Disrupting the labour market: Policy changes in worker classification to support the growth of the solo self-employed

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Abstract

This paper discusses the current two-category worker classification systems in the European Union and the United States and explores how changes in the way we work – as independent contractors, self-employed, freelancers and on-demand workers – have rendered the current worker classification system outdated and ineffective. The paper reviews possible options for updating and redesigning the classification system to better reflect and accommodate the changing nature of work and the workforce.

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1. Introduction

The transformation of work has exposed a fundamental policy problem for the existing labour market structure: current labour laws and regulations in both the United States and the European Union prevent independent contractors, the self-employed, freelancers and on-demand workers from receiving the basic rights, protections and benefits awarded to full-time employees. This is because workers are classified as either employees who have access to all worker rights, benefits and protections, or as independent workers who have access to none.

The result is an inequitable labour market that penalises workers who choose to – or must – work independently.

The current worker classification system is designed to support and protect only employees in traditional jobs for a single employer, an approach that makes less and less sense as the options about how to work increase and self-employment becomes more common. If policymakers were designing a labour market today, from scratch, it's unlikely they would replicate current policies that award rights, protections and benefits only to employees. Instead, it's more likely that they would create a labour market that includes, supports, and protects all workers (Mulcahy, 2018).

This paper provides an overview of the current labour market structure and policies that only support employees. It discusses the rise of self-employment and the drivers of that growth. It then reviews both the benefits and challenges of self-employment, and how the changes in the structure and preferences of today's workforce have rendered the current employee classification system outdated and ineffective. The paper concludes with policy recommendations for updating and redesigning the employee classification system to better reflect and support all workers.

1.1 The rise of self-employment

The workforce of full-time employees in traditional jobs with a single employer is declining in both the US and the EU. In its place is the rapid growth of alternative work arrangements including project work, side gigs, independent and freelance assignments, and on-demand and platform work, collectively referred to as the gig economy.

The gig economy is made up of solo self-employed individuals. 'Solo' means that they are independent contractors without employees. Independent workers who do have employees are small businesses, and those are beyond the scope of this discussion. Solo self-employed workers include independent contractors, freelancers, consultants, advisors and on-demand and platform workers. In this paper, the terms self-employed, independent workers, and gig workers are used interchangeably and refer to the solo self-employed. X`

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The number of solo self-employed has increased steadily and rapidly over the past half decade, and their growth only accelerated during the pandemic (World Economic Forum, 2021). McKinsey Global Institute (2016) estimated that about a third of the workforce work independently either all or some of the time. MBO's *State of Independence* report (2021) found that, in the US, the number of people who work independently more than 15 hours per week rose 25%, from 13.6 million to 17 million, during 2020. An even larger group who work independently fewer than 15 hours per week, increased by 39 percent from 24.6 million to 34.1 million.

McKinsey's report on the future of work in Europe (2020) found that part-time working increased substantially in 22 of the 29 European countries surveyed, and that independent work – including freelancers, workers for temporary staffing agencies and gig economy workers – is projected to make up 20-30 percent of the workforce.

Working independently offers a much-needed alternative model of work that can either supplement or substitute for traditional jobs. McKinsey (2016) found that the vast majority (70 percent) of independent workers choose to work independently either some or all of the time. The remaining minority (30 percent) do so out of economic necessity, either because they can't obtain a full-time job, or because they need to generate additional income.

For those who choose it, an important driver of the growth of self-employment is the desire to create a different work life. Being an employee in a traditional job doesn't work well for everyone. Gallup (2022) reported that over 85 percent of European employees aren't engaged in their jobs, and other studies reveal high levels of stress and dissatisfaction among employees.

There is anecdotal evidence that during the pandemic, workers freed from the office, commuting and business travel, as well as those that lost their jobs completely, turned to solo self-employment in record numbers, either to build a full-time portfolio of gigs, or to quickly replace missing income from former full-time jobs. Taking on gig work can help insulate workers from economic volatility by providing an accessible way to earn income on a customised schedule.

