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MALINVESTMENT, CREDIT CYCLES, AND THE SUSTAINABILITY OF THE GIG ECONOMY: AN AUSTRIAN BUSINESS CYCLE PERSPECTIVE

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Abstract :

A rapid growth has been witnessed in the gig economy of India, leading to absorption of displaced labour during recessions and other phases of bust. The Hayekian business cycle theory under the umbrella of Austrian School of Economics puts forth the idea that the periods of economic booms stimulated by artificially lowered interest rates misguide the economic actors into undertaking malinvestment, viz. Misallocation of capital and other scarce resources. This malinvestment eventually requires correction, which descends upon the defunct economic system as a recession. While the labour roles and positions most seen within the gig economy are often viewed as a flexible fix adopted during labour downtimes or during stretches of underemployment, such economic opportunities are reliant on Venture Capital (VC), which raises concerns about sustainability. This paper critically examines whether gig platforms in India represent a genuine and sustained labor market correction during such phases of bust, or are merely another form of short lived malinvestment in face of monetary tightening that reduces easy credit.

Keywords: *Business Cycle, Gig economy, Malinvestments, Austrian Economics, Labour, ABCT*

Introduction:

The Gig Economy in India is undergoing a rapid series of expansions, swelling to an employment capacity of 7.7 million workers as of 2023, with future projections pointing towards 200% growth by 2030 (NITI Aayog, 2022). Digital Gig platforms like Ola, Swiggy, Zomato, and Urban Company offer work opportunities adaptable to the requirements of the workers. However, there has also been much discourse on the concerns regarding income stability, labor rights, and worker exploitation. Within his Austrian Business Cycle Theory (ABCT), F.A. Hayek posits that periods of economic downturns and shrinkages force labour to be redistributed into sustainable industries for their livelihoods, a point that is extrapolated from sound reasoning and is historically factual, but the debut and subsequent rise of the gig format of economy has complicated this supposedly a priori belief. This paper attempts an examination of the structural viability of the Indian gig economy as a sector, and attempts to check for the symptoms of a bubble market, driven by Venture Capital (VC) funding and missignalled policies.

Literature Review:

Austrian Business Cycle Theory elucidates the role of credit expansion in misallocated capital, leading to malinvestments in transient business ventures. Such malinvestments during phases of artificially stimulated booms plant the seeds for an inevitable, correctionary contraction, collapsing the makeshift scaffolding of growth. Consequently, the businesses and labourers are forced to transition to industries that reflect real consumer demand, beyond the signals defunct by the policy stimulation. Indian labor market presents a strong trend towards gig work in downturns. During COVID-19, about 8 million workers joined gig platforms, adopting roles centered around delivery, transportation, and household services (NITI Aayog, 2022). This shift is concerning as the gig economy is of low-paying nature, lacking social security benefits, and reliant on venture capital subsidies. If this funding dries up, many platforms may become unsustainable in the long run.

Methodology:

This study analyzes historical labor trends in India, financial reports from Indian gig platforms, and venture capital funding patterns. Case studies of Ola and Zomato are made, assessing their financial viability under tightening monetary conditions and increasing regulatory scrutiny.

Analysis: Malinvestment and the Gig Economy:

Gig Work as a Market-Driven Corrective?

Historically, the Indian gig economy has absorbed the workers displaced during times of economic distress, aligning with the labor reallocation predicted by ABCT. During the lockdowns imposed during COVID-19, India's unemployment rate surged to a staggering 23.5% (CMIE, 2020). Ensuingly, Swiggy and Zomato added over 3,00,000 delivery workers in just six months. Similarly, Ola's driver registrations increased by about 40%, from the influx of laid-off factory and retail workers seeking alternative income.

However, while gig work provides an immediate income source, it provides no guarantee of a long-term career or much scope for upward mobility. Many workers undertaking gig work remain in low-paying roles, earning ₹25,000–₹35,000 per month on average, with no guaranteed income, job security, or other perqs. This indicates that while gig work serves as a temporary safety net, it does not create sustainable employment. The long-term viability of these jobs depends on the profitable continuance of the gig platforms beyond subsidies.

Venture Capital as Artificial Credit Expansion:

ABCT warns that misallocated credit creates speculative booms that eventually collapse. India's gig economy bears striking similarities to VC-driven tech bubbles, with companies relying on external capital rather than organic profitability. Between 2015 and 2023, Indian gig platforms raised over $12 billion in venture funding, yet most remain unprofitable. For example, Zomato reported ₹1,222 crore in losses in FY 2023, despite a ₹5,541 crore revenue surge (Zomato Annual Report, 2023).

Similarly, Ola has struggled with profitability despite dominating the ride-hailing market. It continues to offer discounted fares to customers and high incentives to drivers, creating an unsustainable business model. This strategy mirrors ABCT's credit-driven malinvestment, where artificially cheap capital fuels unviable ventures. As VC funding slows down, gig platforms may be forced to cut costs, reduce worker incentives, or even shut down unprofitable operations, exposing their financial weaknesses.

Gig Work as Labor Misallocation:

ABCT suggests that malinvestment leads to sector-specific skill atrophy, trapping workers in low-productivity roles. The Indian gig economy exhibits this pattern, as many gig workers lack career progression opportunities. For example, Swiggy and Zomato delivery agents spend years navigating algorithms for surge pricing but do not gain skills transferable to traditional industries.

