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Work in the Platform Economy: Beyond Lower Transaction Costs

Labour platforms provide a matching service, linking demand for labour with its supply. They thus enable access to labour to be organised according to market principles, even in contexts where the use of a matching service had previously proven to be too costly or where market failures have required a reliance on institutions such as the employment relationship and/or the use of established firms as service providers. Market-making through the lowering of transaction costs, and thus also addressing market failures, is key to understanding the nature of the platform economy.¹ It is thus unfortunate that the policy debate on the platform economy is plagued by the misleading concepts of the “collaborative” or even “sharing” economy.² The usage of these terms seems to reflect efforts to cast these new phenomena as something inherently positive, which is not helpful to keeping the policy debate evidence-based and free of any pre-conceived biases. The notion of the sharing economy can even be linked to the lobbying efforts of the major platforms.³

However, the notion of reduced transaction costs alone is not sufficient to understand the impact of market-making by platforms. The process actually entails a shifting of the costs, or risks, between the actors in the marketplace. The outcomes of such a redistribution of costs and risks are mediated by institutions, or regulations, and the market power of the actors. The differences among the latter

not only structure the relative position of workers vis-à-vis employers/clients, but also condition the impacts on individual groups of workers. More specifically, this can be discussed in relation to three key aspects of the organisation of matching through platforms.

First, platforms provide algorithms that enable a matching of labour providers and users. The process is effective in terms of finding available workers with sufficient skills for specific tasks. However, matching through platforms may decrease allocative efficiency in the labour market if it weakens the position of workers and gives them incentives to take up tasks below their qualification level. The breaking down of jobs into tasks, which is enabled by platforms, may even lead to the deskilling of work. Some platforms also increase demand for “clickwork” with little to no skill content or opportunities for learning.

Second, technology reduces transaction costs for employers/clients to the extent that platforms can also facilitate microtransactions. At the same time, however, the mediation of work through platforms may entail high transaction costs for workers. Indeed, evidence shows that platform workers often spend a long time waiting and searching for adequate work.⁴ When the task appears, workers need to be available to complete it on the spot. In the absence of regulations such as minimum pay, platforms may have little incentive to invest in algorithms that allow workers to search for work efficiently.

Finally, platforms provide services that diminish or manage the risks involved in market transactions; hence, they address market failures such as incomplete information about the labour provider or the risk of cheating. These services also include reputation and monitoring systems, as well as standard insurance mechanisms and legal services with regard to fraud. Involving a high degree of monitoring and control, measures to address market failures, from the legal perspective, represent one factor in making platforms more than pure marketplaces, to the extent that employment (or worker) status might apply to

- 1 J. Drahokoupil, B. Fabo: The platform economy and the disruption of the employment relationship, ETUI Policy Brief No. 5/2016, 2016, available at <https://www.etui.org/Publications2/Policy-Briefs/European-Economic-Employment-and-Social-Policy/The-platform-economy-and-the-disruption-of-the-employment-relationship>. See also OECD: OECD Digital Economy Outlook 2017, Paris 2017, OECD Publishing, p. 207, available at http://www.oecd-ilibrary.org/science-and-technology/oecd-digital-economy-outlook-2017_9789264276284-en.
- 2 European Commission: Communication on a European agenda for the collaborative economy, COM(2016) 356 final, 2016, available at <http://ec.europa.eu/DocsRoom/documents/16881>.
- 3 J. Drahokoupil, B. Fabo: The Sharing Economy That Is Not: Shaping Employment In Platform Capitalism, Social Europe, 26 July 2016, available at <https://www.socialeurope.eu/2016/07/sharing-economy-not-shaping-employment-platform-capitalism/>.

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- 4 J. Berg: Income security in the on-demand economy: Findings and policy lessons from a survey of crowdworkers, ILO Working Paper, Conditions of Work and Employment Series No. 74, 1 May 2016, available at http://www.ilo.org/travail/whatwedo/publications/WC-MS_479693/lang--en/index.htm.

platform workers.⁵ However, market forces on their own may provide little incentive for platforms to address market failures that affect workers. For instance, while platforms commonly include reputation mechanisms to provide information on the past performance of workers, they typically lack mechanisms that would address the risks of cheating by clients.⁶ Major platforms also lack effective dispute resolution mechanisms between workers and clients, as the risks related to market failures can be shifted to workers who may not be paid at all if a client finds the quality of work inadequate.

