The Invisible Hand: A school led Economics magazine

Issue 2: AI and its impact on the labor market

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Foreword

By Anubhav Chaterjee

It is a pleasure to see The Invisible Hand move into its second edition. As Economics continues to be one of popular subjects among students, I welcome the initiative of providing a platform to curious students for engaging with contemporary economic issues. Irrespective of their field of interest, I strongly believe that it is important for students to carry out economic debates. Economics is not just about learning fixed models and theories. It is about interpreting a changing world. It's about contested interpretations of various perspectives and influencing public policy and social outcomes. Economics is a discipline that evolves as societies encounter new technologies, new institutions, and new policy challenges.

The first edition covered aspects of Behavioural Economics, which is not only a relevant topic in today's world, but also brings out the interdisciplinary nature of the subject due to its connection with Psychology. The theme of the second edition is 'When Machines Compete: Labour, Power & Profit'. At a personal level, this is a topic that has been intriguing me for a while now. Is AI really replacing workers or complementing them? To what extent will AI increase the power of large technology firms? How do large language models (LLMs) bring in skill-based technological changes?

Famous Austrian economist Joseph Schumpeter coined the term 'creative destruction' in 1942, in the context of innovations and productivity enhancement in manufacturing processes. He defined the term as "process of industrial mutation that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one." 1 Starting from the 18th century Industrial Revolution to the mechanisation of the textile mills in the 19th century and the automation of the assembly lines in the 20th century, the world has witnessed various transformations and innovations. The AI and LLMs have undoubtedly taken us altogether to a different level of the 'industrial mutation' that Schumpeter prophesied.

However, this brings us to the famous 'task vs jobs' debate. Modern labour economics suggests that technology does not (or rarely) replace entire jobs; it replaces tasks. Economist David Autor argues, "Automation typically substitutes for specific tasks previously performed by workers, rather than eliminating entire occupations."2 However, the unprecedented development of AI and the LLMs raises a new and more intriguing question. Earlier machines used to perform only routine physical tasks. What happens when they also perform the cognitive ones, the ones which were once considered to be uniquely human? I can relate this question to the field of education and teaching. Can the LLMs be used to evaluate the performance of a student in a completely subjective task that has multiple perspectives, all of which could be right, and requires human judgment? While I have come across various responses from various experts, it is most certainly an aspect that requires urgent exploration.

Another important aspect of any economic phenomenon is the evaluation of its impact on all stakeholders and economic agents. As students of Economics, we have always learnt that technological innovation increases productivity, which further increases incomes and GDP.

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By Anubhav Chaterjee

But who gains the income? How is this distributed? Does the increase in GDP automatically translate into shared prosperity for everyone? As future policymakers or simply global citizens, it is crucial for students to consider not only what machines can produce but also to address questions of environmental sustainability and the economic well-being of workers, consumers, and firms. The gains in productivity must also translate into an improvement in quality of life and break the vicious cycle of poverty. Daron Acemoglu clearly points out that technological progress does not automatically benefit all workers. He states, “Technological change is not an exogenous force that automatically benefits society.”3 The impact of technological progress depends on how it is adopted and regulated.

As the theme suggests, the articles in this edition of The Invisible Hand address these matters through the lenses of the labour market, competition and public policies, highlighting the opportunity cost and the trade-off the global economy faces. It is indeed encouraging to see students engaging with research on frontier economic issues. TISB encourages students to approach learning from a research perspective. I am hopeful that this initiative will surely induce more students into researching, questioning, and debating.

I would like to convey my heartiest congratulations to the editors of The Invisible Hand, Vedant Divakarla and Mahir Shah, and to all the students who have contributed articles for this edition. I sincerely hope that this initiative will reinforce the value of critical thinking and encourage more and more readers to become responsible global citizens.

The Hollowing Out of the Middle-Skill Labour Market

By Mahir Shah

For the majority of the twentieth century, the labour market was fairly stable and was shaped as a pyramid by economists: low-wage service jobs at the bottom, like cleaning and waiting tables; high-skill and highly paid professional roles such as lawyers, doctors, engineers and analysts at the top; and in the middle, which held up a large proportion of the economy, were millions of middle-skill jobs such as bank clerks, factory workers and data entry operators. These jobs were viewed as decent and reliable for the middle-income earners, who formed the backbone of the labour force in most developed countries.

