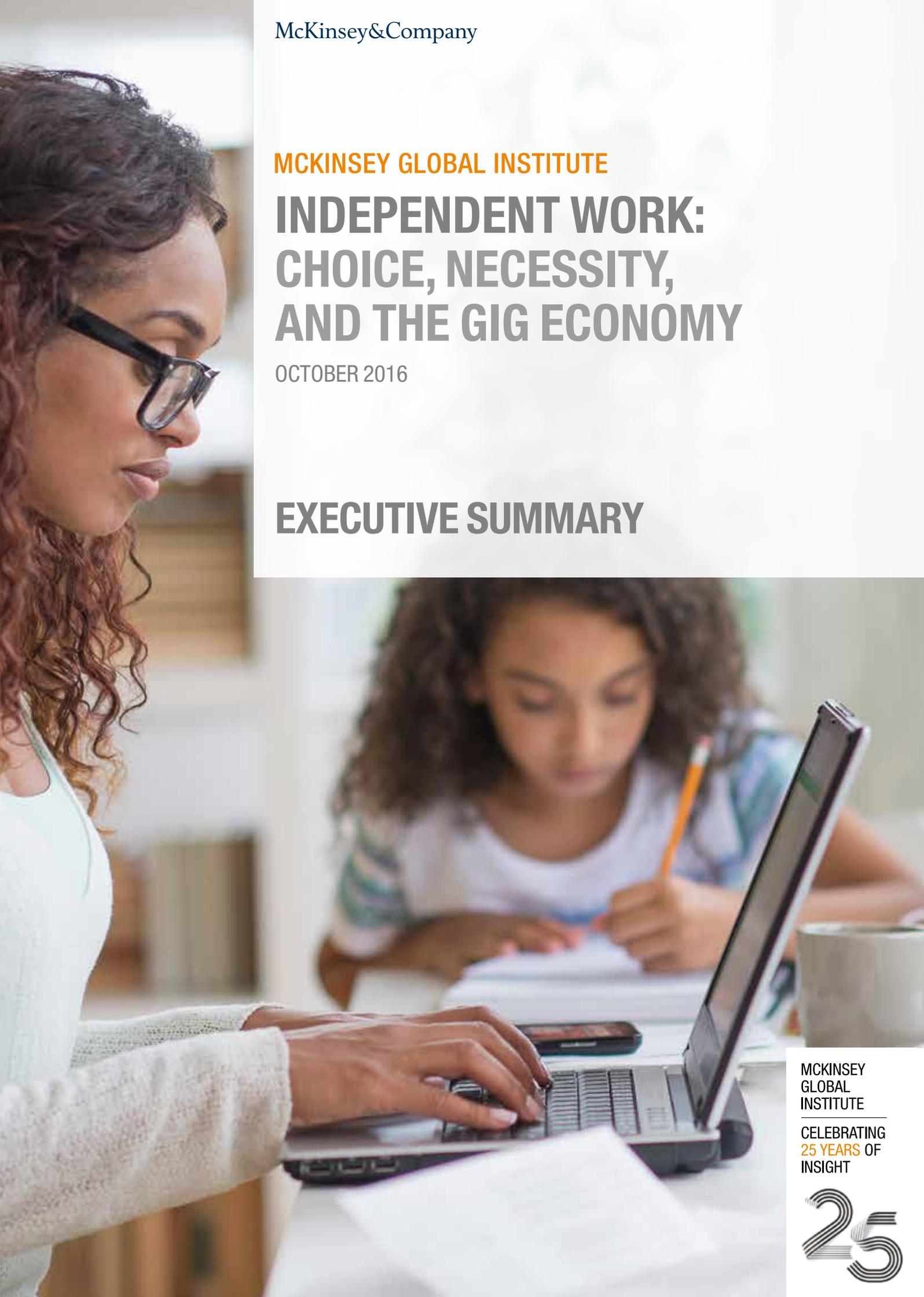


**MCKINSEY GLOBAL INSTITUTE**

# **INDEPENDENT WORK: CHOICE, NECESSITY, AND THE GIG ECONOMY**

OCTOBER 2016

## **EXECUTIVE SUMMARY**



MCKINSEY  
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CELEBRATING  
25 YEARS OF  
INSIGHT

25

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# INDEPENDENT WORK: CHOICE, NECESSITY, AND THE GIG ECONOMY

OCTOBER 2016



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## IN BRIEF

# INDEPENDENT WORK: CHOICE, NECESSITY, AND THE GIG ECONOMY

A full-time job with one employer has been considered the norm for decades, but increasingly, this fails to capture how a large share of the workforce makes a living. A narrow focus only on traditional jobs ignores tens of millions who put together their own income streams and shape their own work lives. Although independent work is not a new phenomenon, it does not fit neatly into official labor statistics. This report aims to fill some of the data gaps surrounding it.

- Independent work has three defining features: a high degree of autonomy; payment by task, assignment, or sales; and a short-term relationship between worker and client. Our definition encompasses people who provide labor services as well as those who sell goods or rent assets.
- Our research reveals that 20 to 30 percent of the working-age population in the United States and the EU-15, or up to 162 million individuals, engage in independent work. This is based on analysis of existing data as well as an extensive MGI workforce survey across six countries.
- Digital platforms are transforming independent work, building on the ubiquity of mobile devices, the enormous pools of workers and customers they can reach, and the ability to harness rich real-time information to make more efficient matches. Today these online marketplaces are used by 15 percent of independent workers. But the rapid growth of the largest platforms suggests we have only just begun to see their impact.
- There are four key segments of independent workers: Thirty percent are “free agents,” who actively choose independent work and derive their primary income from it. Approximately 40 percent are “casual earners,” who use independent work for supplemental income and do so by choice. “Reluctants,” who make their primary living from independent work but would prefer traditional jobs, make up 14 percent. The “financially strapped,” who do supplemental independent work out of necessity, account for 16 percent.
- Those who do independent work by choice (free agents and casual earners) report greater satisfaction with their work lives than those who do it out of necessity (reluctants and the financially strapped), a finding that holds across countries, age, income, and education. In fact, free agents report even higher levels of satisfaction than those in traditional jobs by choice. Those working out of necessity, whether as independent workers or in traditional jobs, report similar levels of dissatisfaction with their work.
- Independent work is rapidly evolving as digital platforms create large-scale, efficient marketplaces where workers connect with buyers of services. While this digital transformation unfolds, several other forces may fuel growth in the independent workforce: the stated aspirations of traditional workers who wish to become independent, the large unemployed and inactive populations who want to work, and increased demand for independent services from both consumers and organizations.
- Independent work could have benefits for the economy, cushioning unemployment, improving labor force participation, stimulating demand, and raising productivity. Consumers and organizations could benefit from the greater availability of services and improved matching that better fulfills their needs. Workers who choose to be independent value the autonomy and flexibility.

Despite its benefits, independent work involves some trade-offs. There is more work to do on issues such as benefits, income security measures, access to credit, and training and credentials. Some of these may call for policy changes; others could be solved by innovators and new intermediaries. Tackling these challenges could make independent work a more feasible option for individuals.

