

## Silicon Valley's dirty secret: Using a shadow workforce of contract employees to drive profits

As the gig economy grows, the ratio of contract workers to regular employees in corporate America is shifting. Google, Facebook, Amazon, Uber and other Silicon Valley tech titans now employ thousands of contract workers to do a host of functions — anything from sales and writing code to managing teams and testing products. This year at Google, contract workers outnumbered direct employees for the first time in the company's 20-year history.

It's not only in Silicon Valley. The trend is on the rise as public companies look for ways to trim HR costs or hire in-demand skills in a tight labor market. The U.S. jobless rate dropped to 3.7 percent in September, the lowest since 1969, down from 3.9 percent in August, according to the Bureau of Labor Statistics.

Some 57.3 million Americans, or 36 percent of the workforce, are now freelancing, according to a 2017 report by Upwork. In San Mateo and Santa Clara counties alone, there are an estimated 39,000 workers who are contracted to tech companies, according to one estimate by University of California Santa Cruz researchers.

Spokespersons at Facebook and Alphabet declined to disclose the number of contract workers they employ. A spokesperson at Alphabet cited two main reasons for hiring contract or temporary workers. One reason is when the company doesn't have or want to build out expertise in a particular area such as doctors, food service, customer support or shuttle bus drivers. Another reason is a need for temporary workers when there is a sudden spike in workload or to cover for an employee who is on leave.

"At the end of the day, TVC (temporary, vendor and contractual workers) are an important part of the workforce, but they are not Google employees and not privy to the same confidential company information that full-time Googlers are," the spokesperson said.

"Our vendor workers are valued members of our Facebook community, and we are committed to providing a safe, fair work environment to everyone who helps Facebook bring the world together," said Anthony Harrison, director of media relations at Facebook. Spokespersons at Amazon and Netflix did not respond to requests for comment.

### Higher earners are in higher demand

Contractors can help to keep the official headcount low and, because contract workers don't get the same benefits such as health-care benefits or 401(k) matching, can help companies free up millions to hire and retain talent in areas such as artificial intelligence. On a larger level, the trend toward more contract workers can be seen as another sign of widening inequality as it creates an underclass of workers who are, by all appearances, working full-time but getting none of the benefits of full-time employment.

According to a 2016 study by researchers Chris Benner and Kyle Neering at the University of California Santa Cruz, the information sector in Santa Clara county has quadrupled in size in 2001, and the tech industry has added surprisingly few jobs since 1990. Over the last 24 years, direct employment in tech products or services companies has grown by 31 percent, which comes out to an average growth rate of 1.1 percent. Part of that reason can be tied to the rise of subcontracting.

It's not just administrative or "blue-collar-type" jobs that are being affected. Whereas 10 years ago, most contractors were in administrative-type roles, today the fastest growth in contract work is in highly skilled "white collar" roles, recruiters say. Economists Lawrence Katz and Alan Krueger in a 2016 study found that workers with jobs in higher wages are more likely to have their services contracted out than jobs associated with lower wages. Such "alternative" work arrangements are becoming more common among older and more educated workers.

"The hiring market is crazy competitive. I'm not sure it's been like this before. You can send 100 emails, and maybe 10 respond. There is far more demand than supply. Because there is such a shortage, companies are more willing to hire on a short-term basis," said Cheryl Liew, a Bay Area-based independent recruitment consultant who works with start-ups such as Instacart.

In Silicon Valley the competition to hire in-demand talent is particularly fierce. Large tech giants, such as Google, Facebook and Amazon, tend to pay better and suck up a lot of the talent, leaving start-ups and smaller companies in a bind.

"With a record-high hiring boom, staggering real estate prices and so many high-profile technology companies headquartered in the Silicon Valley, the intense competition for talent leaves many small and midsize companies in a very tough spot when it comes to scaling their efforts," said Rich Pearson, senior vice president of marketing at Upwork.

### Growth drivers of the gig economy

There are several factors driving growth in the gig economy, and lower cost is one. The growing service economy has created a whole workforce of part-time, flexible workers. Platforms such as Uber, Instacart, Upwork, Task Rabbit, Fiverr and others have made it easy for Americans to earn some supplemental income or work full-time as a contractor.

For these types of roles, the payoff for companies is namely financial. Contract workers aren't entitled to health insurance, 401(k), disability insurance or other benefits. They can also be easily scaled up or down based on demand. Companies dealing with a temporary surge in demand or need a niche skill to build a new product like this flexibility.

