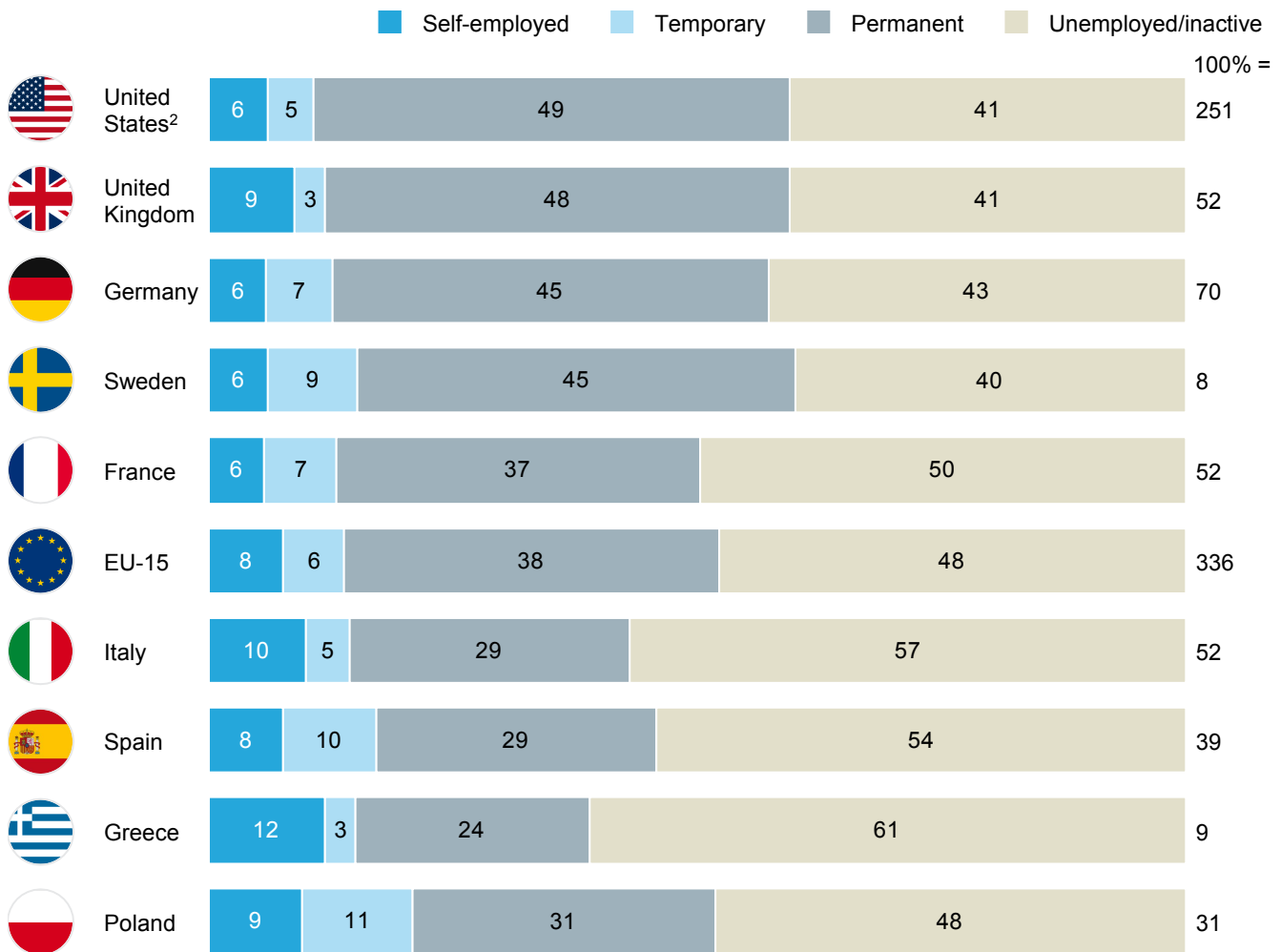
²⁵ See Lawrence Katz and Alan Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

Exhibit 4

Government statistics track those who earn their primary living from self-employment and temporary work

Working-age adults by primary form of employment, 2015¹

% working-age population 15+; million



1 Ages 15+, except in the United States, which is 16+.

2 Self-employment includes incorporated and unincorporated. Temporary calculated using Katz and Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*. The remaining categories include independent contractors, on-call workers, temporary help agency workers, and workers provided by contract firms.

NOTE: Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; Katz and Krueger; UK Labour Force Survey; McKinsey Global Institute analysis

Box 2. Data difficulties in measuring independent work

Independent work may not be a new phenomenon, but it has never found a comfortable fit within the labor market categories tracked by government agencies or multilateral institutions such as the ILO. Current data collection on this important segment of the workforce is insufficient, outdated, and too narrow to capture the full range of economic activity that is taking place. Improving the available statistics would give policy makers a better window into how their labor markets are evolving.

Governments in the United States and Europe conduct extensive labor force surveys but ask people only about their primary employment. In the European Union, both temporary work and self-employment have been tracked for the past 20 years along with data on inactivity and reasons for inactivity, part-time employment and reasons for being part time, and motivations behind temporary work.

The United States tracks self-employment, part-time employment, and contingent work. But self-employment has been tracked in its current form only since 2000, and it was previously narrowly defined as only unincorporated self-employment (that is, workers who are self-employed but have not formed a corporate legal entity). Additionally, the US Bureau of Labor Statistics has not conducted its Contingent Work Supplement, its primary source of information about non-payroll jobs, since 2005. In 2015, however, economists Lawrence Katz and Alan Krueger repeated the Contingent Work Supplement, yielding updated estimates of the share of the US workforce engaged in what they call “alternative work arrangements.”¹ This term includes some temporary work and self-employment, although it has been broadened to include on-call workers, contracted-out workers, independent contractors, and temporary help agency workers (a definition that differs from the one used in this report). They found that the share of the US workforce engaged in these types of work arrangements grew from 10 percent in 2005 to almost 16 percent in 2015. The BLS is now planning to run the Supplement next year.

It is difficult to make cross-country comparisons since governments use distinct terminology regarding employment arrangements, forcing researchers to make assumptions if they seek to compare data sets. For instance, the United States counts independent contractors, temporary agency or contract workers, on-call workers, and freelancers as “contingent workers,” a category that overlaps with self-employment. However, the European Union distinguishes between self-employed persons and broadly defined temporary workers (any employee whose contract has a defined end date). In this report, we have attempted to reconcile these differences to make the data comparable.

Finally, official statistics do not capture the full range of independent activity that now takes place. In particular, government sources do not capture independent work that is done on a supplemental basis—and as the MGI survey shows, more than half of all independent earners engage in this way. Official surveys also fail to track whether independent work is undertaken by choice or out of necessity—a critical piece of knowledge for understanding whether workers are being “pulled” or “pushed” into independence.

¹ See Lawrence Katz and Alan Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

Other independent surveys find a wide range of estimates and use a variety of definitions

Given the shortcomings of government data, a number of organizations and researchers have made their own efforts to measure the independent workforce in the United States. Each source uses its own definition, however, yielding a wide range of estimates of its size (Exhibit 5).

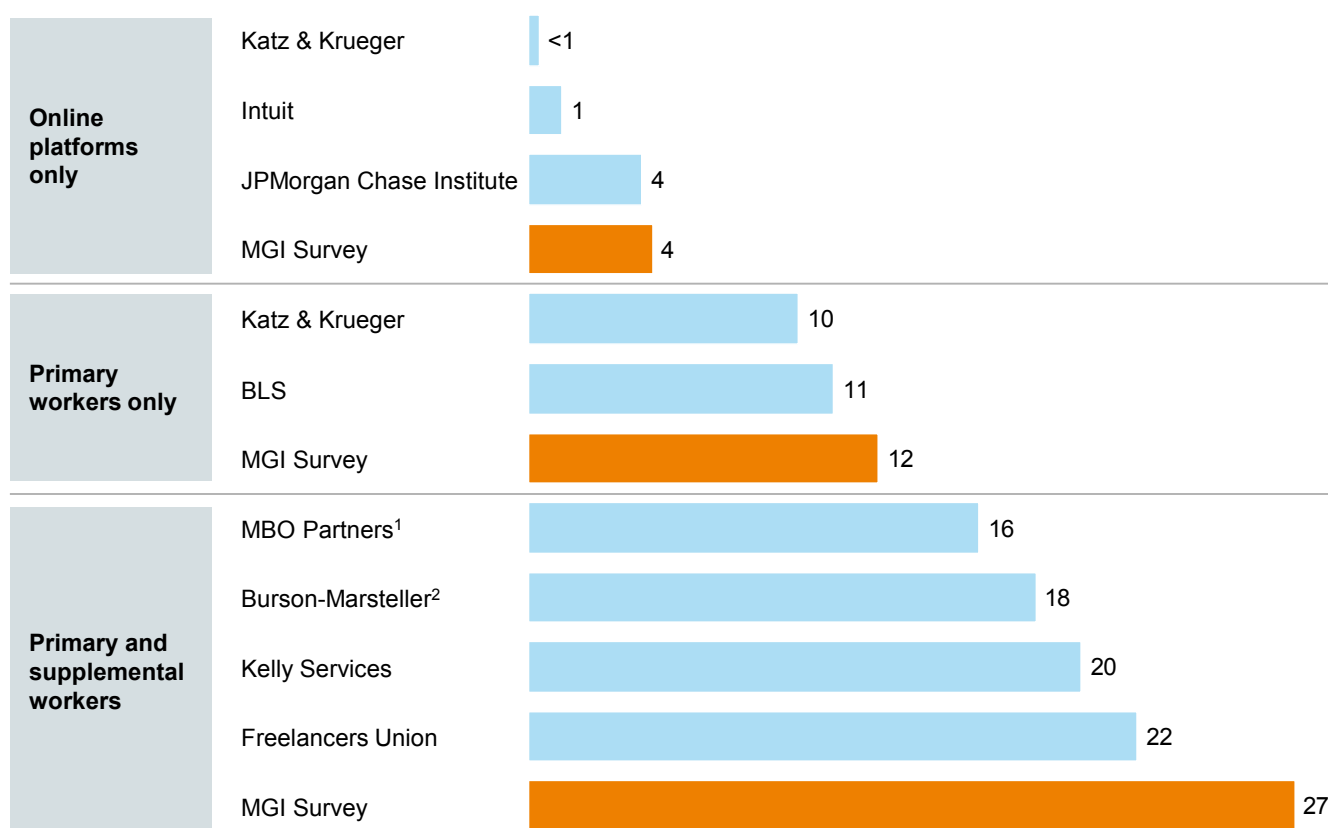
At the low end of this range is an estimate from MBO Partners, which counts 40 million US “independents.”²⁶ At the high end is the Freelancers Union, whose research finds 54 million US freelancers.²⁷ Some studies have specifically attempted to identify the online share of the independent workforce in the United States; these estimates range from less than one million workers to ten million.²⁸

In Europe, there have been fewer private attempts to size the independent workforce. Kelly Services found that 27 percent of European workers were independent, which translates into roughly 47 million workers in the EU-15 countries.²⁹

Exhibit 5

In the United States, multiple studies have attempted to size the independent workforce, using different definitions

Estimates of US independent workforce as % of working-age population



1 Includes those who work full time (16.9 million), part time (12.5 million), or occasionally (10.5 million) as consultants, freelancers, on contract, or performing temporary or on-call work each week.

2 Includes labor services and some leasing but excludes selling goods.

SOURCE: JP Morgan; Intuit; Katz & Krueger; Burson-Marsteller; Freelancers Union; BLS; Kelly Services; MBO Partners; McKinsey Global Institute analysis

²⁶ *State of independence in America* reports, MBO Partners, 2011–16.

²⁷ *Freelancing in America: 2015*, Freelancers Union and Upwork, October 2015.

²⁸ Lawrence Katz and Alan Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016; *Paychecks, paydays, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016.

²⁹ See data visualization from Kelly Services at kellyservices.visualise.today/.

By including supplemental earners, MGI's survey finds that the independent workforce is much larger than official statistics suggest

To provide additional insight into how people participate in independent work, MGI conducted its own extensive survey, reaching more than 8,000 respondents in the United States and five European countries (France, Germany, Spain, Sweden, and the United Kingdom).³⁰

The panel was a representative sample of the working-age population in each country controlling for demographics, including age, gender, and geographic region.³¹ Given that the research was administered online, we found that our sample was, on average, slightly more educated than the general population. We also acknowledge that our online survey population may not reflect the full extent of workers in the informal economy. Individuals who are offline, those who have language barriers, and those who are paid off the books or do not have official immigration status are some of the most vulnerable independent workers, but much of this activity by its nature takes place beyond the reach of official surveys.

We believe that our survey provides the most detailed view to date of the independent workforce. Its questions were designed to provide a comprehensive look at each respondent's sources of income—including their primary job as well as any additional income-generating activities they might engage in on the side. It also asked about their satisfaction with various aspects of their work life and what kind of working style they aspire to in the future. We took an exhaustive approach to asking about income sources to capture the more nuanced story of people who do independent work on a supplemental basis or to provide a bridge between two traditional jobs. The survey did not probe into legal job classifications, hourly wages (net or gross), or the trade-offs workers are willing to make for independence. These questions would need to be examined in future research.

MGI's survey asked respondents about all of their sources of income over the past year as well as their satisfaction with their working lives and what kind of working style they would prefer in the future.

Overall, we estimate that 10 to 15 percent of the working-age population in the United States and the EU-15 is engaged in some form of independent work for their primary source of income. This is in line with the government statistics described above for self-employed and temporary workers, categories that can be used as a rough proxy for primary independent earners. However, our estimates of primary independent earners are slightly lower than government numbers because we have excluded some self-employed and temporary workers who lack the autonomy or control over scheduling that is part of our definition of independent work. In fact, we classified about one in three people who reported earning income through a temporary contract and one in five who stated they were self-employed as traditional workers; one in four other earners were considered independent. (See the technical appendix for details on how we classified survey responses.)

On top of primary independent earners, we estimate that another 10 to 15 percent of the working-age population generates supplemental income through independent work.

³⁰ In addition, we surveyed active independent earners on six digital platforms (Airbnb, eBay, Etsy, Thumbtack, Uber, and Upwork) to provide specific insights into how digitally enabled independent work differs from traditional work. These surveys yielded more than 2,000 responses. We note in the text when we discuss the results of this more targeted digital worker survey as opposed to the broader MGI workforce survey.

³¹ The US survey also controlled for household income.

Here we found substantial undercounting in official statistics, largely because government labor surveys ask only whether people hold multiple jobs—a strict definition that excludes a wide variety of supplemental work activities. Multiple jobholders account for roughly 1 to 5 percent of working-age people in the United States and Europe. But there are many ways to earn supplemental income without taking on another job. Some 70 percent of Etsy sellers and 60 percent of Uber drivers in the United States have some other form of primary income, for instance.³² Our definition of “supplemental earners” includes traditional jobholders who do independent work on the side as well as retirees or students who do not fully rely on these earnings. This income may be small; four in ten supplemental earners derive less than 10 percent of their income from independent work.

10-15%

share of working-age population that engages in independent work for supplemental income

Combining our estimates for both primary and supplemental earners, we find that independent work is a much bigger phenomenon than official statistics indicate (Exhibit 6). In the United States, we estimate that 54 million to 68 million individuals (or 22 to 27 percent of the working-age population) engage in independent work. Approximately 48 percent do so for their primary income, while a slight majority are supplemental earners.³³ Extrapolating the results from our five European survey countries to the broader EU-15, we estimate that 60 million to 93 million Europeans are independent earners and that they account for 18 to 28 percent of the working-age population.³⁴

The majority of independent workers engage to earn supplemental income—but they are undercounted in official statistics. Some hold traditional jobs but do independent work on the side, while others are retirees, caregivers, or students.

By far the largest share of the independent workforce provides labor services, with some 95 percent of respondents in the United States and 91 percent in our European survey countries doing so (Exhibit 7). A smaller but still significant share (12 percent in the United States and 14 percent in Europe) sold goods to generate income in the past year. Only 3 percent of independent earners in the United States and 6 percent in Europe leased assets in the past year. These categories are not mutually exclusive; our survey found that many people who sell goods or lease assets also engage in other types of independent earning. This is consistent with a picture of individuals putting together a portfolio of income streams to earn a living.

³² Jonathan Hall and Alan Krueger, *An analysis of the labor market for Uber's driver-partners in the United States*, Princeton University Industrial Relations Section working paper number 587, January 2015; *Building an Etsy economy: The new face of creative entrepreneurship*, Etsy, July 2015.

³³ Note that we look at independent earners as a share of the earning population rather than as a share of the official workforce. (The earning population is defined as anyone in our survey who reported working, selling, or renting to earn income.) We make this distinction because government labor surveys ask respondents if they are unemployed at the time of the survey, while we asked if respondents had been unemployed at any time over the past year. See the technical appendix for further detail on survey methodology and definitions.

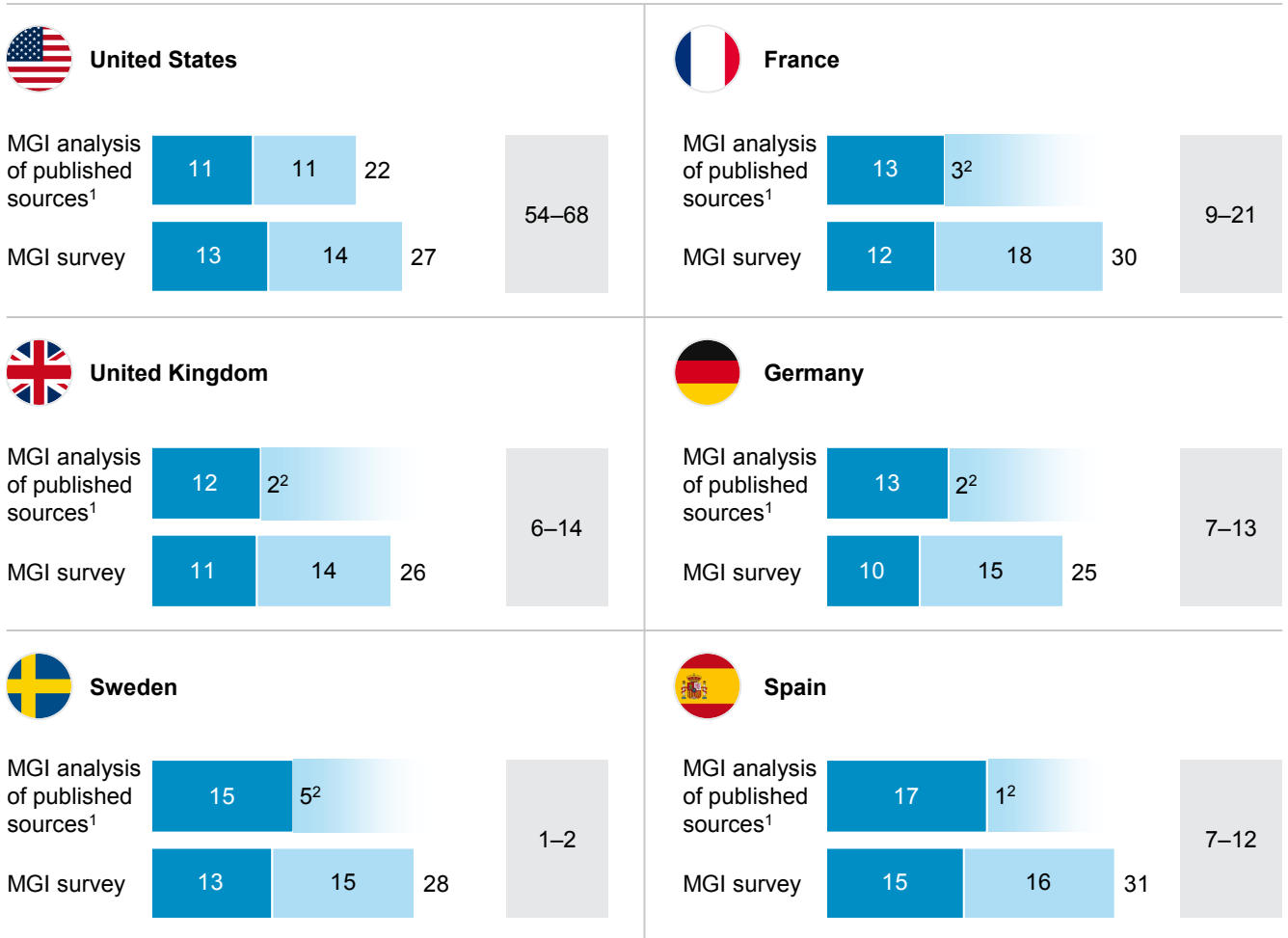
³⁴ These estimates are presented as ranges. The lower end is based on an analysis of government data and external sources; the upper end is the MGI survey result. For the remainder of this report, we utilize the high end of the ranges as derived from the MGI survey. We extrapolate the results from the five European countries we surveyed to the full set of EU-15 countries by weighting for population.

Exhibit 6

MGI's survey indicates that the independent workforce is larger than previous estimates

Independent workers as % of total working-age population

■ Primary workers ■ Number of independent workers (million)
 ■ Supplemental workers



1 Based on an analysis of government sources as well as other published surveys.
 2 Published sources in Europe that capture supplemental work are limited. We have included gradients to represent the fact that the share of those engaged in independent work is much higher than published estimates in those countries suggest.

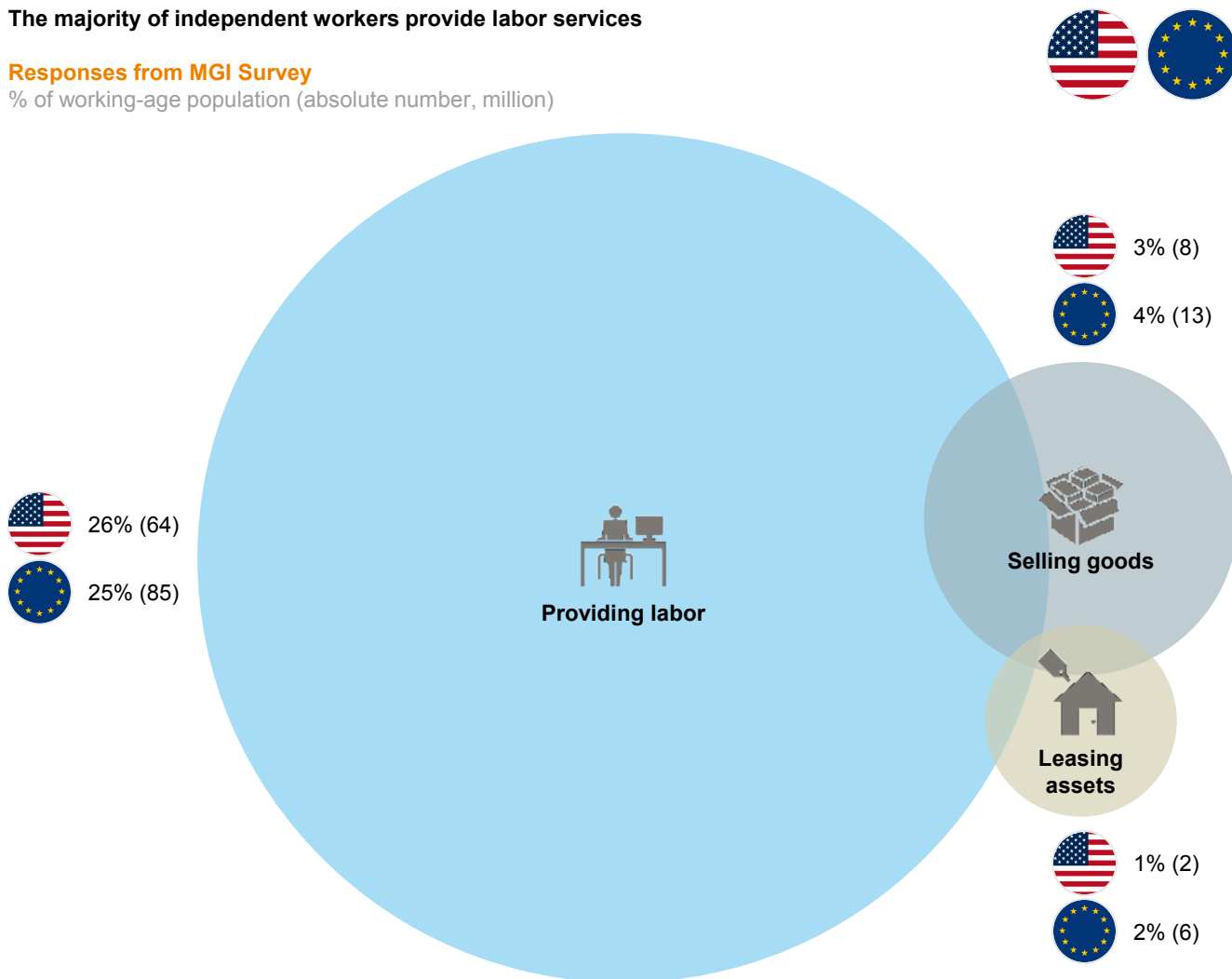
SOURCE: US Bureau of Labor Statistics; Freelancers Union; Katz and Krueger, *The rise and nature of alternative work arrangements in the United States, 1995-2015*; Kelly Services; Burson-Marsteller; MBO Partners; Eurostat; UK Labour Force Survey; McKinsey Global Institute analysis

Exhibit 7

The majority of independent workers provide labor services

Responses from MGI Survey

% of working-age population (absolute number, million)



NOTE: An individual may participate in multiple forms of independent earning; therefore the three categories sum to greater than the total population of independent workers. Diagram drawn to scale based on the United States.

SOURCE: McKinsey Global Institute analysis

DIGITAL PLATFORMS ENABLE INDEPENDENT WORK

For more than two decades, digital tools have been expanding the range of services that can be performed independently. Freelance editors and accountants work remotely by exchanging digital files with their clients. House painters, wedding photographers, and caterers find jobs by advertising their services online. Conversely, a department store that needs extra help for a seasonal rush may post listings on digital job boards such as Monster.com in addition to its own website.

More recently, however, technology has introduced a new twist as digital platforms facilitate direct connections between the customer who needs a service performed and a worker willing to provide that service. We define “digitally enabled independent work” as work that is intermediated through an online marketplace that improves search capabilities, lowers coordination costs, and provides richer signaling through mechanisms such as reviews or ratings.³⁵

³⁵ See Rudy Tellis Jr., *Digital matching firms: A new definition in the “sharing economy” space*, US Department of Commerce Economics and Statistics Administration, ESA issue brief number 01-16, June 2016, which defines “digital matching firms” as “entities that provide online platforms (or marketplaces) that enable matching of service providers with customers,” relying on workers with flexible working hours who use their own tools and assets to perform the work.

Digital platforms for independent earners are varied

We consider three types of platforms for independent work (Exhibit 8):

- **Platforms for labor services.** This category includes online marketplaces and mobile apps that match individual workers with customers (whether companies or individual consumers) who want their services. Some of these platforms, such as Upwork, Thumbtack, Freelancer.com, HourlyNerd, and Freelance Physician, specialize in professional services. Others, such as TaskRabbit and Care.com, offer household services and errands. Transportation apps such as Uber and Lyft have introduced new innovations, using search tools, GPS technology, and the size of their network to offer rapid service from the provider closest to their location. While some of the companies in this latter category offer an array of services, many specialize in one particular offering, such as Instacart and Deliveroo for food delivery, FlyCleaners for laundry, and DogVacay for dog-sitting. While the “on-demand” economy has a high profile thanks to the global expansion of Uber and Lyft and the proliferation of companies using similar models, it is important to note that platforms providing instant, in-person fulfillment constitute a relatively small subset of digital labor platforms.
- **Platforms for selling goods.** We include selling goods in our broad definition of independent work because it offers another way for individuals to earn money outside of a traditional employee role—and because the act of selling goods entails time, work, and resources. E-commerce marketplaces are not just for large merchants; they also offer individuals a chance to participate, taking advantage of a built-in global customer base, payment systems, and logistical support. Individuals can resell goods or sell products of their own making. Platforms such as eBay sell a full range of merchandise, while others offer a specialized assortment. Sellers on Etsy and DaWanda, for example, offer unique, artisan-made crafts and vintage items; small farmers sell their produce directly to consumers on the French platform La Ruche Qui Dit Oui!
- **Platforms for renting out assets.** Platforms such as Airbnb have given rise to the sharing economy model—that is, they allow individuals to make money by renting out temporary use of their own assets. This could be a vacant home or a spare room (Airbnb, VRBO, HomeAway, FlipKey, onefinestay), an underutilized car (Getaround, SnappCar, BlaBlaCar), photo and video equipment (KitSplit, ShareGrid), previously worn fashion (Rentez-Vous, Rent the Runway), and even yachts (Boatbound).

It is important to note that not all work facilitated by digital platforms is actually independent work. Some companies that use similar technology and interfaces for customer interaction do not enlist independent workers; they hire traditional employees. This business model has been adopted in whole or in part by companies such as Redfin, Instacart, Managed by Q, and Hello Alfred. Their rationale is that the employee model will reduce turnover and create more consistent customer service.³⁶ Some digital platforms connect independent workers with projects and assignments that grow into longer-term, more direct relationships that eventually cease to rely on the original platform where the connection was made.

³⁶ See, for example, Nick Wingfield, “Redfin shies away from the typical start-up’s gig economy,” *New York Times*, July 9, 2016, and Davey Alba, “Instacart shoppers can now choose to be real employees,” *Wired*, June 22, 2015.

Exhibit 8

Online marketplaces for independent work are small but growing rapidly

As of August 2016

Platforms	Category	Company	Number of earners ¹
Providing labor	Delivery and home services	Deliveroo	5,000 drivers
	Engineering, creative, and business services	Upwork	12.5 million users
		Guru	2 million users
		Freelancer.com	>18 million users
		Hourly Nerd	17.5 consultants
		SamaSource	6,500 workers
		Witmart.com	7 million users
		TaskRabbit	25,000 service providers
		CrowdFlower	5 million contributors
		DogVacay	>25,000 sitters
	Transportation	Uber	1 million drivers ²
		Lyft	60,000 drivers
		Gett	100,000 cars
	Health care	Freelance Physician	10,000 physicians
Education	Skillshare	>5,000 classes with 1.6 million students	
Selling goods	Etsy	1.7 million sellers globally	
	eBay	25 million sellers globally	
	DaWanda	360,000 producers listed	
	Taobao	–	
	La Ruche Qui Dit Oui!	–	
Leasing assets	Getaround	200,000 members (including drivers)	
	Airbnb	2,500,000 listings worldwide	
	BlaBlaCar	20 million members (including passengers)	
	Kitsplit	Used by thousands of filmmakers and studios	
	Boatbound	~12,500 boats listed	
	Rentez-Vous	–	

¹ Numbers represent most recent available data, between 2013 and 2015.

² Includes active drivers.

SOURCE: Freelancers Union; *Forbes*; *Financial Times*; company websites; McKinsey Global Institute analysis

MGI's survey finds that 15 percent of independent earners use digital platforms today

Despite the media coverage they have garnered, only a fraction of independent work takes place on digital platforms such as Uber, Lyft, TaskRabbit, Upwork, Freelancer.com, Thumbtack, and the like. Katz and Krueger's research pegged this number at 0.3 percent

of working-age adults in the United States in any given week.³⁷ Another study employed our broader definition of independent work (that is, it included supplemental earners and those who sell goods or rent assets) and put the share at roughly 4 percent of the US working-age population.³⁸

Our own survey finds that about 4 percent of the working-age population has used digital platforms to earn independent income. However, within the population of independent earners, we find that 16 percent of independent workers in the United States (11 million people) and 14 percent in Europe (13 million people) have used a digital platform to find work.

Digital platform utilization is most common among independent earners who sell goods: 60 to 70 percent of the sellers in our survey have used an e-commerce marketplaces such as eBay or Etsy. Between 25 and 40 percent of those in our survey who rent assets have used a digital platform such as HomeAway, Airbnb, or VRBO. But only 6 percent of all independent workers who offer labor services have used a digital platform (8 percent in the United States and 4 percent in Europe; Exhibit 9).

Exhibit 9

Independent workers who sell goods or lease assets are more likely to use digital platforms than those who provide labor services

Responses from MGI Survey
United States and EU-15



	Population	Share that have earned income from a digital platform %	Number of digital platform users	
All independent workers	162 million	15	24 million	
Workers who provide labor	150 million	6	9 million	Example platforms <ul style="list-style-type: none"> ▪ Freelance Physician ▪ Deliveroo ▪ TaskRabbit ▪ Uber ▪ Upwork
Workers who sell goods	21 million	63	13 million	<ul style="list-style-type: none"> ▪ Etsy ▪ eBay ▪ DaWanda
Workers who lease assets	8 million	36	3 million	<ul style="list-style-type: none"> ▪ Airbnb ▪ Boatbound ▪ Getaround ▪ BlaBlaCar

1 EU-15 based on population-weighted extrapolation from five countries surveyed: United Kingdom, Germany, France, Spain, Sweden.

SOURCE: McKinsey Global Institute analysis

³⁷ This number equates to 0.5 percent of US workers, which is a small subset of the 15.8 percent of US workers engaged in all forms of alternative work arrangements. Lawrence Katz and Alan Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

³⁸ *Paychecks, paydays, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016.

How digital technology is transforming independent work

The contingent segment of the labor force existed long before the Internet, but digital platforms, payment systems, and tools for remote collaboration are enabling new work arrangements and allowing new business models to proliferate.

Digital platforms represent a potentially transformative business model when applied to the labor market. By using sophisticated search tools to connect customers with individual workers willing to perform a service, they enable independent earners to find customers, contracts, and assignments. Because they are powered by algorithms, they allow users to interact without human intervention, lowering transaction costs.

Just as a manufacturer in Germany finds the component it needs from a Chinese vendor on Alibaba, the same kind of architecture can connect the small business in Ohio that needs a logo with a graphic designer in Oregon. Companies that need temporary help or a specific kind of expertise they do not have in-house can turn to a digital platform to find it more easily. Workers can land assignments more easily and market their services more widely than ever before.

The notion that an Amazon, Facebook, or Google effect could take hold in the world of work is a striking idea—not only in terms of the economics or the potential number of participants, but in terms of how it could expand the options for earning a living. In Chapter 3, we discuss the potential growth of digitally enabled independent work.



Measuring the independent workforce is not a straightforward task, but our estimates indicate that up to 162 million people in the United States and Europe engage in some type of independent work. The sheer numbers may seem surprising, and they point to the possibility of a structural change in the labor market—one that has major ramifications for policy makers, companies, and individuals alike. When more services can be obtained outside of the traditional employee-employer relationship, our existing concepts of how firms are organized and how individuals manage their careers could be subject to change. To understand how this might play out, it is important to take a more nuanced look at who participates in independent work and what motivates them. Chapter 2 will present more detailed demographic results from our survey and paint a clearer picture of how independent workers feel about their choices.





2. CHOICE VS. NECESSITY: UNDERSTANDING THE INDEPENDENT WORKFORCE

MGI's survey provides the most detailed view available to date on who participates in independent work, how they do it, and why they do it.

The results call into question many of the popular myths associated with independent work. It is not dominated by footloose millennials, nor is it solely a story of low-income workers trying to make ends meet. Independent earners span the full range of ages, skill levels, and income brackets. Independent work is common in the construction trades, household and personal services, and transportation. At the same time, it is preferred by many professionals such as doctors, therapists, lawyers, accountants, designers, and writers. Nor is independent work solely a US phenomenon fueled by Silicon Valley. Our survey found a striking degree of similarity in the prevalence and profiles of independent earners across Europe.

Even more important, our survey reveals that most independent workers go this route as a matter of preference rather than necessity. Roughly 70 percent of primary and supplemental independent workers across all six survey countries, or some 113 million people, are independent by choice. Perhaps most notable of all, these same workers expressed a high degree of personal satisfaction in the lifestyle, flexibility, and autonomy associated with independent work.

~70%
share of
independent
workers who are
independent by
choice

Still, a smaller yet still substantial segment has turned to independent work out of necessity. Some of them would prefer a good traditional job if they could find one, and some supplemental earners wish they could make ends meet without picking up extra work on the side. This issue has attracted a great deal of media coverage, raising the alarm that workers are being forced out of good jobs and into low-wage, insecure arrangements, including situations where they may be exploited. However, an increasing number of traditional workers similarly face financial stress and a lack of job security, benefits, and career growth. These issues are not confined to the independent workforce.

Against a backdrop of digitization, automation, and a painfully slow recovery from the recent economic crisis, there is widespread anxiety about the quality of jobs that will be available—and the shift toward independent work is often regarded with concern as a result. But our survey not only shows that most people are independent by choice; it also shows that many people would prefer to leave behind structured traditional jobs to pursue the flexibility, satisfaction, and creativity of becoming their own boss. For many, the ability to choose assignments and exert control over when and how they work is empowering. This chapter will explore how various segments within the independent workforce feel about their choices.

THE INDEPENDENT WORKFORCE IS DIVERSE

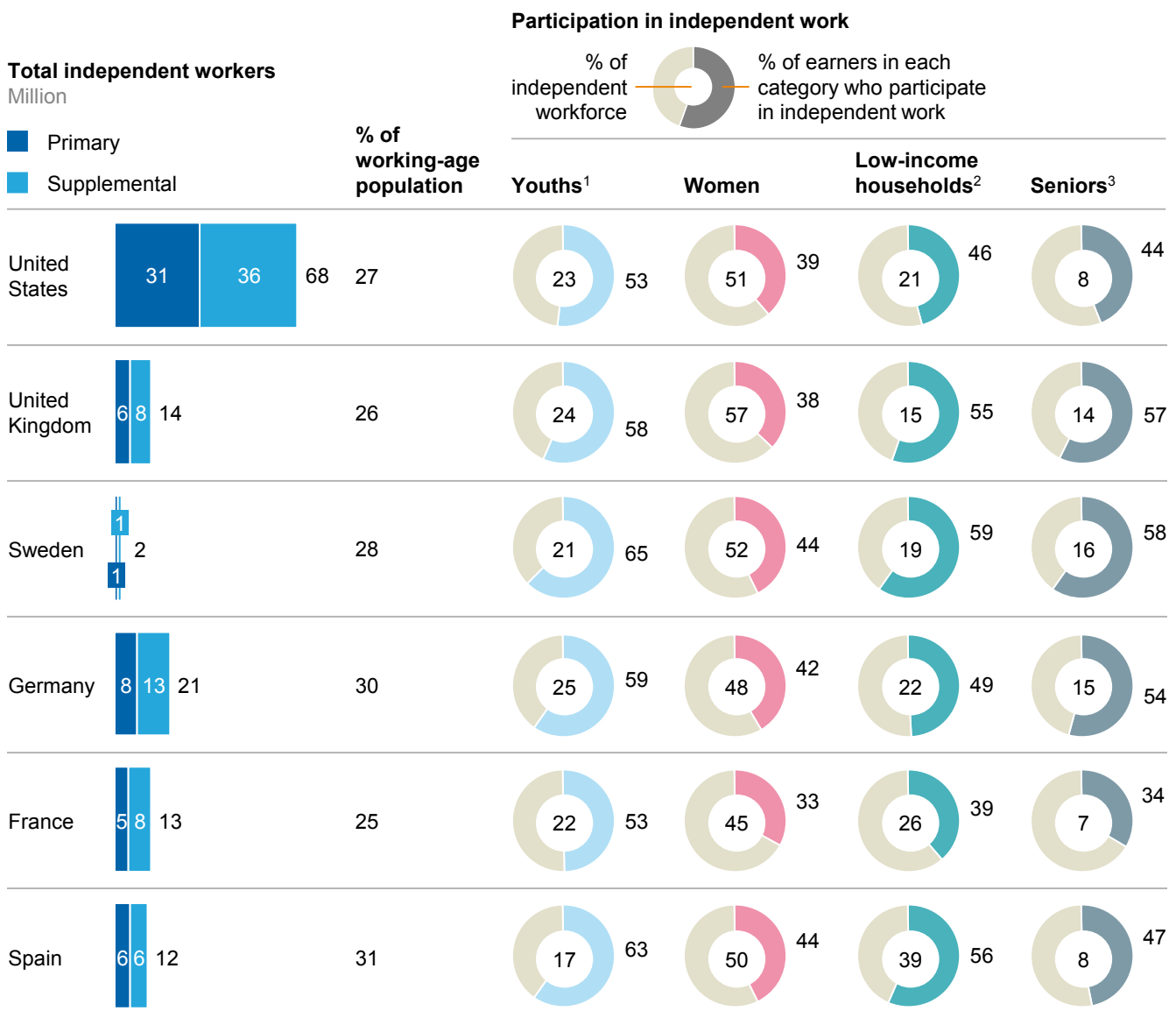
There are many common examples of independent earners, from highly educated lawyers in private practice to construction workers who move from project to project. But the universe of independent work is much more diverse than any single example can capture. In fact, our survey reveals that the independent workforce by and large resembles the traditional workforce. Independent earners come in all ages, education levels, incomes, and occupations.