# THE INDEPENDENT WORKFORCE



## The DEFINING FEATURES of INDEPENDENT WORK:

High level of control and autonomy

Payment by task, assignment, or sales

Short-term duration



In the United States and the EU-15<sup>1</sup>

Independent workers make up **20–30%** of the working age population

this is up to **162 million** people



	Primary income	Supplemental income
Preferred choice	“Free agents” <b>30%   49 million</b>	“Casual earners” <b>40%   64 million</b>
Out of necessity	“Reluctants” <b>14%   23 million</b>	“Financially strapped” <b>16%   26 million</b>

## DIGITAL PLATFORMS



**15%** of independent workers have used a digital platform



## WHAT STILL NEEDS TO BE DONE?

### POLICY MAKERS

Collect better data  
Address gaps in worker protections, benefits, and income security

### INNOVATORS

Explore opportunities to create new marketplaces and tools

### ORGANIZATIONS

Consider how digital technologies allow you to utilize external talent

### INDEPENDENT WORKERS

Think like a business  
Develop differentiated skills

<sup>1</sup> Results from UK, Germany, France, Spain, and Sweden scaled up to EU-15.



# EXECUTIVE SUMMARY

The popular concept of work as a traditional 9-to-5 job with a single employer bears little resemblance to the way a substantial share of the workforce makes a living. Millions of the self-employed, freelancers, and temporary workers—as well as individuals renting out rooms on Airbnb, driving for Uber, or selling goods on eBay—are part of a significant trend that we call “independent work.”

**20-30%**

of the working-age population in the US and EU-15 engaged in independent work

Although independent work has a long history, it has never been clearly defined or consistently measured in official labor statistics. This report aims to fill in that gap. We used government data and findings from other studies to estimate the size of the independent workforce. To get a deeper understanding, we undertook an extensive survey of more than 8,000 respondents in the United States, the United Kingdom, Germany, Sweden, France, and Spain.<sup>1</sup> Our goals were to size independent work and to understand who does it and why as well as how satisfied they are.

Overall, we estimate that the independent workforce is larger than previously recognized: some 20 to 30 percent of the working-age population in the United States and the EU-15 countries are engaged in some form of independent earning today.<sup>2</sup> More than half of them use independent work to supplement their income rather than earning their primary living from it. The majority of independent workers, both supplemental and primary earners, pursue this path out of preference rather than necessity—and they report being highly satisfied with their work lives. However, about 30 percent participate out of necessity and would prefer traditional jobs if they could find the right fit.

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## Most independent workers have actively chosen their working style and report high levels of satisfaction with it.

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While only 15 percent of independent earners use them today, digital platforms such as Upwork, Uber, Airbnb, or Etsy have been growing rapidly. These types of online marketplaces could eventually have a transformative impact by efficiently matching a larger pool of workers with consumers of their services.

Independent work has significant growth potential in the years ahead, based on the stated aspirations of individuals and growing demand for services from consumers and organizations alike. This shift could have real economic benefits by raising labor force participation, stimulating consumption, providing opportunities for the unemployed, and boosting productivity. But some key challenges will need to be addressed in order to make this a feasible and satisfying development for workers. (See Box E1, “How we define “independent work”.)

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<sup>1</sup> This report does not assess independent work in emerging economies. In those countries, a majority of the workforce is often self-employed or outside traditional jobs.

<sup>2</sup> We extrapolate the results from the five European countries we surveyed to the full set of EU-15 countries by weighting for population. The EU-15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Throughout this report, when we refer to Europe, we are referring to the EU-15.

### Box E1. How we define “independent work”

We look at the full spectrum of ways in which individuals earn income outside of the traditional employee role, focusing on the characteristics of the work itself rather than the legal arrangements surrounding it. Focusing on the characteristics of the work enables us to compare across geographies, as government classifications vary across countries. Additionally, some independent workers choose to incorporate or form some other business entity, while others in the same occupation do not. Our definition thus allows us to count them in the same way since they are performing the same work.

Our definition focuses on three key features:

- A high degree of autonomy: Independent workers have a high degree of control and flexibility in determining their workload and work portfolio. They can decide which assignments to accept based on criteria such as the fee, the desirability of the client, or the timing, and they can change those choices over time.
- Payment by task, assignment, or sales: Independent earners are paid by the task, assignment, contract, or the volume of sales they make. Unlike salaried employees, they are not paid for time not spent working.
- Short-term relationship between the worker and the customer: Independent earners perform short-term assignments, such as giving someone a ride, designing a website, treating a patient, or working on a legal case. Both the worker and the customer acknowledge the limited duration of the relationship. Some contracts may extend for months or even years, at which point the individuals become indistinguishable from traditional employees; we therefore define independent work as assignments lasting less than 12 months.

We distinguish three main categories of independent workers: those who provide labor services, sell goods, and rent out assets (for example, a spare room). All three categories involve an investment of time and effort, but they are not mutually exclusive, and many individuals participate in more than one category.

We use the terms “independent worker” and “independent earner” interchangeably throughout this report. On the other side of the exchange is the buyer of the service or task, which could be an individual consumer, a company, or an organization. We call this party the “customer,” “client,” “buyer,” or “consumer.” Finally, independent work is sometimes facilitated by a third party, such as a staffing agency for temporary assignments or a digital platform that coordinates supply and demand to make the match. Some go further to provide ancillary services such as transaction support and review and feedback mechanisms. We call this party the “intermediary” or “digital platform,” applying similar criteria as those used by the US Department of Commerce.<sup>1</sup> However, intermediaries are not a necessary component of independent work, most of which takes place through direct transactions.

It is important to note what our definition excludes. First, we do not include “fissured workers.”<sup>2</sup> These individuals are caught in the growing trend of companies splitting off non-core functions (such as technical support, janitorial services, and security) and turning them over to vendors and subcontractors. Although this work is outsourced, most of the people performing it are traditional employees of the subcontractor. We also exclude self-employed people who themselves have many employees and people on long-term or continuously renewed short-term contracts (“permatemps”), a trend in some European countries. These individuals are expected to keep regular work schedules with little autonomy, and they have a continuous relationship with their employer, even if they are legally classified as contractors.

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<sup>1</sup> Rudy Tellis Jr., *Digital matching firms: A new definition in the “sharing economy” space*, US Department of Commerce Economics and Statistics Administration, ESA issue brief number 01-16, June 2016.

<sup>2</sup> David Weil, *The fissured workplace: Why work became so bad for so many and what can be done to improve it*, Harvard University Press, 2014.

## THERE ARE UP TO 162 MILLION INDEPENDENT WORKERS IN THE UNITED STATES AND THE EU-15

Historically, much of the labor force was independent until more structured employer-employee relationships became a useful way to organize manufacturing activity in the Industrial Revolution. Although payroll jobs became the dominant working style in advanced economies, independent work remained commonplace in many professions even before the rise of new digitally enabled models.

Despite this long history, the independent workforce is not comprehensively tracked in the United States and Europe. But government data do provide some evidence on the number of people engaged in independent work as their primary source of income (see Box E2, “Data problems and MGI’s survey of independent work”). We use the self-employed and temporary workers as a proxy for our definition of independent work.<sup>3</sup> These workers make up 11 percent of the US working-age population and 12 to 17 percent of the working-age population across the five European nations we studied.

