Effects of Proposition 22 on Rideshare Driver Earnings:
Response to Jacobs-Reich Rebuttal
PROPOSITION 22: RESPONSE TO JACOBS-REICH REBUTTAL

Prepared by the Center for Economic Forecasting and Development with research costs covered by Lyft. All findings, conclusions, and opinions are solely and exclusively those of CEFD.

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The UC Riverside School of Business Center for Economic Forecasting and Development opened its doors in October 2015 and represents a major economic research initiative in one of California’s most vital growth regions. The Center produces a wide variety of research both independently and in collaboration with academic, business, and government partners. Research products include monthly employment analyses, quarterly regional economic forecasts, a quarterly business activity index, a white paper series, and a major regional economic forecast conference, hosted annually.

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Introduction

In October of 2019, Ken Jacobs, chair of the UC Berkeley Labor Center, co-authored a blog post with UC Berkeley Economics Professor Dr. Michael Reich where they claimed that Proposition 22 would only guarantee drivers on rideshare platforms $5.64 per hour in earnings, well below the state’s minimum wage.¹ In a recent report, the UC Riverside Center for Economic Forecasting and Development (CEFD) analyzed Jacobs’ and Reich’s conclusions and methods, finding them highly flawed and largely misrepresentative of the potential impact of Prop 22.² There are two major faults in the Jacobs-Reich blog post.

- The Jacobs-Reich blog post conflates two important aspects of Prop 22’s impact: the minimum earnings guarantee contained in the Proposition, and the actual earnings drivers will make on rideshare platforms if Prop 22 passes. The latter should be the center of any debate. The Jacobs-Reich post and its conclusions misleadingly only discuss the former.

- Whether one is considering Prop 22’s minimum earnings guarantee or actual driver earnings, Jacobs’ and Reich’s estimates of driver wait times and relevant driver costs are inflated, biasing their final estimate downward from an accurate measurement by over one-half.

For the purposes of comparison and identifying these flaws, CEFD recreated Jacobs’ and Reich’s original analysis but focused on what rideshare drivers can expect to earn rather than using the wage floor evaluation from the Jacobs-Reich blog post. CEFD applied more reasonable inputs on wait times and driving costs, ultimately calculating that, even under the flawed framework Jacobs and Reich use, the median driver earnings would range between $25.61 and $27.58 per hour if Prop 22 were to pass, depending on various assumptions. This implies that driver earnings would be above this range half the time, and below it half the time.

Jacobs and Reich responded to CEFD’s analysis with a rebuttal affirming their belief in the conclusions and methods of their original blog post. In that rebuttal, however, they fail to respond to CEFD’s main points of contention and instead offer a number of red herrings that attempt to obscure the fundamental problem with their original conclusions and methods. Following is a response to the Jacobs-Reich rebuttal.³

The Jacobs-Reich blog post clearly suggests that drivers on various rideshare platforms will earn below minimum wage if Prop 22 passes. This is false. CEFD stands behind its analysis that indicates drivers will earn, on average, between $25.60 and $27.60 per hour. And these numbers are on the low end of the range of estimates given that wait times are likely less than what CEFD assumed and considering the potential for cost deductions on drivers’ taxes.

¹ Uber/Lyft Ballot Initiative Guarantees Drivers Only $5.64/Hour Ken Jacobs, Chair, UC Berkeley Center for Labor Research and Education | October 31, 2019 https://blogs.berkeley.edu/2019/10/31/the-uber-lyft-ballot-initiative-guarantees-drivers-only-5-64-an-hour/
³ The Effects of Proposition 22 on Driver Earnings: Response to a Lyft-Funded Report by Dr. Christopher Thornberg Ken Jacobs, Michael Reich, UC Berkeley Center for Labor Research and Education | August 26, 2020 https://laborcenter.berkeley.edu/the-effects-of-proposition-22-on-driver-earnings-response-to-a-lyft-funded-report-by-dr-christopher-thornberg/
Most Studies find Rideshare Platform Drivers Earn Above Minimum Wage

Jacobs-Reich claim at the start of their rebuttal that “independent” studies consistently find that drivers operating on the Uber and Lyft rideshare platforms are paid less than the minimum wage. In fact, the large majority of studies that attempt to estimate driver earnings on these platforms find the opposite—that earnings are well above local minimum wage levels. This includes any number of studies Jacobs-Reich cite themselves in both of their blog posts, including the recent and well-researched report on the Seattle market from Dr. Louis Hyman (and others) out of Cornell’s School of Industrial and Labor Relations. CEFD used findings from the Cornell analysis to start its own calculations.4

