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INDEPENDENT CONTRACTORS AND EMPLOYEES

AN ECONOMIC IMPACT OF CLASSIFYING MOST *TRANSPORTATION NETWORK COMPANY* WORKERS AS EMPLOYEES AS OPPOSED TO INDEPENDENT CONTRACTORS IN THE RIDE SHARE INDUSTRY.

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KEY FINDINGS

- The number of rideshare drivers appears to have stabilized. For the City of Portland, the number of drivers has generally been between 12,000 to 13,000. The number of drivers dropped to a low of 5,062 in 2021 and a peak of over 18,000 prior to the COVID-19 pandemic.
- The typical rideshare driver earns \$22 per hour in Oregon compared to \$21 nationwide. Top earners make \$40 per hour, and lower-end earners make \$15 per hour. Final take-home pay depends on car depreciation, gasoline prices, and other factors.
- Should drivers working independently for rideshare companies be required to become employees of *Transportation Network Companies* (e.g., rideshare companies), the economic impact is felt across the State's economy. Presuming a 15% higher total income for workers in the sector, overall jobs, GDP, and Personal Income decline as a result, and prices, particularly for the *Transportation Network Company* sector, rise.
 - > A decline in jobs of 4,179.
 - > A drop in GDP of \$383 million.
 - > A decline in Personal Income of \$326 million.
 - > A drop in business sales (also known as Output, all sectors) of \$617 million.
- As mentioned, the effect is most pronounced in the *Transit and Ground Passenger Transportation*, with a drop in employment of 2,006 (Figure 4).

BACKGROUND

The Oregon Legislature is currently considering [Senate Bill 1166](#), requiring per-mile and per-minute minimum compensation for independent contracting drivers working for “transportation network companies” (TNC), termination provisions, extending sick leave, and establishing a resource center for rideshare workers to access benefitsⁱ.

Prior to the Industrial Revolution – before approximately the 1750s to the 1800s – most people were self-employed, either as farmers, tradespeople, merchants, or other forms of task-by-task payⁱⁱ. People owned their own tools, set their own hours, and sold their labor or goods directly. Our ancestors were independent contractors.

Then came the Industrial Revolution. With factories and mechanized production, large-scale employers and workers selling their labor for a wage became commonplace. In exchange for control over their time and control over pay for their work product, more workers opted to work under schedules, conditions, and pay dictated by their employerⁱⁱⁱ.

Fast forward to today. The classification of so-called gig workers, particularly those driving for rideshare and transportation network services like Uber, Lyft, DoorDash, Instacart, DiDi, Bolt, Via, zTrip, Arro, Curb, Wingz, Flywheel, among many others, has garnered attention in recent years in the United States, with California serving as a focal point. The passage of Assembly Bill 5 (AB5) in 2019 sought to reclassify many independent contractors, including rideshare drivers, as employees. The bill faced opposition, and voters approved Proposition 22 in 2020, which allowed app-based transportation and delivery companies to continue classifying their workers as independent contractors. Proposition 22 offered some benefits to independent contractors that many do not typically receive, such as guaranteed earnings, a healthcare stipend, and occupational accident insurance.

STATE-LEVEL FIGURES ON DRIVERS AND PAY

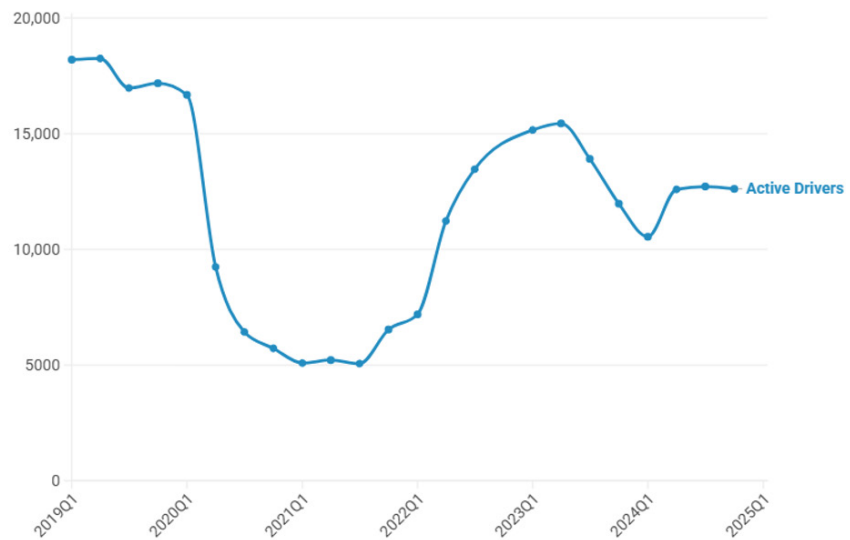
Exact statistics at the state level for the number of independent contractors doing work for TNCs are unavailable. Statistics provided by Regional Economic Models Incorporated (REMI) suggest that the Average Annual Earnings Rate is projected to grow from \$24,433 in 2023 to \$35,972 in 2035. Given that the vast majority (over four-fifths of drivers for any one company) of drivers are part-time—less than 20 hours per week—drivers' earnings are relatively good by comparison to the overall average wage in the economy. The estimated Wages and Salaries for the sector for 2025 are \$217 million, and Proprietors' Income—earnings from self-employment or sole proprietorships—is estimated at \$122 million^{iv}.