Additionally, algorithmic wage suppression prevents income stability. Platforms like Ola and Uber frequently reduce driver incentives once a large workforce is secured. In 2016, Ola drivers earned ₹80,000 per month, but by 2023, this fell to ₹25,000–₹35,000 due to reduced per-kilometer payouts and commission hikes. This trend aligns with ABCT's prediction that malinvestments eventually erode wages as the sector becomes oversaturated.

Furthermore, the lack of social security for gig workers exacerbates financial precarity. 72% of Indian gig workers lack health insurance, provident fund, or retirement benefits (NITI Aayog, 2022). This increases dependence on platform incentives, which are being cut as companies struggle with profitability. Rather than facilitating economic mobility, gig work traps workers in a cycle of low-wage, unstable employment, contradicting ABCT's idealized labor reallocation process.

Rising Interest Rates: The Gig Economy's Stress Test

ABCT predicts that malinvestments collapse when credit expansion ends. India's gig economy is now facing a financial stress test as rising interest rates and declining VC funding expose structural weaknesses.

- RBI rate hikes (2022–2023) increased borrowing costs, reducing VC investments in Indian startups by 40% (Economic Times, 2023).
- Zomato cut incentives for delivery workers, leading to mass resignations and increased labor protests.
- Ola shut down several EV scooter experience centers and reduced driver bonuses, signaling financial distress.

As funding declines, gig platforms are struggling to sustain artificially low prices and high labor participation. If capital markets tighten further, many gig platforms may downsize or collapse, similar to past speculative tech ventures.

Discussion: The Gig Economy in the Business Cycle

Austrian Business Cycle Theory (ABCT) views economic fluctuations as a consequence of credit expansion and misallocated investments. The gig economy, as an emerging sector, fits within this framework in several ways. In periods of low interest rates and abundant venture capital, gig platforms expand rapidly, hiring workers and subsidizing services beyond their natural equilibrium. However, when credit tightens, these platforms face significant stress, potentially leading to contractions, layoffs, or business failures.

During the boom phase, artificially low borrowing costs encourage venture capital firms to invest heavily in gig startups. Between 2015 and 2022, VC investments in Indian gig platforms exceeded $12 billion, fueling aggressive expansion. Companies like Ola, Swiggy, and Zomato used this funding to provide driver incentives, customer discounts, and below-cost services to outcompete traditional businesses. As a result, gig work became an attractive option for millions of Indian workers. This mirrors past credit-induced booms where capital flowed into sectors that initially appeared profitable but were sustained by external funding rather than organic market demand.

As the business cycle enters a contraction phase, central banks like the Reserve Bank of India (RBI) increase interest rates to curb inflation, reducing the availability of cheap capital. In 2022–23, the RBI raised rates from 4% to 6.5%, making debt financing costlier for startups. Consequently, venture capital funding for gig platforms in India declined by 40% (Economic Times, 2023). This withdrawal of funds forced gig companies to cut driver incentives, reduce subsidies, and raise service prices, causing worker dissatisfaction and customer attrition. Similar to past economic cycles, sectors that expanded due to excess credit—rather than true profitability—struggle to maintain their business models once liquidity dries up.

The gig economy also exhibits features of malinvestment, a core concept in ABCT. Many gig platforms, despite their large market share, have yet to achieve profitability. Zomato, for instance, reported a ₹1,222 crore loss in FY 2023 despite increasing revenues. Ola has similarly struggled with cash flow issues as it scales operations while facing increased regulatory scrutiny. If these platforms were truly efficient, they would have reached sustainable profit margins without prolonged external funding. Instead, their dependence on cheap capital resembles the overexpansion of industries in previous credit booms—

such as real estate in the 2000s or railroads in the late 19th century—that later faced corrections.

Austrian economists argue that recessions serve as market corrections, reallocating resources from unproductive sectors to more sustainable industries. If ABCT holds true, the gig economy should experience a sharp contraction as easy money disappears. However, two possible outcomes exist:

A Classic Boom-and-Bust Correction: If gig platforms fail to transition to profitability, they may shrink drastically, similar to how many dot-com startups collapsed post-2000 when funding dried up. Under this scenario, the gig economy's dominance would decline, leading to a return to traditional employment models.

A Partial Adaptation: Some gig platforms may pivot towards profitability, reducing reliance on external funding by increasing commissions, optimizing costs, or integrating formal employment contracts. In this case, the sector would survive but shrink, as only the most efficient firms remain viable.

Ultimately, the gig economy's fate depends on whether it can outgrow its dependence on venture capital and establish itself as a self-sustaining labor market feature. If it fails, ABCT's prediction of unsustainable malinvestment leading to industry contraction will be validated. If it succeeds, it may challenge traditional interpretations of business cycles by showing that technology-driven labor markets can evolve beyond credit-induced booms.

Conclusion:

This study finds that India's gig economy exhibits both corrective and distortionary characteristics under ABCT. While gig work absorbs displaced labor, its reliance on venture capital subsidies mimics credit-driven malinvestment cycles. As interest rates rise and funding slows, gig platforms face a reckoning—they must either achieve profitability or downsize, reflecting ABCT's prediction of economic correction.

India's gig economy will either transform into a sustainable labor sector or fade as a product of an era of cheap credit. The next five years will determine whether gig work represents a lasting economic shift or a speculative bubble waiting to burst.

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