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Regulating Access to Work in the Gig Labor Market: The Case of Uber

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Count us among those who believe that today's workers' compensation programs have the potential to serve for another 100 years, but they will require significant improvement. We call upon legislative bodies to address current shortcomings, and we call upon the research community to provide appropriate guidance for these efforts.

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Regulating Access to Work in the Gig Labor Market

The Case of Uber

Morris M. Kleiner

U.S. labor markets traditionally have included long-term employment relationships that last many years or decades. They also have been characterized by internal labor markets, unions, and a web of rules that, often by law, both employers and workers are required to observe. New innovations and technologies, such as smart phones and their accompanying apps, have allowed labor markets to become more fluid and responsive to spot market supply and demand conditions. They have allowed workers more flexibility in their choice of hours worked, and have allowed consumers to better evaluate the quality of services. As a result, gig labor markets, which let workers easily book jobs by the hour or project, have grown and flourished. The number of workers directly working through apps now comprise nearly 1 percent of the total workforce, making gig labor markets one of the fastest growing areas in the labor force (Katz and Krueger 2016; Torpey and Hogan 2016).

Workers who have entered the gig labor market have few of the government regulations or web of rules that govern traditional labor markets. In addition, labor laws such as the Fair Labor Standards Act and the National Labor Relations Act usually do not apply to these workers (Harris and Krueger 2015). Yet one area of labor market regulation, occupational licensing, is pervasive, and in this article, I examine the interaction of this institution in one large company that operates largely in the gig economy.

The Uber Innovation

The ride-sharing firm Uber has come to exemplify the recent technology "revolution" and labor market outcomes embodied in the gig economy. It had 84–87 percent of the total ride-sharing trips (i.e., cab-substitute markets) in 2016 and is currently active in 450 cities in the United States and worldwide.[1] Uber began offering its first rides in 2010 in San Francisco and in New York City in 2011 as a way to match individuals who needed rides to work or recreation with those individuals who were willing to provide those rides for a price. The creation of an app and accompanying software allowed this matching process to be done in an efficient and profitable manner for the company (Roth and Ockenfels 2002). Uber takes a percentage of the ride price for the company as their fee for matching the drivers and riders. The drivers anticipate an ample supply of customers, and the waiting times for drivers in traditional cabs were reduced and revenues enhanced for those

ARTICLE HIGHLIGHTS

- *The number of workers directly working through apps now comprise nearly 1 percent of the total workforce, making gig labor markets one of the fastest growing areas in the labor force.*
- *Evidence from a quasi-experiment in New York and New Jersey suggests that there are few gains from occupational licensing of ride-sharing providers as assessed through customer satisfaction or measures of customer safety.*

providing rides. Drivers can choose when and how many hours they want to work. In 2017 the company had more than 734,000 active drivers in the United States and more than 1,500,000 drivers worldwide.[2] The economic value of the company is estimated to be almost $70 billion, and despite recent negative publicity, it is still one of the major economic success stories and labor market innovators (Bensinger 2017).

One unique aspect of the Uber performance evaluation system is that the customer evaluates the driver and vice-versa on a scale of one to five, with five being the highest. The majority—nearly 86 percent—of drivers earn a rating of 5. Drivers and customers whose ratings fall below a specified value determined by the company lose their ability to access the app and are effectively fired from using the ride-sharing system. Consequently, there are incentives for both customers and drivers to do well in their respective roles.

Regulations for Driving

One of the major labor market issues affecting Uber drivers is occupational licensing (Porter 2015). About one-quarter of the U.S. workforce must acquire a license from the government in order to work for pay (Bureau of Labor Statistics 2016). In some cities—New York, for example—ride-sharing without a taxi license is illegal. The requirements for licensure in New York City are stringent, and the licensure process takes three months on average, with upfront costs of at least $2,000. In addition, the driver must complete a defensive driving course, pass a medical exam, be subjected to a drug test, undergo fingerprint and background checks, take classes on wheelchair-accessible vehicle training, acquire a commercial vehicle license, and purchase commercial vehicle insurance. These substantial fixed costs result in fewer drivers but much lower turnover rates for Uber drivers in New York than in any other U.S. city where the company operates; they also result in longer working hours (Hall et al. 2017). Figure 1 shows driver turnover by city. New York City has lower turnover, and Houston, which has few regulations for drivers, has relatively high turnover of drivers.

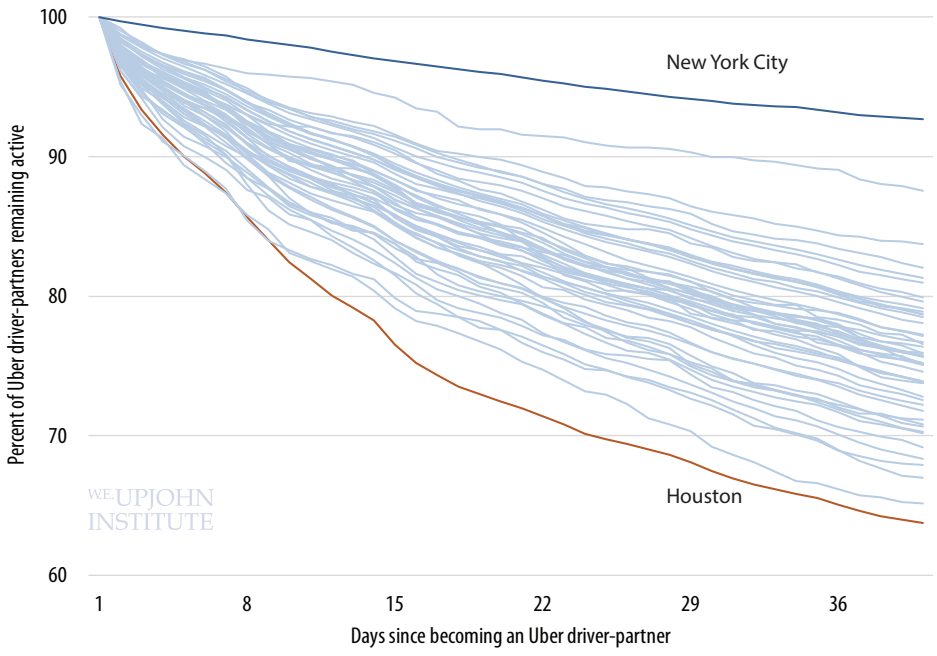
Figure 2 shows that the ratio of New York Uber drivers to the population of the city or the metropolitan statistical area is considerably lower than either Chicago or San Francisco, and the base prices are higher (Hall et al. 2017). Although traditional medallion taxi drivers can serve as substitutes for Uber drivers in any city, the number of Uber drivers in New York is considerably lower than in Chicago or San Francisco. Also, the base Uber fares in Chicago and San Francisco are lower than those in New York City for both 2015 and 2016.