Transforming labour markets: Outsourcing, offshoring and the threat of unregulated super-competition

The reorganisation into self-employment of activities that traditionally offered opportunities for employment represents the key transformative market-making potential of platforms. The outsourcing of work through platforms may thus undermine the relevance of the standard employment relationship, the key institution through which our societies organise the protection of workers and set their pay. Platforms potentially go beyond the traditional outsourcing that shifted work from one company to another, which was often motivated by a desire to circumvent company-level structures of employee representation and collective bargaining.⁷

So far, however, successful platforms, such as Uber, have reorganised sectors that were already reliant on some form of self-employment. Moreover, as the recent ruling of the Employment Appeal Tribunal in the UK demonstrates,⁸ the provision of taxi services through Uber may entail a higher degree of subordination and control over working conditions than if mediated through a traditional taxi

company. Many platforms indeed actively set prices and standards for task delivery, monitor worker performance and establish discipline, thus exerting the degree of control that makes the purported contractor relationship a legal sham.⁹

While some platforms merely reorganise local labour markets, particularly where physically delivered services are concerned, platforms may also facilitate the remote provision of services. Platforms that organise the provision of digitally delivered services may thus enable the offshoring of jobs. The offshoring of work is neither new nor unique to platforms. Some institutions have been developed to address working conditions in transnational value chains, including European Works Councils, transnational collective bargaining and provisions making multinational companies liable for working conditions in their supplier chains. However, these institutions do not provide the level of protection comparable to national labour market regulations. Moreover, these institutions are linked to supplier relations within a multinational or between firms.

Finally, platforms expand labour supply. One of the biggest promises of the platform economy, and of the increasing use of ICT in general, is that it lowers barriers of entry to the labour market for groups that had traditionally been excluded. However, given the lack of regulation setting minimum standards, such increased competition will put downward pressure on pay and working conditions. Ride-hailing apps, for instance, put professional drivers in competition with students or people on parental leave seeking an occasional top-up of their income.

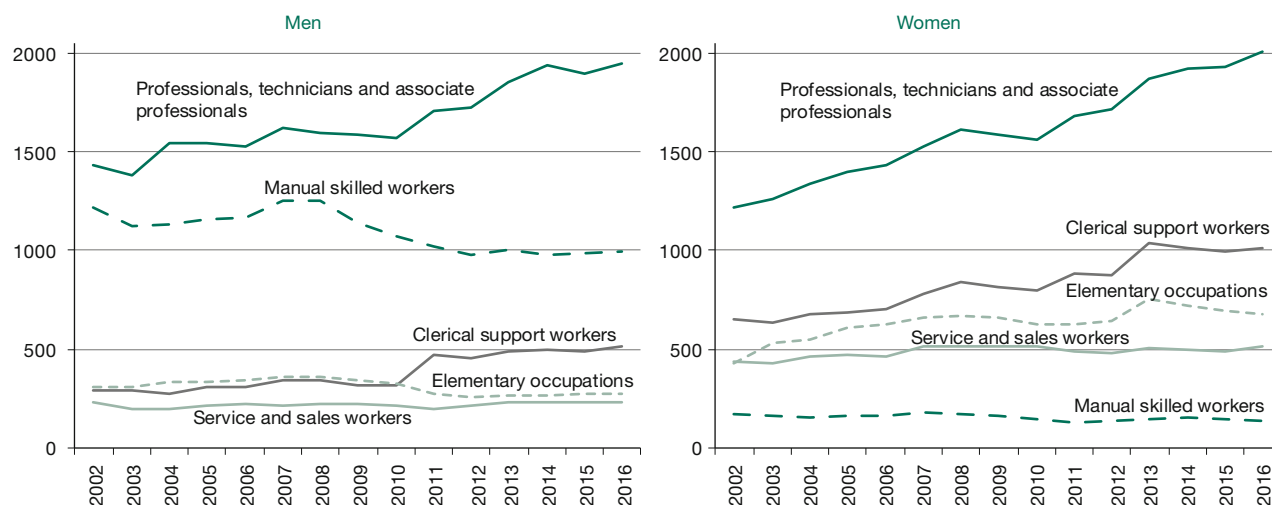
In turn, offshoring through platforms, or the threat thereof, can put workers in direct wage competition with workers from low-income countries. In extreme, platforms may lead to the creation of truly global markets for digitally delivered labour. This has already affected low-skilled work, such as data entry, that is now sourced through platforms from Sub-Saharan Africa and South East Asia. Workers who deliver these services face super-competition in the context of an over-supply of people willing to work for extremely low wages and platform-mediated subcontracting relationships that limit opportunities for upgrading.¹⁰