However, over the last three decades, that middle section of the economy has been steadily eroding. Between the 1960s and the early 1980s, it was the digital technological revolution, followed by automation and generative AI in the 21st century, that led to this consistent erosion. Economists call this phenomenon ‘labour market polarisation’, which in simpler terms translates to the hollowing out of the middle-skill labour market.

The middle-skill jobs are most vulnerable to automation because most of these jobs tend to be routine. Its predictable, repeatable set of processes can be written into a computer programme and encoded in a machine. For example, a bank teller follows a clear procedure for processing transactions, and factory workers on an assembly line perform the same physical motions endlessly in a day, while a travel agent looks up flights, compares prices and books tickets. All of these can be programmed into a repetitive function, and this algorithm can execute these tasks, plausibly at a faster and more efficient rate.

This is sometimes called the routine-biased technological change hypothesis, and the evidence for it is substantial. In the United States, the share of employment in middle-skill occupations fell from around 52% in 1980 to roughly 42% by the 2010s. In the UK, research by economists David Autor and Lawrence Katz, as well as work by the Institute for Fiscal Studies, has documented a similar pattern: employment has grown at the top and bottom of the wage distribution, while the middle has contracted.

High-skilled jobs such as software development, medicine, management consulting and financial analysis have all expanded dramatically because all these roles require creativity, impromptu judgement, and complex problem-solving that remain difficult to automate. Due to greater demand for these jobs, which cannot be automated, they have also become better paid. Low-skilled service jobs have also grown. This is because of the type of job that exists. Food delivery riders, care workers and personal trainers are still in demand due to numerous factors such as being physically present and being socially interactive in ways that make them hard to outsource to a machine.

The workers displaced from the middle don't always move upward. Many slide into lower-wage service work instead, which has contributed to rising income inequality in countries including the United States, Germany, and Sweden.

The Hollowing Out of the Middle-Skill Labour Market (continued)

By Mahir Shah

An example of this exists in the banking sector. In 1985, a high street bank branch employed a large team of tellers to handle deposits, withdrawals, and account queries. By 2023, ATMs handle cash, apps handle transfers, and chatbots handle basic queries. The number of bank tellers in the UK fell by over 40% between 2010 and 2020. The jobs that remain in banking are either highly specialised (investment analysts, risk managers) or customer-facing in ways that require human empathy (relationship managers, complaints handlers).

Economists are divided on whether AI and robotics will eventually threaten high-skill work too — and there is early evidence that some cognitive tasks, like drafting legal documents or writing basic code, are already being partially automated. The consensus view, for now, is that the safest careers are those built around things machines still struggle with: genuine creativity, emotional intelligence, ethical judgement, and the ability to work in unpredictable physical environments.

The Mechanism of Management

By Vedant Divakarla

The mechanisation of management Picture this: An Uber driver begins his shift at 8:00 AM, working continuously till 11:00 PM with a lunch break whenever customers are hard to come by. Over these 15 hours, the only human contact he has is with his passengers. All trip details are communicated via his phone, and he is answerable to no one but the app. In reality, such scenarios are lived realities, with AI systems consistently replacing human managers in gig platforms, warehouses, logistics, and cab or delivery services.

This is known as algorithmic management, with algorithms assigning tasks, monitoring performance through data, and even determining pay, incentives, and penalties. Crucially, this completely redefines the role a worker has in their firm by reshaping workplace power dynamics, posing the central question: does algorithmic management increase efficiency at the cost of worker autonomy? However, the implementation of such mechanisms is not limited only to the aforementioned sectors, increasing the use of data-driven systems across industries. Specifically, algorithmic management is defined as workplace coordination through algorithms rather than human supervisors, automated decision-making in labour processes, and software analysing large volumes of worker data. These systems perform task allocation, performance monitoring, and incentive design, optimising efficiency and scale by monitoring the data for thousands of workers simultaneously. As such, management becomes data-driven rather than supervisor-based, hence eschewing the need for conventional human managers. In doing so, algorithmic management reduces managerial costs while helping firms address the principal–agent problem arising from their inability to perfectly monitor worker effort. In traditional economics, the concept of workplace monitoring is explained through the principal-agent framework.