Across countries, we find that between 46 and 60 percent of young people participate in independent work (Exhibit 10). But despite this high participation rate, young people make up only around a quarter of the independent workforce. Around one in three female earners engage in independent work. They account for about half of the independent workforce, so gender is not a key indicator of participation. However, people from low-income households are more likely to participate. Between 40 and 60 percent of these workers are independent, and they make up anywhere from 15 to 40 percent of the independent workforce in each country. In Spain, 40 percent of the independent workforce comes from low-income households.

Exhibit 10

Independent workers span all demographic groups

Responses from MGI Survey



1 Defined as under age 25.

2 Defined as below \$25,000 or similar across countries.

3 Defined as ages 65+.

NOTE: Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; McKinsey Global Institute analysis

While all kinds of people participate in independent work, we do see some interesting variations:

- **Low-income households are more likely to participate in independent work—and to do so for lack of better alternatives.** About half (48 percent) of the earners with less than \$25,000 in household income participate in independent work, and 37 percent of them do so out of necessity. This is much higher than the participation rate of earners from households with incomes exceeding \$75,000. Among this high-income group, one in three (35 percent) participate in independent work. Less than a quarter of them do it out of necessity, while the majority participate by choice.
- **There is gender parity in independent work, but men are more likely to be free agents and women are more likely to be supplemental earners.** Equal shares of men and women (39 percent) participate in independent work. But men are somewhat more likely to be free agents. Sixty percent of female participants are supplemental earners (significantly higher than the 52 percent of men who supplement their income). This may reflect the fact that women handle a disproportionate share of household work, child care, and care for elderly dependents, so flexible independent work helps them juggle these other responsibilities. In our survey, 42 percent of US women and 48 percent of European women who participate in independent work are also caregivers.
- **Young people and seniors are active participants in the independent workforce.** In the United States, 50 percent of those between the ages of 16 and 24 who earn income and 42 percent of earners over age 55 participate in independent work (vs. only 33 percent of adults ages 24 to 54). In the EU-15, this effect is slightly more pronounced: 55 percent of youths who earn income and 39 percent of earners over age 55 participate in independent work (vs. only 32 percent of adults ages 24 to 54). Looking specifically at seniors, 48 percent of US earners over age 65 and 57 percent of those in the EU-15 participate in independent work.
- **Education level is not an indicator of participation in independent work.** Participation in independent work is relatively similar across education levels. A study spanning Europe corroborates this, finding that the share of freelancers and self-employed is constant across all educational levels.³⁹
- **Independent workers span a diverse group of occupations.** Exhibit 11 shows the occupations in which the independent workers in our survey are most heavily concentrated. These include education and training (10 percent); sales and marketing (9 percent); artists, designers, and entertainers (6 percent); health-care professions (6 percent); personal care and services (5 percent); and management professions (5 percent). Several occupations are predominantly composed of independent workers. For artists, designers, content writers and translators, building and maintenance workers, and small-business owners in agriculture and farming, three out of four earners are independent. In other occupations within education and training, sales and marketing, food service, construction and installation, transportation, and social science, one in two earners are independent. Clearly, the prevalence of independent work touches a wide range of both high-skill and low-skill professions. Independent work is lower than average in business and finance, management, engineering and architecture, computer and technology professions, and office and administrative support.

³⁹ *Precarious employment in Europe, Part 1: Patterns, trends, and policy strategy*, European Parliament, July 2016.

Exhibit 11

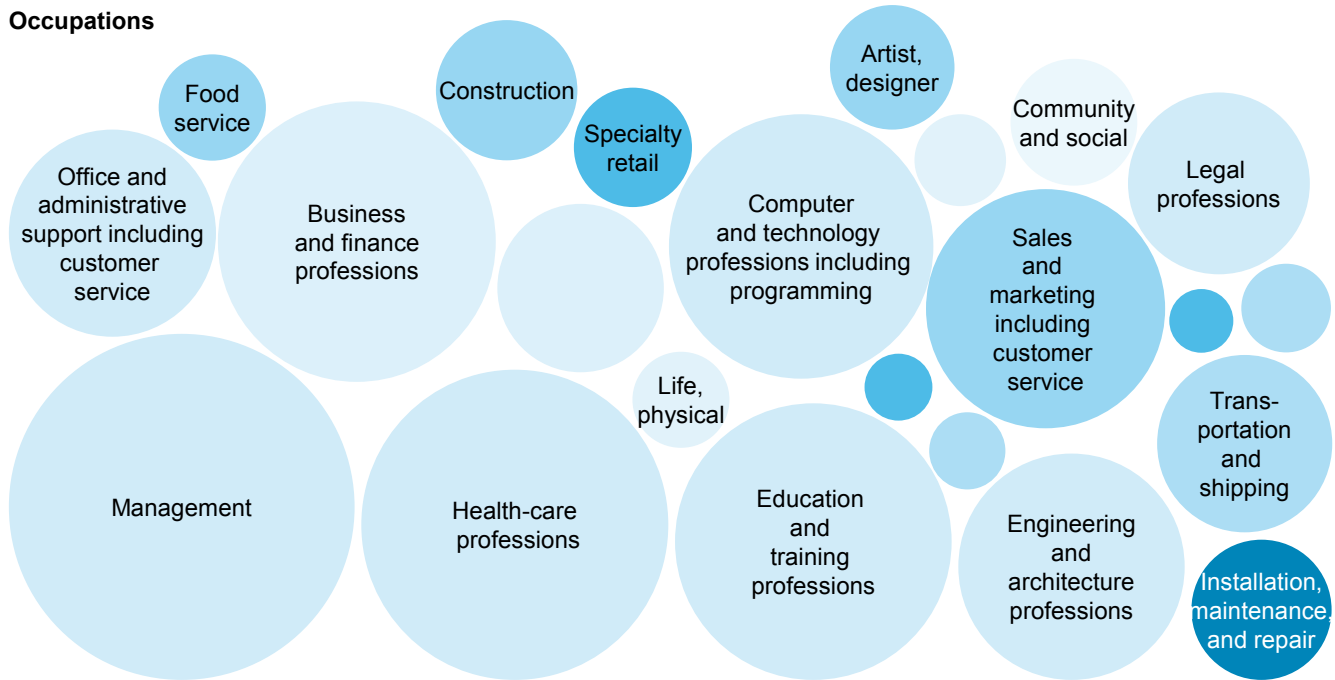
Independent work is common in a wide variety of occupations and industries

Responses from MGI Survey

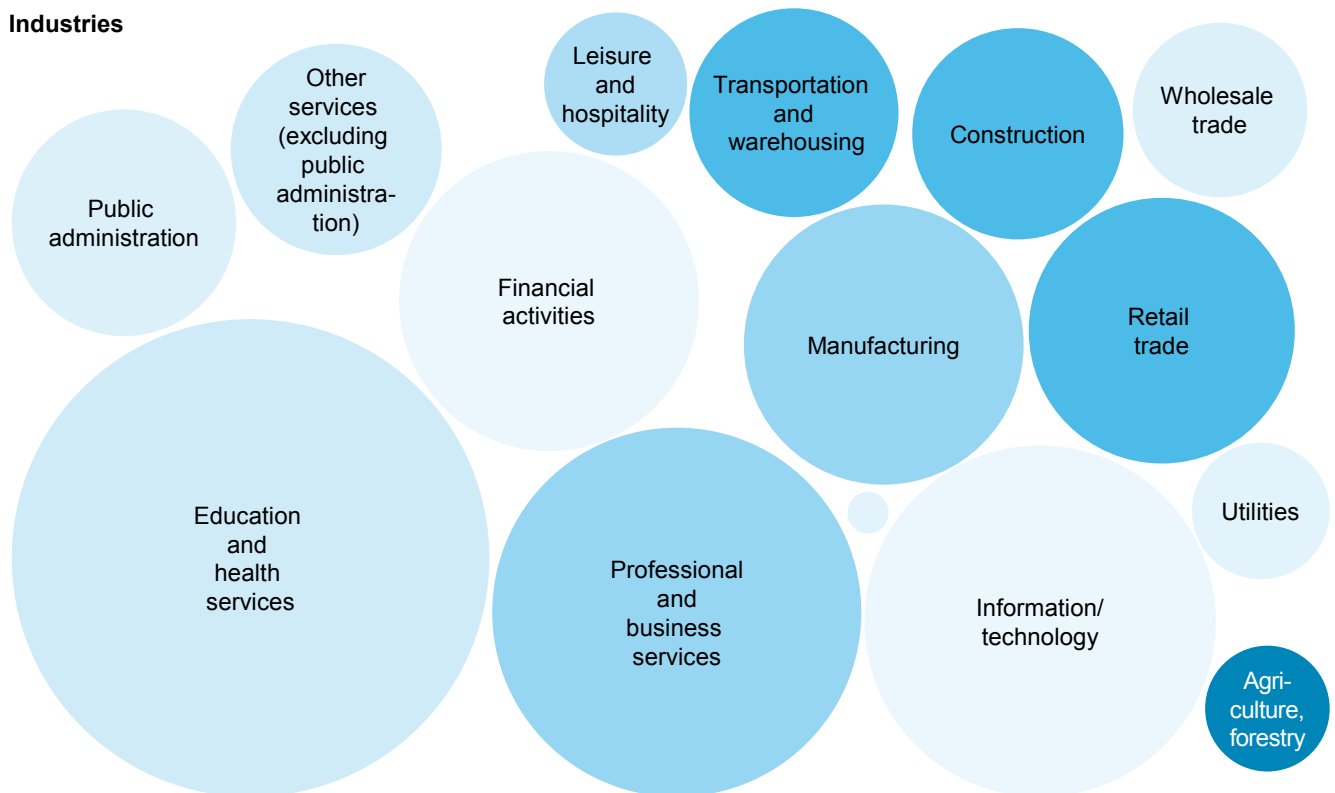
Size indicates total income earned

Share of independent income
Low  High

Occupations



Industries



SOURCE: McKinsey Global Institute analysis

Participation in independent work also may reflect specific industry pressures and broader trends in the growing gap in demand for high-skill vs. low-skill workers.⁴⁰ In education, for example, 38 percent of independent workers participate out of necessity (compared with 30 percent overall). This could reflect the fact that when local budget cuts lead to layoffs, full-time teachers are forced to become substitute teachers or tutors to get by. Individuals with less education and skills are also more likely to participate in independent work out of necessity. In food service, for instance, 38 percent of independent workers participate out of necessity, potentially reflecting the need for temporary employment between jobs or difficulties obtaining more traditional jobs. By contrast, workers in the life sciences have skills that are in demand, in industries that are flourishing. As a result, 88 percent of independent workers in this field reported being independent by choice (as opposed to roughly 70 percent of independent workers overall).

THERE ARE FOUR DISTINCT SEGMENTS OF INDEPENDENT WORKERS

No one-size-fits-all label can cover all independent workers. Two factors need to be considered: whether they rely on independent work for their main livelihood, and whether they actively chose to be independent or simply turned to it for lack of a better alternative.

Many individuals rely on independent work for their primary source of income. This group includes people who devote most of their time to a single independent activity (such as practicing law or planning weddings) as well as those who patch together different types of work to generate the majority of their income (say, the aspiring actor who pays the bills by doing voice-over work and teaching fitness classes).

We categorize independent workers into four groups by looking at whether they are primary or supplemental earners and whether they are independent by choice or out of economic necessity.

In contrast, supplemental earners are either traditional payroll jobholders who engage in independent work on the side or those who have some other primary activity (such as students, retirees, and caregivers) and do not rely on this work as their sole means of support. Some of these individuals may even think of themselves as traditional employees, but because of their other income-generating activities, they fall into our definition of independent workers. A university professor who accepts a paid speaking engagement would thus be a supplemental independent earner. So would a full-time administrative assistant who rents out a spare room in his apartment on Airbnb.

Second, the independent workforce can be split between those who actively choose this working style and those for whom it is merely the best option available. Many earners strongly prefer the autonomy and flexibility of independent work. They value being their own boss, setting their own hours to some extent, and focusing on work that interests them. The doctor who opens a private practice can decide how many patients she wishes to see each day. The freelance editor can say no to dull assignments and difficult clients. The app developer can code all night and sleep all day. The Uber driver can fit his hours around a class schedule or family priorities. These people enjoy the perks of being independent and would choose to remain so even if they had the option to switch to a traditional job.

⁴⁰ This is consistent with research showing the hollowing out of middle-income jobs in the workforce. See David Autor, *The polarization of job opportunities in the US labor market: Implications for employment and earnings*, The Hamilton Project and the Center for American Progress, April 2010.

For others, independent work is a choice borne out of necessity. It may save them from less desirable alternatives, such as unemployment or a bad job situation, but they would still prefer the security and structure of a full-time traditional job if they could find an acceptable one with adequate pay. Some enjoy their flexibility and independence but nevertheless miss the predictability of a regular paycheck. Income security is a key issue for this group.

Applying the two criteria described above—the distinction between primary and supplemental earnings, and the distinction between choice and necessity—yields four categories of independent workers (See infographic, “Four segments of Independent workers”):

- **Free agents** derive the majority of their income from independent work. They choose this working style, and they want to continue doing independent work in the future.
- **Casual earners** engage in independent work for supplemental income. While most of them have traditional jobs, approximately 40 percent are students, retirees, or caregivers. Like free agents, casual earners say they pursue independent work out of choice. Some do so for the extra earnings, but they might also undertake these assignments purely to pursue an interest, to develop new skills, or to stay engaged.
- **Reluctants** derive the majority of their income from independent work but would prefer to switch to a traditional job if one were available. This group includes people who resort to independent work because they cannot find a traditional job that pays well or fits their needs—or they can’t find one at all. This could include some people on short-term probationary contracts (although it excludes those who are long-term temps or permatemps, as noted in our original definition of independent work).
- **The financially strapped** are those who use independent work for supplemental income to make ends meet but would prefer not to have to take side jobs. In general, as we discuss below, these individuals are more likely than casual earners to be in low-income households.



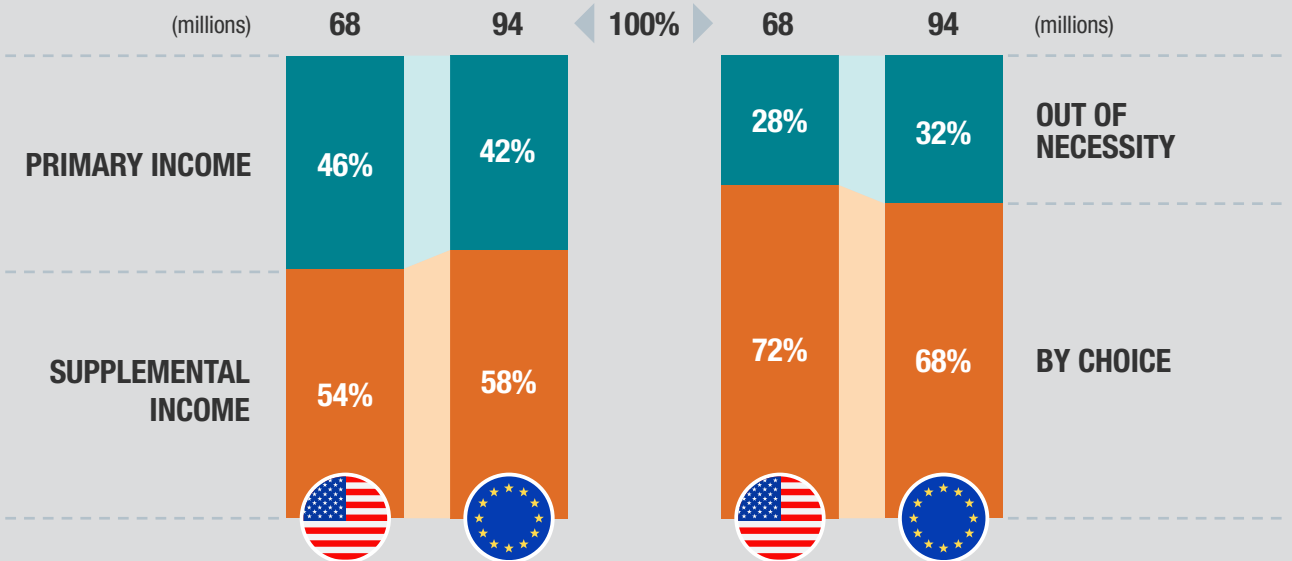


FOUR SEGMENTS OF INDEPENDENT WORKERS

“Independent work is my ...”

	PRIMARY INCOME	SUPPLEMENTAL INCOME
PREFERRED CHOICE	<p>FREE AGENTS</p> <p>Derive their primary income from independent work and actively choose this working style</p> <p><i>Example: A self-employed plumber or a chiropractor in private practice</i></p>	<p>CASUAL EARNERS</p> <p>Use independent work to supplement their income and do so by choice. Some have traditional primary jobs, while others are students, retirees, or caregivers.</p> <p><i>Example: A hobby crafter who sells scarves or a professor who gives paid speeches</i></p>
NECESSARY CHOICE	<p>RELUCTANTS</p> <p>Derive their primary income from independent work but would prefer traditional jobs</p> <p><i>Example: A short-term temporary worker who would prefer a more permanent job</i></p>	<p>FINANCIALLY STRAPPED</p> <p>Do independent work to supplement their income but would prefer not to have to do side jobs to make ends meet</p> <p><i>Example: A janitor who doubles as a housepainter on the weekends</i></p>

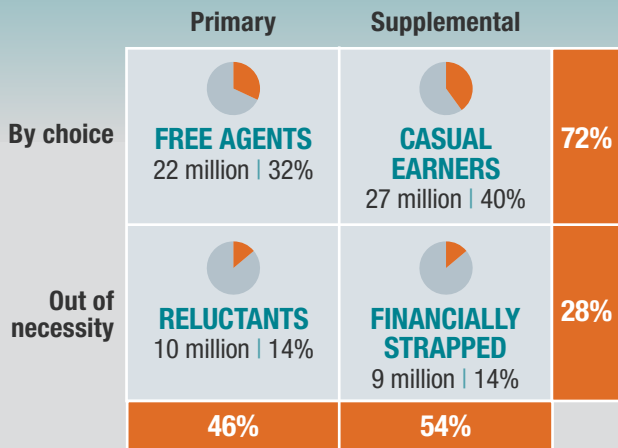
THIS SEGMENTATION VARIES SLIGHTLY IN THE UNITED STATES AND THE EU-15¹





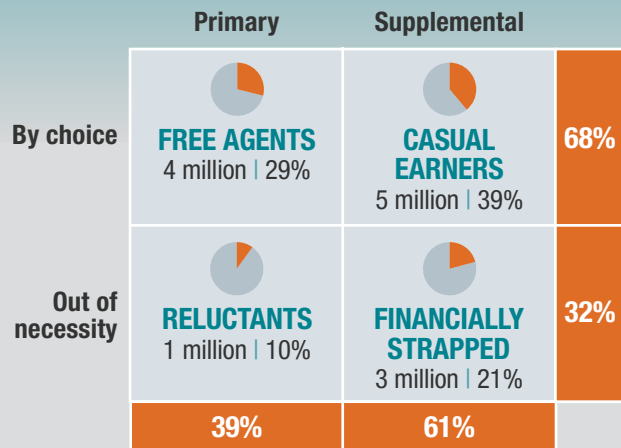
UNITED STATES

68 million independent workers



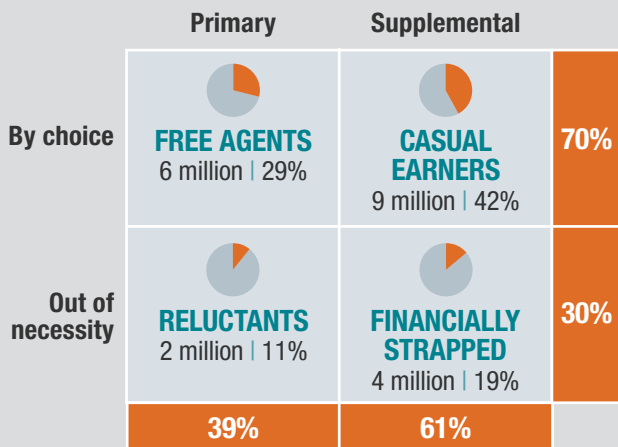
FRANCE

13 million independent workers



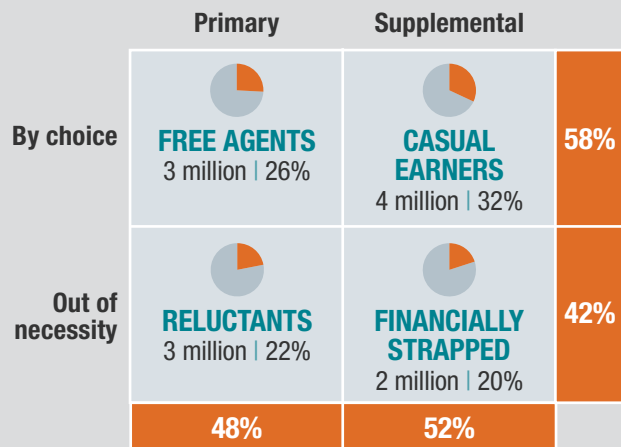
GERMANY

21 million independent workers



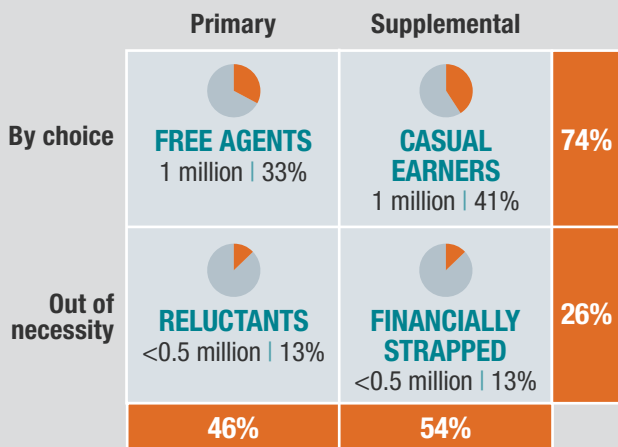
SPAIN

12 million independent workers



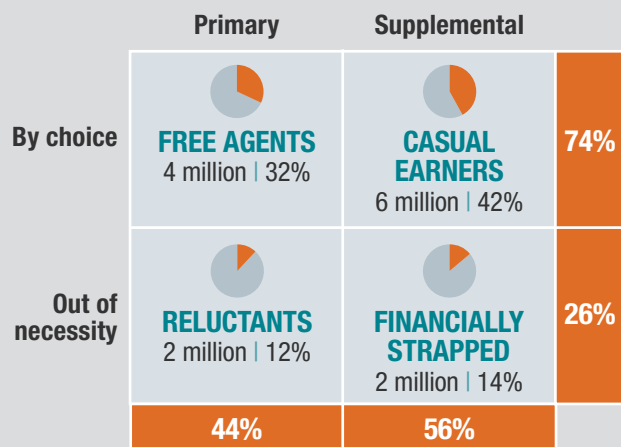
SWEDEN

2 million independent workers



UNITED KINGDOM

14 million independent workers



Casual earners are the largest segment in both the United States and Europe

While some 32 million people in the United States earn their primary income from some form of independent work, supplemental earners constitute an even larger group (totaling 36 million people, or 54 percent of all US independent workers). In the EU-15, this split is even wider. Some 40 million people work independently to earn their primary living, while 54 million people (58 percent of all independent workers) do so for supplemental income.

The four groups of independent workers outlined above make up remarkably similar shares of the independent workforce in the United States and the European countries we surveyed (Exhibit 12). Casual earners, who do independent work on the side out of choice, make up the largest segment across all the countries we surveyed. They account for 40 percent of all US independent earners and 32 to 42 percent of European independent earners. Free agents are the second-largest group, accounting for just under one-third of independent workers in the United States and a quarter to one-third in Europe. The financially strapped and the reluctant are consistently the two smallest groups, accounting for 10 to 20 percent of the independent workforce each (depending on the country).

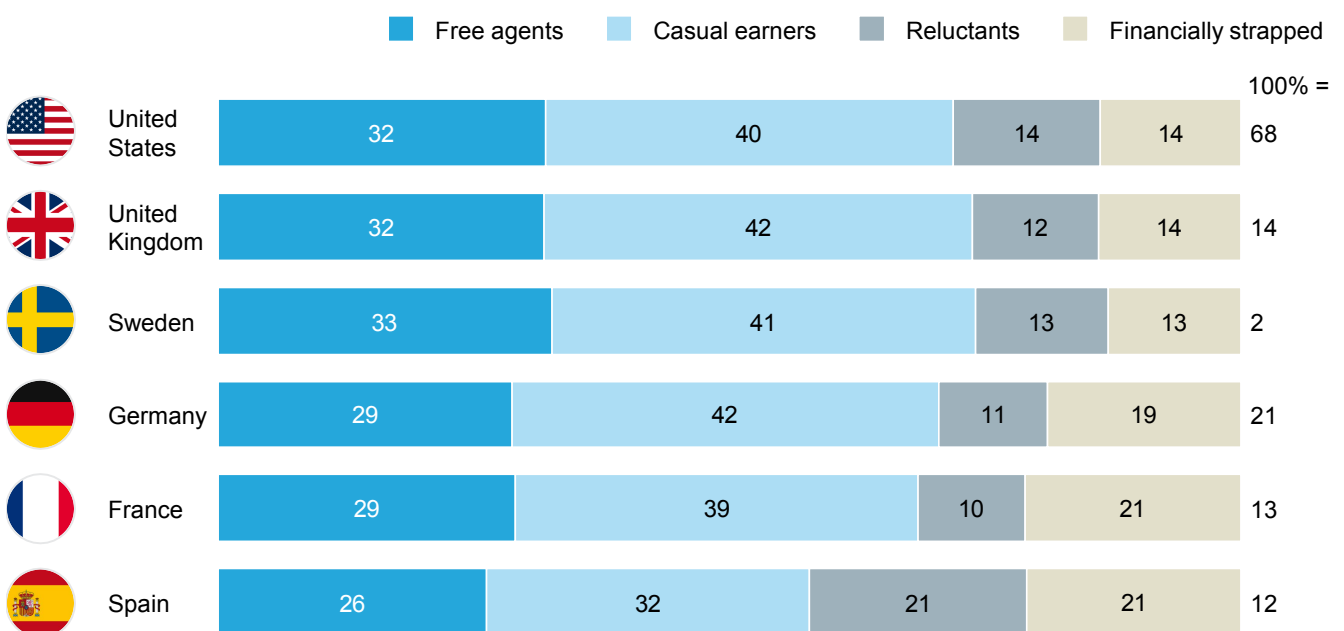
Exhibit 12

“Casual earners” are the largest segment of the independent workforce across all surveyed countries

Responses from MGI Survey

Independent workers by country

% of all independent workers; million



NOTE: Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; Katz and Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2005*; McKinsey Global Institute analysis

Combining the financially strapped and the reluctant, we find that approximately a quarter of independent earners in the United States have turned to independent work out of necessity. While freelancing and side work are regarded as positives by the 49 million Americans who are independent by choice, it is important not to lose sight of the roughly 19 million who want better options in the labor market but feel shut out of them. Their next-best alternative is most likely unemployment or lower living standards. Similarly, some 30 million Europeans are independent earners out of necessity. Spain stands out in this regard (with 42 percent of its independent workforce engaging out of necessity

vs. 28 percent in the United States and 26 percent in the United Kingdom). Temporary workers in particular are a segment that is struggling (see Box 3, “Temporary work, long-term questions”).

~50M

reluctant or financially strapped independent workers in the US and EU-15 combined

However, our survey also indicates that independent work provides at least some of the unemployed with a way to earn income. We asked independent workers if they had experienced unemployment or a period in which they did not earn income in the previous 12 months. In the United States, 27 percent of independent earners who were not students, retirees, or full-time homemakers fell into this category. The share was even higher (at 36 percent) for those who engage in independent work out of necessity (the reluctants and the financially strapped combined). By contrast, about 15 percent of the traditional workers we surveyed in the United States had experienced a bout of unemployment or not working in the previous year (Exhibit 13). In the European countries we surveyed, 24 percent of independent earners and 34 percent of those who are independent out of necessity reported a period of unemployment or not working in the past year, compared with only 8 percent of traditional workers.

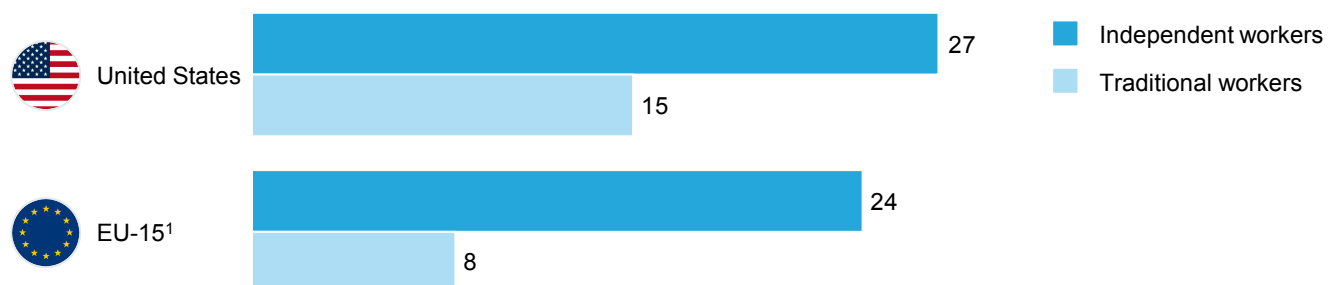
Providing a lifeline or a bridge for the unemployed is an important economic benefit of independent work—and this is particularly significant for regions with chronically high long-term unemployment. Eurostat reports that almost 50 percent of the unemployed in the EU-27 countries were not able to find a job for more than 12 months at the end of 2014, more than twice the rate in the United States.⁴¹ (See Chapter 4 for a fuller discussion of the macroeconomic impact of independent work.)

Exhibit 13

Independent work provides earning opportunities for the unemployed

Responses from MGI Survey

Share of workers who experienced unemployment or a period in which they did not earn income in the previous 12 months
% of respondents



¹ Extrapolated from five survey countries.

SOURCE: McKinsey Global Institute analysis

⁴¹ At the end of 2014, 22.6 percent of the unemployed in the United States had been out of work for more than 52 weeks, according to BLS data.

Box 3. Temporary work, long-term questions

For many years, the image of a temporary worker was that of a college student on summer break who is sent to a company by a staffing agency to cover when the full-time receptionist is on vacation. But today temporary or contract work reaches into a broader age group and many more occupations. In academia, for example, it is now harder to climb the tenure track as universities increasingly rely on lower-paid adjunct faculty.¹

Temporary work has become pervasive across many European countries during a weak recovery. Indeed, one in two Europeans between 15 and 24 years of age works part time or on a temporary basis.² And in the United States, one study found that all net new job growth between 2007 and 2015 came from temporary workers or workers in alternative work arrangements.³

Not all temporary contracts fit into our definition of independent work, since many are relatively long term and the conditions are tightly set by the employer. Many temporary workers have open-ended contracts but nevertheless lack some income protections and benefits that traditional workers enjoy. In Europe, this phenomenon has taken several different forms. In the United Kingdom, for example, some 800,000 workers are now on “zero-hours contracts,” in which they are on call for an employer but are not guaranteed any working hours in a particular time period.⁴ These contracts are not found in all countries but account for 2.4 percent of employment in the United Kingdom.⁵

Many companies and even entire industries now rely on large temporary workforces supplied by staffing agencies or subcontracting firms. Instead of hiring traditional employees to clean rooms, many hotels, for example, hire contractors that bring in temporary workers. Many warehouse facilities and retail operations are staffed by temps, an arrangement that allows companies to adjust their staffing to track fluctuations in demand more precisely.⁶ Media coverage has highlighted temporary workers in precarious circumstances—even some who have felt too expendable to raise concerns about unsafe workplace conditions. There is growing concern that the expansion of temporary work is simply leading to the proliferation of low-wage, insecure jobs.

Looking at the subset of temporary workers who do fit into our definition of independent work (based on their autonomy or short length of contract), we see a story that differs from the rest of the independent workforce. Across the United States and Europe combined, free agents are notably less likely to have had temporary contracts in the past year, while reluctants are more likely to have had them (Exhibit 14). Looking more closely within the United States, more than 70 percent of independent earners (both primary and supplemental) have actively chosen to be independent. But that share drops to below 60 percent for independent workers who had at least one temporary contract in the previous 12 months, while it is almost 80 percent among those who had no temporary contracts. The split is even wider in Spain, where about half of free agents had a temporary contract in the past year but 80 percent of reluctants did.

¹ Caroline Fredrickson, “There is no excuse for how universities treat adjuncts,” *The Atlantic*, September 2015.

² *Precarious employment in Europe, Part 1: Patterns, trends, and policy strategy*, European Parliament, July 2016.

³ Lawrence Katz and Alan Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

⁴ “Contracts that do not guarantee a minimum number of hours,” UK Office of National Statistics, March 2016, available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/contractsthatdonotguaranteeaminimumnumberofhours/march2016>.

⁵ *Precarious employment in Europe, Part 1: Patterns, trends, and policy strategy*, European Parliament, July 2016.

⁶ See, for example, Steven Greenhouse, “The changing face of temporary employment,” *New York Times*, August 31, 2014; Jack Ewing, “Temp workers in Germany dismay unions,” *New York Times*, April 19, 2011; Sarah O’Connor, “The new world of work: Recovery driven by rise in temp jobs,” *Financial Times*, August 4, 2015; and Elizabeth Olson, “The rise of the permanently temporary worker,” *Fortune*, May 5, 2011.

Box 3. Temporary work, long-term questions (continued)

In addition, temporary work is more prevalent among low-income earners. Across all surveyed countries, more than half of independent earners from households earning less than \$25,000 a year had at least one temporary contract in the past year. In higher-income households, the same was true for less than one in five independent workers. In many countries, low-skill workers are more likely than higher-skill workers to be engaged on a temporary basis.⁷ One study found that even controlling for the type of occupation as well as for demographics and English proficiency, workers on temporary contracts made about 18 percent less per hour than non-temporary workers in California—and temporary workers were twice as likely to live in poverty, receive food assistance, and rely on Medicaid.⁸

Still, not all temporary workers fit the definition of low-income households seeking to make ends meet. There is also a trend toward highly skilled professionals choosing to work as independent contractors but doing so through staffing agencies. Kelly Services, for instance, derives 20 percent of its annual revenue from placing technical and professional workers.⁹ Examples include, for instance, teams of scientists who conduct drug trials for pharmaceutical companies on contract, and then move on to a different company when the trial is finished. These individuals are typically free agents, choosing to pursue independent work because of the flexibility, autonomy, and variety it offers. Nevertheless, the temporary segment of the independent workforce merits attention. Some the issues facing reluctant temporary workers (as well as low-wage independent and traditional workers) are further discussed in Chapter 4.

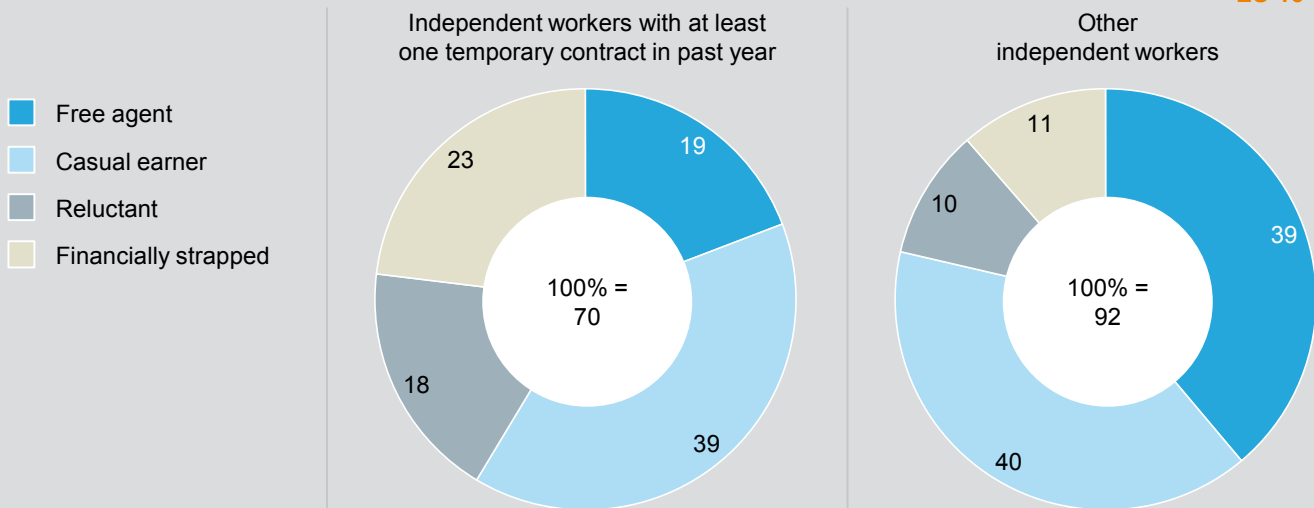
Exhibit 14

Independent workers with temporary contracts are likely to be independent out of necessity

Responses from MGI Survey

Independent workers by segment

% of independent workers in each category; million



¹ EU-15 based on population-weighted extrapolation from five countries surveyed: United Kingdom, Germany, France, Spain, Sweden.