- 5 J. Prassl, M. Risak: Uber, Taskrabbit, and Co.: Platforms as Employers – Rethinking the Legal Analysis of Crowdwork, *Comparative Labor Law & Policy Journal*, forthcoming; and V. De Stefano: Labour is not a technology: Reasserting the Declaration of Philadelphia in times of platform work and gig economy, *IUSLabor* 2/2017, 2017, available at https://www.upf.edu/documents/3885005/58976718/Labour_is_not_technology_DeStefano.pdf/f0ae7b4f-d39e-0ff7-1421-2cb0eb512977.
- 6 In order to address the problem, worker websites have been established to share information on clients. See, for example, *Turkopticon* or the platform *FairCrowdWork* created by the German trade union *IG Metall*.
- 7 J. Drahokoupil (ed.): *The outsourcing challenge: organizing workers across fragmented production networks*, 2015 Brussels, European Trade Union Institute; and J. Drahokoupil, B. Fabo: *Outsourcing, Offshoring and the Deconstruction of Employment: New and Old Challenges*, in: A. Serrano, M. Jepsen (eds.): *The Deconstruction of Employment As a Political Question*, Basingstoke, Palgrave (forthcoming).
- 8 *Uber B.V. and Others v Mr Y Aslam and Others*: UKEAT/0056/17/DA, available at <https://www.gov.uk/employment-appeal-tribunal-decisions/uber-b-v-and-others-v-mr-y-aslam-and-others-ukeat-0056-17-da>.

9 V. De Stefano, *op. cit.*

10 M. Graham, I. Hjorth, V. Lehdonvirta: *Digital labour and development: impacts of global digital labour platforms and the gig economy on worker livelihoods*, in: *Transfer: European Review of Labour and Research*, Vol. 23, No. 2, 2017, pp. 135-162.

Figure 1
Employed persons with a second job, by gender and occupation in first job (in thousands), EU28, 2002-2016



Source: Labour Force Survey (Eurostat); own calculations.

Impact on work and employment conditions

There is now some evidence on the extent of platform work as well as working conditions within it.¹¹ Most workers appear to use platforms to top up their regular income, but there is also a sizable minority, probably well over a million workers in the EU, that rely on platforms as their main source of income. In the UK, the vast majority of platform workers are, in fact, the main breadwinners in their households. However, the pay offered through platforms is very low, a fact closely related to a competition model based on cheaper service achieved through low pay and often regulatory avoidance. Only a small fraction of platform workers earn above the local minimum wage. Insecure and informal work through platforms is often

