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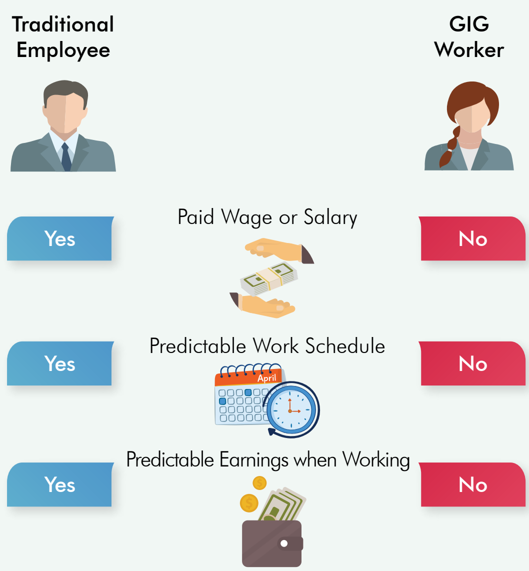
BOX 5
The Emergence of the Gig Economy and Its Challenges

The gig economy[1] broadly refers to an economy where freelancers or independent contractors ("gig workers") widely exist in the labour market as opposed to traditional work arrangements between the employer and employee (Figure B 5.1). The most common examples of gig activities include ride-sharing[2] and peer-to-peer (P2P) accommodation[3], which can be virtually extended to any service offering P2P and global online freelancing platforms. However, the gig economy not only influences economic growth worldwide by opening new avenues for workers, but also poses challenges in terms of regulatory environment and gauging data of macroeconomic scale such as growth and employment.

Figure B 5.1
Gig vs Traditional Work Arrangements



The gig economy has resulted in a reshaping of the existing services delivery channels through the adoption of digital technology by providing flexibility and minimising information asymmetry between clients and workers. Clients make their payroll flexible by hiring gig workers wherever necessary instead of maintaining their own staff. Workers also prefer gig contracts due to the flexibility it provides in terms of working hours with no limitations on earnings while also providing a better work-life balance (Figure B 5.2). Further, digital platforms, particularly, mobile apps that effectively match workers and clients almost instantly, allow workers to undertake an optimal number of tasks and offer services at most competitive rates. Moreover, digital platforms facilitate workers who are currently employed in regular jobs to seek for an additional stream of income on a part-time basis.

Despite its increasing popularity, the gig economy does not only provide opportunities but also poses challenges with regard to regulatory environment, collection of government revenue and particularly compiling official statistics.

The existing regulations that aim to protect worker rights and welfare, which mainly target persons employed at an organisational set-up, are under criticism and require to be revisited in light of the gig economy, as gig workers may not be sufficiently covered through such arrangements. Similarly, gig platforms, which are operating worldwide despite being based in a particular country, are difficult to be controlled by the host country's regulatory environment and taxation system in the absence of local business registration. In contrast, local platforms are under regulatory scrutiny and are liable for local taxes. Such differences in the applicability of regulation will not ensure a level playing field for local operators.

The emergence of the gig economy has created many challenges on the conventional way of measuring economic activities and estimating labour force statistics. Gig workers are not properly accounted for in the labour market statistics as the surveys provide only limited information on the additional engagements in jobs in gig nature (Bean, 2016). Even if such data are collected through surveys, work arrangements of a gig nature could create duplication (or multiplication) errors when the engagements in gig work are in addition to the primary employment[4].

The compilers of National Accounts are also under severe criticism on the grounds that economic activities might be underestimated due to inadequate coverage of the gig economy. From the production side, underestimation of national accounts could occur due to the lack of data on the magnitude of gig economic activities. The extra income generated by improved utilisation of resources under the gig economy might not be fully accounted for in the official estimates. For example, renting a room of a house for a tourist or hiring a vehicle through digital platforms adds value to the economy, yet there is no proper source to quantify the value added from such activities. Further, using deflators in determining the real value added is a common practice in national income accounting. Statisticians use price indices as deflators to derive real values from nominal values. However,

1 Gig economy is also referred to as "platform economy" or "sharing economy" or "on-demand economy"

2 To provide access to a vehicle, such as a car or a truck, on need basis

3 An individual offers accommodation facilities, such as a room or entire house/apartment, to another person

4 As cited by Zainudeen (2019), Katz and Krueger (2019) have estimated in 2015 that the growth of U.S. gig employment between 2005-2015 was 5%, which was later revised to 1-2%. One of the reasons for overestimation earlier was the lack of recognition of multiple employment in surveys.