For just the city of Portland, there were an estimated 12,615 active ride-hail drivers per month in the fourth quarter of 2024 (Figure 1)^v. The number of drivers appears to have stabilized in the 12,000 to 13,000 range after dropping to a low of 5,062 in 2021 and a peak of over 18,000 prior to the COVID-19 pandemic.

In terms of pay, per ZipRecruiter – and generally aligned with other sources – the typical salary for a rideshare driver in Oregon is \$22 per hour, marginally above the \$21 per hour earned nationwide (Figure 2). Reported earnings range from around \$15 per hour on the low end to \$40 per hour for top earners. All drivers are paid under the same dynamic pricing model, which adjusts rates based on time, distance, location, and real-time rider demand. Differences in earnings reflect a mix of platform-determined rates and factors under the driver's control, such as when, where, and how often they choose to drive — rather than differing pay scales.

FIGURE 1

Active Rideshare Drivers in Portland



Source: Portland Bureau of Transportation



FIGURE 2

Typical Earnings Range for Rideshare Drivers in Oregon

Type of Earner	Annual Salary	Monthly Pay	Weekly Pay	Hourly Wage
Top Earners	\$84,582	\$7,048	\$1,626	\$40
75th Percentile	\$43,900	\$3,658	\$844	\$21
Average	\$46,442	\$3,870	\$893	\$22
25th Percentile	\$31,200	\$2,600	\$600	\$15

Source: ZipRecruiter



Arguments Made in Favor of Classifying Uber and Lyft Drivers as W-2 Employees

Supporters of reclassification argue that shifting drivers from independent contractor status to W-2 employee status could result in several changes:

1. ACCESS TO EMPLOYER-PAID BENEFITS

One of the most commonly mentioned advantages of reclassifying independent contractor drivers as employees is their eligibility for benefits such as health insurance, unemployment insurance, and workers' compensation. Independent contractors do not receive these benefits, which could leave many drivers financially vulnerable during economic downturns or health emergencies.

2. MINIMUM WAGE AND OVERTIME PROTECTIONS

Supporters note that if classified as employees, rideshare drivers would become eligible for guaranteed minimum levels of pay, regardless of how many rides they complete. They would also qualify for overtime pay when working more than 40 hours per week—something not currently available to independent contractors.

3. LEGAL RECOURSE AND APP DEACTIVATION

Employee classification is often associated with more formal procedures for addressing termination, discrimination, and workplace disputes. While independent contractors have legal rights, drivers working under this classification can typically be removed from a platform with limited explanation or opportunity to contest the decision. Employment status may offer clearer standards and established processes for resolving such issues.

4. TAX STRUCTURES AND SOCIAL INSURANCE CONTRIBUTIONS

Under the independent contractor model, drivers are responsible for paying the full share of payroll taxes, including Social Security and Medicare, through the self-employment tax. Reclassifying drivers as employees would shift part of this tax responsibility to companies, aligning with the standard employer-employee tax model. This change would also make drivers eligible for programs like unemployment insurance, which are typically tied to employer contributions.

5. WORK STRUCTURE AND SCHEDULING

The employee model typically includes more structured work hours and predictable pay systems. Independent contractor arrangements, by contrast, allow drivers to choose when and where they work, which can lead to irregular earnings but offer greater autonomy. Reclassification would shift some of that scheduling discretion to the company, potentially increasing consistency while reducing driver control over work times.

