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‘Uberisation’ is the future of the digitalised labour market

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Abstract The ‘Uberisation’ of service sectors will become the norm in the future. The driving factor behind this development is a dramatic collapse in transaction costs made possible by new and more developed Internet-based matching platforms. What is emerging can be called the ‘People-to-People Economy’, a term that describes the diffused nature of the new model. Uberisation, or the new People-to-People Economy, is not the same thing as the ‘sharing economy’ since the two are based on different

In this article, we assume that all transactions concluded using matching platforms such as Uber, AirBnB and TaskRabbit are concluded between a full- or part-time self-employed entrepreneur and a customer. Thus, none of the contracts concluded will be employment contracts, nor can employment law be applied to the transactions. This is a highly significant point from a taxation and social security point of view. I recognise that different countries have different practices when it comes to determining which transactions are subject to employment law and which are to be considered transactions between a self-employed entrepreneur and a customer. However, all countries should jointly agree that employment law cannot be applied to services sold through platforms. Transactions facilitated through platforms should always be considered transactions between a customer and a self-employed entrepreneur. This means that all service providers should be required to register as self-employed.

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economic developments. The centre–right should support this development but at the same time create a social security system for the self-employed entrepreneurs who take part in this new economy.

Keywords Labour market | Sharing economy | Social security | Digitalisation

Introduction

Europe and the US are witnessing a trend towards a more diffused production of services. This can be seen in the entry of a new kind of platform-based company into services markets. The driving economic factor behind this development is collapsing transaction costs enabled by new applications of the Internet. It is a move towards what can be called a ‘People-to-People Economy’ (P2PE), in which self-employed individuals offer services in areas such as transportation, accommodation, cleaning and dining through platforms that connect demand and supply.

This article explains, first, the concept of the P2PE and, second, how it has the potential to make the European economy more flexible. It argues that the centre–right should not oppose, but support this development. The P2PE has the potential to transform European culture and entrepreneurship. Nonetheless, there are plenty of challenges ahead, which require policy responses such as modernising labour legislation, revising outdated regulations, tackling vested interests and providing social security for the growing number of self-employed people. This article will take an unwaveringly positive approach to the P2PE since this new economy will likely increase the efficiency of service production and lead to gains for the economy as a whole.

The P2PE versus the sharing economy

The P2PE has to be distinguished from the ‘sharing economy’ represented by companies such as Zipcar and Blablacar. The car-sharing service Zipcar is simply a more efficient version of the Hertz car rental company. With Zipcar, service production is not diffused but highly centralised. The company uses technology better than its competitors to optimise the efficiency of its service. Services such as tool sharing, which are also included in the sharing economy, are more like modern cooperatives. They involve the management of common property and should not be confused with diffused service production.

The essential difference between the P2PE and the sharing economy is that in the latter people share property rights over certain goods, whereas in the P2PE people take advantage of the drastic reduction of transaction costs to produce services in a diffused manner. The P2PE and the sharing economy differ fundamentally in their benefits, weaknesses and challenges.

What is the P2PE?

In business jargon, ‘business-to-business’ (B2B) and ‘business-to-consumer’ (B2C) refer to the basic models for commercial transactions. The P2PE involves a new and evolving variation of commercial transactions, in which the provider of the service is a self-employed entrepreneur—who often provides the service for extra income—who is connected with the customer through an online matching platform. In essence, what we are describing is a regular B2C transaction. But there are new features: the role of the matching platforms, the decrease in transaction costs these platforms make possible and, for many service providers, the part-time nature of the work involved. These points can be illustrated using UberPoP as an example. Uber itself does not provide the ride: it merely connects the driver and the customer. It is simply a platform, comparable to Amazon. The driver is not an employee of Uber but a self-employed individual providing transportation services on a full- or part-time basis.

