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The platform economy and the disruption of the employment relationship

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Jan Drahokoupil and Brian Fabo

Jan Drahokoupil is a senior researcher at the ETUI, Brussels. Brian Fabo is a research fellow at the Central European University in Budapest and a researcher at the Centre for European Policy Studies in Brussels.

Key points

- Platforms may have a transformative and potentially severe impact on the employment relationship in the future, but so far this impact has been varied and very limited
- Many platforms are embedded in specific locations and hence within reach of existing regulatory tools, while others contribute to the offshoring of work
- The European Commission's Communication on the 'collaborative economy' includes a useful clarification regarding the definition of 'worker' in EU law, specifying that it may also apply to platform workers
- The regulatory response should go beyond this and address specific risks related to platform-mediated work

Introduction

This policy brief considers the impact of online platforms on labour markets and on the employment relationship in particular. It first discusses the importance of outsourcing platforms, arguing that the 'collaborative economy' used by the European Commission (EC) is a misleading concept, as the trend is in fact just an extension of the market mechanism. The second section distinguishes between different types of platforms; it is followed by a discussion of statistical evidence on the use of platforms by workers. The fourth section identifies the different kinds of impact that the platforms have on the labour market and employment relations. The final section considers policies that would address the risks related to platform-mediated work.

The platform economy

Thinking about contemporary labour market dynamics necessarily involves a consideration of the impact of technologically driven change on labour organisations, particularly in relation to the rise of the role of the internet in labour market matching (Askitas and Zimmermann 2015). While the role of the web in labour matching was studied for the first time 15 years ago (Autor 2001), the importance of the internet has increased dramatically since then. The internet was originally used as a bulletin for the efficient advertisement of vacancies among job seekers (Mýtna-Kureková *et al.* 2015), but the actual role of the web now extends far beyond this (Lenaerts *et al.* 2016). One of the most interesting new

developments is the appearance of online outsourcing platforms, which have elevated the internet from its status as a mere bulletin board and incorporated it into the organization of work itself. To put it simply, an Uber driver or Upwork web designer are not even likely to know where the organization they work for is physically located. What is important for them is the virtual platform, which assigns work and manages the payment of earnings.

Yet our understanding of these platforms is still in its infancy. In June 2016, the EC published the long-awaited Communication on the European Agenda for the Collaborative Economy (European Commission 2016), which is a term commonly used to refer to the role of online platforms in facilitating temporary access to goods and services, including labour outsourcing. The supporting document included a rather vague definition of the collaborative economy as 'business models where activities are facilitated by online platforms that create an open marketplace for the temporary use of goods or services often provided by private individuals'. Such a broad

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definition gives us very little to work with in terms of understanding the impact of this new economy on society. Furthermore, the Communication notes there is not yet any consensus regarding even the terminology. The collaborative economy is also sometimes referred to as the 'sharing economy', the 'peer to peer economy' or the 'on-demand economy'. Clearly, these are very loaded terms that have different implications.

Collaboration or interaction between peers represents something different from 'sharing' and these terms are evidently different again from the meaning associated with the concept of 'on-demand'. At the same time, the concept of 'collaboration' does not typically relate to a marketplace, where the use of goods and services is facilitated. However, major outsourcing platforms in fact constitute standard market transactions that would be better described as 'renting' rather than 'sharing'.¹ We therefore propose the term 'platform economy', as the underlying phenomenon is the use of online platforms, which decreases the transaction costs of labour outsourcing and temporary access to goods and services

The outsourcing platforms provide a matching service, linking the demand for labour with its supply. They thus allow for access to labour to be organised through the market even in contexts where the use of a matching service is too costly or where market failures require a reliance on institutions such as the employment relationship. There are three important aspects to this phenomenon. First, platforms provide an algorithm that allows for an effective matching of labour providers and users. Second, technology brings down transaction costs to the extent that platforms can also facilitate micro-transactions. Third, platforms provide services to reduce or manage risks involved in market transactions, hence addressing such market failures as incomplete information about the labour provider or the risks of cheating. These services include reputation and monitoring systems as well as standard insurance mechanisms and legal services against fraud.

