“Marketplace Platforms” and “Employers” Under State Law—Why We Should Reject Corporate Solutions and Support Worker-Led Innovation

Over the 2018 legislative session, nearly identical bills have been introduced in states including Alabama, California, Colorado, Florida, Georgia, Indiana, Iowa, Kentucky, Tennessee and Utah that deem all workers on so-called “marketplace platforms,” (such as Uber and Handy) independent businesses, and not the employees of the companies.¹

The bills have passed in Arizona (2017), Florida, Indiana, Iowa, Kentucky, Tennessee, and Utah (2018). They were defeated in Alabama, California, Colorado and Georgia.

Assuming projections about the rise of the gig economy and technological and automation-related job displacement are correct, it’s incumbent on policymakers to do all they can to ensure that the jobs generated by this “new” economy are good jobs. The bills being promoted by the self-coined marketplace platform companies shift much of the risk—but none of the gains—of operating a business to workers, competing businesses and threaten social insurance programs. They absolve well-financed corporations of responsibility, consolidating more and more income within businesses and away from working people, deepening economic inequality.

Instead of passing wholesale legal carve-outs and offering huge tax breaks to well-capitalized companies, states should enforce workplace protections and, on top of that, support innovative, worker-led efforts to ensure that workers—no matter what label companies want to put on them—have a voice in determining the terms and conditions under which they work.

The Yellow Pages Are a Marketplace Platform—Companies Like Handy and Uber Are Not the Yellow Pages

The bills use the misleading term “marketplace platform” to disguise the relationship between companies and workers. A true marketplace platform operates like the yellow pages or electronic message boards—where entrepreneurs in the accurate sense of the term can post their availability for jobs that they design, for customers with whom they may have an ongoing relationship, at a fee that they
set, and under standards that they negotiate with their customers. The marketplace itself does not typically collect a per-transaction fee from either the customer or the businessperson, nor does it screen, discipline, set prices, or other rules of the job.

Companies like Uber and Handy, on the other hand, are not mere marketplaces: They frequently and unilaterally set pay rates, substantially control when, where, and how people work, and impose discipline on those that do not meet rigid standards that they also set unilaterally—just like traditional employers.

The legislation masks this distinction by setting up a new legal test that in effect defines all “marketplace platform” workers as independent contractors, relieving the companies from any accountability to workers. The bills, which are very similar to the carve-out laws pushed and passed by transportation network companies in two-thirds of the states, generally include four basic factors, which each simply restate the elements of the current business models of the platform companies—so the “test” will always create an exemption from labor standards. None address the core relationship between workers and platform companies. The bills exclude from the test the main characteristics of a true independent contractor relationship: That a worker is free from the control of the company, provides a service outside the normal scope of the company’s work, and operates a separate business. The result is that the companies do not have to provide minimum wage or overtime protections, health and safety or workers’ compensation, or discrimination protections to any of their workers.

The companies argue that the bills enable entrepreneurship and the establishment of independent businesses. In fact, they are the near opposite, since many companies forbid workers from having a continuing relationship with customers, from setting their own rates, or negotiating their own work rules with customers.

**Why Are These Carve-Outs So Harmful?**

**The Carve-outs Limit Creative, Worker-Led Solutions**

Passage of the bills can shut down worker-led, innovative projects pending in cities across America to address problems created by insecure work, including gig work. Providing exemptions from state labor protections threatens to derail these efforts, taking away any incentives that platform companies have to negotiate with workers for reforms. And workers have started to innovate to make these jobs better. These include:

- **In Seattle**, a proposed domestic worker bill of rights and the creation of a wage and standards commission that would include representation by domestic workers themselves and explore “portable benefits;”
- **In Portland**, the launch of a campaign to give both Uber and Lyft drivers and impacted communities a voice in how TNC’s are regulated;
- **In Seattle**, ongoing organizing by the Teamsters union, following the landmark passage of the Drivers’ Collective Bargaining ordinance, and a new look at TNCs by the Seattle City Council;
• **In New York City**, a proposal by the Taxi Workers Alliance to create a wage floor for drivers, a cap on vehicles, and a benefits fund covering clinic-level medical services, as well as term life insurance policy and tax filing services;