Reduction of transaction costs

The Internet and the new matching platforms drastically reduce transaction costs.¹ It is this that is currently guiding the changes in the economy. This reduction of transaction costs can be found behind many of the new service innovations, including peer-to-peer finance, the sharing economy and Alibaba. This can hardly be considered a negative development, but it does not mean that there are not plenty of actors, institutions and interest groups that are staunchly against it. Vested interests, be they monopolistic taxi lobbies or the hotel industry, have a lot to lose.

The transaction cost is the sum of information, bargaining and enforcement costs. The Internet has drastically reduced each of these. The information cost has been cut through the Internet connecting supply and demand more efficiently at a fraction of the previous cost. At the same time, the bargaining cost of concluding a contract online is only the time spent on a few mouse clicks. If something goes wrong and there is a need to enforce the contract, the platform is there to help. More importantly, the customer is empowered to a greater extent since before the peer-review system, which is widely used online, the customer was in a weak position compared to the provider. If there was a problem, the customer’s only option was litigation, which is costly and time-consuming. Furthermore, the customer’s weak position also undermined trust in buying services from an unknown person or company without the guarantee of quality provided by familiar brands. But now if a provider is not reliable, the customer can write a review that is visible to all. Unfavourable reviews will either drastically reduce opportunities for the provider or in some cases drive him or her out of the market altogether.

¹ Transaction costs refer to the costs involved in market exchange. These include the costs of discovering market prices and of writing and enforcing contracts.

In essence, what we are witnessing are the consequences of the dramatic reduction in transaction costs—and especially of information costs—due to the Internet. The cost of finding someone to drive you, accommodate you, cook for you, fix your Ikea furniture or do a million other small jobs has fallen dramatically. Thus, people can buy these services—which were previously only provided by companies—from either part-time self-employed individuals earning extra income or full-time self-employed entrepreneurs.

It is important to highlight the necessity of the service providers being registered as self-employed for VAT and other taxation purposes. However, it is true that practice and legislation in the EU member states differ widely on when employment law should be applied to a given transaction. It would be best if the European Commission could bring the member states and the matching platforms together to agree on a common set of regulations. The basic principle should be that all transactions concluded through matching platforms are considered transactions between a self-employed entrepreneur and a customer. Thus, employment law would not apply to the transactions.

Reduction of asymmetry of information

Platforms enabling the new P2PE have also decreased the asymmetry of information. Previously it would have taken a lot of time and effort to find an apartment to rent for a short stay in a city one had never visited. Through platforms such as Airbnb or Task-Rabbit, this information cost has diminished to the point that it is practically as easy and inexpensive to find individual providers of accommodation as it is to find a business providing these same services.

Asymmetry of information² is one the basic problems in all transactions. But it becomes particularly significant when someone buys from an individual or company with whom he or she is not acquainted or has never done business. The basic problem is that the supplier of the service always knows a good deal more about the service than does the buyer. Think of a transaction involving the purchase of a used car. The previous owner knows much more than the potential buyer about the car and what it is actually worth. Across the globe this problem has been addressed not only through legislation and regulation, but also through creating brands, which signal a certain standard of quality.

One might have thought that the problem of asymmetry of information would have stopped online trade altogether. However, the trade produced a solution of its own: the peer-review system. When platforms enable possible buyers of services to see photos, and read and post reviews of providers, this has the effect of diminishing the difference in the degree of asymmetry of information that would otherwise have existed between,

² 'A situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well. Potentially, this could be a harmful situation because one party can take advantage of the other party's lack of knowledge' (Investopedia n.d.).

for example, an individual provider of accommodation and a hotel chain that follows certain quality rules. Both as a guarantee of quality and as a way to address the asymmetry of information, brand has lost its value in the sector because you can now quickly check the reviews of your hosts.

