

Expert Opinion

The Private and Social Value of Flexible Work in Ride-Hailing Platforms

Executive Summary



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The European Commission seems to be concerned about the potential risk of misclassification of platform workers. It thus intends to publish in early December a legislative proposal setting up a “rebuttable presumption of employment” for platform workers, including drivers providing services via ride-hailing platforms.

We have been instructed by Move EU, the association of leading ride-hailing companies operating in the EU, formed by Bolt, Free Now and Uber, to investigate whether the Commission’s concerns are justified as a matter of economics and the implications for drivers’ employment and pay of the adoption of a rebuttable presumption of employment.

Our main conclusions are:

- The available evidence is inconsistent with the claim that platforms compel drivers to be self-employed to circumvent collective agreements, labour laws (e.g., working time legislation), employment taxes and other employer liabilities implied in the standard contract of employment. On the contrary, the evidence shows that most drivers prefer the flexibility and adaptability of their current work schedules to the protections and benefits that would be available to them if they became traditional employees. A change in the employment status of these workers could have a negative impact on the supply of labour, drawing some of the drivers currently partnering with the platforms out of the labour market.
- The Commission’s concerns about a potential misclassification of platform workers as independent contractors are unjustified as a matter of economics:
 - Ride-hailing platforms like many other two-sided, e-commerce platforms stipulate uniform terms and conditions that are accepted by their users and business users, are most often not collectively negotiated or tailored to meet the specific preferences of a group of users or business users.
 - Ride-hailing platforms need to ensure the safety of their end users and drivers. A driver who delivers a poor service generates a negative externality on the platform and reduces the demand for all other drivers in the platform. The way to correct for this is to assess the level of service and exclude from the platform those drivers that fail to deliver a good service.
 - Drivers do not fix the price of the ride, but they have otherwise full control on how to run their businesses, and on when and whether they perform a ride.

Drivers are willing to delegate pricing on the platform because they are not able to coordinate supply and demand efficiently. Because of its positive effects on consumers, the coordination of prices and supply that the platforms undertake cannot be regarded as anticompetitive.

- Data from Move EU shows that drivers providing services via these platforms possess considerable bargaining power and earn significantly more than the minimum wage in their respective countries, because platforms compete fiercely for their services so that they can meet demand at the time and location when and where it materialises.
- A change in the employment status of drivers would force ride-hailing platforms to choose how many drivers to employ ahead of demand. Platforms would respond by maximising the utilisation of their workers by micromanaging their working times and reduce the number of drivers they employ in order to ensure the viability of their businesses. **According to estimates by Move EU, their fleet size would be reduced by 54% which, given the current number of drivers providing services via Bolt, Free Now and Uber, implies a reduction in employment of 136 thousand workers in the EU.** We expect that the reduction in capacity and the increase in fixed costs caused by the change in business model would also cause an increase in ride prices, which would reduce demand and then employment further than estimated by Move EU. Moreover, the change in the employment status of drivers could also cause the exit of some platforms, leading to a more concentrated market structure, which would reduce employment even further.
- According to estimates by Bolt, Free Now and Uber, on average their drivers in Europe currently earn more than the minimum wage in their respective countries. This high level of earnings is the result of fierce competition across platforms for drivers' services. The platforms compete against each other, against other jobs and against the opportunity cost of enjoying additional leisure time to attract drivers. The effect of a change in the employment status of drivers on drivers' earnings per hour and total driver earnings is in principle ambiguous. Move EU estimate that the likely net impact of the regulatory change would be a reduction in drivers' earnings per hour which, given the estimated reduction in employment, implies that total drivers' earnings would fall significantly.
- In short, the proposed regulatory change would have a negative impact on economic efficiency. Platforms would be worse off. Users would also lose as they would be forced to pay more, suffer more cancellations and longer waiting times. As regards drivers, many would lose their jobs and those who remain employed and benefit from enhanced social protection would see their hourly earnings reduced and lose the flexibility they value so much.
- We are sensitive to concerns that independent contractors do not have access to mandated benefits and protections that are available to employees, such as the right to organize and bargain collectively, workers' compensation insurance coverage, and overtime compensation. Addressing these concerns does not require a change in employment status, however. These workers could qualify for many, although not all, of the benefits and protections that employees receive. In this way, independent contractors in the ride-hailing industry could benefit from some of the protections that they would obtain under the employee status, while ensuring that the ride-hailing industry delivers efficiently to the benefit of users and drivers.