Article continues (15 additional paragraphs) at link below

Region	September 2017	August 2018	September 2018	Percentage Point Change	
				1 month	12 months
San José–Sunnyvale MSA	3.0%	2.7%	2.5%	- 0.2	- 0.5
San Francisco MD	2.6%	2.4%	2.2%	- 0.2	- 0.4
California	4.3%	4.3%	3.9%	- 0.4	- 0.4
United States	4.1%	3.9%	3.6%	- 0.3	- 0.5

Sector — September 2018	San Jose MSA	San Francisco MD	Combined Region	Percentage Change (Combined Region)	
				1 month	12 months
<b>Total Nonfarm</b>	<b>1,135,700</b>	<b>1,140,900</b>	<b>2,276,600</b>	<b>- 0.1%</b>	<b>+ 2.6%</b>
Construction	53,100	40,200	93,300	+ 0.5%	+ 3.3%
Manufacturing	174,000	39,300	213,300	- 0.3%	+ 2.8%
Retail Trade	84,800	81,300	166,100	- 0.7%	- 0.2%
Information	94,000	82,700	176,700	- 1.1%	+ 7.0%
Professional & Business Services	236,200	285,900	522,100	- 0.8%	+ 3.2%
Educational Services	45,600	27,800	73,400	- 1.7%	+ 3.2%
Health Care & Social Assistance	129,800	112,900	242,700	+ 1.1%	+ 5.7%
Leisure & Hospitality	104,700	144,100	248,800	+ 0.6%	+ 1.8%
Government	96,200	130,300	226,500	+ 2.8%	+ 1.5%

NOTE: San José MSA (San José–Sunnyvale–Santa Clara Metropolitan Statistical Area) = Santa Clara and San Benito Counties  
San Francisco MD (San Francisco–Redwood City–South San Francisco Metropolitan Division) = San Mateo and San Francisco Counties

Source: California Employment Development Department, LMID

Jurisdiction	Labor Force			Unemployment			Unemployment Rate		
	September 2017	September 2018	Change	September 2017	September 2018	Change	September 2017	September 2018	Change
• San Mateo County	456,000	459,700	+ 0.8%	11,400	9,600	- 15.8%	2.5%	2.1%	- 0.4
• Santa Clara County	1,046,500	1,067,700	+ 2.0%	31,000	25,800	- 16.8%	3.0%	2.4%	- 0.6
Cupertino	30,200	30,700	+ 1.7%	900	700	- 22.2%	3.0%	2.3%	- 0.7
Los Altos	14,900	15,200	+ 2.0%	400	300	- 25.0%	2.8%	2.1%	- 0.7
Milpitas	41,800	42,600	+ 1.9%	1,300	1,100	- 15.4%	3.2%	2.5%	- 0.7
Mountain View	51,200	52,300	+ 2.1%	1,100	1,000	- 9.1%	2.2%	1.9%	- 0.3
Palo Alto	36,100	36,900	+ 2.2%	900	800	- 11.1%	2.4%	2.1%	- 0.3
Santa Clara	70,100	71,500	+ 2.0%	2,000	1,600	- 20.0%	2.8%	2.3%	- 0.5
Sunnyvale	88,100	89,900	+ 2.0%	2,300	1,900	- 17.4%	2.6%	2.1%	- 0.5
<b>NOVA Region</b>	<b>788,400</b>	<b>798,800</b>	<b>+ 1.3%</b>	<b>20,300</b>	<b>17,000</b>	<b>- 16.3%</b>	<b>2.6%</b>	<b>2.1%</b>	<b>- 0.5</b>

NOTE: NOVA Region consists of seven cities in Northern Santa Clara County and the entirety of San Mateo County

Source: California Employment Development Department, LMID

September 2018 Events			WARN SUMMARY	
Company	Location	# Affected	Events YTD <sup>†</sup> :	14
Apple Gilroy (Applebee's)	Milpitas	51	Individuals Affected YTD:	826
C.J. Olson Cherries	Sunnyvale	3	Individuals Previous YTD <sup>‡</sup> :	1,649
DaVita Rx	San Bruno	32	* <b>WARN: Worker Adjustment and Retraining Notification</b> (notice of mass layoff or closure) † <b>YTD: Year to Date</b> (Program year: July 1–Present) ‡ <b>Previous YTD:</b> (Same date range as YTD, one year prior)	
Marvell Semiconductor	Santa Clara	44		
Meta Company	San Mateo	88		
Novartis Pharmaceuticals	San Carlos	1		
U.S. Department of the Navy	Sunnyvale	60		
Veritas Technologies	Mountain View	17		
<b>Total</b>		<b>296</b>		

NOTE: Layoff data are preliminary and should be considered an estimate of monthly regional activity

Source: NOVA's internal Rapid Response database