

Daniel Altman Q&A

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Larry Bernstein:

I want to welcome Daniel Altman on today's podcast of What Happens Next. Daniel is the chief economist for the employment app Instawork that helps workers and employers find each other for both short and long-term work. A few days ago, Daniel had the lead Op-Ed in the Wall Street Journal about whether task-oriented jobs are properly included in government employment statistics.

Why is this important? The critical question facing macroeconomic policymakers today is whether or not we are at full employment. Because if we are at full employment, then we cannot be adding fiscal and monetary stimulus to the economy without inflation.

Daniel, please begin your six-minute presentation.

Daniel Altman:

I'm Daniel Altman. I'm the first chief economist at Instawork, which is a flexible work app that brings together hourly professionals and businesses across the country in many different industries.

Today I want to talk to you about something strange that happened with the government's surveys of workers. Between 2019 and 2021 the Labor department apparently lost track of about six million hourly workers, at least the counts went down by that much. In 2020 they were down by about nine million. But we're still missing six million hourly paid workers. Where could they have gone?

Full-time employment has actually recovered to its pre pandemic levels while part-time employment is still six or seven percent below. So, does this represent a real decrease in the labor force or is there something else going on?

Well, surveys take place during a reference week every month. Now, if you haven't been working in that week and you're not employed on a salary basis or a full-time position then you won't be counted as in the labor force. So, if you're taking a little time off, you're ill and work a few hours here and there. It doesn't matter, you'll be out of the labor force that week. Whereas someone with a permanent job who takes vacation or sick leave will still be counted as in the labor force. So, there's some leakage from the surveys that the government conducts when people take time off from unconventional working arrangements.

Now, the government also counts self-employed people and you might think a lot of these six million may have become self-employed as so many did apparently during the pandemic. The government only counted 100,000 people becoming self-employed since the pandemic began.

So, where did these people go. Well, there are a lot of people who work on a shift or task or hourly basis who wouldn't necessarily count themselves as self-employed because they're still working for other businesses. But millions of them have signed up for what we're calling flexible work apps. That means they're getting an app on their phone or their computer that helps to match them with businesses who value their skills and want to employ them.

These apps help the economy in several different ways. One is to reduce frictional unemployment. Now what's frictional unemployment? It's the unemployment that happens during the job search process. There are workers and there are businesses that are looking to find each other but they just can't. It's hard to find information about the workers you want. Well, these apps help to reduce that. And so by reducing frictional unemployment we allow the economy to employ more people and grow a bit faster.

We also help the quality of matching between workers and businesses because they find out about each other. A lot of these apps, including Instawork, have reputation mechanisms so you can grade the workers who work for you and they can grade your company as well.

Workers are able to evaluate many offers of employment by different businesses at the same time. And that gives them bargaining power and so it's no surprise to see that workers share of national income has actually been growing through the pandemic.

When we look at the workers who are participating in these apps we notice a few things. First, we see that they value flexibility across three dimensions. They value flexibility in time, being able to work at day or at night or one week on, one week off, however they choose to do it. They value it across geography. We see workers who will work in different metropolitan areas at different times of the year. And they also value it across roles. We'll see workers who work in different industries. They might work one shift as a busser and another shift as a warehouse associate. They have lots of combinations and they're free to pick whichever ones they want.

This is really transformative for the economy because these people are carving out new ways to work and indeed to create a whole career. But it's also transformative for policy because if we are successful in reducing frictional unemployment and getting rid of these other frictions in the labor markets then the economy may have a lower natural rate of unemployment. That means that we can sustain a lower rate of unemployment without creating a lot of inflation. Now that's going to be big news for policymakers like the Federal Reserve. They need to know what rates of unemployment can be targeted without creating a lot of inflation.

Larry Bernstein:

Each month the Bureau of Labor Statistics does a Household survey to evaluate the job market. The BLS calls 50,000 households in the last week of the month and asks whether anyone who lives in the house got a new job or lost one. What is challenging is that net employment changes by often less than 1 in 1000, and small differences is what we are looking for. And I think that what you're saying is that the specific survey questions might be insufficient.

Daniel Altman:

When someone in a household gets asked whether they worked in the previous week they may say no. But that doesn't mean that they're not in the labor force.