The distinction for Jacobs-Reich in making their claim is that they are only counting “independent” studies, by which they mean the few reports that have been conducted without some level of cooperation from rideshare platforms.5 These studies have primarily been performed by researchers and organizations that have been clear in their political antipathy towards rideshare firms (and the larger gig economy) and thus are highly unlikely to produce truly objective analysis. Such studies include analyses conducted by Reich and James A. Parrot for the cites of Seattle and New York.6 The technical problems in these reports are beyond the scope of this response but can best be summed up by the ultimate conclusion delivered in the Expert Report of Dr. Catherine Tucker, which refuted the New York City report as follows: “[t]he Parrott and Reich Report is not based on sound economic methodology and fails to assess the effect of the Minimum Payment Rule and the Per Trip Calculation Requirement.”7

The claim that drivers operating on rideshare platforms regularly earn less than the minimum wage flies in the logical face of how economies operate. When Jacobs-Reich wrote their original blog post in October 2019 California had the lowest unemployment rate on record. That tens of thousands of Californians, in the midst of the tightest labor market in the state’s history, would willingly, and for the most part happily according to various driver surveys, work on these platforms for less than the minimum wage being offered at many unfilled job openings at best strains credibility. Numerous times, Jacobs and Reich cite the first major study conducted on the issue of rideshare driver earnings by Jonathan V. Hall and Alan B. Kreuger, yet they ignore the most important point made in that analysis.8

“In addition, most driver-partners do not appear to turn to Uber out of desperation or because they face an absence of other opportunities in the job market—only eight percent were unemployed just before they started working on the Uber platform—but rather because the nature of the work, the flexibility, and the compensation appeals to them compared with other available options.”

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5 Jacobs and Reich are implying that research conducted with the cooperation of rideshare platforms must be biased, a steep accusation considering the many highly respected academics who have done such work including Louis Hyman of Cornell University and Alan Krueger, a former chaired Princeton economist who has won numerous awards for his work and served in the Obama administration including as Chair of the White House Council of Economic Advisers.
6 https://irle.berkeley.edu/a-minimum-compensation-standard-for-seattle-tnc-drivers/
7 TRI-CITY, LLC; and ENDOR CAR AND DRIVER, LLC, Petitioners, v. NEW YORK CITY TAXI AND LIMOUSINE COMMISSION and MEERA JOSHI, in her official capacity as Chair, Commissioner, and Chief Executive Officer of the New York City Taxi and Limousine Commission, Respondents. EXPERT REPORT OF DR. CATHERINE TUCKER JANUARY 29, 2019 page 4 paragraph 12
Jacobs-Reich Ignore Expected Earnings

In the Jacobs-Reich 2019 blog post, the authors analyze the minimum guaranteed earnings under Prop 22 by starting at $15.60 per hour, 120% of the minimum wage as per the Proposition. However, this is completely different than the gross earnings drivers are expected to make if Prop 22 passes, which is the focus of CEFD’s analysis. Jacobs and Reich do little to clarify the difference between these two estimates in either their original blog post or their rebuttal to CEFD’s analysis. Indeed, they seem to deliberately confuse the two estimates in the conclusion of their original blog post when they write that Prop 22 is “a ballot initiative that would take pay standards back seventy years.”

From CEFD’s perspective, what drivers are likely to earn if Prop 22 passes is of greater importance to voters than the base floor guarantee contained in the Proposition, and as noted, objective studies have shown that, on average, drivers on rideshare platforms earn well above local minimum wage levels. Still, CEFD acknowledges that contingent workers, whether on the Uber and Lyft platforms or in the other myriad places and industries where this type of labor exists, may experience more income volatility than workers who are paid a flat salary or work under an hourly wage system. Jacobs-Reich might argue that the income volatility is inherently bad for workers—but this is presumptive. A contingent worker survey performed by the U.S. Bureau of Labor Statistics indicates that the majority of contingent workers prefer contingent work. Less than 10% say they prefer traditional work.9

Jacobs-Reich incorrectly suggest that rideshare drivers often earn less than the local minimum wage and misrepresent the research of others when they state that “the Cornell study finds (Hyman p. 121) that 26 percent of full-time drivers earned below Seattle's $16.39 minimum wage.” Hyman actually estimated that only 4% of full-time drivers earned less than this amount (which is higher than California’s minimum wage) when reasonable assumptions are applied.10 Thus, the wage guarantee in Prop 22 can’t be accurately compared to a minimum wage at all and shouldn’t be thought of in that way. Prop 22’s guarantee only provides a wage floor for rare instances when a driver earns much less than normal.