2. Drivers of the growth of self-employment

Most of the growth in self-employment is driven by several trends: the increased security that can be realised from self-employment, the ability to generate more income from self-employment than traditional employment, and the better quality of life that workers can realise from working independently. Finally, this section includes a discussion of the massive and sudden shift to remote work, which has disrupted traditional work and facilitated the growth of independent work and side gigs.

2.1 A new view of the security of self-employment

The long-held perception is that full-time employment is secure and stable, both financially, and professionally. The emergence of the gig economy, along with the pandemic, has upended that view. The sudden layoffs, furloughs, and elimination of millions of jobs during 2020, and more recently during the 2022 economic downturn, have exposed the underlying insecurity, instability, and unpredictability of traditional full-time jobs that seemed secure. It's a precarious position to know that your income could go from 100 percent to zero based on a single email or Zoom call from your company initiating a round of layoffs (Kaonga, 2021).

Perhaps as a result, about two-thirds (68 percent) of the self-employed now say that they feel more secure working independently than having a traditional job (MBO, 2021). Those feelings of security come from having control over how much they earn and work, and from having (or being able to have) multiple streams of incomes from either different work activities, or multiple clients. About 70 percent of independent workers feel confident about their project pipeline, up significantly from about 60 percent in 2020.

A McKinsey Global Institute survey (2016) of nearly 8,000 independent workers in the US and EU-15 found that, compared to employees, people who choose to work independently are more satisfied with their income security and level of empowerment, and that more than two-thirds (67 percent) say they feel better prepared to cope with uncertainty around the pandemic. During the pandemic, short-term gigs and flexible work contributed income security to people who had been laid off, had their hours reduced, or were furloughed (Shrikant, 2019).

The greater optionality and income protection that self-employment offers has also fundamentally changed the employer-employee relationship in a way that is empowering to workers. Employers have less power because they no longer have the same level of control over their employees. More employees have started working for themselves through side gigs, and no longer rely on their employers for 100 percent of their income. They're earning money outside their full-time job, and that shifts the power dynamic with their employer.

2.2 The potential for higher earnings

The primary reason people work is to make money, and a significant driver of the growth of self-employment and independent work is the opportunity to make more money than one would working just as an employee, or to supplement an existing salary. The majority of workers who are self-employed by choice, and who have in-demand skills and expertise, earn more than they do as an employee (McKinsey, 2016).

MBO found that in 2021, 58 percent of independent workers made more money than they did when they were employed. In fact, the high-earning self-employed is one of the fastest growing segments of independent workers and nearly doubled between 2011 and 2021. Independent workers earning $100,000 or more annually increased nearly 30 percent, from 3 million to 3.8 million. In Upwork's survey of independent workers, 75 percent of respondents who left full-time jobs to work independently reported earning the same or more as when they were employees (Upwork 2021).

In Europe, a study using EU Statistics on Income and Living Conditions data found that self-employed workers earned more than employees if they were *"at the top of the earnings distribution"* (Pantea, 2022). This might seem like a surprising statistic, but on reflection it makes sense that the workers most likely to strike out on their own and work independently are those with the skills, experience and expertise to make a good living doing so.

The other side to this data is the minority of workers who are forced into working for themselves by necessity, or who are lower skilled and lower paid, are less likely to achieve the goal of being better compensated than employees. In the US, workers who are forced into self-employment are less satisfied with their income levels and income security than employees (McKinsey, 2016). In Europe self-employed workers who fall below the median income levels make less than their fully employed counterparts, in part due to the lack of protective rights for the self-employed (Pantea, 2020).

2.3 The quality of self-employed life

The pandemic has profoundly impacted people's views about how work affects their quality of life. As low-wage workers were forced out of jobs by closures and layoffs, and as professional workers were sent home, everyone was forced to feel what it was like to step out of their normal work routines.