If you're someone who decides to work full-time one week or maybe even more, 60, 80 hours one week and then not at all the next week because that's how you like to do it. You like to go surfing the other week, let's say. Then you're still working 30, 40 hours a week on average but you're working one week on, one week off. Now, if the government happens to survey you during the week that you're surfing they will say that's a person who's not in the labor force but clearly that's not true because this person is working about 30, 40 hours a week on average.

So, there's this random element that's been introduced here and as a result miss what their working status is. We may be leaving them out of the labor force entirely.

Larry Bernstein:

Do you think that these work apps have changed the labor market?

Daniel Altman:

We have had this proliferation of these flexible work apps over the past couple of years. And I think part of that is because the pandemic created an opportunity in a couple of different ways. People may have been ill with COVID or barred from the workplace because of a COVID test. They may have had to take care of loved ones because of COVID. And a flexible schedule may have become more attractive as a result of that.

Also, if your workplace has closed down for some reason, or you're on furlough, you may not be looking for a permanent position but you might be looking to make some extra cash. And working shifts here and there while you wait for your furlough to end could have been a viable way to continue earning income for some people. And what we've just seen in the pandemic has only accelerated what the technological way it started.

Larry Bernstein:

Do you think the nature of work is changing? I mean in some societies, you would work for one firm your whole life, or work in one industry, or job function for a lifetime. Now, you can mix things up on a moment's notice.

Daniel Altman:

The definition of a job has definitely changed over time. It used to be that a job was a full-time permanent position, or even a part-time but still permanent position, where you expected to go to work every week. If somebody does a couple of shifts over a couple of weeks at the same business, is that a job? What if they get a 3-month assignment? Is that a job? We don't even

really have many contracts anymore. Most people are in at-will employment anyway. It's not as though people even on a would consider a more permanent position have that much more job security.

Larry Bernstein:

Would you suggest changing the Household survey questions to deal with the changing nature of work?

Daniel Atman:

I referred earlier to the hourly paid workers that the census counts, that's where the six million number came from, six million that were missing since the pandemic began. Now, hourly paid just comes from one survey question on the household survey where they ask, "Are you regularly paid? Hourly, weekly, monthly, etc." Now, somebody answering that question might say, "Well, gee, I don't know. I mean, I worked and I had an hourly rate, but I get paid based on the number of tasks I get paid because I did a shift over a course of four days. Does that count as hourly paid?" There's too much room to be able to interpret it in different ways.

Larry Bernstein:

The employment market is hard to measure. How can you evaluate labor supply or labor demand? We have both public and private surveys to help us. We can see the we are hiring signs in every storefront, so we know that the labor market is tight. And the labor market is akin to many markets which is opaque. So, the one thing that all markets have in common is changes in price. And if prices are rising, then there was either an increase in demand, a reduction in available supply or both. Well wages are surging, up 5.7% year-on-year. What do you make of wage inflation as a proxy for labor market dynamics?

Daniel Altman:

There have been labor supply shortages at times, especially during the most recent Omicron wave of COVID 19. And we saw on our platform, where we have real time transaction data from the labor market, that wages did increase very quickly during that period. We had more firms that were filling shifts on short notice and offering higher wages. We expect some of that heat to come out of the market now. But we did see over the year, even up to November 2021, that there was a really dramatic increase in wages, especially for these hourly professionals that far exceeded the levels of inflation that were measured by our government.

Companies don't necessarily like to raise wages but once they've done it, it's very hard to cut them. So we're unlikely to see a decline in wages. What people will be more looking for is to see

whether real wages decline with time if companies then postpone other raises that they might have planned into the future.

Larry Bernstein:

Vittorio Assaf spoke on What Happens Next in March 2020. And he said that due to the government's forced closure of restaurants related to COVID, Serafina had to terminate a thousand employees. And when I asked Vittorio would it be easy to rehire these workers, he said it would be incredibly difficult because his former employees would likely move all over the world.

Daniel Altman:

People have been dislocated, it's hard to bring people back. We've seen it even country to country, people who were expatriates decided to go home to their home country so they could be with family before quarantine restrictions would even prevent them from doing that. And the idea that they would suddenly return the moment the office was ready to reopen is silly. So, I think there's certainly some of that contributing to the increase in wages, too, because if let's say you have a high-end restaurant and it took you a long time to hire a very professional staff, and now you've lost some of those people, but all of a sudden you have to recover the staff quickly, well, how are you going to get really high-quality professionals on short notice? You have to pay a high wage. There's a secondary effect which is if you start offering a high wage, you're going to get a lot of applications from everybody, not just the high-end professional. So, it comes down to your ability to discern those high-end professionals.

