Gig Work is Not Awesome

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When Ajay Shah and Amit Verma sat down to discuss the [gig economy](), they articulated a view of work that has shaped an entire generation of Indian thinking about labour markets. It is a view in which markets allocate labour efficiently, voluntary contracts reveal individual preferences, competition disciplines firms, and digital platforms dramatically expand the opportunity set for people who have long been excluded from the formal labour market. It is coherent, internally consistent, and recognisable to anyone who has taken an undergraduate course in economics.

It is also a view that has defined much of Indian public reasoning about labour: that rigid laws prevent job creation, that flexibility invites productivity, that workers freely choose the work they do, and that the role of the state is to stay out of the way so that labour can flow to where it's most useful. Gig platforms, in this worldview, are simply the newest and most powerful instruments of efficiency—reducing frictions, matching buyers and sellers of labour, revealing information, and enabling a form of decentralised economic freedom.

This argument represents the strongest contemporary formulation of a particular economic model: the competitive labour-market model that underpins much of India's pro-market discourse. Their discussion is therefore a useful starting point for examining when a clean, elegant model meets the messy structure of an actual labour market.

The model relies on assumptions that gig work violates in systematic and predictable ways. And once those assumptions are relaxed, the contract tells us very little. What matters are the conditions under which people enter the contract and the institutions that shape what they can do after they sign it.

Much of contemporary labour economics—reflected in modern introductory textbooks like CORE, with their attention to household decision-making, liquidity constraints, and incomplete contracts—treats the competitive model as a benchmark rather than a description of how labour markets actually function. Gig work makes this distinction impossible to ignore. The very features that classical models exclude—household shocks, platform-driven rules, switching costs, asymmetric information, and exposure to volatility—are the conditions that define gig work as an economic institution.

This essay takes the Everything is Everything podcast as a starting point to map those frictions carefully.

The Argument as Presented: A Clean Version of the Competitive Labour-Market View

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The framework that underlines the podcast episode is the standard competitive view of labour markets, adapted to the digital economy. Its core intuition is that when many firms compete for many workers, and workers can move freely between opportunities, markets allocate labour efficiently. Platforms, in this view, merely reduce frictions and allow that allocation to operate at scale.

There argument has four parts.

First, gig platforms are marketplaces. They match dispersed workers with dispersed customers more efficiently than older intermediaries. They lower search costs, handle payments, verify identities, and enable quick entry into the labour market. This creates opportunities for people who lack networks or formal credentials.

Second, participation is voluntary. Workers choose gig work because it is the best available option. If conditions worsen, they can switch platforms or exit the market entirely. Competition between platforms is assumed to discipline firms in that if one treats workers badly, they can go elsewhere.

Third, algorithms improve efficiency. They replace the managerial or supervisory functions that firms traditionally did internally. Ratings reveal performance; GPS solves monitoring; automated incentives elicit effort. Algorithms are treated as neutral (predictable, rule-based) arbiters as opposed to human managers. By lowering monitoring costs, firms can contract out more tasks that previously required in-house organisation.

Fourth, gig work expands flexibility. Workers can choose when to work, how much to work, and which tasks to accept. This flexibility is framed as especially valuable in India, where informal labour is widespread, where women face constraints on labour supply, and where social insurance is thin. Gig work becomes a safety valve, an income source that can absorb shocks when other livelihoods fail.

Presented this way, the labour competitive model yields a consistent, optimistic account of gig work. The next step is to examine how far this coherence depends on assumptions about how labour markets function—and what happens when we look at gig work once those assumptions are relaxed.

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Why Economists Model Labour Markets This Way

The competitive labour-market model did not arise because economists believed real labour markets actually looked like this. It arose because the discipline needed a tractable way to formalise how millions of decentralised decisions might be coordinated without central direction. From the late nineteenth century onward, neoclassical economists adopted the tools of physics—equilibrium, optimisation, marginal adjustment—to create a general system in which prices could perform this coordinating function. Labour had to fit within this structure.

To do that, labour had to be modelled as if it were any other inputs: divisible, mobile, and allocated by prices. This required abstracting from the social and institutional features that made labour different from other commodities—households, power, norms, obligations, and the fact that labour cannot be separated from the person who supplies it. This methodological abstraction allowed labour to be placed within the same mathematical framework as goods and capital, which made the entire system analytically solvable.

Throughout the twentieth century, this approach became the dominant framework because it was internally coherent and mathematically elegant, not because it matched empirical labour markets. John Hicks, Paul Samuelson, Milton Friedman, and later general-equilibrium theorists used the competitive model because it offered a unified way of linking wages, productivity, prices, and employment within a single conceptual system. Departures from reality were acknowledged, but modelling conventions required keeping the core structure intact.

By the time digital platforms emerged, the competitive model had become the default way of thinking about labour allocation: a benchmark that defined how efficiency should look like, and against which actual labour markets were evaluated. That is why the above podcast discussion was worth having. They are drawing on a long lineage of economic reasoning in which labour markets are understood through simplifications that were intellectually necessary for the model to exist in the first place.

The task now is to examine what happens when we look at gig work through the empirical structure of labour markets as they actually operate.

Where the Standard Model Stops Explaining Gig Work

The competitive labour-market model imagines workers choosing jobs based on preferences, firms competing for labour, and platforms reducing frictions through better matching. Gig work departs from this picture in predictable ways. The structure of work itself generates dynamics that the standard model was never designed to capture.

Three departures matter most.