The abstract notions of collaboration and sharing are thus misleading characteristics of this new economy. Its principle value lies in the potential for firms and individuals to more easily access workers, goods and services exactly when they are needed and at low transaction costs. As a result of this lowering of entry barriers, the platform economy can expand to previously informal/non-market spheres, for example by making pet-sitting a paid job (De Groen *et al.* 2016).

The variety of online platforms

To fully appreciate the variety of services that fall under the concept of online platforms, as well as their impact, we must also consider the variety of platforms. The first distinction is between platforms that facilitate access to goods or property and those that enable access to self-employed workers or services. At one end of the spectrum, there are virtual marketplaces such as eBay and property rental websites like Airbnb. At the other end, there are platforms such as TaskRabbit and TakeLessons that match labour providers with users. However, there is no clear cut line between the two types, and

some physical goods platforms may have important labour market consequences. Consider the example of Airbnb, a major platform allowing users to rent out their private residences (as a whole or even just a single room in an inhabited house); at first sight, such a platform has very little relevance to the labour market. However, Airbnb itself admitted² that in fact many of its users do not use the platform to supplement their income by occasionally renting out their house, but rather by renting out a number of uninhabited housing units as a sort of mini-hotel. Such an arrangement requires various forms of labour: cleaning, accountancy and maintenance, which can be provided by the owner himself but in practice is often outsourced to another person, who could then in turn be someone doing the work themselves or be an intermediary.

The second distinction is between platforms that organize local labour markets or goods exchanges and those that organize or create markets on trans-local and/or global scales. Indeed, while companies like Airbnb and Uber are international corporations, these platforms in fact reorganize local (labour) markets. In contrast, platforms like CoContest facilitate the connection between demand in one location and remote suppliers that are possibly based abroad. A special case are the 'pure' web platforms, such as Amazon Mechanical Turk, Task Rabbit or Upwork, which have no offline component and the work – for example, data entry, programming and website design – is done exclusively online.

Finally, it is useful to differentiate between platforms that facilitate access to low-to-medium-skilled work (such as data entry or taxi driving) and those that are focused on high-skilled activities (such as interior design). Table 1 presents a structure of online platforms divided according to skill level and the 'local vs. virtual' nature of the work.

Table 1 Structure of work platforms

	Low/ medium-skilled	High-skilled
Virtual/ global services	E.g. MTurk	E.g. UpWork, 99Design, CoContest
Physical/ local services	E.g. ListMinut, TaskRabbit, Uber	E.g. TakeLessons

Source: De Groen *et al.* 2016.

How widespread is the platform economy?

The growing importance of the platform economy is apparent. The taxi service Uber has grown from a local company to a global corporation with a market valuation of over \$60 billion in just five years, making it the fastest growing start-up in history (Steinmetz, 2016). The popularity of platforms has not been limited to equity investors. Traditional companies have also invested in platforms that may undermine their business models. For instance, FedEx

1 See also <http://olivierblanchard.net/stop-calling-it-the-sharing-economy-that-isnt-what-it-is/>

2 <http://www.bloomberg.com/news/articles/2016-02-25/airbnb-says-it-removed-1-500-listings-in-new-york-before-data-release>

