

# Gig Economy and Its Ethical Dilemmas

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## ABSTRACT

The gig economy develops with technology and a new style of online business. It creates new job opportunities for freelancers in the market, and it's an innovative way to contribute to economic growth. However, the gig economy also creates new ethical dilemmas due to incomplete market rules. This study aims to investigate the advantages of the gig economy and strategies to improve market regulations.

**Keywords:** *gig economy, gig workers, labour relationship, labour market, online consuming.*

## 1. INTRODUCTION

With technology and internet support, the gig economy developed rapidly around the world in the late 2000s. Through algorithm matching and management, some online platforms can match freelancers with customers more efficiently and offer freelancers free access to the online labour markets, which are no longer bound by fixed hours and locations. However, the flexible new employment mode comes at the cost of uncertainty and instability. Though the gig economy created large labour markets and help economic growth, it turns out to be unethical for workers, organizations, and society. This paper aims to argue the unethical facts by sorting out relevant literature and analyzing some cases.

## 2. GIG ECONOMY

The gig economy consists of three principal components. Firstly, independent workers, or the so-called freelancers, are the key participants in the gig economy, offering services or selling products. The next component is consumers who are looking for services or goods. The final ingredient is the online platforms that connect consumers to freelancers. The gig economy is popular due to new technical support, and it shows plenty of advantages comparing to the traditional model. On the one hand, platforms help to expand the labour market, as it creates many part-time jobs and provides temporary options for free labours to fill in (Rozzi, 2018) [1]. On the other hand, it breaks the time and space restrictions of the traditional labour market and encourages more free labours to participate in it, especially the low-skilled and

the unemployed (Li et al., 2018) [2]. The gig economy is not a new concept, some scholars explained that in the 1960s, Avon had first created this concept and offered women working opportunities to sell products from homes and on their schedules (Gleim et al., 2019) [3]. Technology gave birth to digital tools which have significantly improved the efficiency of temporary work distribution and expanded the audience and scale of the gig economy. However, the rapid development brings related ethical concerns. As Friedman (2014) argued, it increased uncertainty and economic risks for gig workers as the current social welfare system does not protect workers involved in the gig market [4]. At the same time, due to the uncertain work and incomes, workers must spend more time and effort to compensate for the time that they cannot make much money.

## 3. ETHICAL DILEMMAS

### 3.1. Workers

Freelancers might face a higher risk of being exploited through the gig economy. The higher degree of flexibility in the gig economy comes at the expense of higher levels of uncertainty and instability in terms of income and job security. First, flexibility increases the investment of working hours. Berg's study (2016) reported that 90% of crowd workers experience insufficient work and would prefer more work opportunities [5]. Second, flexibility reduces job security. Although gig workers in highly specialized jobs can get considerable income returns, they need to cover their pension and medical expenses by themselves. Third,

the hidden regulations on the digital labour platforms may bring more pressure to workers, such as using algorithmic management to create a rating and reputation system for workers. According to Berg (2015), 94% of freelancers have experienced unfair treatment such as clients refuse to pay or reject the work [5]. There has been consistent debate among scholars on if the dominant position of algorithm represented a new Taylorism (Aloisi, 2015; Wood et al., 2019) [6] [7]. As Milkman (2012) argued, violations in the workplace have been a serious problem [8]. The average income of gig workers is not as high as commonly believed and even exacerbated their survival difficulties. In Berg's study (2016), low pay has been a main and recurring complaint among respondents [5]. Additionally, a survey by Freelancers Union showed that 40% of freelancers reported experiencing being paid late or not at all in the previous year (Kuhn, 2016) [9]. Take typical low-income families as an example. Although participating in the gig economy can help the family get extra income, however, because of the lack of fixed-hour wage rates, and the need to take a series of unexpected expenses (car repairs, medical costs, legal fees, etc.), their participation in online labour platforms reduced the take-home income for low-income families. Meituan is a famous app platform providing food delivery and other services in mainland China. In this year, Meituan has been cutting down rider's incomes by increasing the platform's commission. It also set strict punishment policies for riders and fined those who are late for the assignments. Even though, most full-time riders must work 12 hours or more per day facing high or low temperature and bad weather conditions outside (Hui, 2018) [10]. The algorithm system used by online platforms led to a long working time and blurred their leisure time and working hours (Sun 2019) [11].