11 See e.g. J. Berg, op. cit.; P. D'Cruz, E. Noronha: Positives outweighing negatives: the experiences of Indian crowdsourced workers, in: *Work Organisation, Labour & Globalisation*, Vol. 10, No. 1, 2016, pp. 44-63; A. Gandini, I. Pais, D. Beraldo: Reputation and trust on online labour markets: the reputation economy of Elance, in: *Work Organisation, Labour & Globalisation*, Vol. 10, No. 1, pp. 27-43; U. Huws, N. Spencer, S. Joyce: Crowd Work in Europe: Preliminary results from a survey in the UK, Sweden, Germany, Austria and the Netherlands, FEPS Studies, December 2016, available at [http://researchprofiles.herts.ac.uk/portal/en/publications/crowd-work-in-europe\(30dbdc7c-9919-4150-a485-4fcb06cd6606\).html](http://researchprofiles.herts.ac.uk/portal/en/publications/crowd-work-in-europe(30dbdc7c-9919-4150-a485-4fcb06cd6606).html); and B. Balaram, J. Warden, F. Wallace-Stephens: Good Gigs: A fairer future for the UK's gig economy, Royal Society for the encouragement of Arts, Manufactures and Commerce, 2017, available at <https://medium.com/rsa-reports/good-gigs-a-fairer-future-for-the-uks-gig-economy-f2485a22de09>. Overviews are provided in C. Fabo, J. Karanovic, K. Dukova: In search of an adequate European policy response to the platform economy, in: *Transfer: European Review of Labour and Research*, Vol. 23, No. 2, 2017, pp. 163-175; and OECD, op. cit., pp. 228-232.

neither taxed nor covered by social insurance, which also undermines fiscal support for social protection systems and endangers their sustainability in the long term. Lack of insurance is a major concern, especially for those delivering food, and accidents, including serious injuries, are common among cyclists.

Platform work typically represents an additional paid activity for workers, in some cases even performed during paid working time in another job.¹² In fact, work on platforms is part of a wider trend towards the increasing fragmentation of work. It takes different forms, ranging from short spells of employment with the same employer to moving between different work arrangements to juggling multiple jobs at the same time. In all its forms, it signals an increasing job instability and is often fuelled by insufficient income from one job to cover the cost of living.

In general, the fragmentation of work, in the form of having more than one paid job, increasingly affects high-skilled professionals. Between 2002 and 2016, the number of professionals, technicians and associate professionals with more than one job increased by 516 900 among men and by a striking 790 400 among women in the EU28 (see Figure 1). Growth was particularly visible after 2010. While the data refer to a much wider set of activities than the platform economy, this trend is consistent with earlier findings that workers engaged in the platform economy are better skilled and better educated than the average

12 J. Berg, op. cit.; and U. Huws, N. Spencer, S. Joyce, op. cit.

worker in a respective country.¹³ Moreover, for women, there was also a sizable increase in the holding of multiple jobs among the more task-routine job category of services and sales workers.

The platform economy promises to offer more flexible work organisation. This includes the erosion of formal rules governing the place and timing of work and the boundary between work and non-work activities. In any case, it is hoped that such increased flexibility should provide better opportunities for those with caring obligations, typically women, to combine care and paid work. However, the type of flexibility sought by working parents has more to do with working time autonomy and the possibility of adjusting work schedules around the inflexible operating hours of childcare and other institutions.¹⁴ In contrast, the evidence on platform work shows that the flexibility they entail is, in fact, illusory. To secure work through platforms, workers often need to be constantly available and to react promptly to clients' requests.¹⁵ This further intensifies the spillover of work into family life. Moreover, the blurring of physical boundaries between work and home environments creates health and safety risks for workers.¹⁶

A further important change related to the platform economy is work-content reorganisation. As mentioned earlier, this can be associated with the breaking down of jobs into tasks which are then performed by different workers, sometimes in different parts of the world. This lowers the skill requirements of jobs, decreases the likelihood of receiving any on-the-job training and can thus result in the deskilling of the workforce. This reorganisation of tasks also lowers individual control over the work process and removes the rewards related to seeing the final product of one's work.

Overall, the growth of "on-demand" platform work shifts many of the risks away from employers and puts undue pressure on workers who face serious uncertainty about their future earnings and employment continuity. Low pay, lack of social insurance and, somewhat paradoxically, a lack of control over working time are by far the main grievances of platform workers. This effect can be reinforced

further when outsourcing through platform work is coupled with offshoring, fuelling a race to the bottom in work and employment conditions.