Evaluating Quality

One of the least studied areas of occupational licensing is its influence on the quality of services (Kleiner and Kudrle 2000). However, a recent analysis in the New York City/New Jersey area notes that drivers who sign up to drive on the Uber app can perform pickups in New Jersey, which is directly on the opposite side of the Hudson River from New York City, but drivers who sign-up in New Jersey, which does not require an occupational license, cannot perform pickups in the city (Hall et al. 2017). Thus, the study compares quality and safety outcomes for rides performed in New Jersey by New York City and New Jersey drivers.

There is quasi-random assignment of rides because Uber's dispatch algorithm, which determines the driver for a particular ride request, is based on factors other than licensing. While the algorithm has evolved over time, it is mainly based on a driver's proximity to a rider's location (also based on time to the customer). Consequently, a ride is essentially randomly assigned to a licensed driver from New York City or an unlicensed driver from New Jersey for pick-up requests that occur in many

Figure 1 Percent of Uber Driver-Partners Remaining Active, by City



SOURCE: Uber Technologies, Inc.

parts of New Jersey. The results of the data analysis using the quasi-random assignment of rides methodology show very little statistically significant differences in measured quality by riders through measures of rider satisfaction. Also, there was little or no difference in the safety of rides based on the number of driver hard stops, rapid accelerations, or complaints to the company of poor ride performance, based on whether the driver was from a jurisdiction that required a license in order to work.

Implications for Policy

Two of the most rapidly growing segments of the labor market are the growth of the gig economy and occupational regulations in the labor market through licensing by government. Uber is faced with both issues because of its business model. As current findings suggest, cities that impose rigorous licensing standards, such as New York, have fewer Uber drivers per capita and higher base fares than either Chicago or San Francisco. The evidence from a quasi-experiment in New York and New Jersey suggests that there are few gains from occupational licensing of ride-sharing providers as assessed through customer satisfaction or measures of customer safety. Before state or local government enact additional regulations, access to the labor market and its influence on customer prices, satisfaction, and safety need to be considered as key elements of governmental labor market licensing policies.

NOTES

1. DMR Statsitics http://expandedramblings.com/index.php/uber-statistics/ (accessed July 7, 2017).

2. Data provided from company sources, June 8, 2017.

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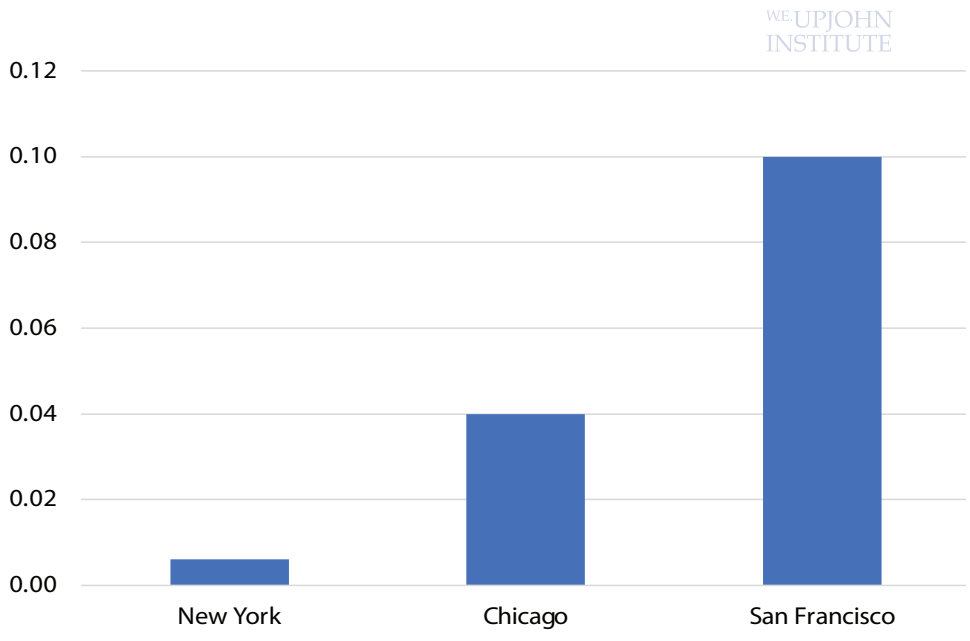
Figure 2 Number of Uber Drivers per Capita in the Selected City, 2016



SOURCE: Uber Technologies, Inc., and U.S. Census Bureau, American FactFinder: http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml (accessed July 20, 2017).

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