The Daily Dish

Lessons of AB5

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Eakinomics: Lessons of AB5

On January 1, a contentious California law known as AB5 (Assembly Bill 5) took effect. AB5 codified the "ABC" test, which is used to determine whether a worker is a full employee or independent contractor. Early on, American Action Forum research indicated that AB5 would likely lead to massive reclassification, which is costly to employers, hurts small businesses, and significantly limits worker freedom.

While the target of AB5 was the so-called gig economy – particularly the ridesharing platforms Uber and Lyft – it is unsurprising that the fallout has been even greater. As *The Wall Street Journal* reports, "Early this year, the organizers of a small Bay Area theater told Alicia Dattner they wouldn't be able to pay her for an upcoming comedy act. The reason: A new California law that reclassified gig-economy workers, such as Uber drivers, as employees meant it would be too expensive to hire her."

Sometimes it is no fun to be right. At least California is paying attention. "Besieged with complaints, the California legislature earlier this month amended the law to exempt workers in industries from comedy to youth sports. While a huge array of groups with objections—including interpreters and journalists—were mollified, concerns about the law's effects still linger among employers and workers alike, including small theaters, fast-food franchises and even some mall Santas."

Still, the ballot in November will contain a measure exempting app-based companies from AB5. Ultimately, one might imagine that AB5 is fully repealed and California reverts to the status quo in 2019. What lesson would be learned?

It seems to me that there is a fondness for the idea that every job should be well-paid and accompanied by full benefits – health, pension, retirement, vacation, and sick leave. That's a nice vision, but perhaps not realistic for every job in the 2020's labor market. In particular,

it may not be realistic for independent contractors, gig workers, and others who have multiple entities contributing to their full earnings. Instead of forcing these economic relationships into a cookie-cutter employer-employee framework, it seems more useful to pursue ways to provide portable benefits financed by multiple employers. That should be the agenda instead of trying to turn back the clock.