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Artificial Intelligence and the Labor Market: A Scenario-Based Approach
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A Scenario Approach
In a previous speech, I outlined two hypothetical scenarios describing how AI could evolve.7 In the first scenario, we see only incremental adoption that primarily augments what humans do today but still leads to significant and widespread productivity gains. In the second scenario, we see profound change, in which we extend human capabilities with far-reaching consequences.

Today, I will apply the same approach to analyze the potential effects of AI on the labor market. Of course, there is tremendous uncertainty about how AI will evolve and how it will affect the economy, as well as society more broadly. Amid this uncertainty, a scenario-based approach can give us a framework for thinking about the potential effects of AI on employment, real wages, and productivity, as well as for considering the possible role that government could play in influencing this transition.

Scenario 1: Incremental Progress
Let's start with the "gradual" scenario, in which new AI technologies are adopted at a brisk, but not a breathless, pace or advance quickly at first and then plateau—perhaps because of constraints imposed by computing resources, the exhaustion of novel training data, and rising energy consumption.

Under this scenario, AI primarily operates by automating some—but not all—tasks within many occupations. We've seen some of this task substitution happen already: Computer programmers rely on AI copilots to write code, allowing them to focus on higher-level tasks, while customer support agents can use chatbots to improve and expedite their responses.8 Lawyers draw on GenAI to conduct legal research, while AI-powered safety features improve the performance of human automobile drivers.

Under this scenario, as foundational models improve, novel use cases are discovered, and businesses continue to integrate AI into their operations, more and more occupations will be affected, and many jobs will use AI tools more intensively. As these technologies improve, even incremental change may allow AI to become accurate and cheap enough to replace some occupations altogether. It's hard to make predictions at this stage. But a plausible conjecture is that we could see, for example, fewer human programmers, lawyers, or commercial drivers. At the same time, most current occupations would persist in this scenario—albeit in modified and more productive forms.

Beyond existing occupations, general purpose technologies also encourage the creation of new occupations, fueled by new products and novel ways of doing business. It's difficult to envision the novel jobs that will replace the ones we might lose to an incremental AI scenario. But one possibility is that the future could bring us managers of AI agents, specialists in human–AI collaboration, ethicists, safety experts, and large numbers of people involved in adopting, maintaining, and educating about AI tools. Technology, and how we use a particular innovation, evolves in unpredictable ways, and we should expect to be surprised.

Under this scenario, jobs remain plentiful, real wages are buoyed by productivity gains, and employment and labor force participation remain high and could even rise, if strong wage growth entices new labor market entrants and if improvements in health care increase work capacity among older or disabled individuals. If the widespread adoption of AI proceeds gradually, then workers will have time to adjust, reducing the disruption to the labor market—though, as with previous general purpose technologies, AI would likely imply that some groups of workers experience a painful process of dislocation and transition.

Retraining could help here. A recent survey carried out by the Federal Reserve Bank of New York found that many businesses plan to retrain their workers to use AI rather than laying them off.9 In some cases, AI may disrupt career ladders by automating many entry-level tasks—such as reviewing legal documents or drafting code—that were historically performed by early-career workers. But if labor demand changes slowly enough, students and workers are more likely to have time to predict which skills will be marketable and to make and recoup human capital investments before their skills become obsolete.

What about the effect of AI on inequality? Some research suggests that GenAI may help less-productive workers catch up to their more-productive peers.10 That said, the AI economy will likely put a premium on digital skills, facility with new technologies, and adaptability. The precedent of the computer revolution suggests that highly educated workers may benefit most, boosting wage inequality—a phenomenon called "skill-biased technological change."11 Another possibility is that the labor share of income could decline, if capital owners benefit more than wage earners—for example, because the gains accruing from AI adoption go to large, highly capitalized firms whose technical capabilities, consumer networks, and training data allow them to develop state-of-the-art AI techniques.

Scenario 2: Transformation

Now let's consider an alternative scenario in which AI completely transforms the economy. As I described in my earlier speech, in this transformative scenario, humans employ AI to unleash their imagination and creativity—combined with robust investment in research and development—to make rapid breakthroughs that have the potential to improve our lives. With growth propelled by swift technological progress, society's resources would be vastly expanded, AI would spur revolutionary advances in health, and many individuals would enjoy more time for leisure activities.