Arguments Against Classifying Uber and Lyft Drivers as W-2 Employees

1. LOSS OF FLEXIBILITY

A major appeal of gig work is the flexibility it offers. Many drivers appreciate the ability to choose when and where they work without needing to adhere to a fixed schedule. If reclassified as employees, they lose this flexibility, as companies impose shifts, mandatory hours, or location-based assignments.

2. HIGHER COSTS FOR UBER AND LYFT

Reclassification would force ridesharing companies to shoulder additional costs, including payroll taxes, health benefits, and overtime wages. These increased expenses could make their business models less sustainable, potentially leading to reduced service availability, fare hikes, or even layoffs.

3. POTENTIAL REDUCTION IN JOBS

If rideshare companies were required to provide employee benefits and wages, they would likely hire fewer drivers to offset costs. Instead of allowing thousands of drivers to work when they choose, rideshare companies could simply transition to a smaller, full-time workforce, reducing job opportunities for part-time or occasional drivers.

4. INCREASED RIDE PRICES FOR CONSUMERS

Higher labor costs would likely be passed on to consumers, leading to higher fares for riders. This could decrease demand for rideshare services and make transportation less accessible for individuals who rely on affordable rides.

5. LEGAL AND BUREAUCRATIC CHALLENGES

Reclassifying gig workers as employees would require extensive regulatory changes and compliance efforts. Companies would have to develop overhead departments, create structured pay systems, and navigate labor laws, which could be time-consuming and costly.

CALIFORNIA'S LEGISLATIVE EXPERIENCE: AB5 VS. PROPOSITION 22

California's AB5, signed into law in 2019, used the "ABC test" to determine whether a worker should be classified as an employee or an independent contractor. Under this test, a worker is considered an employee unless they:

1. Are free from the control and direction of the hiring entity.
2. Perform work outside the usual course of the hiring entity's business.
3. Are engaged in an independently established trade, occupation, or business.

Rideshare companies argued that this test unfairly categorized their drivers as employees, leading to legal battles and threats to shut down services in California. In response, Proposition 22 was introduced and passed in 2020, allowing rideshare and delivery companies to classify their workers as independent contractors while offering some additional benefits, such as minimum earnings guarantees and healthcare stipends.

POTENTIAL AND HYBRID MODELS

Instead of forcing a binary choice between independent contractor and employee status, some experts suggest hybrid models that balance flexibility with worker protections. Potential solutions include:

1. **Portable Benefits:** Drivers could retain independent contractor status while receiving portable benefits such as health insurance and retirement contributions, funded by rideshare companies, drivers, or through a shared-cost arrangement, depending on the specific model.
2. **Minimum Earnings Guarantees:** Companies could ensure drivers earn at least the equivalent of the minimum wage for active hours while allowing them to retain flexible schedules.

Dynamic Pricing, Driver Incentives, and Efficiency Concerns under SB1166

HOW DYNAMIC PRICING EFFICIENTLY ALLOCATES DRIVER SUPPLY

Rideshare platforms like Uber and Lyft use **dynamic pricing (surge pricing)** to balance supply and demand in real time. When rider demand outstrips available drivers, the apps raise fares to attract more drivers to busy areas and times, while discouraging some riders from taking non-urgent trips at peak prices. By doing so, the **drive supply is allocated where and when it's needed most**, minimizing wait times and ensuring rides are available. In low-demand periods, prices (and driver earnings) drop back to normal, signaling some drivers to go offline or relocate rather than cruise empty. In essence, prices adjust to match rides with drivers efficiently, keeping the system fluid. As Uber puts it, prices reflect real-time conditions, “balancing rider demand and driver supply while maximizing efficiency and availability”. This market-driven approach incentivizes drivers to work during high-demand hours (like rush hour or big events) when their earning potential is higher and pull back during slow hours. The result is a self-regulating labor supply that meets rider needs without a central schedule – an economically efficient allocation of driver labor across time periods.