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis

⁷ For more on these issues, see *Poorer than their parents? Flat or falling incomes in advanced economies*, McKinsey Global Institute, July 2016.

⁸ Miranda Dietz, *Temporary workers in California are twice as likely as non-temps to live in poverty: Problems with temporary and subcontracted work in California*, UC Berkeley Labor Center, August 2012.

⁹ *2015 annual report*, Kelly Services.

INDEPENDENT WORKERS REPORT A HIGH DEGREE OF SATISFACTION WITH THEIR WORK LIVES

We asked survey respondents, including those with traditional jobs, to rate their satisfaction with 14 aspects of their work lives on a scale from 1 (completely dissatisfied) to 6 (completely satisfied).⁴²

The satisfaction ratings for overall work-life reported by all groups of independent workers averaged 4.6, slightly above the 4.5 average for all traditional workers. Although this difference is small, it is statistically significant (and worth noting, since roughly 85 percent of all workers rated their satisfaction within the narrow range of 4 to 6 points).

But sharper differences become apparent when we look at subgroups in each category. Overall, those who actively chose the independent life reported being notably happier with their careers and lifestyle than people with traditional jobs. Those who are independent out of necessity—and, for that matter, those who are in traditional jobs but would prefer independent work—are less satisfied on multiple dimensions.

Choice appears to be a critical determinant of satisfaction in an individual's working life

There is a large difference in satisfaction levels between those who engage in each type of work by choice and those who do so out of economic necessity. Not surprisingly, those who work in either style because they feel their circumstances have forced them into it report much lower levels of satisfaction. Those who are in either traditional or independent work out of necessity averaged just 4.3 ratings for overall work-life satisfaction, compared with 4.9 for free agents and 4.6 for traditional workers who choose to be in traditional jobs (Exhibit 15).

To compensate for variations in demographic and socioeconomic mix within each group, we validated the differences in raw averages through a multiple regression analysis controlling for household income, age, and the country of the respondent. We found the results to be robust to differences in the population mix, indicating that some people perceive inherent value in being independent.

These findings echo a large body of academic work pointing to the importance of choice, autonomy, and self-agency as key drivers of worker satisfaction.⁴³ While most of these studies have looked at the importance of allowing employees more autonomy and flexibility in the traditional workplace, their findings resonate when we consider the appeal of independent work for millions of people. One annual study tracking US independent workers has found their satisfaction growing over time; in the most recent survey, roughly 60 percent of respondents singled out control over their schedule and not answering to a boss as the best aspects.⁴⁴ Some 43 percent of respondents in a survey conducted across 40 countries reported that they would like to be self-employed; autonomy and flexibility outweighed income prospects in every country.⁴⁵

⁴² Survey questions regarding satisfaction were asked of respondents who provide labor services. Those who earn by selling goods or renting assets were asked a more limited subset of questions. But since these are small groups and 85 percent of respondents in these categories also provide labor services, these questions excluded only a limited number of total survey respondents.

⁴³ See, for example, Frederick Herzberg, Bernard Mausner, and Barbara Bloch Snyderman, *The motivation to work*, John Wiley & Sons, 1959; Paul P. Baard, Edward L. Deci, and Richard M. Ryan, "Intrinsic need satisfaction: A motivational basis of performance and well-being in two work settings," *Journal of Applied Social Psychology*, volume 34, issue 10, October 2004; Sonja Kähkönen, *Exploring knowledge worker motivation in autonomous and interdependent problem-solving tasks on virtual platforms*, 2016; and Daniel H. Pink, *Drive: The surprising truth about what motivates us*, Riverhead Books, 2011.

⁴⁴ *State of independence in America* reports, MBO Partners, 2011–16.

⁴⁵ David Blanchflower, *Flexibility@work 2015: Self-employment across countries in the Great Recession of 2008–2014*, Dartmouth College and Randstad, May 2015.

Exhibit 15

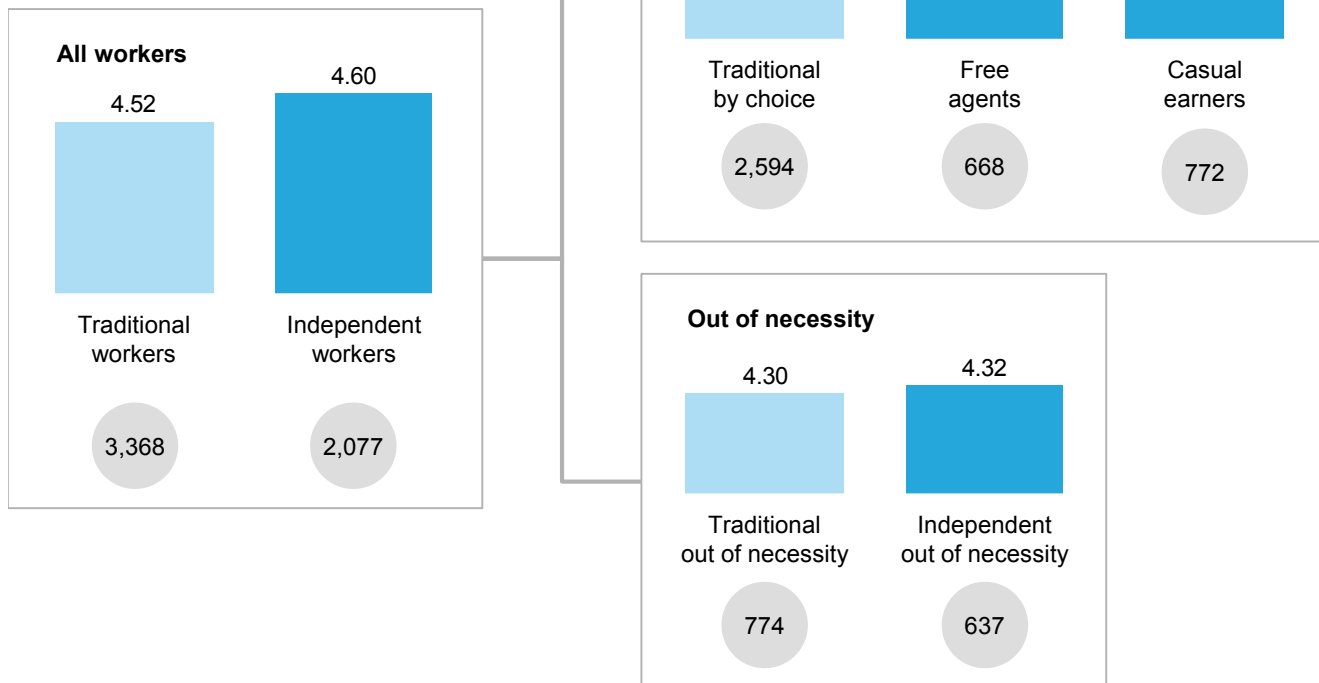
Independent workers report higher overall satisfaction with their work lives than traditional workers

Responses from MGI Survey

Mean response on a 6-point satisfaction scale¹

All surveyed countries, population weighted

● Sample size²



1 Weighted average of satisfaction scale: 6 = completely satisfied, 5 = mostly satisfied, ... 1 = completely dissatisfied.

2 Raw sample size before weighting by population.

NOTE: The sample sizes add up to less than the overall survey sample size because not all respondents earned income or worked in the past year.

SOURCE: McKinsey Global Institute analysis

Giving workers a greater range of viable job choices would therefore seem to be an important way to improve the quality of life for the labor force as a whole. On the one hand, our survey suggests that 53 million traditional workers and 49 million independent workers are in situations that do not match their preference across the United States and the EU-15. Creating a wider range of opportunities and better mechanisms for matching individuals to the specific opportunities that suit them could have a marked impact on workforce satisfaction.

On the other hand, almost 113 million independent earners and 189 million traditional workers in the United States and the EU-15 are already engaged in the type of work they prefer. The focus for this group should be on improving the sustainability and security associated with those choices.

After controlling for choice, independent workers still report higher satisfaction in our survey than traditional workers

Narrowing our focus to compare survey respondents who are already working in the style they prefer, we find there is still a substantial difference in the satisfaction levels of independent workers and traditional employees. Free agents have an average overall satisfaction rating of 4.9, the highest of any group, compared to a 4.6 average for those doing traditional work by choice. This result holds across income and age groups, suggesting that freedom itself has real value for free agents.

To understand the nuances that go into overall satisfaction, we asked respondents to rate their satisfaction on specific dimensions, including their engagement with the work itself, their income security, the hours they work, and the benefits they receive. Exhibit 16 shows the results. The first column shows the mean response for traditional workers by choice, and we compare the responses of various groups to this baseline, starting with our two segments of independent workers by choice (free agents and casual earners). We then show the responses of those who are in traditional jobs out of necessity and those who are in independent work out of necessity.⁴⁶

Free agents across both the EU-15 and the United States report the highest levels of satisfaction with their work lives of any group in our survey.

Free agents report higher satisfaction than workers who choose traditional jobs on 12 of the 14 dimensions, such as flexibility of schedule, creativity, the content of the work itself, recognition, and even income level. They had similar levels of satisfaction as traditional workers on the remaining two dimensions, income security and benefits.

The satisfaction rates of casual earners track closely with those of traditional workers by choice. This may reflect that roughly 60 percent of casual earners also have traditional jobs (the remainder are students, retirees, or caregivers). Since our survey asked respondents to rate their satisfaction with work life in general, rather than in relation to a specific job, the answer for casual earners who are also traditional jobholders may reflect the combination—which, in effect, allows them to enjoy the best of both worlds. On average, they report higher satisfaction on five of the 14 dimensions, including hours, flexibility of location, and independence in their work life; their satisfaction ratings are roughly equal on the other dimensions. This high level of satisfaction could stem from the fact that many casual earners have turned hobbies into paying assignments, or they enjoy work that provides a change of pace from their day jobs. Etsy surveyed its sellers and found that almost two-thirds used the platform for supplemental income, some to achieve greater financial independence and others to help support their families. But roughly three-quarters said they wanted to do something they enjoyed, and one-third said they wanted to fulfill a personal dream.⁴⁷

⁴⁶ Statistically significant differences are lost if we separate independent workers by necessity into their two component segments (the reluctants and the financially strapped), due to the small sample size. We therefore pool together all independent workers by necessity.

⁴⁷ *Building an Etsy economy: The new face of creative entrepreneurship*, Etsy, July 2015.

Exhibit 16

Independent workers report higher levels of satisfaction on many aspects of their work life than traditional workers

Satisfaction scores from MGI survey (95% confidence)

Scale of 1-6

6 = Completely satisfied

1 = Completely dissatisfied

Satisfaction higher than traditional workers

Satisfaction not significantly different

Satisfaction lower than traditional workers

In your work life, how satisfied are you with ¹	By choice		By necessity		
	Traditional by choice Mean rating ³ (n = 2,594) ⁴	Independent by choice Compared to traditional ²		Traditional by necessity Mean rating ³ (n = 774) ⁴	Independent by necessity Compared to traditional (n = 637) ⁴
		Free agents (n = 668) ⁴	Casual earners (n = 772) ⁴		
The topics/activities you are working on	4.60	+0.24	+0.00	4.32	+0.21
Overall work life	4.58	+0.28	+0.01	4.30	+0.02
The number of hours you work	4.52	+0.20	+0.08	4.34	-0.16
Independence in your work life	4.49	+0.52	+0.15	4.33	+0.19
The atmosphere at your workplace	4.46	+0.47	+0.15	4.26	+0.25
Your boss	4.40	+0.51	+0.15	4.21	+0.15
Your level of empowerment	4.34	+0.45	+0.05	4.06	+0.16
The creativity you can express at work	4.33	+0.44	+0.01	4.08	+0.17
Your income security	4.33	-0.10	-0.09	4.10	-0.24
Your benefits (e.g., health care)	4.31	+0.01	-0.04	3.99	-0.12
Your ability to choose your working hours	4.31	+0.69	+0.28	4.16	+0.23
Your opportunities to learn, grow, and develop	4.24	+0.42	+0.11	4.06	+0.07
Flexibility regarding where you work	4.20	+0.70	+0.22	4.13	+0.21
Recognition you receive	4.13	+0.42	+0.10	3.91	+0.17
Your level of income	4.01	+0.16	+0.00	3.89	-0.29

1 Question asked: "How satisfied are you with your current overall work life?" Select from a 6-point scale. "In your work life, how satisfied are you with [attribute listed]?" Select from a 6-point scale.

2 Free agents and casual earners are compared to traditional workers by choice, independent by necessity to traditional by necessity.

3 Weighted average of satisfaction scale: 6 = completely satisfied, 5 = mostly satisfied, ..., 1 = completely dissatisfied.

4 Total unweighted number of respondents. Not all respondents answered all of the subquestions.

SOURCE: McKinsey Global Institute analysis

While comparing those who do independent work out of necessity with those doing traditional work out of necessity reveals similar levels of satisfaction overall, independent workers still scored higher on some dimensions such as flexibility of working hours and location as well as the topics and activities they are working on. But they are notably less happy with their level of income and their income security than their counterparts in traditional jobs. As we discuss below, our survey finds that those in independent work out of necessity are almost twice as likely to come from low-income households as traditional workers who would prefer independent work.

Altogether, our findings on satisfaction are consistent with existing research. Benz and Frey similarly found that self-employed workers are substantially more satisfied than traditional employees and that this effect is consistent across a wide range of geographies. Moreover, their analysis shows that the most important drivers of this difference were the increased autonomy independent workers enjoy and the fact that they tend to find the work they do more interesting.⁴⁸

The comparable satisfaction of independent workers on the question of benefits is surprising, since this is an area where independent workers would appear to be at a disadvantage. In the United States, it is not clear whether these responses stem from low expectations, improved access to health insurance since the introduction of the Affordable Care Act, or poor or eroding benefits for traditional employees that lessen the trade-offs involved. In Europe, the similarity is less surprising, since most countries offer state-sponsored health-care and retirement benefits. Another factor could be that some independent workers are simply risk-takers by nature who are less prone to worrying about safety nets and future savings. It is also possible that the responses to this particular question, along with respondents' satisfaction with their boss, could suffer from non-response bias due to the fact that a higher percentage of the independent workers (approximately one in six) said the question did not apply to them.

Comparing free agents to traditional workers by choice shows that the positive effect of independence is consistent between the United States and Europe. For the necessity groups, there are some variations but they are mostly not statistically significant—and for those that are, the relative satisfaction levels hold across Europe and the United States. One interesting thing to note is that within the two groups of workers motivated by economic necessity, independence has a stronger negative effect on income security in Europe than in the United States, but the negative impact on satisfaction with the actual level of income is larger in the United States.

THE PROFILE OF INDEPENDENT WORKERS LOOKS SIMILAR ACROSS ADVANCED ECONOMIES, BUT THE ECONOMIC CONTEXT MATTERS, TOO

One of the most striking findings from our survey was the degree of similarity in the profiles of independent workers across the six countries we analyzed—despite differences in their labor markets, safety nets, and ease of starting a business (Exhibit 17).

Across all six countries, supplemental earners slightly outnumber those who earn their primary living independently, and those who are independent by preference outnumber those by necessity by a wider margin. But there are some nuances depending on the macroeconomic context.

⁴⁸ Matthias Benz and Bruno Frey, "The value of doing what you like: Evidence from the self-employed in 23 countries," *Journal of Economic Behavior & Organization*, volume 68, issue 3–4, 2008.

Exhibit 17

The independent workforce looks similar across the United States and the European survey countries

Low Medium High



		United States	United Kingdom	Sweden	Germany	France	Spain
Economic context	Working-age population Million	251	52	8	70	52	39
	Labor force participation rate % of working-age population	62.7	62.7	64.8	60.2	56.1	58.8
	Unemployment rate % of labor force	5.3	5.3	7.4	4.6	10.4	22.1
	Youth unemployment rate % of youth labor force	11.6	14.6	20.4	7.2	24.7	48.3
	GDP growth constant prices, 2010–15 Compound annual growth rate (%)	2.0	2.1	2.0	1.5	0.9	-0.2
	Median household income, 2010–14 ¹ Compound annual growth rate (%)	0.1	1.6	3.0	2.3	2.1	-1.3
Independent workers (based on analysis of government data and private surveys)	Self-employed % of working-age population	6	9	6	6	6	8
	Temporary workers % of working-age population	5	3	9	7	7	10
	Supplemental workers % of working-age population	11	2	5	3	2	1
	Total independent workers % of working-age population	22	14	20	16	15	19
	Total independent workers Million	54	7	2	11	8	7
Independent workers (Responses from MGI Survey)	Primary workers % of working-age population	13	11	13	12	10	15
	Supplemental workers % of working-age population	14	14	15	18	15	16
	Total independent workers % of working-age population	27	26	28	30	25	31
	Total independent workers Million	68	14	2	21	13	12

1 Europe estimates use median equivalized net income in purchasing power standard; US estimates use real median household income.

NOTE: Numbers may not sum due to rounding.

SOURCE: BLS; Freelancers Union; Katz and Krueger; Kelly Services; MBO Partners; Eurostat; UK Labour Force Survey; Eurostat/US Census Bureau; OECD; McKinsey Global Institute analysis

Spain is in the same general range as the other countries in our survey, but it stands out as a country that is still recovering from a steeper downturn than the others. Unemployment remains persistently high, and there has been a significant increase in job insecurity since the crisis. Spain has the lowest share of independent earners under age 25 in our survey (17 percent compared with 23 percent for the other countries), reflecting concentrated youth unemployment and the difficulties young people now face in finding any type of work.

Independent work is common in Spain, but often because workers could not land the traditional jobs they would prefer. Overall, 45 percent of all people who work are

independent earners in Spain, compared with 40 percent on average in the EU overall (Exhibit 18). But only 58 percent of them are independent by choice, compared with 68 percent in the EU-15. More than 42 percent of independent workers in Spain would like to land stable, long-term jobs. This may partly reflect the prevalence of temporary work in Spain: 69 percent of independent workers in Spain we surveyed are temporary compared with 42 percent in other countries. This is in line with new research by the European Parliament reporting that 53 percent of fixed-term workers in Europe would prefer a traditional contract.⁴⁹ A heavily regulated labor market discourages companies from hiring traditional employees (in part by making it difficult to fire anyone), and as a result, Spain has a substantial temporary workforce.

Across all six survey countries, those who are independent by preference outnumber those who are independent out of necessity by a substantial margin.

INDEPENDENT EARNERS WHO WORK THROUGH DIGITAL PLATFORMS ARE MORE LIKELY TO DO SO BY CHOICE

Those who find work through digital labor platforms (such as Upwork, Thumbtack, or Uber) represent a unique segment of the labor force. They are particularly likely to be independent by choice. In the United States, 87 percent of “digitally enabled” independent earners choose this working style, compared with 69 percent who do not use digital platforms. Furthermore, across the United States and the EU-15, 42 percent of digitally enabled independent workers are free agents vs. only 28 percent of those who provide services without the aid of digital platforms.

The digitally enabled independent workforce is diverse, since various platforms focus on unique markets. They are not all college students or millennials. In the United States, the average age of digitally enabled independent workers is roughly 40. Some platforms are heavily skewed toward one gender. Eighty-six percent of Uber’s US drivers are men, for instance, while the same share of Etsy sellers are women. Participants also use digital platforms for various types of earning opportunities. Some 40 percent of Uber drivers in the United States earn their primary living through the platform, but just 7 percent of those who rent properties on Airbnb rely on it as their primary source of income. Education levels also vary substantially by platform: 48 percent of Uber drivers have a college degree or more, while that share rises to 82 percent for Airbnb hosts (Exhibit 19).

It should be noted that the regulatory environment in each country affects the way workers use these platforms. Driving for Uber in France is an entirely different undertaking than driving for the platform in the United States. France created an *autoentrepreneur* designation in 2008, which increased the number of individuals who were self-employed by streamlining tax filing and the process of becoming self-employed. However, regulators have imposed higher requirements specifically for drivers, including 250 hours of formal training and an additional cost and time investment for a “DRE license,” although drivers can avoid these costs by working through an existing transportation company. These hurdles, especially compared to the lower investment required in the United States, have encouraged a different segment of the French workforce to participate on the Uber platform (Exhibit 20).⁵⁰

⁴⁹ *Precarious employment in Europe, Part 1: Patterns, trends, and policy strategy*, European Parliament, July 2016.

⁵⁰ Augustin Landier, Daniel Szomoru, and David Thesmar, *Working in the on-demand economy: An analysis of Uber driver-partners in France*, March 2016.

Exhibit 18

A closer look at Spain shows that the macroeconomic environment shapes the independent workforce

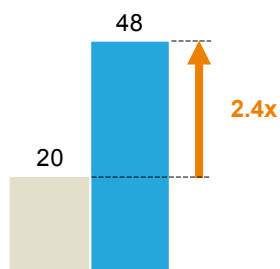
Responses from MGI Survey
EU-15 and Spain



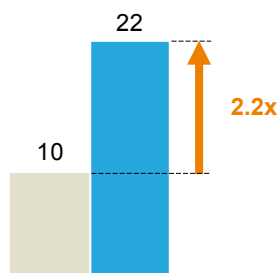
Macroeconomic indicators

■ EU-15 ■ Spain

Youth unemployment rate, 2015
% youth labor force



Total unemployment rate, 2015
% labor force



Growth in GDP since 2008
Compound annual growth rate, 2008–15
%



Higher participation in independent work...

■ EU-15 ■ Spain

Youth independents
(% of youth earners)



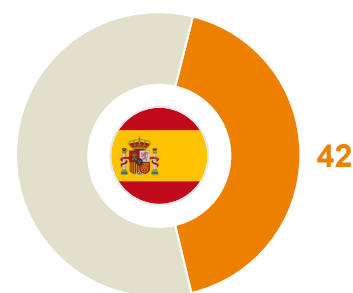
Total independents
(% of total earners)



... and a higher share of participation out of necessity

Preference for participating in independent work
% of independent earners

■ Necessity ■ Choice






SOURCE: OECD; Eurostat; McKinsey Global Institute analysis

Exhibit 19

The demographics of workers on digital platforms can vary significantly



Earners				
	 Providing services	 Selling goods	 Leasing assets	
	Uber	Upwork	Etsy	Airbnb
Mean age	41	36	39 ¹	42
Female %	14	47	86	57
Education (tertiary) %	48	74	56	84
Primary income %	40	45	30	7



1 Mean age is provided for Uber, Upwork, and Airbnb; however only median age was available for Etsy.

SOURCE: Hall and Krueger, *An analysis of the labor market for Uber's driver-partners in the United States*; Airbnb survey and data; Upwork data; McKinsey Global Institute analysis

Exhibit 20

The profile of Uber drivers varies across countries



	 United States	 France	
Age	1.7x	3.4x	More likely to be under age 40 than traditional taxi drivers
Education	2.5x	1.2x	More likely to have a college degree than traditional taxi drivers
Unemployment history (%)	8	25	Were unemployed before driving for Uber
Role of income (%)	40	71	Share of driver partners who state Uber is their largest source of income

SOURCE: Landier, Szomoru, and Thesmar, *Working in the on-demand economy: An analysis of Uber driver-partners in France*; Hall and Krueger, *An analysis of the labor market for Uber's driver-partners in the United States*; McKinsey Global Institute analysis

Digital platforms for independent work, and particularly those for labor services, are still in the early stages of their development. Only 6 percent of the independent workers in our survey reported ever having found work through an on-demand digital platform, although adoption is higher in the United States (8 percent) than the EU-15 (4 percent). More research will be necessary to establish their true impact on the desirability of independent work once they reach higher penetration.



The growth of independent work has left some commentators cheering for greater worker autonomy and others bemoaning the breakdown of the traditional social contract between employers and employees. But the reality lies somewhere in the middle. Individuals make the decision to undertake independent work by considering their own personal calculus of choice, need, and opportunity cost, balancing the risks and the rewards against the options available to them.





3. HOW INDEPENDENT WORK MAY EVOLVE IN THE FUTURE

Just as the Industrial Revolution changed the predominant working models of the day, the digital revolution is altering the nature of work. Today only 15 percent of the independent workforce has earned income through digital matching platforms, but these online marketplaces could eventually facilitate a larger share of independent work. Given the network effects of digital platforms in areas such as e-commerce, they hold significant potential for the future—not only for achieving larger scale, but also for bringing efficiency and transparency to markets for individual services. Digital innovators may also devise ways to deliver new types of services, widening the options available for independent workers to earn income and generating more consumer surplus.

Wholly apart from this ongoing digital transformation, we see several factors that could fuel growth in the independent workforce. First and foremost is the sheer number of people who are not currently independent but would like to be. Many respondents in the MGI survey—both people in traditional jobs and those who are currently not working—say they would prefer the chance to be their own bosses. If everyone had the opportunity to pursue their preferred working style, roughly 40 to 50 percent of the working-age population in the United States and the EU-15 would be independent. Second, we see the possibility of sufficient demand from both organizations and consumers for services provided by individual workers, based on an occupational analysis and the possibility of converting a small share of currently unpaid household chores to paid work. While we did not generate detailed labor market projections, we do see significant potential for growth in the independent workforce. But some of the hurdles facing independent workers will have to be addressed in order to make this shift a feasible and positive development—a topic we will turn to in Chapter 4.

Digital marketplaces are transforming independent work by instantly connecting workers with customers who want their services.

DIGITAL PLATFORMS COULD TRANSFORM AND ENABLE A LARGER SHARE OF INDEPENDENT WORK

Independent work may not be a new phenomenon, but digital platforms have added an important twist by creating large-scale, efficient marketplaces that lower transaction costs and enable independent earners to find customers, contracts, and assignments. Despite their relatively small reach today, these platforms have been proliferating and expanding rapidly. Digital technologies have made it possible for new players to enter ecosystems of independent work and provide better matching mechanisms, in some cases creating new demand and making new types of independent earning activities possible.

Digital platforms create more efficient marketplaces that match individual workers with demand for their services

The real question underlying the growth of digital platforms for independent work is not about how the numbers could grow. It is whether digital platforms could begin to challenge established notions of how companies are organized. Technology makes it conceivable that the old model of a corporation with employees organized in an elaborate hierarchy of

specialized functions could one day give way to leaner core organizations that rely on a loose network of external providers for many activities. Furthermore, in this era with high smartphone and Internet penetration, digital technologies are uniquely poised to have transformational impact at large, and potentially global, scale.

Decades ago, economist Ronald Coase stepped back and asked a fundamental question about why firms exist. The answer was that it is cheaper to perform many functions within a company rather than going to the market every time something needs to be done. Companies want to avoid finding an outside provider for every function then processing a multitude of contracts and transactions—all processes that were difficult in Coase's age of limited and slow communication. Keeping functions in-house avoided what he termed “transaction costs.”⁵¹

But the Internet is bringing those costs down dramatically. Search algorithms make it possible for companies to find the talent or service they need instantly, while technology enables seamless payment and coordination of the details of each transaction. Digital technologies challenge traditional business models by considerably reducing costs associated with search, coordination, and monitoring. Search algorithms make it possible for companies to find the talent or service they need instantly, reducing search costs, while automated systems enable seamless payment and coordination of the details of each transaction. Rating systems and user reviews send rich information signals to establish trust between unknown parties.⁵²

As digital platforms evolve, these benefits are amplified by several factors (Exhibit 21):

- **Larger scale.** Digital platforms expand the pools of possible matches of earners and customers and expand the range of tasks that are possible. Platforms leverage the scale of the Internet, reaching a much larger market size than most traditional businesses. Some 60 to 70 percent of traditional New York hotel rooms are in Midtown Manhattan. In contrast, 83 percent of Airbnb rentals are outside Midtown, opening up new areas of the city to visitors by increasing access in previously underserved areas.⁵³ For activities that do not require in-person services (such as selling online goods), the potential scale and reach is truly global. Assignments posted on Amazon's Mechanical Turk, such as cleaning databases or transcribing text, can be done by workers anywhere in the world. The products that individual sellers list on Etsy or eBay can be seen by a huge global audience of potential customers.
- **Faster and more accurate matches from real-time information.** Digital platforms accelerate searches by using algorithms that can match to the specifics of the task, good, or asset being offered or sought. They may be combined with real-time information that allows for more seamless and efficient coordination between the two transacting parties, even down to time and location. Most on-demand digital businesses will complete a transaction instantaneously, executing both search and payment for services in just a few clicks.
- **Lower entry costs.** The cost of adding more participants is negligible for the platforms themselves, and the barriers to entry for new workers to join can be similarly low. Anyone can create a profile and start looking for assignments on a platform such as Freelancer.com. Individual artisans can set up shop for free on Etsy and post listings for 20 cents each, making it easy for them to start selling. Similarly, listing a room, apartment, or

⁵¹ Ronald Coase, “The nature of the firm,” *Economica*, volume 4, number 16, November 1937.

⁵² *A labor market that works: Connecting talent with opportunity in the digital age*, McKinsey Global Institute, June 2015.

⁵³ “Airbnb community tops \$1.15 billion in economic activity in New York City,” Airbnb press release, May 12, 2015.

home on Airbnb, VRBO, HomeAway, or a similar rental site is also a much faster process than opening a licensed B&B, even in locations where hosts are required to register with city authorities. Digital platforms are able to reduce these costs by building on familiar technologies (such as smartphones and the Internet), and they often cut out additional middlemen.

- Richer information signals and ancillary services.** Digital platforms provide a measure of credibility that reassures both independent workers and their customers both pre- and post-transaction. They remove much of the risk of non-payment by creating a payment infrastructure and a protocol that has to be followed as a condition of participation on the platform. Buyers and sellers build trust immediately because of reputation engines that aggregate ratings and reviews from past interactions. They also collect information for a faster resolution to disputes. These are critical foundations for building larger markets for in-person services, since both customers and workers want assurances of personal safety. These systems also give individuals greater ability and confidence to conduct transactions with customers or clients across borders.

Exhibit 21

Digital platforms create efficient online marketplaces for individual services

As of September 2016

	From	To
Larger scale	>13,000 taxi cabs in New York, operated by ~42,000 drivers	>1.4 million cars in New York that can offer rides via Uber
Faster matching	<40% of San Francisco taxi riders picked up in <10 minutes on weekdays and fewer on weekends	90% of San Francisco ride-sharing customers picked up in <10 minutes at any time of the week
Lower entry costs	10-day minimum to get started as a taxi driver in San Francisco	Less than 1 day and less than \$200 to get started as an Uber driver in San Francisco
Richer information signals	70% of freelancers experience non-payment or delays in getting paid	Seamless online payment ; ratings systems for workers and employers to flag bad behavior

SOURCE: New York City Economic Development Corporation; Shaheen and Chan, *App-based, on-demand ride services: Comparing taxi and ridesourcing trips and user characteristics in San Francisco*; American Staffing Association; McKinsey Global Institute analysis

The digital transformation of independent work is gaining momentum

Venture capital funding for on-demand platforms has skyrocketed in recent years, going from \$57 million in 2010 to more than \$4 billion in 2014.⁵⁴ Research from Intuit projects that on-demand work will post more than 18 percent annual growth in the coming years, increasing the number of workers participating in on-demand platforms from 3.2 million to 7.6 million.⁵⁵ Furthermore, one study estimates that the share of adults who have ever participated in the on-demand economy grew 47 times larger from 2012 to 2015.⁵⁶

⁵⁴ "The on-demand report," CB Insights, available at www.cbinsights.com/research-on-demand-report.

⁵⁵ "Intuit forecast: 7.6 million people in on-demand economy by 2020," Intuit corporate press release, August 13, 2015.

⁵⁶ *Paychecks, paydays, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016.

Consider the pace of Uber’s growth. Founded just seven years ago, the company doubled the number of rides it handled daily from one million in 2014 to two million in 2015, enlisting some 160,000 active drivers in the United States by the end of 2014.⁵⁷

Airbnb, another breakout platform, has grown to include some two million listings worldwide. In the summer of 2010, approximately 47,000 guests stayed in Airbnb properties—and by the summer of 2015, that number was 353 times larger, at nearly 17 million guests.⁵⁸ Today some 650,000 hosts worldwide operate on the platform, and more than 60 million guests have stayed in their properties. Paris, the top city on the site, has some 40,000 listings.

The network effects generated by digital platforms may enable their continued robust growth. As soon as a company or an individual user has one positive experience with an on-demand platform, they are likely to return to it—and they become more willing to trust other providers on other platforms for different types of services. A survey by ride-sharing platform BlaBlaCar found that after trying ride sharing, respondents were 1.3 to 3.1 times as likely to participate in other sharing economy activities, including peer-to-peer house rentals and buying and selling used goods.⁵⁹

However, it is useful to put the remarkable growth of the biggest on-demand platforms into perspective by considering their penetration into the population at large. A recent Pew Research study seems to indicate that the use of digital platforms for ride sharing, home sharing, and on-demand services is predominantly a phenomenon for young urbanites. It found that three-quarters of Americans were unfamiliar with the term “sharing economy.” Fifteen percent had used on-demand transportation services—but twice as many did not know these services exist.⁶⁰

30-42%

share of survey respondents who were unaware they could use digital platforms to earn income

This limited awareness caught many by surprise, but it is an indication of room for growth as these platforms gain visibility, expand into smaller cities, and become more accepted. MGI’s own survey indicates that 30 percent of working-age Americans and 42 percent of Europeans are not aware that they can use digital platforms to earn money. It seems likely that many people who could benefit from additional options for earning income and would choose to pursue this option simply do not yet know this avenue is open to them.

Any discussion of the growth potential of digital platforms for independent work should be tempered by the reality that many of these platforms have struggled to gain traction. Some have folded outright; these include SpoonRocket, which offered low-cost meal delivery, and Homejoy, which offered housecleaning services. Other struggling platforms have resorted to cutting wages, laying off workers, or pivoting away from the on-demand consumer model.⁶¹ Others simply have not attained the scale needed to keep the price of their services down. Once-abundant venture capital for any digital startups that promised to bring the Uber model to additional types of services has begun to dry up, and the valuations of many high-flying startups have declined sharply. Instead of continued expansion in the number of viable digital platforms, intense competition seems likely to weed out many companies.

⁵⁷ Jonathan Hall and Alan Krueger, *An analysis of the labor market for Uber’s driver-partners in the United States*, Princeton University Industrial Relations Section working paper number 587, January 2015.

⁵⁸ *Airbnb summer travel report: 2015*, Airbnb, September 2015.

⁵⁹ Frédéric Mazzella and Arun Sundararajan, *Entering the trust age*, BlaBlaCar, June 2016, available at <https://www.blablacar.com/trust>.

⁶⁰ Aaron Smith, *Shared, collaborative, and on demand: The new digital economy*, Pew Research Center, May 2016, based on national survey conducted in November-December 2015.

⁶¹ See, for example, Ellen Huet and Jing Cao, “On-demand valet parking seemed like such a great idea. It wasn’t,” *Bloomberg*, March 14, 2016; Leena Rao, “Instacart slashes pay for grocery couriers,” *Fortune*, March 11, 2016; and Mike Isaac, “Delivery start-ups face road bumps in quest to capture untapped market,” *New York Times*, February 11, 2016.

THE INDEPENDENT WORKFORCE COULD GROW IF INDIVIDUALS PURSUE THEIR STATED PREFERENCES

Our findings indicate that the independent workforce already encompasses as many as 68 million people in the United States and 94 million more in the EU-15, or roughly 28 percent of their combined working-age population. But our survey results, combined with government data and other sources, lead us to believe that their ranks could grow even larger if more people opt to pursue the working style they prefer. Although the evidence on recent growth in the independent workforce is thin, available data suggest that it is already expanding in size.

Official statistics and private surveys point to recent momentum in the growth of independent work

There are indicators that independent work is already on the rise, although due to data problems within government statistics, there is no clear time series to document a growth trend in various types of independent work.

In the United States, BLS data show flat growth in self-employed individuals, but other sources indicate that there has, in fact, been an increase over the past two decades. Katz and Krueger, drawing on government data sources, found that Schedule C filings to the Internal Revenue Service indicate that self-employment, measured as a share of total employment, has grown from 10 percent in the 1980s to more than 16 percent now.⁶² Furthermore, they conclude that alternative working arrangements (including independent contractors, on-call workers, temporary help agency workers, and workers provided by contract firms) accounted for virtually all net job growth in the United States between 2005 and 2015. Over this period, they find that the share of the workforce in these arrangements expanded from 10 percent to 15 percent (Exhibit 22).⁶³

MGI's survey results and occupational analysis suggest that there is significant room for growth in the independent workforce.

In the EU-15, both traditional jobs and temporary work remain slightly below their 2008 peaks. Self-employment rates remained roughly constant in the EU-15 from 2008 to 2014. But there is country-level variation: the United Kingdom, France, and the Netherlands posted growth in self-employment, while Italy, Greece, Portugal, and Spain recorded sharp declines.⁶⁴ A recent study from the European Parliament confirms that self-employment is flat but finds that marginal part-time work is increasing, and much of it is involuntary in Italy, Greece, Portugal, and Spain.⁶⁵

⁶² The self-employed use Schedule C to report income or losses from their businesses. See Internal Revenue Service, Statistics of Income, publication 1304, Table 1.3, available at www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-%28Complete-Report%29.

⁶³ Lawrence Katz and Alan Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

⁶⁴ David Blanchflower, *Flexibility@work 2015: Self-employment across countries in the Great Recession of 2008–2014*, Dartmouth College and Randstad, May 2015. See also “The self-employment boom: Key issues for the 2015 Parliament,” UK Parliament website, available at www.parliament.uk/business/publications/research/key-issues-parliament-2015/work/self-employment/; this article documents a trend of clear recent growth in UK self-employment numbers, which reached 4.5 million in 2014.

⁶⁵ *Precarious employment in Europe, Part 1: Patterns, trends, and policy strategy*, European Parliament, July 2016.

