



## Comparison of two Seattle TNC driver studies

James Parrott and Michael Reich

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The City of Seattle commissioned James Parrott and Michael Reich to study TNC driver pay in Seattle (the Parrott-Reich study). Our just-released study finds that driver pay averages \$9.73 per hour (after expenses), that a majority of the rides in the city are performed by full-time drivers who acquired their car for this purpose, and for whom driving is their primary source of income. The Parrott-Reich study presents a comprehensive analysis of the TNC industry in Seattle, not only analyzing data on earnings, but also surveying 30,000 drivers, and analyzing their reasons for driving, their expenses and the industry business model, to better understand why driver pay is so low. Parrott and Reich previously conducted a similar study for New York City, which implemented its recommended standard in February 2019. That standard has been working as designed.

To counter the Parrott-Reich study, Uber and Lyft commissioned researchers at Cornell University's ILR School, led by Louis Hyman (the Uber-Lyft-Hyman study) to present a diametrically different perspective. They claim that drivers net over \$23 per hour, well above compensation in comparable low-wage industries and more than taxi drivers earn. The Uber-Lyft-Hyman study relies only on detailed data provided by Uber and Lyft on driver trips and earnings for one week in October 2019. The City of Seattle had requested similar data from the two companies, but they refused to provide that for use in the Parrott-Reich study, with only Uber providing limited summary data and Lyft not providing any data except a list of the top 10 car models used by their drivers. Hyman previously had published a book that provides a favorable assessment of temp jobs.

The differences between the two studies are based primarily in their depiction of the driver population, in how to define working time, and in how to account for the full range of expenses that drivers bear. They do not arise from differences between the earnings data that Uber provided for the Parrott-Reich study and the data it provided to Hyman.

### Here are the five key differences between the two reports:

#### 1— **Definition of working time--paying a driver for all working time vs. arbitrarily excluding a portion of working time to boost gross hourly earnings**

The Uber-Lyft-Hyman study fails to include 35 percent portion of the time drivers spend waiting to receive a trip request (P1 time) as working time. The Uber-Lyft-Hyman study excludes all P1 time that is not directly followed by a trip. For example, if a driver spends 10 minutes driving in downtown Seattle hoping to receive

a trip request and then decides to go offline to take a break, the 10 minutes is not included in the Uber-Lyft-Hyman analysis. But if that same period of driving time resulted in a trip request at 9 minutes and 59 seconds, the Uber-Lyft-Hyman study included the time, even though the driver's activity is identical in both scenarios.

More important, the companies asserted that this time might include time when a driver is at home with the driver app on with no intention of taking a trip. In fact, this is highly unlikely, as the vast majority of drivers do not live in Seattle. Yet the Uber-Lyft-Hyman study clearly states that its data set does not include P1 periods that occur outside of Seattle.

The exclusion of 35 percent of P1 working time to inflate hourly earnings is not justified.

## **2— Different views of drivers--seeking to earn a living driving vs. casual drivers seeking to add a few dollars here and there**

The Parrott- Reich study finds a majority of the trips are completed by drivers who are committed to and rely on TNC driving. Specifically, the study finds that full-time drivers account for 55 percent of all trips, that 83 percent of full-time drivers purchased their vehicles to provide TNC services and that 72 percent of full-time drivers rely on driving as their sole source of income. In addition, more than half of drivers have been providing TNC services for more than two years.

The Uber-Lyft-Hyman study claims that most drivers provide TNC services on a casual or very part-time basis. It arrives at this conclusion based solely on the number of drivers who drive in various hour buckets, while ignoring the proportion of the trips or miles accounted for by each working-hour bucket of drivers.

The consequences of this approach are far-reaching, as the study bases its expense analysis (discussed below) on these hourly buckets and not on aggregate miles driven. Once the Uber-Lyft-Hyman study is adjusted to account for the miles driven by each category of drivers, the studies become more aligned—the full and part-time drivers identified in their report account for 60 percent of the TNC miles driven. But the study fails to align its conclusions based on this fact and the expense analysis is therefore flawed.