Many workers are not stepping back in. Instead, they are seeking better working conditions – higher pay, shorter commutes, more flexibility and autonomy, and greater control over when, where, how much and how they work.

In the US, the Bureau of Labor Statistics reported that the percentage of people who left their jobs voluntarily each month increased from 1.6 percent in April 2020 to 6.4 percent in August 2021. It is the highest 'Quits Rate' in two decades. The jobs that people quit are not being filled. In July 2021, there were a record 11 million open jobs in the US. At the same time, the rate of business formations, particularly the limited liability companies that self-employed workers form, grew rapidly during the pandemic, indicating a surge in independent work. Upwork (2021) found that the share of individuals working independently full time increased 8 percent since 2019, to 36 percent of all workers.

2.4 The end of the office

The most significant trend in work has been the shift to remote work[2]. In general, companies cannot require independent workers to come to their offices since they are not allowed to control where the individual works (Mulcahy, 2017). Before the pandemic, it could be difficult to find companies comfortable working with someone physically remote. As the connection between work and the office was severed during the pandemic, employees and companies became more comfortable with remote work, as well as working with distributed teams and colleagues. This directly impacted self-employment. As remote work continues to the be norm, the physical location of all workers becomes less relevant, which creates more client opportunities for independent workers.

That said, the implications of this massive shift to remote work have yet to be felt fully. After two years of successfully working remotely, companies are now in the position of having to justify returning to the office full-time, or at all. It can be challenging to make a compelling case in the face of strong results for 2020 and 2021. In fact, the performance of most companies, and their share prices, during the pandemic raise the question of why a return to the office is needed at all. So far, a good answer has not emerged.

The most common rationale has been around the need to maintain culture. The reasoning goes that companies have worked hard to create a positive or productive corporate culture, and a return to in-person office time is needed to maintain it. Implicit in this argument is the idea that culture degenerates or disappears in the absence of face-to-face interactions.

Studying remote-first companies, however, shows that a physical office is not necessary – or even sufficient – to create a strong, successful, and productive company culture. There are many examples of office-based companies with dysfunctional or even toxic company cultures. Micromanaging, sabotage, and politics can easily infiltrate a physical office, and persist among in-person interactions. Why? Because culture is behavioural. The evidence suggests that trust and effective teams are built primarily through interpersonal behaviour and communication, not constant proximity from working in the same office space every day (O'Hara, 2014; Haas, 2016). These behaviours matter and impact culture whether they take place physically or digitally.

Employees are increasingly convinced that the opposition to remote work is rooted more in management control, trust, and ego than business performance (Mulcahy, 2019). They are showing early signs of being unwilling to address those management issues by returning to the office. There is a general unwillingness to relinquish the control, convenience, and flexibility of work from home that is shifting the power dynamic in the workplace and permanently disrupting the norms of both traditional and independent work.

[2] For a broader discussion on remote work, listen to the podcast 'Making remote work, work' (Bruegel, 2022), available at https://wordpress.bruegel.org/2022/04/making-remote-work-work/.

3. Benefits of the growth of self-employment

As noted above, growth in solo self-employment is driven predominantly by people who work independently by choice. In the best cases self-employment can be a 'win-win' for both the self-employed and the companies they work with. This section discusses the benefits of self-employment and independent work for both workers and companies, while the next section spends time on the challenges.

3.1 Benefits for the self-employed

Surveys of the self-employed indicate that their working life is better on many important dimensions compared to employees. Nearly nine out of ten (87 percent) say they're happier working on their own, and 77 percent report being very satisfied with their work (MBO, 2021). Self-employment is better for their health, say 78 percent, and nearly the same number (76 percent) say they are optimistic about the future of their career. Upwork survey respondents agree, with 73 percent indicating that working for themselves has made them more productive, and 86 percent believing that the 'best days are ahead' for working independently. Perhaps most compelling, 60 percent of independent workers say that *"there is no amount of money"* that would convince them to return to working as a full-time employee in a traditional job.