Larry Bernstein

Before the pandemic many older workers were semi-retired. They worked one to two days a week. Let me give you an example, one of my dad's best friends is a doctor who shares a nurse with a few other semi-retired doctors, and had office hours once or twice a week, and the economics justified buying medical malpractice insurance. When the pandemic hit, it no longer made sense to continue, and the doctors closed their medical office permanently. Do you think that COVID encouraged permanent retirement of semi-retired workers?

Daniel Altman:

The story about the elderly has some credence to it. There's no doubt that we've seen a decline in labor force participation in that demographic. We don't have that many elderly signups relative to other age groups on our app and that may be a function of technological literacy as well as the will to work.

Larry Bernstein:

With kids going to school from home, a parent needs to be nearby. It likely is mom, and that suggests that women would be more likely to drop out of the workforce to care for the youngsters. Once kids went back to school, women may be lax to reenter the workforce. We have not seen a substantial shift of men to women in the national employment statistics. What are you seeing in your app?

Daniel Altman:

The mothers, that's something that we have a little bit of insight about. We get more women than men signing up for Instawork, but we have more men than women working shifts. The ones who can actually go and show up because these are mostly in person occupations that they're doing more men than women and you could hypothesize that it has something to do with childcare.

Larry Bernstein:

Do you suspect that child care requirements might also apply to the fathers and that may explain some of the decline in worker participation?

Daniel Altman:

Maybe some of the men are having to do childcare and other home caring as well that's keeping them in the home. Anybody with young children it has been incredibly taxing. Can you imagine sitting at home trying to work remotely while one child needs help with their school work on the iPad and then the other child, who's younger, has nothing to do and, and you feel your heart being torn out as you see that other child basically having to fend for themselves?

It's incredibly difficult, and there has been a lot more need for attention in the home. As the pandemic recedes, some of these pressures will dissipate. These dislocations in the economy, these shocks can move us into different professions, different roles that we might not have considered before. I've certainly read plenty of stories of people who said, "Well, I finally decided to just follow my passion. My workplace closed so I decided to try something else."

And so, I think we're seeing a lot more fluidity, what some people might call creative destruction in a different sort of way in the economy, and those changes are likely to stick.

Larry Bernstein:

Nobel Prize Winner Ronald Coase wrote an essay entitled The Firm that makes the argument that the reason that the firm exists is because of transactions costs related to employment and ongoing relations with customers and suppliers. His idea is that in a perfect world, customers would find workers to solve their problems seamlessly without transactions costs or the need of a firm. But, because it is very hard to negotiate daily employment or an individual task-based contract, firms exist to hire workers for the long-term to provide labor to customers. But as technology reduces these transaction costs, we would expect customers to transact directly

with workers and that workers would move towards an individual task-oriented labor contract in lieu of lifetime employment with a single firm.

Daniel Altman:

There's no doubt that transaction costs play a very important role in the nature of the firm and as you say, to have to recontract all your workers every day, all your suppliers, your labor's just one of the inputs that goes into whatever you're making. So, to have to do that every day would be kind of wild. But then when you look at it from the B to C perspective, you also say, consumers want to have a firm that they can continue to return to and they'll have some expectations about the product and the timing of the service delivery that they'll get.

Transaction costs by themselves aren't the only justification for the existence of firms. We want them from the consumer's perspective as well. When you look at the labor market, eliminating these frictions where you have buyers and sellers will make the markets more efficient.

Larry Bernstein:

Firms need skilled employees and they will invest to make employees more productive. But if the firm invests in general skills, the employee will get most of the benefits because otherwise, he will quit and join another company, but if the skills are firm specific, then the firm gets the benefits. How do you think about job training in this new world of task specific contractual relations?

