

# ENTREPRENEURSHIP POLICY DIGEST

AUGUST 9, 2016

## WHAT THE CHANGING NATURE OF WORK MEANS FOR ENTREPRENEURSHIP

Entrepreneurship has long been the path many Americans traveled to economic independence. For founders, entrepreneurship provides the means to create wealth for themselves and value for society. But for most Americans, entrepreneurship matters because entrepreneurs [create jobs](#). Today, however, traditional aspects of the employee-employer relationship are changing—with some of these changes being brought about by the business models of young, innovative firms. There is debate about whether these changes are good or bad. But one thing is certain, the changing landscape of work has implications for both economic independence and the future of entrepreneurship.

### NAMING A NEW THING

Economists, policymakers, and others use numerous terms to describe the new work relationships many Americans find themselves in. "[Platform economy](#)," the "sharing economy," the "gig economy," and the "on-demand economy" are among the most prevalent.

Perhaps because of its multiple monikers, most Americans are not familiar with these terms:

- [89 percent](#) are unfamiliar with the term "gig economy."
- 73 percent are not familiar with the term "sharing economy."

In this Entrepreneurship Policy Digest, we use the term "platform economy."

platform economy

plat·form e·con·o·my [plăt-fawrm ih-kon-uh-mee]

*noun*: the collection of transactions occurring on online structures, which act as intermediaries between workers, customers and businesses.

## WHAT DOES THE PLATFORM ECONOMY LOOK LIKE?

### A VIEW FROM ECONOMISTS

- The platform economy is found in various industries and includes work at all wage and skill levels.
- [Platform economy work](#) may look like a traditional job (such as delivering food) or more like a micro-business (such as producing and selling craft goods on an online platform).
- Today, [16 percent](#) to [34 percent](#) of Americans make their living through non-traditional employment. Some research suggests all net employment growth from 2005 to 2015 was the result of these [alternative work arrangements](#), of which the platform economy is a small, but quickly growing component.

### A VIEW FROM PARTICIPANTS

- Workers are attracted to the platform economy for a [variety of reasons](#), including the ability to earn extra money and have flexible hours.
- Platform economy work can be full-time or part-time, and may be the primary source of income or a supplemental source. For example, a worker may engage in the platform economy for a temporary period of time to make enough money to help with startup costs for a business.

## WHAT DOES THE PLATFORM ECONOMY HAVE IN COMMON WITH ENTREPRENEURSHIP?

The platform economy, and its potential for worker independence, raises questions about its relationship to entrepreneurship. For example, could platform economy work act as a trial run or stepping stone to entrepreneurship, as workers learn whether they can succeed at independent work and deal with income volatility? Or is the platform economy replacing entrepreneurship as the new alternative to traditional work?

