Reinventing Labor: The Sharing Economy as Professional Leverage

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The *"Great Decoupling"* is how Erik Brynjolfsson and Andrew McAfee describe the swiftly widening gap, in most developed countries, between productivity gains and real household income.

As software is eating the world, fast-paced technological progress makes it possible for businesses to maximize output per worker, thus reaching unprecedented levels of labor productivity. Yet unlike what happened during previous decades, higher productivity isn't translating into a higher purchasing power for workers. On the contrary, the impression is that the more technology we deploy, the more workers fall down the social ladder. How can the tech industry claim to make the world a better place if it hurts the majority of workers so badly?

Indeed the *"Great Decoupling"* explains both the widening inequality gap and the increased economic insecurity now felt by most middle class workers. Too many people have resigned themselves to this worrying trend. For them, inequalities are bound to rise and jobs are bound to disappear anyway. The only way to save the social compact would be to slow down technological progress (the solution of the neo-Luddite) or to implement universal basic income (the solution of the uninspired Silicon Valley engineer).

Another group of people, however, are willing to tackle the challenge of ending the decoupling between productivity and income. They correctly observe that the same decoupling happened one century ago, as we entered the age of the automobile and mass production. As Nelson Lichtenstein has noted, in the 1920s, *"output per worker in [US] manufacturing leaped upward by a remarkable 43 percent, while wages barely held their own."*

This previous *"Great Decoupling"* was only brought to an end by governments that established institutions to

empower workers in the Fordist economy and help them claim their fair share of the unprecedented productivity gains brought about by mass production. And as proved by the post-war boom in developed countries, it worked even better than one could have hoped for. Can we now reestablish that same kind of economic prowess in our new age of personal computing and networks?

The Importance of Unions and Collective Bargaining

There are already institutional designs put forward as ways to increase workers' income in the presence of high productivity gains.

Occupational licensing, which exists for physicians and taxi drivers for instance, artificially caps the number of professionals in a certain trade, thus improving their bargaining power and making it easier for them to claim a higher income. Many governments around the world are trying to impose such schemes on emerging technology-driven business models, notably to slow down the growth of companies such as Uber—in that case to prevent too many new drivers from competing with the taxi industry.

Progressive taxation, a feature of all modern tax systems, also contributes to dissuading capitalists from claiming too large a share of the value added at the expense of their workers. As demonstrated by Thomas Piketty, progressive taxation contributed a great deal to reducing the inequality gap during the twentieth century. This issue still dominates left-wing politics in many Western democracies: supposedly, raising the tax rates in the higher income brackets should be enough to contain inequalities.

As for the workers, labor laws frame the terms that employers can impose on those working for them in exchange for a wage: it usually puts a floor on wages and prices as well as a ceiling on hours and efforts, thus limiting the employers' bargaining power. Social insurance plays a role, too. Thanks to programs such as unemployment benefits and universal healthcare coverage, workers become less dependent on their employers and can leave if the negotiation doesn't turn out in their favor. Another institution stands out, however, and that is collective bargaining: namely tough workers unions bringing employers to the negotiating table to agree on higher wages, better working conditions, more social benefits, and industrial democracy.

Worker-friendly institutions shouldn't be singled out, of course, as they tend to complement one another. No single institution can achieve ambitious goals without the support of an entire socio-institutional framework. As for collective bargaining, it wouldn't have worked without labor legislation enacted by the government and without social insurance programs providing a safety net for workers. And yet it probably played the most critical role when it came to finally bringing the first *"Great Decoupling"* to an end.

One reason why collective bargaining worked so well is that workers unions bargain for the longer term: unlike taxation or social insurance, the terms they negotiate are not in danger of being reversed at every electoral turn. Another reason is that unions, to quote Nelson Lichtenstein again, are the only ones possessing an *"intimate, internal knowledge of business conditions. Only they [can] 'enforce' government-mandated minimum-wage standards and maximum-hour regulation"* by way of reaching an agreement with the employers. A third reason is that thanks to the power of polarization, bargaining in and of itself is a powerful means to achieve change and promote the workers' interest—a lesson taught well by Saul Alinsky:

> *Before men can act an issue must be polarized. Men will act when they are convinced that their cause is 100 per cent on the side of the angels and that the opposition are 100 per cent on the side of the devil… There can be no action until issues are polarized to this degree.*

What It Took for Unions to Gain Strength

It took a long time before unions became strong and were able to push employers into actually negotiating with them. The history of collective bargaining has gone through different phases.

