

The Role of Independent Contractors in the US Economy



Coalition to Promote Independent Entrepreneurs
Cannon House Office Building, March 1, 2016

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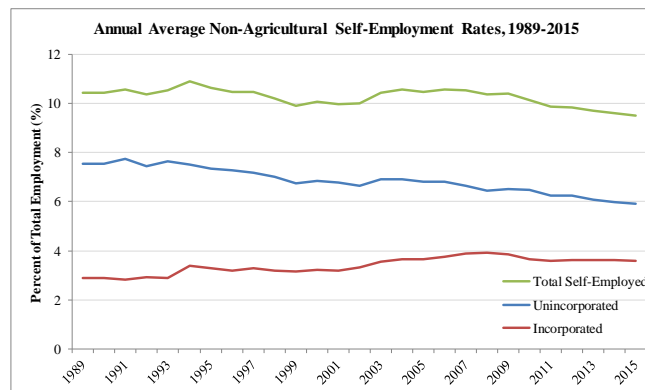
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- I. Overall prevalence of independent contracting
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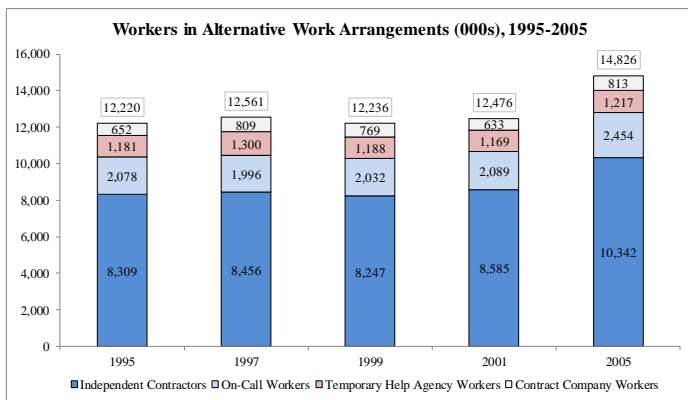
Self-employed workers



Source: Steven F. Hipple, "Self-employment in the United States," Bureau of Labor Statistics Monthly Labor Review (September 2010) 17-32 at 19-20 (available at <http://www.bls.gov/spw/mtr/2010/09/art2full.pdf>).

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Prevalence of independent contracting



Source: Bureau of Labor Statistics, Contingent and Alternative Employment Arrangements

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Economic reasons for independent contracting

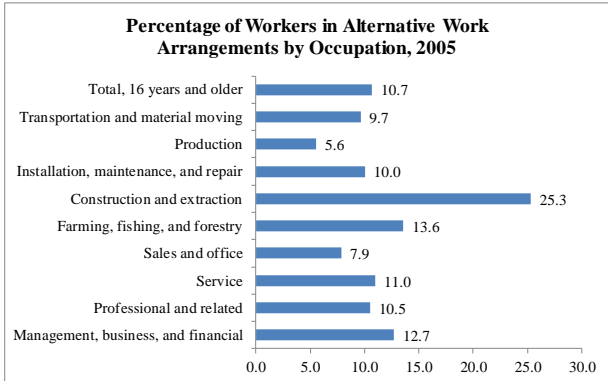


- **Project-Based Work:** Workers move frequently from project to project, or work multiple projects at once.
- **Fluctuating Demand:** Firms need to be able to respond to short-run changes in demand, or make up for gaps in supply, by calling on more workers than they could economically maintain as traditional employees.
- **Output-Based Compensation:** It is efficient to be able to evaluate performance, and hence base compensation, on output, as opposed to direct observations of time spent working.
- **Employee-Owned Capital:** There are efficiency benefits to having workers own their own capital (e.g., a truck or taxi).