10 The Cornell study notes that the share of drivers would be 26% only if the full cost model is used, clearly stating “The fixed cost model incorporates the highest possible costs. Actual driver costs are probably lower.” The Cornell study also only considered 8 days’ worth of data. Had it considered 8 months’ worth of data, the underlying variability would be lower and it is likely that few, if any, drivers earned less than this amount.
It Is Appropriate To Use The Gross Earnings Estimate From The Cornell Study As A Starting Point

Jacobs-Reich never offer an estimate of expected gross earnings for rideshare drivers under Prop 22 in their original blog post, nor do they offer an alternative to CEFD’s estimate in their rebuttal to that analysis, despite their criticisms. CEFD’s analysis used the gross hourly earnings estimate from the Cornell study on the Seattle market as a starting place because the Cornell study was assessed to be one of the most robust available on the subject as well as the most current. Gross earnings are what drivers earn while actually transporting a rider to their destination.

As noted in CEFD’s analysis, the gross earnings estimate from the Cornell study lines up well with many other academic studies on the topic, including one from Stanford University, which shows that national average gross pay for rideshare drivers was over $30 per hour in 2017 for time drivers are engaged in a ride. Given that this data is from 2017, current earnings may be higher.

In the Jacobs-Reich rebuttal, they cherry pick a figure from the Hall-Kreuger study to suggest this starting point is 20% too high. While it is true that the Hall-Krueger study finds that driver earnings in San Francisco are higher than in Los Angeles, the Stanford study finds, in turn, that earnings in Los Angeles are higher than in Seattle—implying that such differences are more about sample variance than any persistent gap.

In their rebuttal, Jacobs and Reich also state that CEFD’s starting point is misleading—an ironic claim given that they cite a $9.73 per hour figure from the Reich-Parrot study on the Seattle market. Yet even the problematic survey data in the Reich-Parrot study suggest that gross earnings in Seattle were over $30 per hour after backing out the controls for wait times, which is much closer to CEFD’s starting point than the starting point used in the original Jacobs-Reich blog post. Similarly, CEFD does not ignore the Tucker report. Using her figures and backing out the adjustment for wait time, the gross earnings estimate again goes well above $30 per hour. The reports Jacobs and Reich cite in their rebuttal actually support CEFD’s starting point rather than contradicting it.

Ultimately CEFD’s starting point for its analysis is just an estimate. There are plenty of variations in potential earnings depending on location, time of the day, week or year, and any number of other factors. All the studies Jacobs and Reich cite show that gross earnings, once waiting times are backed out, are $30 per hour or more, which is in range of CEFD’s starting point. The Jacobs-Reich criticisms are little more than red herrings that attempt to obscure these findings.

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12 Hall and Kreuger estimate driver earnings in Chicago to be $15.48 per hour. But in a Stanford study, based on 2017 data (and a paper released this year), they find the earnings of Chicago drivers to be $23.81 per hour, showing that wages have increased over time.
13 In the Stanford study, the authors find that drivers in Chicago earn $23.81 per hour (backing out wait time and this comes to $33.07 (23.81/0.72) per hour) – very close to the Seattle number given that the Chicago finding is from an older vintage. If one follows Jacobs and Reich’s line of reasoning, in the Hall-Kreuger study, page 721, a driver in LA earns 17% more than a driver in Chicago. If one adjusts Stanford’s Chicago estimate (33.07 * 1.17), one gets Los Angeles hourly earnings of $38.69 and San Francisco (which has earnings 45% higher than in Chicago) hourly earnings of $47.95. Such oddities are hardly surprising given how different researchers may run their analysis or how data sets are collected over different periods of time. This is the nature of empirical research. Cherry picking one data point among many to make a specific point illustrates Jacobs’ and Reich’s lack of objectivity.
Jacobs-Reich Use A Wait Time Estimate That Is Too High

The original Jacobs-Reich blog post uses a wait time estimate of 33%, which shaves about one-third off of their estimate of the wage floor earnings. However, 33% is too high, albeit by how much is unknown given the limitations of the data available to researchers. As CEFD notes in its analysis, the biggest problem with trying to estimate actual wait times is that the only data available is the time the driver’s app is actually turned on. It is not possible to know if all of that time is spent actually waiting to be engaged for a ride. They could be running personal errands, commuting to the driver’s location of choice, or perhaps even driving home without having turned off their app. Moreover, a driver is under no obligation to accept a new ride, nor do the rideshare platforms require that drivers use only one app at a time. In a survey of drivers by Lyft, 55% reported working on another platform in addition to Lyft—hence much of the “wait” time on one platform is actually time spent earning revenue on another.¹⁴ Neither the Jacobs-Reich blog post nor their rebuttal to CEFD’s analysis acknowledge any of these dynamics.