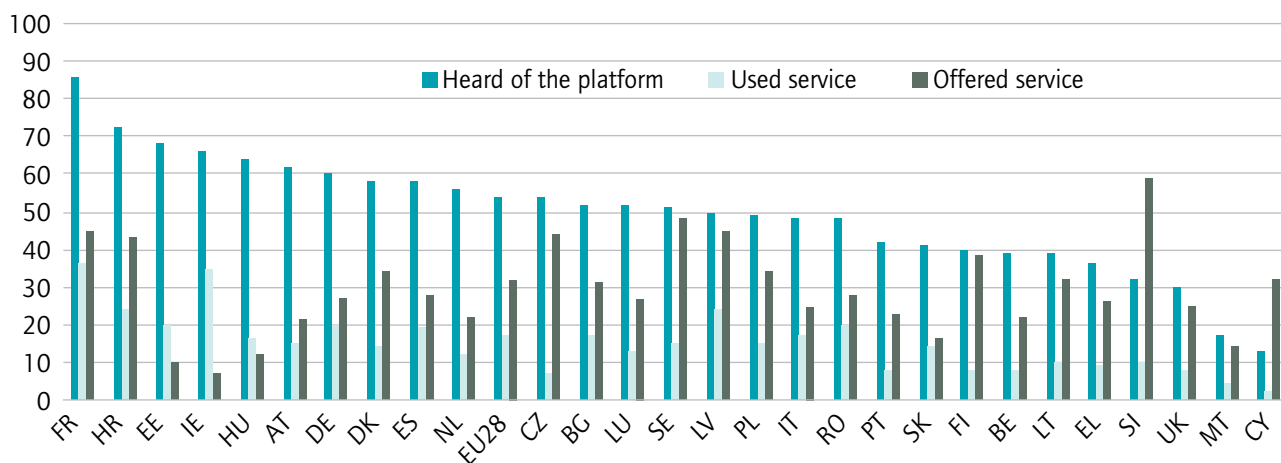
has acquired DoorDash and car2go is now owned by Daimler. Such an influx of capital has fuelled the fast growth of the platform economy. A widely cited PricewaterhouseCoopers report (PwC 2015) foresees a revenue growth in the key sectors of the sharing economy from \$15 billion today to \$335 billion in 2035. It goes without saying that a prediction looking so far into the future is of limited use; furthermore, the sharing economy does not only consist of internet platforms, and not all internet platforms constitute the sharing economy. Nevertheless, the idea that it is a very fast-growing field is widely shared. The estimates by the EC on the size of the 'collaborative economy' are broadly in line with this perspective; the revenue of these platforms in Europe is estimated to be a sum of about \$17 billion, and 17% of EU citizens have used services offered through these platforms at least once (European Commission 2016a; European Commission 2016b).

There are, however, large differences between countries. According to a special Eurobarometer survey devoted to the subject, knowledge of these platforms is most widespread in France, Croatia and Estonia,

while remaining very low in Cyprus, Malta and the United Kingdom. Interestingly, there tend to be more workers than users on platforms, suggesting that the customers are quite often companies rather than individuals. In general, the platforms appeal to younger, more educated and urban demographics (European Commission 2016b) These figures are comparable to those obtained by a PEW poll in the United States, suggesting that the platforms are used to a similar extent and in a similar fashion on both sides of the Atlantic (Smith 2016).

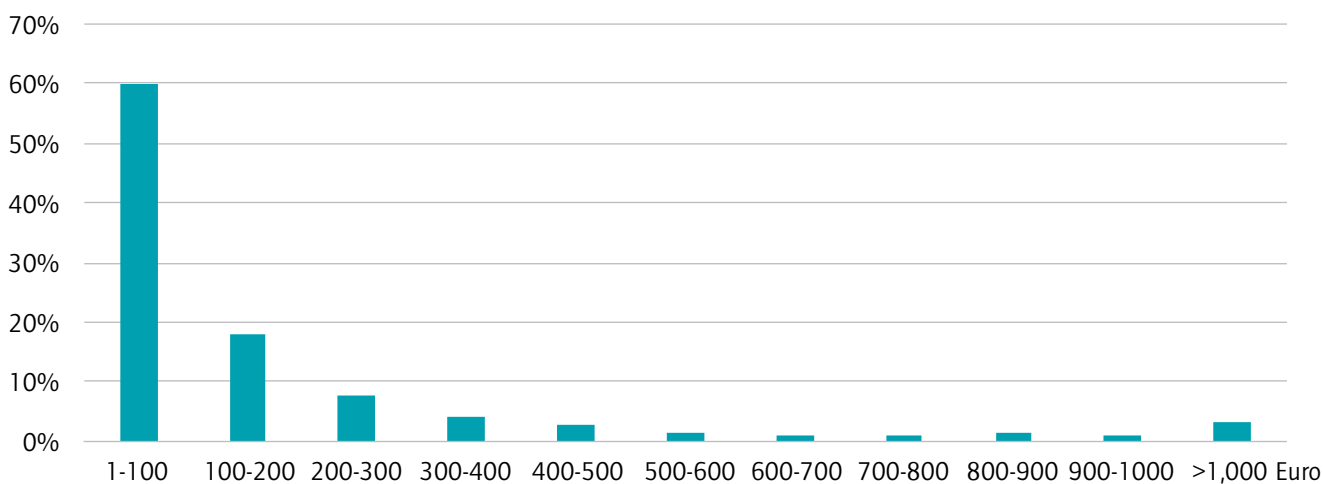
Nevertheless, serious questions remain regarding the consistency and frequency of the work. Empirical evidence suggests that engagement on the platforms is often a one-off thing for prospective workers, who register on the app, might take a job or two, and then leave forever (see example of the ListMinut platform in Figure 2). Perhaps these workers try their luck on some other platforms, but many may quit altogether. According to the Eurobarometer survey, only 15% of workers on the platforms offer services regularly, while 28% offered their services only once (European Commission 2016b).

