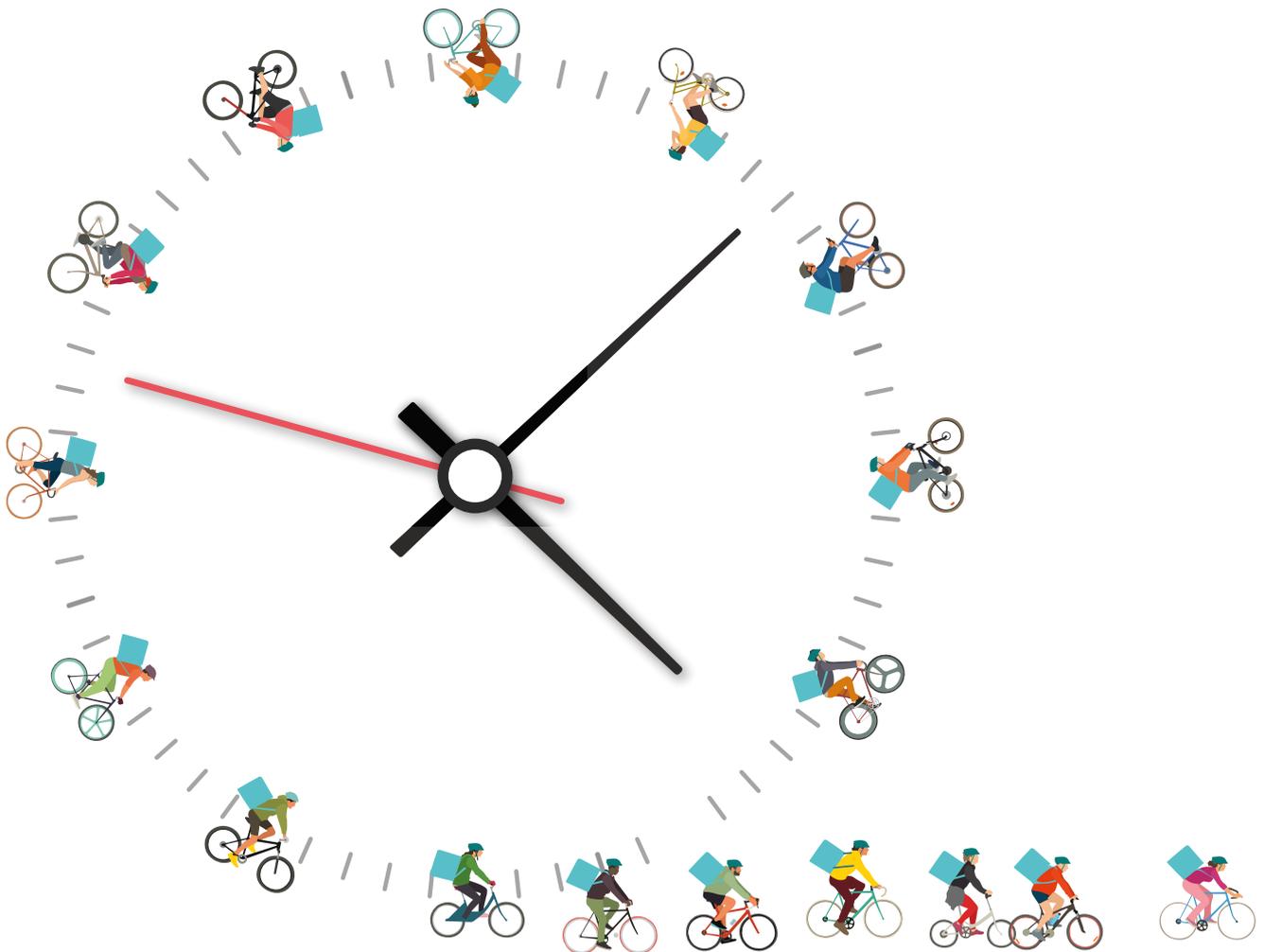


Is the rise of gig work, freelancing, zero hours contracts and self-employment a result of people wanting such work or because they have no other choice? **Nikhil Datta** finds that while workers in the gig economy may like flexibility, they would prefer to have a steady job. Indeed, they would agree to earn less to improve their employment security.