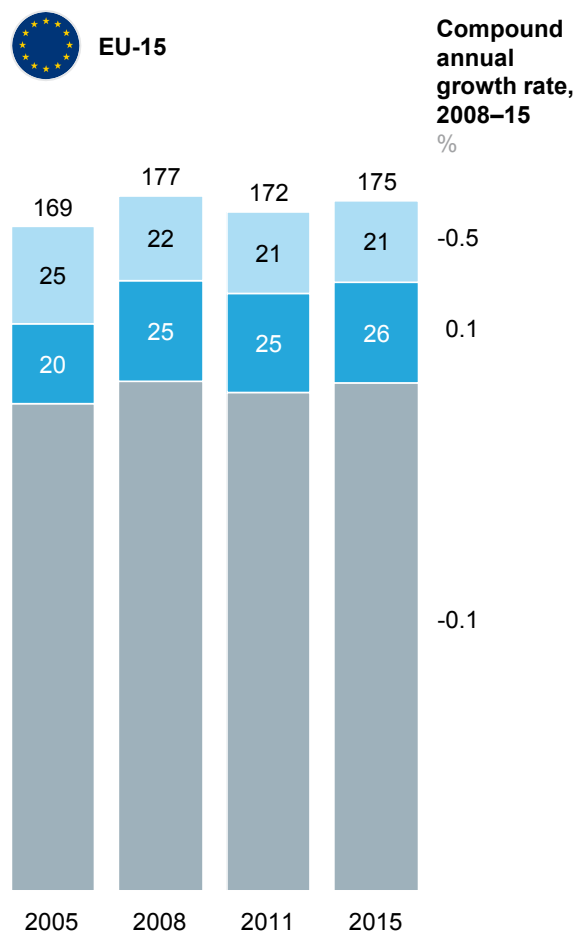
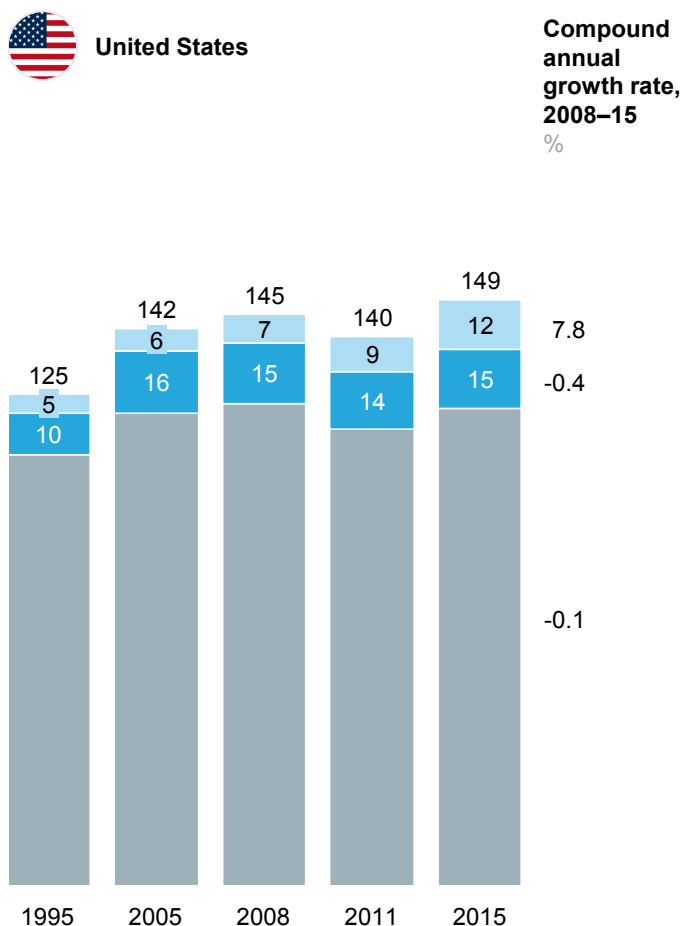
Exhibit 22

Since 2008, temporary and contract work has accounted for all net employment growth in the United States while staying flat in the EU-15



Employed persons million

Temporary and contract workers¹ Self-employed Permanent²



1 Temporary contractors, agency, contract, and on-call minus self-employed.
 2 Employed persons not in self- or temporary employment.

SOURCE: BLS; Freelancers Union; Katz and Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2005*; Kelly Services; Eurostat; McKinsey Global Institute analysis

MGI’s survey finds that substantial numbers of traditional workers and people not currently working say they would like to try independent work

The results of the MGI survey suggest room for independent work to grow in the future. We asked respondents about the working style they would like to pursue in the future, then determined the share of independent earners who no longer want to be independent as well as the share who are not currently independent but would like to be. However, while this approach is fully exhaustive in capturing workers’ aspirations, people do not always act on their desires. To provide a more realistic picture, we asked respondents how likely they were to pursue their desired options and adjusted the share switching status in the future accordingly.

We find that 68 percent of independent primary earners would like to continue making their primary living from independent work in the future and think it is likely that they will. In addition, 32 percent of supplemental independent earners, about half of whom have a traditional job, would like to make independent work their primary source of income in the

future and think it is likely that they will do this. Even among traditional workers, 12 percent would like to be primary independent earners. Among those not currently working, 15 percent would like the same. Those not currently working express the least confidence in being able to pursue this desire, with only six in ten saying it was somewhat likely.

Altogether, if everyone had the opportunity to work in the way they prefer, the primary independent workforce could eventually number up to 135 million people across the United States and the EU-15.⁶⁶ Out of 71 million primary independent earners today, 48 million would retain that status, while ten million would switch to a traditional primary job and continue with supplemental independent earning, and 13 million would rather completely stop doing any independent work or find it likely they would stop. Additionally, 29 million current supplemental earners would convert their activity into their primary source of income. Finally, 58 million of the total 425 million traditional workers and people who do not currently work would like to become primary independent earners as well (Exhibit 23). This is obviously not to say that this entire population would enjoy independent work and would continue that way over the long term; it merely counts those who report that they would like to try it.

135M

potential number of primary independent earners in the US and EU-15 if everyone worked in the style they prefer

If all of our survey respondents were able to pursue their stated desires, our results indicate that the independent workforce could grow from around 27 percent of the US working-age population today to as much as 30 to 50 percent in the future.⁶⁷ In the United States, this corresponds to 76 million to 129 million individuals. In the EU-15, the independent workforce could grow from 25 percent of the working-age population to as much as 27 to 42 percent. The total number of primary and supplemental independent workers could grow to as many as 89 million to 138 million in the EU-15. Note that the low end of each range is a more conservative estimate that includes only respondents who stated they were “very likely” to pursue their desired working style. The high number in each range indicates the full potential; it comprises respondents who reported being “somewhat likely” to pursue their aspirations as well as those who are “very likely.” In addition, all of these figures subtract the share of current independent workers who stated a preference for moving into traditional jobs.

It is important to note, however, that while we have calculated this growth potential based on the stated aspirations of respondents, these numbers should not be read as actual projections. As we discuss in the next chapter, many hurdles may prevent individuals from pursuing independent work. Additionally, these results only hold with all else remaining equal; changes to automation levels or the health of the economy have not been included in this analysis. Nonetheless, it is clear from our survey that millions find the prospect of independent work appealing, and their desire to try it may fuel its growth.

Other studies have similarly highlighted growth potential. In a 2015 Kelly Services survey, for example, up to 24 percent of traditional workers said they were somewhat or very likely to consider working as free agents.⁶⁸ LinkedIn has seen the number of independent workers on its platform grow more than 40 percent in the past five years, a trend that spurred the creation of a dedicated platform for these workers, ProFinder.⁶⁹ Intuit projects that contingent workers will make up more than 40 percent of the US workforce by 2020.⁷⁰

⁶⁶ Throughout this discussion, the EU-15 share was calculated by extrapolating the results from our five survey countries.

⁶⁷ This estimate includes only independent earning from providing labor services. It excludes selling goods and renting assets.

⁶⁸ Teresa Carroll, *Agents of change: Independent workers are reshaping the workforce*, Kelly Services, September 2015. Survey covered 5,200 workers across 13 countries in North America, Europe, and Asia Pacific.

⁶⁹ Kathleen Chaykowski, “Meet Reid Hoffman’s pet project: LinkedIn’s marketplace for freelancers,” *Forbes*, August 16, 2016.

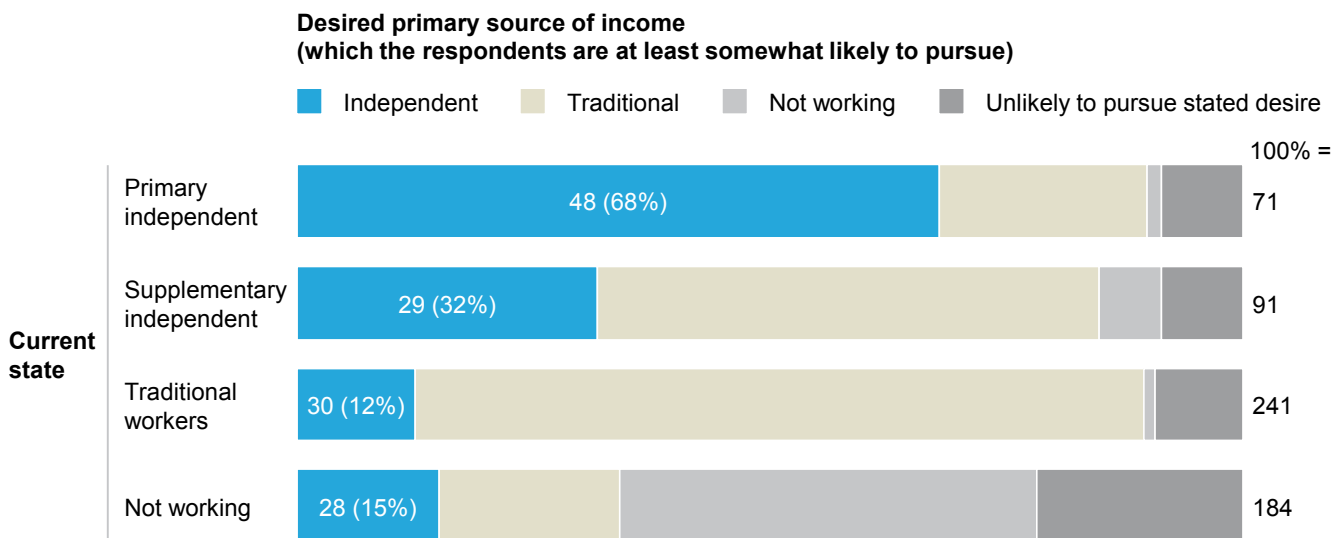
⁷⁰ *Intuit 2020 report: Twenty trends that will shape the next decade*, Intuit, October 2010.

Many people report that they would like to pursue independent work

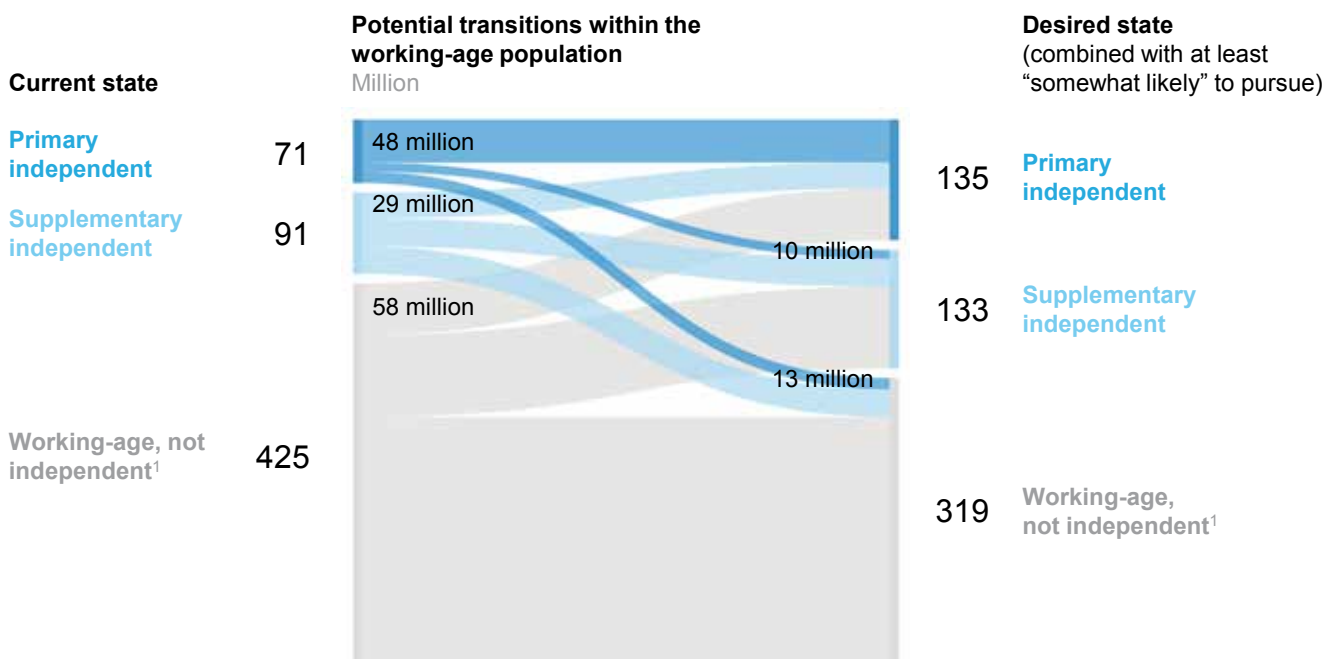
Responses from MGI Survey



87 million people would like to become primary independent workers, joining 48 million who plan to continue working that way



If everyone pursued their preferred working style, the total independent workforce in the United States and EU-15 combined could grow up to 268 million



¹ Includes people in traditional jobs, people not working, and those who stated they would like to be independent but also indicated they were not likely to pursue the option.

SOURCE: McKinsey Global Institute analysis

Independent work may engage millions of inactive, underemployed, or unemployed individuals

Government data reveal that there are 232 million adults in the United States and the EU-15 who are not working full time. Some of them choose not to work for a variety of reasons. But others in part-time roles would like to add hours, and still others are unemployed or inactive and discouraged by their job prospects. By our analysis, at least 100 million of these people would like to work, either part time or full time (Exhibit 24). They include unemployed people actively looking for work, inactive people who state they would like to work, and part-time workers who are underemployed. In all, some 20 million individuals in the United States and 84 million in the EU-15 would like to work. Independent work has lower barriers to entry and offers the scheduling flexibility that many may need.

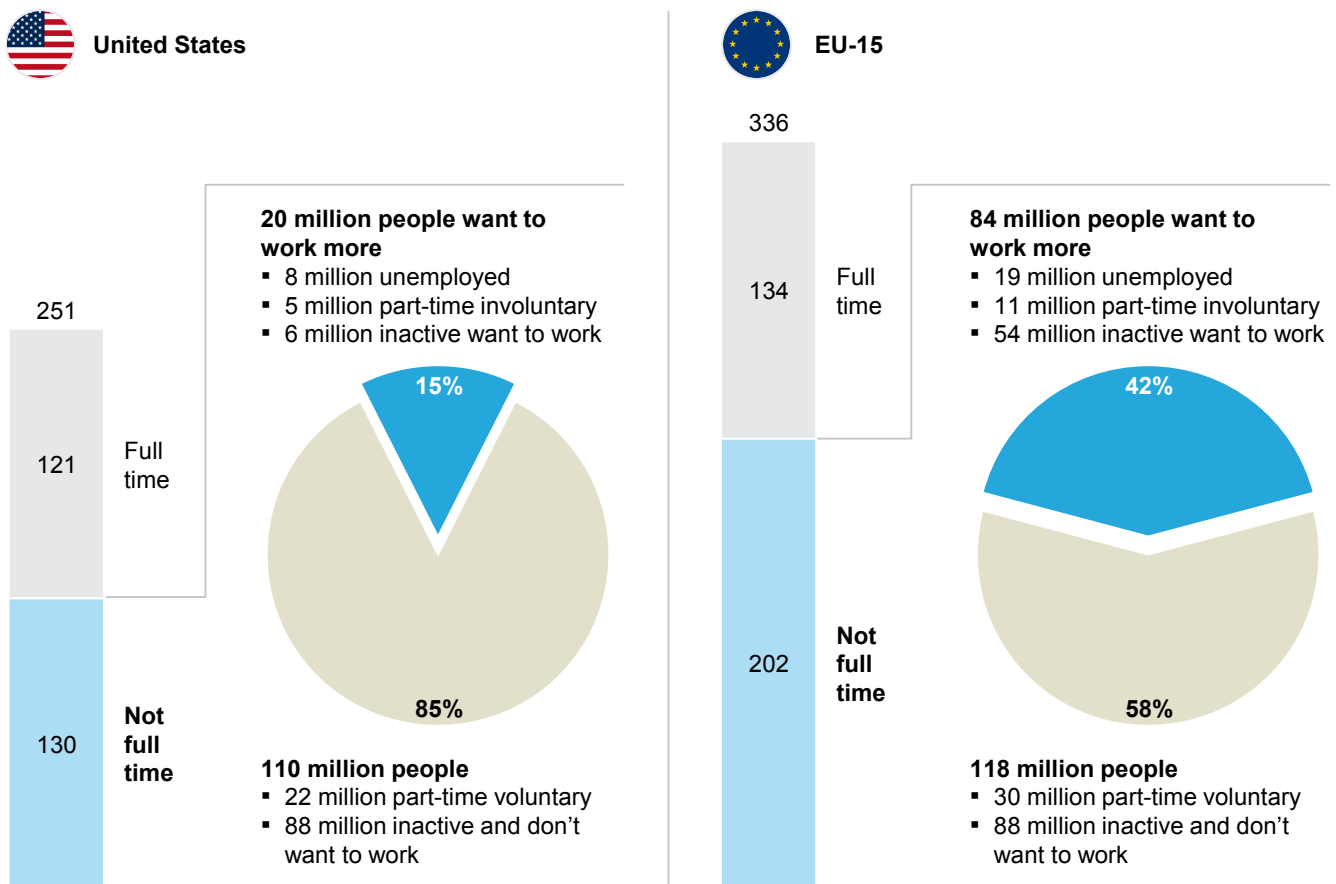
The desire to increase earnings is particularly strong in Europe. Official data show that while two in ten people who do not work full time in the United States would like to work more hours, the corresponding figure in the EU-15 is four in ten. The largest difference is in the number of inactive workers who would like to earn more money, according to government data. This is consistent with a 2014 MGI survey, which found that eight in ten people surveyed across eight European countries would like to work more if the hours were flexible.⁷¹

Exhibit 24

At least 100 million people in the United States and the EU-15 who are not working full-time would like to work more



Millions of people



NOTE: Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; McKinsey Global Institute analysis

⁷¹ *A window of opportunity for Europe*, McKinsey Global Institute, June 2015.

While many who are unemployed want to find another traditional full-time position, independent work can offer a bridge that allows them to continue earning until they find the right job. The long-term unemployed typically encounter even more daunting barriers to finding their way back into traditional jobs; many hiring managers are suspicious of gaps in work histories and wary about taking a chance on anyone who does not seem to be a “safe,” conventional candidate. Independent work could provide this segment of the population with options for reengaging in the labor market.

Seniors, caregivers, and students could be prime beneficiaries of flexible independent work opportunities and propel growth

The flexible opportunities afforded by independent work are especially well suited to seniors, stay-at-home caregivers, and young people—all large and growing demographic groups with an interest in increasing work engagement but with significant time commitments or reluctance to take a 9-to-5 job.

Seniors already are participating at higher rates in independent work

The senior segment of the independent workforce bears watching as waves of baby boomers continue to retire in advanced economies. Retirees make up 44 percent of the inactive population in the United States and between 30 and 50 percent of the inactive population in Europe (Exhibit 25). Since employers have historically encouraged employees to retire at “fixed” ages, it can be hard for this cohort to remain in traditional jobs. An Aegon survey found that only 23 percent of employers offer the option to move from full-time to part-time work and only 12 percent offer retraining.⁷²

Flexible independent work opportunities are especially well suited to seniors, caregivers, and students.

~1/2

US households ages 55+ with no retirement savings beyond Social Security

The harsh reality is that millions who are approaching their official retirement age will need to continue working additional years because of inadequate savings. About half of US households ages 55 and older have no retirement savings to supplement Social Security, reflecting the shift from defined-benefit plans to defined-contribution plans.⁷³ Even those who do have some savings face the prospect of limited returns on their investments in a perpetually low-interest-rate environment and are more likely to postpone retirement and extend their working life.⁷⁴

But a large share of seniors have non-financial reasons for wanting to stay in the labor force. They want to remain active and engaged, but not at the level of a structured full-time job. Research has found that many older professionals continue working because they find it gratifying, and they enjoy the social interactions of work; some feel they will be bored or will lose their sharpness if they fully retire.⁷⁵

⁷² *The changing face of retirement: The Aegon retirement readiness survey 2014*, Aegon, July 2014.

⁷³ *Retirement security: Most households approaching retirement have low savings*, US Government Accountability Office, May 2015.

⁷⁴ Guido Vanderseypen, *Pre-retirement saving and the extension of working life: A model-based assessment of the impact of low interest rates*, European Commission working paper number 2, 2015.

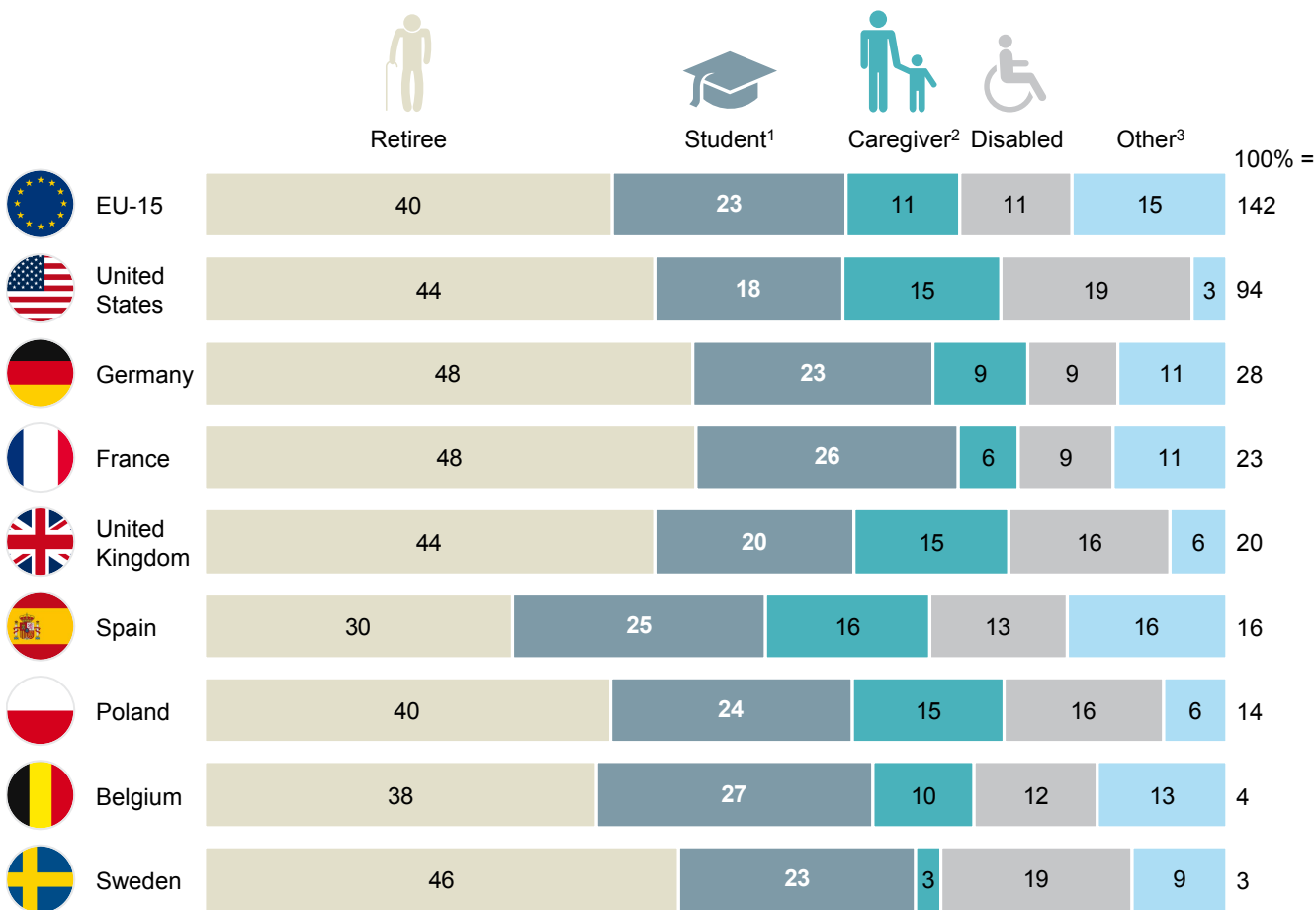
⁷⁵ See, for example, Elizabeth F. Fideler, *Men still at work: Professionals over sixty and on the job*, Rowman & Littlefield, 2014; and Marc Freedman, *Encore: Finding work that matters in the second half of life*, Public Affairs, 2008. In a 2009 Pew Research Center poll that asked seniors why they work, 68 percent said “to feel useful and productive,” 59 percent said “to live independently,” 57 percent said “to give myself something to do,” and 56 percent said “to be with other people.”

Exhibit 25

Much of the inactive population consists of retirees, students, and caregivers who could benefit from the flexibility of independent work

Size of the inactive population by group, 2015

%; million people



1 Inactive respondents who indicated they are in education or training.

2 Inactive respondents who indicated they are looking after children or incapacitated adults, or have other family or personal responsibilities; "home responsibilities in the US."

3 Inactive respondents who indicated they are awaiting recall to work, that there is no work available, or other reasons.

NOTE: US numbers are based on proportions from 2014 Current Population Survey data. Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; McKinsey Global Institute analysis

Already, there is evidence that more seniors are choosing to work. In the United States, labor force participation among 65- to 74-year-olds increased by 4.3 percentage points from 2004 to 2014 and is projected to increase by an additional 3.7 percentage points by 2024.⁷⁶ An analysis of Eurostat data shows that countries with a greater prevalence of part-time work (especially Switzerland, the United Kingdom, Germany, and Norway) also have higher labor participation rates among the 54-to-74 age cohort. Independent work enables seniors to choose how much to work and when to work—and because they also have access to pensions and to national health-care plans, they are less affected than other cohorts by some of the downsides of freelancing, such as job security and the lack of benefits.

Seniors are already participating on digital platforms for independent earning. Airbnb reports that 10 percent of its hosts are over age 60, and seniors represent its fastest-growing host demographic, which meshes with the fact that they are the age group most

⁷⁶ "Labor force projections to 2024: The labor force is growing, but slowly," *Monthly Labor Review*, US Bureau of Labor Statistics, December 2015.

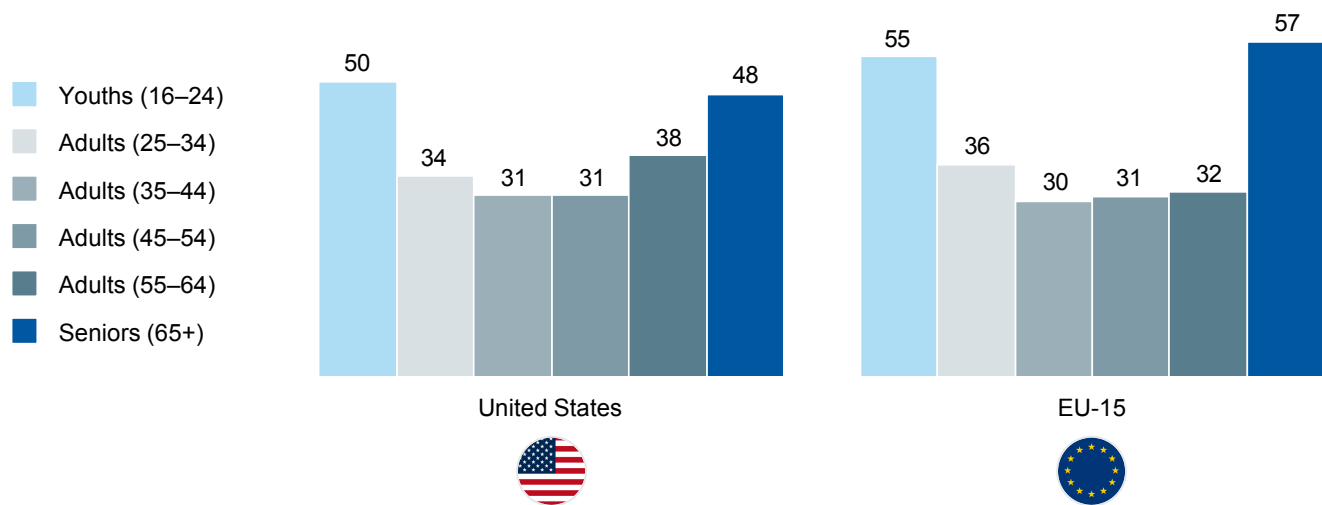
likely to own property. A quarter of Uber’s drivers are age 50 or older. Furthermore, our survey showed that in the United Kingdom, adults over age 55 participate in independent work at a higher rate (39 percent) than adults ages 25 to 54 (31 percent); the same general pattern holds in the United States, Sweden, and Germany. The trend is stronger when only seniors over age 65 are included; 48 percent of seniors with earned income in the United States and 57 percent of those in the EU-15 earn through independent work. This is significantly higher than the roughly 30 percent of prime working-age adults in the United States and the EU-15 (Exhibit 26).

Exhibit 26

Youths and seniors disproportionately participate in independent work

Responses from MGI Survey

% of workers who are independent



SOURCE: McKinsey Global Institute survey; McKinsey Global Institute analysis

Caregivers could benefit from the flexibility offered by independent work

Caregivers, who make up 5 to 15 percent of the non-earning population in our survey countries, are another segment that can greatly benefit from flexible independent work opportunities. Many people drop out of the labor force to care for children or elderly relatives, and in countries with aging populations, the need for caregiving is increasing.

Seventeen percent of the total sample in our survey reported providing care to an elderly dependent. These caregivers participated in independent work at a significantly higher rate (47 percent of all caregivers who earn were independent) than non-caregivers (only 37 percent of whom were independent). More of them engage in independent work for supplemental income (67 percent compared with 54 percent for non-caregivers).

Independent work, from providing professional services to driving for an on-demand service or renting out a room, provides a way for caregivers to generate income while fitting their hours around the needs of their families. This type of flexibility can ease the burden on financially stressed households facing logistical challenges. It is, of course, possible for traditional workplaces to offer more flexible hours and options such as telecommuting to accommodate the needs of caregivers (and public policy can encourage or require companies to do this), but because independent work is flexible by nature, it does appear well suited to meet these needs.

This is a crucial issue for women in particular. They are disproportionately likely to shoulder caregiving responsibilities and to step away from the workforce to do so. One study found that women are 80 percent more likely than men to be impoverished at age 65 and older.⁷⁷ Independent work can help them keep their skills sharp and prevent them from falling into the kind of inactivity that makes it harder to eventually return to work.

Young people can use independent work to earn income while they are in school or to take an initial step into the labor force

Independent work is uniquely suited to another cohort: young people. Many people under age 25 who are eligible to work are still in school; they need or would like extra income but must fit in paying work around class schedules and time for study. Those who are not in school are disproportionately likely to be unemployed—in Spain, for instance, youth unemployment is a staggering 55 percent.

This group also combines a preference for flexibility, a greater willingness to take a wide range of entry-level jobs to build their work records, and an unprecedented level of comfort and fluency with technology. The idea of establishing a profile on a digital platform and using it to find work and conduct transactions is second nature to many of these digital natives. Given the size of the millennial generation—and of the generation coming up behind them—young people could pave the way for new types of independent working styles to take root.

GROWTH COULD ALSO BE FUELED BY DEMAND FROM ORGANIZATIONS AND CONSUMERS FOR INDIVIDUAL SERVICES

Millions of individuals want to work independently to earn their primary income. Based solely on the share of our survey respondents expressing a desire to change their working style, the independent workforce has the potential to grow by almost 65 million people in the United States and the EU-15. Could enough work be created or converted to enable this many people to pursue the working style they say they would prefer?

The answer, it seems, is yes. We looked at both the latent demand in unpaid household work and the potential for organizations to enable independent work arrangements. Together, our analysis suggests that at least in theory, there is more than enough potential to create opportunities for a much larger independent workforce. In practice, the number of jobs that could be performed by independent workers will depend on the ability of organizations to reshape occupations to work with external labor and the willingness of individual consumers to convert currently unpaid housework to independent work. More research is needed on both dimensions.

Individual demand for labor services could grow

Although on-demand digital platforms are still relatively new, there is early evidence that they have generated increased spending on services. Uber has done more than simply replacing taxi rides; it has encouraged people to take car services for trips on which they would once have driven themselves. In New York City, one study found that while only 6 percent of traditional taxi pickups were outside of the most affluent borough of Manhattan or city airports, 22 percent of Uber pickups occurred in the more underserved outer boroughs.⁷⁸

To assess whether there is additional growth potential in consumer markets for personal services, we began by looking at government household survey data on how time is spent. An analysis of the BLS American Time Use Survey and OECD Time Use Survey revealed that people spend approximately 3.2 hours per day on unpaid household work for which

⁷⁷ Jennifer Erin Brown et al., *Shortchanged in retirement: Continuing challenges to women's financial future*, National Institute on Retirement Security, March 2016.

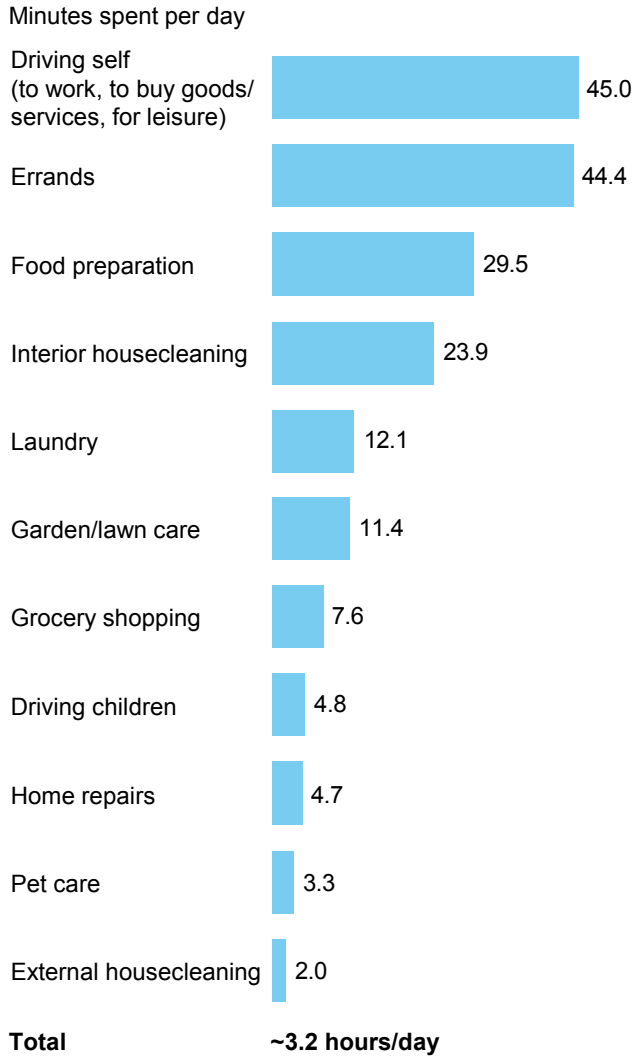
⁷⁸ Jared Meyer, "Uber-positive: The ride-share firm expands transportation options in low-income New York," Manhattan Institute for Policy Research, issue brief number 38, September 2015.

a paid corollary existed. This includes activities such as driving to work, food preparation, garden and lawn care, and external housecleaning (Exhibit 27).

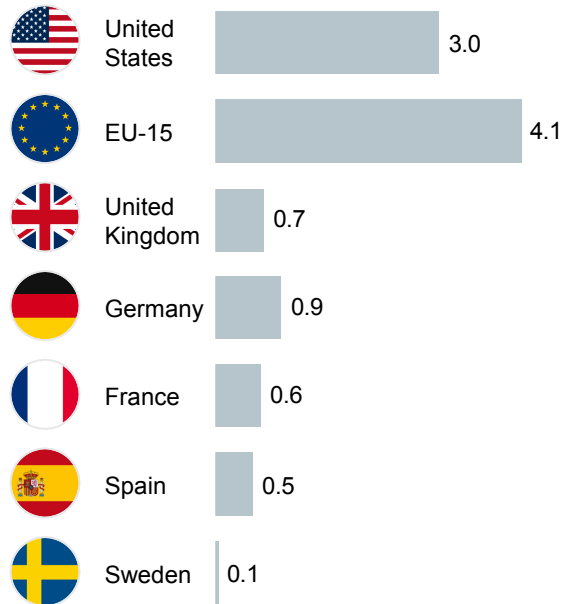
Exhibit 27

Some unpaid household work could be converted to paid independent work, creating the equivalent of seven million jobs

Tasks most amenable to independent work



Jobs Million



SOURCE: BLS American Time Use Survey (2014); OECD Time Use Survey; McKinsey Global Institute analysis

We then considered what reasonable portion of this work might be outsourced to an independent worker if finding the right service provider were easy, transparent, and affordable—exactly what on-demand platforms are designed to do. The MGI survey asked respondents about their willingness to pay for such services. Depending on the activity, between 5 and 30 percent of respondents stated that they were at least very likely to hire someone to perform the unpaid task. Based on their responses, we estimate that 6.2 billion annual hours of currently unpaid household chores in the United States and another 5.6 billion hours per year in Europe could be converted to approximately \$100 billion worth of paid independent work. This would be equivalent to creating some seven million full-time-equivalent positions.

This analysis suggests that at least in theory, there could be further growth in demand for individual services performed by independent workers—and if this came about, it could even represent a positive development for gender parity. MGI research has found that

women perform approximately twice as much unpaid care work for their families as men do, and this burden limits the ability of many women to take on higher-paid and higher-productivity roles in the workforce.⁷⁹

An occupational analysis reveals that it is feasible to create independent work arrangements for those who desire it

The other key source of potential demand for individual services would come from companies and other organizations. We assessed this by first considering what types of jobs could feasibly be performed by external workers, identifying five attributes that seem to be key determinants.

The first is the extent to which the job consists of discrete tasks that can be clearly outlined for external hires and spelled out in contracts. Tasks that can already be outsourced on various digital platforms or through temporary agencies typically have clearly defined scope and are discrete in either the time required or the outputs expected.

Second, we look at whether the occupation involves intricate teamwork or managing other individuals. Jobs that entail management or heavy collaboration may be less amenable to being performed by an independent worker. Third is the degree of contextual knowledge required to do the job. If that knowledge is not explicit and easily transferable, the job will not be well suited for external hires, as it requires more on-boarding and real-time interaction.

The fourth attribute is whether the occupation is seasonal or already has high turnover. Seasonal industries (such as retail) have always relied on temporary workers during periods of heavier demand. Occupations that have high turnover, such as food services and retail sales, could already be considered de facto independent since many people take those jobs with the intention of quitting in just a few months. Companies in the fast-food industry, for instance, have designed rapid on-boarding because of the rate at which new employees cycle in and out.

Finally, we consider whether the occupation demands scarce talent. Professionals such as computer scientists and doctors have such specialized skills and are in such demand that they can shape favorable independent work arrangements, whether that means being selective about the assignments they accept or maintaining flexibility in their schedule.

Based on whether these attributes apply, occupations were linked to one of five broad archetypes (Exhibit 28):

- **Transient workers.** These workers have widely available skills and occupy jobs with high turnover or seasonality in fields such as retail and food service. Their roles are easily converted to independent work—and in fact, many of them are already hired in a temporary capacity. This category encompasses some 20 million to 25 million US workers and 15 million to 20 million Europeans.
- **Experts.** Workers with specialized, scarce skills can spread their time among multiple employers given the demand for their skills. This includes occupations such as programmers, physicians, and lawyers, and it includes individuals at the very top of the wage scale. This category applies to some five million US workers and five million to ten million Europeans.
- **Generalists.** These are workers with more readily available skills; they occupy jobs with discrete tasks and easily transferable knowledge. In principle, their work could become independent. Some 30 million to 35 million US workers and 40 million to 45 million European workers are in this category.

⁷⁹ *The power of parity: Advancing women's equality in the United States*, McKinsey Global Institute, April 2016.