Yet government data significantly undercount those who engage in independent work to supplement their income. These individuals may be traditional jobholders who do independent work on the side, or they may be retirees or students who do not fully rely on these earnings. Some 70 percent of Etsy sellers and 60 percent of Uber drivers in the United States have some other form of primary income, for instance.<sup>4</sup> Other private studies do count supplemental earners among the independent workforce. The Freelancers Union, for example, estimates that 54 million Americans (22 percent of the working-age population) are freelancers or self-employed in their primary or secondary jobs.

MGI conducted its own survey to gain a more comprehensive view into independent work, and we use the results to complement our analysis of official data and findings from other published studies. We conclude that independent work is a much bigger phenomenon than official statistics indicate (Exhibit E1). Across our six survey countries, we find that 10 to 15 percent of the working-age population relies on independent work for their primary income. This is slightly lower than official estimates, largely because some self-employed and temporary workers lack autonomy or control over scheduling and do not fit our definition.<sup>5</sup> But the MGI survey reveals that another 10 to 15 percent of the working-age population engages in independent work for supplemental income. The vast majority do so by providing services (only 2 to 3 percent of the working-age population in the US and Europe sell goods, and only 1 percent rent out assets).

Overall, our research suggests that there are 54 million to 68 million independent earners in the United States as well as 30 million to 62 million across our five European survey countries. Extrapolating our survey results across all EU-15 countries yields an estimated 60 million to 94 million independent earners.<sup>6</sup> This adds up to an independent workforce of up to 162 million people in the United States and Europe combined.

More than  
**50%**  
of independent  
workers in all  
survey countries  
are supplemental  
earners

<sup>3</sup> In the United States, a 2016 survey by Lawrence Katz and Alan Krueger found that the share of the US workforce engaged in “alternative work arrangements” grew from 10 percent in 2005 to 16 percent in 2015. This includes on-call workers, contracted-out workers, independent contractors, and temporary help agency employees.

<sup>4</sup> Jonathan Hall and Alan Krueger, *An analysis of the labor market for Uber’s driver-partners in the United States*, Princeton University Industrial Relations Section working paper number 587, January 2015; *Building an Etsy economy: The new face of creative entrepreneurship*, Etsy, July 2015.

<sup>5</sup> In fact, we classified about one in three people who reported earning income through a temporary contract and one in five who stated they were self-employed as traditional workers based on their lack of autonomy and flexibility.

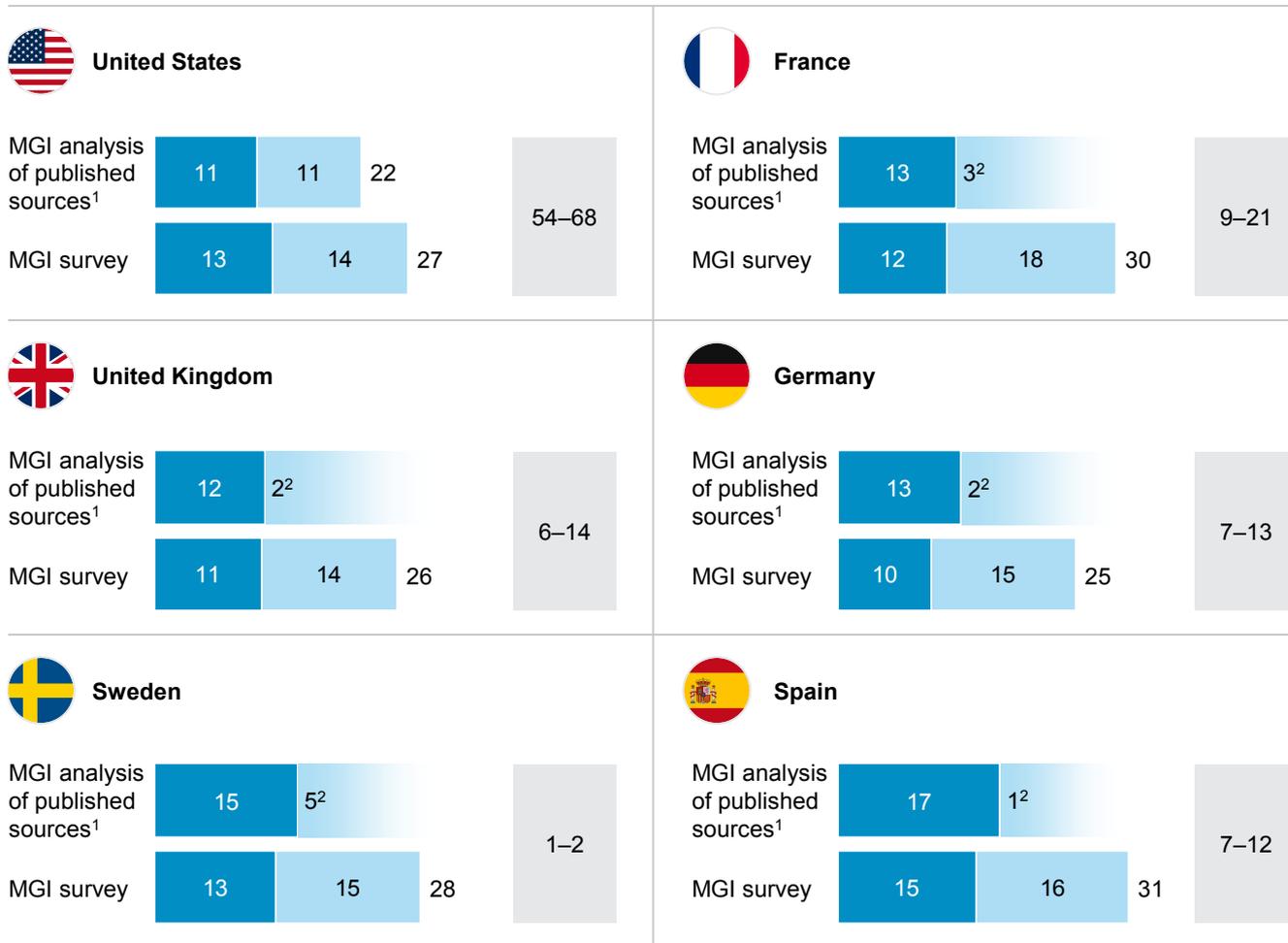
<sup>6</sup> Our estimates are presented as ranges. The lower end is based on an analysis of government data and other published studies, while the upper end gives results from the MGI survey.

Exhibit E1

MGI's survey indicates that the independent workforce is larger than previous estimates

Independent workers as % of total working-age population

■ Primary workers      ■ Number of independent workers (million)  
 ■ Supplemental workers



1 Based on an analysis of government sources as well as other published surveys.  
 2 Published sources in Europe that capture supplemental work are limited. We have included gradients to represent the fact that the share of those engaged in independent work is much higher than published estimates in those countries suggest.