Ultimately, out of an abundance of caution, CEFD used a very conservative 28% estimate of wait time, only slightly below the 33% found by Jacobs-Reich. CEFD’s figure comes from the Cornell study which used data from both Uber and Lyft and was able to extract “wait time” on one platform that was actually spent driving on another. Clearly, even CEFD’s estimate of 28% is high as a driver could be working on a variety of platforms such as GrubHub or DoorDash or engaged in personal activities.

The Jacobs-Reich Estimate Of Driver Expenses Is Too High

The Jacobs-Reich blog post uses the IRS figure of $0.575 per mile to estimate driver expenses. CEFD’s analysis uses $0.17 to $0.23 per mile based on data from the American Automobile Association (AAA). In their rebuttal, Jacobs and Reich claimed this figure is wrong, saying that the AAA pamphlet suggests a cost that ranges from $0.40 to $0.87 per mile. Yet again, they ignore the main points of CEFD’s analysis. It is true that the AAA manual contains those figures, but they aren’t all relevant in this case. The higher per mile costs are for large SUVs, and most drivers on the Uber and Lyft platforms drive sedans.

But more at issue is that the AAA cost range Jacobs and Reich cite includes the cost of ownership rather than just the operating costs of a vehicle such as registration, taxes, and insurance. As CEFD noted in its analysis, it is inappropriate to include such costs in the net earnings calculation because the large majority of drivers on the Uber and Lyft platforms owned a car and a smartphone prior to driving on these platforms and would own them if they weren’t driving on the platforms. As noted in CEFD’s analysis, 86% of drivers on the Lyft platform work fewer than 20 hours per week.

The Jacobs-Reich rebuttal again misstates CEFD’s analysis to try and undermine its conclusions when they claim that “Thornberg excludes driving costs incurred while waiting between passengers from his expense calculations.” In fact, the CEFD analysis does state as much on page 7 of the report: “[t]his means each P1 mile driven in an hour (3.3 miles) is multiplied by 19 cents to account for driver expenses incurred during waiting times (63 cents per hour). This amount is subtracted from hourly earnings.”

More at issue is that drivers will still be able to take the full IRS deduction for miles even if they receive some compensation for their expenses through Prop 22. The benefit to drivers needs to be included in the Jacobs-Reich calculations, which CEFD makes clear in its analysis. Jacobs and Reich fail to even acknowledge this fundamental problem.

¹⁴ https://www.lyftimpact.com/stats/states/california

¹⁵ As explained in CEFD’s original report, there are several reasons why CEFD disagrees with Jacob-Reich’s premise that “P1 time” or “wait time” is compensable.
Jacobs and Reich Misrepresent the Impact Of Prop22

The Jacobs-Reich blog post clearly suggests that drivers on various rideshare platforms will earn below minimum wage if Prop 22 passes. This is false. CEFD stands behind its analysis that indicates drivers will earn, on average, between $25.60 and $27.60 per hour. And these numbers are on the low end of the range of estimates given that wait times are likely less than what CEFD assumed and considering the potential for cost deductions on drivers’ taxes.

Of greater importance, but not dealt with in either the original Jacobs-Reich blog post or their rebuttal to CEFD’s analysis, is what would happen to driver earnings if Prop 22 should fail and if rideshare firms were forced to hire drivers as payroll employees. At worst, rideshare firms could stop operating in California. It could also cause the cost of rideshare fares to rise for riders, even as driver gross earnings fall below their current levels due to the lost efficiencies that would come with such a regulatory change.

The rideshare platforms have given many Californians the ability to earn incomes far above the state minimum wage regardless of educational background, race, gender, or ethnicity. These platforms have also allowed lower-income communities access to affordable ride hailing services—something that was once reserved primarily for business centers and high-income areas. It is these issues on which California voters should ultimately focus.