- **Project-based managers.** While most managerial roles are not conducive to independent work, it is a different story in project-based environments. Construction managers and people who work on collaborative creative projects fall into this category, which is the smallest of our archetypes. This category includes roughly five million workers in the United States and five million in Europe.
- **Traditional “company workers.”** These workers have readily available skills and perform discrete tasks, but their roles demand some contextual knowledge. This category includes occupations such as registered nurses, who share common skills but benefit from knowing the intricacies of processes in a given hospital. Similarly, executive assistants do not have rare skills, but their knowledge of how to navigate a particular company’s bureaucratic processes and manage personalities may be priceless. This category is less suited to being converted into independent work since the contextual knowledge of these workers directly contributes to organizational efficiency and efficacy. Approximately 40 million to 45 million US workers and 40 million to 45 million Europeans fall into this category.

Exhibit 28

Some occupations are compatible with independent work

More amenable to independent work	Description	Example occupations
Transient workers	Workers with widely available skills, in jobs with high turnover or seasonality	<ul style="list-style-type: none"> ▪ Food service ▪ Retail sales
Experts	Workers with specialized, scarce skills who can split their time between multiple clients or employers, given the demand for their services	<ul style="list-style-type: none"> ▪ Computer scientists ▪ Doctors
Generalists	Workers with widely available skills, in jobs made up of discrete tasks and easily transferable knowledge	<ul style="list-style-type: none"> ▪ Electricians ▪ Drivers
Project-based managers	Managers in project-based occupations	<ul style="list-style-type: none"> ▪ Construction managers
Traditional “company workers”	Workers in jobs that consist of discrete tasks but require some contextual knowledge	<ul style="list-style-type: none"> ▪ Accountants ▪ Metal workers
Managers	Managers or executives with ongoing, typically non-project-based work	<ul style="list-style-type: none"> ▪ Managers ▪ Executives ▪ Production supervisors
Operational workers	Workers who carry out ongoing operations and long-term projects and strategies	<ul style="list-style-type: none"> ▪ Media specialists
Less amenable to independent work		

SOURCE: BLS; Eurostat; McKinsey Global Institute analysis

The tasks performed by experts and transient workers seem to be most amenable to becoming independent work. Many of these roles are independent, and turnover is high in many of these professions. At the other end of the spectrum, occupations that fall outside these categories or blur these boundaries are poorly suited to being handled independently. These include executives, members of the clergy, teachers, full-time nannies, and business operations specialists.

Given the large numbers of people employed in the occupational categories that do lend themselves to independent work, there would appear to be sufficient room for companies and organizations to engage a larger independent workforce.

A number of demographic, economic, and business trends are intersecting to increase the likelihood of a growing independent workforce in the future. This shift could bring clear benefits to individuals, companies, and the broader economy—but it also poses a number of challenges and policy questions. Chapter 4 looks at the potential macroeconomic benefits as well as the issues that would have to be addressed in order to make this shift a positive development.



4. MAKING INDEPENDENT WORK A WIN FOR ALL STAKEHOLDERS

Many people are closely watching the development of the independent workforce, seeking to understand new ways of working that fall outside the traditional employer-employee relationship. Our research finds that more people in both the United States and the EU-15 are engaged in this type of work than previously thought—and their ranks could continue to grow. The proliferation of digital tools and the rise of labor matching platforms are rapidly expanding the range of services that can be delivered independently, creating new options for individuals to find work that suits them, on their own terms.

Increasingly, policy makers and observers who closely watch only the ups and downs of payroll employment figures are missing a large part of what is happening in the labor market. The continued growth of independent work could have tangible economic benefits such as raising labor force participation, providing opportunities for the unemployed, and potentially even boosting productivity. Digital platforms can amplify these benefits through their larger scale, faster matches, seamless coordination, and richer information signals enabling trust.

But some key challenges will need to be addressed for this to be a feasible and satisfying development for workers. The extent to which growth in independent work is a welcome development or a cause for concern depends heavily on whether workers are following this path by choice. In general, the debate has been based on anecdote, rather than on hard data, and more research clearly needs to be done on many fronts. But even for the free agents who are pursuing their preferred working style and are highly satisfied with their work lives, independent work is not always seamless.

Existing policy frameworks and safety net programs, designed for a more industrial age and a labor market in which salaried positions are the norm, do not always fit non-traditional working models. While policy makers and intermediaries have taken steps to address the challenges, there is still room for improvement. Today free agents navigate around these issues as best they can, but it may be time to modernize policies and create new intermediaries that can bridge these gaps. And while the majority of independent workers are satisfied and thriving, it is important not to lose sight of the 50 million US and European workers who want stable jobs with adequate pay but feel shut out of them. Ensuring that the low-wage workers who turn to independent work only out of necessity—as well as traditional workers in precarious situations—do not slip through cracks in the safety net is a critical issue.

In this chapter, we offer early thoughts on the benefits that independent work could generate for various stakeholders, including companies and organizations, individual consumers, and workers themselves. We also identify some of the policy issues that need to be explored and addressed. In addition to action on the policy front, there is tremendous room for innovators to step into this space with fresh solutions. The growth of independent work will present companies with organizational and strategic questions, while the individuals who choose this path will have to chart their own way through a very different world of work.

INDEPENDENT WORK MAY GENERATE SIGNIFICANT BENEFITS

Much of the public discussion to date on the shift to independent work has focused on the risks and the potential downside. Less has been said about the potential macroeconomic benefits, but there could be substantial pluses in terms of mobilizing more human capital and creating a more efficient labor market. Similarly, there are microeconomic benefits for companies and individuals—as well as the intangible but arguably even more important

effect of empowering millions of people to set the parameters of their own working lives. Our research did not attempt to size these benefits, but we offer some thoughts and early evidence on how independent work could contribute to growth and economic dynamism.

Independent work could raise GDP through several channels

If the shift to independent work gains momentum, the effects on workers and companies could eventually translate into several types of macroeconomic benefits:

- **Increasing labor force participation and hours worked for the underemployed.** An analysis of government labor data indicates that there are 232 million people of working age across the United States and the EU-15 who work less than full time or are inactive. At least 100 million of them say they want to work more. Particularly in Europe, where many countries have persistent labor market woes, there is a strong desire among workers to become more productive. A previous MGI report on Europe found that 80 percent of survey respondents would like to work more hours each week to earn more income if they had flexible options.⁸⁰ Similarly, in a global survey conducted by LinkedIn in 2015, 55 percent of part-time workers and 31 percent of full-timers said they would like to add hours for a proportionate increase in pay. As more people are put to work, their incomes could bolster sagging demand across national economies that need an infusion of momentum.

Independent work could enable this group to start working or to add hours. As discussed in Chapter 3, the flexible opportunities afforded by independent work can be especially well suited to seniors, caregivers, and students. Retirees make up 44 percent of the inactive population in the United States and between 30 and 50 percent of the inactive population in Europe. Many of them have both financial and non-financial reasons to continue working, provided they can find ways to stay engaged without taking a structured full-time job. In Europe, there is clear evidence that countries that have more part-time and flexible work options also have higher rates of labor force participation by older people (Exhibit 29). The same is likely to apply for independent work as well.

Caregivers, who make up 5 to 15 percent of the inactive population in our survey countries, are often forced to drop out of the labor force because they cannot work regimented hours—and in countries with aging populations, the need for caregiving is increasing. A recent MGI survey in the United States found that three-quarters of self-identified homemakers, or stay-at-home mothers, would be likely to return to work if they had flexible options.⁸¹ As some share of unpaid household work is converted to paid work on digital platforms, some women may find it possible to seek higher-productivity positions even as they create new opportunities for less skilled workers.

Digital tools and platforms lower barriers to entry for anyone who wants to start working, allowing them to start fresh or build on their previous skills and work experience. Platforms such as HourlyNerd or SkillShare can give caregivers and retirees an opportunity to utilize their education. This raises GDP by increasing hours worked in the economy (assuming the economy is not suffering from too little aggregate demand). Previous MGI research estimated the global impact digital platforms could create by engaging a small share of inactive workers to a modest degree (10 to 15 hours per week, depending on their demographic characteristics). Even this conservative estimate of time spent working would raise global GDP by 0.9 percent, or \$1.3 trillion.⁸²

30-50%

share of the inactive population in the US and the EU-15 who are seniors

⁸⁰ *A window of opportunity for Europe*, McKinsey Global Institute, June 2015.

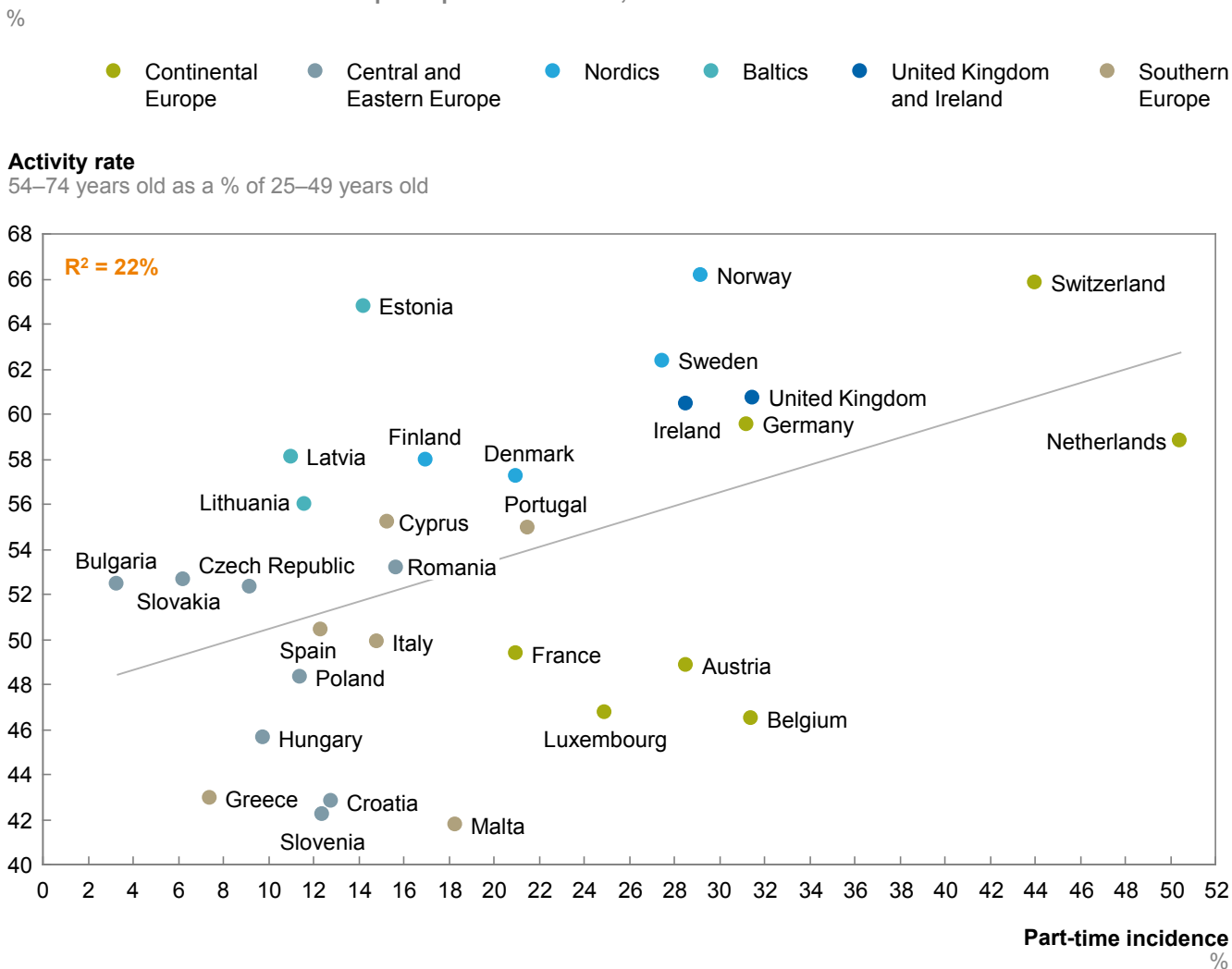
⁸¹ *The power of parity: Advancing women's equality in the United States*, McKinsey Global Institute, April 2016.

⁸² *A labor market that works: Connecting talent with opportunity in the digital age*, McKinsey Global Institute, June 2015.

Exhibit 29

Flexible work opportunities can boost labor force participation by seniors

Part-time incidence vs. labor force participation of seniors, 2013



SOURCE: Eurostat; McKinsey Global Institute analysis

- Providing work for the unemployed.** For some, independent work is not a preferred choice—but it may be a lifeline. When individuals are thrust into unemployment, independent work can keep them afloat while they search for their next job. Having this kind of alternative readily available is critical for the millions of workers who may have traditional jobs but are in precarious financial circumstances. One study found a growing trend of people joining online labor marketplaces to offset temporary drops in their other income.⁸³

Our survey indicates that the unemployed are indeed using independent work as either a short-term bridge or a longer-term solution. In the United States, 27 percent of independent earners who were not students, retirees, or full-time homemakers reported experiencing unemployment or a period during which they were not earning income during the past year (Exhibit 30). The share was even higher (at 36 percent) among those who are independent out of necessity (the reluctants and the financially strapped combined). These shares are notably higher than the less than 15 percent of

⁸³ *Paychecks, payday, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016.

US survey respondents in traditional jobs who reported experiencing a recent bout of unemployment. In Europe, 24 percent of total independent earners and 34 percent of those who are independent out of necessity reported a bout of unemployment in the past year vs. 8 percent in the case of traditional workers.

Providing a way for the unemployed to work is especially important in Europe, which suffers from a chronically high rate of long-term unemployment. Eurostat reports that almost 50 percent of the unemployed in EU-27 were not able to find a job for more than 12 months at the end of 2014, while the long-term unemployed amounted to less than half that share of overall unemployment in the United States, according to BLS data. Independent work could be a way to put more young people to work in countries where youth unemployment is high, enabling them to start on a career ladder.

Overall, enabling the unemployed to keep earning increases the number of hours worked in the economy, adding to GDP. But policy changes will be needed in some countries to align incentives, as unemployment benefits are often sharply reduced or ended altogether when a recipient starts earning.

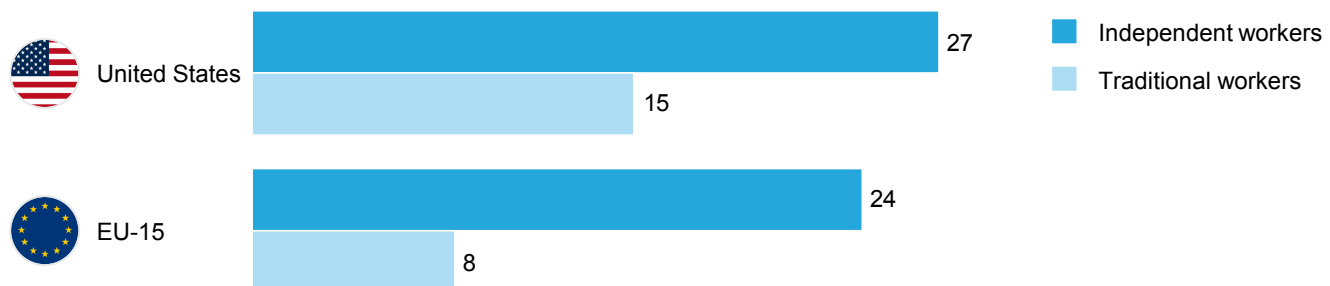
Exhibit 30

Independent work provides earning opportunities for the unemployed

Responses from MGI Survey

Share of workers who experienced unemployment or a period in which they did not earn income in the previous 12 months

% of respondents



SOURCE: McKinsey Global Institute analysis

- Increasing capital productivity.** A small but growing share of independent earning involves renting out assets. In theory, this should improve capital productivity as underutilized assets and spare capacity are put to work—and digital platforms improve this capability by adding detailed, real-time information that can make a step change in utilization. For instance, by bringing together individual property owners with travelers visiting a destination on a specific date, who want specific amenities, and who have a clear budget in mind, platforms such as Airbnb, VRBO, FlipKey, and HomeAway monetize assets that might otherwise sit empty, unlocking new types of fractional capacity in the economy. Similarly, the average car is parked more than 95 percent of the time, but platforms such as Turo, Getaround, Uber, and Lyft can increase the utilization of idle vehicles—even beyond what traditional dispatching and cruising the streets achieved in offline transportation companies. These sharing economy platforms are now expanding to many other types of assets: photography equipment, private jets, boats, clothing, and office space.
- Increasing labor productivity.** It is also possible that a shift to independent work could raise labor productivity, although there are also some offsetting effects. A potential

increase in labor productivity comes from two sources. First, a shift to independent work enables people to specialize in doing what they do best and raises their engagement. This has the potential to make them more productive, both through better skill matching of the right person for the right job, and higher employee engagement. Although the academic evidence is mixed, there is growing empirical evidence that employees who are more engaged are more productive in the time they are at work than those who are not.⁸⁴ In addition, companies are disaggregating jobs between high-skill and low-skill workers, enabling more specialization that should raise labor productivity. Many send routine tasks to independent workers so that their core team can focus on more challenging, collaborative problems where they add the most value.⁸⁵ Digital platforms may improve the effectiveness of this strategy by using a wealth of data to improve the quality of the match between the worker and the task.

There are other effects, however, that could lower labor productivity as individuals shift from corporate jobs to independent work. The self-employed may have lower productivity, in part because they must devote some of their time to performing their own back-office functions.⁸⁶ Some digital platforms have taken steps to help reduce this burden for workers, and there is an opportunity for intermediaries to play a role in reducing the overhead of being an independent earner. In addition, over time, the self-employed may find that they are not developing new skills at the same rate as people in large organizations, or working with the latest technology. Where this nets out is unclear, and further research will be needed.

- **Stimulating consumption.** Digitally enabled services are providing consumers with access to services that were once inconvenient to obtain—or that may not even have existed before. Many people who once would have driven themselves on local outings have changed their habits and will now summon a ride from Uber or Lyft on their smartphones. As digital matching services tap into these new markets, they may increase consumption across the economy. However, there is also the possibility that such sharing economy models could actually reduce consumption (for instance, if those same ride-sharing services decrease demand for cars).⁸⁷ More data will be needed on these effects as digital marketplaces expand.

The growth of independent work could create efficiencies and strategic advantages for companies and organizations

Companies, government agencies, nonprofits, and organizations of all sizes could benefit from the ability to hire independent workers—and many are already doing it. One key advantage is the ability to expand their workforces in periods of peak demand and then revert to a leaner core team when the workload returns to normal. They can also hire quickly if the business is expanding rapidly. Furthermore, they can look for people with exactly the right skills when they need them.

For many companies and other organizations, work has become increasingly project-based in nature, and they can benefit from accessing the right expertise to round out teams. In the marketing and advertising industries, long-term retainer deals to provide integrated

⁸⁴ While studies suggest that happiness and productivity are linked, the evidence is mixed on this point. See, for example, Andrew J. Oswald, Eugenio Proto, and Daniel Sgroi, *Happiness and productivity*, IZA discussion paper number 4645, December 2009; Julie Moreland, “Improving job fit can improve employee engagement and productivity,” *Employment Relations Today*, volume 40, issue 1, spring 2013; and J. Anitha, “Determinants of employee engagement and their impact on employee performance,” *International Journal of Productivity and Performance Management*, volume 63, issue 3, 2014.

⁸⁵ Martin Dewhurst, Bryan Hancock, and Diana Ellsworth, “Redesigning knowledge work,” *Harvard Business Review*, January-February 2013.

⁸⁶ John R. Baldwin and James Chowhan, *The impact of self-employment on labour-productivity growth: A Canada and United States comparison*, Statistics Canada, August 2003.

⁸⁷ Rudy Tellis Jr., *Digital matching firms: A new definition in the “sharing economy” space*, US Department of Commerce Economics and Statistics Administration, ESA issue brief number 01-16, June 2016.

services are becoming less common as the share of project-based assignments grows.⁸⁸ Some pharmaceutical companies run clinical trials mainly with independent workers, from scientific researchers to administrative staff. Previous McKinsey research shows that two-thirds of companies with high adoption rates for digital tools expect workflows to become more project-based than function-based and that teams in the future will organize themselves accordingly.⁸⁹ Organizational structures are beginning to morph as digitization allows them to connect in looser platform structures, with disaggregated tasks and more fluid teams.⁹⁰

The ability to call in specialized help on an as-needed basis has a great deal of value for small businesses and startups in particular. Smaller enterprises may need specialized help at particular times—say, a marketing specialist to help during a product launch, an accountant during tax season, or a logo designer to establish a brand identity—but may be unable to afford having those people on staff full time. The availability of freelance labor has vastly reduced the cost and lowered the barriers to starting a business.⁹¹ With minimal capital, an entrepreneur with an idea can now create a small company by calling in specialized help on a project basis, particularly by turning to platforms such as Upwork, Freelancer.com, or HourlyNerd, where they can identify external experts quickly.

For companies both large and small, it can be cost-effective to hire independent workers. First, they are fully utilized; they work only when there is a need for their services. Second, digital platforms that aggregate a global pool of workers can lower the cost for particular tasks and make the going rate more transparent.⁹²

While there is often a clear business case for outsourcing some tasks to independent workers, it does not apply universally. The pros and cons of keeping any job in-house or turning it over to an independent worker have to be weighed carefully against the institutional knowledge, experience, and on-the-job learning that long-term employees may provide. (See below for more on this issue.)

But corporate use of independent workers is not solely about outsourcing. In other cases, it unlocks new opportunities for growth, as it may free companies to invest in projects they would not undertake at all if they had to expand full-time staff. A company that wants to create a one-time marketing brochure may call in writers and designers to create it; the alternative in this case is likely not hiring a traditional in-house publishing team but simply not producing the piece. The availability of independent workers may encourage some entirely new economic activity.

On-demand services are creating consumer surplus

Consumers have been the big winners in the expansion of digital on-demand platforms. Individual buyers have more choices, including services that were not previously available to them through traditional means. They can hire someone to perform tasks at lower prices than before and generally with a great deal more ease and transparency. At the touch of a button, digital apps allow buyers to summon a ride, place a detailed order for the week's groceries, or send out for food from restaurants that do not deliver. Someone can appear at their door to do their laundry, organize their closets, walk their dog, or assemble their furniture. The early adopters have quickly grown accustomed to convenience and immediacy for all manner of services. So far the proliferation of these services has been

⁸⁸ 2014 RSW/US agency-marketer new business report, RSW/US, August 2014.

⁸⁹ "How social tools can reshape the organization," McKinsey.com, May 2016.

⁹⁰ Aaron De Smet, Susan Lund, and William Schaninger, "Organizing for the future," *McKinsey Quarterly*, January 2016.

⁹¹ Andrew Burke, "The entrepreneurship enabling role of freelancers: Theory with evidence from the construction industry," *International Review of Entrepreneurship*, volume 9, number 3, 2011.

⁹² Kevin Yili Hong and Paul A. Pavlou, "Online labor markets: An informal 'freelancer economy,'" *The IBIT Report*, Fox School of Business Temple University, February 2013.

a plus for consumers but disruptive for established incumbents—and it is important to note that regulation can shape the evolution of these platforms and their ability to penetrate markets.

Independent work could potentially improve worker satisfaction and create opportunities for individuals to earn supplemental income

The MGI survey shows that most independent workers choose to work outside the confines of a structured payroll job by choice, and they are highly satisfied with their working lives as a result. These earners cite higher satisfaction than traditional workers across topics ranging from the creativity they can express while they work to the opportunities they have to learn and develop to the recognition they receive.

Workers become independent for a variety of reasons, chief among them being the chance to enjoy more autonomy and flexibility. Many independent earners relish the opportunity to be their own boss, focusing on the work they enjoy and doing it their way. They can set their own hours to some extent and create their own work-life balance. They can say no to difficult clients or projects with unrealistic deadlines, and they can live their lives free from long commutes, office politics, micromanaging bosses, and dress codes.

The growing availability of independent work also creates opportunities for individuals to supplement their existing income streams and improve their personal finances. Our survey found that casual earners are actually the largest segment of independent workers, and like free agents, they are highly satisfied with their working lives. Some may have found a way to turn hobbies into paying assignments, while others may simply enjoy doing work that provides a change of pace from their day job. Etsy surveyed its sellers and found that almost two-thirds used the platform for supplemental income, some to achieve greater financial independence and others to help support their families. But roughly three-quarters said they wanted to do something they enjoyed, and one-third said they wanted to fulfill a personal dream.⁹³

BUT INDEPENDENCE POSES SOME CHALLENGES FOR WORKERS

Despite the advantages and potential for personal satisfaction, the choice to pursue independent work is not as seamless as it could be—and it involves some real trade-offs. This makes it perhaps even more striking that free agents express higher satisfaction with their work lives than traditional workers.

To date, much of the public discussion has tended to focus exclusively on either the thriving free agent segment or the struggling reluctant segment. But there are challenges common to independent workers of all types that need to be considered more holistically. While we did not conduct in-depth research into these areas, it is clear that these issues need further exploration and will be the focus of ongoing debate.

More broadly, these challenges need to be viewed in the wider context of how the world of work is changing for everyone. As digitization creates new ways of working, there is greater uncertainty for broad swaths of the workforce. Anxieties are further fueled by longer-term trends in labor markets that have produced high levels of unemployment and stagnant wages for large numbers of people.⁹⁴ Many of the issues discussed below are not new, nor are they necessarily unique to independent earners. Governments and other intermediaries and innovators have taken some preliminary steps to alleviate these issues, but there is still much more work to do.

⁹³ *Building an Etsy economy: The new face of creative entrepreneurship*, Etsy, July 2015.

⁹⁴ For more on these issues, see *Poorer than their parents? Flat or falling incomes in advanced economies*, McKinsey Global Institute, July 2016.

Some challenges associated with independent work are common to all segments

Perhaps the top concern regarding independent work is the provision of benefits and income security measures. In the United States, for example, independent workers have to cover the full costs of their own health insurance premiums. The Affordable Care Act was a clear step toward providing them with better access to coverage, and the subsidies associated with it put coverage within reach for independent earners below a certain income threshold—but for those just above that threshold, the cost of coverage can be considerable. In addition, independent workers must cover both the employer and the employee portions of Social Security contributions, and any time off comes out of their own pockets. Independent workers do have access to a variety of retirement vehicles that allow for tax-deferred retirement savings, but they must navigate setting up those plans and handling their own investment decisions, and they lack any kind of employer match to help build savings over time. However, it is no longer a given that workers in traditional jobs have generous retirement plans, so the trade-off in this area is not as clear-cut as it once was. Other types of gaps exist as well, particularly in terms of income protections such as disability insurance, workers' compensation for injuries suffered while working, and unemployment insurance to cover gaps in work. In Europe, too, the self-employed do not necessarily have access to unemployment or retirement benefits. In theory, independent workers could purchase some additional protections as private insurance, but today such products are limited or tend to be cost prohibitive.

Independent workers may find it harder to develop new skills and advance their careers.

Independent workers may also face other hurdles, such as access to credit. A would-be borrower without a steady paycheck from a traditional employer is likely to have to jump through additional hurdles when obtaining a mortgage or a car loan—and sometimes is shut out of the market altogether. It is not always easy for microbusinesses to access the credit they need to scale up.

One of the age-old risks and frustrations faced by independent workers is the possibility of performing work for a client who then does not pay. A 2014 survey found that 71 percent of US independent earners reported having trouble getting paid at some point in their career; half reported trouble in the survey calendar year. The average amount of unpaid income reported in 2014 was almost \$6,000, and some reported waiting more than 90 days for payment.⁹⁵ However, the risk of non-payment may be reduced if more independent work shifts to digital platforms, which establish payment infrastructure and protocols that have to be followed as a condition of participation. In most cases, work that is intermediated by digital platforms pays faster than traditional jobs. Lyft's Express Pay feature, for example, allows its drivers to collect their earnings anytime they reach \$50; Uber has a similar Instant Pay feature. The payment systems used by ride-sharing apps ensure that no cash changes hands but accounts are automatically charged, thus reducing the potential for fare evasion, overcharging, and misreporting.

Administrative hurdles, such as licensing requirements, extra tax filings, and complex regulatory requirements, can also be significant. Data from the US Bureau of Labor Statistics shows a quarter of US workers now hold an occupational license or certificate, up from about 5 percent in the 1950s. Occupational licenses are required for more than 800

⁹⁵ *The costs of nonpayment: A study of nonpayment and late payment in the freelance workforce*, Freelancers Union, 2014.

occupations, including auctioneers, dance instructors, locksmiths, florists, manicurists, and upholsterers. While some of these credentials provide important assurances of consumer safety, putting licensing requirements on too many occupations, with standards that vary across states, erects hurdles for independent workers who aspire to enter a new profession, start a business, or move.⁹⁶ This problem is not unique to the United States. One study found that between 9 and 24 percent of workers in the EU-27 states were subject to occupational regulation.⁹⁷ In France, for example, any individual seeking to become a professional driver must invest a significant amount of time and money.⁹⁸

Independent workers must also account for costs that reduce net earnings. These can include office space, equipment and tools, marketing, licensing fees, telecom costs, and other types of business expenses. Drivers who work for Uber, Lyft, and similar services often must cover their own gas, repairs, insurance, and maintenance while absorbing the depreciation of their vehicles.

Finally, while all workers need to seek out opportunities to develop new skills, independent workers may find it harder to ensure they do not stagnate in doing the same type of work. Employees of large companies may benefit from on-the-job learning, training, and opportunities for career advancement, but independent workers may have to seek out training on their own. Companies are often reluctant to hire independent workers for tasks they have never done, making it hard for them to build new career muscles.

Independent workers in the reluctant and financially strapped segments face an additional layer of challenges

Across advanced economies, labor markets are characterized by a growing wage gap, as the top earners pull away from everyone else.⁹⁹ Digitization may have accelerated this divergence, as the workers with the most sophisticated digital skills command wages that are far above the average.¹⁰⁰ Perhaps unsurprisingly, the independent workforce could be experiencing the same kind of disparities that exist in the rest of the labor market (see Box 4, “The income question: Are independent earners becoming a two-tiered workforce?”).

Some 30 percent of independent earners in our survey reported turning to independent work out of economic necessity. These workers, along with the individuals in traditional jobs who say they would prefer to be independent, are struggling. They are likely to be from low-income households, and a large share have a high school education or less. The financially strapped are disproportionately women. Our survey shows they are dissatisfied with their income level, income security, hours worked, and benefits, even if independent work is better than alternatives such as unemployment or poor-quality traditional jobs.

Income variability can become a serious issue in this context. Traditional workers are not immune from this issue: a recent study found that 55 percent of all Americans experienced a 30 percent month-to-month change in total income.¹⁰¹ For some independent workers, the volume of work that is available and the going rate for it can vary due to factors beyond their control. While some independent professionals may be equipped to absorb these fluctuations, this risk looks very different for the reluctant and financially strapped segments.

⁹⁶ For more on this issue, see Brad Hershbein et al., *3 targeted approaches to expand employment opportunities*, The Hamilton Project at the Brookings Institution, March 2015.

⁹⁷ Maria Koumenta et al., *Occupational regulation in the EU and UK: Prevalence and labour market impacts*, Department for Business, Education and Skills, Queen Mary University of London, July 2014.

⁹⁸ Augustin Landier, Daniel Szomoru, and David Thesmar, *Working in the on-demand economy: An analysis of Uber driver-partners in France*, March 2016.

⁹⁹ See, for example, Elise Gould, *Wage inequality continued its 35-year rise in 2015*, Economic Policy Institute, March 2016.

¹⁰⁰ *Digital America: A tale of the haves and have-mores*, McKinsey Global Institute, December 2015.

¹⁰¹ *Paychecks, paydays, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016.

For these workers who live close to the edge, a drop in income caused by losing a client, non-payment, an injury or illness, or a family emergency can be dire. A recent report found, for example, that 47 percent of Americans could not cover a \$400 emergency bill.¹⁰² At the same time, it is important to note that independent work—and particularly supplemental work—can help low-income households stabilize their finances as needed. Digital platforms that allow anyone to plug in and start working may help them fill the gaps when other sources of income dip. The same study that found income variability also found that individuals use independent work to help smooth variations in income.

While these workers may scramble to cover the bills in the immediate terms, the longer-term issue of their retirement security is also looming. Low-income independent workers may have the ability to establish their own retirement accounts, but realistically, they are unable to save. A recent report found that roughly half of US households ages 55 and older have no retirement savings beyond Social Security.¹⁰³ It is urgent to consider how to provide low-income independent workers—and, for that matter, workers in precarious traditional jobs—with a greater safety net and pathways to improve their skills.

¹⁰² *Report on the economic well-being of US households in 2014*, Board of Governors of the Federal Reserve System, May 2015.

¹⁰³ *Retirement security: Most households approaching retirement have low savings*, US Government Accountability Office, May 2015.



Box 4. The income question: Are independent earners becoming a two-tiered workforce?

While the evidence is mixed, it appears that individuals with skills that are in high demand can boost their income by becoming independent. But it may be a different story for workers with widely available general skills. Even some workers who have carefully cultivated skills over time may experience a difficult transition to independent work if they are forced into it because they work in traditional industries that are being disrupted (such as newspapers or manufacturing, for example).

Some “free agents” in our survey leave traditional jobs precisely because they can make more money as independent contractors than as payroll employees. One study found that the self-employed in Germany have considerably higher average monthly earnings than regular employees.¹ MBO Partners’ annual survey found that 47 percent of full- and part-time independents report making more money working on their own than they would in a traditional job. The Freelancers Union reports that three-quarters of freelancers earn more than they did in their previous traditional jobs within the first year of leaving.² However, it is less clear whether these studies are examining gross income or net income that excludes costs of doing business and benefits, such as employer-subsidized health-care and retirement benefits.

Workers in unskilled, generalist positions face low wages, whether in independent work or traditional jobs—but their lack of economic security can magnify the challenges of handling the ups and downs of independent work. One study in California found that even controlling for the type of occupation as well as for demographics and English proficiency, workers on temporary contracts made about 18 percent less per hour than non-temporary workers. The researchers also found that temporary workers were twice as likely to live in poverty, receive food assistance, and rely on Medicaid.³

Whether digital platforms amplify or reduce downward pressure on wages is unclear. On the one hand, they could exacerbate this issue by forming large pools of available labor and intensifying competition that pushes wages down. A recent study of US workers on Amazon’s Mechanical Turk platform found that they were more educated than the population at large, but only 8 percent were making more than \$8 an hour. More than half made less than \$5 an hour, which is below the federal minimum wage.⁴ Some of this may be caused by creating global pools of labor that expose service workers in advanced economies to competition from workers in developing economies who are willing to work for less, but even when that is not the case, digital marketplaces can drive down prices. This phenomenon occurred for freelance writers over the past decade, for example, with the advent of online “content mills” that farm out assignments for short articles at fees far below the industry standard. Price competition is positive for consumers of services, but it could lead workers—especially those who lack differentiated skills or experience—into a low-income trap.

On the other hand, digital platforms also enable richer information signaling that can help workers set themselves apart and potentially increase earnings. One study tracking 10,000 workers found that those in occupations such as plumbing, carpentry, and moving could command higher wages through on-demand digital platforms rather than traditional channels—but the opposite was true for graphic design, writing, and editing.⁵ Although commissions are typically set by intermediaries, near-zero marginal costs make it possible, in theory, for workers to switch seamlessly from one intermediary to the other. The presence of competitive intermediaries in a given market could potentially enhance the power workers have over wages.

The evidence on whether independent work enables higher incomes or lowers wages is mixed. In our survey, it appears that household incomes are lower on average for independent workers than for traditional workers. However, it is not clear whether lower household income has driven workers to earn income through independent work or vice versa. Other research finds that independent work enables some people to earn more than in traditional employment. More research is clearly needed to understand the effects on incomes and wages over time.

¹ Christian Hopp and Johannes Martin, *Self-employment and earnings: Evidence for Germany*, German Economic Association of Business Administration discussion paper number 14-19, May 2014.

² *Freelancing in America: 2015*, Freelancers Union and Upwork, October 2015.

³ Miranda Dietz, *Temporary workers in California are twice as likely as non-temps to live in poverty: Problems with temporary and subcontracted work in California*, UC Berkeley Labor Center, August 2012.

⁴ Paul Hitlin, *Research in the crowdsourcing age, a case study: How scholars, companies, and workers are using Mechanical Turk, a “gig economy” platform, for tasks computers can’t handle*, Pew Research Center, July 2016.

⁵ Arun Sundararajan, “Will the on-demand economy raise global living standards?” World Economic Forum online, September 9, 2015, available at www.weforum.org/agenda/2015/09/will-the-on-demand-economy-raise-global-living-standards/.

CONSUMER PROTECTIONS ARE ANOTHER AREA OF CONCERN

Another question is whether a shift to independent service providers may erode consumer protections that have been carefully developed over decades. Innovative digital business models have sometimes evolved faster than regulation, causing unintended consequences along the way. Privacy, data protection, the potential for fraud, and the enforcement of antidiscrimination protections are concerns; even personal safety can be an issue in markets where services are being performed in person.

Because the history of many of these platforms is quite limited, consumers may face challenges seeking legal recourse and the ability to win compensation if they are injured or sustain losses in the course of doing business with an independent provider. It is also more difficult to enforce antidiscrimination protections and equal access for persons with disabilities among a host of small-scale providers. While traditional taxi services are required to make a certain percentage of their fleet wheelchair accessible, for example, digital intermediaries and the earners using those platforms are not held to the same rule. Many have taken steps to provide a similar level of compliance, but this is not legally required of them.¹⁰⁴

Platforms can mitigate many of these risks through mechanisms such as transparently posting negative consumer ratings and feedback. But the history of digital platforms for personal services is still too early to be conclusive, and it will take careful monitoring to respond to some of the unforeseen consequences of innovative business models.

ACTIONS BY ALL STAKEHOLDERS CAN HELP CAPTURE THE BENEFITS AND MITIGATE THE CHALLENGES OF INDEPENDENT WORK

The growth of independent work poses broad questions in labor markets where the employer-employee relationship has been the dominant mode of working for decades. At the top of the list is whether it is possible to address some of the hurdles and enable more people to pursue their desire for more autonomy and flexibility in their working life—and whether it is possible to improve the prospects for workers in precarious situations today. This is a moment to think expansively about what the shift to independent work might mean and how frameworks could be modernized to respond to it.

Policy makers need to address income protection, social safety net gaps, administrative hurdles, and legal recourse

Many of the labor market policies currently in place—such as the minimum wage, benefits, family leave, workers' compensation for on-the-job injuries, and retirement schemes—are not set up to accommodate independent work. A growing number of policy makers, academics, and other stakeholders are actively considering ways to fill those gaps, although there is more work to do. Here we outline some of the issues that warrant attention, although assessing the effectiveness or desirability of any specific policy changes is beyond the scope of this research.

One clear starting point is simply obtaining better data on the independent workforce. Any changes in policy shifts have to be based on evidence, and what is available today is problematic. Governments need to conduct more regular surveys to gain a better understanding of the many types of flexible arrangements that now govern work, with up-to-date categories and criteria. It will also be important to carefully monitor the effects of independent work on tax policy and revenue collection.