Indeed, transformative AI could bring about a state of affairs that John Maynard Keynes famously envisioned almost a hundred years ago, one in which there are "ever larger and larger classes and groups of people from whom problems of economic necessity have been practically removed."12 At the same time, transformative AI could imply a much smaller role for human labor—a development that would entail sweeping social changes and profound challenges for government.

Under this scenario, AI would take over a broad range of existing jobs. As economist Anton Korinek writes, "AI systems advance toward mastering all forms of cognitive work that can be performed by humans, including new tasks that don't even exist yet."13 Building on developments we are already starting to see, improved chatbots and AI agents would outperform their human counterparts in activities ranging from customer support to medical diagnosis. Along similar lines, advanced robotics could increasingly substitute for human workers in manual and production jobs. Widespread automation would bring many benefits. The availability and quality of many services could increase markedly, and many less-desirable jobs—such as those involving tedious tasks or dangerous working conditions—could be transferred to machines.

What jobs would exist in this more transformative scenario? As in the more gradual scenario—and just as has happened in the past, when earlier general purpose technologies were adopted—we would see the emergence of new occupations. These would notably include jobs that involve managing the new AI-dominated economy. In addition, some existing occupations would likely persist, at least for some time. This would be the case for three key reasons. First, some jobs may prove especially hard to automate. For example, plumbers and mechanics rely on physical dexterity and adaptability to situations—attributes that machines may find difficult to replicate, or to replicate cheaply. Second, in some contexts, consumers may insist on a human touch. Patients may still want human doctors and therapists, while parents may want human teachers and caregivers to look after their children. Third, even when AI has the technical capability to carry out tasks, some jobs are likely to be protected by laws and regulations. For example, legal and political systems would likely continue to insist on human judges and elected officials. Eventually, however, an increasing share of current jobs may be automated. The technological frontier is moving quickly, consumers' preferences may change as they become more comfortable interacting with AI, and the regulatory landscape could evolve to provide broader roles for AI.

Comment: AI will be transformative. Community banks need to evaluate the risks and develop a strategy associated with implementing AI technology. Assessing factors like data privacy, cybersecurity, and the impact on customer confidence is crucial. Effective risk management strategies are vital to ensure that the advantages of AI (like enhanced efficiency and customer service) outweigh any downsides or vulnerabilities.

CBAK Insights (Ask Anything)

Q: Would there be any legal or compliance issues for a bank to distribute a warning statement similar to the one below when a customer deposits or cashes a check that seems unusual or suspicious?

"You are receiving this statement because you have requested a cash withdrawal from your account, or you are cashing a check. Due to the excessive amount of fraud currently happening in the banking industry we are taking every opportunity to warn our customers of scams occurring right here in our community. If anyone has contacted you asking you to withdraw this cash or cash this check, and they are instructing you to send the funds elsewhere and/or purchase gift cards or wire money - IT lS A SCAM. The most common financial scams involve a caller pretending to be from a government, representing a legal firm, or an agent of the lRS. They may threaten you with legal acta on, threaten physical harm to you or a family member, or try to convince you they are in trouble and need your assistance. Please DON'T BE A VICTIM. Never send cash, purchase gift cards or wire at the request of a caller you have never met. XYZ Bank staff are trained to assist you if you suspect you may be a victim of fraud."

A: Nothing in either federal or state rules and regulations would prevent you from alerting your customer about potential fraud. You could even remind your account holders that if a check they negotiated is returned unpaid it is THEIR liability.

Additionally, you may consider adding verbiage to your Wire Transfer Request Form alerting customers to potential fraud and their liability when sending a wire.

Just as a reminder, its best to have your own legal counsel review any contract language – including notices – before you start sending or posting.