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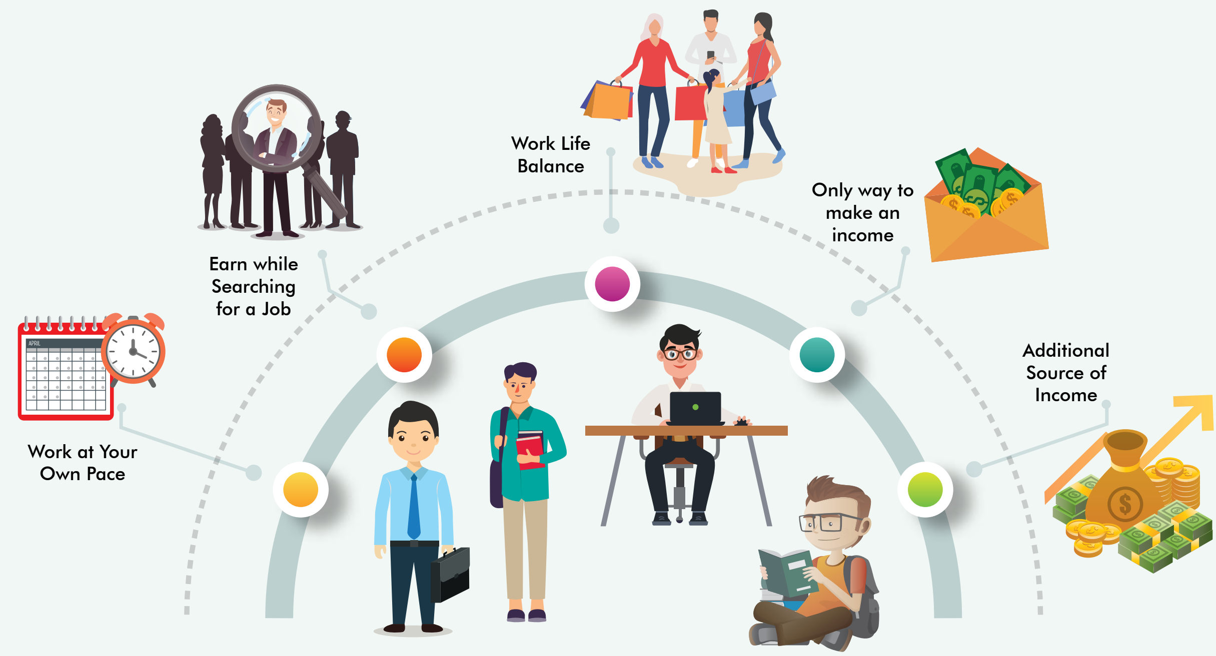
Figure B 5.2
Reasons for Working in the GIG Economy



prices offered at gig economy platforms are significantly lower than the prices elsewhere and might not be properly reflected in official price indices (Bean, 2016). This will lead to an overestimation of price indices. In such instances, the value added to economic activity, estimated in real terms using such price deflators, would be underestimated. Moreover, sharing services in a gig economy pose challenges for the expenditure classification of national accounts, as well. For example, purchasing a car for personal use is considered as a household consumption expenditure, whereas a car purchased for renting purposes is considered as an investment. However, when a car is purchased for personal use but is utilised for an income-generating activity such as ride-sharing, it is difficult to estimate in practice the respective proportions related to investment and consumption. This leads to an underestimation of investment expenditure (Bean, 2016).

Statisticians and policymakers should continuously experiment for better sources of data and indicators that capture the impact and contribution of the gig economy since traditional sources and methods in use are ill-equipped to accurately estimate economic activities within the gig economy. In addressing this issue, advanced countries like Canada have succeeded in capturing gig income data to a certain extent using 'self-employees' tax returns' (Jeon et al., 2019). Further, a well-structured household survey that covers multiple employment income might also be able to capture income earned through gig work to a greater extent. Moreover, digital platforms that facilitate gig workers could be a vital source of data, particularly when a few platforms dominate the market.

In Sri Lanka, some of the gig economy activities, such as platform-based ride-sharing services and accommodation services have emerged in recent years. A significant number of persons living in the Western province and other urban and semi-urban areas already use mobile apps to hire a taxi or a truck instead of waiting by the roadside. Further, the gig economy would gradually reach the rural community as well, where there could be a significant potential to use gig activity in areas such as farm machinery sharing. Considering the importance of capturing gig activities in official statistics, authorities dealing with official statistics in Sri Lanka are currently working on alternative methods to estimate the gig economy. However, the unavailability of reliable data remains a major obstacle in understanding the significance of the gig economy and its impact on the Sri Lankan economy. Although gig economic activity of developing countries like Sri Lanka would be significantly lower than that of developed countries, it is certainly worth monitoring the gig economy as it is one of the fastest-growing areas in this digitalised world.

References

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4 Zainudeen, A. (2019) Problems with quantifying the gig economy.[online] Available at: https://lirneasia.net/2019/02/problems-with-quantifying-the-gig-economy/