In this case, the principal is the employer or firm, while the agent is the worker hired to perform tasks. Within this framework, information asymmetry exists, as employees possess private information about their quality of work, making it difficult for employers to accurately observe and evaluate employee effort. While technological systems attempt to address this issue through increased monitoring, certain aspects of performance remain difficult to quantify, which may lead to an underrepresentation of these factors. In turn, workers may feel undervalued and may begin to prioritise personal convenience over efficiency. Despite the use of traditional solutions such as incentive frameworks, the problem remains difficult to fully resolve, as such mechanisms often require a nuanced understanding of worker behaviour. Furthermore, although these systems aim to align worker incentives with firm objectives, the mechanisation of management may prioritise measurable outputs over less quantifiable aspects of performance. As such, information asymmetry and misaligned incentives may persist, potentially reducing both worker motivation and overall productivity. Gig economies like Uber, the aforementioned

The Mechanism of Management (continued)

By Vedant Divakarla

example, serve as a clear testament to this. On ride-hailing platforms, drivers do not report to a human supervisor. Instead, algorithms are responsible for key managerial functions, such as assigning ride requests, calculating fares through dynamic pricing, and evaluating driver performance using passenger ratings and trip data.

These systems are designed to analyse very large amounts of data, allowing thousands of drivers to operate and be rated simultaneously. A key impact of this mechanisation is on worker behaviour. In this case, workers are inclined to only offer their services during peak hours, gaining greater income in a much shorter time frame. This directly hurts consumers, since they may struggle to find rides outside of peak times. From a worker perspective, such a change would have both advantages and drawbacks. On one hand, they are given straightforward and standardised feedback free of bias, which could help them optimize their effort and maximise income. However, such standardization may also lead to a fall in transparency, and workers may feel underappreciated or helpless, since they have negligible control over factors such as pricing and routes. As such, in firms such as Uber, while algorithmic management may cut costs and align worker incentives with those of the firm, it may also lead to dissatisfaction amongst employees and a fall in utility for consumers.

Ultimately, the core debate regarding algorithmic management is whether the increase in efficiency and reduction in costs justify the reduction in worker autonomy. On one hand, the implementation of such systems allows firms to make considerable efficiency gains, such as reduced managerial and monitoring costs, improved coordination of large workforces, more precise incentive alignment, and faster data-driven decision making. However, workers may feel subjugated due to reduced control over work conditions (pricing, scheduling, routes), opaque algorithmic decision-making, limited ability to challenge or negotiate decisions, and increased surveillance and performance pressure. With the rate of technological advancement in the world, power is beginning to shift toward firms and employers, away from employees. Given the substantial economic gains accessed by the implementation of algorithmic management, the proliferation of such systems is a when, not an if. However, it is crucial that regulatory authorities update labour regulations to reflect this evolving power dynamic, ensuring workers do not become subjugated in an increasingly automated workplace.

Automation and the Taxman

By Agastya Mohanty

Artificial Intelligence is getting out of hand. This is a broadly applicable statement that pursues the same tired rhetoric that nearly everyone has seen before. However, most people only view this statement with regards to workers and consumers, but not toward the other major stakeholder in any economy – the government.

AI has rapidly warped the global market – whether it be automated customer service, AI assisted coding or evaluation of data – machines are increasingly performing tasks that used to be performed by humans. All this technological innovation has assured gains in efficiency and economic growth, but it has also aroused a curious policy debate: should the government tax AI systems that replace human workers? The proposal, plainly stated, goes something like this: When companies replace human labour (the physical and mental effort taken to produce goods and services) with automated systems, they should pay a tax that would be similar to the payroll taxes that would have been collected if human labour had been involved in the production process. The rationale and justification behind this government action would be to account for the loss of tax revenue from worker income.

Proponents of this policy action argue that the inherent attribute of gain in government revenue is a net benefit to society. This is because, ideally, the government uses tax revenue to finance government expenditure towards combatting rising inequality, providing social services, and most importantly, into worker retraining programmes. With such a wide range of potential benefits, one can clearly consider the policy's advantages.