McKinsey's survey of independent workers in both the US and EU validates these results. People who choose to work for themselves reported higher satisfaction with their opportunities, empowerment, creativity, recognitions, flexible hours, flexible location, hours worked and overall work life than employees (McKinsey Global Institute, 2016). Similar surveys from the ADP Research Institute and FlexJobs reached the same conclusions: on average, self-employed workers are more satisfied, engaged and productive than employees (ADP, 2019; Flexjobs, 2019) .

It's worth highlighting that one of the biggest groups of beneficiaries of the growth in self-employment are workers who have been stuck on the margins of the traditional jobs economy. People with disabilities, the chronically ill, stay-at-home parents and other caregivers, retirees, and students now have more options to work when, where, and how much they want (or are able) to generate income, develop skills, become more engaged with others or pursue a passion. Because it is now so much easier to work and earn income from home, part-time, and on a flexible schedule, self-employment can provide choice, dignity, and a measure of financial control and opportunity to those workers who previously had too little of each.

3.2 Benefits for companies

Hiring self-employed workers can help companies be more flexible and resilient, and to adapt quickly to changing economic and market conditions.

Independent workers give companies the agility to adapt quickly to changing business environments. They are faster to onboard than employees and are available on-demand. They can execute short-term tasks and projects to meet specific, immediate needs. The result is a more flexible and resilient workforce that can respond to market changes, such as a pandemic, or an economic downturn (WEF, 2020).

Independent workers add flexibility to help companies scale up and down to meet variations in demand, particularly in industries including distribution, logistics and retail, which experience seasonal spikes in demand. Adding the self-employed into the workforce directly, or using labour platforms to access them indirectly, makes it possible to hire the right skills at the right time to meet the varying demands on the business. Companies can scale up and down as needed, and add or reduce workers in tandem with changes in business and market cycles.

Finally, in a challenging environment and competitive market for talent, companies can broaden their talent pools by considering self-employed workers. This offers two benefits. First, the self-employed can be candidates for companies to fill hard-to-recruit-for positions, staff critical vacancies, or offer the skills or expertise unavailable among employees locally. Second, by no longer being restricted to employees locally, companies can hire from a broader slate of candidates nationally or globally, resulting in a more diverse workforce.

No discussion on the benefits to companies of hiring independent workers is complete without addressing the perception that the primary benefit to companies is to save on labour costs. Since companies aren't required to pay benefits or social protection costs for independent workers, they are able save those overhead payments, resulting in cheaper labour costs. This may be true in some cases, particularly in lower skilled, lower paid positions. In those cases, companies may decide to higher self-employed workers instead of employees, or they may misclassify employees as independent contractors.

As discussed earlier in the earnings section, however, realising lower labour costs is less likely to be a successful strategy for companies seeking workers who have in-demand skills and experience, and are in a position to negotiate high compensation and fully loaded rates. From a policy perspective, then, governments that are concerned about companies arbitraging the difference in labour costs or misclassifying workers should focus on policies that limit their ability to do so, as well as protection and enforcement efforts on lower paid, lower skilled workers.

4. Challenges of a self-employed workforce

Notwithstanding all the benefits described so far, solo self-employment also brings challenges. For the self-employed, the biggest challenge of working independently is the reduced access to the benefits, rights, and protections only awarded to traditional employees. In the US, this looks like the inability to access company benefits like subsidised health, disability, and life insurance, unemployment insurance, and sick leave, as well as the lack of protections against, for example, discrimination and harassment. In Europe, the self-employed lose access to company social protection payments including unemployment and pensions, and also lose protection against discrimination and harassment.

For companies, by far the greatest challenge related to hiring independent workers is compliance with current worker classification systems. This is an issue in both the US and the EU. This section discusses each of these challenges in turn and offers possible policies to reduce or eliminate these challenges.