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Alternative work arrangements by occupation



Source: Bureau of Labor Statistics, Contingent and Alternative Employment Arrangements (February 2005)

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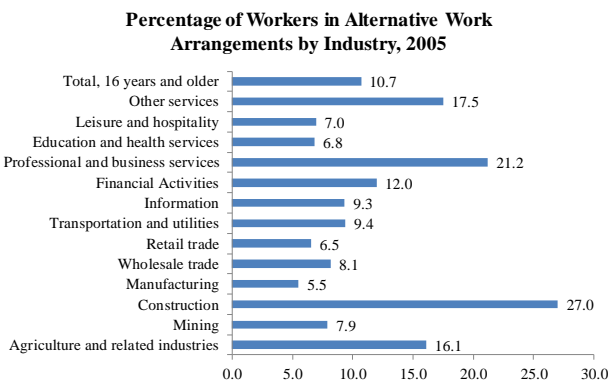
Economic benefits of independent contracting



- Satisfaction of workers' desires to "be their own boss."
- Workforce flexibility and labor market fluidity
- Avoidance of fixed costs
- Ability to "pay for performance"
- Avoidance of legal and economic barriers to efficient contracting

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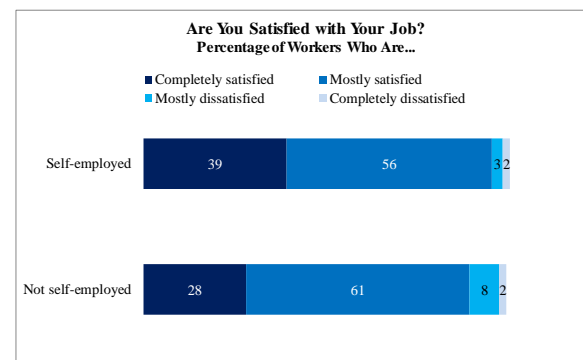
Alternative work arrangements by industry



Source: Bureau of Labor Statistics, Contingent and Alternative Employment Arrangements (February 2005)

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Self-employment & job satisfaction

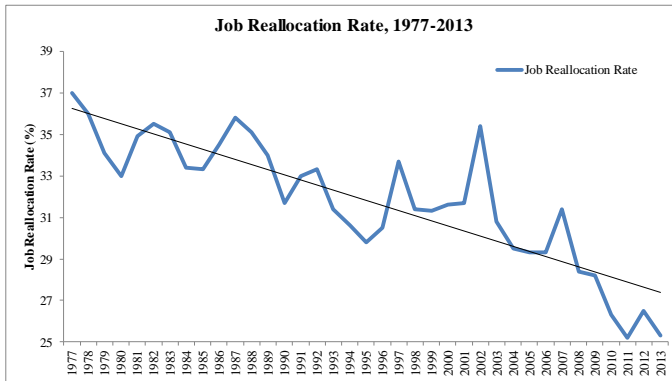


Source: "Take this Job and Love It," Pew Research Center (September 17, 2009) (available at <http://www.pewsocialtrends.org/2009/09/17/take-this-job-and-love-it/>).

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Labor market fluidity



Source: U.S. Census Bureau, Business Dynamic Statistics

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Insight in Economics™

Causes and consequences of falling labor market fluidity



- “The U.S. economy experienced large, broad-based declines in labor market fluidity in recent decades.... Fluidity declines are large for most groups, and they are enormous for younger and less educated workers....”
- “The loss of labor market fluidity suggests the U.S. economy became less dynamic and responsive in recent decades.”
- “Occupational labor supply restrictions, exceptions to the employment-at-will doctrine, the establishment of protected worker classes, and “job lock” associated with employer-provided health insurance are among the policy factors that suppress labor market fluidity....”
- “[R]educed fluidity lowers employment rates, especially for younger and less educated workers.”
- “[I]f our assessment is correct, the United States is unlikely to return to sustained high employment rates without restoring labor market fluidity.”

Source: Steven Davis and John Haltiwanger, “Labor Market Fluidity and Economic Performance,” National Bureau of Economic Research (September 2014) (available at <http://www.nber.org/papers/w20479.pdf>).

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