While this does sound appealing in theory, there are several caveats. Firstly, the tax should not constrain economic growth since technological innovation has always, according to precedent, produced large economic benefits. The risk of making the tax overly aggressive could discourage innovation and have disastrous impacts on long term growth. Costinot, A., & Werning, I. (2022) addresses this exact hypothetical. The economists analyse this policy decision using optimal tax theory. According to their model, firms choose between human labour and automation capital, the AI increases productivity but reduces demand for workers, and as a result, wages are pushed downward.

The paper's most important finding is that there should be a tax on automation and AI, however, it should be relatively small. They derive a value between 1%-3.7% of the value that the automation capital brings. This is intriguing as that represents a nearly insignificant proportion of the absolute value that the automation can actually provide. Thus, what does this suggest? To put it plainly, a small tax can slow the rapid growth of automation, to offset the wage losses without completely erasing any productivity gains.

Despite this, the policy's detractors still disparage the policy due to the implementation issues with this kind of tax. What exactly constitutes

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automation due to AI? Dissimilar to regular robots, many AI systems are embedded within both hardware and software tools across a plethora of industries. For instance, firms use AI to aid in the analysis of legal documents or improve the efficiency of their supply chains. Now, whilst they do make use of the AI, there is still some human effort involved. If the government aims to tax these "AI systems", regulators would need to come to a consensus as to the distinction between technologies that replace human labour and those that simply enhance it. A definition that is too broad results in firms being unfairly punished for the use of automation, and one that's too narrow in scoperesults in firms being able to comfortably circumvent the tax, effectively making the entire policy worthless. This is one of the primary reasons as to why there is no example of a large-scale implementation of a tax on AI today, as there is such an uncertainty regarding the efficacy of the policy.

Furthermore, another important consideration to make is the historical precedent set by technological innovation and employment. Throughout history, new technologies and innovations have consistently replaced human labour, whilst simultaneously birthing novel industries. When the industrial Revolution was just getting started, there were widespread concerns regarding mass unemployment and economic downturn, yet the economic impact of those innovations was massive – to the point where they are still being talked about today.

The same could be said about the steam engine or automobiles, or a dozen other examples. While in theory there is economic rationale behind this tax, the historical trend seems to say otherwise.

Perhaps, instead of fearing this brave new world, we adapt to it like we always have.

Not invisible Incentives

By Chirag Gope

If everyone has perfect essays, what is the point of the essay at all?

This question has become increasingly prevalent in the world as of late because of the development of AI. A software that was earlier deemed as a misguided science project can now write dissertations on science projects all on its own. This development has shaken up several industries, but perhaps most notable is its effect on the job market.

Essays were written by applicants for a job position ever since the required technology was developed, and for good reason. Essays are the easiest way to determine an individual's character, without having to undergo a lengthy interview process, allowing recruiters to understand if an applicant was fit for their job environment. However now, such a task is being delegated off to artificial intelligence models, which creates two problems. As its essays are superior to ours, every student uses artificial intelligence, and hence, will stagnate the development in their communication of ideas. This is an issue as every job on this planet requires a degree of communication skills. Lacking these skills could result in issues in efficiency down the line. However, more than that, the usage of AI for these essays leads to an inability to differentiate between applicants. As most AI essays sound quite similar in terms of their tone and advanced vocabulary choice, students are all going to elect to use AI for their essays, or risk the chance that their individual voice will get drowned out by the complex sentence structures and deep vocabularies AI models possess. These two issues directly relate to signalling theory.

Signalling theory is defined as a conceptual framework analyzing how one party (the signaler) reduces information asymmetry by credibly communicating hidden, unobservable qualities to another party (the receiver) through observable actions or signals. In simple terms, it's a theory that dictates how an individual/organization is able to indicate their credentials to another party, for example: Writing essays for job applications. Before the popularization of AI, a job application could indicate the type of applicant someone was, and each application had a high degree of personalization to them. Now that this personalization is gone, the process of recruiting becomes much more difficult as they face the risk of either hiring someone who utilized AI in their essay, or hiring someone who on paper, has much worse communication skills than the other candidates. This discrepancy in knowledge is known as information asymmetry, a situation where one party has greater material knowledge than another. The concept is primarily utilized in finance decisions, however they clearly have a role to play here as well.