Daniel Altman:

One of the problems and one of the reasons why firms under invest in training is that they're afraid, in our at-will employment market, that somebody will just pick up those skills and then leave and they won't get any compensation. However, it doesn't work like that in every market. For example in international soccer, you're required by the administrative body's rules to pay a compensation fee to a club that has trained a young player when that young player moves to a different club. It makes sure that the clubs still invest in the training of young players and that those clubs that pick up the young players all over the world can stay in business.

I think that we should have something like that. If a company trains you where you get some sort of certification that you've picked up a skill, then that should come with a fee when the worker changes employers. Now that's inserting a friction into the labor market that wasn't there before but you are solving this problem of under investment in training.

Larry Bernstein:

Last October, Claudia Goldin a Harvard professor of economics joined us. Besides being the former head of the Economics department at Harvard, she was also my teacher at Penn where I was her student in an introduction to microeconomics. Claudia's has new research on why women make less than men for similar work. Claudia suggests that some work requires flexible

work hours. Some work needs to be done off hours, on short notice, far from home, and that work is problematic for women who have childcare responsibilities and thus garners higher per hour wages.

I think what is exciting about these apps is that women can match their skills with a flexible work environment and take that higher paying work when it is available and suitable for them. How do you think about flexibility and gender compensation?

Daniel Altman:

The apps offer our early professionals lots of options of when to work, where to work and how to work, but it doesn't change what the workers own constraints are. If they wouldn't work that time in a conventional job then they might not want to work that same time in a flexible job. But what it does allow them to do is to create their own schedule. And so hopefully it creates more economic opportunities by allowing them to earn a higher income within the constraints that they already face.

Claudia's an old professor of mine. I had her at Harvard as a grad student.

Larry Bernstein:

It is amazing the power and influence that a great professor or teacher like Claudia Goldin can have on their students over a lifetime, in terms of insight, enthusiasm for a field, and skill building.

Larry Bernstein:

Frictions in the employee/employer relationship include knowing the true skills of the employee and whether the employer is trustworthy, accurately pays for performance, and excels at training.

Daniel Altman:

So back in 2009, I wrote a piece for the Huffington Post called The Future Of Journalism Is eBay. I had spent several years as a journalist at that point and it seemed to me with the increasing use of freelancers that we were heading in a direction where we would just have buyers and sellers who would transact pieces on a marketplace. And people would have reputational scores, both the editors and the reporters. The editors could put out calls for pieces that they wanted to attract and the reporters could similarly post pieces that they'd written or pictures that they had for bidding. And I think that we certainly could run into this area for things like journalism where you're kind of working on a piecework basis. (laughs). Right? But for something that's a bit more involved where you have longer term projects and they're not as easily defined it might not be quite so easy to do this.

You want to build long term relationships. We find on Instawork that firms will work with a professional a couple of times, then they'll start requesting that professional on a shift basis and eventually they will hire that professional on a full-time basis in-house. And that's something that we love to see because it means someone's getting a better opportunity, and job security as well.

Larry Bernstein:

The biggest disconnect in the labor market is that it is national and not international in scope. We cannot get a haircut from someone who lives in Mexico, unless he moves here. But work that can be done remotely, opens up opportunities for overseas workers. This is fabulous for customers because the task will be much cheaper, it will be great for overseas workers because they can earn more money, and will be catastrophic for domestic workers who will have to compete with labor from the third world. How will your apps put customers or domestic firms in contact with individuals outside the US?

Daniel Altman:

It's a very interesting question because when we start to move full-time jobs, the type of permanent positions that the government usually likes to monitor and regulate, towards off-shore and remote work then we could run into some legal implications. I can certainly see that for remote work, it's happening already to a great degree. At Instawork, we employ people all over the world because we're looking for the best talent wherever we can find it. It doesn't have to be on a freelance basis but some firms may decide that that's the best way for them to go to reduce red tape. It's just a question of how much the government will tolerate it.

Larry Bernstein:

I end each session on a note of optimism, Daniel what are you optimistic about?

Daniel Altman:

I'm optimistic that we're going to continue to chip away at frictional and structural unemployment which are two of the toughest types of unemployment to eliminate in the economy because frictional unemployment has to do with the way the labor market actually works and structural unemployment has to do with the mismatches that we see between skills and the need for work. I think that apps like Instawork can continue to use technology to eliminate the frictions and hopefully policy makers in Washington and the States will do more to eliminate the structural problems that we have by helping workers to retrain and get the education and skills they need to be productive.