PAYING FOR “AVAILABLE PLATFORM TIME” COULD DISRUPT INCENTIVES

Oregon’s proposed SB1166 would require Transportation Network Companies to compensate drivers not only for time spent on trips, but also for ‘available platform time’—the minutes a driver is logged into the app and ready to accept a ride request. SB1166 defines “available platform time” as the minutes a driver is logged into the app and ready to accept a ride request – essentially, paid waiting time. This provision

aims to compensate drivers for the hours they dedicate to the platform, even when they aren't ferrying a passenger. While it addresses fairness (why should drivers earn \$0 during long waits between rides?), it runs counter to the dynamic pricing model's incentive structure. Under the current dynamics, unpaid waiting time encourages drivers to be strategic – they tend to log in when and where demand is sufficient to keep them busy. If SB166 guarantees pay during waiting, drivers have less reason to log off during slow periods. The delicate balance created by the surge period would be upset because the financial signal that normally tells drivers, “There is too little demand, go do something else,” would be muted.

Additionally, SB1166 restricts the ability of Transportation Network Companies to manage driver supply by **limiting their ability to log drivers off the platform based on time online or market conditions**. This constraint further compounds the risks of oversupply during off-peak periods, as companies will have few tools to maintain a balance between supply and demand. As a result, the efficiency losses and potential reductions in per-driver earnings may be even more pronounced than in policies where platforms retain supply management authority.

LIKELY CONSEQUENCES: OVERSUPPLY AND LOWERED EARNINGS

If drivers are paid simply for being available, many will understandably choose to **stay logged on as much as possible**, including graveyard shifts or midday lulls that they previously avoided. The immediate consequence is **oversupply during off-peak hours** – more drivers cruising around waiting for fares than there are passengers requesting rides. This oversupply can trigger a cascade of efficiency problems. First, with so many drivers idling, the average driver's share of trips (utilization rate) drops. If driver pay is increased or assured, it encourages more drivers on the road, “resulting in lower utilization (rides per driver per hour)”. Each driver ends up completing fewer trips per hour. Ironically, drivers who are actively picking up passengers might see their ride earnings fall because the pie of ride requests is being split among a larger pool of drivers. For example, a driver pool who that used to get 4 trips in an hour might now get only 2, if twice as many drivers flood the app during that hour. Even if each driver is receiving some compensation for waiting, their total income from fares and tips could decline, because ride demand is being spread more thinly across a larger driver pool.

Meanwhile, the platform faces higher labor costs — paying out idle-time wages to many drivers with limited corresponding revenue from rides. This is an inefficient use of resources: effectively paying people to “stand by” when they are not needed. As a result, overall system productivity (measured in rides delivered per driver or per dollar of labor cost) would likely fall.

To cope with these cost pressures, Transportation Network Companies might take countermeasures that introduce new inefficiencies or unintended harm. One probable response is that the apps **reduce surge pricing or other incentives** since drivers no longer need a high surge to induce them to come out – they're already online. Thus, **peak-time pricing might flatten**, robbing the system of a crucial tool that prioritizes service during spikes in demand.

Another response — common in other contexts but explicitly restricted under SB1166 – would normally be for platforms to limit the number of drivers allowed online simultaneously to control the costs. This is not hypothetical: after New York City implemented a driver pay guarantee (analogous in spirit to SB1166's provisions), Uber began locking drivers out of the app during periods of low demand to avoid having too many paid drivers sitting idle. These lockouts were unpredictable and could last over an hour, making it

difficult for full-time drivers to plan work, with some reporting wage reductions up to 50%. In that case, paying for availability forced the platform to ration driver access, undermining the flexibility many drivers value and replacing an open market with a shift-style system.

However, SB1166 explicitly prohibits Transportation Network Companies from restricting driver access to the platform based on the duration drivers are logged in or due to low rider demand, unless they can demonstrate a “clear and convincing business necessity.” This restriction removes one of the key tools platforms have historically used to balance supply and demand, leaving them exposed to potential efficiency losses they cannot easily manage.

In practice, the pressure to control costs would remain even if direct lockouts were prohibited. Platforms might respond indirectly – for example, by slowing or limiting the onboarding of new drivers, reducing promotions or incentives, or exploring shift-like access models that do not overtly violate the new legal standards. These adjustments could still lead to reduced flexibility for existing and prospective drivers over time.

Riders could also feel the effects. If the platform hesitates to raise prices during surges (because enough drivers are already online), yet still faces elevated labor costs during slower periods, it may increase base fares across the board to cover these obligations. Alternatively, service quality could deteriorate if driver availability becomes misaligned with passenger needs due to rigid platform access rules or cost-driven restrictions on driver entry.