Figure 1 Knowledge and use of online platforms.



Source: European Commission 2016b.

Figure 2 Distribution of earnings on the ListMinut platform



Source: own data presented in De Groen *et al.* 2016.

Based on the findings of another survey conducted by Joyce and Huws in Germany, the Netherlands, Sweden and the UK³, about 12% of adults aged 16-70 reported having worked on crowdsourcing platforms, which are a subcategory of platforms that typically outsource routine, well-defined tasks to online workers. This kind of work, which constitutes about half of the number of platform workers identified by the Eurobarometer, is perhaps most likely to be a one-off occurrence for workers. A large majority of workers reported low frequency of work (monthly and yearly as opposed to weekly). Furthermore, according to the survey, the platforms appear to be used in particular by low income workers as an additional source of income, rather than as the sole source of income for workers. Ipeirotis (2010), however, shows that this might not apply in less developed countries.

The impact of platforms on the labour market

This variety of platforms implies an equally varied range of effects on the labour market. The distinctions between the types of platforms reviewed above are useful for understanding the different types of impact. First, platforms can allow for the re-organisation of activities that traditionally relied on the employment relationship into activities of self-employment. This, perhaps, is the most radically transformative impact and deserves attention from policy makers. So far, however, the successful platforms have rather reorganized sectors that had already relied on some forms of self-employment. Uber is the major example, with another being the Italian platform for interior designers, CoContest (see Maselli and Fabo 2015).

Second, platforms may facilitate the remote provision of services, thus potentially leading to the offshoring of work from local labour markets. Examples of such effects include MTurk, which matches workers from around the world, or Cocontest, which matches (among others) Serbian designers with clients in Italy (Ipeirotis 2010; Maselli and Fabo 2015; Berg 2016). Interestingly, PwC (2015) identifies local services such as transportation, eating out, hospitality provision, and art/entertainment among the domains in which the sharing economy is likely to grow, suggesting that the effect of offshoring might not be crucial, at least in the short run.

Figure 3 plots some of the major platforms in relation to the two key types that broadly correspond to the offshoring/outsourcing distinction. There are platforms which focus on reorganizing the matching of activities that are already organized on a self-employment basis, while remaining local (most notably Uber); there are those which actually offshore work that would be traditionally done in a local labour market (LM) by workers in employment relationships, to self-employed workers in low-cost locations (Upwork). It is notable that the upper left quadrant remains empty, as the successful platforms do not seem, as of yet, to reorganize local LM from traditional employment relationships to self-employment.



Source: authors' own elaboration.

Third, platforms increase competition by lowering barriers to entry even if they only reorganize self-employment, leading to greater pressure on pay and working conditions. Such is the case with Uber, which puts professional drivers in competition with students or people on parental leave seeking an occasional top-up of their income. These lowered entry barriers also contribute to the blurring of physical boundaries between work and home environments, creating health and safety risks to workers (OSHA 2015).

