Does the expanding gig economy contribute positively to sustainable economic growth?

The gig economy is characterized by digital, atypical, casual freelance or contingent work arrangements. (Kalleberg and Dunn, 2016). In recent years, the gig economy has grown exponentially, with the advent of freelancing applications such as Uber. An expanding gig economy moves away from a labour market built upon stability and security. Instead, it tends towards a more volatile one, with high levels of labour turnover. In such a system, workers lose out on stable incomes and job security in exchange for flexible hours and greater independence. This essay will argue that this new model is fundamentally short sighted, and is not presently conducive to sustainable economic growth. It will outline the salient drawbacks to an expanding gig economy-instability of earnings, lack of job security and benefits and decreased social mobility, as well as targeting the implications of an expanding gig economy for productivity and government finances.

This precariat model of employment brings rise to a number of issues, the most prevalent of which is instability, specifically of earnings. This occurs as firms transfer the risk of fluctuating demand from themselves to workers on fixed term contracts. The increase in non-standard employment, through growth in independent contracting means that job insecurity suffers. Moreover, a fall in job security cultivates falling consumer confidence and the marginal propensity to consume, compared with those earning comparable salaries under permanent employment. Gig workers are axiomatically more likely to spend more tentatively (Petriglieri, Ashford, & Wrzesniewski, 2019), with 78 percent of gig workers stating that they are more cognisant and involved with their personal finances (T.Rowe Price 2018). Furthermore, the unpredictability of earnings places further constraints on gig workers access

to credit, reducing their ability to use a mortgage to purchase a property, contributing to growing inequality and further limiting confidence. As a result, growth in this type of work may bottleneck aggregate demand negatively contributing to long term economic growth.

Admittedly, this argument may be evaluated with the notion of how risk is transferred. Instability is not simply created amongst workers, but rather transferred from firms to contractors. Firms are able to act with greater agency and elasticity of supply as contractors are employed and paid in more direct accordance of fluctuating demand. This allows them to act more bullishly, with the knowledge that 'temp' workers can be laid off if demand were to fall. As such, investment may increase in the short run, offering a counter to falls in consumption. However, such an argument has numerous shortfalls. Primarily, the transfer of power from workers to firms exacerbates issues of inequality, which can in turn spur civil unrest in the long run, thus harming growth. This was evident in 2022, when global economic slowdown hit gig workers the hardest. Indian online grocer, Fraazo, cut fuel allowances for its delivery drivers, causing over a hundred to go on strike. In Egypt, Uber bus drivers reported income cuts of up to 50 percent, rendering many unable to pay back vehicle loans. Such cases are fundamentally conducive to unsustainable growth. Unlike large corporations, gig workers are unable to account for risk effectively and often do not calculate their potential costs accurately (Newcomer, 2018). Upon evaluation, it is clear that the transfer of risk from firms to contractors is ultimately detrimental the sustainability of economic growth, as it leads to increasing private debt amongst workers, and worsening inequality.

Certain schools of thought in favour of an expanding gig economy may conjecture that a contingent workforce is more productive, and can encourage dramatic growth (Storey et al., 2018). The premise for such an argument is that it creates a more direct relationship between performance and reward than a typical salary based job. This places incentives aptly for

maximisation of short-term productivity of labour. Furthermore, the gig economy allows the labour market to act with less distortions, facilitating a truer interaction of market forces. This means that allocative efficiency for labour is likely to be greater; this increases productivity as workers are better suited to meet the needs of firms (OECD, 2018).