1. **Labour supply is shaped by the needs of households, not the preferences of individuals**

   People do not decide how much to work by weighing an individual trade-off between income and leisure. They work because their household needs cash flow to cover rent, food, debt repayments, children's schooling, medical expenses, or unexpected shocks. In India — and in most low- and middle-income economies — households pool earnings and jointly decide who works, when, and how much. A person joins Swiggy or Uber not because it best matches their personal "preferences," but because the household needs liquidity today, because another earner's income fell, or because a crisis arrived. In this setting, labour supply is not a personal preference at the margin; it is a collective risk-management strategy driven by obligation and necessity.

   The argument Shah and Verma articulate rests on a familiar economic model — one where workers choose work because it aligns with their preferences, firms compete for labour, contracts reveal mutual benefit, and platforms reduce frictions so everyone can make better choices. The model is elegant, internally consistent, and analytically powerful. The difficulty is that it only cleanly describes the world when a very specific set of assumptions hold.

   Over the past four decades, research across labour economics and development economics — on information problems, household decision-making, incomplete contracts, platform markets, monopsony power, and risk — has shown that the competitive labour market is not the "normal" state of the world at all. It is the exception that appears when key frictions are stripped away for analytical clarity. Gig work is useful analytically because it brings back, in one institutional setting, all the frictions the model sets aside. It is not a deviation from the model. It is what labour markets look like once we restore the conditions the model assumes away.

2. **Platforms are not marketplaces; they operate as forms with managerial authority**

   The competitive model imagines platforms as open marketplaces where buyers and sellers meet, negotiate, and transact. In reality, gig platforms look much more like firms that exercise managerial power—except they do so through algorithms rather than supervisors.

   Platforms set prices rather than discover them. They determine base fares, incentives, penalties, surge multipliers, and the conditions under which work becomes available. They decide which tasks are shown to which workers, using opaque criteria shaped by ratings, acceptance rates, geographic patterns, and predicted reliability. And because a worker's income depends on platform-specific data—ratings, route familiarity, incentive tiers—leaving one platform for another is costly. Competition exists in theory, but not in the way the model imagines.

   Labour economics has a name for this: **monopsony power**. A firm does not need to be the only employer to influence wages and conditions; it only needs workers to face frictions that make exit costly. Gig work creates precisely those frictions. A marketplace with many buyers and sellers becomes, in practice, a set of digital firms with the power to set rules, curate opportunities, and adjust contract terms unilaterally.

3. **The structure of gig contracts shifts economic risk onto workers**

   In the competitive model, risk is borne by the actor best able to diversify it—typically the firm. Gig work reverses this distribution. Earnings vary with weather, fuel prices, demand, algorithm updates, cancellation penalties, waiting time, and sudden changes in incentive structures. Downtime is unpaid. Accidents are the worker's problem. Equipment costs fall entirely on the worker. Income insurance does not exist. Credit is expensive or inaccessible. A platform can tighten incentives or cut payouts with a software update; a worker cannot adjust household expenses with the same ease.

   Gig contracts place risk on the party least able to bear it, even though platforms, through scale, are far better positioned to absorb volatility. The result is a labour market where work appears flexible but incomes are fragile—where workers can only adjust employment in one direction (upwards) because their household obligations, not their "preferences," determine how much labour they must supply.

   Gig work does not show that the competitive model is wrong in an absolute sense. It shows that the model describes a very particular world—one with low frictions, symmetric information, costless switching, decentralised matching, and complete contracts. Gig work lives in the world outside that idealisation: the world of household constraints, platform power, risk externalisation, and incomplete contracts.

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Further Reading

For readers who want to understand the economic debates behind the modelling critique in this essay, the works below offer accessible entry points into how labour markets function once the assumptions of the competitive model are relaxed.

1. Information, Monitoring, and the Limits of the Competitive Model

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Akerlof, "The Market for Lemons" (1970).

A landmark paper showing how information asymmetry breaks market efficiency — foundational for understanding why platform ratings, opacity, and algorithmic control matter.

Stiglitz (1975–1987) on labour and information.

Explains why wages, effort, and monitoring cannot be understood through perfect-information assumptions.

2. Households and Labour Supply

Townsend, "Risk-sharing in Indian Villages" (1994).

Shows how labour decisions respond to shocks and obligations, not to individual preferences.

Udry, "Credit and Insurance Failures" (1994).

Explains why households allocate labour collectively in the absence of functioning credit and insurance markets.

Banerjee & Duflo, Poor Economics (2011).

A highly readable introduction to the logic of household decision-making under constraint.

CORE Economics, The Economy.

One of the few mainstream texts that teaches labour supply through institutions, liquidity constraints, and incomplete contracts.

3. Platforms, Power, and Algorithmic Management

John Horton (2019) on algorithmic matching.

Explains how platforms control labour allocation through design choices, not open-market dynamics.

Steinbaum & Marinescu (2018)

Empirical evidence that gig platforms exercise wage-setting power — even when many "employers" nominally exist.

Naidu, Dube & Manning (2020)

Shows how monopsony arises from frictions, switching costs, and algorithmic control.

4. Contracts, Risk, and Power

Holmström & Milgrom, "The Firm as an Incentive System" (1994).

A classic exposition of why firms usually insure workers — and what goes wrong when they don't.

Hart & Moore (1990s) on incomplete contracts.

Explains why power fills the gaps when contracts cannot specify everything.

Akerlof & Yellen, efficiency-wage theories.

Shows why firms normally stabilise income — the opposite of how gig platforms operate.

5. Broader Perspectives on Labour Market Institutions

Samuel Bowles, Microeconomics: Behavior, Institutions, and Evolution (2004).

A rigorous alternative to the price-taking model — especially on incentives, norms, and workplace power.

Jan Breman, Footloose Labour (1996).

A classic on informalisation that helps situate gig work within a longer Indian trajectory.

CT Kurien, Wealth and Illfare (2023).

An institutional approach to modelling that emphasises ownership, control, intermediation, and household survival — highly relevant for reframing gig work analytically.

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