The policy discussions around the changing workforce and ways of working are in the early stages, and the most common recommendations for change are incremental and involve minor tweaks to the current labour market structure and policies. This paper focuses on describing more comprehensive and disruptive policy recommendations to restructure labour markets.

4.1 Challenge for the self-employed: access to employee benefits

If policymakers were designing a labour market from scratch today, it's unlikely they would decide to create one that rewards and supports only full-time employees. This wouldn't make sense given the growth of self-employed workers within companies and on labour platforms, and the increasing number of workers who work outside of the traditional full-time job structure. If policymakers were designing a labour market today, it would more likely be a system that supports everyone who works (Mulcahy 2019).

Yet, in the US and generally in the EU (where there are exceptions for specific countries and specific benefits), labour policies reward full-time employees in full-time jobs, and penalise all other workers by limiting their access to benefits, rights and protections that are awarded only to employees.

Creating a labour market that supports everyone who works requires extending the benefits and protections awarded to full-time employees to all workers. It's a monumental undertaking, but a necessary one if the goal is to create an equitable labour market and to ensure the long-term functioning and sustainability of social safety nets. A fully comprehensive re-design of the entire labour market is beyond the scope of this paper, but to illustrate, described below are three examples of important employee benefits and protections that could be extended to self-employed workers.

4.1.1 Sick leave

As part of their 'all-in' compensation for employees, companies allocate and pay for sick leave. Companies currently do not make any provision for the sick leave of independent workers. One way that could change would be for companies to pay that same overhead payment that they pay for employees, but on a pro-rata basis for self-employed independent workers. That would allow the self-employed worker to accumulate sick-time savings based on their total hours worked. These payments could go directly to the workers for them to save and allocate, or could be paid through a third party such as, for example, a benefits platform for self-employed workers[3].

4.1.2 Income insurance

Unemployment insurance protects the income of an employee who loses their job. As seen during the pandemic, unemployment insurance works when everyone has a traditional job with a single employer. It falls apart in an economy where 'employment' consists of a portfolio of gigs, projects, on-demand work, and assignments conducted for multiple clients. The self-employed don't need unemployment insurance if they lose a job, because they don't have a traditional job. They need income insurance if they lose a significant amount of work.

The basic idea of income insurance is the same as unemployment insurance: to provide a minimum level of financial stability without creating incentives to stop working. Traditionally, when an employer terminates an employee through no fault of the employee – due to a layoff or merger or downsizing – the employee's financial stability is protected by unemployment insurance, which pay employees a percentage of their prior income for a period of time (usually about six months). Employers pay the costs of unemployment insurance through regular payments to their state's unemployment insurance fund.

During the pandemic, US and EU governments stepped in and provided income protection to the self-employed, proving that this policy change can be decided on and implemented quickly and effectively (US Department of Labor, 2020; CEPR, 2021). Rather than have governments bear these costs, one approach going forward would be to require companies to pay pro-rata income protection payments for all of their workers, not just their employees. In the US, employers in many states already pay unemployment insurance on a pro-rata basis for part-time employees. Under this option, they would be required to extend their pro-rata payments to cover all their workers.

[3] Such as Stride Health, for example; see: https://www.stridehealth.com/.

4.1.3 Protection against discrimination and harassment

Current labour laws in both the US and the EU protect employees from harassment and discrimination at work. This right to work in an environment free from harassment and discrimination is not currently extended to independent workers. It is a relatively straightforward
change in policy to extend discrimination and harassment protections to all workers. In a promising first step towards covering all workers in the US, Congresswoman Eleanor Holmes Norton, the chair of the US Equal Employment Opportunity Commission, introduced a bill, which still has not been adopted, to apply federal anti-discrimination protections to independent contractors. This, or similar legislation, is needed in both the US and the EU to extend basic employee protections to all workers (Norton, 2018).