The gig economy and workers' preferences for steady jobs



There has been a significant increase in the number of workers engaged in 'atypical' work arrangements across the UK and the United States. In the UK, the proportion of workers who are solo self-employed (encompassing freelancers, contractors, gig workers and one-person business owners) has doubled since the 1980s (see Figure 1). The number of workers on zero hours contracts has increased from 200,000 to almost a million since the turn of the millennium.

Evidence from Katz and Krueger (2019) shows that the United States has experienced similar, though more modest, trends with the proportion of workers engaged in atypical work arrangements increasing by approximately 10-20% over the period 2005-2015.

What does this mean for workers?

The implications of the changing nature of work have been hotly debated, especially at a policy level. In the UK, it has given rise to the government's independent review of modern working practices: the Taylor Review (Taylor et al, 2017).

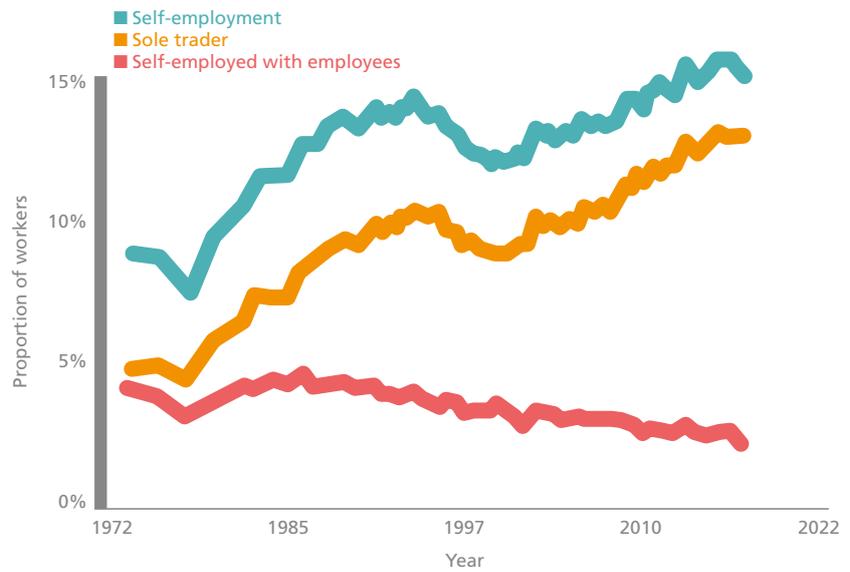
Evidence from the UK's national statistics suggests that the self-employed have lower weekly income than regular employees. What's more, the already lower hourly wages of workers on zero hours contracts fell by more than normal employees' wages during the Great Recession of 2008-2009 (see Figure 2).

US evidence from Katz and Krueger (2016) finds that even after taking account of workers' personal characteristics and occupations, those in atypical work arrangements have lower weekly earnings. In addition, atypical workers are not usually afforded certain non-pecuniary benefits such as job security, and holiday pay and sick pay (which in the UK are mandatory for all employees).

At the same time, such work arrangements are likely to offer other benefits, such as work and location flexibility, autonomy and the opportunity to offset expenses in one's income tax bill. This suggests two possible mechanisms may be responsible, each having different implications for workers' welfare:

- The first is a demand-side explanation, where labour demand for traditional employees is weak, thus pushing workers

Figure 1: Self-employment in the UK



Source: Labour Force Survey.

Most people prefer job characteristics associated with traditional employer-employee relationships

Figure 2: UK hourly wages for all employees and those on zero hours contracts, 2002-2018



Source: Labour Force Survey.

into more precarious working conditions with lower wages.

■ The second is a supply-side explanation, where workers are choosing to trade in pay and security for more flexible and autonomous working arrangements, with a favourable tax structure.

Two recent studies have looked at demand-side effects. Katz and Krueger (2017) find that in the United States, workers who experience unemployment spells are more likely to be involved in a form of atypical work, while my work with two CEP colleagues (Datta et al, 2019) highlights the role of labour market regulation in the use of atypical contracts. Our study analyses effects of the introduction of the UK National Living Wage (which represented a 7.5% rise in the wage floor), and finds that both care homes and domiciliary care agencies responded by increasing their use of zero hours contracts.