Before the age of the automobile and mass production, workers were mostly organized according to their craft. As written by Olivier Zunz in *Why the American Century?*,

> *In the nineteenth century, the American working class was still divided between skilled and unskilled workers. That strict separation, based on membership in a craft, was reflected in the organization of the labor movement. Craftsmen could join labor unions, unskilled workers could not.*

In the US, the power of craft unions peaked during the Progressive Era. A key economic issue at that time was to defend skilled workers and small businesses against the giant trusts that were emerging from the technological revolutions of the nineteenth century (notably in the rail, steel and oil industries).

Then the union landscape completely changed with the rise of Fordist assembly lines. Suddenly there were more unskilled workers joining the workforce, and they too were willing to organize. But these workers didn't have a craft, as their work consisted in executing routine tasks, and no craft union would admit them in their ranks. Thus something was needed to bring them together, if possible at the level of an entire industry.

In most developed countries, such as Germany, Britain, and France, it was Marxism that played that role, as it

equipped the nascent labor movement with an ideological framework designed to defend workers' interests. In the US, where Marxism never gained a real foothold, it took strong labor leaders such as John L. Lewis and Walter Reuther to be the forces that promoted industrial unionism anyway. In every country, rising industrial unions contributed to integrating a growing number of workers in an ever more organized workforce—including immigrants and minorities who formed a large part of the unskilled workers toiling away in industrial facilities.

But uniting was not enough to force employers to listen to industrial workers' claims. As industrial corporations grew larger, many strikes were still beaten back by the courts or simply crushed by raw force. Effective power only came to those new unions through assistance from the government. In the US, the 1935 Wagner Act put a (temporary) end to union busting by imposing the right to organize at both the industry and the company level. In other countries, state assistance came even earlier. Marxism provided the labor movement with such a drive that governments around the world felt obliged to yield to their demands and involve workers unions in the design and implementation of more worker-friendly policies. Finally, post-WWII *"embedded liberalism"* provided unions with lasting power, and for many decades they effectively wielded that power to advance their members' interests, forcing the employers to back down and share the wealth created by the ever-larger corporations of the Fordist economy. State-assisted unions ultimately contributed to turning the working class into the middle class, thus inspiring the modern standard of living.

Indeed the importance of unions and collective bargaining can be stressed by pointing out the kind of jobs that working-class American voters were missing as they decided to put Donald Trump in the White House. Ben Casselman, of *FiveThirtyEight*, argued a few months ago that

> *When politicians pledge to protect manufacturing jobs, they really mean a certain kind of job: well-paid, long-lasting, with opportunities for advancement. Those aren't qualities associated with working on a factory floor; they're qualities associated with being a member of a union.*

Workers in the Digital Economy

As we experience another *"Great Decoupling"*, one of the growing discussions around the future of work is related to organizing workers in a more digital economy.

It is safe to say that collective bargaining will once again be key in making income increase in line with productivity, and lessons can certainly be drawn from the past in that regard. However, software eating the world brings about major changes that should be taken into account when reflecting on collective bargaining in the future.

First, more workers will be contractors doing on-demand work on platforms. Yes, those platforms tend to grow in

sectors, such as taxi driving, in which workers already operate as independent contractors, not as employees. But the reason why those sectors were dominated by independent workers in the first place is linked to the nature of the tasks they executed. Whereas a routine job is easily embedded in the Taylorist framework of scientific management, a non-routine job is often best left to independent workers—whether those are knowledge workers, like physicians or lawyers, or more manual workers, like taxi drivers or general contractors. Since we can expect that most jobs will be non-routine in the future (as most routine jobs will be replaced by software and robots), it's fair to say that contracting will rise as the preferred contractual form, as opposed to becoming an employee.

The rise of contracting through platforms is correlated to decreasing transaction costs. Thanks to smartphones and social networks, it has never been easier to match supply and demand through vast marketplaces such as Amazon, Uber, and Airbnb. Managing identity and reputation and securing transactions are key features of the giant platforms that are giving rise to the gig economy. The consequences for the workers' bargaining power are dire: as lower transaction costs make it easier to replace one worker with another, a frictionless job market effectively imposes precariousness on workers, weakening their bargaining power in the process.

