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New Opportunities in the Platform Economy: On-ramps to Formalization in the Global South

Hernan Galperin
Gregory Randolph
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As the platform economy expands at exponential rates, policymakers in the Global South have a unique opportunity to translate the aggregation of workers through digital platforms into a more formalized labor market – with both opportunities for revenue collection and higher quality employment. Realizing this opportunity requires a collaborative ‘co-regulation’ approach, with information-sharing between governments and firms; updated systems of labor market data collection; development of context-appropriate categories of employment; and proactive approaches to taxation and social protection provision.

Challenge

Platform economy workers represent a growing share of the large informal workforce across the Global South (1). Since 2016, the use of online labor has risen by about 31.6 percent worldwide (2). The expansion of platform economy work is driven not only by global firms like Uber, which operates in 83 countries, but also by companies homegrown in the Global South. Ola, a ride-hailing service in India, and GO-JEK, an app-based transportation and service provider from Indonesia, each have approximately 1 million drivers. (4,5)

The meteoric growth of platform economy firms reflects a profitable business model that scales up quickly by matching supply and demand with digital technology. Workers highlight flexibility and higher wages as major benefits (6,7,8), while earnings volatility and long working hours are among their greatest concerns. (9,10) These tradeoffs are particularly important in the Global South, where researchers suggest most of those engaged on a platform rely on it as their primary income source (11) – as opposed to a country like the United States, where 90 percent of platform workers are seeking only supplementary income (12). Moreover, platform workers’ informal status excludes them from employer-provided benefits – leaving them to rely on universal social protection programs that are especially weak or inadequate in much of the Global South.

Yet platforms present a unique opportunity that is often missed in policy debates. In developing country labor markets, transportation and service provision sectors generally operate in disaggregated, decentralized and informal ways (13). Platform economy firms pool together large groups of workers that may have otherwise worked as disconnected self-employed individuals. Governments should view this aggregation as a first step or “on-ramp” toward formalization. Platforms such as UrbanClap in India and Rappi in Latin America create an access point for governments to raise revenue and provide protections to informal workers. However, policymakers need more comprehensive information about platform employment and effective working relationships with firms in order to harness this opportunity.

Proposal

The recommendations outlined below focus, first, on improving policymakers’ access to data on platform economy work and, second, on using that information to design integrated systems of taxation and social protection and develop appropriate local definitions of platform.

using that information to design integrated systems of taxation and social protection and develop appropriate legal definitions of platform services and workers. We argue that these aims can be achieved through principles of ‘co-regulation’ – which would support multi-stakeholder collaboration in place of reactive policy decisions (14).

While the interests of different stakeholders may be perceived as conflicting, in reality all those involved – workers, governments, and firms – have an interest in maintaining the growth of the platform economy while ensuring that social and economic benefits accrue to workers and their families. Firms in particular ought to see the value in a proactive, collaborative approach to regulation, which gives them more ability to shape policy.

1. Forge data-sharing agreements with platform firms

Without a comprehensive understanding of working hours, earnings, occupational safety and health, and social dialogue mechanisms in the platform economy, policymakers lack the capacity to design appropriate policies that maximize the platform economy’s social benefit. As a result, government responses are often reactive and court-based, attempting to force-fit platforms into preexisting regulatory frameworks. More information is required to harness the productive power of platforms to create employment while ensuring that the opportunity for formalization is not squandered.

Platforms already collect and store essential data about operations, customers and workers, but the data is mostly proprietary, limiting its public use (15). Data sharing by ride-hailing platforms in the past has been less than transparent (16). Platform companies express reluctance to share data publicly because they fear threats to their competitiveness, and they are concerned that governments may send blanket requests for large volumes of data (17,18). Consumers may be concerned about the privacy of their personal data. And governments, especially in the Global South, worry that compelling companies to release data could generate negative perceptions of their business climates (19).

However, given the importance of data for effective public policy, some countries, states and cities have begun to take decisive action. Milan, Italy, permits hosts on Airbnb to rent out their homes on the condition that Airbnb cooperates with data requests by the government (20). In 2016, China launched a regulatory standard for ride-hailing taxis requiring digital platforms to apply for a permit and register network service records with authorities (21). The California Public Utilities Commission fined Uber US$ 7.6 million for not complying with its reporting requirements about accessible cars and the number of rides requested and accepted per ZIP code (22). New York City has gone so far as to require app-based services to apply for licenses, giving it data collection capabilities (23).