Even among on-demand gigs, plenty of highly educated workers use these platforms to generate extra income, including manual labour that less-skilled workers would otherwise do. This situation virtually squeezes the latter's source of income. Such crowding out effect aggravates the income inequality of those at the bottom of the income distribution. Therefore, even in the gig economy, the income status of individuals varies greatly, and the income gap has been influenced in two different ways: to some extent, the gig economy narrows the income gap by expanding employment opportunities to provide extra income for the bottom workers; to some degree, this broadened employment channel also provides opportunities for people with higher education background, who increase their income and occupy the employment opportunities of the low-income people, which finally manifests as the widening income gap. In addition to income, the overall level of welfare of people engaged in gig jobs is also seriously inadequate. Gig workers always have a weaker financial situation and

social welfare coverage including health insurance and retirement plan, which mostly have been lower than traditional workers (Berg, 2016) [5]. In the gig economy, the payment for labour depends on the task demand, which blurs the value of working time. For a long time, the welfare system and stability of employment have been contracted strictly and tightly. Enterprises, to increase profit, would choose to hire more temporary workers to replace the traditional employment to reduce labour costs. However, it also increases the burden of the workers at the same time. The flexibility of working hours offered by the gig economy puts gig workers in a bind. Although workers can earn higher hourly wages from some part-time jobs with high human capital, such a positive wage premium may reflect the difference in compensation for lower benefits and the need to pay self-employment tax. Separating from traditional employment relationships makes the workers no longer being inside a system of welfare. The online work platform employed many gig workers only to avoid the expensive cost of hiring. In addition, uncertainty exists as a major concern as well. In recent days, we all have been experienced COVID-19 as a global crisis. During that, many gig works have been no longer available, which pushed many full-time gig workers onto their economic crisis. In the meantime, some gig works flourished, including take-out services, errand works, etc. Chances and crises presented at the same time, and it increased more risks indeed.

### **3.2. Organizations**

Organizations or enterprises that participated in the gig economy might face challenges in many unethical ways. The flexibility brought by temporary employment to enterprises also means the increase of employment risk and the failure of the traditional management system. The disintegration of traditional employment relationships changes the legal relationships between employer and employee. Regulations such as the minimum wage law, social security, paid vacation and other employment protection are no longer applicable to labour relations in the gig economy, saving many labour costs for enterprises (Aloisi, 2015) [6]. The shift from employment to the partnership between business and labour may help to stimulate organizational dynamism and bring a new model. However, the old legal system cannot quickly accommodate such new employment methods, especially the online labour platforms that provide on-demand work, whose industrial characteristics and employment characteristics lead to frequent labour disputes. Since the gig economy covers various industries and works, their relations with platform enterprises present diverse characteristics. As it is hard to classify or qualitative, employers will continue to put themselves under the risk of litigation, and their dissatisfaction will also increase the risk of a decline in social reputation.

While few studies have focused on the risks of gig platforms or businesses in the discussion around the gig economy, according to a series of surveys on the quality of work in the gig economy, it has exposed many serious problems, such as lack of job security and confusion of employment relations (Kaine & Josserand, 2019) [12]. Accordingly, it is predictable that platform enterprises will pay a series of costs related to labour disputes when the current policy or relevant legal system remains unclear. At the same time, enterprises do not establish a new management system to maintain a peaceful development of employment relations. The failure of the old management system and the loss of human capital will also make the enterprises face a long-term development dilemma. The gig economy also changed the workers' values. Gig workers do not regard it as a career. Some would see their current work as a temporary choice; others may regard it as a minor part of their income (Kuhn, 2016) [9]. At the same time, digitalization contributed to a more precise division within the company in all aspects of the production and producing process. The division of tasks to make gig workers and the demand side or collaborators have little direct contact. In this case, the original organization management studied in most scientific research is no longer applicable to the gig economy, especially the concepts of organizational commitment and job satisfaction. On the other hand, in a system composed of gig workers, demanders, and intermediary platforms, the matching between supply and demand parties and the human resource functions such as performance appraisal and salary setting of gig workers are all completed by platform algorithm. Therefore, it seems that the platform plays the role of the human resource manager. However, the enterprise's ability to attract, train and retain high-quality employees is an essential factor in the company's bottom line. The increased reliance on outsourcing and non-employees means that enterprises hold less human capital accumulation. Moreover, the gig economy represents a new form of labour relations, making traditional human resource management strategies that aim at the development and keeping employment healthy no longer work. The flexibility, autonomy, and complexity of such work far exceed the existing organizational management system (Wood et al., 2019) [7]. To sum up, the gig economy may bring problems to enterprises in their human resources framework, reputation, and long-term development.

