The Gig Economy is Dead – Long Live the Sharing Economy!

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In March of 2021, the UK Supreme Court unanimously rejected Uber's appeal after countless hearings and statements, ruling that Uber drivers working in the UK are definitely "workers" and entitled to a minimum wage, holiday pay and cannot be fired or harmed if they complain against the Ride-hailing giant. This is a serious and significant decision, not only for Uber drivers, but for anyone involved in the sharing economy.

The term "Sharing Economy" is increasingly used in recent years, mainly with reference to platforms and marketplaces that derive most of their value from the various users and communities that utilize them. In its digital form, it is a relatively new phenomenon that has already altered significant industries (including mobility, tourism and commerce, to name only a few) and introduced numerous tech giants and unicorns including Uber, Lyft, Facebook, Airbnb, LinkedIn and YouTube. Its competitive advantage is mostly derived by the ability to use the crowds' existing and underutilized assets and capabilities (instead of utilizing its own) and the flexibility that today's connectivity allows. As such, until today, users that created value and supplied services on a given platform weren't considered "employees" as they weren't actually interlinked or committed to the platform (hence the term "gig-workers"). On the other hand, they were value creators for the platform, were the main source of income (platform gains are a function of user value creation) and thus played a significant role (and cannot be so simply considered as by-standing "freelancers").

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Will sharing economy companies have to adapt their business models now that different courts have decided that their "workers" should be classified as employees and not as independent contractors or freelancers? As mentioned, the UK was the last to determine that Uber drivers are entitled to a minimum wage and other benefits, but the EU also considers expanding the rights of platforms' value producers. In the past year, courts in France, Spain, the Netherlands, and California have come to the same conclusion: workers in a sharing economy are not given enough independence to classify them as freelancers. It is tempting to see the UK Supreme Court decision against Uber as the end of a sustainable sharing economy.

It seems, according to the decision, that platforms will be forced to give their employees more control (a problematic decision as it may be difficult in such a way to provide an efficient and orderly service) or employment rights such as minimum wage and benefits, which will probably lead to higher prices. Employers will also have to pay more taxes. On the other hand, it is not at all clear that consumer demand for platform services will continue to increase if these do not continue to be a cheap alternative.

But it is not certain that this is where the story ends. When your business model proves to be illegal, do you change the model, or do you change the law? Uber and the rest of the platforms (not just ride-hailing, every for-profit peer-to-peer platform is in the same position…) are now aiming to change the law. If they succeed, they will change the future of employment in ways that affect us all.

On the one hand, UK courts have made a clear decision that Uber drivers are employees and must receive the benefits that come with that status. But this is not to say that all freelancers are now considered employees; the decision only applies to the case of companies that have significant control over their employees (as Uber imposes on its drivers). Still, this is an important legal milestone as the world increasingly adopts the freelance model and sharing economy. With the economic downturn that accompanied the COVID crisis there are increasingly more people who seek part-time jobs as freelancers but on the other hand need more employment protection than ever.

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On the other hand, instead of adapting their business models to the new legal situation, platforms may try to change the law to fit their business models. They have already been successful in California, where they have spent about $200 million to persuade voters to support Proposition 22, a proposal that allows platforms to continue and treat their value producers as freelancers with some upgraded benefits and protections. Countless lobbyists on their behalf are now pushing Proposition 22 as a national model in the U.S. At the same time, lobbyists are trying to close deals with unions that will provide some representation to service providers on platforms while maintaining their status as independent contractors (freelancers).

Platforms are trying a similar approach in Europe, so far without success. A few months ago, Uber released a letter of intent proposing to "work hand in hand" with EU policymakers to create "new industry standards". At the same time, Uber is making efforts to push the UK government to bring in new legislation that will redefine the status of temporary workers. While pushing for new legislation, platforms are seeking new ways to circumvent the new laws, either by adopting flexible interpretations (Uber, for example, initially claimed that the decision only affects a small group of drivers using the app in 2016) or by introducing strategies to circumvent labor laws (for instance, in Germany and Poland Uber sub-contracted drivers through an opaque system of transport intermediaries).

The situation is even worse in “graying” economies such as Singapore. Older workers have more medical needs. Unlike Israel, which is both young and has a high-level basic health insurance, in such countries freelancers and self-employed may not have the financial resources to obtain insurance or medical coverage if they are unable to work due to health reasons. This is a growing problem, and it seems that governments may now need to promote an insurance system or provide safety nets to make the new model sustainable.