SOURCE: US Bureau of Labor Statistics; Freelancers Union; Katz and Krueger, *The rise and nature of alternative work arrangements in the United States, 1995-2015*; Kelly Services; Burson-Marsteller; MBO Partners; Eurostat; UK Labour Force Survey; McKinsey Global Institute analysis

## Box E2. Data challenges and MGI's survey of independent work

Independent work has never found a comfortable fit within government labor statistics, and official data collection on this segment of the workforce is insufficient and outdated. In the United States, the government stopped conducting its Contingent Worker Supplement to the Current Population Survey, the key source of information, in 2005.<sup>1</sup> It is also difficult to make cross-country comparisons as governments use varying terminology for certain employment arrangements. A number of studies have attempted to measure the independent workforce, with notably more evidence for the United States than Europe.<sup>2</sup> Even these remain far from complete, however, and most use differing definitions. But recently, steps have been taken to improve the situation. The US government will run the CPS Supplement next year, and other supporting efforts are being convened through the Department of Commerce.

To provide additional insight, MGI conducted an extensive online survey in June and July 2016, reaching more than 8,000 respondents in the United States, the United Kingdom, Germany, Sweden, France, and Spain. The survey panel was a representative sample of the working-age population in each country controlling for demographics, including age, gender, and income.<sup>3</sup> We asked respondents to detail all of their sources of income over the past 12 months, including their primary work as well as any additional income-generating activities. It also asked about their satisfaction with their work lives and about their desired future work arrangement. We did not probe into legal job classifications, hourly wages, or the trade-offs workers would make for independence. These issues will need further research.

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<sup>1</sup> In 2015, economists Lawrence Katz and Alan Krueger partnered with the Rand Corporation to conduct a similar survey. See *The rise and nature of alternative work arrangements in the United States, 1995–2015*, March 2016.

<sup>2</sup> See, for example, *Freelancing in America: 2015*, Freelancers Union and Upwork, October 2015; and Teresa Carroll, *Agents of change: Independent workers are reshaping the workforce*, Kelly Services, September 2015.

<sup>3</sup> Our sample was, on average, slightly more educated than the general population. We also acknowledge that our online survey may not reflect the full extent of workers in the informal economy who are offline, have language barriers, are paid off the books, or do not have official immigration status, since these populations are difficult to survey.

## THE INDEPENDENT WORKFORCE IS DIVERSE

The MGI survey reveals that the independent workforce is diverse in terms of age, income levels, educational attainment, and gender—and this holds true across countries. The desire to be your own boss clearly cuts across borders. We also find independent workers in all occupations and industries, roughly mirroring the broader sector mix of each country.

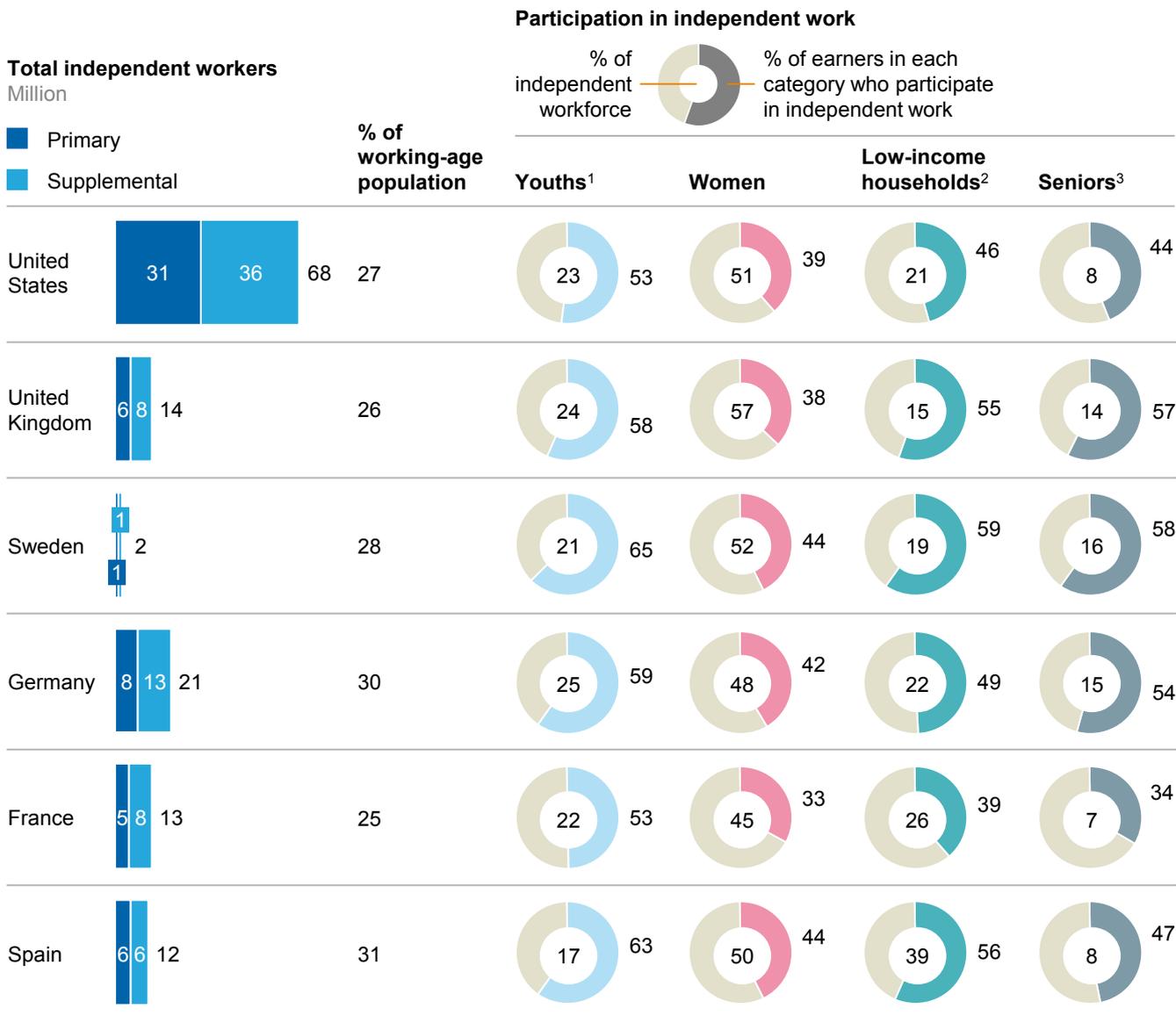
Our survey debunks some common myths. First, independent work is not dominated by millennials. While more than half of those under age 25 participate in all countries, they represent less than one-quarter of independent workers (Exhibit E2). Nor is independent work solely about low-income workers doing one-off jobs to make ends meet. Although 40 to 55 percent of low-income households engage in independent work, they make up less than 25 percent of all independent earners in all countries except Spain. While independent work is prevalent in the construction trades, household and personal services, and transportation, it is also preferred by many professionals such as doctors, therapists, lawyers, accountants, interior designers, and writers.

While the independent workforce share looks remarkably similar across countries, the economic context matters as well. Against a backdrop of persistently high unemployment, Spain, for example, has a larger share of independent earners than our other survey countries, and nearly 40 percent of them are low-income. Working on temporary contracts is commonplace in Spain, creating a two-tiered labor market. Nearly two-thirds of young people in Spain are independent workers, and they are disproportionately in temporary contracts.