## **3— Expenses--recognizing all expenses vs. a minimalist approach that excludes many**

The Parrott- Reich study recognizes the full array of expenses borne by drivers seeking a living from driving, whereas the Uber-Lyft-Hyman excludes numerous expenses by taking a minimalist “marginal” perspective that assumes drivers will use existing cars to provide a few rides here and there. Parrott and Reich conclude that driver expenses in Seattle total 52.2 cents per mile—just below the IRS rate of 57.5 cents per mile.

**Fixed vs. marginal Costs:** Uber-Lyft-Hyman include only the expenses that a casual driver would not otherwise incur (marginal costs). By contrast, the Parrott-Reich study includes all costs associated with driving (fixed costs), but prorates them based on average mileage.<sup>1</sup> Since most trips are completed by full-

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<sup>1</sup> This is comparable to how most employers reimburse employees for the private use of their vehicle. For example, if an employee drives her personal vehicle for a business purpose, most employers reimburse the employee at the IRS rate of 57.5 cents per mile. That rate includes an allowance for expenses, like personal insurance, that the employee would have incurred irrespective of the business trip. The City of Seattle uses the same rate for its vendors.

time drivers, whose primary use of the vehicle is for TNC purposes, it makes little sense to exclude the bulk of expenses associated with driving.

**Exclusion of expense categories:** Uber-Lyft-Hyman inexplicably exclude numerous expenses, such as periodic vehicle cleaning, the cost of smartphones and smart phone plans (many drivers have a cell phone dedicated only to TNC use), the cost of rideshare insurance, and required TNC vehicle inspections. Further, Uber-Lyft-Hyman excludes entirely the cost of personal insurance, which is higher for TNC drivers than others. Moreover, TNCs provide only secondary insurance during wait time-- and at low coverage levels.

**Depreciation:** The Uber-Lyft-Hyman study uses extremely low estimates for the cost of depreciation, again because it asserts that most drivers perform TNC services as part-timers (an assertion that is not supported by the percent of trips performed by full-time drivers). For both part-time and full-time drivers, the vast majority of miles driven on the vehicle in any given year are for TNC purposes—and should clearly be considered the primary use of the vehicle. Uber-Lyft-Hyman estimate that depreciation is only about 2 cents per mile! This estimate is out of line with all previous studies of TNC earnings and expenses; and it is significantly below other accepted estimates of depreciation (such as the 27 cents IRS rate for depreciation and the 19 cent AAA rate for depreciation of a medium sedan). Parrott and Reich use vehicle acquisition costs as means of estimating depreciation and calculates those costs at 22 cents per mile—5 cents below the IRS rate and just 1 cent above the AAA rate.

#### **4— Including tips in earnings**

Uber-Lyft-Hyman include tips as earnings. Parrott and Reich do not include tips because they are not paid by the TNCs and are therefore not relevant to determining if drivers earn the equivalent of Seattle’s minimum wage. Further, for employees, tips cannot be considered earnings for determining minimum wage compliance under State or City law. (RCW 49.46.020; SMC 14.19.010.) State law is clear on this point: “[t]ips and service charges paid to an employee are in addition to, and may not count towards, the employee’s hourly minimum wage.” (RCW 49.46.020).

#### **5— The industry’s business model**

Parrott and Reich show that the industry’s business model relies on using drivers’ vehicle investments and working time inefficiently. This model keeps driver pay low by placing too many TNC vehicles on the road, which also adds to congestion and emissions. Indeed, previous Uber studies (such as by Uber’s Chief Economist Jonathan Hall and co-authors) show that pay as high as Uber-Lyft-Hyman posit would attract many more drivers into Uber’s system. This influx would reduce all drivers’ rides per hour and therefore pay per hour. Uber-Lyft-Hyman ignore these issues.