MATGRACE CONSULTING LLC

2 August 24, 2020

www.matgrace.com

Uber and Lyft

Both companies made a massive gamble on an automated future that has failed to materialize

Having threatened to pull out of California completely, Uber and Lyft recently won an interim order to reclassify their drivers as employees rather than independent contractors. The companies argued they could not come up with a plan for doing so overnight, even though more than two years have passed since California’s supreme court ordered them to change their ways. The Californian labor law AB5 was supposed to end their non-compliance.

Customers might think that misclassifying drivers as independent contractors allow Uber and Lyft to make excessive profits. The reality is that Uber and Lyft are not making any profits at all. On the contrary, the companies have been losing cash for years, undercharging users for rides in a bid to expand their market shares worldwide. Pinching drivers’ salaries is not their primary strategy for becoming profitable. Doing so only slows the speed at which they burn through money.

The truth is that Uber and Lyft exist primarily as examples of Wall Street-funded bets on automation, which have failed to come to fruition. These companies are trying to survive legal challenges to their illegal hiring practices while waiting for driverless-car technologies to improve. The advent of the autonomous car would allow Uber and Lyft to fire their drivers. Having already acquired a position of dominance with the rideshare market, these companies would then reap significant monopoly profits. There is simply no world in which paying drivers a living wage would become part of Uber and Lyft’s long-term business plans.

Written by Matthew Ogunbukola
www.matgrace.com

Only in a world where more profitable opportunities for investment are sorely lacking can such wild bets on far-flung futuristic technologies become massive multinational companies. Corporations have accumulated vast sums of money and cannot figure out where to put it because returns on investments are meager. The flip side of falling rates of business investment is a loosening pace of economic growth, which economists have termed “secular stagnation.” It is this decades-long slowdown that has generated the insecure labor force on which Uber and Lyft are using their drivers.

In slow-growing economies, labor markets are weak. Older workers who have lost their jobs can not find another job. Meanwhile, young people just starting in their working lives are sending out hundreds of applications only to end up in dead-end retail jobs. Uber and Lyft feed off the insecurity that is ever-present today’s business world. When the alternative is working irregular shifts at coffee shops, driving for Uber and Lyft on one’s schedule can seem like a dream. Management by algorithm appears similarly utopian compared with management by bad bosses. In the early years of their operation, rideshare companies even offered rates of pay that were good relative to available alternatives.

Uber and Lyft were planning to fire these drivers by now and replaced them with robots. However, the promises of automation, driverless cars are still not a reality. Uber and Lyft started squeezing these workers’ incomes to staunch their bleeding of cash reserves. At this point, drivers started fighting back.

This fight for workers’ rights is grounded in growing recognition that the expansion of the digital economy does not simply reflect the triumph of an unstoppable technological change. Behind Silicon Valley rhetoric, much of what appears to be technological innovation turns out to be a means of circumventing legal regulations, including minimum wage laws. By misclassifying its drivers, Uber and Lyft avoided paying hundreds of millions of dollars into US state unemployment insurance schemes. Nevertheless, during the Covid-19 economic crisis, Uber and Lyft lobbied the United State of America government to step in and pay its drivers’ unemployment benefits.

Uber and Lyft are not willing to pay their drivers a minimum wage because it is not part of their business plans.

Uber and Lyft

Written by Matthew Ogunbukola

Should Uber and Lyft be entitled to have it both ways? It makes sense to demand that companies hire workers in stable jobs, or not be allowed to hire them in the first place. However, in an environment of weak economic growth, this demand will be insufficient to win economic security for all. Capitalist economies have been able to extend security to widening circles of workers only in periods of rapid economic growth when low rates of unemployment made it possible for more workers to demand better wages and working conditions. The era of high-speed economic growth has ended and will not come back.

The Soaring rates of economic growth in the mid-20th century has been a reference point for politician all over the world, and this is historical. The return of international trade after two world wars made it possible for economic growth and productivity in human history, not just in Europe and the United States, but worldwide. By 1970, rapid expansion had given way to worsening global overcapacity, resulting in rising competition and falling rates of investment in internationally traded goods. People were left scrambling for work in the growing service sector, where the potential for labor productivity growth, and hence economic growth, is much lower.

Workers' inability to find stable employment is thus not the result of recent advancements in automation technologies, like driverless cars, which have failed to pan out. Their plight results from an everyday reality of low profitability in economies saturated with capital, and insufficient opportunities for its reinvestment, such that dividends and share buybacks have become the norm for surplus cash holdings. With shrinking opportunities for investment, enormous pools of capital have rushed into highly speculative ventures such as Uber and Lyft that have little capacity to profitability.

Governments turned a blind eye to Uber and Lyft's disobedience for so long is no surprise. Governments are complicit in making workers more vulnerable. Facing persistently slow economic growth and high rates of unemployment, governments have spent decades trying to coax companies to invest by making it easier to deny workers' benefits and to avoid paying taxes. Again,

People need job security. The pandemic has revealed this imperative more than ever before with the growth in technology and wealth in the world. Everyone should be able to have access to food, energy, housing, and healthcare. If people get job security, why would they choose to work in terrible jobs where they are paid low wages? The owners of Uber and this bid to restore conditions of rapid economic growth, much like supply-side and trickle-down solutions that failed to produce generalized prosperity, was a failure. The COVID 19 crisis has only made economic prospects less auspicious.

Lyft know that their business is predicated on them to make the critical decisions that shape our futures without our input. Our working environment should be democratized, and this can nor be delayed anymore.

Uber and Lyft

www. matgrace.com