Exhibit E2

Independent workers span all demographic groups

Responses from MGI Survey



1 Defined as under age 25.

2 Defined as below \$25,000 or similar across countries.

3 Defined as ages 65+.

NOTE: Numbers may not sum due to rounding.

SOURCE: Eurostat; BLS; McKinsey Global Institute analysis

## MOST PEOPLE DO INDEPENDENT WORK BY CHOICE RATHER THAN NECESSITY

Our research suggests that many independent workers choose this working style because they are attracted by its autonomy and flexibility. Others are driven by economic circumstances and labor market conditions.

There are four key segments of independent workers. We look at whether they earn their primary living from independent work or whether they use it for supplemental income, and we distinguish between those who are independent by choice vs. those who are independent out of economic necessity:

- **Free agents** derive their primary income from independent work and actively prefer it.
- **Casual earners** use independent work for supplemental income and do so by choice. Some have traditional jobs, while others are students, retirees, or caregivers.
- **Reluctants** derive their primary income from independent work but would prefer a traditional job.
- **The financially strapped** do independent work for supplemental income, but they would prefer not to have to do side jobs to make ends meet.

Casual earners constitute the largest segment of the independent workforce in all six countries, followed by free agents (see infographic, “Defining independent work”). Combining these two groups, approximately 70 to 75 percent of independent earners are independent as a matter of preference (with the exception of Spain, where the share is only 58 percent). This echoes other studies showing that roughly 60 to 80 percent of people who freelance do so by choice.<sup>7</sup> In addition, we found that people who participate in independent work through digital platforms are more likely to do so by choice than those who do not.

**1 IN 6**  
workers in  
traditional jobs  
would like to  
become primary  
independent  
earners

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Although they constitute a minority of the independent workforce, millions of workers are independent out of necessity and not choice.

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Although the reluctants and the financially strapped together constitute a minority of independent earners, the magnitude of the problem is still striking. Scaling up the results of our survey suggests that 50 million Americans and Europeans are independent out of necessity, and more than 20 million of them rely on independent work as their primary source of income. For them, independent work is simply better than the alternative of unemployment or an undesirable traditional job. Temporary workers are clearly part of this story. Many are not in temporary roles by choice; they would prefer the perceived stability of a traditional job.

While many independent workers want traditional jobs, the MGI survey also reveals that roughly one in six people in traditional jobs would like to become a primary independent earner. In absolute numbers, this group totals more than 42 million people in the United States and the EU-15. In fact, for every primary independent worker who would prefer a traditional job, more than two traditional workers hope to shift in the opposite direction.

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<sup>7</sup> A 2015 Freelancers Union and Upwork survey (*Freelancing in America: 2015*) found that 60 percent of freelancers became independent by choice, an increase of seven percentage points from 2014. A survey by MBO Partners has shown consistently over the past few years that six in ten freelancers do so by choice.

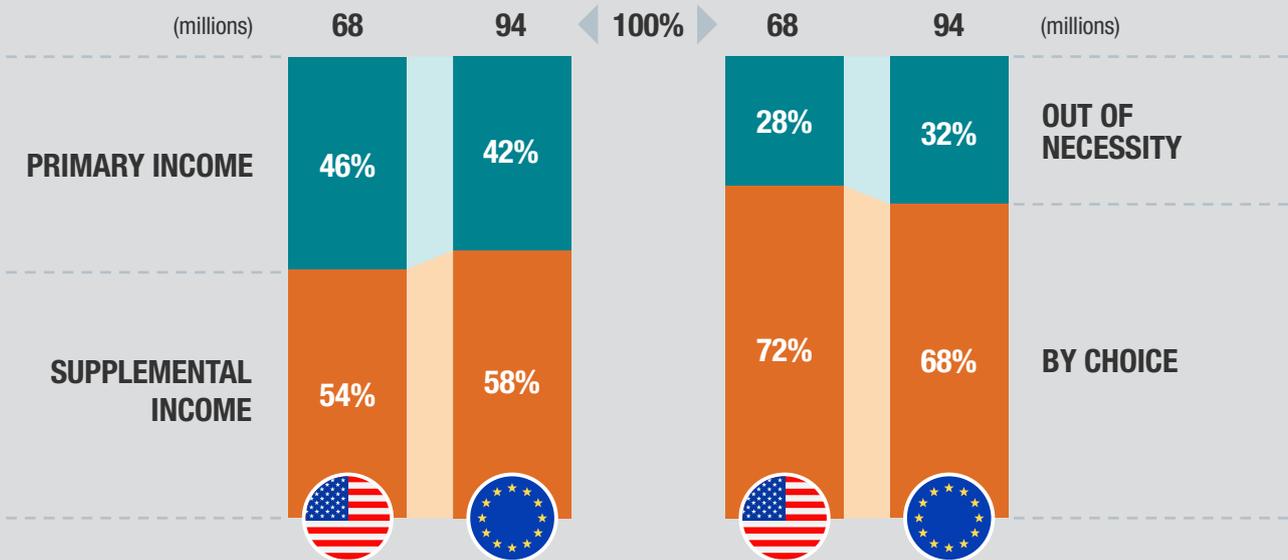


# FOUR SEGMENTS OF INDEPENDENT WORKERS

“Independent work is my ...”

	PRIMARY INCOME	SUPPLEMENTAL INCOME
PREFERRED CHOICE	<p><b>FREE AGENTS</b></p> <p>Derive their primary income from independent work and actively choose this working style</p> <p><i>Example: A self-employed plumber or a chiropractor in private practice</i></p>	<p><b>CASUAL EARNERS</b></p> <p>Use independent work to supplement their income and do so by choice. Some have traditional primary jobs, while others are students, retirees, or caregivers.</p> <p><i>Example: A hobby crafter who sells scarves or a professor who gives paid speeches</i></p>
NECESSARY CHOICE	<p><b>RELUCTANTS</b></p> <p>Derive their primary income from independent work but would prefer traditional jobs</p> <p><i>Example: A short-term temporary worker who would prefer a more permanent job</i></p>	<p><b>FINANCIALLY STRAPPED</b></p> <p>Do independent work to supplement their income but would prefer not to have to do side jobs to make ends meet</p> <p><i>Example: A janitor who doubles as a housepainter on the weekends</i></p>

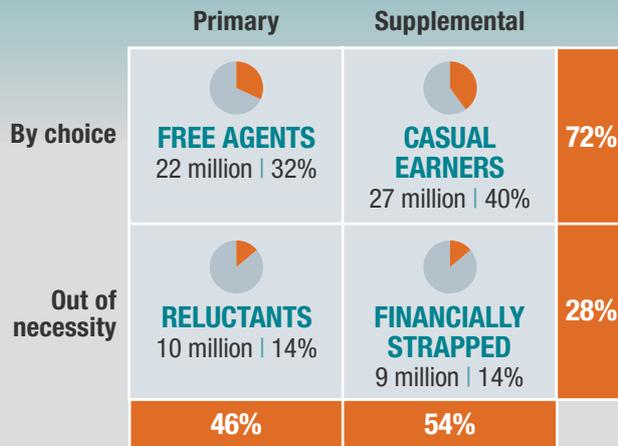
## THIS SEGMENTATION VARIES SLIGHTLY IN THE UNITED STATES AND THE EU-15<sup>1</sup>