On the other hand, the effects of the gig economy on productivity remain contested. Through reducing the barriers to entry for work, precariat work can see a larger influx of lower-skilled workers, evidencing a tendency to decrease aggregate productivity (Wilson, 2017). In addition, increases in labour turnover, deter firms from investing in training for workers, as it becomes unlikely that the firm will be the main beneficiary of such increases in productivity. In a study published by YouGov, only 33 percent of those gig workers surveyed were satisfied with career training opportunities (2018). This is exacerbated by the empirical evidence showing that blue collar workers, of which most gig workers are, gain the greatest improvement in productivity from education and training (Colombo, Stanca 2014). Therefore, it is clear that the lack of training created under a growing a gig economy is largely detrimental to long term productivity growth. Overall, whilst a contingent workforce may lead to greater incentives to work, and an initially increased efficiency of allocation of labour, it fails to deliver a highly skilled, trained workforce, limiting social mobility and productivity growth, in the long run. Hence, the expanding gig economy does not provide a net positive contribution towards the goal of sustainable economic growth.

In addition to this, the fiscal effects of the gig economy cannot be overlooked. The combined tax paid by both a worker and firm under a standard employee structure would be 35 percent more than a comparable self-employed worker (Adams et al., 2018). Consequently, the OBR estimates that the recent expanse of the gig economy has led to a £3.5 billion loss in potential tax receipts, compared to if the growth of contingent workers matched that of general

employment (2016). Moreover, as many self-employed workers do not exceed the thresholds for value added tax, as a large corporation like Uber would, there is further unrealised tax potential (A. Adams-Prassl, J. Adams-Prassl, Coyle, 2021). It is important to note that increasing taxes for gig workers, who earn relatively low-incomes (see figure 1), would be both economically and politically imprudent, thus reflecting an inherent tax revenue loss associated with the expanse of the gig economy. Government finances may be worsened so spending and ipso facto growth will be negatively impacted, albeit by a minor proportion of overall GDP.

Base (YouGov Omnibus): All GB adults (aged 18+) and those involved in the gig economy		
	Men	**Women**
	%	**%**
Less than £250 a year	35	49
£250 to £999 a year	23	21
£1,000 to £4,999 a year	23	16
£5,000 to £9,999 a year	n<5	n<5
£10,000 to £19,999 a year	5	4
£20,000 to £29,999 a year	n<5	n<5
£30,000 to £49,999 a year	8	n<5
£50,000 and over	n<5	n<5
Unweighted base	*129*	*124*

Figure 1: Annual income earned in the gig economy. (YouGov Omnibus, 2018)

Finally, the welfare impacts of the gig economy are notable. The UK welfare system lies largely on the assumption that it is conducted by the employer, with supplementation by the government on matters such as healthcare (A. Adams-Prassl, J. Adams-Prassl, Coyle, 2021). As a result, there arise a number of gaps in the welfare provision of self-employed workers, who are far less likely to have a pension and more likely to have an inconsistent National Insurance Contribution record (Crawford and Karjalainen, 2020). This trend continues on the topic of statutory sick pay; as precariat workers are not covered for this, they are more likely experience financial shortcoming. This idea materialised itself during the pandemic, when gig

economy workers were left exposed, as exogenous factors rendered them unable to work. Overall, this leads to a system where gig economy workers are less likely to be fiscally self-sufficient, and are more likely to rely on the state for transfer payments, thus may be a burden to the state. By extrapolation, a growing gig economy would serve as a detraction from sustainable growth, rather than contributing positively.

It is evident that in its current state, an expanding gig economy is not conducive to sustainable economic growth. This is not, however, without caveat. The gig economy does have merit in that it provides flexibility to workers; it acts as an alternative to tedium of a typical 9 to 5, where some may experience lulls in productivity; it is an accessible form of work that may provide income to those who would otherwise be unemployed; it may serve as 'top-up' work, to primary employment. Notwithstanding these individual merits, expansion in precariat work remains an unsustainable pathway to achieving growth. Should government regulation continue along the lines of the Uber litigation, to guarantee worker protections and tackle issues affecting the long run sustainability of the sector, it may become more viable in the future. However, presently, it has a tendency to limit productivity growth by reducing incentives to educate, worsening government balance sheets, and increasing inequality.

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