### 3.3. Society

The rise of the gig economy has been too quick for our society to follow up in many aspects, including social welfare and insurance systems, related laws and regulations, and the labour market. Currently, it is bringing negative impacts on society. On the one hand, a series of empirical studies have confirmed the

contribution of the gig economy to employment. Li et al. (2018) studied and discussed the effect of sharing economy on the labour market using Uber as an example [2]. The result showed that Uber has significantly helped reduce the local unemployment rate and improve labour force participation rate. However, when we observe the development process of the gig economy, it can be found that each wave of growth of the gig economy takes place during the period of macroeconomic recession. Workers lack bargaining chips and have no choice but to give up long-term and stable traditional jobs and invest themselves in the gig economy (Friedman, 2014) [4]. From this perspective, the gig economy does not promote full employment with a new growth model, but merely responds to the pressure of the current labour market (Schor, 2017) and absorbs the negative employment shock from the traditional offline labour market [13]. Once the macroeconomy returns to normal, these gig economy participants may still return to jobs dominated by traditional employment methods (Huang et al., 2018) [14]. Daniels (2019) argued that the gig economy might be incredibly harmful to the weak in society, who has less social power and struggles with living conditions [15]. The positioning of gig economy platforms which lies as an alternative to low-income hourly wage works may mislead a group of people to take it while lacking welfare and insurance. Current labour laws could protect few gig workers, and they got fewer chances to develop skills that are not beneficial for long-term career development (Friedman, 2014) [4]. Sara Horowitz, the founder and former executive director of Freelancer Union, said: "We have left all of the risks of flexible work on workers... It is also a really big problem because the tax roll will get barer and barer, as you don't have a middle class to tax widely." (Cook, 2015) [16] It is crucial to for us to rethink social issue related to the gig economy and take actions to avoid the unethical side.

## 4. CONCLUSION

The gig economy needs to address gig workers' social security problems. Full-time gig workers, who do more than one job at a time, tend to have varying durations of each work. Most employers do not have labour contracts with workers, and they often work as independent contractors. The platform agreement generally agrees upon the work between the supply and demand of the service or product. As a result, workers do not have a formal employment relationship with employers to a large extent, so it is difficult for them to enjoy various forms of labour security and company benefits such as social insurance and housing fund. They can only independently bear the payment of social security-related expenses. Many uncertainties exist in the gig economy. The employment model of the gig economy based on "Internet +" has been rapidly spread and promoted. Relevant laws and regulations have not

kept pace with its development, which highlights its unsoundness and lag. The relevant departments are not always able to comprehensively supervise all aspects of the emerging labour market. Thus, it is difficult for the workers to protect their rights in the face of labour disputes between the two parties. As Aloisi (2015) said, the ethical dilemma of the gig economy exists, but rules should not hinder the great possibility, and labour regulations should protect users and workers [6]. Although this paper aimed to discuss the unethical truth of the gig economy, it does not mean that we should ban it. If more actions are taken to improve the current situation, surely the gig economy could stimulate economic growth and optimize the labour market structure. China has adopted marketing solutions to meet the need for social protection for gig workers. Ant Financial Services Group, China's largest fintech company, launched a benefits program in April 2018 for small stores and self-employed workers, many of whom are gig workers. If they use Ant Financial's payment product, Alipay, for transactions, the workers can receive free health insurance (up to 20,000 yuan, or \$3,000). We are looking forward to global actions and future studies on solving unethical issues and helping the gig economy works better.

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