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

Introduction

The Covid-19 pandemic, in all its turmoil, brought upon an era of change in society. Quarantining became a widespread practice for those in proximity of the infected; national lockdowns were issued, confining everyone to their homes for the foreseeable future [House of Commons Library, 2021]. Alongside these adjustments to everyday life, a new way of working was birthed: working from the comforts of our own homes. After the lockdown, many workers were inspired to explore work opportunities to let them sustain the flexibility and choice of work that the lockdown provided. The epitome of this employment is known as 'gig work' – temporary or freelance work under no permanent employer. Since the before the pandemic and following, the rise of gig work has been astonishing, globally increasing by 17.4% every year since 2016 [Brodmin, 2022], but its macroeconomic impacts vary. In this essay, we evaluate the effects of this rise in gig employment and assess whether they contribute to policymakers' objectives of sustainable economic growth.

What Is The Gig Economy?

Freelancers (or gig workers) are rogue workers who are directly paid for their temporary services. This includes contractors and temporary workers, such as contracted actors and Lyft or Deliveroo drivers. This type of work is praised for its unlimited flexibility – as workers choose which jobs they take and when they take them [Wilson, 2023]. Ultimately, gig workers are in full control of their time and workload and are paid directly proportionally to the work they produce. Platforms such as Fiverr and Upwork have made the process effortless: creating a middleman between potential clients and freelance workers [Semuels, 2018]. Due to the advancement of digital technology, freelance is limitless: all that is needed is a the internet and an in-demand skill to have access to numerous clients. These incentives make it apparent why many workers have decided to turn from traditional employment to the gig economy.

The Economic Benefits of The Gig Economy

One might assume that the gig economy would be detrimental to the economy, subverting employment norms and leaving workers with a lack of income security [Bieber & Moggia, 2020]. For instance, Jeremy Corbyn once described the gig economy as "a more rapacious and exploitative form of capitalism" [Khurana, 2017]. Although these assertions are rather valid, there are many economic benefits to a gig economy, both for individual firms and the national economy.

The gig economy is based around people applying their specific skills in a service to a client. Whether it be delivery, video editing, or software development, freelancing allows people to focus on the skill they have developed and incentivises them to specialise in that skill at their own will. At a traditional law firm, a solicitor may be required to take on many varying cases within the firm's functions. As a result, a solicitor may spend time relearning different aspects of their law field to face unfamiliar cases, reducing the volume of quality work they produce. However, as a freelance solicitor, one can specialise in one particular skill. For example, a commercial lawyer may now be able to specialise in dispute resolution, whereas in a normal job market a narrow skillset would be disadvantageous. In this way, through the gig economy, individuals have the choice of what they pursue in their work, becoming more adept in their skillset rapidly. Gig workers enjoy their work [McKinsey & Company, 2023] and tend to be more productive in it as a result [DiMaria et al., 2014]. This could be seen as an increase total factor productivity [The Economist, 2020] on an individual level: through the gig worker's acquisition of skills, they gain productivity without needing to invest in greater capital or labour.

Furthermore, from the viewpoint of the employer, the gig economy allows for lower costs of production. Firms have no requirement to pay temporary workers benefits such as health coverage or paid holiday leave, reducing costs and increasing profits as a result ($Profit = Revenue - Costs$). Recent research by Open Sourced Workplace estimated that 32% of a company's salary is used on employee benefits. Thus, by eliminating this, such a company could reduce their increase their profits drastically [Lowman, 2023]. Moreover, firms have access to a greater number of workers than ever before as they can hire temporary workers remotely with no geographical restriction. Access to high-skilled workers at a lower cost allows firms to be more efficient, completing tasks for clients in less time and to a higher quality. Due to specialised labour, firms in an economy can increase their output leading to external economies of scale [Investopedia, 2022]. This means that through the expansion of the gig economy, firms can gain greater fall in costs than originally perceived. In the long-term, the expanding gig economy results in lower costs for firms, allowing for greater productive potential and a more efficient workforce as a whole.