Matching supply and demand through online platforms

In the P2PE a self-employed entrepreneur and a customer are connected through an online matching platform. This has been the reality in the goods sector for a long time thanks to Amazon and Alibaba. Certain qualifications must be added here, however. Amazon sells goods itself. Moreover, the providers of goods are often companies. Still, many of the sellers on both marketplaces are self-employed entrepreneurs. This is hardly surprising, however, given that the costs involved in producing goods differ considerably from the costs of providing services. In the service sector, online platforms are widely used that match service-providing businesses with customers, whether individuals or other businesses. What distinguishes the emerging economy from what preceded it is the scale on which self-employed individuals are providing services to other people. There is every reason to believe that over time this trend will spread to other sectors within the service industry in Europe—for example, consulting, on-demand doctors and video making—especially when regulations are adjusted in light of the changes in the service economy. This claim is easy to make because the phenomenon is far more advanced in the US.

There are economic, political and cultural reasons to support the P2PE. It could have far-reaching effects for our economy and culture. Still, it is worth noting that if the P2PE becomes prevalent in certain service sectors, this will also lead to structural changes and the allocation of resources to new sectors. This, in turn, may result in a short-term increase in unemployment before resources are reallocated.

Economically, the P2PE can be expected to lead to gains through greater competition and the more efficient use of existing resources. Private residences are under utilised for short-term accommodation when the owner is not present. It has been estimated that the average car is only used 3.5 % of the time (RAC Foundation 2012). In situations of high unemployment, there are many people who could work more if regulations did not stop them. It is arguable that even if regulators score early wins against P2PE platform companies, these companies will prevail since more efficient ways to produce services and goods have tended to win through even when faced with vested interests and government regulations.

How will the labour markets be changed?

If in the future more and more services are provided by self-employed individuals through matching platforms, our labour markets are in for a dramatic change. There are

numerous fields in which this model could work. It is already in action in transportation, accommodation and the running of errands. It is starting to spread to restaurant services, strategic consulting, video editing, one-off jobs and numerous other fields (*The Economist* 2015a).

The role of the firm in jeopardy?

In his seminal 1937 work ‘The Nature of the Firm’, Nobel Prize winner Ronald Coase explained that firms exist because of transaction costs. Firms were a way to create long-term contracts, which are cheaper than short-term contracts due to transaction costs such as hiring employees and negotiating prices (*The Economist* 2010). What we are witnessing is a trend in the opposite direction. Individual providers are becoming competitive with firms because transaction costs have plummeted and trust (to counter asymmetry of information) can be built cheaply and transparently through the peer reviews and assurances provided by the matching platforms. Assuming that the analysis given here of the underlying economic reasons for Uber and similar companies is correct, we can expect more and more people to become self-employed entrepreneurs in the future. It will become easier than ever for people to sell their labour to support themselves.

Providing opportunities for unskilled workers

There have long been concerns about the future prospects of unskilled labour (Dobbs et al. 2012). Through lower transaction costs and self-employment, more opportunities can also be created for low-skilled and unskilled labour. The US company TaskRabbit is doing exactly that. Through this platform those selling their labour and those wanting to benefit from it can meet. TaskRabbit is used especially to find someone to run small errands and carry out minor tasks such as tending a garden, fixing furniture and moving. Critics who argue that this means more precarious working conditions for workers are correct. However, the real question is, Do we prefer people to work in a precarious manner or to have people on welfare who are eager to work? The centre–right should always be on the side of those who want to enhance their and their families’ situation through work. Being committed to making work a high priority entails a readiness to reform the labour market and social security structures to make it possible to work and receive benefits.

Someone might say that the situation described does not differ significantly from that of a company which buys staffing services from a staffing services provider. But in the P2PE model, the self-employed individuals who sell their labour are in full control. Moreover, they can take home a larger part of the payment for their services since there is no need to pay a staffing company. This model would empower more people to become self-employed entrepreneurs. As regards cultural change, if these platforms become more popular and regulations are changed to encourage working, remaining on welfare will become less socially acceptable. At present, unemployed citizens can always argue

that as labour market outsiders their employment opportunities are reduced by the current labour market and social security structures. If selling one's labour is made easier, it will no longer be possible to make this claim.