• **Also in New York City**, a proposal to include independent contractors under the protection of the New York Human Rights law. vii

**The Carve-outs Are Harmful to Workers**

*The loss of baseline employment protections has multiple adverse effects on workers.*

• Many of the jobs affected by the state-level carve-outs are highly dangerous: Taxi, delivery, and domestic work are all offered now via online platforms that could be exempted from state labor laws. Work injuries can impose devastating costs on workers, their families, and ultimately on taxpayers. Workers’ compensation protections are essential for these extremely hazardous occupations, but the laws deny protection to these workers.viii

• In this #MeToo moment, these companies would have no state-law responsibility for sexual harassment in the workplace, as well as compliance with state minimum wage or other laws. And even though federal law still should cover the workers, the state carve-outs create confusion and leave the companies off the hook and their workers on their own.

• Many platform jobs pay extremely low wages. A recent MIT study found that between 41 and 54% of Uber drivers make less than the applicable minimum wage in their state, with between 4 and 8% actually losing money.ix But these bills exempt the platforms from paying minimum wage.

• The bills would potentially affect a wide variety of companies engaging workers, from cleaners and drivers to homecare workers, janitors, tech support workers, plumbers and electricians, as long as the workers are dispatched via a website or online platform.

**The Carve-outs Are Harmful to State Social Insurance Programs**

*This special interest legislation for huge companies costs the state revenue.*x

• The state loses unemployment insurance and workers’ compensation payroll taxes from employers. In Colorado, the state Legislative Council estimated that the carve-out bill would result in 5% of employees being reclassified as independent contractors—at a cost of $22.6 million a year in unemployment insurance premiums alone—to the state.xi

• In the larger economy, many states have found they’ve been shorted millions of dollars in state payroll and income taxes when companies label their workers as independent contractors.xii

**The Carve-outs Are Harmful to Small Businesses**

When companies like Handy get a special exemption from all state labor standards, other brick and mortar businesses lose their competitive advantage. Derek Christian, the Cincinnati-based co-owner of a maid service and a handyman service, said the bills will lead existing employers to convert to a lower-cost independent contractor model in order to compete.
"It won't just be Handy, it'll be all of these virtual companies that are out there now," Christian said.iii

Other companies that dispatch workers will be forced to follow suit in order to compete. In fact, many of the bills are so broadly written that many businesses could avoid state labor standards and payroll taxes, too, if they made minor changes to their business models and used the internet to dispatch workers: Painters, plumbers, home care providers, nannies, electricians, tech support.

The Carve-outs Are Harmful to Consumers
Without the protection of workers’ compensation, injured workers will have no recourse for workplace injuries incurred in a customer’s home, and will be forced to seek compensation from homeowners’ insurance or in litigation against homeowners themselves.

Who Is Helped by the Change in the Law? The Ultimate Special Interest Legislation
The bills were drafted and proposed primarily by one company, Handy.xiv In Tennessee, the sponsor of that state’s bill stated on the Senate floor that it was brought to him by Handy.xv In a media story about the bills, Handy’s lobbyist admitted that Handy is attempting to change the law to benefit its business model.xvi Some other platform companies, notably Uber, (which has shared lobbyists with Handy), Door Dash and Postmates, have also lobbied in favor of the bills.xvii

It’s no secret why the platform giants are pushing the bills: for a short-term lobbying investment, they stand to save—in perpetuity—state payroll expenses that other businesses pay, which can amount to some 20% of payroll.xviii The question of whether these companies must be accountable to their workers is hotly debated, with administrative proceedings and litigation pending across the country.xix By changing the state law, the companies can forestall additional challenges, overrule state agencies that have found their workers to be employees, and prevent judges and juries from deciding this question.xx

The big companies behind the bills are not small startups in need of special support. In fact, they are often much larger and more powerful than the companies with which they compete. Uber is valued at $72 billion.xxx Handy has raised more than $100 million in venture capital.xxxi

Many of the laws are passed with little or no debate. For example, in Florida, a new chapter of employment law—the Handy bill—was inserted into a budget bill and passed 45 minutes before the end of the legislative session.xxxii When legislators hear just one side of a story, with legislation pushed by just one company and that largely benefits that one company, our democratic system is undermined.