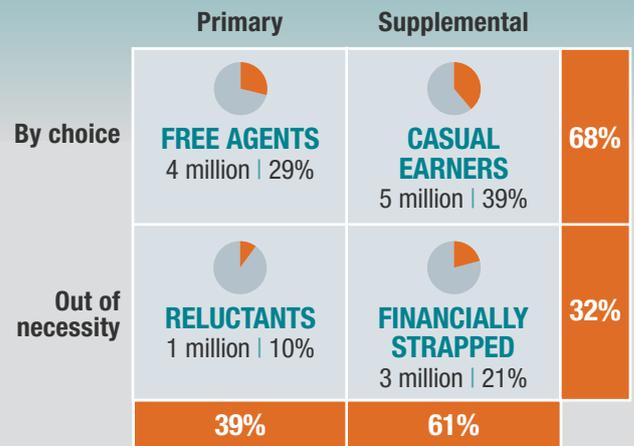
## UNITED STATES

68 million independent workers



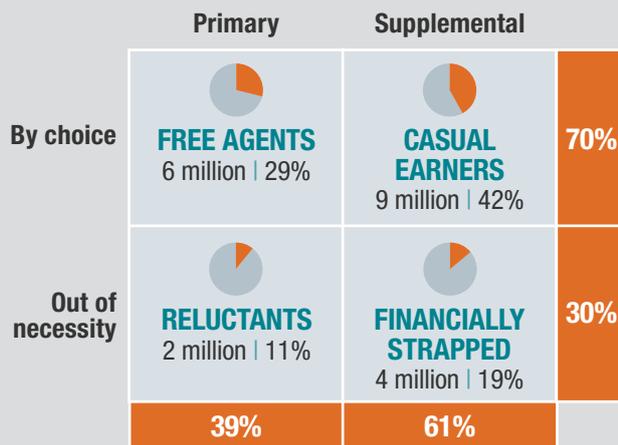
## FRANCE

13 million independent workers



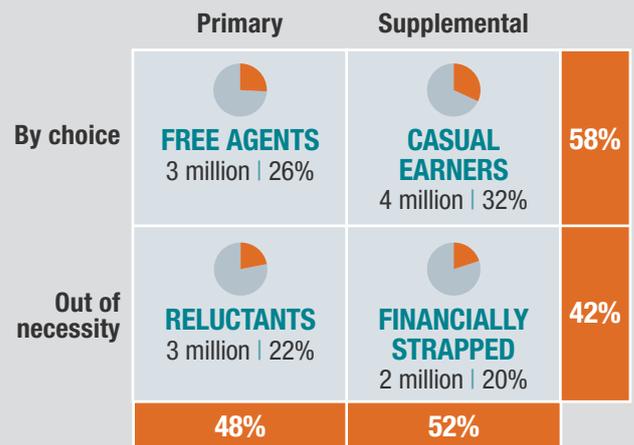
## GERMANY

21 million independent workers



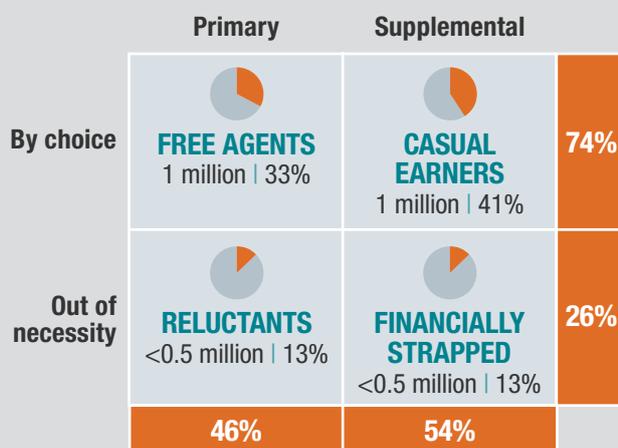
## SPAIN

12 million independent workers



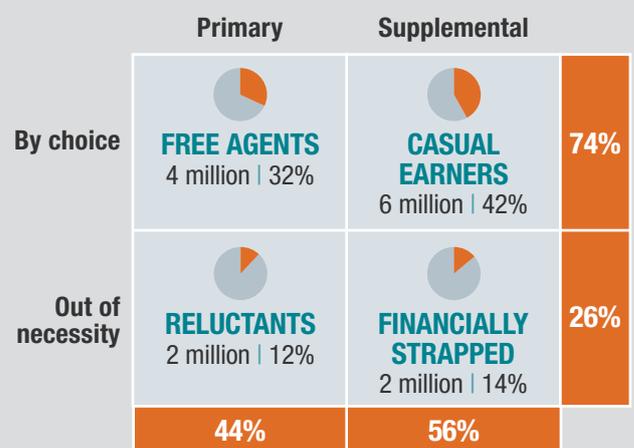
## SWEDEN

2 million independent workers



## UNITED KINGDOM

14 million independent workers



## **INDEPENDENT WORKERS BY CHOICE REPORTED HIGHER LEVELS OF SATISFACTION THAN ANY OTHER GROUP IN OUR SURVEY**

The MGI survey asked respondents to rank their satisfaction on 14 aspects of their work life. Free agents report higher satisfaction than those who choose traditional jobs on 12 of the 14 dimensions we measured, and they are just as satisfied on the remaining two dimensions (Exhibit E3). They are more engaged in their work, and they relish the chance to be their own boss and have more control over their hours. Free agents cite higher satisfaction than traditional workers across issues ranging from the creativity they can express to opportunities for learning and recognition. They are happier with their overall level of income and are just as satisfied as traditional workers on income security and benefits. These observations hold regardless of gender, age, education level, or household income.

Casual earners also rate their satisfaction higher than those who solely hold traditional jobs on five of the 14 dimensions we measured and are equally satisfied on the others. Some may have turned hobbies into paying assignments, or they simply enjoy work that provides a change of pace from their primary activities.

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People who actively chose their working style reported greater satisfaction than those who felt forced by circumstance.

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By contrast, people who do not work in their preferred manner—whether they are independent or in traditional jobs—are notably less satisfied than those who are able to follow their preferences. However, in comparing these two subsets, those working independently out of necessity report being happier with the flexibility and content of the work they do but less satisfied with their level of income level and their income security. In fact, independent earners working out of necessity mainly like the flexibility of the work while those by choice enjoy myriad attributes of the work. Expanding economic opportunities and income security policies for this group should be a priority.