Information asymmetry is best seen in the falling values of online degrees and conversely,

Not invisible Incentives (continued)

By Chirag Gope

the rising value of standardized tests and interviews. Due to the presence of AI, recruiters are now unable to tell the applicants skill in their own field. As AI can be used to take any online course and fulfil any requirements of an online university, such credentials become obsolete. The information asymmetry here forces the recruiters to accept tangible skills which can not be influenced by AI, and eliminate any skill thatcould potentially be faked using AI. This is best seen by standardized tests and interviews. Standardized test results, as they are carried out in testing centers, can not be tainted by AI, and hence are highly valued by recruiters. Interviews, by virtue of being a conversation, omit the crutch of AI, and can be used as a sign of an applicant's competence. Hence these two aspects of a resume have increased in importance. A drawback to the new importance of interviews is that individuals who are nervous or socially awkward suffer from the new requirements placed on them to perform exceptionally in these interviews. However, this idea could also lead to the same people developing their social skills for the sake of employment, increasing efficiency in the economy.

In conclusion, artificial intelligence clearly has an enormous impact on the job industry as a whole, forcing resumes and applicants alike to change to suit the times. That being said this shift could serve as a reminder that a human applicant's credentials can never be replaced by that of artificial intelligence, human ingenuity will always be valued more than its cheap imitation.

Cinema in the Age of Imitation

By Nayna Jha

AI's rapid advancements are putting a strain on the most crucial aspects of the film industry: creativity and originality. Movies act as a medium; a medium that projects raw, human perspectives from creators to viewers, making it an incredibly powerful art form for sharing authentic imagination. However, with artificial intelligence becoming a close substitute, not only is it raising concerns about the future of movies itself, but it is also creating inevitable economic consequences.

Prior to AI's sudden rise, there was already immense pressure on the movie industry due to fragmented consumer attention. Finite viewing time, the abundance of various types of content, and decreasing attention spans all worked together in switching viewers from traditional television, to social media platforms. This caused a plateau in viewing time, based on market momentum, with streaming and social apps capturing a much larger share. Now, with AI's overwhelming increase, this suppression in movie-watching is bound to increase further.

Recent trends are suggesting that AI will move towards hyper-personalised content and faster filmmaking, creating an opportunity for it to take control over creative production. From AI generating film ideas, to writing scripts, to creating movie visuals, to mimicking voice actors, the fear of job displacement in the movie industry is becoming a primary concern. Screenwriters, voice actors, VFX artists, animators and background actors all seem to be hanging on by a thread to not be swept away by modern technology, and this fear of substituting real labor with capital is becoming an unfortunate reality. Since advancements in technology like artificial intelligence reduce production costs by a great extent, studios will prioritize profit over quality. As a result, wealth will be concentrated in big tech companies and large studios, leaving small creators unprotected from AI flooding the market. The demand for labor in films is slowly dropping, and AI is becoming a cheaper, more 'convenient' substitute.

Although AI-generated content isn't advanced enough yet to drive irreversible disruption in film, there are absolutely no limits to how deeply it can alter the true art of storytelling established in movies. Even though it hasn't managed to completely replace workers yet, it still reduces bargaining power, causes wage suppression, reduces pay, and creates a certain level of unemployment. Additionally, it is widening the income gap between top-tier talent and support staff, and the barriers to entry are becoming higher. Therefore, not only are we giving AI the power to rewrite human experiences, we are also allowing it to change productivity and create a vacuum in the balance of power in labor markets.

Let's take an example. At the 97th Academy Awards, 'The Brutalist' won three Oscars: Best actor, Best Cinematography, and Best Original Score. This caused significant backlash, primarily due to the movie's extensive use of AI, and various critics argued that it decreased the film's authenticity. This shows that the anxieties around

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By Nayna Jha

AI are rooted in real concerns about the future of technology on the labor market, and its potentially disruptive effect on Hollywood.

The real threat for viewers is that it's becoming significantly harder to notice whether or not AI has been used in a film, due to its strong ability to mimic visuals, voices, and even ideas. This showcases AI's slow, but crippling effect on the movie industry. AI models are trained to project ideas based on films that already exist, which leads to recycled styles, and poses a risk of formulaic storytelling instead of emotional storytelling. Creativity is shifting from artistic capabilities to algorithmic optimisation in real time.