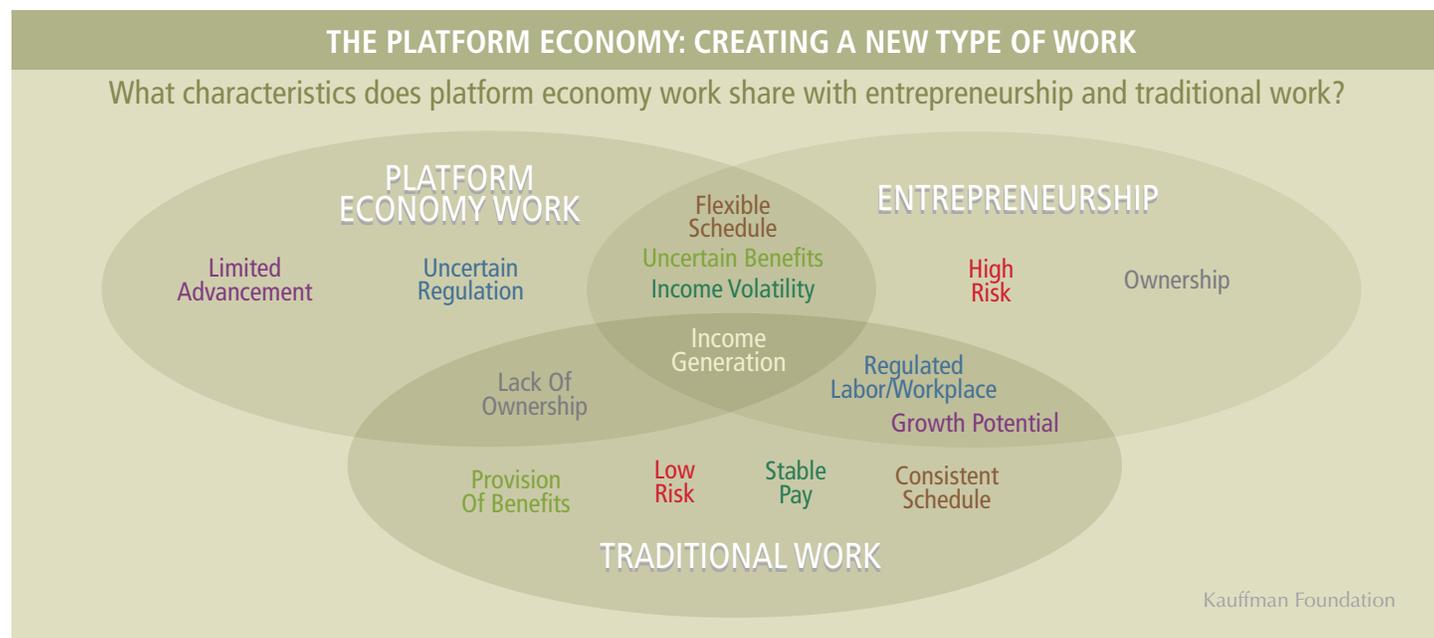
### WORKER CATEGORIZATIONS: W-2 OR 1099?

There are currently two IRS categorizations of workers: employee (W-2) and independent contractor (1099). Each categorization determines the right to benefits, right to organize, and right to determine one's own hours. Right now, workers in the platform economy are a hybrid of the two categorizations, not fitting neatly in either. If workers in the platform economy are falling in between these two categorizations, is a new category needed?

The Hamilton Project has suggested [a new categorization](#) that would be a mix of the employee and independent contractor, where some benefits are provided (like the right to organize) while others are not (unemployment or overtime benefits). A criticism of this idea is that it will lead to increased legal battles about which workers belong in this new category. This fear may be justified, as litigation increased in Italy after it adopted a similar third category.

Research suggests that the emergence of the platform economy diminishes certain kinds of entrepreneurial activity. However, it is [lesser-quality](#) entrepreneurial ventures that are not started, as people choose the platform economy as a less risky option than entrepreneurship.

While entrepreneurship is an important option for securing economic independence, the risk of failure isn't necessarily something everyone can tolerate. The platform economy has the potential to fill this gap for those who value independence in their work but want less risk than starting their own company.



## POLICY RESPONSES

The platform economy presents a variety of policy questions ranging from employment dynamics to implications for economic independence and entrepreneurial capacity. Our policy recommendations focus on the latter.

### RETHINK HOW SOCIAL INSURANCE IS DISTRIBUTED

- Make benefits traditionally provided by one employer portable across multiple employers. When workers are able to retain and build benefits, they are more likely to move between jobs. With the freedom to explore employment and entrepreneurial or platform economy opportunities, [workers are better able to find work that matches their skills](#).
- [Reform unemployment insurance](#) to allow for more flexibility as unemployed workers transition to [non-traditional work](#).

### FACILITATE ASSET BUILDING AND ACCUMULATION

- Raise asset limits for public benefit programs and [create savings accounts for children](#) to help Americans [build assets](#) so that they are better able to make career decisions based on passion and ideas, rather than necessity.

### MAKE EDUCATION FORWARD-LOOKING

- Fund more research to determine what education and job training should look like to prepare for the [emerging economy](#).

## FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at [jwiens@kauffman.org](mailto:jwiens@kauffman.org):

- Explore Kauffman's [New Entrepreneurial Growth Agenda](#) to learn what leading scholars are saying about the platform economy.
- Find out what the *Growthology* blog has to say about the platform economy [here](#), [here](#) and [here](#).
- Read "[Wage insurance: A potentially bipartisan way to help the middle class](#)" from The Brookings Institution.



To sign up to receive subsequent Policy Digests, go to [www.kauffman.org/policydigest](http://www.kauffman.org/policydigest).