In other cases, governments have proposed voluntary or collaborative arrangements. In France and Belgium, platforms opt into a graded tax systems and governments relay platform revenue information directly to tax authorities (24). In the United States, under National Association of City Transportation Officials data-sharing project called SharedStreets, Uber has agreed to share pick-up and drop-off data in Washington, D.C., which will be used to establish data standards for curbs, traffic speeds, and transit points (25). The ride-hailing platform also disclosed information on 14 million users to state and local regulators and law enforcement agencies in the United States and Canada in 2017. (26,27)

While most of these examples come from the Global North, data governance is becoming a mainstream public policy issue in the South as well. For example, the recently passed Brazilian General Data Protection Law outlines parameters for consumers, companies (including platforms) that collect personal data, and the government (28). While the law is not specific to platform firms, its broader aim – ensuring that data is put to suitable use, such as policymaking, while maintaining consumer privacy and avoiding major threats to fair competition in the private sector – should be a guide for governments forging data-sharing arrangements or designing data policies for the platform economy.

An additional benefit of data-sharing between platform firms and governments is that the latter could act as a neutral repository for data from multiple platforms. This approach could build on data portability efforts such as those embedded in Brazil’s new policy, which aim to have companies store data in a structured, transferrable way (29). Tracking and certifying a worker’s employment experience across multiple platforms could improve his or her labor market prospects upon exiting the platform economy.

2. Develop 21st-century approaches to collect data on the platform economy

While collaborative data-sharing agreements are one part of the solution, better tracking of employment in the platform economy partly hinges on governments updating their own data collection mechanisms to account for rapid changes in the nature of work. Conventional labor force surveys do not accurately measure platform employment. The questions that distinguish wage and salary work from self-
Labor force surveys do not accurately measure platform employment. The questions that distinguish wage and salary work from self-employment and own-account work are often too broad to identify platform work – which is effectively in between the two. Moreover, employment surveys are not usually designed to clarify employment relations, which are harder to define in the platform economy (30). Beyond these basic shortcomings, details such as the prevalence of multiple jobs, labor input of workers outside firm payrolls, factors motivating workers to join platforms, and the extent to which earnings from digital platforms serve as a primary source of income cannot be captured by traditional data collection methods.

While practical challenges persist, some governments are starting to devise new tools for data collection. For example, the U.S. Bureau of Labor Statistics (BLS) has proposed a new category called ‘alternative work arrangements’ in their 2017 Contingent and Alternative Employment Arrangement Survey. This new category covers all workers whose main source of work is outside the traditional employment relationship – including Uber drivers, freelance writers and people employed through temporary-help agencies (31,32). As a part of the process, it held consultations with various stakeholders, solicited public comment, and conducted laboratory tests of questions to accommodate nonstandard employment into old survey questions. (33)

Governments may be able to capture some limited information about platform earnings through financial institutions. Unlike most informal economy workers in the Global South who receive cash payment, platform workers receive remuneration directly into bank accounts. JP Morgan Chase Bank conducted its own study of the platform economy by tracking payments directed through 128 digital platforms to 2.3 million families from 2012 to 2018 (34). The data enabled analysis of the regularity of income from platforms, percentage of take-home pay and other details, while protecting customers’ anonymity (35). Governments could work with financial institutions and tax authorities to build such valuable databases; this opportunity is particularly relevant in countries where leading banks are themselves state-owned.

3. Establish formal categories for platform economy workers

Once governments have enough information to think comprehensively about regulating the platform economy, their first priority should be to establish formal legal categories for platform economy workers. There will likely be no one-size-fits-all solution to clarifying the legal relationship between platforms and workers. However, determining these categories would lay the groundwork for governing the rights of platform workers.

While court action in many cases has supplanted the process of defining a particular employment category for those engaged in platform work, some countries in Europe have made strides in developing a specific legal status for those working on platforms. Germany and Spain, for example, have both introduced a worker category for those who are self-employed but primarily serving a single firm and therefore “economically dependent.” (36) The new laws establish rights and protections for this type of employment. These examples are starting points for countries in the Global South, who will need to design context-specific categories.

The goal of this effort ought to be, first, to ensure that if workers are assuming the burdens of entrepreneurship, they also receive the benefits of freedom and independence; or, conversely, that if they bear the burdens of employment, they also receive the benefits of adequate rights and protections. Second, such legal categories should effectively distinguish between those who rely almost entirely on a platform firm for their income – giving that company significant power over the worker – and those who use platforms as a source of supplementary income, and for whom the independent contractor status may afford valuable flexibility. Designing appropriate legal categories for platform workers requires comprehensive information – making the data efforts above essential.