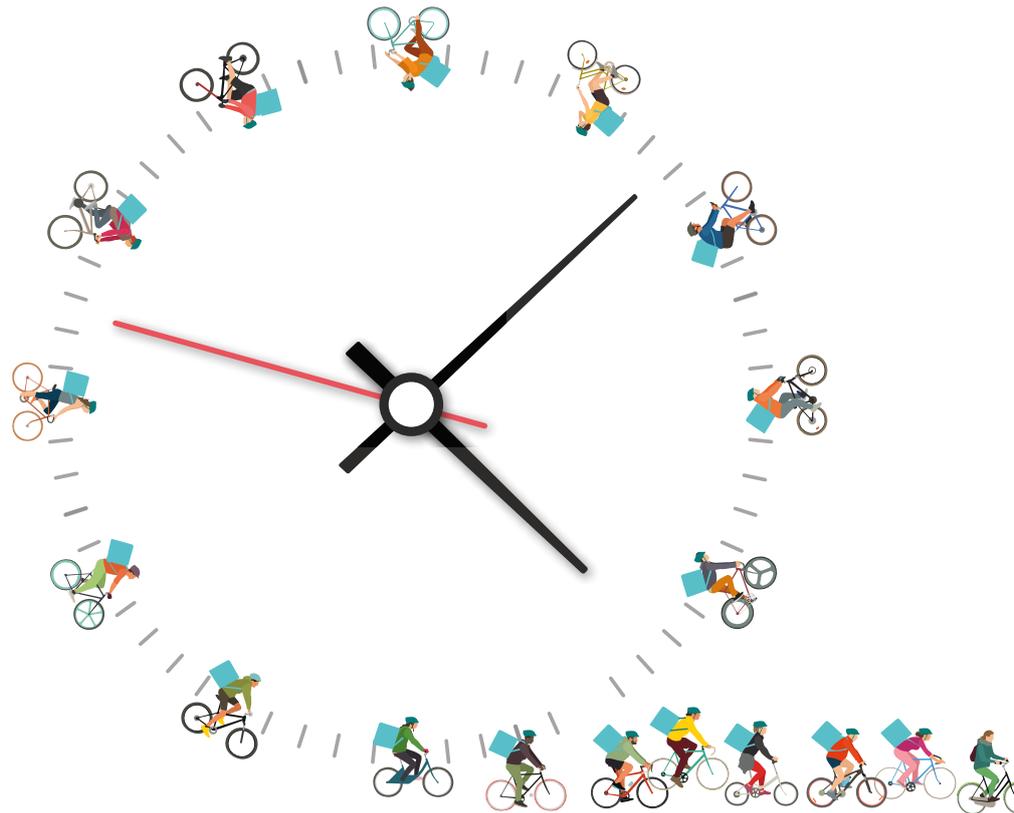
A few studies have looked at workers' preferences for certain job characteristics and fringe benefits. Mas and Pallais (2017), for example, estimate how much job applicants would be willing to give up in terms of pay for a more flexible job. They find that flexibility in working hours is not particularly valued by the majority of workers, although there is a small proportion of workers who are willing to pay highly for flexibility. That research does, however, find a strong aversion to jobs where employers have scheduling discretion.

In a recent study (Datta, 2019) I go further and attempt to elicit the full distribution of valuations for a complete set of job characteristics, which are arguably the most important distinguishing factors for traditional and atypical work arrangements. These characteristics include job security, in-work benefits of holiday pay and sick pay, hours and location flexibility, workplace autonomy and taxation implications. I do this for both UK and US respondents, thus allowing a cross-country comparison while taking careful account of institutional differences.

The experiment

Eliciting labour supply preferences is challenging. Data on people's realised choices have a number of shortcomings, including incomplete information on job descriptions and the available alternatives.

To overcome this, I use the trade-off



between typical and atypical job attributes in an experimental research design where respondents in a representative survey are offered fictitious job choices, and where jobs are described by a wage and a series of attributes.