Cheaper prices through social dumping and exploitation?

But someone will ask, How can self-employed entrepreneurs sell their services more cheaply than a 'normal' company or service provider? Contrary to what lobbyists hired by vested interests argue, the answer is not that the self-employed do not pay taxes. There are two simple answers to the question. First, companies have costs other than the wages they pay for each of their employees. The other costs—which we call 'side costs'—include all taxes, social security payments, national insurance payments, sick pay, holiday pay and similar costs. Self-employed people pay their own social security contributions, and they often have to pay higher contributions. But they are not liable for paying all the same costs that employers have to pay for their employees. The question of these additional costs is important because for employers they represent a considerable expense over and above the wages paid. Second, it was the combination of high transaction costs and the asymmetry of information that made it necessary to establish companies and brands in the first place—and forming companies and establishing brands comes at a cost. However, self-employed drivers, for example, do not have any back-office staff to support. In terms of the taxi market, most taxi drivers are already self-employed, but they cannot sell their services more cheaply because of regulations that give taxi companies a monopoly.

Self-employed people, and entrepreneurs by and large, do not enjoy the same benefits as regular employees—benefits such as paid holidays and occupational health care (*The Economist* 2015b). They have to provide these benefits themselves, and thus, they should not be required to pay the same expenses. Our social systems are based on the idea of regular employees in permanent labour contracts contributing to pensions and social security. In 2014 about 14 % of the EU labour force were self-employed, and the rate has remained stable (Hatfield 2015). The different regions in Europe differ widely in the percentage of the workforce that are self-employed, the education levels of self-employed people and the sectors in which they work.

A new social security system that encourages people to work

The fundamental question is, should the rules of this new P2PE labour market be different by virtue of its being fundamentally different, or should we simply apply the existing rules? It seems clear that a completely different social security model is needed to accommodate the needs of all self-employed people, but especially the needs of those working through P2PE platforms.

There are many different ways to organise a social security system that offers more encouragement to those who want to work. The citizen's income model merits further study. Such a system is less bureaucratic, and with the level set right, the incentive to work is always there. Citizen's income systems can be set up in different ways. The model is based essentially on the idea that each citizen is allocated an income, which replaces all other forms of social security payments. With work income, the citizen's income would drop. Of course, most people would never see a penny of the money, but this would function as a safety net for those employees or entrepreneurs whose income is highly uncertain. Economists consider the model too expensive to provide a sufficient level of income for those without extra earnings. However, the recipients could be limited to workers in certain sectors with certain contracts.

The idea of citizen's income is controversial in the centre–right. Many are against it, believing that being opposed to the idea that citizens are entitled to an income from the state is incompatible with the view that everyone should work and provide for themselves. But careful analysis reveals the conflict to be non-existent. We might be opposed, as a matter of principle, to the idea that citizens are entitled to an income from the state. But at the level of policy, there are very few who would want to govern accordingly. After all, if this were to be done, social security would not be provided to a large number of those who currently benefit from it. The second objection often put forward is that if receiving support from the state were automatic, it would disincentivise working. This is impossible to verify or refute since the system has not been tried in practice. However, there is plenty of evidence that the current rigid and piecemeal model does indeed discourage people from working (Boeri et al. 2000). No matter what we decide to call the system and how we limit its coverage, the underlying priority must be to design a system that encourages people to work. Naturally this model would only apply to those of working age.

Conclusion

In essence, what is new about the P2PE is the reduction in transaction costs enabled by online matching platforms. The P2PE will likely increase the efficiency of the general economy by increasing competition and using existing resources more efficiently. The labour and services markets will change in Europe as they already have in the US.

The European centre–right should be on the side of those people who want to work. It should be highly supportive of this new development in the labour market. At the same time, we have to modernise the social security system in such a way that it is flexible enough to meet the needs of self-employed entrepreneurs selling their labour through matching platforms.

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