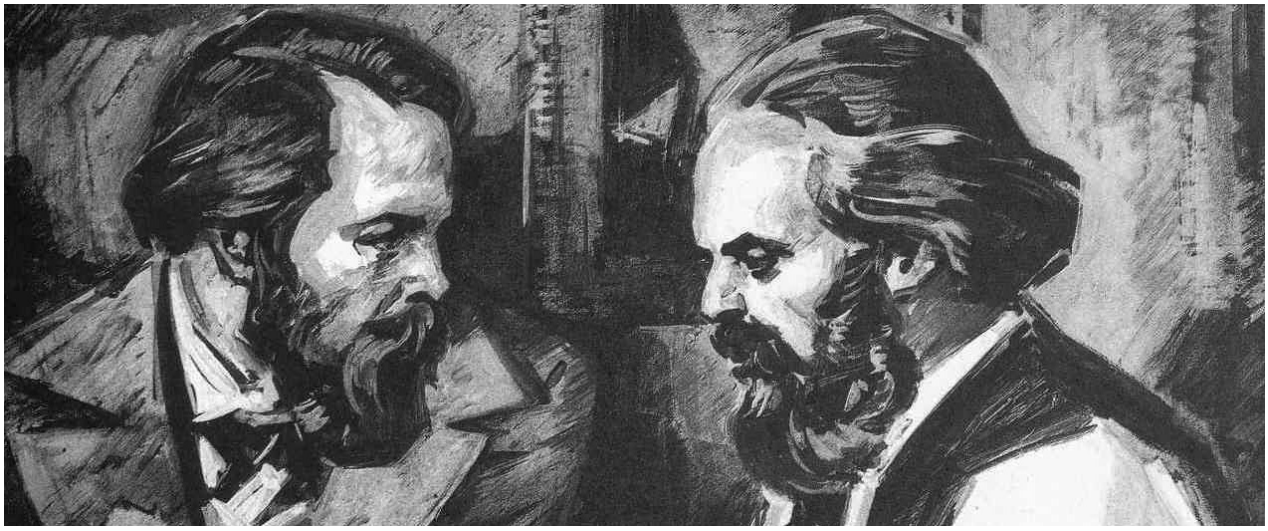
Second, as technology makes progress, most jobs can be held by less skilled workers. Tim O'Reilly rightfully observes that technology augments people more than it replaces them. As such, it enables us to do things that were previously impossible. But it also makes it possible to do the same things, only with less skilled workers. Like Uber, it can even do both: employing less skilled workers (Uber drivers don't know the city map like old fashioned taxi drivers) while delivering a higher quality than the incumbents. This "downwards augmentation" is in fact the most promising perspective when it comes to creating jobs for less educated people in an economy driven by technology—and a radically new way of looking at software and robots in the context of Schumpeterian job destruction.

Downwards augmentation doesn't mean that everybody, however unskilled, will be good at their job. Rather, it means that anyone will be able to execute the routine tasks required for many jobs (for instance when real-time geolocation spares a driver from needing to know the map of the city by heart), and differences will be found in non-routine, more human capabilities such as punctuality, attention, memory, kindness, empathy, literacy, energy, and warmth.

In any case, with less-skilled workers taking on most jobs, productivity goes up: if you can add more value with less-skilled workers, you generate a surplus that can supposedly be divided between the consumers, capital… and labor. The question then becomes how can these workers claim their fair share of that surplus, thus bringing an end to the *"Great Decoupling"*.

An Infinite Reserve Army of Labor

What happens when workers are less educated contractors that you can replace in an instant thanks to very low transaction costs? The main result—and bad news for those workers—is that Marx's *"reserve army of labor"* is wider than ever: thanks to the digital economy, corporations now have an infinite pool of job-seekers that they can tap into to replace those who have the nerve to organize and demand better working conditions.



Education and experience used to be leverage, and routine jobs were the most demanding on that front. Tomorrow, routine jobs won't exist anymore—they'll be the first to be replaced by software and robots—whereas non-routine jobs will be easily accessible without the need for preliminary experience or training. More jobs that don't need preliminary training surely means more opportunities for the unemployed, but it also leads to more competition on the job market; in turn, this helps employers bring wages down, which explains the *"Great Decoupling"*.

Take the case of table waiters for instance. You've always needed energy, concentration, and a good memory to be a good waiter. But you don't necessarily need to attend a school or university to learn the job—you don't even need several weeks of training to get up to speed. People mistakenly think that the absence of education or training is the reason why table waiters are paid less than, say, skilled industrial workers or office clerks. But this is misleading. The real reason why they are paid less is because they're *dispensable*: you can replace them in a blink of an eye while keeping your business afloat—which you can't do with other jobs that require more hands-on training. (This explains the high employee turnover in restaurants, as well as the fact that many jobs are occupied by students and immigrants.)