Conclusion: Regulatory responses

Platform work includes a heterogeneous set of activities, much of which circumvents existing labour market regulation. Some observers have thus concluded that the laissez-faire situation of platform workers is "reminiscent of 19th century labour relations".¹⁷ However, lack of regulatory enforcement and insufficient protection applies to a wider set of non-standard work arrangements of which platform work is now an integral part. Many regulatory failures that should be addressed are thus not specific to platform work but apply to non-standard and casual employment in general. The policy challenge is indeed broader: to ensure decent working conditions, including pay, and access to social insurance for all workers, regardless of their employment status. Technology facilitates the more flexible working arrangements that may well be desired by many workers, but such flexibility must be delivered without compromising workers' rights.

First, existing regulations should be enforced. Subordinate relationships should be recognised for what they are. In some countries, this may require updating the legal definition of employment status. Many platform workers should thus be treated as employees and given access to employment-based rights, including the right to bargain collectively with regard to their remuneration. Moreover, some countries have developed regulations specific to casual employment, with the aim of stabilising and regularising working time and pay. Such provisions should be extended to platform workers in work arrangements that correspond to casual employment.¹⁸

Second, given the precarious position of platform workers and the restricted nature of direct access to their employers/clients, additional measures should be considered to address the risks related to platform-mediated work and the problems specific to working through platforms. Platform workers can be seen as a category of workers that require special protection, similar to the regulatory provi-

13 C. Codagnone, F. Abadie, F. Biagi: *The Future of Work in the "Sharing Economy"*, Institute for Prospective Technological Studies, JRC Science for Policy Report, European Commission, 2016.

14 A. Piasna, A. Pagnol: *Women's Job Quality Across Family Life Stages: An Analysis of Female Employees Across 27 European Countries*, Social Indicators Research, first online 4 September 2017.

15 J. Berg, op. cit.

16 OSHA: *A review on the future of work: online labour exchanges, or "crowdsourcing": implications for occupational safety and health*, Discussion Paper, 2015, available at <https://osha.europa.eu/en/tools-andpublications/publications/future-work-crowdsourcing>.

17 C. Fabo, J. Karanovic, K. Dukova, op. cit., p. 170.

18 W.P. De Groen, I. Maselli: *The Impact of the Collaborative Economy on the Labour Market*, CEPS Special Report No. 138, June 2016, available at https://www.ceps.eu/system/files/SR138CollaborativeEconomy_0.pdf; and V. De Stefano: *Casual Work beyond Casual Work in the EU: The Underground Casualisation of the European Workforce – And What to Do about it*, in: *European Labour Law Journal*, Vol. 7, No. 3, 2016, pp. 421-441.

sions for agency work that also exist at EU level.¹⁹ Such protection could also include a presumption of worker status to reduce the incentives for self-employed work.²⁰ Additional measures that have been proposed include transparent and fair rating systems and a ban on exclusivity clauses, as well as the possibility for workers to own their ratings and working histories and to transfer them when they change platforms.²¹

Third, genuinely independent workers and freelancers should be guaranteed access to social rights, including the right to self-organise and negotiate collective agreements also covering pay.²² At the moment, the self-employed lack access to social protection in most EU countries.²³ What is more, the organising of self-employed persons is, in principle, not permissible under EU competition law (Article 101 TFEU).²⁴ Legislation in many EU member states does not include the possibility for self-employed persons to conclude a collective agreement or to be covered by one. Instead, it should be possible to extend collective agreements to wider categories of worker than “employee”, with a view to including platform workers.

In this context, it is important to distinguish between the variety of platforms, which have differing impacts on labour markets as well as opportunities and limits for regulatory responses. Matching platforms that set pay and contract conditions, such as Uber or Deliveroo, are most

compatible with protection that approximates, or fully complies with, standard worker protection. In fact, Uber pays a guaranteed minimum wage per hour in a number of markets. In Belgium, Deliveroo workers benefited from an agreement, negotiated by the agency SMart, that includes a minimum hourly pay rate, minimum shift length, insurance against injury at work and social insurance.²⁵ The arrangement was terminated by Deliveroo after legislation liberalising conditions for platform work was introduced,²⁶ but it demonstrates that these business models are compatible with employment standards and negotiated agreements.

