

Independent Contract and Informal Work: Preliminary Evidence on Developing Better Measures in Household Surveys

Katharine Abraham, University of Maryland, IZA, NBER
Brad Hershbein, Upjohn Institute
Susan Houseman, Upjohn Institute, IZA

Presentation prepared for LERA session on “Working for Whom? New Evidence on the Incidence of Independent Contracting,” ASSA meetings, Atlanta, January 6, 2018. This work was supported by the Kauffman Foundation, the Russell Sage Foundation, and the Sloan Foundation.

Growth in independent contractor and informal nonemployee work?

- **Widespread media reports in recent years about growth of alternative work arrangements, especially independent contracting, other nonemployee (gig) work**
 - Spurred funding of BLS Contingent Worker Supplement to CPS in May 2017—first time survey fielded in 12 years.
- **Self-employed not covered by various social insurance programs and employment and labor laws, e.g.:**
 - Not covered by social insurance (UI, workers' compensation)
 - Must make own contributions to social security (often do not)
 - Not covered by wage and hours laws
 - Not eligible for any benefits employer may provide
- **Any significant growth in self-employment raises questions about adequacy of programs and laws designed with traditional employee relationship in mind.**

Conflicting evidence

- ***NO* evidence of growth in government household surveys:**
 - No growth in self-employment in CPS or ACS in recent decades
 - CWS: *Decline* in in % working as independent contractors, independent consultants, freelancers 2005-2017
- **Research utilizing administrative data derived from tax filings shows substantial growth in self-employment**
 - Jackson, Looney and Ramnath 2017; Katz and Krueger 2017, Abraham et al. 2018

Potential shortcomings in household surveys like CPS

- **Individuals working in independent contractor arrangements may be miscoded as employees in surveys**
- **Individuals may fail to report all work activities in household surveys—informal, nonemployee work arrangements especially likely to be under-reported**
 - Surveys potentially understate employment rate and/or rate of multiple job holding
- **CWS only asks about main job—self-employment growth may be concentrated in secondary jobs**
- **Evidence of shortcomings:**
 - Abraham et al. (2018) based on ASEC supplement to CPS linked to tax data—discrepancies suggest underreporting of self-employment in CPS
 - Surveys find high levels of informal work activity when respondents probed—inconsistent with low rate of second job holding in CPS. SIWP (Bracha & Burke 2017), EIWA (Robles & McGee 2016), SHED (Abraham & Houseman 2018)

Importance of Household Survey Data to Measuring Independent Contractor Work

- **Household surveys have shortcomings, but so do other data sources**
- **Employer surveys:**
 - Employers cannot reliably provide employment information on individuals who are not employees
 - Can only reliably provide expenditures
- **Administrative data:**
 - Only captures declared income
 - Tax data has little demographic information
 - May be linked to household survey data, but only available annually
- **Our study uses Gallup survey as a vehicle to shed light on how household surveys can be improved.**

Gallup Survey Module

- **Module adds 13 questions on contract work to Gallup Education Consumer Pulse Survey:**
 - Nightly phone survey
 - Respondents age 18-80
 - 4 waves spread out across a year — each data collection lasts about a month & yields about 15,000 completed responses
 - Testing question wording: for 4 sets of questions, respondents randomly assigned to alternative versions
- **Currently have data from first 2 waves: 30,000+ respondents**
- **Data set includes data from our module plus basic demographic and employment information from basic survey**

Goals of Gallup Module

- Uncover miscoding of employment status as employee
- Capture all forms of work for pay—including informal work that may not be reported in government surveys

This paper focuses on preliminary findings pertaining to these two issues. Includes questions designed to test alternative wording.

Module also designed to

- Probe older workers on independent contract work
- Measure contract company work
- Measure work secured through online platforms or mobile apps

Testing whether individuals misidentify as employees

- Basic Gallup question to identify employees:
“Thinking about your WORK SITUATION over the past 7 days, have you been employed by an employer - even minimally like for an hour or more - from whom you receive money or goods? (This could be for one or more employers.)”
- Individual working on a contract basis for company might reasonably (and accurately) respond “yes” to this question.
- Follow-up module question probes whether worker is an employee or nonemployee:
 - Version 1: *“Were you an employee on this job or were you an independent contractor, independent consultant or freelance worker?”*
 - Version 2: *“Did this employer take any taxes out of your pay?”*Similar versions asked for those with 2+ employers

Employee miscoding in Gallup: findings

- **Incidence high among Gallup respondents. Among those who indicate that they are “employed by an employer”**
 - 11.5% state that they are an “independent contractor, independent consultant, freelancer” and not an “employee”
 - 9.1% state that their employer does not take out taxes from their pay
 - Difference between 2 versions significant
- **Employee miscoding strongly associated with:**
 - # of employers
 - Low work hours
 - Older workers
 - Gender (Male)

CPS question wording may suffer from similar problems of interpretation

- **Basic work question in CPS:**

“Last week, did you do ANY work for either pay or profit?”

- **To distinguish whether those doing work are employees or self-employed, respondents asked:**

“Were you employed by government, by a private company, a nonprofit organization, or were you self-employed or [if applicable] working in the family business?”

- **Person working on contract basis may report being employed by organization—may not think of themselves as being self-employed.**

- **CWS provides some evidence of employee miscoding in CPS**

- 15% of independent contractors were reported as being employees on main job (1-2% of all workers coded as employees on main job)
- Correlates of employee miscoding similar to those in Gallup module

Capturing All Sources of Work Activity

- Gallup survey with supplemental module questions may be better designed to capture work activity than CPS:
 - In survey module, all respondents separately asked both whether employed by an employer and whether self-employed
 - Question wording in standard Gallup survey designed to capture low hours work with language about working for employer or in self-employment “*even minimally like for an hour or more*”
 - Gallup self-employment question provides expansive definition of self-employment:

Self-employment “means working for yourself, freelancing, or doing contract work, OR working for your own or your family’s business. Self-employment also includes fishing, doing farm work, or raising livestock for either your own or your family’s ranch.”

Other work not reported

- Add module question on other work activities not previously reported—designed to capture informal work where respondents may not consider themselves employees or self-employed
- All respondents randomly assigned to one of two versions:
 - *Did you do anything else in the last 7 days that you have not already mentioned for which you received (or expect to receive) payment?*
 - *Did you do anything else in the last 7 days that you have not already mentioned for which you received (or expect to receive) payment?*
Examples might include babysitting or eldercare, cleaning, maintenance work, data entry tasks, driving for a car service, or making and selling handcrafts.

Capturing all work: findings

- Employment rate slightly higher than that in CPS
- Among those with some employment, multiple job holding rate high—19%
 - Especially high among those who are miscoded as employees
- **Incidence of other, informal work:**
 - *2.1%* in version 1 v. *3.7%* in version 2 (which includes examples of informal work activities)
 - Difference between 2 question versions statistically significant
- **Correlates of other work activities:**
 - Age (inversely related)
 - Employment status on main job: especially associated with
 - ▣ Being miscoded as an employee (but are an independent contractor)
 - ▣ Reporting being self-employed as an independent contractor in main job

Preliminary conclusions

- **Cautious about interpreting levels of employee miscoding and multiple job holding as representative of population**
 - Gallup sample weighted to be representative of population on observables
 - But may still differ in unobserved ways that affect responses
- **Findings show that question wording affects responses and support broader concerns about household surveys like CPS:**
 - Individuals working in contract arrangements may be miscoded as employees
 - Surveys may miss some work activity, especially secondary jobs