To concretize the effect of the gig economy on economic growth, we must assume ceteris paribus: that government intervention will not impact the expansion of gig economies in the long-term. As previously mentioned, gig economies have the benefit of increasing total factor productivity. This means that when existing factors of production are fully employed, the economy can produce more in a given time [The Economist, 2022]. As a result, the expanding gig economy increases the volume of goods that can be produced allowing for more goods and services to be exported and less imported. An increase in net exports results in an increase in aggregate demand which is shown in Figure 1. In the long-term, this will lead to an extension in aggregate supply (as suggested by the Keynesian long-run aggregate supply curve), raising real GDP from Y_1 to Y_2. This insinuates that the increased productivity from the expansion of the gig economy results in economic growth in the long-term.

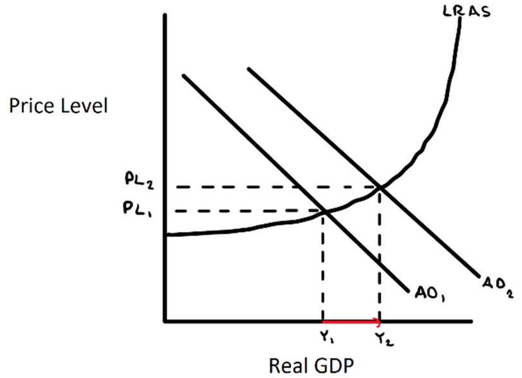

Figure 1: Aggregate Demand & Keynesian Long Run Aggregate Supply Curves

Similarly, the increased profits derived from lower production costs for firms can lead to increased re-investment into firms. Apart from increasing the productive potential of the economy, investment is also a component of aggregate demand, and so causes a shift in the aggregate demand curve from AD_1 to AD_2. In the same way, this shift in the AD curve results in an extension in long-run aggregate supply, increasing real GDP. This rise in GDP can also trigger an accelerator effect, where investment increases because of economic growth, meaning greater economic growth due to the initial investment brought by the gig economy expansion. Evidently, there are many positive impacts of the gig economy on economic growth.

The Economic Costs of The Gig Economy

On the other hand, there are many drawbacks caused by such an expansion. For example, by providing firms with a higher supply of labour, there can be adverse effects on the workforce. Consider a supply and demand curve for the labour market for software development (Figure 2). Due to the expansion of the gig economy, software development startups can hire developers from anywhere in the world, and thus there is an increase in the supply of labour, shown by a shift from LS_1 to LS_2. Consequently, there is disequilibrium at the current wage rate (W_1), as there is a surplus of labour. Firms would be expected to hire more workers, causing an expansion in labour demand reducing wages from W_1 to W_2 and raising their number of employees from E1 to E2. But due to diminishing marginal returns, firms will only hire up to the optimum number of developers for a project (E_*), and only up to their salary budget ($Budget = E_* \times W_*$). Therefore, this shift in labour supply results in economically active individuals not receiving work which increases unemployment. In the short- term this reduces economic growth.

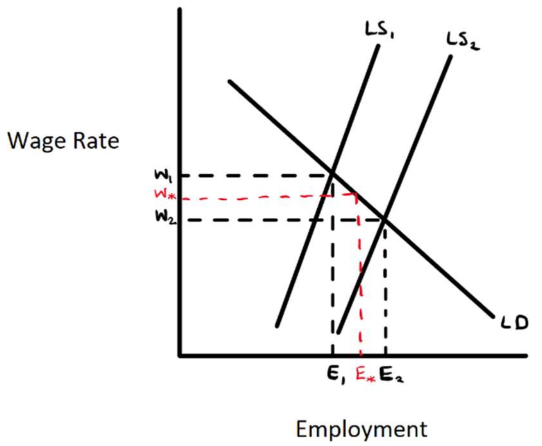

Figure 2: Software Development Labour Market Supply & Demand Curves

Secondly, despite resulting in greater total factor production, the expansion of the gig economy could lead to lower capital investment by firms. Through the severed relationship between employer and employee, enterprise and external investors cannot be sure of the quality of product they will receive from temporary employees [Gyenes, 2015]. In everyday life we see conflicts between contractors and clients, inaccuracies in hired food delivery and court cases where clients feel swindled by freelancers. Whether this is just smoke and mirrors, the risk that the gig economy puts on enterprise is plausible. Investment is harder to come by with unsystematic risk [Chen, 2023]. Investment in capital is a key component in promoting short-term economic growth, and so a fall in it diminishes the increase in real GDP that it may bring in the short term.