This is also what happens on digital markets such as ride-hailing: if there are no barriers to entry, then anyone can become an Uber driver, and it becomes difficult for those already driving to bargain for a higher share of the value added. And yet if the future of jobs was working constantly in exchange for less than the minimum wage (and without social benefits), there would be no reason to cheer technology as we do it in these papers.

So here is the question: how can workers organize and regain an upper hand in their bargaining with corporations in a world where the *"reserve army of labor"* is infinite? It's not only about the workers' interest. In a previous issue, I explained that companies themselves have a clear interest in empowering their workers. This is true in industrial activities because worker empowerment has a direct and positive impact on productivity. It is also true in service businesses, as worker empowerment in those sectors makes for nicer people and a higher quality of service delivered.

Imposing Scarcity Through Occupational Licensing

The traditional approach when it comes to providing bargaining power to employees is to impose the whole set of institutions that prospered in the twentieth century: labor laws, social insurance, collective bargaining. And the traditional approach when it comes to increasing the bargaining power of independent contractors confronted with a large *"reserve army of labor"* is what exists in the taxi industry: artificial scarcity of supply (a *numerus clausus*) resulting from occupational licensing (the taxi medallion).

Indeed as Richard and Daniel Susskind remind us in their landmark book *The Future of the Professions*, the *"grand bargain"* of occupational licensing used to be the way of providing bargaining power to some professional workers:

> *In return for access to their extraordinary knowledge in matters of great human importance, society has granted them (the professions) a mandate for social control in their fields of specialisation, a high degree of autonomy in their practice, and a license to determine who shall assume the mantle of professional authority.*

The main reason why occupational licensing has a hard time surviving in a more digital economy is that creating an artificial scarcity of supply pits workers against the consumers because at some point demand always exceeds supply. If there are not enough professionals to match the occasional peak in demand, there are two possible outcomes: either the prices go way up, as the supplier engages in rent-seeking (this used to be the case with law firms), or consumers are left unserved (usually those with less means, as is the case on the healthcare market), or both—as is the case in the taxi industry, which raises the prices through more expensive medallions and leaves entire neighborhoods unserved. That kind of imposed scarcity was sustainable at certain periods in certain industries. But on more competitive markets, as proved by the infamous *"Wal-Mart Effect"*, pitting workers against consumers tends to end badly for the workers.

This is all the more true in the age of personal computing and networks, with technology providing consumers an unprecedented and irresistible bargaining power. Indeed the power of consumers is the reason why tech companies ultimately win against startup-busting politicians and rent-seeking incumbents. The only way for workers to reclaim the upper hand is either to seal an alliance with the consumers, as argued in this article written for the Global Drucker Forum, or to game the system by exploiting the data as much as the platforms that provide them with gigs (see below).

Sealing an Alliance Between Professionals and Amateurs

The crisis of the professions is apparently made even worse because the digital economy makes it possible for amateurs to enter the market, notably thanks to the platforms of the so-called sharing economy—such as Airbnb, which makes it possible for amateurs to rent their own apartment, BlaBlaCar, with which amateurs can provide an alternative to railway companies and long-distance bus travel, or Heetch (a company in The Family's portfolio), on which drivers who move about during the night can share their suburban trips with passengers headed in the same direction.

As of today, professional workers see the sharing economy as a threat, an even wider extension of Marx's *"reserve army of labor".* Those who enter the market thanks to the sharing economy are not professionals who are doing their job to make a living. They're amateurs, and amateurs are a frightening competition for professionals for many reasons. Some (not all) amateurs do a better job than professionals because they do it with heart. Amateurs have lower capital costs because there are certain assets (like an office or an occupational license) that they don't need to invest in to do a good job. And amateurs usually have other sources of revenue, so they're willing to cut the prices down: it isn't like their entire income depends on their sharing activity. Finally, amateurs lower prices precisely because they see themselves as amateurs and they don't feel legitimate enough to price as high as a professional. We all understand why professional workers are angry when they witness those amateurs bursting onto their market, empowered by digital platforms, and imposing what is also known as *"unfair competition"*.

But what if amateurs could become the allies of professionals, instead of foes? How can you put a ceiling on the number of workers while satisfying the consumers' demand even in the most extreme circumstances (hence preventing rent-seeking and ensuring that every consumer is served at an affordable price)? This is actually made possible by imposing occupational licensing to professionals… while simultaneously using the sharing economy's amateurs as a backup! In this scenario, instead of waging a war against amateurs as well as their own customers, better organized workers can seal an alliance with those amateurs participating in the market through the sharing economy.

