



Mains Practice Question

Q. What do you understand by “gig economy”? What are its advantages and challenges over traditional economy? (250 words)

26 Mar, 2019 GS Paper 3 Economy

Approach:

- Define gig economy, its manifestations followed by definition of traditional economy.
- Discuss the advantages of the gig economy in comparison with traditional economy. Substantiate with examples.
- Discuss the various challenges - in process of being tackled and untackled.
- Provide a brief conclusion summing up your response with an optional way forward.

Answer:

Introduction:

Derived from the word - **gig**, meaning job of short-term nature, gig economy refers to a labor market characterized by prevalence and use of freelance or contractual workers offering their service. The identifiable features of this economy are therefore as follows:

- firms in this economy use information technology-enabled platforms, such as mobile apps on Internet-enabled devices, to facilitate peer-to-peer transactions
- these platforms rely on user-based rating for quality control
- they offer workers providing services via the platform flexibility in deciding their work hours
- the firms mostly rely on workers to use their own tools to provide a service.

The above differences mark it apart from traditional economy which relies on full time workers, rarely changing positions and focusing on a lifetime career. For e.g. Airbnb and Ola/Uber are platforms in gig economy offering services for stay-during-travel and cab services respectively while various hotel chains and traditional taxi services are their counterparts in traditional economy.

Body:

Gig economy **benefits** its users in the following ways in comparison with traditional economy:

- **Lower prices for consumers** than those offered by traditional players
- **Flexible employment** and additional sources of income for the workers
- Opportunities to **exchange excess capacity** for a fee on the market. For example, many services that hitherto could not be commoditized, such as renting out an unused part of your house to a guest for an overnight stay, are now in the realm of the market.
- **Facilitates trust among buyers and sellers** based on online review and feedback system.
- **Employment generation:** India, on account of huge young workforce, a decent lead in IT centric service economy, is a fertile ground for growth and spread of gig economy. It will benefit the economy by creating more jobs as well as by providing services at competitive prices for firms in India as well as across the world - hence adding fuel to the growth engine of our country.

The online and short term nature of the gig economy has also its own share of **challenges** as well:

- Review system is subject to **manipulation** which may hurt the trust that is vital to for engagement between sellers and buyers in absence of any face-to-face interaction unlike traditional economy.
- **Temporary nature of transactions** undermines the need to build long-term relationships between buyers and sellers.
- **Lack of social security:** Since workers need not be attached to any employer who contacts them for only a 'gig', the employer or the platform has no obligations that a traditional employer might have towards her workers, including paying wages when there is no work and contributing towards their social security.
- The **absence of any regulation** like minimum wage and presence of workers from across the world weakens workers' bargaining power considerably.

Conclusion:

Given the fast-paced and technology driver lives in modern world, gig economy is here to stay. Yet it needs to adapt and evolve to sort out the challenges faced by it. The possible solutions may be as follows :

- Moving towards a more transparent and evolved mechanism for reviews and feedbacks.
- Globally agreed regulations to prevent exploitation of freelancers with regards to payments, contracts, etc.
- Better social welfare approach by governments across the world to make people better prepared for risks of gig economy- the financial resources which can be obtained in part from the cess on the 'gig platforms'.
- Creating formal interlinkages with traditional economy like freelancers offering training or assistance to employees of regular firms and vice-versa to generate more opportunities for both the freelancers and the regular employees.

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