Fourth, the reputation mechanisms used by platforms further contribute to the marketization of the world of work. The 'begging and bragging' rituals associated with modern academia, freelance journalism or art creation are a prominent feature of working on these online job platforms (Boyce *et al.* 2007; Huws 2014)

Finally, platforms may facilitate an increased breakdown of working activities into individual tasks, which are then differentiated between the ones that require the creative and highly skilled work of 'heads' and those that can be left to 'hands'. While the former kind of skilled work entails a very high standard of employment in terms of pay and other perks, the latter kind of low-skilled work is constantly threatened by offshoring and automatization (Huws *et al.* 2009). This can take a very extreme form on some online platforms, particularly Amazon Mechanical Turk, where users commonly perform tasks such as identifying objects on a picture for as low as 1 cent.

Platforms thus may contribute to work becoming increasingly precarious. Indeed, there is much about this new economy that is strikingly familiar to researchers of precarious employment. For instance, the common use of euphemisms such as 'partners' (Uber) when referring to workers is a standard sign of the practice long known as 'bogus self-employment' (Jorens and Van Buynder 2008). Workers are expected to constantly present themselves as 'valuable goods' to a wide range of customers and offer themselves for

3 Simon Joyce & Ursula Huws, 'Results of a survey of crowd work in four EU countries', presentation at the workshop on Dynamics of Virtual Work, Brussels, 8 June 2016.

individual jobs, in order to be picked by a customer like a product from a catalogue, while remaining stuck in the trap of precarious, stigmatized, dead-end employment (Boyce *et al.* 2007; Huws 2014).

The fast rise in the importance of these platforms may also potentially lead to an increased setting of employment standards on the basis of platform economy practices (De Groen and Maselli 2016). An even more radical vision was presented by Sundararajan (2016), who sees employment relationships, as well as the platforms themselves, replaced in the future by virtual peer-to-peer interactions, unsettling the rigidities of the currently existing forms of capitalism.

Regulating the platforms

The impact of the rise of online platforms will depend on the reaction from policy makers. Experience of incipient regulatory responses has clearly demonstrated that platforms, particularly those operating in the local labour markets, are not beyond the reach of existing regulatory frameworks.

The key aspect of the debate concerns the nature of platform work, specifically whether it constitutes employment or not. Here, the EU law guaranteeing rights to workers defines the employment relationship with reference to three criteria: the subordinate relationship, the nature of the work and the remuneration provided. The EC Communication specifies that many of the common arguments made by the platforms, such as that workers are not constantly monitored and that the work does not take place continuously, are not sufficient in order to avoid classification of platform work as a working relationship (European Commission 2016a).

However, given the precarious position of platform workers, policy makers should consider additional measures to address the risks related to platform-mediated work. First, it can be argued that platform workers represent a category of workers in need of special protection, similar to the regulatory provisions for part-time, fixed-term, and agency work. This kind of protection could address also specific issues such as the right to temporarily deactivate an account without a negative impact on the worker's rating or unfair termination or deactivation of their account by the platform.

Second, policy makers should consider the extension of collective agreements to wider categories of worker than 'employee', with a view to including platform workers. Third, workers who do not qualify as employees should be protected through regulations on self-employment. Technology offered by platforms could in fact make such regulation more effective, as it allows for the efficient monitoring of micro-transactions as well as for their incorporation into insurance systems. Monitoring through platforms could also help to enforce health and safety regulation.

On the other hand, De Groen *et al.* (2016) show that for truly occasional work, specific employment statuses already exist in many European countries, which are typically limited by a maximum allowed income, special registration or other conditions. In the case of occasional workers, then, the law does often have a role to play, but it works to ensure that the employment relationship is not overtly regulated, in light of the casual nature of the work.

The increased politicization of this issue opens up a window of opportunity for relevant actors – including trade unions, representatives of traditional and new industries and, naturally, political authorities – to design and define the rules of the game. This process will necessarily entail thinking about the barriers between the market and society, between profit and welfare and between commercialising and encouraging the sharing of public space. As a result, the debate on online platforms may very well drive the much broader normative debate about the type of society we want to live in.

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The editor responsible for this issue is Philippe Pochet, ppochet@etui.org

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