EVIDENCE FROM OTHER REGIONS: NYC AND CALIFORNIA

We’ve already seen foreshadowing of these dynamics in other regions that experimented with driver compensation rules. **New York City** in 2019 set a minimum pay standard for app-based drivers, effectively ensuring drivers earned at least \$17.22 per hour plus expenses when logged in. To accomplish this, NYC’s Taxi and Limousine Commission formula accounted for **all driving time (including waiting) by dividing the pay floor by a utilization rate**. This meant companies had to pay more per minute/mile if their drivers spent a lot of time without passengers – a strong incentive to reduce idle time. The outcome? Driver earnings per trip did rise, but platforms responded by curbing excess supply. Uber and Lyft stopped accepting new drivers, and as mentioned, even temporarily logged off existing drivers in real time to keep utilization high. The NYC case shows that the **intent to pay for waiting time can succeed in raising pay, but only by essentially imposing new controls on driver availability**. It’s a cautionary tale: the market will not simply absorb an influx of paid idle time without adjustments.

California offers a different approach. After the turmoil of AB5, California’s Proposition 22 (2020) set a driver earning guarantee that applies only to “engaged” time — the period from accepting a ride to completing drop-off. Under Proposition 22, drivers are guaranteed 120% of the local minimum wage plus \$0.30 per engaged mile, but they are not compensated for the time spent waiting for ride requests. This model was designed to preserve the on-demand flexibility and efficiency of the gig system: drivers earn a floor wage only when they are actively transporting passengers.

However, significant unpaid downtime remains a reality for drivers. A study by the UC Berkeley Labor Center found that, when accounting for unpaid waiting time and adjusting for employment-equivalent costs (such as payroll taxes and benefits), the median hourly earnings for California rideshare drivers were approximately **\$5.97 per hour without tips and \$7.63 per hour with tips**.

SB1166 is closer to the New York model, and Oregon should take these experiences into account. If drivers are paid for time spent on the app regardless of actual ride demand, the market is likely to react in ways that could blunt the policy's intended benefits.

BALANCING EQUITY AND EFFICIENCY

At its core, SB1166 represents a classic equity–efficiency tradeoff — but one with much broader and more structural consequences than often recognized. Beyond the proposal to compensate drivers for available platform time, the bill aims to reclassify rideshare drivers as employees, extending to them the full set of labor protections afforded to traditional workers. These include minimum wage guarantees, paid sick leave, unemployment insurance eligibility, anti-discrimination protections, and workers' compensation benefits.

Crucially, under SB1166, **even part-time rideshare drivers would be entitled to these protections.** Being a part-time employee does not exempt a worker from minimum wage laws, sick leave rights, or workplace protections. In practice, this would dramatically increase labor costs for platforms, even for drivers who primarily treat rideshare work as a secondary or casual income source. Many drivers in Oregon — a state with one of the highest rates of multiple jobholding in the country — already have health insurance and benefits through their primary jobs^{vii}. Yet platforms would still be responsible for the costs of coverage and protections, regardless of whether drivers actually utilize or require them. This structural cost increase could have significant ripple effects across the economy, making rideshare services more expensive and less flexible over time.

From an economic perspective, the potential market distortions are significant. In a free market, drivers who can deliver services efficiently — by managing their time well, minimizing costs, and providing strong customer experiences — are naturally rewarded with more opportunities. Drivers who find the work less worthwhile or less efficient shift their efforts toward other jobs or industries where their time and skills create more value. This natural sorting process encourages the best use of resources and keeps services affordable and responsive for consumers.

However, by introducing rigid compensation structures that guarantee pay for availability regardless of actual demand, SB1166 risks disrupting these market incentives. Instead of rewarding the most efficient drivers, the policy could reward drivers simply for remaining logged onto the platform, even when there is little customer need. Over time, this could discourage the efficient allocation of labor, raise operational costs, and undermine the flexibility that has been a hallmark of the rideshare industry's success in a free market system.

In short, while SB1166 is designed to promote equity and worker security — goals that deserve serious consideration — it would also introduce substantial new inefficiencies and costs into the rideshare market. Oregon policymakers should carefully weigh these broader economic impacts alongside the labor protections the bill seeks to advance, aiming for a policy balance that strengthens driver rights without unduly compromising service affordability, innovation, and market efficiency.