4. Create an integrated system for taxation and social protection in the platform economy

Moving forward, governments’ next step should be to design integrated taxation and social protection systems appropriate for this new form of work. In this regard, countries in the Global South are in a unique position. Many, like Brazil, India and Indonesia, are already harnessing a period of rapid economic growth to expand the social safety net, with governments giving particular attention to access among informal workers.

There are several reasons for linking policy conversations around taxation and social protection in the platform economy. Primary among them is the fact that leveraging the aggregation opportunity for revenue collection enables an expansion of social benefits. Moreover, governments can enhance buy-in among workers and platform economy firms for taxation measures by tying them to expanded benefits for the platform workforce – aiding workers directly and firms indirectly through enhancements in productivity. Finally, the platform itself can play a dual role – as a site of revenue collection and an access point for delivery of healthcare or other benefits.
The concept of taxing platform companies, workers or users is already taking root. For example, the Belgian government has developed a tax system for platform workers and is considering providing social protections, and users of the Airbnb platform in the country are subject to taxes applicable to tourists (37). Authorities in India have determined that Uber is liable for service taxes, though arrangements to facilitate tax payments are not yet in place (38). The OECD and G20 are also exploring ways for governments in the Global South and North to effectively tax platform work (39).

One mechanism to facilitate taxation could be to deduct taxes at the source of payment. Taxation facilitated through a platform company’s digital algorithms, as suggested by Michèle Fink at the Max Planck Institute, could reduce traditional regulatory burdens (40). Taxes could be levied on a per trip, task, or hour basis, with some portion being used to cover the expense of providing workers with social protection.

Aside from traditional revenue collection measures, policies could also require platform firms to make direct contributions to social protection schemes on behalf of workers. In France, lawmakers are considering requiring platform companies to provide accident insurance and professional training (41). Proposals for a pro-rated contribution by platform firms – proportionate to the number of hours an independent contractor spends working on the platform – have also been floated in the United States and Europe. (42)

Platform workers themselves could also make subsidized payments into social protection programs – as in the case of social insurance programs from Indonesia to Thailand and the Philippines (43). Grab, a ride-hailing service in Southeast Asia, has partnered with a local insurance company to offer a voluntary insurance package for drivers (44). Digital platforms may help to address chronic challenges with low uptake in voluntary contributions among informal workers (45), by making payments easier or enabling dissemination of information to workers about the benefits of these programs.

Even if social protection is not tied directly to new forms of revenue collection, the aggregation alone provides governments an access point for providing social benefits to informal workers. For example, Ola and the government of India are piloting a program that would enable auto-rickshaw drivers to receive social security benefits from the government if the drivers participate on their platform and are members of a trade union (46). More comprehensive data is essential to designing these approaches in ways that benefit workers and place manageable expectations on platform firms. For example, if earnings volatility turns out to be a broad challenge platform workers face, social protection programs could be designed specifically to smooth income. If workers are commonly splitting their time across multiple platforms, this would enhance the case for a pro-rated contribution from employers.

5. Follow principles of co-regulation

Many of the ideas introduced here emerge from the notion of co-regulation – a principle that researchers suggest as a novel approach to tracking and regulating platform work (47). Co-regulation and self-regulation broadly refer to the principle of ongoing collaboration among regulators, who determine objectives, and firms that shape mechanisms for enforcement or are partly responsible for carrying out objectives (48,49). The approach resembles managed compliance50 between governments and industry and a decentralized approach to public policy (51). In such a collaborative process, workers must also be at the table.

The moment is ripe for this form of stakeholder collaboration. On the one hand, profit-oriented platforms seek regulatory predictability in order to strategize for future growth; they also seek to avoid reactive or court-based decisions, which could compel them to comply with pre-existing regulations that run contrary to their business models. As more of the latter unfolds, their incentive to proactively work with state agencies is growing. Moreover, governments themselves face increasing pressure from platform economy workers who feel vulnerable to the whims of both platform firms and court orders.

Platform economy firms are aggregating informal workers at unprecedented speed and scale; now is the time to realize the opportunity that this aggregation presents, by improving information flows and designing appropriate legal status, taxation, social protection policies.

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