Freelancers in the Labor Market

There is no doubt that the labor market needs updating and upgrading in the 21st century. The status of self-employed service providers, temporary workers and freelancers should be regulated so that, for example, they can benefit from flexible and all-encompassing pension funds, provident funds and other benefits, that are not restricted to any specific employer but are open to any employer or platform with which they decide to work. At the same time, the lack of flexibility and the inability to secure an employment horizon need urgent regulatory attention.

In contrast to these two approaches – on the one hand – the perception of value producers as employees, and on the other – viewing them simply as gig-workers or freelancers (according to those who refer to a “gig economy” that only has temporary workers, hired for temporary and short-term work) – there is also a newer approach, which does not necessarily see one side as a “winner” and the other as a “loser”. More and more companies are seeking more decentralized systems, sometimes using blockchain technology and backed by a socio-economic concept that allows the value producers to be more involved in management, development and decision-making – and get rewarded accordingly. For example, the Israeli ride-hailing startup Juno (which was sold to Gett for $200M) promised to distribute shares and / or profits to its drivers and in addition charged significantly lower fees than competitors, in an attempt to align drivers’ incentives with those of the platform.

The number of service providers and freelancers is expected to increase significantly in the upcoming years. What will employment look like in this situation? On the one hand, countless services are expected to be cheaper and more efficient. Flexibility will allow a significant portion of the middle class to enjoy comfort levels that are currently only available to affluent populations. But if at the same time we hurt government revenues from taxes and create sub-workers without rights, the sharing economy will not be sustainable. If companies use the “Uber-ian model” to compete only by curbing service-providers while eliminating their benefits, we will not be able to sustain it as a society in the long run.

On the other hand, we will probably not go back to the days when employers provided full employment security and automatic wage increases. Rapid changes and disruptions in employment trends are also expected in the coming years, in parallel to disruption that is expected by increased automation and technological adoption by companies that is bound to transform tasks, jobs and required skills.

So what will change? It seems that it may be possible to define employment contracts according to the degree to which there is dependence on a specific employer. The future of work may very well entail a number of degrees of employer-worker interdependence, and it seems that employers will also need to be responsible for human resource development, otherwise it will not be a sustainable model. Sustainable human resource development will necessarily include learning, skills acquisition, mobility at work and personal career development. Neither employees nor freelancers will join platforms if they will not see a future and opportunities to develop in one way or another.

There is more than just the Gig Economy

While most platforms indeed focus on shared utilization of assets (such as apartments, cars and various utilities) and capabilities (knowledge, skills etc.) to produce value, there are also non-profit schemes, social platforms and various for-profit marketplaces and platforms that utilize the overarching concepts behind the sharing economy but refrain from depending on one-time “Gig” workers and instead focus on communities, their members and their stable interactions.

This allows companies, organizations and municipalities to utilize the sharing economy to produce unique and sustainable value, simply by increasing efficiencies internally (within the various organizations and communities). By focusing on long-term interactions between platform members rather than on one-time “gig” service providers, platforms not only produce value and profit financially for themselves but also strengthen their user communities (by increasing efficiencies but also by strengthening the relationships among the various members and stakeholders).

Viewing those who provide most of the value to the platforms as “one-time users”, “Gig workers”, “freelancers” and “independent contractors” results in a short-sighted strategy that includes a degrading (not to say abusive) business. Eventually, it caused preventive regulation, legislation and rulings. In contrast, understanding that value creators are, in fact, a community that should be nurtured, cherished and compensated – is bound to promote loyalty, contribution and ultimately attract even more value creators to join. ■

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About

Dr. Yair Friedman is a veteran Strategic and Innovation Consultant. As co-founder of WEconomize, a one-stop-shop sharing economy hub, he helps leading start-ups, companies, NGOs and municipalities solve critical challenges using Behavioral Economics, Sharing Economy, Frugal Innovation and Tokenization. Prior to establishing WEconomize, he worked, co-founded and led numerous consulting companies and Private Equity / Investment bodies. Yair holds a doctorate in Strategic Decision Making and Innovation from the Recanati Graduate School of Business Administration. His research focuses on Behavioral Strategy.