Innovative Employers Can Also Be Good Employers
Proponents argue that on-demand jobs provide workers with “flexibility,” a laudable goal that is at the heart of the movement for paid family leave and paid sick days.
But providing workers with flexible hours is a choice made by companies, not a legal precept. Successful platform companies like the cleaning company Managed by Q and personal management company Hello Alfred treat their workers as “employees” and provide flexible work schedules and benefits.xxiv The home repair company Pro.com, the real estate company Redfin, and a new housecleaning service by Amazon also treat workers as their employees.xxv

What Do Voters Want?

Voters overwhelming want legislators to make it harder, not easier, for companies to classify workers as independent contractors.xxvi

What Should State Legislators Do?

Instead of passing special interest legislation, legislators should insist that platform companies abide by the same laws that have long governed other companies. They should direct state agencies to apply existing laws and clarify coverage where necessary. Should legislators believe that their laws are unclear, they should consider adopting a simple “ABC” test, currently commonly used in the states.xxvii

Endnotes


There is significant evidence that under the traditional definitions in most state employment laws applied to virtually every other business, TNC drivers in particular are employees. As state agency decisions, independent research, and news reports illustrate, TNCs essentially control what drivers do, surveil how they do it, set the price of their labor, and employ algorithmic management tools to get them to work when and where the company wants, all


(1) does not unilaterally prescribe specific hours during which a driver shall be logged onto the digital network of the transportation network company;
(2) does not impose restrictions on the ability of the driver to use the digital network of other transportation network companies;
(3) does not restrict a driver from engaging in any other occupation or business; and
(4) enters into a written agreement with the driver stating that the driver is an independent contractor for the transportation network company.”
http://www.akleg.gov/basis/Bill/Text/30?Hsid=HB0132Z.

TN HB 1978. A marketplace contractor is an independent contractor if:

(1) The marketplace platform and marketplace contractor agree in writing that the contractor is an independent contractor with respect to the marketplace platform; (2) The marketplace platform does not unilaterally prescribe specific hours during which the marketplace contractor must be available to accept service requests from third-party individuals or entities. If a marketplace contractor posts the contractor’s voluntary availability to provide services, the posting does not constitute a prescription of hours for purposes of this subdivision (a)(2); (3) The marketplace platform does not prohibit the marketplace contractor from using any online-enabled application, software, website, or system offered by other marketplace platforms; (4) The marketplace platform does not restrict the marketplace contractor from engaging in any other occupation or business; (5) The marketplace platform does not require marketplace contractors to use specific supplies or equipment; and (6) The marketplace platform does not provide on-site supervision during the performance of services by a marketplace contractor.

See more on the Seattle Domestic Workers Alliance at www.workingwa.org/sdwa/.
See more at Transportation Fairness Portland, www.oraflcio.org/pdxtnC/
Steven Hsieh, “Seattle City Council Passes Resolution to Consider Raising Uber and Lyft Rates,” The Stranger, Apr 9, 2018,
State agencies, applying current law, are coming to the conclusion that on-demand workers are employees, class action litigation on the matter has been stymied by the companies' use of forced arbitration and class action waivers. Compare decisions cited in n 2 supra, with e.g., Uber Cases Consolidated Appeals, No. 14-16078 (9th Cir. Sep. 22, 2017) Order staying cases pending U.S. Supreme Court decisions in National Labor Relations Board v. Murphy Oil USA, Inc., No 16-307; Epic Systems Corp. v. Lewis, No 16-285; and Ernst & Young LLP v. Morris, No. 16-300), http://cdn.ca9.uscourts.gov/dastore/general/2017/09/22/14-16078%209.22%20order.pdf; Bekele v. Lyft, 199 F. Supp.3d 284 (D.Ma 2016).