Even though AI is threatening to take over the film industry, true creativity can't be replicated. AI generates 'perfect' visuals, 'perfect' content, and a so-called 'perfect' film. That is the primary distinction between us and them. That is what makes original filmmakers win every single time. AI itself is 'perfect.' However, the raw and imperfect storytelling of an original film will always deserve higher praise.

Instead of fearing AI, we humans will just adapt to it like we always do. Despite AI's intimidating capabilities, it will never be able to replace original movie magic.

The Automation of White Collar work

By Akshay Swamy

White-collar work refers to professional, administrative, or knowledge-based jobs typically performed in office settings, often requiring higher education and specialized skills. When discussing the automation of white-collar work, the main issue is how AI changes the demand for labour, and the role of government policy in managing these changes.

Automation has been linked to routine manual labour and factory work. However, AI has expanded automation into areas that were thought to be safe as they required decision-making and education. For example, sorting data, making standard reports, setting up appointments, and answering common questions are all repetitive cognitive tasks that many white-collar jobs involve. AI systems can now do many of these tasks much more efficiently than human workers. Since AI can increase productivity, lower labour costs, and improve speed and consistency, businesses have a strong reason to use it. This has a big effect on the job market. Labour is a derived demand in economics, which means that businesses need workers because they help with the production of goods and services.

Certain types of labour may become less in demand if AI can perform some of a worker's tasks. This is particularly likely in jobs with predictable, rule-based tasks. An AI system might, for instance, create simple legal documents, review job applications, or respond to typical questions from clients. In these situations, basic or routine office jobs may require fewer employees. Some workers may lose their jobs, have their pay cut, or have to compete for fewer jobs. However, automation can change jobs rather than take them away. In many workplaces, AI is a backup for workers instead of a complete replacement. In other words, it helps workers instead of completely replacing them.

For example, doctors could use AI to look at medical scans faster while still making the final decision. Similarly, accountants could use AI to process data while still being able to understand what they find, give advice to clients, and use their own judgment. This could make workers more productive, and the need for highly skilled workers who are good with new technology could even go up.

This could lead to polarization in the job market, where demand for highly skilled workers who can manage, understand, and improve AI systems goes up, and demand for middle-skilled workers whose tasks are easier to automate goes down. Lower-paid service jobs that rely heavily on human interaction, such as caregiving or hospitality, may also remain relatively protected in the short term. The risk is that income inequality could rise if AI primarily benefits highly skilled workers and large corporations, while displaced workers face challenges in retraining or securing comparably profitable employment.
One can see a clear real-world example in finance, customer service, and the media. Banks increasingly use AI for fraud detection, credit assessment, and customer chat support. News organisations and marketing teams also use AI

The Automation of White Collar work (continued)

By Akshay Swamy

tools to draft content and analyse audience behaviour. These technologies save time and reduce costs, but they also reduce the need for some junior roles that once provided a path into these industries, showing that AI is already changing how firms organise production and employment.

Due to these effects, government policy is needed. One major response is investment in education and retraining. If automation takes jobs away from people, they need chances to learn new skills that are harder to automate, like critical thinking, problem-solving, communication, and digital literacy. Governments may also need to change how schools and universities work so that education keeps up with the changing needs of the job market. Policies like unemployment benefits, wage protection, and job transition programs can also help lower the social costs of new technology.

There is also a role for regulation. AI can make hiring and workplace decisions more efficient, but it may also produce biased or unfair outcomes if it is trained on flawed data. Due to this, governments may need rules to protect data, which is important for both fairness and public trust. If workers think that AI is not being used in a good way, they may be less open to new ideas.

In general, automating white-collar jobs has both benefits and drawbacks. It can raise productivity, lower costs, and support better decision-making. However, if the benefits aren't shared fairly, it could also lower the demand for regular office jobs and make inequality worse. So, the question isn't just whether AI will take jobs, but how governments and economies will handle the change. With the right policies, AI can help workers rather than taking their jobs, but without this kind of help, the job market could become less fair and less safe.

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