Think about it: workers are indeed suffering in the current state of the digital economy. But employees and contractors alike could be empowered by the rise of a new breed of union that would harness the power of personal computing and networks to regain the upper hand against the employers of the day—in many cases, the large platforms of the digital economy. We can already find some movement on this front: the Freelancers Union deploying a platform for unaffiliated freelance workers; the Uber drivers sharing their data via Intuit or organizing to game the surge pricing algorithm and earn more money for each ride.

Those unions would then reach out to the consumers to better understand their needs and make sure that these are met within a social compact that preserves everyone's interest. And if an additional workforce is needed to match certain peaks in demand, the solution is there: inviting amateurs on the market so that they focus on those slots and segments where demand is very high and cannot be met by the professionals alone. If contained on this part of the market, amateur supply can supplement the professional workforce without actually weakening the bargaining power of those professionals on their own segment.

Instead of being the enemy, amateurs brought about by the sharing economy would then serve four goals matching the professionals' interest. First, they would facilitate maintaining the professionals' *numerus clausus*, thus strengthening the workers' bargaining power. Second, they would backup the professionals to help keep the consumers happy, thus actually increasing these consumers' propensity to pay a higher price. Third, by sharing data they would help professional workers gain better, real-time knowledge of the market, making it possible to build a strong and decisive alliance between workers and consumers over the long term. Fourth, amateurs would form a pool in which new professionals could be hired, based on their record as amateur workers, their appetite for becoming professionals, and their support of the values underlying the new social compact.

(In an even more sophisticated version, professional unions could form cooperatives, like a farmers co-op, to invest in supplementing sharing economy platforms, thus grabbing a share of the value added on the amateur segment of the market.)

The Case for Heetch

Heetch, the nightlife ride-sharing company in our portfolio, is currently on trial in Paris for allegedly competing with traditional taxi without proper licensing. The main reason for the trial is the pressure exerted on the government by professional drivers who see Heetch as *"unfair competition".* The bad feelings towards Heetch are shared by both traditional taxi drivers and the new breed of drivers working on technology ride-hailing platforms such as Uber (in France, those are as regulated as the taxi drivers and must own a different kind of medallion).

Why won't professional drivers seal an alliance with Heetch instead of opposing it? The case has been made by Heetch's CEO Teddy Pellerin in a recent story detailing his plans for the future. Teddy rightfully sees Heetch as a company focused on an underserved segment of the market (young people going out partying in the city, then having to go back to their suburban homes late at night). As such, Heetch helps the entire market cope with the peaks in demand:

> *By its very nature, professional transportation is stable: the drivers work every day, and it's impossible to have more available on weekend nights than are available during the rest of the week.*

> *Adjusting the professional supply to absorb peaks in demand would have serious consequences during the rest of the week, particularly during the day. It would mean that many drivers would never be able to reach any level of profitability.*

> *The Heetch model that we're defending allows for two worlds to exist together: that of professionals who drive in order to make a steady living, and that of amateurs who provide a service with occasional trips, during those times when the current offer is entirely insufficient.*

> *As consumers are today looking for more and more flexibility, for us it seems natural that we imagine new mobility solutions rather than trying to rush toward more professionals.*

This is the key message here: instead of lobbying the government to crush technology-driven business models, hurting consumers in the process, professional drivers should organize across the different segments (taxi and non-taxi drivers together), make a strategic priority out of better matching an ever-growing, yet volatile demand, and turn sharing economy startups such as Heetch into both an ally and a resource.

Professional drivers could see Heetch as a way to better serve those who don't use taxis or professional ride-hailing services (yet) for lack of money or other reasons. They could share data together with Heetch so that all players can better understand unmet needs to improve their own offer. They could convert some Heetch amateur drivers into professional drivers, Heetch becoming a talent pool and a training facility. All in all, professional drivers could use Heetch as a lever to increase their bargaining power with the biggest players, technology platforms (Uber) as well as taxi companies (in Paris, the quasi-monopolistic player is the Groupe Rousselet). Professional drivers could even form a "drivers co-op" so that they could collectively become shareholders in Heetch! Why not give it a try?

Further Reading

H**ere are some** of the articles and papers among those linked in the text above (including relevant issues of *The Family Papers*):

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- David S. Evans & Richard Schmalensee, "The Businesses That Platforms Are Actually Disrupting", *Harvard Business Review*, September 2016.
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- David Rolf, "Trump, Sunk Cost Fallacies, and the Next Labor Movement", *onlabor*, November 2016.
- Teddy Pellerin, "Heetch: 3 Years in Review and a Vision for the Future", *Medium*, November 2016.

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