The Sustainability of Economic Growth

The expanding gig economy is expected to increase economic growth in the long-term. Using the Solow growth model, we can understand that orthodox efforts to increase economic growth are transient as overall capital remains constant even in the long-term [Bairoliya, 2014]. As a result, decreased costs of production brought upon by the gig economy can only promote short-term economic growth. Having said this, the increase in total factor production that burdenless freelance work brings an increase in total production without increasing capital or labour. This means the expansion of the gig economy causes short-term economic growth that will converge to the economy's steady state but also permanent economic growth that will not converge in the long-term.

Conclusion

To conclude, it is true that the increasing gig economy contributes to sustainable economic growth. The rise of the gig economy has been unexpected, but in many ways refreshing, with employees taking control of their own work in a productive manner. Although economic predictions disagree over its legitimacy and how the government should respond to this new shift in the field of work, expansion is certain and understanding the gig economy's effect on the macroeconomy is clearly necessary. In further study, the policymakers should experiment with policies to protect those within the gig economy and to aid its progression to achieve sustainable economic growth alongside other government objectives such as lowering inequality and stability in public finances.

Works Citied

House of Commons Library, Published 22 December 2021. Coronavirus: A history of English lockdown laws
https://commonslibrary.parliament.uk/research-briefings/cbp-9068/
[Last Accessed: 29 December 2023]

Brodmin, Updated 6 February 2022. Gig Economy - The Economic Backbone of the Future?
https://brodmin.com/case-studies/gig-economy-case-study
[Last Accessed: 26 December 2023]

McKinsey & Company, 2 August 2023. What is the gig economy?
https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-the-gig-economy
[Last Accessed: 29 December 2023]

Bieber & Moggia, First published 19 August 2020. Risk Shifts in the Gig Economy: The Normative Case for an Insurance Scheme against the Effects of Precarious Work
https://onlinelibrary.wiley.com/doi/full/10.1111/jopp.12233
[Last Accessed: 29 December 2023]

Investopedia, Updated 11 June 2022. Economies of Scale: What Are They and How Are They Used?
https://www.investopedia.com/terms/e/economiesofscale.asp
[Last Accessed: 27 December 2023]

DiMaria et al., 27 June 2014. Happiness matters: the role of well-being in productivity
https://core.ac.uk/download/pdf/213993886.pdf
[Last Accessed: 29 December 2023]

Khurana, 19 October 2017. Corbyn Doesn't Get the Gig Economy https://fee.org/articles/corbyn-doesnt-get-the-gig-economy
[Last Accessed: 29 December 2023]

The Economist, 7 May 2022. Why long-term economic growth often disappoints
https://www.economist.com/finance-and-economics/2022/05/07/why-long-term-economic-growth-often-disappoints
[Last Accessed: 29 December 2023]

The Economist, 8 Dec 2020. The pandemic could give way to an era of rapid productivity growth
https://www.economist.com/finance-and-economics/2020/12/08/the-pandemic-could-give-way-to-an-era-of-rapid-productivity-growth
[Last Accessed: 29 December 2023]

Bairoliya, Spring 2014. The Solow Growth Model and Growth Convergence
https://scholar.harvard.edu/files/nbairoliya/files/lec10.pdf
[Last Accessed: 29 December 2023]

Semuels, 31 August 2018. The Online Gig Economy's 'Race to the Bottom'
https://www.theatlantic.com/technology/archive/2018/08/fiverr-online-gig-economy/569083
[Last Accessed: 28 December 2023]

Wilson, 15 February 2023. Flexibility And Earning Potential, Two Lures Of The Gig Economy
https://www.forbes.com/sites/nigelwilson/2023/02/15/flexibility-and-earning-potential-two-lures-of-the-gig-economy
[Last Accessed: 28 December 2023]

Lowman, 14 February 2023. Employee benefits: how much should you spend and why?
https://reba.global/resource/how-to-work-out-how-much-to-spend-on-employee-benefits-budget-strategy.html
[Last Accessed: 28 December 2023]

Chen, 25 May 2023. Risk: What It Means in Investing, How to Measure and Manage It
https://www.investopedia.com/terms/r/risk.asp
[Last Accessed: 27 December 2023]

Gyenes, October 2015. Major accidents involving contractors
https://minerva.jrc.ec.europa.eu/en/shorturl/minerva/lpb24511major_accidents_involving_contractorspdf
[Last Accessed: 28 December 2023]