Beyond collecting better data, one of the largest looming questions is whether independent workers have an adequate social safety net. This is particularly the case in the United

¹⁰⁴ Rudy Tellis Jr., *Digital matching firms: A new definition in the "sharing economy" space*, US Department of Commerce Economics and Statistics Administration, ESA issue brief number 01-16, June 2016.

States, where health-care benefits and retirement plans have traditionally been provided by employers. The Affordable Care Act was an important development in broadening access to health insurance for independent workers (and for ensuring that workers in traditional jobs have a right to uninterrupted coverage). Similarly, retirement vehicles such as the SEP IRA, with higher limits for retirement saving than individual IRAs, are another step in the right direction. But in both of these cases, significant numbers of independent workers are not in a position to take advantage of these programs, or the programs themselves need adjustment. The cost of coverage under the Affordable Care Act, for instance, can be painful for those whose earnings place them just above the cutoff for premium subsidies.

Modernizing the social safety net for traditional workers who now change jobs more often than in the past as well as for independent workers who do not have a single employer may be warranted.¹⁰⁵ In the United States, support is growing for constructing a more portable system of benefits—that is, benefits that are tied to workers themselves, not to a single employer. One option is to allow independent workers to form pools to create their own marketplaces and delivery systems for benefits.¹⁰⁶ This model is already working in industries ranging from Hollywood to construction: workers shift from project to project, with their unions delivering a range of benefits such as health insurance. Another proposal involves a so-called “hours bank.” But any proposal will have to tackle multiple angles, starting with who would pay for such benefits and how the benefits would be earned and tracked for workers who have multiple clients and employers.

In the United States, there is a growing movement to create a more portable system of benefits that would be tied to workers themselves, not to a single employer.

In both the United States and Europe, there are also equally important but less discussed issues such as disability insurance, minimum wage protections, and unemployment insurance for periods when work dries up. Another issue to consider is how workers are classified and whether new designations need to be created to reflect new working models.

Finally, policy makers should consider ways to strengthen the ability of independent workers to seek legal recourse and compensation against fraudulent buyers and sellers. Today they have limited options to take action against employers and clients for non-payment or injury. Low-cost, efficient small claims court processes are one option for addressing this issue.

Innovators have an opportunity to develop new products, services, and marketplaces to meet the needs of the growing independent workforce

Many of the challenges arising as labor markets evolve are ripe for new solutions from the private and social sectors. Some new startups have already discovered this niche and have unveiled products and services geared to independent workers (for example, renting office space by the hour or day for business meetings). Some on-demand platform companies help their workers obtain the licenses and other administrative procedures required to operate. Other startups can help independent workers track their expenses, calculate net wages, and optimize when and where to work.

¹⁰⁵ For more on this issue, see Libby Reder, Natalie Foster, and Greg Nelson, *Portable benefits resource guide*, Aspen Institute Future of Work Initiative, July 2016.

¹⁰⁶ See, for example, Seth Harris and Alan Krueger, *A proposal for modernizing labor laws for twenty-first-century work: The “independent worker,”* The Hamilton Project at the Brookings Institution, December 2015.

New types of intermediaries—whether public, private, non-profit, or a hybrid approach—could help to solve the issues surrounding benefits and income volatility. These could include financial solutions for smoothing out income between independent work assignments, private insurance against drops in demand, and new types of institutions and marketplaces for benefits. Educators and industry groups could build recognized credentials for specific skills, and develop flexible courses and training programs to enable independent workers to build new skills and advance their careers. As discussed above, independent workers have typically had more limited access to credit. But digital solutions could solve this. In developing countries, new credit-scoring models are being developed, in some cases building on big data gleaned from work on digital platforms.¹⁰⁷ These models could be helpful in advanced economies as well.

Organizations need to think strategically about how to utilize independent providers

Using independent workers can allow companies and other organizations to become more agile, efficient, and productive by focusing on what they do best and hiring the best talent exactly when it is needed. This could expand opportunities for the many more people in our survey that indicated a desire to join the independent workforce.

But large organizations cannot simply make this shift and hope for the best. They need to consider the trade-offs involved in converting in-house functions to independent work, including the possibility of greater churn. Not every role lends itself to being parceled out to an external provider. Some organizations have decided that regular employees provide better customer service and greater stability, and they are important keepers of institutional knowledge. Those that transfer in-house work to contractors face the risk of internal knowledge leaks, loss of in-house competencies, and quality control issues. Organizations will need to ensure that the use of external providers makes their organization more agile, healthy, and high-performing rather than destabilized and dispirited.

Digitization may open the door to a greater use of external resources, since it tends to disaggregate jobs into more discrete tasks that can be more easily hired out. By breaking some jobs into components and using technology to virtualize others, employers can deploy labor more efficiently. This may involve creating mix-and-match project teams that combine traditional full-time workers in the office, remote part-time workers, and temporary or contingent workers who can help meet spikes in demand or perform specialized functions.¹⁰⁸ The use of digital talent platforms within organizations can help with the challenge of putting together optimal project teams and coordinating how they work together.¹⁰⁹

Individuals need to manage their own work lives more actively than in the past

Independent work may allow individuals to escape the constraints of the corporate world, but it places a new set of demands on them. Each independent worker is essentially a self-contained small business—and running that business may demand new skills that are not in their natural wheelhouse. The challenge of constantly landing new business requires marketing savvy, for instance. It is also important for independent workers to consider diversifying their income streams so they are not totally reliant on one client who can cut them loose at any time. It takes administrative skill and foresight to prepare for peaks and valleys in earnings, to perform all tax and legal compliance, and to manage accounting. Independent earners also have to take an aggressive approach toward saving for retirement

¹⁰⁷ *Digital finance for all*, McKinsey Global Institute, September 2016.

¹⁰⁸ Susan Lund, James Manyika, and Sree Ramaswamy, “Preparing for a new era of work,” *McKinsey Quarterly*, November 2012.

¹⁰⁹ See Aaron De Smet, Susan Lund, and William Schaninger, “Organizing for the future,” *McKinsey Quarterly*, January 2016, and *A labor market that works: Connecting talent with opportunity in the digital age*, McKinsey Global Institute, June 2015.

on their own if they hope to supplement social security plans, and they must act as their own investment managers.

It is increasingly important for all workers—whether independent or traditional—to map out their own career trajectories, looking for their own new opportunities and taking charge of developing their own skills along the way.¹¹⁰ Those who are independent will need to be even more proactive in gaining the new skills, experiences, and credentials that will serve them along the way.

There has been a great deal of commentary about whether the shift to more independent work is an empowering development or whether it puts more workers in precarious circumstances. But the issue is not black and white; the independent workforce comprises people in a range of circumstances. As policy makers consider how to address their needs, the central question might be how to improve the economic prospects of the reluctant and the financially strapped segments, turning them into true free agents. Enabling people to work in the style they prefer, with more control over their own professional destiny and work-life balance, has the potential to make millions of workers happier and more empowered. If this shift is carefully monitored and managed, it could unlock real benefits for workers, companies, and broader economies.

¹¹⁰ See Reid Hoffman and Ben Casnocha, *The start-up of you: Adapt to the future, invest in yourself, and transform your career*, Crown Business, 2013.



APPENDIX: TECHNICAL NOTES

This appendix provides additional detail on the methodologies and data sources employed in the report. Specifically, it includes the following topics:

1. Definition of independent work and related terminology
2. Data sources for sizing the independent workforce
3. MGI survey methodology
4. Labor market characteristics of the six survey countries
5. Estimating growth potential of the independent workforce based on aspirations stated in survey responses
6. Methodology for occupational analysis
7. Methodology for analyzing the conversion of unpaid household work to paid work

1. DEFINITION OF INDEPENDENT WORK AND RELATED TERMINOLOGY

In order to estimate the prevalence of independent work in the working-age population while accounting for the many different forms it can take, MGI decided to create our own definition of independent work. We have opted to forgo many of the commonly used terms related to independent work, such as “self-employment” or “freelancing,” and design a definition based purely on the characteristics of the work itself. This approach allows us to capture the full gamut of independent work and to make comparisons across countries without the distortions of country-specific terminology and legal classifications.

The specific terms used throughout the report are detailed below:

- **Worker/earner.** Throughout the report, we use the terms “worker” and “earner” synonymously. In analyzing our survey respondents, anyone who reported earning income in the past 12 months was considered to be a worker. The number of workers observed in our sample varies from official estimates, however. This is because our survey inquired about the past 12 months of respondents’ work histories, where government surveys typically take a snapshot of the current week. We include all income earned through selling goods or leasing assets, and these activities might not necessarily constitute employment in official statistics. We also included earning activities such as short-term gigs and one-off jobs, some of which could be part of the informal economy. We do not, however, consider income from purely passive sources such as interest income.
- **Independent work.** As detailed in Chapter 1, any income-generating activity can be considered independent work as long as it involves a high degree of autonomy; the worker is paid by the task, assignment, or sales; and the relationship between the worker and the customer or client is short-term. We include activities that are commonly referred to as “services” or “labor”—that is, those in which a worker is explicitly paid for the time and effort they provide to the customer. We also include activities such as selling of

handmade and other goods or renting out spare assets (such as rooms, apartments, vacation homes, or cars) to others in the “sharing economy.”

We recognize that few activities can be categorized as completely independent or, conversely, purely traditional. An employee in a long-term contract with flexible hours can have more autonomy than a small business owner who runs the neighborhood grocery store and keeps fixed hours. Small business owners with one or two employees might be independent, but their work lives start losing some of the traits of independence as their business scales up.

While our conceptual definition does not enforce a clear boundary between independent and traditional work, we did have to impose a cut-off in order to provide a sizing estimate. See the section below on the MGI survey methodology for further details.

- **Independent worker.** We consider someone to be an independent worker as long as some portion of their reported income over the past 12 months came from independent activities, whether providing labor, selling goods, or leasing assets. A single independent job in the past 12 months is sufficient for a worker to be part of the independent workforce.
- **Traditional worker.** Conversely, a traditional worker is someone whose entire income was derived from a traditional employer-employee relationship. This includes full-time workers, part-time workers, and those with more than one part-time traditional job. Our estimates of traditional workers are not directly comparable to government employment numbers because we classify anyone earning income from small side jobs as an “independent worker.”
- **Primary independent worker.** This includes all respondents who earn more than 50 percent of their reported income from independent activities. We exclude several groups in the population who may earn some income from independent work but who have another primary activity. These groups include students, retirees, homemakers and other caregivers, the disabled, and the unemployed. We consider independent workers belonging to these groups to be supplementary independent workers by definition. The numbers of primary independent workers in the population are roughly comparable with government estimates of the independent workforce, which usually look solely at respondents’ primary source of income.
- **Supplemental independent worker.** We consider independent workers to be supplemental earners if they derive 50 percent or less of their total earned income from independent activities, or if they are students, retirees, homemakers and other caregivers, the disabled, and the unemployed. Some supplemental independent workers may actually think of themselves as traditional workers because their primary jobs are traditional, and they would often be reported as such in official statistics.
- **Europe.** Throughout this report when we refer to Europe, we are referring to the EU-15, which includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

2. DATA SOURCES FOR SIZING THE INDEPENDENT WORKFORCE

We sized the independent workforce in two ways: first, through triangulating existing government data and external research, and second, by conducting our own survey. In the United States, we used a combination of government statistics and private research studies and surveys. In Europe, official data were available at the country level, but there is little external research on the size of the independent workforce.

Government data sources

In the United States, we utilized government data from the Bureau of Labor Statistics (BLS) to calculate the number of primary independent workers. The BLS categorizes adults in the working-age population into inactive, unemployed, and employed. The employed category is split into self-employed and non-self-employed, based on data collected through the Current Population Survey (CPS). Specifically, we used the self-employment and temporary/contract workers categories combined as the closest proxy for independent workers.

The BLS conducted a Contingent Worker Supplement of the CPS in 2005 but has not repeated it since. However, economists Lawrence Katz and Alan Krueger reran a version of the supplement in 2015, and we utilize the updated data from this report.¹¹¹ The supplement captures workers who are in the following alternative work arrangements: independent contractors, contracted-out workers, temporary agency workers, and on-call workers. Many of these are also considered self-employed, and the overlap between workers captured in the supplement and workers who are self-employed is quite high (47.5 percent). Adding the distinct pieces of the self-employed and contingent workers, we arrive at an estimate of 27 million primary independent workers.

To estimate the number of supplemental workers, we first looked at government data for “multiple jobholders,” a category that fits 3 percent of US workers. We also looked at other research conducted by private entities. Combining government data with research by the Freelancers Union, we estimate that the total workforce includes 54 million independent workers. This implies that there are 27 million supplemental independent workers (Exhibit A1).

Exhibit A1

Methodology: Sizing the US independent workforce in 2015

	Method	Source	Sizing Million
Temporary workers	<ul style="list-style-type: none"> ▪ % of people in alternative work arrangements ▪ Employed persons ▪ % of non-self-employed alternative workers 	<ul style="list-style-type: none"> ▪ Katz & Krueger (2015) ▪ BLS (2015) ▪ Katz & Krueger (2015) 	(15.8% x 148.8 persons) x 52.5% = 12.3
Self-employed persons	<ul style="list-style-type: none"> ▪ Unincorporated self-employed persons + incorporated self-employed persons 	<ul style="list-style-type: none"> ▪ BLS (2015) ▪ BLS (2015) 	9.1 + 5.8 = 15.0
Primary independent workers	<ul style="list-style-type: none"> ▪ Temporary workers + self-employed persons 	<ul style="list-style-type: none"> ▪ See above ▪ See above 	12.3 + 15.0 = 27.3
Total independent workers	<ul style="list-style-type: none"> ▪ Survey to determine total number of US freelancers 	<ul style="list-style-type: none"> ▪ Freelancers Union 2015 survey of 7,100 US working adults over age 18 	54.0
Supplemental independent workers	<ul style="list-style-type: none"> ▪ Total independent workers - primary independent workers 	<ul style="list-style-type: none"> ▪ See above ▪ See above 	54.0 - 27.3 = 26.7

SOURCE: BLS; Katz and Krueger; Freelancers Union; Kelly Services; McKinsey Global Institute analysis

To calculate the size of the primary independent workforce in the European Union, we look at Eurostat data, which capture both self-employment and temporary workers in each country. To calculate the size of the supplemental independent workforce, we first looked

¹¹¹ See Lawrence F. Katz and Alan B. Krueger, *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

at the available Eurostat data on multiple jobholders (this share ranged from 1 to 5 percent of the working-age population). There are few independent studies on the size of the independent workforce in Europe. Kelly Services has estimated that 27 percent of European workers are independent, but its study does not look at the country level. In theory, subtracting out self-employment and temporary workers from this number should yield a rough estimate of the number of supplemental workers, but because those shares vary sharply across countries, it is difficult to rely on this approach at a country level. We therefore utilize the share of multiple jobholders within each country to triangulate.

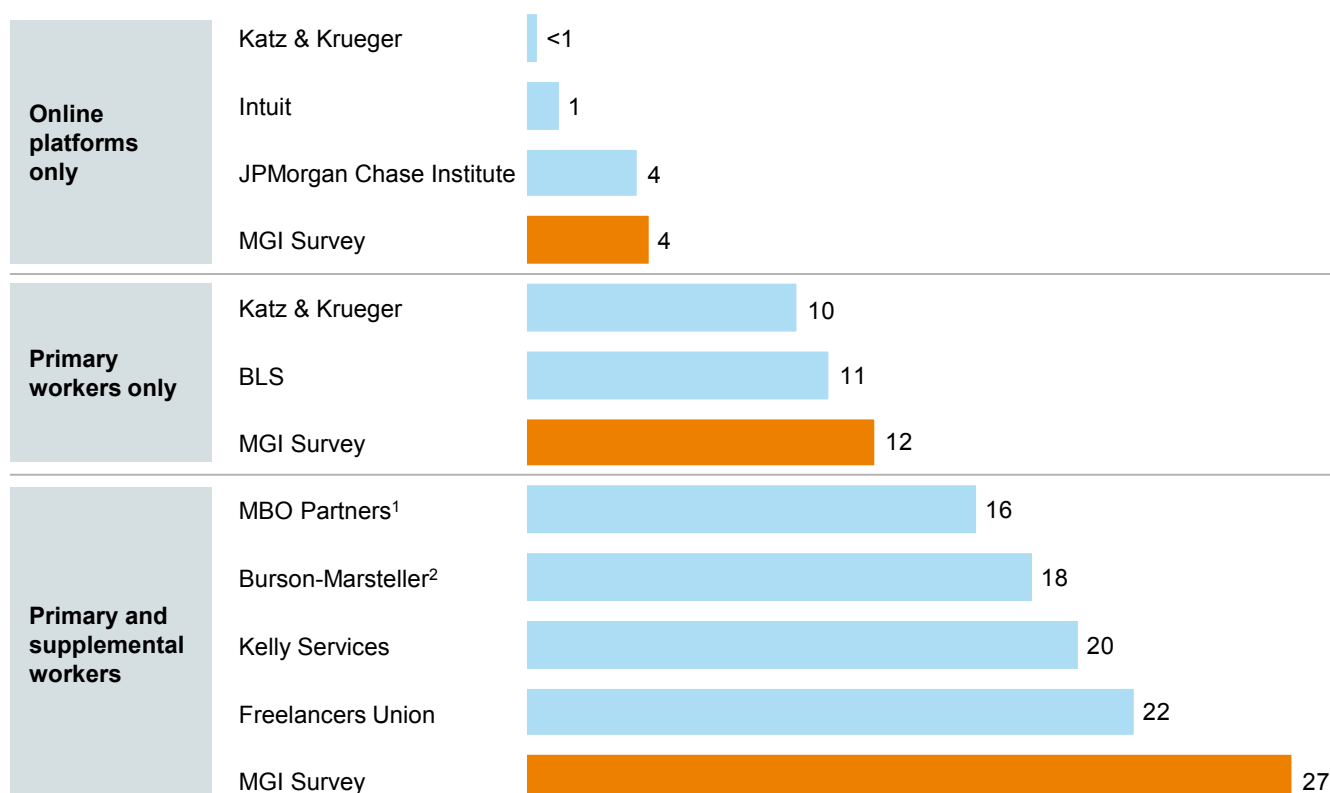
Other private external surveys

We also looked at a range of private studies and survey that have estimated independent workers, digital platform earners, or freelancers to compare estimates and outcomes. Exhibit A2 below shows a selection of the estimates that exist for the United States. There are few such studies on Europe, although some exist for individual countries. (An exception to this is the Kelly Services report mentioned above, which includes an estimate for Europe.)

Exhibit A2

In the United States, multiple studies have attempted to size the independent workforce, using different definitions

Estimates of US independent workforce as % of working-age population



1 Includes those who work full time (16.9 million), part time (12.5 million), or occasionally (10.5 million) as consultants, freelancers, on contract, or performing temporary or on-call work each week.

2 Includes labor services and some leasing but excludes selling goods.

SOURCE: JP Morgan; Intuit; Katz & Krueger; Burson-Marsteller; Freelancers Union; BLS; Kelly Services; MBO Partners; McKinsey Global Institute analysis

The ranges are typically driven by the scope of the definition used in each report. For example, Katz & Krueger focused on workers in “alternative work arrangements” for their primary job, while the JPMorgan Chase Institute looked at transactions from 30 platforms across a sample of JP Morgan checking accounts (this includes primary or supplementary income). Studies also differ in whether they include individuals who sell goods and lease assets; they may also classify independent workers in varying ways.

3. MGI SURVEY METHODOLOGY

In addition to drawing on the data and studies described above, MGI conducted a custom survey in collaboration with ResearchNow. It was administered to a sample of working-age respondents across the United States and five European countries (the United Kingdom, Germany, France, Sweden, and Spain). To arrive at the final statistics we report in this research, the responses for each of our European survey countries were population-weighted and extrapolated to the full EU-15.

The participants were carefully chosen as a representative sample of the population in each country controlling for age, gender, and geographic region. In the United States, we also controlled for household income, ethnicity and race, and Hispanic origin. The distribution of responses we eventually collected fell within 3 percentage points of the sampling targets for all control variables. Since we did not explicitly control for education, however, our final sample is somewhat more educated than the population at large.

The survey was administered electronically in June and July 2016 and yielded a total of 8,131 responses across all six surveyed countries, with at least 1,200 responses in each individual country.

It is important to note that not all analyses described in this report use the full number of responses, however. In particular, when describing the relative sizes of our four segments of independent workers, we only consider the subset of the population that engages in independent work. This results in a sample size of 2,259 independent workers across our six countries (as opposed to the 8,131 total responses). In the United States, the sample size of independent workers was 487 out of the 1,804 responses collected. Nevertheless, we did ensure that all results mentioned in the text of the report are statistically significant at the 95 percent confidence level given the particular sample sizes in each comparison. Results that fell short of statistical significance were either explicitly reported as such or not included at all.

We acknowledge that our survey may not reflect the full extent of independent work that occurs in the informal economy. Individuals who are offline, those who have language barriers, and those who are paid off the books or do not have official immigration status are some of the most vulnerable independent workers—but by its nature, this activity is difficult to measure through surveys.

Rather than asking independent workers to self-identify, the MGI survey asked each respondent to describe various characteristics of each of their income streams in order to be comprehensive and uniform across geographies.

We designed the survey to capture each respondent's complete work-life context (including all sources of active income over the past 12 months) as well as their satisfaction with their current state and their future desires. The majority of questions asked the respondents to select an answer from a pre-defined set of options presented in a randomized order so as to avoid introducing a bias. The core of the survey focused on the details of the jobs or income-earning activities in which each respondent participated. It included questions focusing on flexibility, exclusivity, compensation, and duration of the work relationship. The full set of these questions was repeated for each activity to allow us to evaluate them at an individual level rather than focusing only on a person's primary source of income.

Since we asked respondents to describe their work situation over the previous 12 months rather than at a given point in time, we do not expect seasonality to have an impact on our estimates. While we translated the survey to the national language of each country and adapted it to the local context, the response options offered were designed to be

comparable across all the surveys. Exhibits A3 and A4 show the mapping used for key demographic variables in each individual country.

Exhibit A3







Comparison of respondents' annual income levels across countries

		Low income	Average income	High income
	United States	Less than \$25,000	\$25,000–\$74,000	\$75,000 or more
	United Kingdom	Less than £16,000	£16,000–£49,999	£50,000 or more
	Sweden	Less than 200,000 kr	200,000–599,999 kr	600,000 kr or more
	Germany	Less than €25,000	€25,000–€74,999	€75,000 or more
	France	Less than €25,000	€25,000–€74,999	€75,000 or more
	Spain	Less than €25 000	€25,000–€74,999	€75,000 or more

SOURCE: McKinsey Global Institute analysis

Exhibit A4

Comparison of respondents' education levels across countries

	High school or less	Four-year college degree or more
	United States <ul style="list-style-type: none"> ▪ Less than high school diploma ▪ High school graduate ▪ Some college or associate's degree 	<ul style="list-style-type: none"> ▪ Bachelor's degree ▪ Master's degree or higher
	United Kingdom <ul style="list-style-type: none"> ▪ No qualification ▪ GCSEs grades A*-C or equivalent ▪ A-level or equivalent/high school diploma ▪ Other qualifications 	<ul style="list-style-type: none"> ▪ Degree or equivalent ▪ Higher education
	Sweden <ul style="list-style-type: none"> ▪ Grundskola ▪ Gymnasium ▪ Yrkesutbildning 	<ul style="list-style-type: none"> ▪ Högskola/universitet
	Germany <ul style="list-style-type: none"> ▪ Keinen Bildungsabschluss ▪ Berufsbildungsreife (Abschluss der Hauptschule) ▪ Mittlere Reife ▪ Hochschulreife ▪ Fachbezogene Berufsausbildung 	<ul style="list-style-type: none"> ▪ Bachelor/Master/Diplom einer Hochschule und/oder Universität ▪ Promotion
	France <ul style="list-style-type: none"> ▪ Aucun diplôme ou CEP (certificat d'études primaires) ▪ Brevet des collèges ▪ Baccalauréat, diplôme professionnel ou équivalent ▪ CAP (certificat d'aptitude professionnelle), BEP (brevet d'études professionnelles), ou diplôme équivalent ▪ Études initiales en cours 	<ul style="list-style-type: none"> ▪ BAC+2 à BAC+4 (DEUG, DUT, BTS, Licence, Maîtrise, ou diplôme équivalent) ▪ BAC+5 et supérieur (Écoles d'ingénieurs/de commerce, DESS, DEA, longues études de médecine, et autres)
	Spain <ul style="list-style-type: none"> ▪ Sin estudios ▪ Título de primaria ▪ Título de secundaria (bachiller o formación profesional) 	<ul style="list-style-type: none"> ▪ Título universitario de primer ciclo ▪ Título universitario de segundo ciclo

SOURCE: McKinsey Global Institute analysis

Classification of independent workers in our survey

Since we are taking a broader view of independent work than what is typically understood by terms such as “freelancing” or “self-employment,” we decided not to ask our survey respondents to self-identify as either traditional or independent. Instead, we asked questions probing the nature of the work itself to look for indicators typically associated with independent work. We use the answers to classify each respondent ourselves. Naturally, the logic is different for each of the three groups of independent workers we have included: those providing services, selling goods, and leasing assets.

To evaluate whether a person engages in independent work by providing labor, we asked respondents to describe up to three jobs or income-earning activities as well as a set of detailed follow-up questions for each activity they listed. We then applied the classification tree to each activity separately to see if it qualifies as “independent.” This classification tree shown in Exhibit A5 is based on the conceptual definition of independent work detailed in Chapter 1, but it is not meant to expand on it or supersede it. It is specific to the way our survey was designed, and its purpose is to relate the general concept of independent work to observable data.

- The first criterion tested was the length of contract for temporary workers. We considered a job independent as long as the contract duration was 11 months or less.
- For temporary workers on contracts of 12 months or more and those not on fixed-term contracts at all, we looked at the way their income was structured and excluded all those who received a fixed salary. We only considered jobs that pay by task, by hour, or by the volume of sales made.
- Next, we looked at respondents’ ability to decide how many hours they want to work and their degree of schedule flexibility. In order to be considered “independent,” a person must either have “complete flexibility” with regard to hours, or both have “some flexibility [on hours while having to] align with other” and have “complete flexibility” or “no time constraints” in scheduling when they work those hours.

Note that all the criteria were applied sequentially. For example, once a job qualified as independent due to being a short-term temporary contract, it no longer needs to satisfy any of the subsequent checks.

In the case of selling good or leasing assets, we designed the classification logic to filter out people who sold goods or leased assets on a strictly one-off basis (such as those who sold their used furniture when moving apartments). We also filtered out people for whom leasing assets is a passive source of income with limited ongoing involvement (such as landlords with tenants on stable long-term leases). Therefore, we only consider selling goods to be “independent work” if the respondent sold items they made themselves or bought purely for resale on at least 10 occasions in the past year. In the case of selling used goods, we applied a stricter cut-off by requiring at least 10 occasions for the selling of used goods alone. Similarly, we only consider people who reported making income from leasing to be independent if they lease assets more often than once a year for an average duration of less than six months.

We acknowledge that some of the specific cut-offs we used to classify work as independent are subjective judgment calls. This is due in part to the inherent limitations of survey-based data collection. In order to check the robustness of the classification logic (and thus our sizing estimate), we ran a series of sensitivity tests to see how the overall estimate changes in response to shifting some of these parameters.

The specific scenarios included: 1) not considering the length of contract for temporary workers, but instead only considering the characteristics of their job; 2) classifying all jobs with a fixed salary as traditional regardless of the length of the relationship; 3) both slightly stricter and looser requirements on the flexibility people report in order for an activity to be independent; 4) excluding sellers who only sold used goods as opposed to manufactured goods or goods purely for resale; 5) including everyone who leased assets regardless of the duration or frequency; and several others. Overall, we found the estimate to be fairly robust, with the largest impact on the estimated size of the independent workforce usually being around ± 10 to 20 percent, depending on the country.

Classification of independent workers as “by choice” or “out of necessity”

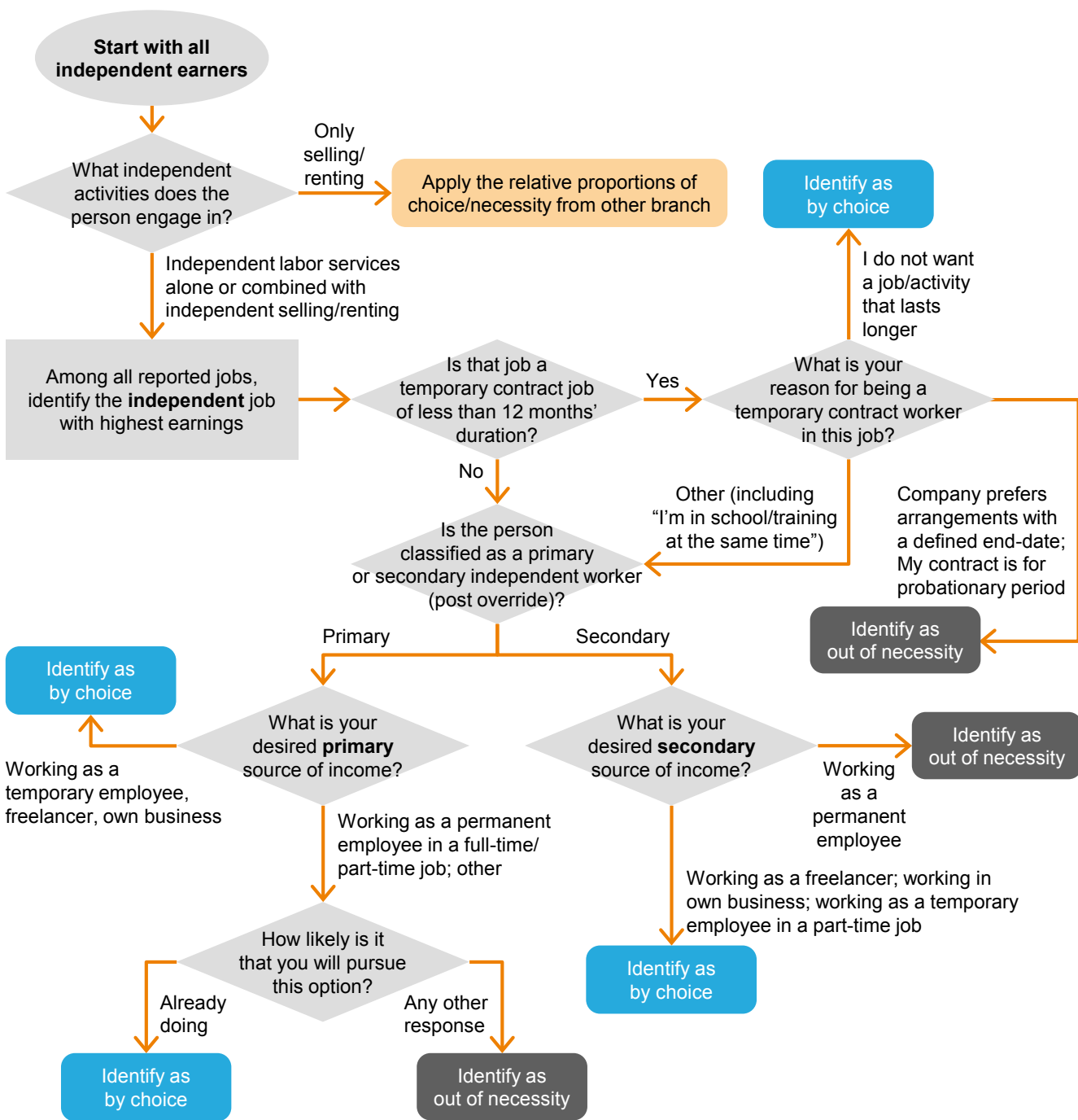
As a next step, we divided the population of independent workers into workers who engage in independent work by choice (i.e., they want to stay independent) and by necessity (i.e., they would prefer working in a traditional job) by comparing their current way of working with their desired source of income. We conducted the analysis using data for independent workers providing services, since the vast majority of our respondents (over 90 percent) work that way and the data for these respondents was higher in fidelity. In our overall sizing, we then extrapolated the proportions of choice vs. necessity from independent workers to the entire independent workforce on a country-by-country basis with the assumption that the smaller goods- and asset-focused segments follow the overall trend.

Among independent workers, we looked at the answer to the question “What is your desired primary source of income?” for primary independent workers and to “What is your desired secondary source of income?” for those who supplement their income through independent work. We considered those who responded that they wanted to be a permanent employee in a full-time or part-time job to be independent by necessity. Those who said they wanted to work as a freelancer, own a business, or be a temporary employee were all considered to be independent by choice. Some respondents did not choose any of the provided options and wrote down their own desired source of income. Given that the vast majority of the responses were “retirement” or “social security,” we classified these workers as independent by necessity as well. Finally, some people who were categorized as independent workers according to our definition reported traditional work as their desired source of income while, at the same time, claiming that they were already pursuing their desire. To reconcile the discrepancy between the observed characteristics of a person’s job and their own perception of whether the job is traditional or independent, we decided to classify this group as independent by choice.

We made one exception to the general rule described above for independent workers on short-term temporary contracts. In their case, we explicitly asked why they were on a temporary contract, and we were thus able to make a more informed decision. We classified those who responded that they “[did] not want a job/activity that lasts longer” as independent by choice. Those who said their contract was for a probationary period or that their “company prefers arrangements with a defined end-date” were classified as independent by necessity.

Since some of the analyses described in this report feature a direct comparison between independent and traditional workers, we developed a parallel set of rules to separate the “by choice” and “by necessity” groups among traditional workers as well. In this case, we considered a traditional worker to be traditional by choice as long as their stated primary desired source of income was “working as a permanent employee” in a part-time or a full-time job. We labeled those who claimed they were already pursuing their desired source of income as “by choice” and those who did not select any of the options offered as “by necessity.”

Logic tree for classifying independent workers as engaging by choice vs. out of necessity



SOURCE: McKinsey Global Institute analysis

As described in Chapter 2, choice and necessity seem to be major drivers behind workers' satisfaction with their overall work life. Exhibits A6 and A7 expand on the analysis shown in Chapter 2 and provide a more detailed look into the impact of independence on respondents' satisfaction, further breaking the results down by geography. Since the US and EU-15 sample sizes are not equal, we opted to show the raw differences between weighted mean satisfaction scores. In general, the results were qualitatively consistent between the United States and Europe. While traditional workers by choice were slightly less satisfied in Europe than in the United States, Europeans seem to derive a greater satisfaction benefit from becoming independent by choice. We did not see a similar effect in the "by necessity" group.

Exhibit A6

Independent workers by choice are more satisfied than traditional workers by choice, but those who are independent out of necessity are less satisfied on several dimensions

Responses from MGI Survey

Satisfaction Lower  Higher



United States



EU-15

In your work life, how satisfied are you with ¹	Traditional by choice Mean rating ²	Independent Difference from traditional ³		Traditional by choice Mean rating ²	Independent Difference from traditional ³	
		Free agents	Casual earners		Free agents	Casual earners
The topics/activities you are working on	4.70	+0.11	-0.03	4.48	+0.44	+0.05
Overall work life	4.64	+0.25	+0.04	4.50	+0.33	-0.01
The number of hours you work	4.70	+0.03	+0.07	4.31	+0.40	+0.07
Independence in your work life	4.64	+0.37	+0.14	4.31	+0.70	+0.15
The atmosphere at your workplace	4.53	+0.44	+0.14	4.38	+0.51	+0.16
Your boss	4.58	+0.39	+0.14	4.19	+0.63	+0.15
Your level of empowerment	4.39	+0.28	+0.04	4.27	+0.67	+0.07
The creativity you can express at work	4.47	+0.29	-0.03	4.16	+0.62	+0.05
Your income security	4.30	-0.09	-0.03	4.37	-0.09	-0.17
Your benefits (e.g., health care)	4.42	-0.06	-0.03	4.19	+0.08	-0.06
Your ability to choose your working hours	4.47	+0.54	+0.23	4.13	+0.87	+0.34
Your opportunities to learn, grow, and develop	4.38	+0.28	+0.06	4.08	+0.57	+0.15
Flexibility regarding where you work	4.35	+0.50	+0.17	4.04	+0.92	+0.26
Recognition you receive	4.27	+0.27	+0.01	3.97	+0.60	+0.21
Your level of income	4.05	+0.07	-0.00	3.95	+0.27	+0.01

1 Question asked: "How satisfied are you with your current overall work-life? (Select from a 6-point scale.)" "In your work life, how satisfied are you with [attribute listed]? (Select from a 6-point scale.)"

2 Weighted average of satisfaction scale: 6 = completely satisfied, 5 = mostly satisfied, ..., 1 = completely dissatisfied;

3 Free agents and casual earners are compared to traditional workers by choice, independent by necessity to traditional by necessity.

NOTE: Difference in raw averages is reported even in cases where it is not statistically significant.

SOURCE: McKinsey Global Institute survey; McKinsey Global Institute analysis

Exhibit A7

Independence has some negative effects on satisfaction among those who work out of necessity

Responses from MGI Survey

Satisfaction Lower  Higher



United States



EU-15

In your work life, how satisfied are you with ¹	Traditional by necessity Mean rating ²	Independent by necessity Difference	Traditional by necessity Mean rating ²	Independent by necessity Difference
The topics/activities you are working on	4.30	+0.28	4.34	+0.14
Overall work life	4.31	+0.03	4.29	+0.01
The number of hours you work	4.49	-0.33	4.17	+0.04
Independence in your work life	4.45	+0.24	4.20	+0.16
The atmosphere at your workplace	4.28	+0.20	4.24	+0.31
Your boss	4.31	+0.03	4.08	+0.30
Your level of empowerment	4.03	+0.06	4.10	+0.24
The creativity you can express at work	4.15	+0.18	4.01	+0.16
Your income security	4.03	-0.19	4.19	-0.31
Your benefits (e.g., health care)	3.98	-0.16	4.01	-0.08
Your ability to choose your working hours	4.25	+0.26	4.06	+0.23
Your opportunities to learn, grow, and develop	4.12	+0.06	3.98	+0.09
Flexibility regarding where you work	4.29	+0.17	3.95	+0.26
Recognition you receive	3.95	+0.14	3.87	+0.19
Your level of income	3.88	-0.33	3.90	-0.24

1 Question asked: "How satisfied are you with your current overall work-life? (Select from a 6-point scale.)" "In your work-life, how satisfied are you with [attribute listed]? (Select from a 6-point scale.)"

2 Weighted average of satisfaction scale: 6 = completely satisfied, 5 = mostly satisfied, ..., 1 = completely dissatisfied;

NOTE: Difference in raw averages is reported even in cases where it is not statistically significant.

SOURCE: McKinsey Global Institute survey; McKinsey Global Institute analysis

While the average overall satisfaction among free agents is significantly higher than among workers who are traditional by choice (Exhibit A8, column 1), it is not necessarily obvious whether this effect should be attributed to independence or whether it is driven by other factors. Demographics, in particular, could have an impact on this result given that the demographic mix differs between traditional and independent workers as we have described in Chapter 2. In order to verify the positive impact of independence, we tested the results through a multiple regression analysis controlling for age, household income, and the country of the respondent. As column 2 in Exhibit A8 confirms, the findings are robust, and the high satisfaction observed among free agents is not simply an outcome of, for example, higher average household income. Moreover, the negative impact of being an independent worker out of necessity shrank once we controlled for the variables listed above. This suggests that some of the lower satisfaction observed among the reluctant and financially strapped independent workers can be attributed, for instance, to the fact that they skew toward lower-income households. Notably, this is not the case among workers who are traditional out of necessity. In their case, the regression coefficient stays the same whether we include the control variables or not. Overall, the regression results support the finding that independence itself is an important factor impacting a given worker's satisfaction with their work life.