Furthermore, respondents were explicitly informed that the jobs were identical except for those characteristics highlighted in the description. This part of the question was key to ensure that the analysis reveals causality. In total, approximately 4,000 people were surveyed: 2,000 in the UK and 2,000 in the United States.

What workers want

My results suggest that on average, workers in both the UK and the United States far prefer job characteristics associated with traditional employer-employee relationships. Workers are willing to give up approximately 50% of their hourly wage for a permanent contract and around 35% of their hourly wage for a one-year contract, in comparison with a one-month contract.

There are important institutional differences between the UK and the United States when it comes to permanent contracts. In the United States, only around 34% of employment relationships

Workers are willing to give up roughly half of their hourly wage for a permanent contract

are afforded some type of 'just cause' protection in their contracts, whereas in the UK, permanent contracts by law offer benefits, including mandatory notice periods, redundancy pay rights and unfair dismissal protection. Despite this fact, the valuations of a permanent contract are similar between the two countries: 55.4% of an hourly wage in the UK; and 44.1% in the United States.

After contract length, holiday pay and sick pay (described as 28 days of paid annual leave and 16 weeks of paid occupational sick leave) are the most valued job characteristics, with UK workers willing to give up approximately 35% of their hourly wage for holiday pay and sick pay.

In the United States, the figure is marginally lower at 27%. This is surprising

UK-style labour market policies seem to be appealing to the majority of US workers

This article summarises 'Willing to Pay for Security: A Discrete Choice Experiment to Analyse Labour Supply Preferences' by Nikhil Datta, CEP Discussion Paper No. 1632 (<http://cep.lse.ac.uk/pubs/download/dp1632.pdf>).

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Contract length, holiday pay and sick pay are the most valued job characteristics



given that employees there currently face no federal legislation on either: 23% receive no voluntary paid leave, and the average US employee only receives 14 paid days of holiday per year. These results suggest that the majority of US workers may have a strong preference for UK-style labour market policies.

Workers do value some characteristics associated with atypical work arrangements, although on average far less than security. I find that workers are willing to give up on average 24% of their hourly wage for location flexibility, 14% for hours flexibility and 11% for workplace autonomy (the ability to choose the tasks they perform).

Surprisingly, neither UK nor US respondents are willing to give up any wages to be able to declare taxes as self-employed. Indeed, in the UK, respondents actually want to be paid for taking on this job characteristic. This finding even holds just for those who are self-employed and who would therefore have better knowledge of the value of the attribute. This suggests that declaring taxes as a self-employed person is seen as potentially costly in terms of time or overly burdensome.

Heterogeneity analysis reveals that, on average, respondents in atypical work have a comparatively greater valuation for atypical job attributes, which suggests that

people sort into types of work based on their preferences. Despite this fact, atypical workers still value job security more than any other attribute. Distributional analysis suggests that in the UK, over half of self-employed people would prefer to be in a traditional, permanent '9-to-5' work arrangement.

Conclusion

My results suggest that the majority of workers prefer characteristics associated with traditional employee-employer relationships, and this even holds for the sub-sample of those in atypical work arrangements. Rather than suggesting that labour supply preferences have contributed to the rise in atypical worker arrangements, I find that the changing nature of work is likely to have significant negative welfare implications for many workers.

In the UK, these results give credence to certain policy recommendations outlined in the Taylor Review (Taylor et al, 2017), in particular, those aimed at securing workers in precarious employment relationships with rights closer to those of employees. But it is vital that further analysis be done on the demand side to explore how firms may respond to such policies.

Further reading

Nikhil Datta, Giulia Giupponi and Stephen Machin (2019) 'Zero Hours Contracts and Labour Market Policy', *Economic Policy* (<https://academic.oup.com/economicpolicy/advance-article-abstract/doi/10.1093/epolic/eiz008/5524663>).

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Alexandre Mas and Amanda Pallais (2017) 'Valuing Alternative Work Arrangements', *American Economic Review* 107: 3722-59.

Matthew Taylor, Greg Marsh, Diane Nicol and Paul Broadbent (2017) *Good Work: The Taylor Review of Modern Working Practices*, UK Department for Business, Energy & Industrial Strategy.