Exhibit E3

Independent workers report higher levels of satisfaction on many aspects of their work life than traditional workers

Satisfaction scores from MGI survey  
(95% confidence)

■ Satisfaction higher than traditional workers  
■ Satisfaction not significantly different  
■ Satisfaction lower than traditional workers

In your work life, how satisfied are you with <sup>1</sup>	By choice			By necessity	
	Traditional by choice Mean rating <sup>3</sup> (n = 2,594) <sup>4</sup>	Independent Compared to traditional <sup>2</sup>		Traditional by necessity Mean rating <sup>3</sup> (n = 774) <sup>4</sup>	Independent by necessity Compared to traditional (n = 637) <sup>4</sup>
		Free agents (n = 668) <sup>4</sup>	Casual earners (n = 772) <sup>4</sup>		
The topics/activities you are working on	4.60	Work topic		4.32	Work topic
<b>Overall work life</b>	4.58	Overall work life		4.30	
The number of hours you work	4.52	Hours worked		4.34	
Independence in your work life	4.49	Independence	Independence	4.33	Independence
The atmosphere at your workplace	4.46	Atmosphere	Atmosphere	4.26	Atmosphere
Your boss	4.40	Boss	Boss	4.21	
Your level of empowerment	4.34	Empowerment		4.06	
The creativity you can express at work	4.33	Creativity		4.08	
Your income security	4.33			4.10	Income security
Your benefits (e.g., health care)	4.31			3.99	
Your ability to choose your working hours	4.31	Flexible hours	Flexible hours	4.16	Flexible hours
Your opportunities to learn, grow, and develop	4.24	Opportunities		4.06	
Flexibility regarding where you work	4.20	Flexible location	Flexible location	4.13	Flexible location
Recognition you receive	4.13	Recognition		3.91	
Your level of income	4.01	Income level		3.89	Income level

1 Question asked: "How satisfied are you with your current overall work life?" Select from a 6-point scale. "In your work life, how satisfied are you with [attribute listed]?" Select from a 6-point scale.

2 Free agents and casual earners are compared to traditional workers by choice, independent by necessity to traditional by necessity.

3 Weighted average of satisfaction scale: 6 = completely satisfied, 5 = mostly satisfied, ..., 1 = completely dissatisfied.

4 Total unweighted number of respondents. Not all respondents answered all of the subquestions.

SOURCE: McKinsey Global Institute analysis

## DIGITAL PLATFORMS FOR INDEPENDENT WORK ARE TRANSFORMATIVE

Despite their extensive media coverage, digital “on-demand” or “sharing economy” platforms such as Uber, Lyft, TaskRabbit, Upwork, Freelancer.com, Thumbtack, Airbnb, and the like facilitate only a small fraction of independent work today. Our own survey finds that only about 4 percent of the working-age population has used digital platforms to generate income.<sup>8</sup>

But these platforms have grown rapidly in the past few years, and 15 percent of independent workers have used them to earn income. Those who sell goods are most likely to do so—in this case, by listing on e-commerce marketplaces such as eBay and Etsy. Between 25 and 40 percent of those who earn independently by leasing assets use digital platforms such as HomeAway, Airbnb, or VRBO. Platforms for offering services, such as Uber, TaskRabbit, and Upwork, were used by only 6 percent of independent earners in the United States and the EU-15 (Exhibit E4).

### Exhibit E4

#### Independent workers who sell goods or lease assets are more likely to use digital platforms than those who provide labor services

Responses from MGI Survey  
United States and EU-15



	Population	Share that have earned income from a digital platform %	Number of digital platform users	
<b>All independent workers</b>	162 million	15	24 million	
<b>Workers who provide labor</b>	150 million	6	9 million	<b>Example platforms</b> <ul style="list-style-type: none"> <li>Freelance Physician</li> <li>Deliveroo</li> <li>TaskRabbit</li> <li>Uber</li> <li>Upwork</li> </ul>
<b>Workers who sell goods</b>	21 million	63	13 million	<ul style="list-style-type: none"> <li>Etsy</li> <li>eBay</li> <li>DaWanda</li> </ul>
<b>Workers who lease assets</b>	8 million	36	3 million	<ul style="list-style-type: none"> <li>Airbnb</li> <li>Boatbound</li> <li>Getaround</li> <li>BlaBlaCar</li> </ul>

1 EU-15 based on population-weighted extrapolation from five countries surveyed: United Kingdom, Germany, France, Spain, Sweden.

SOURCE: McKinsey Global Institute analysis

As digital platforms expand, they could have a transformative effect when applied to the labor market. Decades ago, Ronald Coase noted that companies gather many functions within one organization because it was too cumbersome and costly to coordinate all

<sup>8</sup> This is in line with *Paychecks, payday, and the online platform economy: Big data on income volatility*, JPMorgan Chase Institute, February 2016, which found that 4 percent of US adults earned money through these “gig economy” platforms.

transactions through an external marketplace. But the Internet is dramatically reducing those costs, making it possible to conduct more transactions beyond the boundaries of a firm. Digital platforms that create marketplaces for labor services further amplify that benefit. Markets for independent work could be transformed in several ways:

- **Larger scale.** Digital matching platforms establish huge webs of connected users and create transparent markets in which buyers and sellers find each other with a few clicks. For activities that do not require in-person services, the potential scale of the market is global, given the ubiquity of connected and smart digital devices.
- **Faster and better matches from real-time information.** Digital platforms accelerate matching. Efficient search algorithms can match to the specifics of the task, good, or asset being offered or sought. They may be combined with real-time information that allows for more seamless and efficient coordination between the two transacting parties, even down to time and location.
- **Richer information signals and ancillary services.** Digital platforms enable workers and clients to share profile data and endorsements; often the platform itself collects data that help provide credibility for both independent workers and their customers, before and after the transaction. Buyers and sellers can build trust immediately because ratings and reviews are aggregated from past interactions. They further remove risk by instituting a payment infrastructure and a protocol that has to be followed as a condition of participation.
- **Near-zero marginal costs.** The cost of adding more participants is negligible for the platforms themselves, and the barriers to entry for new workers to join can be similarly low. Individuals can easily create a profile and start looking for assignments right away on a platform such as Freelancer.com. Independent artisans can set up shop for free on Etsy and post listings for 20 cents each.

Digital technologies have made it possible for new players to enter ecosystems of independent work and provide better matching mechanisms, in some cases creating new demand and making new types of independent earning activities possible.

The real question underlying the growth of digital platforms for independent work is not how the numbers could grow. It is whether digital platforms could begin to challenge established notions of how companies are organized. Technology makes it conceivable that the old model of a corporation with employees in an elaborate hierarchy of specialized functions could one day give way to leaner core organizations that rely on a loose network of external providers for many activities. Just as working models changed in the wake of the Industrial Revolution, the nature of work may be evolving again as the digital revolution takes hold.

### **THE INDEPENDENT WORKFORCE COULD GROW LARGER IN THE YEARS AHEAD**

Several factors point to further growth potential for the independent workforce. In the MGI survey, approximately 14 percent of those in traditional jobs and people who are not currently working reported that they would like to become independent primary earners—and say they are “somewhat likely” or “very likely” to pursue this aspiration.

In addition to drawing people out of traditional jobs, independent work may reengage some portion of the inactive and unemployed population. Government data reveal 232 million adults in the United States and the EU-15 are inactive, unemployed, or work less than full time—and at least 100 million of them would like to start working or increase their hours (20 million in the United States, and 84 million in the EU-15). Flexible opportunities are especially well suited to students, retirees, the disabled, and caregivers who stay at home—

**15%**  
of all independent workers have earned income through a digital platform

groups that already make up roughly 40 percent of casual earners in the MGI survey. The senior segment in particular bears watching. Airbnb reports that seniors represent its fastest-growing host demographic (10 percent of its hosts already being over age 60), and a quarter of Uber’s drivers are over age 50.