Exhibit A8

Regression analysis of satisfaction

	Weighted mean overall satisfaction	
	Simple (1)	With control variables (2)
(Intercept)	4.577 ^a (0.023)	4.569 ^a (0.033)
Worker: Free agent	0.285 ^a (0.051)	0.299 ^a (0.050)
Worker: Casual earner	0.017 (0.048)	0.018 (0.048)
Worker: Traditional by necessity	-0.276 ^a (0.048)	-0.274 ^a (0.048)
Worker: Reluctant	-0.299 ^a (0.071)	-0.218 ^a (0.071)
Worker: Financially strapped	-0.210 ^a (0.070)	-0.148 ^b (0.070)
Age: <24		0.055 (0.047)
Age: 55+		0.112 ^a (0.040)
Income: Low		-0.322 ^a (0.045)
Income: High		0.190 ^a (0.037)
Income: Unknown		0.068 (0.072)
Country: Spain		-0.193 ^a (0.060)
Country: Germany		-0.090 ^c (0.047)
Country: United Kingdom		-0.044 (0.052)
Country: France		-0.062 (0.052)
Country: Sweden		-0.016 (0.125)
Worker baseline	Traditional by choice	Traditional by choice
Age baseline		25–54
Income baseline		Average
Country baseline		United States
Observations	5,445	5,445
Adjusted R ²	0.019	0.043
Residual standard error	283.141 (df = 5439)	279.633 (df = 5429)

a p<0.01.
b p<0.05.
c p<0.1.

SOURCE: McKinsey Global Institute analysis

4. ESTIMATING THE GROWTH POTENTIAL OF THE INDEPENDENT WORKFORCE BASED ON ASPIRATIONS STATED IN SURVEY RESPONSES

Building on our estimate of the current size of the independent workforce and the classification of independent workers into four specific quadrants, we conducted a more detailed follow-up analysis of people's desired sources of income to see how the independent workforce might develop in the future. The basic premise is that future growth will be driven by the desire of traditional workers and people not currently working to become independent, although that will be offset by the desire of some independent workers to exit the independent workforce. In this section, we look at the relative magnitude of both of these forces and estimate their net effect.

While this analysis is closely related to the choice vs. necessity classification described above, this analysis considers all working-age respondents rather than just workers. We also take into account the fact that a person could be independent by choice but still want to change the role independent work plays in their livelihood (e.g., they may want to turn a supplemental earning activity into their primary living or vice versa). Even a person who performs supplemental work out of necessity (that is, they would prefer traditional work as their secondary source of income) could still want to remain in the independent workforce and become a free agent. Similar to the previous analysis, however, we will only consider people's preferences as they relate to providing labor.

To capture all the different ways someone's current working situation can differ from their aspirations, we built an exhaustive transition matrix for four specific groups: primary independent workers, supplemental independent workers, traditional workers, and people not currently working. The current state of each respondent follows the definitions described in the previous section. Their desired future state is based on their answers to "What is your primary/secondary desired source of income?" Throughout the analysis, we interpret the answers "working as a freelancer," "working in my own business," and "working as a temporary employee" as a desire to be independent. We interpret "working as a permanent employee" as a desire to be traditional. Any other response (which, for most people, was "retirement") was taken as a desire to not work at all. We considered primary independent workers who reported that they were already following their desire as wanting to be independent regardless of the answer they chose. For consistency, we did the same in the case of traditional workers: as long as they responded they were already pursuing their desired primary source of income, we assumed their desire is to stay traditional.

We then applied the following logic:

- A person has a desire to be a primary independent worker if their response to "What is your primary desired source of income?" was a form of independent work. Their desired secondary source of income is irrelevant since they would still be primary independent workers even if they added more independent income on the side.
- A person has a desire to be a supplemental independent worker if they do not want to be a primary independent worker, and their response to "What is your secondary desired source of income?" was a form of independent work.
- For everyone who did not fall into the previous two groups, we looked at whether they expressed a desire to do traditional work as either their primary or secondary source of income. Based on that criterion, we divided the group into people with a desire to be traditional and those who want to stop working altogether.

While this approach was fully exhaustive, it introduced a risk of overestimating how many people would transition into another type of work since what people want is often very different from what they actually do. To provide a more realistic estimate of the future size

of the independent workforce, we asked respondents follow-up questions about how likely they were to pursue their preferred options. They could choose an answer on a 7-point scale ranging from “definitely will not” to “already doing.” We then repeated the logic described above, considering two groups of responses: “very likely to pursue” and above, as well as “somewhat likely” and above. These two groups of responses became the basis of a range of estimates for future growth, with the more exclusive group forming the low (more conservative) end of the range and the “somewhat likely” and above group forming the high end of the range. Finally, some respondents answered that they were less than somewhat likely to pursue both their primary and secondary desires. We excluded those responses from our analysis in order to keep our estimates conservative. They became part of the “other” category along with traditional workers and people not currently working.

5. METHODOLOGY FOR OCCUPATIONAL ANALYSIS

We conducted a detailed analysis of some 150 occupational categories, considering a number of indicators that determine whether these jobs could theoretically be handled by independent workers.

These considerations include the extent to which the job consists of discrete tasks that can be clearly outlined for external hires and spelled out in contracts. We also look at whether the occupation is non-managerial, since companies generally want to retain continuity of leadership. The degree of contextual knowledge required to do the job is another important factor. If that knowledge is not explicit and easily transferable, the job will not be well suited for external hires, as it requires more on-boarding and real-time interaction. We also consider whether the occupation has high seasonality or high turnover. Seasonal industries (such as retail) have always relied on temporary workers during periods of heavier demand, while occupations that have very high turnover could be considered de facto independent since many people take those jobs with the intention of quitting in just a few months. Companies in the fast food industry, for instance, have already designed rapid on-boarding because of the rate at which new employees cycle in and out. Finally, we consider whether the occupation demands scarce talent, since many companies might not need to (or be able to afford to) keep employees with highly specialized skills on their permanent payroll. Instead, these workers could enter into independent work arrangements and split their time between multiple clients.

Based on whether these attributes apply, we defined five broad archetypes of workers spanning millions of jobs in the United States and Europe:

- **Transient workers.** These workers have widely available skills and occupy jobs with high turnover or seasonality in fields such as retail and food service. Their roles are easily converted to independent work—and in fact, many of them are already hired in a temporary capacity.
- **Experts.** Workers with specialized, scarce skills can spread their time between multiple employers given the demand for their skills. This includes occupations like programmers, physicians, and lawyers at the very top of the wage scale.
- **Generalists.** These are workers with more readily available skills who occupy jobs with discrete tasks and easily transferable knowledge. Their work could in principle become independent, as evidenced by the success of platforms such as Uber.
- **Project-based managers.** While most managerial roles are not conducive to independent work, it is a different story in project-based environments. Construction managers and people who work on collaborative creative projects fall into this category, which is the smallest of our archetypes.

- **Traditional “company workers.”** These workers have readily available skills and perform discrete tasks, but their roles demand some contextual knowledge. This category includes occupations like registered nurses, who share common skills but benefit from knowing the intricacies of processes in a given hospital. Similarly, secretaries and executive assistants do not have rare skills, but their knowledge of how to navigate a particular company’s administrative and bureaucratic processes may be priceless. This category is less suited to being converted into independent work since their contextual knowledge directly contributes to organizational efficiency and efficacy.

We then used the following mapping to assign each occupation to one of these archetypes (Exhibit A9). Transient workers and experts seem to have the greatest opportunity to be independent; many of them already are, and turnover is already high in many of these professions. At the other end of the spectrum, some occupations that fall outside these categories or blur these boundaries are poorly suited to being handled independently. These include executives, members of the clergy, teachers, full-time nannies, and business operations specialists.

In each case, we identified data indicators that we felt were strong proxies for the criteria we wanted to capture. For example, talent scarcity was based on median hourly wages. We assumed that workers had scarce talent if they were in an occupation in which the median hourly wage was greater than the 90th percentile for that country’s hourly wages overall. Exhibit A10 details the indicators applied.

Exhibit A9

Classifying workers into archetypes

More amenable to independent work	Archetype	Discreteness	Not managerial	Knowledge	Seasonality/ churn	Talent scarcity
	Transient workers	Discrete	Not managerial	Explicit	High churn	Not scarce
	Experts	Discrete	Not managerial	n/a		Scarce
	Generalists	Discrete	Not managerial	Explicit	Low churn	Not scarce
	Project-based managers	Discrete	Manager	n/a		
	Traditional “company workers”	Discrete	Not managerial	Contextual	Low churn	Not scarce
Less amenable to independent work						

SOURCE: BLS; Eurostat; McKinsey Global Institute analysis

We used the following data indicators to rate occupations on each of our criteria

Criteria	Data indicators	Rating
Discreteness	<ul style="list-style-type: none"> Share of activities in the occupation that can be automated (from MGI research on automation) Presence of job on existing freelance platforms 	<ul style="list-style-type: none"> Discrete if >20% of job activities can be automated Not discrete if otherwise
Non-managerial	<ul style="list-style-type: none"> Share of time spent managing people in each occupation (from MGI research on automation) 	<ul style="list-style-type: none"> Non-managerial if <20% of time spent managing Managerial if otherwise¹
Seasonality/churn	<ul style="list-style-type: none"> Churn rate in industries where the occupation is prevalent (from BLS JOLT survey; press searches) Seasonality in the industry 	<ul style="list-style-type: none"> Seasonal if the industry exhibits high churn or seasonality Not seasonal if otherwise
Talent scarcity	<ul style="list-style-type: none"> Average hourly wage for occupation (BLS) 	<ul style="list-style-type: none"> Scarce if mean hourly wage >90th percentile for US jobs overall Not scarce if otherwise
Knowledge	<ul style="list-style-type: none"> Expert interviews 	<ul style="list-style-type: none"> Explicit if knowledge needed for job is easily transferable Contextual if job requires knowledge of company processes or other context that is not easily specified

1 Or if job title is "supervisor."

SOURCE: McKinsey Global Institute analysis

We applied these dimensions to the occupational data available in the United States and Europe. In the United States, we have employment figures for some 800 occupations from the BLS. The BLS reports occupations with four levels of granularity, and we generally used their second level, although we looked at some at a more granular level. We then extend our estimate to Europe using a proprietary McKinsey Global Institute database that has mapped EU employment figures to the occupational categories tracked in the United States.

6. METHODOLOGY FOR ANALYZING THE CONVERSION OF UNPAID HOUSEHOLD WORK TO PAID WORK

In addition to the possibility of converting payroll jobs, some portion of currently unpaid household work (driving, cleaning, grocery shopping, errands, home repairs, and the like) could become paid work that is hired out—particularly if digital marketplaces for these services continue to grow.

In order to estimate the potential amount of unpaid household work that could be converted into new demand for independent work, we combined responses from the MGI survey with data from the American Time Use Survey as well as the OECD Time Use Survey. These time use surveys measure the amount of time people spend working, caring for children, doing housework, watching television, volunteering, etc. The American Time Use survey collects the data through telephone interviews and a 24-hour time diary and provides some demographic data along with the tabulated data.

A four-step approach was used:

1. Time use data gathered by income level and country

Our approach was to identify and categorize the time use data into activities that were conducive to independent work (see Exhibit A11). These activities typically are ones for which real-world options for hiring independent workers already exist (e.g., Care.com for babysitting). We assumed that households would convert unpaid household work to paid household work in a linear income progression. This assumption is based on prior research which has shown empirically that higher-income households are more likely to purchase domestic services such as housecleaning.¹¹²

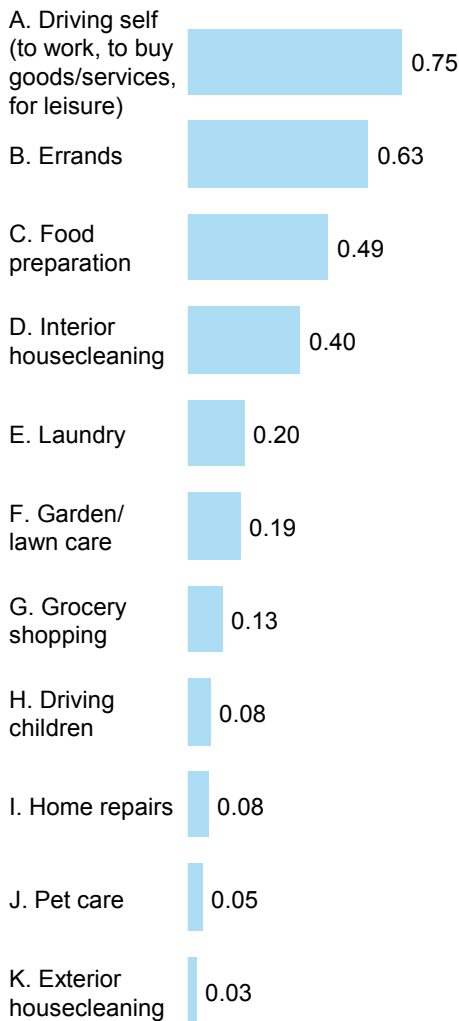
Exhibit A11

Calculating base amount of work per day that could be outsourced



Time spent on different household activities (all income brackets)

Hours per day



Haircut to reflect different frequencies that people are likely to consider outsourcing, based on income bracket

Income bracket
\$ thousand

Very high
\$150

75%

High
\$75–\$150

50%

Average
\$25–\$75

25%

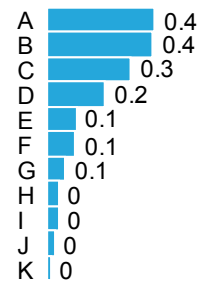
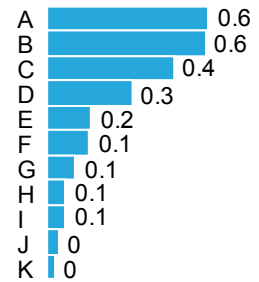
Low
<\$25

0%



Base amount of work that could be outsourced

Hours per day



Zero

SOURCE: American Time Use Survey (2014); McKinsey Global Institute analysis

¹¹² R.S. Oropesa, "Using the service economy to relieve the double burden: Female labor force participation and service purchases," *Journal of Family Issues*, volume 14, number 3, September 1993.

2. Survey data used to estimate likelihood of hiring someone

Given the time spent on these activities by household income level, we then applied a likelihood percentage. This percentage came from the MGI survey and was applied by country and by income level. Respondents were asked “How likely are you to consider hiring someone to perform the following activities?” For each of 11 top activities from the time use survey, they were asked to choose responses from a six-point scale ranging from “definitely will not” to “definitely will” or an indication that they are “already doing.”

3. Likelihoods were applied to time spent by household income level and country to calculate total hours

Exhibit A12 shows the results in the United States of multiplying the survey results against the time spent per year on each activity from the Time Use Surveys.

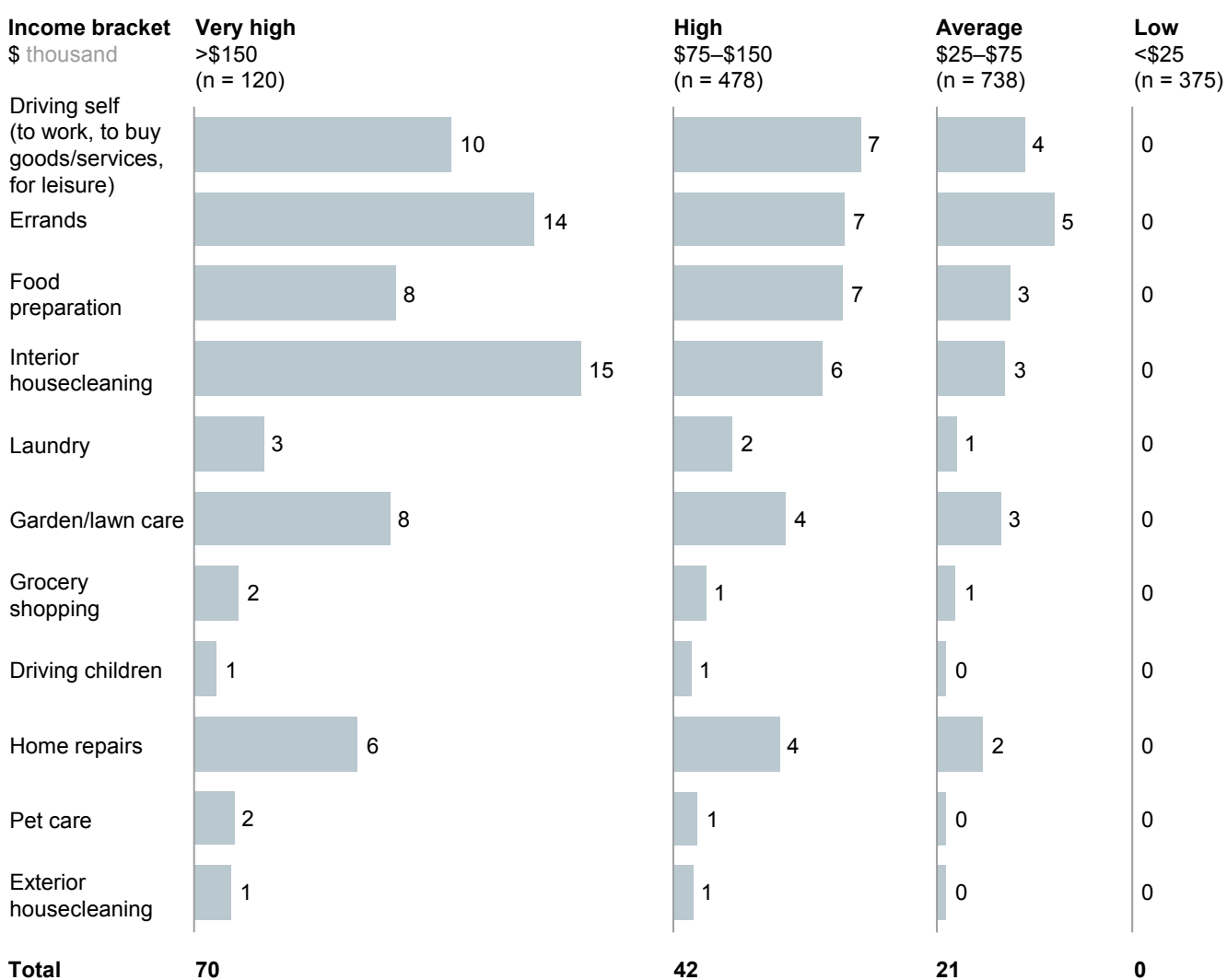
Exhibit A12

Likelihoods were applied to time spent by household income level and country to calculate total hours

Responses from MGI Survey

Multiplying the base amount of household work that could be outsourced by the share of people willing to outsource in each income bracket yields total demand for paid household work

Demand per person, total hours per year



NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute survey; McKinsey Global Institute analysis

4. Total hours worked was converted to FTEs and economic value

In order to convert the number of hours worked to jobs, we used the assumption that one full-time-equivalent worker works 2,080 hours per year. The resulting number indicates roughly what the equivalent number of full-time positions would be if the unpaid household work calculated above were converted to paid work. It is highly probable that, in fact, more workers would be involved in satisfying this demand as many of these roles are fulfilled by supplemental or part-time workers.

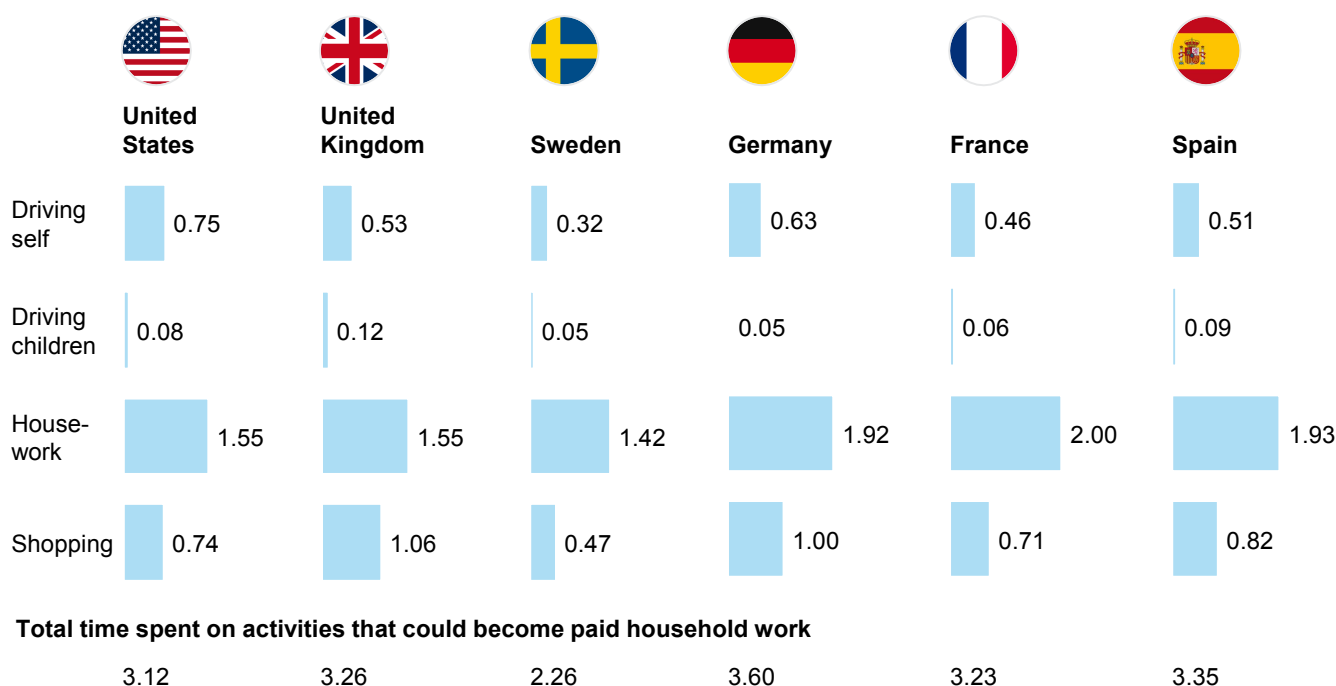
Overall, there was some variation in the results by country. Exhibit A13 below shows what the hours spent per day per person looked like across our survey countries for key activities; it does not include our estimates on likelihood from the survey data or income bands. The data indicated that households in Sweden spend less time per day on unpaid household work that could be converted to paid work while households in Germany spent more time, specifically on shopping and housework.

Lastly, economic value was calculated by assuming an average hourly wage of \$7.25 per hour and applying that to the overall hours worked. In Exhibit A14 below, we demonstrate how this calculation worked in the United States, where the 6.5 billion hours of unpaid household work each year that could become paid independent work represent \$45 billion in potential economic value.

Exhibit A13

Calculating demand for additional paid household work across the United States and our European survey countries

Hours per day per person spent on each activity



SOURCE: OECD time use data; American Time Use Survey; McKinsey Global Institute analysis

Exhibit A14

Converting unpaid household work to independent work could be worth some \$45 billion per year in the United States

ESTIMATES



Household income	Number of adults Million	Hours per day of unpaid work that could be converted	% of work there is demand to outsource	Total hours of paid work per year Million	FTE equivalents ² Million	Economic value ³ \$ billion
Very high (>\$150,000)	44.2	2.4	8	1,200	0.6	10
High (\$75,000–\$150,000)	44.2	1.6	7	3,000	1.4	20
Average (\$25,000–\$75,000)	10.9.1	0.8	7	2,300	1.1	15
Low (<\$25,000)	55.5	0	7	0	0	0
Total	253¹	1.0	7	6,500	3.1	45

1 Individuals over age 15.
 2 Assumes 40 hours per week, 52 weeks per year.
 3 Assumes wage of \$7.25/hour.

SOURCE: American Time Use Survey (2014); US Census; McKinsey Global Institute analysis

7. LABOR MARKET CHARACTERISTICS OF THE SIX SURVEY COUNTRIES

One of the most surprising aspects of the survey results was the degree of similarity in the contours of the independent workforce across countries. However, each country’s macroeconomic context does shape the prevalence of independent work and how much of it is by necessity.

The following pages profile each of our survey countries in turn, compiling a number of labor market indicators along with estimates of the prevalence of independent work and the size of specific workforce segments.



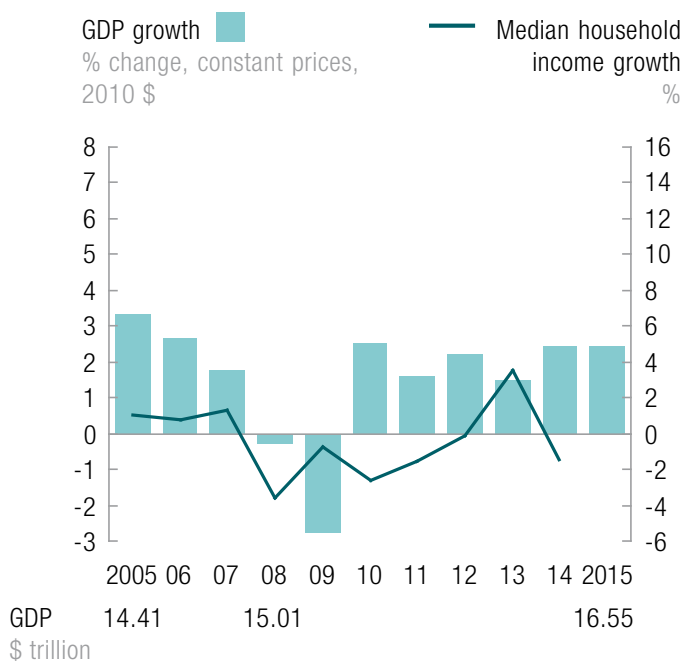
UNITED STATES

Key highlights

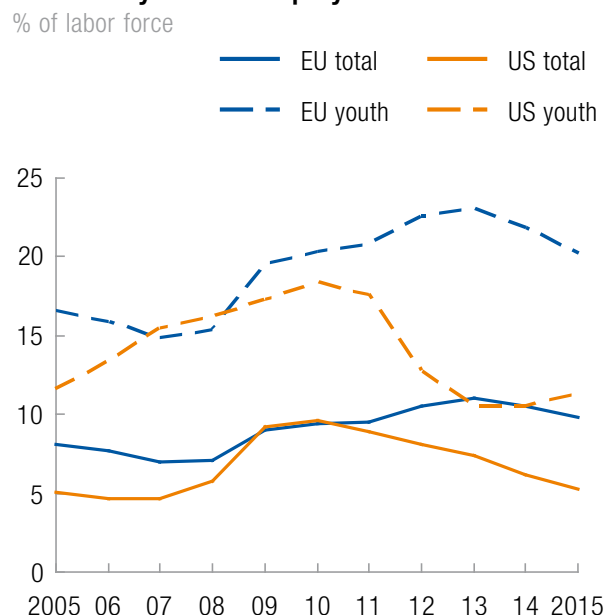
- The unemployment rate spiked to a high of 10.0 percent at the height of the Great Recession but has since declined to pre-recession levels (5.3 percent). Youth unemployment has also steadily declined since 2010 and is far lower in the United States than in Europe.
- There is a longer-term trend of declining labor force participation.
- Twenty million people want more work, including 8 million who are unemployed, 5 million involuntary part-time workers, and 6 million who are inactive.

Economic and labor market context

GDP growth and median household income growth



Total and youth unemployment rate



250.8 million
working-age population

157.1 million
people in the labor force

20.0 million
people who want to work more

Independent workforce: Government statistics

15.0 million
self-employed workers
% of working-age population



12.3 million
temporary workers
% of working-age population



7.3 million
workers with multiple jobs
% of working-age population



Last 5 years

- Grew
- Relatively flat
- Fell

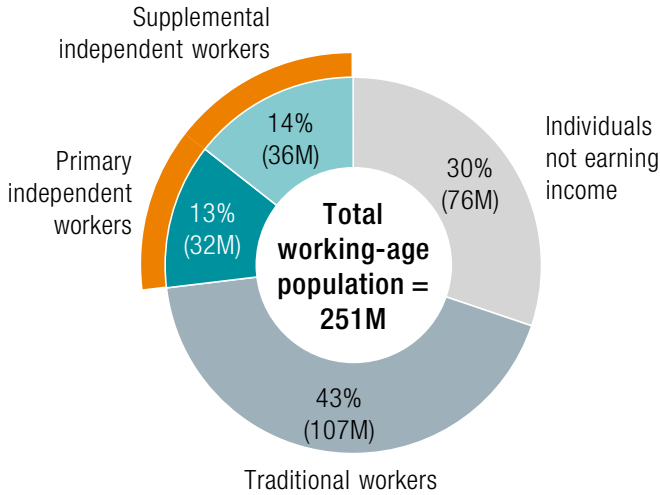
Key survey highlights¹

MGI's survey shows that the independent workforce is larger than government statistics indicate

% of total working-age population; million

68 million

people engaged in independent work²

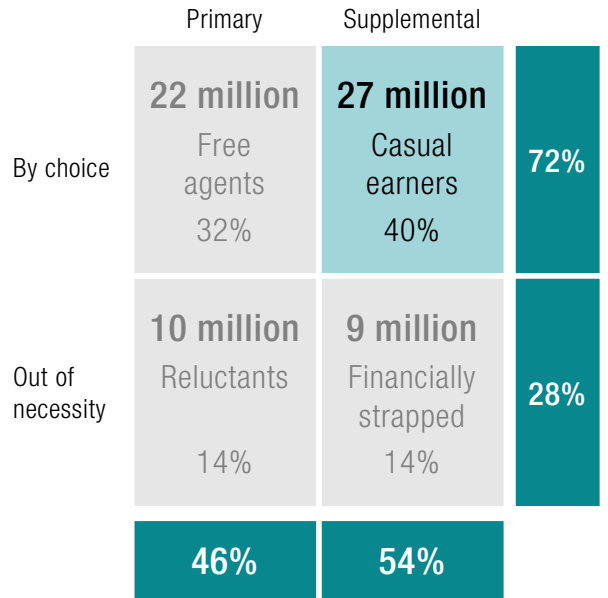


Size of non-earning population is lower than government statistics as the data above capture

- One year of income history
- Many sources of income that may be in informal economy

Casual earners are the largest group of independent earners

% of independent earners

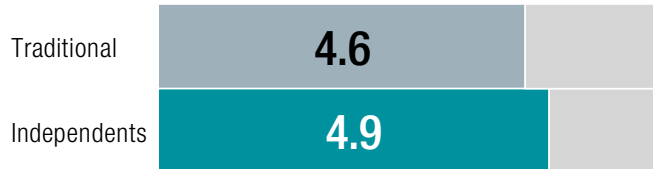


Independent workers report higher satisfaction than traditional workers

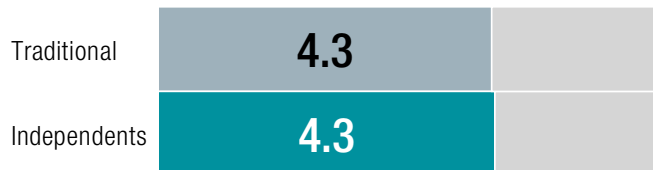
Scale from 1 (completely dissatisfied) to 6 (completely satisfied)

1 2 3 4 5 6

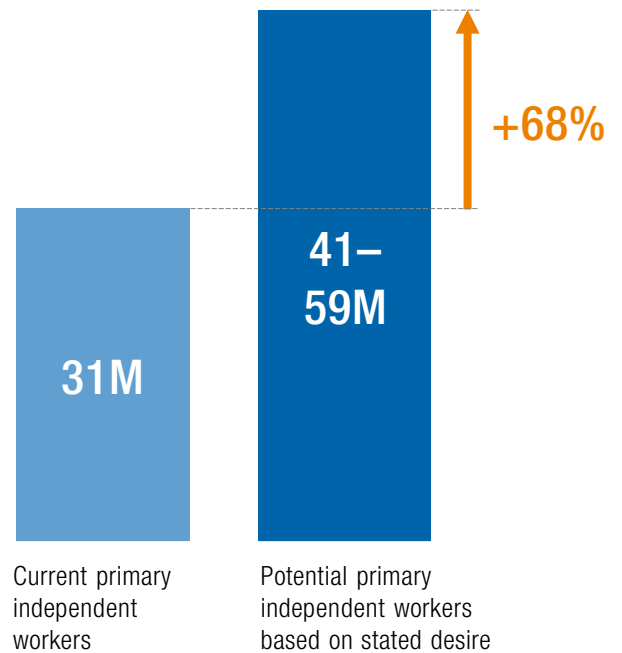
By choice (primary work only)



Out of necessity



Many workers aspire to be independent in their primary job



¹ McKinsey Global Institute survey of six countries (United States, United Kingdom, Sweden, Germany, France, and Spain) in June 2016 with 8,131 records.

² An independent earner is someone who chooses how much and when to work, moves between jobs fluidly, and typically has multiple employers, assignments, or clients over the course of a year. They can include the self-employed, independent contractors, freelancers, business owners, and temporary workers (including those assigned through temporary staffing agencies).

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis



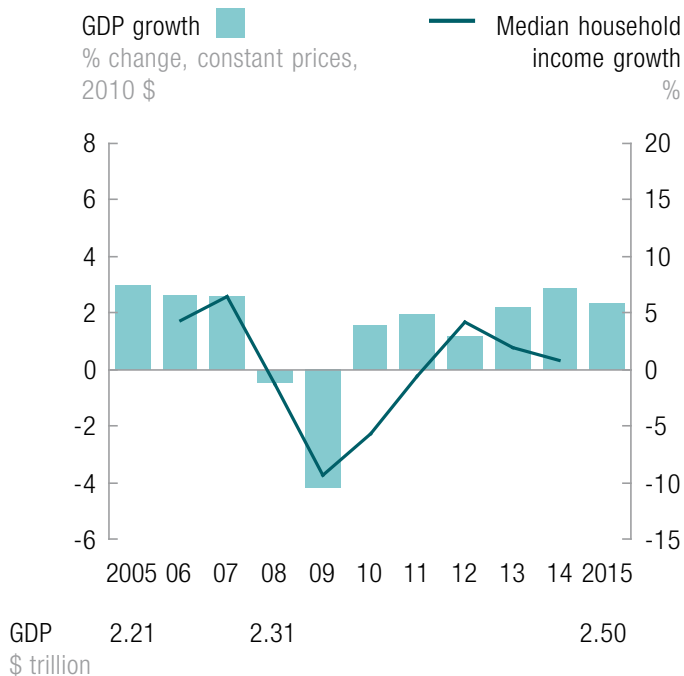
UNITED KINGDOM

Key highlights

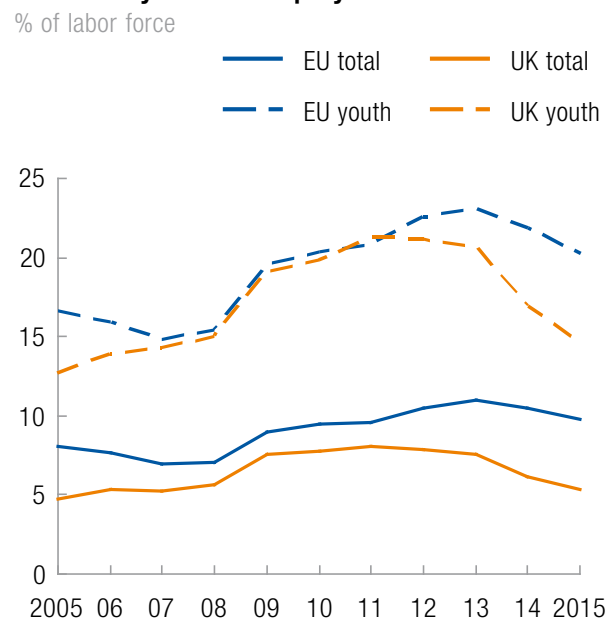
- Unemployment has roughly tracked trends in the EU-15, although the rates have remained slightly lower.
- Self-employment is slightly higher in the United Kingdom (9 percent) than in the EU-15 (8 percent) but temporary work is less prevalent (3 percent in the UK vs. 6 percent in EU-15).
- Eleven million want more work: 2 million who are unemployed, 1 million who are part-time involuntary, and 8 million inactive.