As this section discusses, labour policies and regulations that support only employees in traditional jobs make less and less sense in a workforce that is increasingly made up of independent and alternative workers. Creating a labour market that supports everyone who works requires extending the benefits and protections awarded to full-time employees to all workers. This is a significant undertaking that will disrupt the fundamental structure of the labour market, but it is a necessary step to preserve the integrity of government social protection and safety nets, and to maximise the potential of the increasingly independent workforce.

4.2 Challenge for companies: worker classification

As the self-employed and independent workforce has grown in size and significance, start-up and traditional companies alike have struggled most with issues related to the current worker classification system. The labour market is built on a two-category system that classifies workers as either employees or independent contractors. For the reasons discussed in this section, however, the system is unclear, subjective and not working for either workers or companies.

In both the US and the EU there are numerous examples of lawsuits at various stages of the legal process attempting to both clarify and enforce the current classification system, to little avail. These lawsuits, and the unworkable classification system that underlies them, are a persistent problem. The key problems with the two-category classification system are described below:

- <u>The classification system is outdated and fails to reflect the realities of how people work:</u> The most significant problem with worker classification is that it attempts to fit the square peg of today's varied and changing workforce into the round hole of two categories. Many workers today are both employees and independent contractors, or are working in ways – remotely, using technology platforms, or on a project basis – that are difficult to clearly classify using traditional criteria and definitions, which indicates that the system needs to be updated.

- The current system is unclear, subjective and vague: The criteria used to determine if a worker is an employee or contractor lacks clear and quantifiable definitions, rules or tests of what makes someone an employee or an independent contractor (Mulcahy, 2019). This is the underlying cause of the many legal disputes over worker classification. The most commonly used ABC test in the US, or the proposed EU Commission five criteria are qualitative and not clearly defined, which means they are subjective and open to varying interpretations[4] (California LWDA, 2022; Lomas, 2021). For example, under the ABC test, key terms and criteria, such as 'control,' 'usual course' and 'customarily engaged' are undefined and subject to varying legal interpretations. So far, governments have been unwilling to introduce or pass criteria that are clear and objective.

- The current classification system relies on legal review and enforcement. This means that enforcement is slow and uncertain. The lawsuits can take years to wind their ways through the courts. For example, labour platforms like Uber and Deliveroo have been a party to numerous lawsuits in several jurisdictions over much of the last decade. In California, the state's AB5 legislation took a decade to litigate, and is still in dispute (California Legislative Info, 2019). This leaves both companies and workers in uncertain positions regarding their employment status, and exposes companies to the risks and penalties of employee misclassification.

- Worker classification doesn't reflect the realities of the current workforce: The current system regularly attempts to force workers who are self-employed and independent by choice to be classified as employees. The rationale for this forced classification is to give self-employed workers access to rights, benefits, and protections currently only available to employees. But this same goal could also be accomplished by allowing workers to choose how they work and extending those employee benefits to all workers. The data available on independent workers consistently shows that more than 75 percent are working independently by choice (Upwork, 2018, McKinsey, 2016). Data about workers on platforms, and data from the platform companies themselves, shows that most independent workers are working part-time or on the side to supplement their regular work and income (MBO, 2019).

- It distorts the labour market by creating a 'classification kink;' The classification system distorts the behaviour of companies and workers because it introduces what economists call a 'kink' in the labour market (Hausman, 1983). Think of a kink as an economic inflection point created by policies. The main problem with kinks is that people try to game them. Behavioural economists have found that people 'bunch,' or cluster, at kinks

[4] The EU ruling may only apply to platform workers, further dividing up the labour force.

in order to maximise their economic benefit (Mortenson, 2020; Saez, 2010). The most familiar example of kinks is income tax brackets. The point at which one tax bracket ends and the other begins is the kink. People who have discretion over their income (or over reporting of their income) will bunch at the upper limit of a lower tax bracket, in order to avoid moving into the next higher bracket.