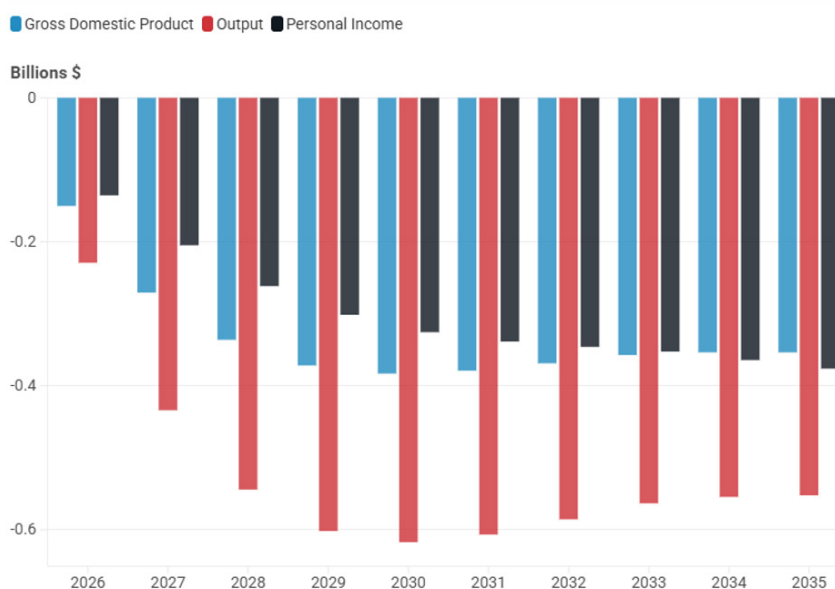
ECONOMIC IMPACT OF CLASSIFYING INDEPENDENT CONTRACTORS AS EMPLOYEES

Estimates vary on whether and, if so, by how much of an income increase independent contractors would see if they were classified as employees. Using a mid-range estimate of 15% as a compensation rate increase for the sector, a simultaneous 15% increase in the Production Cost for ridesharing services, and an 8% increase in the consumer price of ridesharing services, the results in 2030 (annually) are (Figure 3 and Figure 4):

- A decline in jobs of 4,179.
- A drop in GDP of \$383 million.
- A decline in Personal Income of \$326 million.
- A drop in business sales (also known as Output, all sectors) of \$617 million.

FIGURE 3

Effect on Gross Domestic Product, Output (Sales), and Personal Income



The impact is most pronounced in the *Transit and Ground Passenger Transportation* with 2,006 fewer jobs by 2030. Other top impacted sectors (with job losses in parentheses) include Construction (-486), State and Local Government (-297), Retail trade (-209), and Administrative and support services (-194) (Figure 4).