While many people want to join the independent workforce, some independent workers in the MGI survey say they would prefer traditional jobs. Netting out these effects, and holding all else constant, we find that 30 to 45 percent of the working-age population would like to earn either primary or supplemental income through independent work and consider themselves at least somewhat likely to pursue the option. If they were able to pursue the working style they prefer, the independent workforce could potentially grow to 76 million to 129 million Americans and 89 million to 138 million across the EU-15.<sup>9</sup>

On the other side of the transaction, there is reason to believe that demand could grow for the services provided by independent workers. Digital platforms are expanding marketplaces for many types of consumer and household services, including driving, cleaning, and grocery shopping. Indeed many innovators are experimenting with providing matching platforms for a growing array of such services as defined by the consumers and households themselves or the tasks that workers are willing to take on. We asked survey respondents about their willingness to pay someone else to do certain household chores and combined their responses with government data on household time use.

We estimate that 6.2 billion hours of additional household work per year in the United States and 8.5 billion in Europe could potentially be done by independent workers, creating millions of new opportunities for independent workers. For companies, too, there is room for further growth in using independent workers. We analyzed more than 150 occupational categories to assess which types of work could most easily be performed independently and found ample opportunity for growth in corporate demand.

### **INDEPENDENT WORK COULD CREATE ECONOMIC BENEFITS BUT CHALLENGES NEED TO BE ADDRESSED**

In addition to the effects on individual satisfaction expressed in our survey, independent work can have broader benefits. Digital business models have lowered transaction costs for consumers, delivering better-quality products and services and putting new conveniences at their fingertips. Companies and organizations benefit from scalability: they can keep core operations focused on what they do best and call in independent service providers exactly when they need them. This flexibility can allow organizations to add entirely new capabilities—for example, calling in writers and designers to create a one-time marketing project when the core team lacks publishing expertise. The availability of independent workers is particularly valuable to startups that cannot afford full-time employees for certain functions such as accounting, legal advice, or web design.

Independent work also has the potential to create macroeconomic benefits. First, it may increase labor force participation and the number of hours worked in the economy. The flexible opportunities associated with independent work are well suited for the 100 million inactive adults in the United States and the EU-15 who say they would like to start earning or work more. For the unemployed, independent work may provide a critical bridge to keep earning income while they search for new jobs. Second, there are avenues for potentially increasing productivity. Independent work enables people to specialize in doing what they do best and what makes them feel engaged. Engagement typically has the effect of increasing productivity, although this effect must be balanced against the fact that many independent workers have to spend time on administrative and marketing tasks. Capital

**29M+**  
**58M**

supplemental independent earners + non-independent workers in the EU-15 and US who want to be primary independent earners and think it is likely they will do so

<sup>9</sup> The low end of this projection is based solely on respondents who said they were “very likely” to pursue their preferred working style; the higher projections include both “very likely” and “somewhat likely” responses.

productivity may be increased as well, as currently underutilized assets (such as cars and spare rooms) are put to work. Online marketplaces allow niche products and services to connect with consumers, potentially stimulating long-tail demand. New and innovative types of digitally enabled services could boost consumption.

But much of the public debate surrounding independent work is polarized. This is heightened by the fact that this shift is occurring against a backdrop of general anxiety about the quality of jobs and how digital technologies are changing the world of work for everyone. Some of the concerns raised in this debate are felt most acutely by independent workers—but others apply more broadly in a world where fewer traditional workplaces offer job security and a full slate of benefits.

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## A shift toward independent work could deliver broad benefits, but questions surrounding benefits, income security mechanisms, and other worker protections need to be addressed.

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One area of concern for independent workers is their limited access to income security protections, such as unemployment insurance, workers' compensation, and disability insurance. Minimum wage and antidiscrimination laws may not apply to them, and retirement security is a concern. The delivery of benefits is a key question. One option for bridging some of the gaps involves allowing independent workers to form pools in order to create their own marketplaces and benefits, a system that already works in the construction industry and in Hollywood. But any proposal will have to tackle multiple angles, starting with who would pay for such benefits and how they would be earned and tracked for workers with multiple clients and employers. Other potential hurdles include reduced access to credit, the risk of not being paid for work that is already performed, and complex tax filing, licensing, and regulatory compliance requirements.

Governments, intermediaries, and innovators have taken some preliminary steps to tackle some of the issues surrounding independent work, but a great deal still needs to be addressed. Furthermore, the challenges and opportunities posed by independent work need to be considered in the context of broader changes taking place in labor markets, including the effects of automation and globalization.<sup>10</sup> Below we consider some of the challenges and opportunities facing specific stakeholders:

- **Policy makers.** The first policy priority is obtaining better data on the independent workforce through new and more regular government surveys, with up-to-date categories and criteria. More broadly, labor market policies developed for the industrial era often do not apply to the world of independent work. It may be time to modernize the safety net and worker protections to better reflect the realities of today's labor market.<sup>11</sup> Some countries have created a classification of worker that falls between a traditional employee and independent contractor, offering some labor market protections. In the United States, there is a growing support for constructing a more portable system of benefits that is tied to workers themselves, not to a single employer.

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<sup>10</sup> Jacques Bughin, Susan Lund, and Jaana Remes, "Ten new work orthodoxies for the second machine age," *The Global Talent Competitiveness Index*, forthcoming.

<sup>11</sup> For more on these issues, see Seth Harris and Alan Krueger, *A proposal for modernizing labor laws for twenty-first-century work: The "independent worker,"* The Hamilton Project at the Brookings Institution, December 2015.

- **Intermediaries and innovators.** These players have a clear opportunity to step into this space and to create other types of new products, services, and solutions tailored to independent workers. These could include, for example, financial solutions for smoothing out income between assignments or offering shared office space that can be booked in increments. Educators and industry groups could build widely recognized credentials and develop flexible courses and training programs to enable independent workers to advance their careers.
- **Workers.** Lifetime employment at one company is largely a relic of the past, putting the onus on individuals to map out their own career trajectories, looking for their own business opportunities and taking charge of developing their own skills along the way. Independent and traditional workers alike would be well served by developing differentiated skills and services to avoid becoming part of a low-wage generalist pool. In addition, each independent worker has to operate like a self-contained small business. This demands administrative skill and foresight to prepare for peaks and valleys in earnings, to perform all tax and legal compliance, and to manage their own retirement savings.
- **Organizations.** For companies and other organizations, hiring independent workers requires careful consideration. If properly managed, this shift can allow companies to become more agile, efficient, and productive; it can also allow them to add new capabilities and undertake projects that would not otherwise be feasible. But companies cannot make this change lightly. They need to consider the trade-offs, including the possibility of greater churn. It can be unwieldy to manage someone's work externally and riskier to entrust the worker with confidential or high-profile projects. Project teams need to be designed with the right mix of internal and external talent—and business leaders also have a responsibility to ensure that external contractors are treated fairly and ethically.



The independent workforce is starting to show up on the radar of policy makers, academics, and companies. It has also tapped into a desire on the part of many individuals to redefine their relationship to the world of work and exert more control over their own time and destiny. The development of digital platforms may fuel growth in the market for individual services. A number of challenges will have to be addressed to ensure that independent work is a positive development for workers—and for economies as a whole.

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