Current worker classification creates a kink in the labour market. This kink causes both companies and workers to bunch around it to attempt to maximise their economics. A change in policy that removes this artificial kink would eliminate the inefficiencies and distortions it causes in the labour market.

- The classification system creates a two-tier workforce: It leads to excess demand and reduced supply for full-time jobs. Even if they would prefer to work independently, the classification system encourages workers to seek traditional jobs, or initiate misclassification lawsuits to gain employee status, in order to access the lower taxes, subsidised benefits and labour protections only available to employees.

  It also provides incentives for employers to reduce both the supply of full-time jobs and the demand for full-time employees. Workers in the US classified as employees cost 30-40 percent more than independent contractors because companies must pay federal income, Social Security and Medicare taxes for each employee, as well as unemployment insurance, and the cost of benefits, such as health insurance (McKinsey, 2016). Not unexpectedly, some employers are actively arbitraging the cost disparity between the two types of workers by reducing their numbers of employees and increasing their hiring of independent contractors. Even if companies would prefer more full-time, dedicated staff, the classification system provides incentives to hire more short-term, less expensive, contract labour than they otherwise would. We can see this phenomenon occurring in companies where employees are a declining portion of the workforce (Wakabayashi, 2019).

5. Policy Recommendations

The system of classifying workers as either employees or independent contractors is ambiguous, outdated and in need of reform. Reforming employee classification is clearly a significant undertaking, but one that is necessary to create a more economically efficient labour market and eliminate the inequity and ambiguity of the existing two-tier system. The growth of independent work is fundamentally changing the nature of work and the workforce. It is up to policymakers to respond with a classification system and labour market policies that reflect and support those changes is needed.

The most common proposal to fix the worker-classification system is to add a third category of workers called *"independent worker,"* or *"dependent contractor"* (Harris, 2015; Cherry, 2017). The new category of worker would get more benefits than an independent contractor, but fewer than those offered to traditional employees. This option is an incremental change that would create a more complex three-tier workforce. It would also introduce an additional kink into the labour market and continue to distort the behaviour of companies and workers. The same problems of unclear classification criteria and reliance on the legal process for enforcement would persist.

A more comprehensive (and disruptive) option that would resolve the inefficiencies and inequities created by categories would be to eliminate classification entirely and simply have a single category that includes all workers. The first principle of such a system is to treat workers equitably regardless of how they choose to work.

The fundamental belief underlying this solution is that the labour market should support everyone who works, not just traditional employees. It would require extending to all workers the benefits, subsidies and protections that are now only available to employees. Under this system, companies and governments would provide all workers access to social protections and social safety nets, and companies would pay on a pro-rated basis for all the workers they hire, regardless of status (Mulcahy, 2019).

6. Conclusion

The transformation of work during the past two years have been abrupt, urgent and unexpected. Both the pandemic and the growth in self-employment and independent work have brought about a profound shift in how, when and where people work. The new way of working is is agile, blended, flexible, and more autonomous, remote, and geographically distributed.

Work looks less like a physical office full of full-time employees and more like a diverse and dispersed cloud of labour – one that could offer efficiency and flexibility to companies and put autonomy and control in the hands of workers.

Labour markets must be updated to accommodate and support the variety of ways that work is structured and accomplished. This requires levelling the playing field between employees and the self-employed so that each has access to basic employee rights, protections, and benefits. The employee classification systems in both the US and the EU stand in the way of this level playing field by artificially dividing the workforce into employees who have access to all worker rights, benefits and protections, and independent workers who have access to none. It creates an inequitable labour market that penalizes workers who choose to – or are forced to – work independently. The necessary solution is to remove this artificial kink in the labour market and extend rights, benefits and protections to all workers.

The creative destruction necessary to create a labour market that supports the entire workforce is both painful and full of possibility. But the potential rewards are great: providing access to labour rights, protections and benefits to all workers, not just employees.

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