FIGURE 4

Effect on Total Jobs, Labor Force, and Population

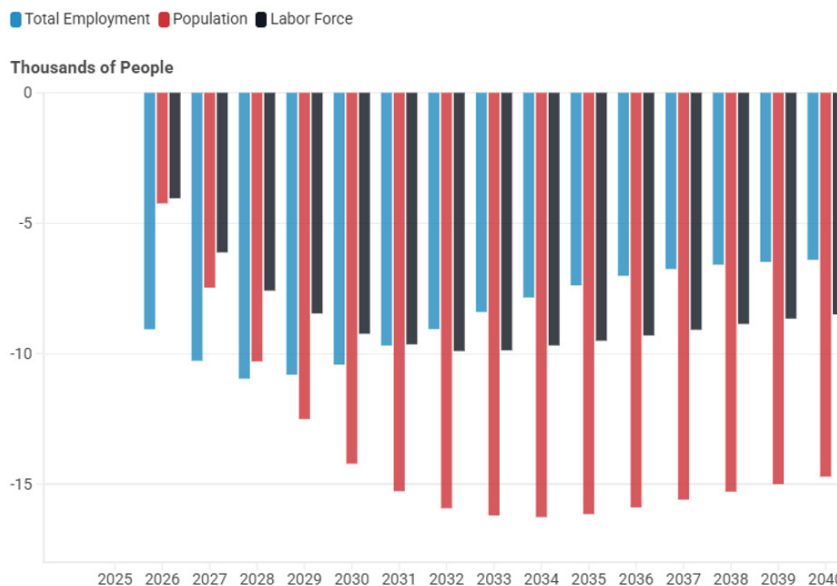
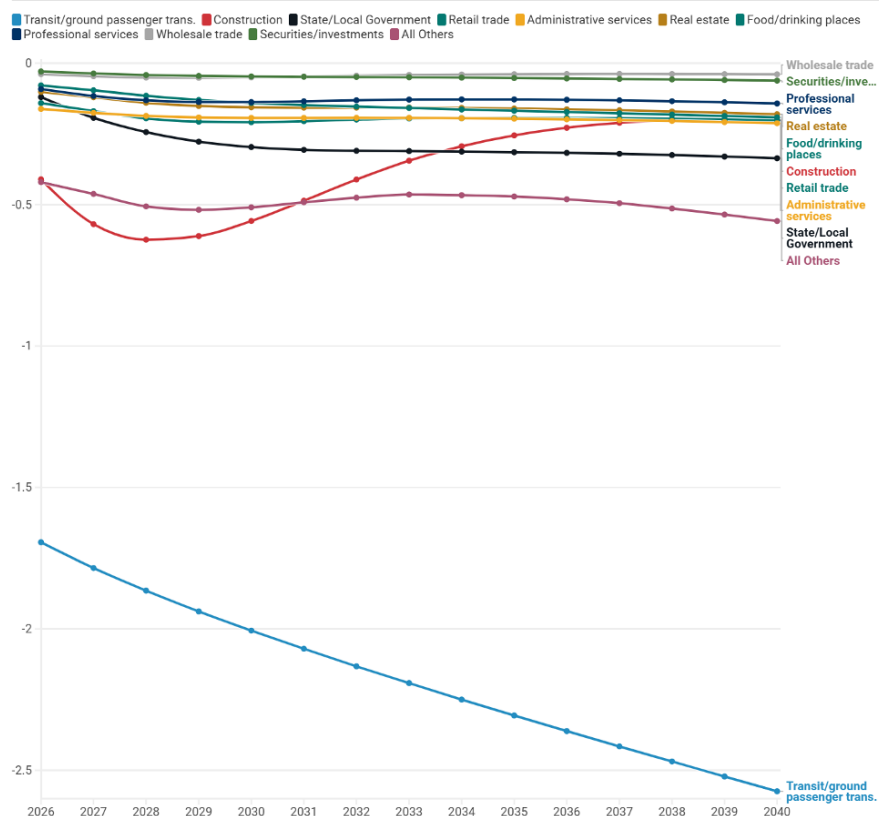


FIGURE 5

Effect on Employment for the Top 10 Impacted sectors



APPENDIX: METHODOLOGY

The model employed REMI's Tax PI+ model for Oregon, version 3.2.0 (Build 6706). The inputs to REMI include:

- An increase in the Compensation Rate for Transit and Ground Passenger Transportation^{viii} employees of 15%^{ix}.
- An increase in the Production Cost for Transit and Ground Passenger Transportation with Immediate Market Share Response^x of 15%.
- An increase in the consumer price for Transit and Ground Passenger Transportation of 8%^{xi}, indicating that some of the cost increases will be passed on to the consumer and some will be absorbed by the TNC.

REFERENCES

- i. <https://olis.oregonlegislature.gov/liz/2025R1/Measures/Overview/SB1166>
- ii. <https://buildbunker.com/2019/01/11/independent-contractor-history/>
- iii. *Ibid*
- iv. REMI's Tax PI+ baseline Industry Profit statistics.
- v. <https://www.portland.gov/transportation/regulatory/documents/pfht-quarterly-averages/download#:~:text=2023%20Q4%2011975%202024%20Q1,Q3%2012718%202024%20Q4%2012615>
- vi. <https://www.ziprecruiter.com/Salaries/Rideshare-Driver-Salary--in-Oregon>
- vii. <https://www.qualityinfo.org/-/oregon-s-multiple-jobholders-in-2024>
- viii. Generally, rideshare companies are classified under the North American Industry Classification System (NAICS) code 485300 (*Taxi and Limousine Services*). The 6-digit NAICS code is captured within the *Transit and Ground Passenger Transportation*.
- ix. Estimates vary in how much difference a rideshare driver may earn as an employee compared to being an independent contractor. The 15% estimate is generally in the middle of studies on the issue.
- x. The *Immediate Market Share Response* option was employed because the shift 5-year float in assumed in REMI's default model is unlikely to be the case with this issue.
- xi. The default consumer price elasticity for *Ground Transportation* is -0.52.