Platforms that reorganise local markets are also easiest to regulate, as both customers and suppliers come under one jurisdiction. The oligopolistic tendency which comes with network effects also makes it easier for the regulator to target the handful of dominant platforms – such has been the experience of Airbnb and, in some cases, Uber. Such platforms, in fact, provide an opportunity to formalise undeclared activities, as their model allows for an efficient monitoring of microtransactions as well as the collecting of insurance and tax on them.

At the other end of the spectrum are platforms such as CrowdFlower and Upwork that facilitate the remote provision of services, thus potentially leading to the offshoring of work from local labour markets, often across borders. This is one reason why an EU-wide framework is required, but additional solutions need to be sought for platforms operating on a global scale, typically sourcing from low-income countries. Platforms that sell services in Europe should be required to pay workers living wages.²⁷ Standards and fair working conditions could also be enforced through certification schemes such as Fairtrade.²⁸

The rise of platforms thus brings a number of challenges, and it is not obvious how decent pay and working conditions can be ensured in all contexts. In any case, we need an active response from policy-makers. It does not help that the approach of the European Commission, as well as in many member states, has focused on removing regulatory barriers and has ignored the threat to pay and working conditions. The regulatory response needs

19 In 2017 the European Parliament and the European Trade Union Confederation both called for the European Commission to examine the applicability of the Directive on Temporary Agency Work (2018=104/EC) to specific online platforms. See European Parliament: Report on a European Pillar of Social Rights (2016/2095(INI)), 2016, Committee on Employment and Social Affairs, available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2016-0391+0+DOC+XML+V0//EN>; and European Trade Union Confederation: ETUC Resolution on tackling new digital challenges to the world of labour, in particular crowdwork, 2017, available from: <https://www.etuc.org/documents/tackling-new-digital-challenges-world-labour-particular-crowdwork>.

20 European Trade Union Confederation, op. cit.

21 A. Aloisi, V. De Stefano, S. Silberman: A Manifesto to Reform the Gig Economy, Pagina99, 2017, available at <http://www.pagina99.it/2017/05/29/a-manifesto-to-reform-the-gig-economy/>; European Trade Union Confederation, op. cit.

22 As demanded by European Trade Union Confederation, op. cit., and also in the so-called Frankfurt Paper on Platform-Based Work, signed by several European and American worker organisations, available at <http://crowdwork-igmetall.de>.

23 S. Spasova, D. Bouget, D. Ghailani, B. Vanhercke: Access to social protection for people working on non-standard contracts and as self-employed in Europe: A study of national policies, European Commission, 2017, available at ec.europa.eu/social/BlobServlet?docId=17683&langId=en.

24 However, EU case law has excluded the “false self-employed” from the applicability of Article 101 (Case C-413/13). Decisions by national courts on whether platform workers should be considered as employees, self-employed or false self-employed determine the scope for regulating salaries and working conditions via collective agreements, but they will have to evaluate such cases in the light of EU competition rules.

25 See V. Xhaufclair, B. Huybrechts, F. Pichault: How Can New Players Establish Themselves in Highly Institutionalized Labour Markets? A Belgian Case Study in the Area of Project-Based Work, in: British Journal of Industrial Relations, published online 9 November 2017.

26 See Z. Kilhoffer, K. Lenaerts: What is happening with platform workers' rights? Lessons from Belgium, CEPS Commentaries, 31 October 2017, available at <https://www.ceps.eu/publications/what-happening-platform-workers-rights-lessons-belgium>.

27 C. Fabo, J. Karanovic, K. Dukova, op. cit.

28 M. Graham, I. Hjorth, V. Lehdonvirta, op. cit.

to address low pay and lack of insurance. At best, some proposals have been made to guarantee the portability of insurance systems. However, portability cannot bring security, particularly if the underlying problem is low pay and uninsured work. In practice, the question is not whether

platform work can be left unregulated or not, as we have already seen platforms developing their own codes of conduct. The question is whether the new regulatory environment will reflect the narrow interests of some businesses or a balance of interests among all stakeholders.