Economic and labor market context

GDP growth and median household income growth



Total and youth unemployment rate



52.4 million
working-age population

32.8 million
people in the labor force

11.1 million
people who want to work more

Independent workforce: Government statistics

4.6 million
self-employed workers
% of working-age population



1.6 million
temporary workers
% of working-age population



1.2 million
workers with multiple jobs
% of working-age population



Last 5 years

- Grew
- Relatively flat
- Fell

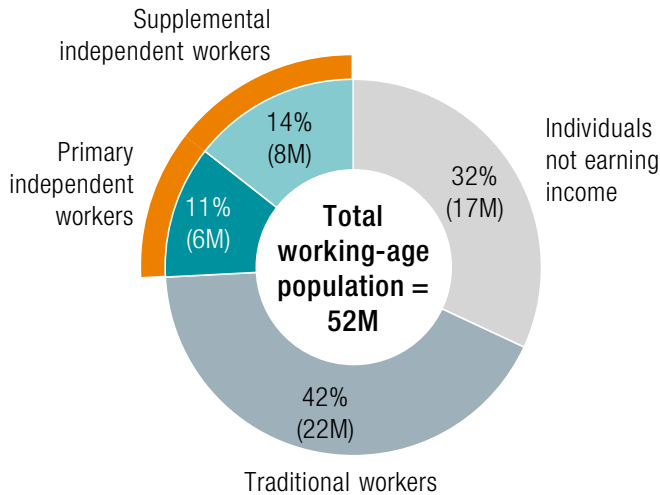
Key survey highlights¹

MGI's survey shows that the independent workforce is larger than government statistics indicate

% of total working-age population; million

14 million

people engaged in independent work²

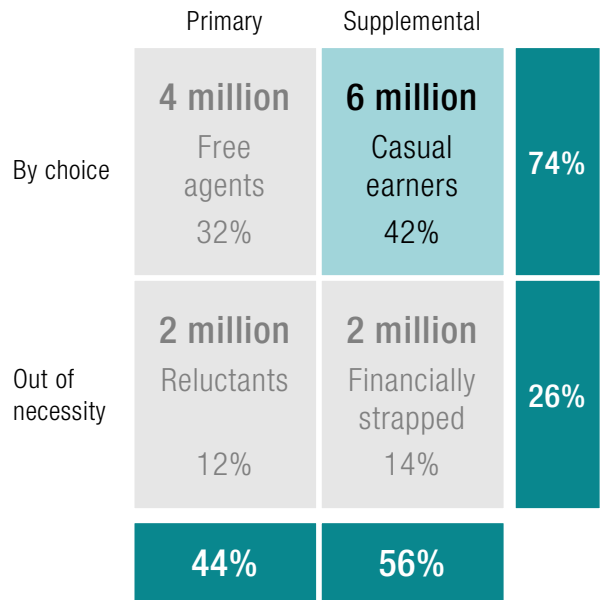


Size of non-earning population is lower than government statistics as the data above capture

- One year of income history
- Many sources of income that may be in informal economy

Casual earners are the largest group of independent earners

% of independent earners

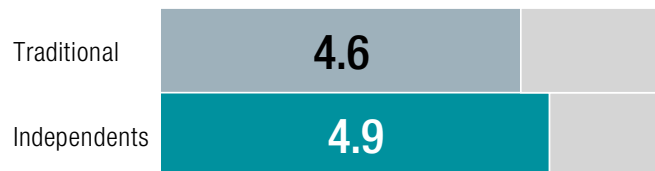


Independent workers report higher satisfaction than traditional workers

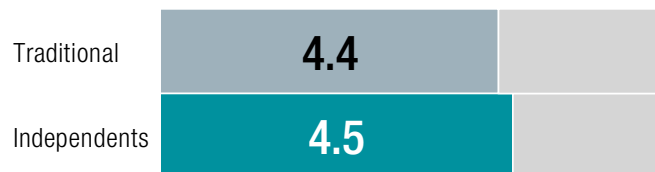
Scale from 1 (completely dissatisfied) to 6 (completely satisfied)

1 2 3 4 5 6

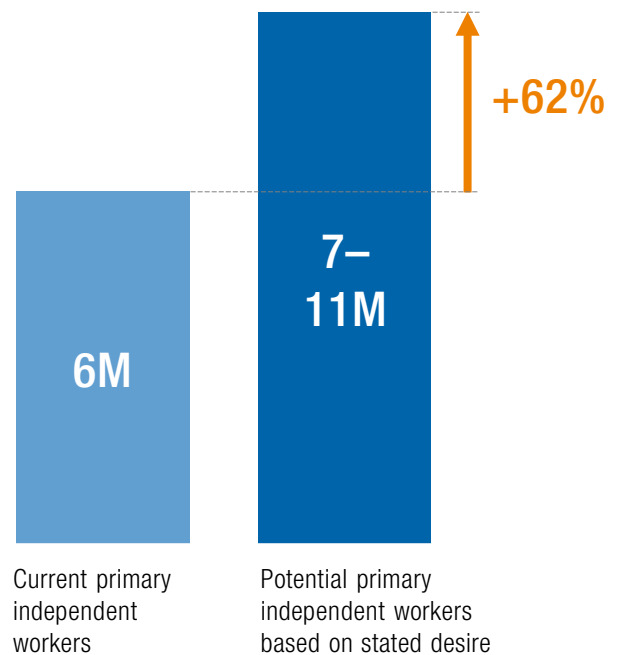
By choice (primary work only)



Out of necessity



Many workers aspire to be independent in their primary job



¹ McKinsey Global Institute survey of six countries (United States, United Kingdom, Sweden, Germany, France, and Spain) in June 2016 with 8,131 records.

² An independent earner is someone who chooses how much and when to work, moves between jobs fluidly, and typically has multiple employers, assignments, or clients over the course of a year. They can include the self-employed, independent contractors, freelancers, business owners, and temporary workers (including those assigned through temporary staffing agencies).

NOTE: Numbers may not sum due to rounding.

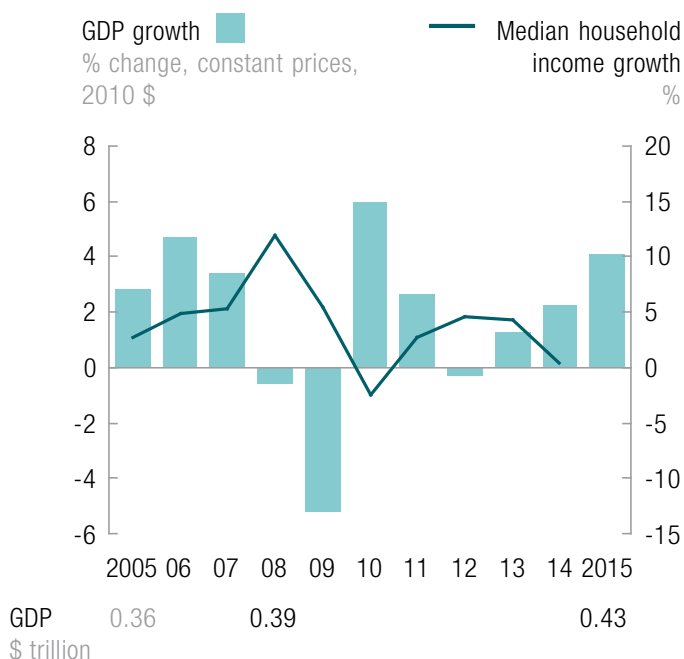
SOURCE: McKinsey Global Institute analysis

Key highlights

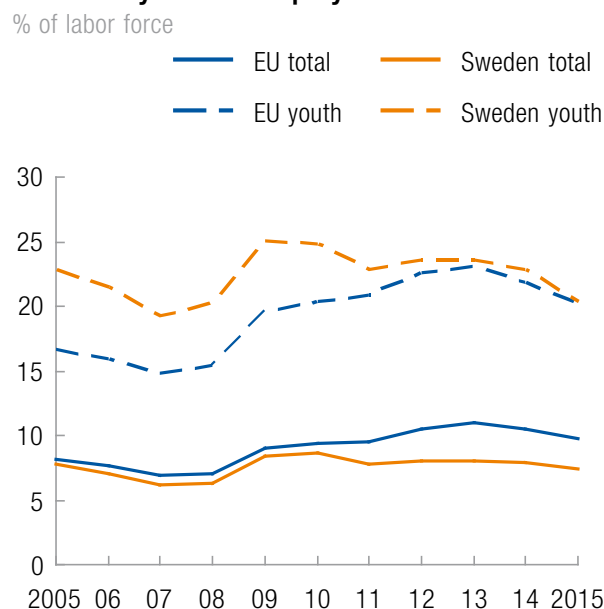
- A higher share of Sweden's working-age population (5 percent) has multiple jobs than the share in the EU-15 (2 percent).
- Temporary work has been growing, with 9 percent of the working-age population in these work arrangements.
- 1.8 million want more work: 400,000 who are unemployed, 300,000 who are part-time involuntary, and 1.1 million who are inactive.

Economic and labor market context

GDP growth and median household income growth



Total and youth unemployment rate



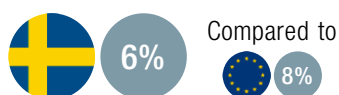
8.1 million
working-age population

5.2 million
people in the labor force

1.8 million
people who want to work more

Independent workforce: Government statistics

0.5 million
self-employed workers
% of working-age population



0.7 million
temporary workers
% of working-age population



0.4 million
workers with multiple jobs
% of working-age population



Last 5 years

- Grew
- Relatively flat
- Fell

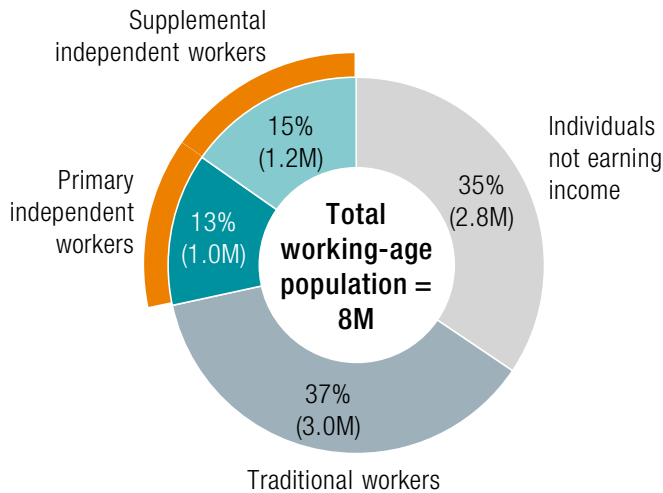
Key survey highlights¹

MGI's survey shows that the independent workforce is larger than government statistics indicate

% of total working-age population; million

2.2 million

people engaged in independent work²

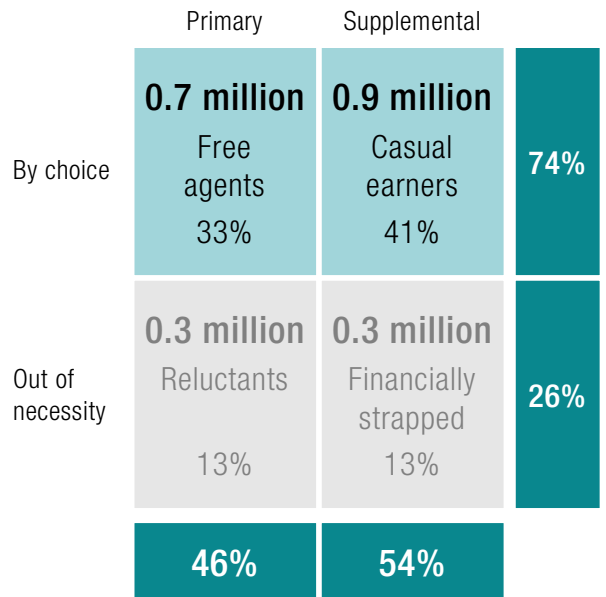


Size of non-earning population is lower than government statistics as the data above capture

- One year of income history
- Many sources of income that may be in informal economy

Free agents and casual earners are the largest group of independent earners

% of independent earners

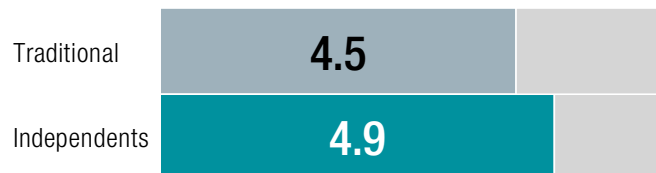


Independent workers report higher satisfaction than traditional workers

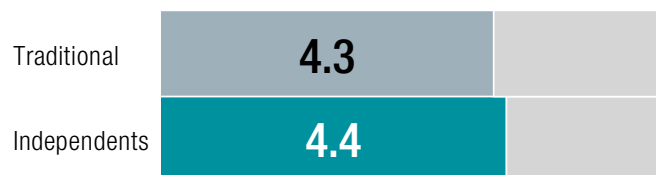
Scale from 1 (completely dissatisfied) to 6 (completely satisfied)

1 2 3 4 5 6

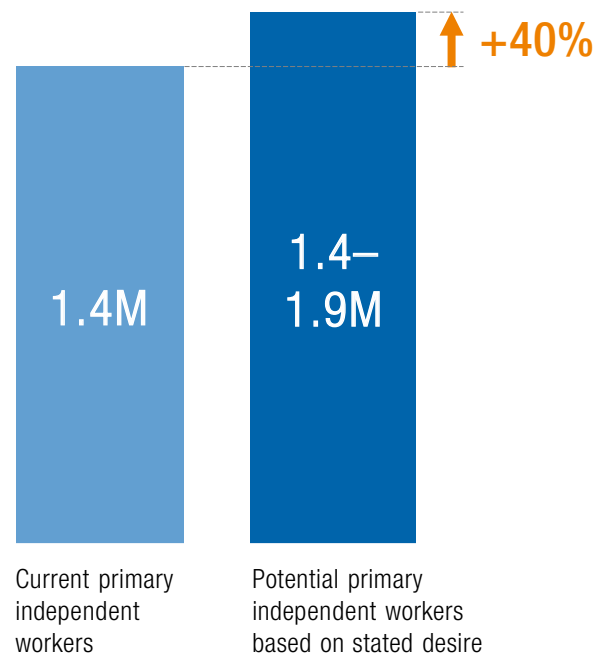
By choice (primary work only)



Out of necessity



Many workers aspire to be independent in their primary job



¹ McKinsey Global Institute survey of six countries (United States, United Kingdom, Sweden, Germany, France, and Spain) in June 2016 with 8,131 records.

² An independent earner is someone who chooses how much and when to work, moves between jobs fluidly, and typically has multiple employers, assignments, or clients over the course of a year. They can include the self-employed, independent contractors, freelancers, business owners, and temporary workers (including those assigned through temporary staffing agencies).

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis



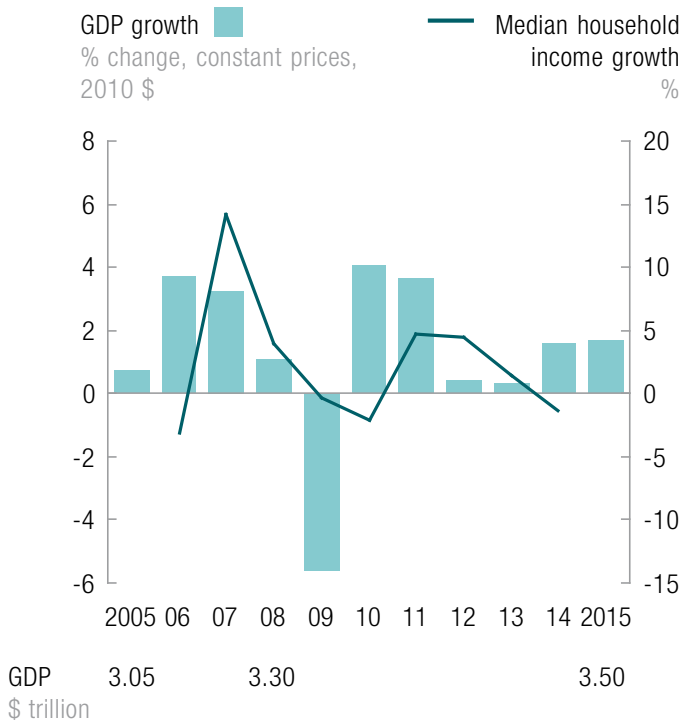
GERMANY

Key highlights

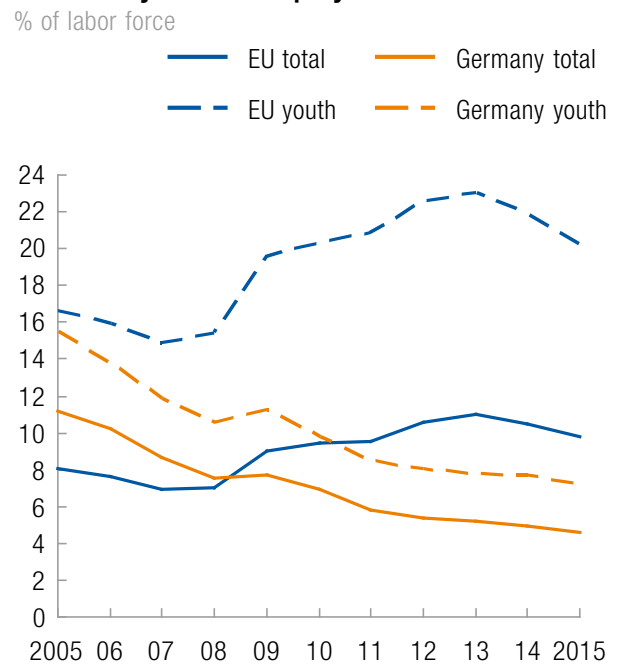
- Unemployment has steadily declined in Germany over the past decade.
- Both overall and youth unemployment rates are now lower than the corresponding rates in the EU-15.
- But 14 million want more work: 2 million unemployed, 1 million part-time involuntary workers, and 11 million who are inactive.

Economic and labor market context

GDP growth and median household income growth



Total and youth unemployment rate



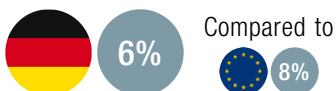
70.1 million
working-age population

42.2 million
people in the labor force

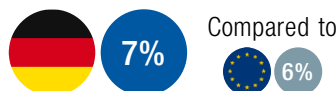
14.0 million
people who want to work more

Independent workforce: Government statistics

4.2 million
self-employed workers
% of working-age population



4.7 million
temporary workers
% of working-age population



2.0 million
workers with multiple jobs
% of working-age population



Last 5 years

- Grew
- Relatively flat
- Fell

NOTE: Numbers may not sum due to rounding.
SOURCE: Eurostat; OECD; McKinsey Global Institute analysis

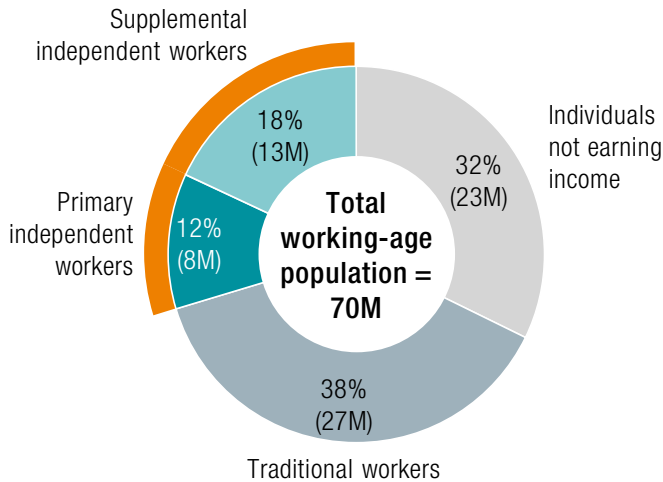
Key survey highlights¹

MGI's survey shows that the independent workforce is larger than government statistics indicate

% of total working-age population; million

21 million

people engaged in independent work²

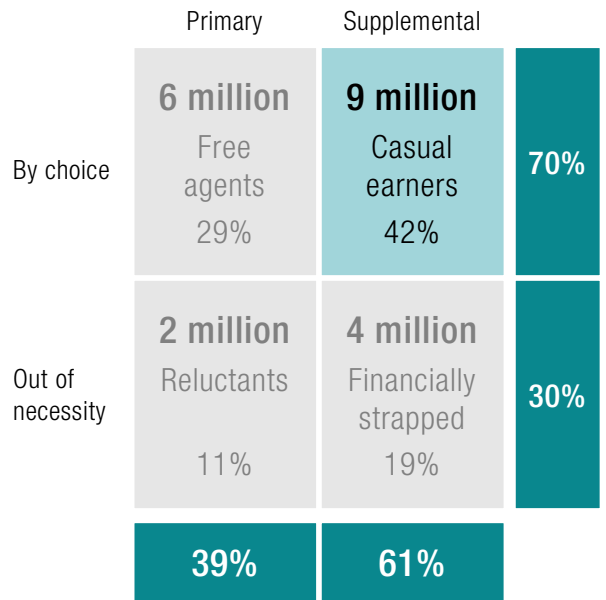


Size of non-earning population is lower than government statistics as the data above capture

- One year of income history
- Many sources of income that may be in informal economy

Casual earners are the largest group of independent earners

% of independent earners

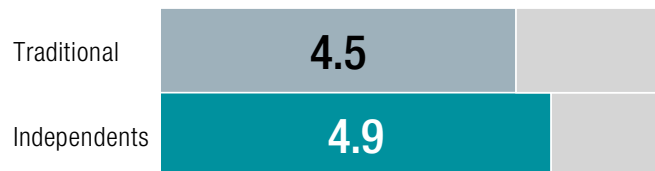


Independent workers report higher satisfaction than traditional workers

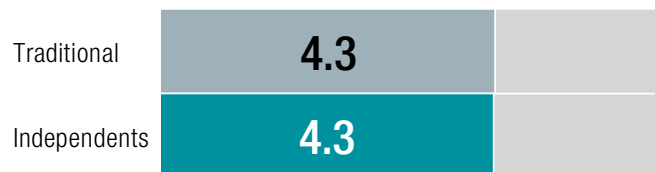
Scale from 1 (completely dissatisfied) to 6 (completely satisfied)

1 2 3 4 5 6

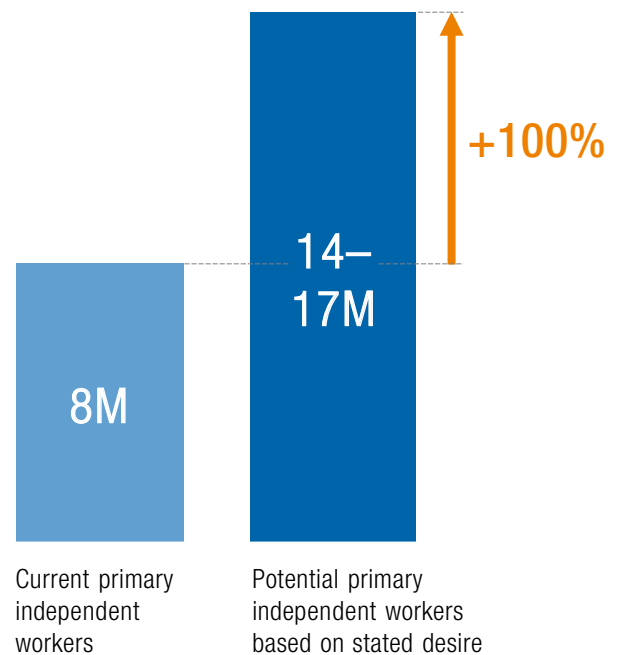
By choice (primary work only)



Out of necessity



Many workers aspire to be independent in their primary job



¹ McKinsey Global Institute survey of six countries (United States, United Kingdom, Sweden, Germany, France, and Spain) in June 2016 with 8,131 records.

² An independent earner is someone who chooses how much and when to work, moves between jobs fluidly, and typically has multiple employers, assignments, or clients over the course of a year. They can include the self-employed, independent contractors, freelancers, business owners, and temporary workers (including those assigned through temporary staffing agencies).

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis

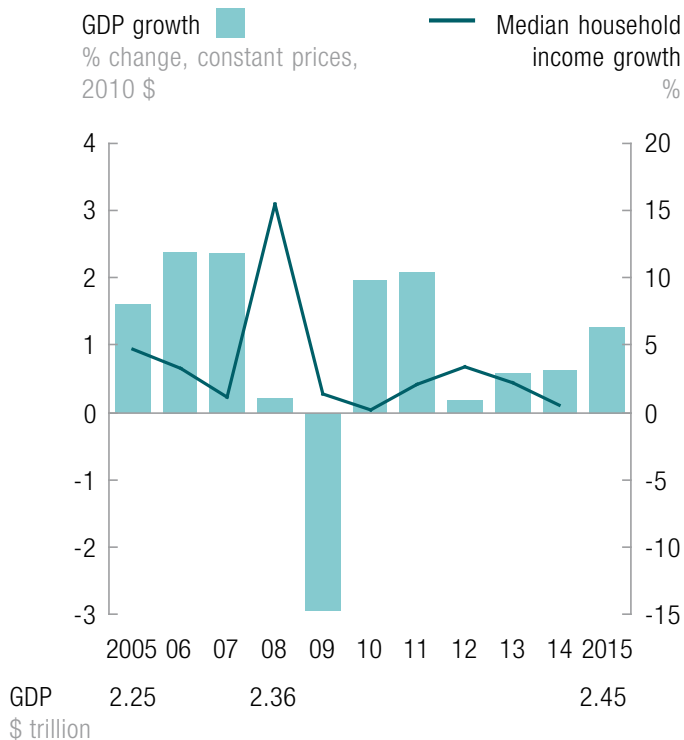
FRANCE

Key highlights

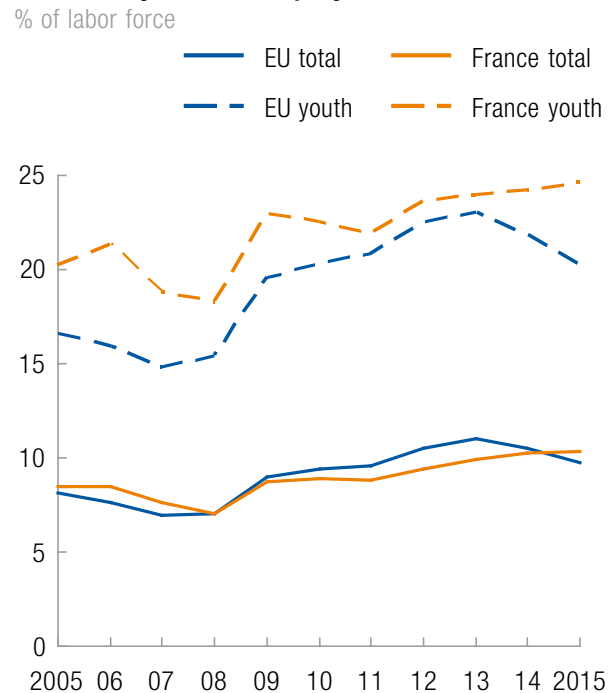
- Overall unemployment in France has roughly tracked trends in the EU-15. But youth unemployment is even higher; almost a quarter of young people are not working.
- 12 million want more work: 3 million unemployed, 2 million who are part-time involuntary, and 7 million who are inactive.

Economic and labor market context

GDP growth and median household income growth



Total and youth unemployment rate



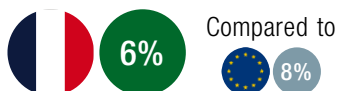
52.5 million
working-age population

29.4 million
people in the labor force

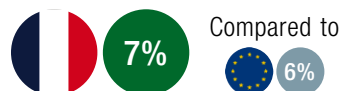
12.1 million
people who want to work more

Independent workforce: Government statistics

3.0 million
self-employed workers
% of working-age population



3.9 million
temporary workers
% of working-age population



1.1 million
workers with multiple jobs
% of working-age population



Last 5 years

- Grew
- Relatively flat
- Fell

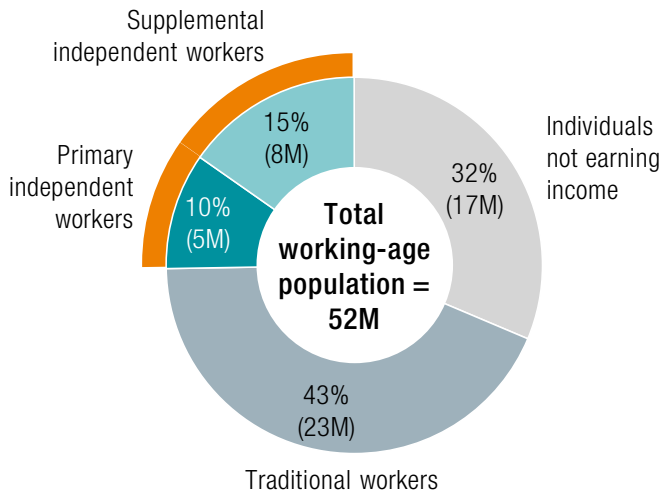
Key survey highlights¹

MGI's survey shows that the independent workforce is larger than government statistics indicate

% of total working-age population; million

13 million

people engaged in independent work²

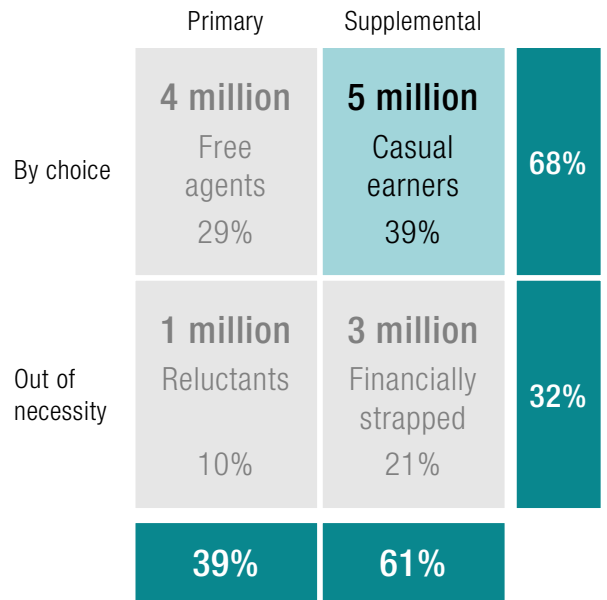


Size of non-earning population is lower than government statistics as the data above capture

- One year of income history
- Many sources of income that may be in informal economy

Casual earners are the largest group of independent earners

% of independent earners

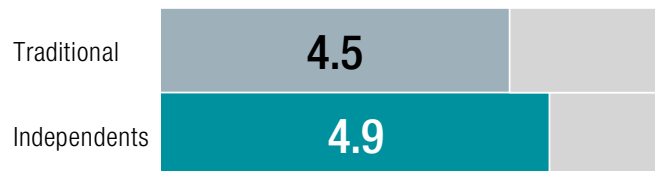


Independent workers report higher satisfaction than traditional workers

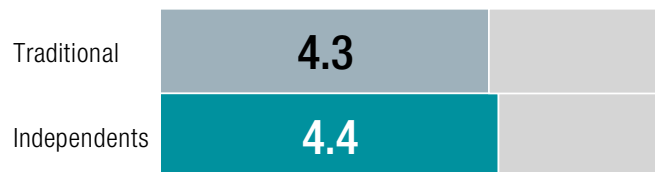
Scale from 1 (completely dissatisfied) to 6 (completely satisfied)

1 2 3 4 5 6

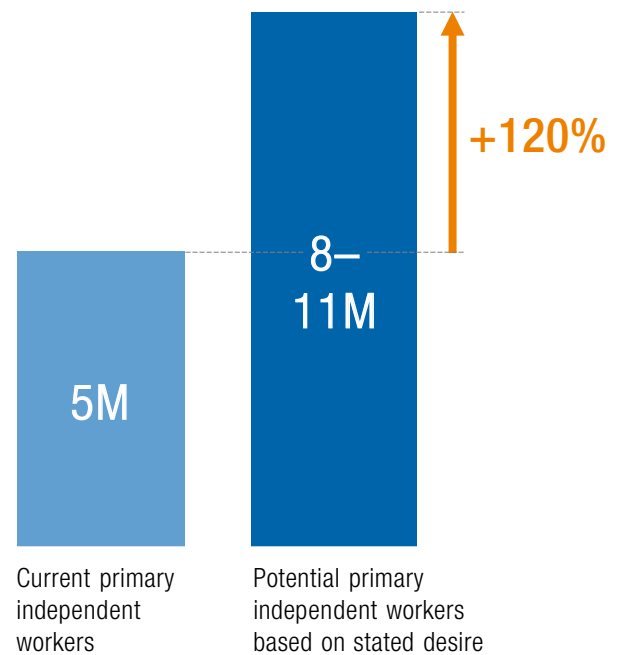
By choice (primary work only)



Out of necessity



Many workers aspire to be independent in their primary job



¹ McKinsey Global Institute survey of six countries (United States, United Kingdom, Sweden, Germany, France, and Spain) in June 2016 with 8,131 records.

² An independent earner is someone who chooses how much and when to work, moves between jobs fluidly, and typically has multiple employers, assignments, or clients over the course of a year. They can include the self-employed, independent contractors, freelancers, business owners, and temporary workers (including those assigned through temporary staffing agencies).

NOTE: Numbers may not sum due to rounding.

SOURCE: McKinsey Global Institute analysis



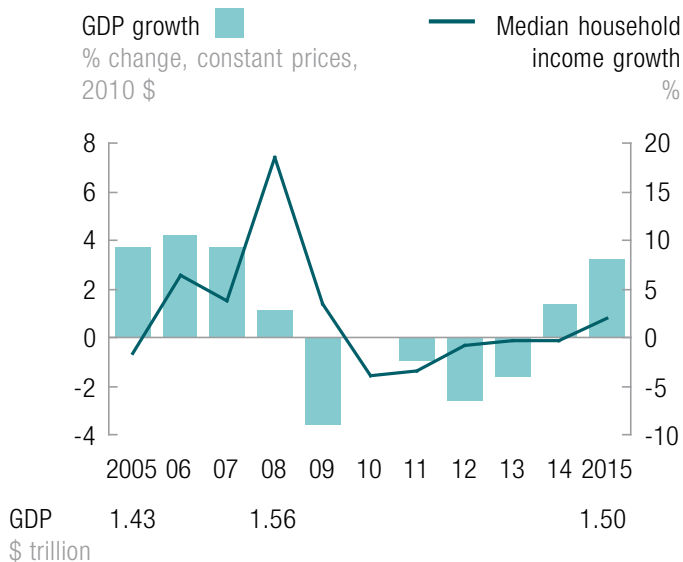
SPAIN

Key highlights

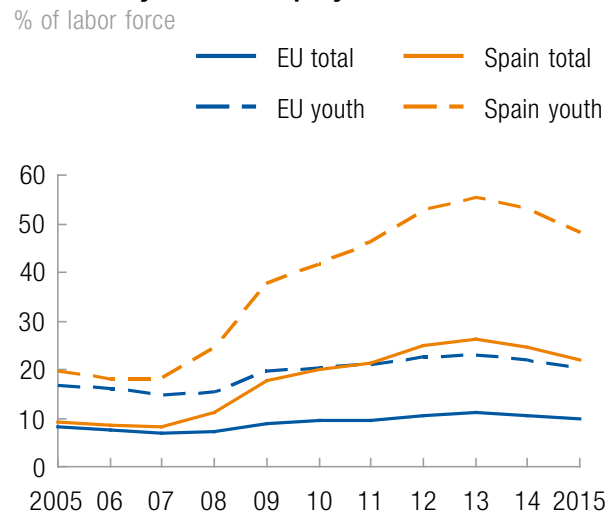
- Unemployment continued to climb through the Great Recession and the European debt crisis. The rate still remains above 20 percent.
- After the Great Recession, it took six years for Spain's GDP growth to recover to pre-recession levels.
- Youth unemployment is sharply higher than in the rest of Europe; roughly half of all young people are out of work.
- One in five employed workers are on temporary contracts (including almost two-thirds of young people who work).
- 13 million want more work: 5 million unemployed, 2 million part-time involuntary, and 6 million inactive.

Economic and labor market context

GDP growth and median household income growth



Total and youth unemployment rate



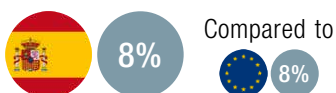
39.0 million
working-age population

22.9 million
people in the labor force

12.9 million
people who want to work more

Independent workforce: Government statistics

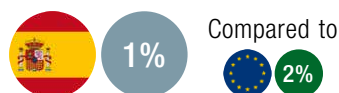
3.0 million
self-employed workers
% of working-age population



3.7 million
temporary workers
% of working-age population



0.4 million
workers with multiple jobs
% of working-age population



Last 5 years

- Grew
- Relatively flat
- Fell

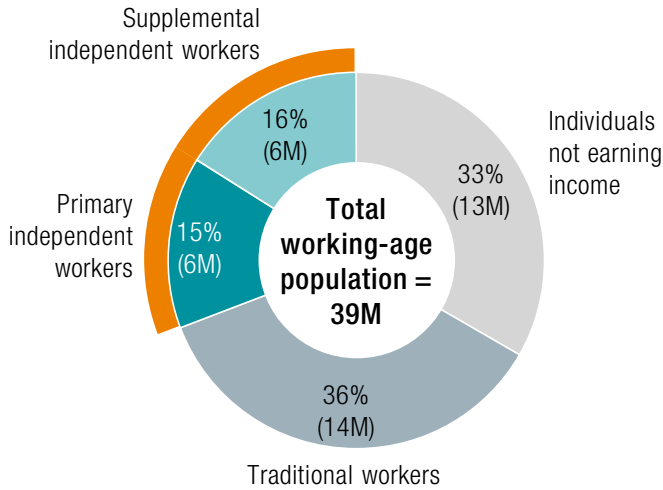
Key survey highlights¹

MGI's survey shows that the independent workforce is larger than government statistics indicate

% of total working-age population; million

12 million

people engaged in independent work²

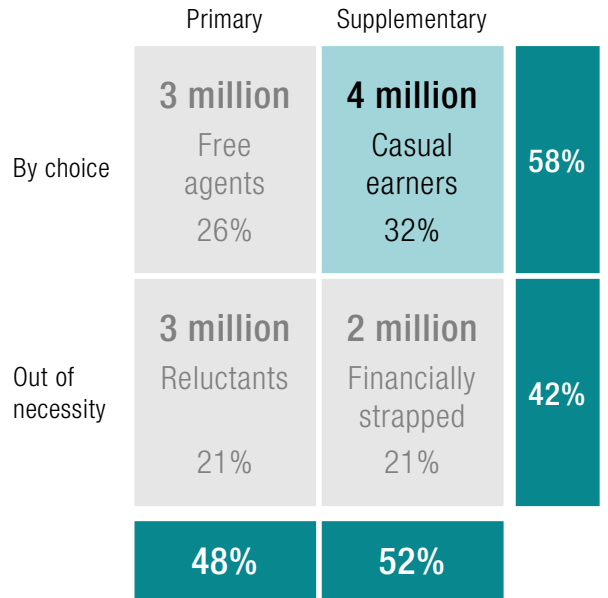


Size of non-earning population is lower than government statistics as the data above capture

- One year of income history
- Many sources of income that may be in informal economy

Casual earners are the largest group of independent earners

% of independent earners

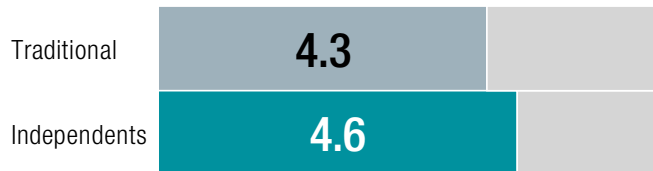


Independent workers report higher satisfaction than traditional workers

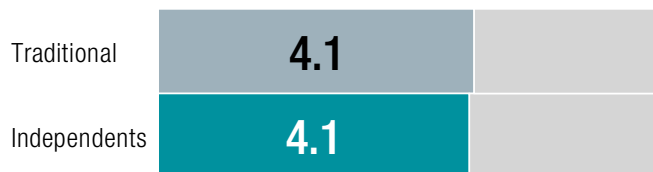
Scale from 1 (completely dissatisfied) to 6 (completely satisfied)

1 2 3 4 5 6

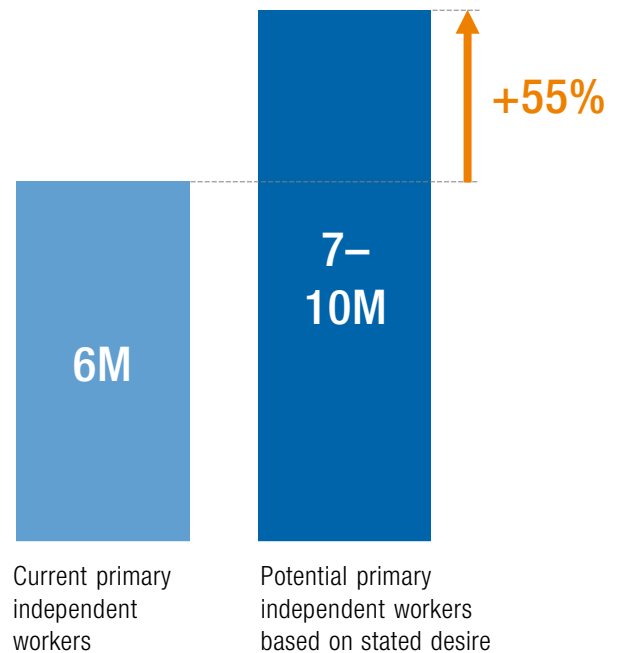
By choice (primary work only)



Out of necessity



Many workers aspire to be independent in their primary job





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