Bank Management

	OCC Business Combinations Under the Bank Merger Act: Rescission: Interim Final Rule (05/08/2025) – Summary - The Office of the Comptroller of the Currency (OCC) has issued an interim final rule to rescind its 2024 final rule 1 related to its regulations for business combinations involving national banks and federal savings associations in 12 CFR 5.33. The agency also rescinded a policy statement issued at the same time as the 2024 final rule titled "Policy Statement Regarding Statutory Factors Under the Bank Merger Act" contained in an appendix to 12 CFR 5 subpart C. This bulletin rescinds OCC Bulletin 2024-28, "Business Combinations Under the Bank Merger Act: Final Rule." Note for Community Banks The regulatory amendments apply to all national banks, federal savings associations, and federal branches and agencies of foreign banks. The rescinded policy statement applied to insured national banks, federal savings associations, and federal branches of foreign banks Highlights The interim final rule restores provisions in 12 CFR 5.33 related to expedited review and the use of the streamlined business combination application. In addition, the interim final rule rescinds the policy statement that discussed the OCC's review of applications under the Bank Merger Act. The OCC welcomes comment on all aspects of the interim final rule, including information to include in any future policy statement.
	OCC Acting Comptroller of the Currency Discusses Agency Priorities (05/08/2025) – WASHINGTON—Acting Comptroller of the Currency Rodney E. Hood today discussed agency priorities at the Building Societies Annual Conference in Birmingham, England. In his remarks, Acting Comptroller Hood highlighted the Office of the Comptroller of the Currency's work to reduce regulatory burden, improve financial inclusion, support innovations in financial technology, and digital assets in the federal banking system. He also emphasized that banks and other financial institutions have a role in expanding economic opportunity, fostering trust, and building stronger, more inclusive communities. Related Links ▪ Remarks (PDF) ▪ Acting Comptroller of the Currency Rodney E. Hood ***Comment: In his first comments back in February, Hood touched on several topics about priorities that seemed not to have not changed much including financial inclusion, technology, cybersecurity and compliance with the Bank Secrecy Act.***
	CSBS Should Rescind Unlawful Preemption Rules (05/08/2025) – Washington, D.C. - Recent Executive Orders compel the Office of the Comptroller of the Currency (OCC) to rescind its

	preemption regulations, the Conference of State Bank Supervisors (CSBS) said today in a letter to Acting Comptroller Rodney Hood. “The OCC’s preemption regulations are clearly unlawful, inconsistent with Supreme Court rulings, and contrary to the public interest,” said CSBS President and CEO Brandon Milhorn in the letter. In February, President Trump directed federal agencies to rescind unlawful regulations, prioritizing any that are not based on the best reading of the underlying statutory authority. The OCC’s preemption regulations should be at the top of the list, CSBS said. The OCC’s preemption rules, finalized in 2011, ignore both the plain language and intent of the National Bank Act, which codifies the standard for when the OCC may preempt a state consumer financial law. That standard was reinforced by the U.S. Supreme Court’s ruling in Cantero v. Bank of America, N.A. ***Comment: Federal preemption in banking means that federal laws and regulations take precedence over state laws that would conflict with them, particularly when it comes to federally chartered banks vs. state chartered banks and their activities. This principle ensures a more uniform banking system nationwide and allows national banks to operate without the constraints of potentially conflicting state-level regulations.***

BSA / AML

	FinCEN Issues Alert on Oil Smuggling Schemes on the U.S. Southwest Border Associated with Mexico-Based Cartels (05/01/2025) – Today, the Financial Crimes Enforcement Network (FinCEN) is issuing an Alert in coordination with the Department of the Treasury's Office of Foreign Assets Control (OFAC) and the U.S. Drug Enforcement Administration, Federal Bureau of Investigation, and Homeland Security Investigations, urging financial institutions to be vigilant in detecting, identifying, and reporting suspicious activity connected to the Jalisco New Generation Cartel (CJNG), Sinaloa Cartel, Gulf Cartel, and other Mexico-based transnational criminal organizations smuggling stolen crude oil from Mexico across the U.S. southwest border into the United States. In recent years, fuel theft in Mexico, including crude oil smuggling, has become the most significant non-drug illicit revenue source for the Cartels. According to U.S. law enforcement authorities, the Cartels are using complicit Mexican brokers in the oil and natural gas industry to smuggle and sell crude oil stolen from Mexico’s Petróleos Mexicanos (Pemex) to complicit, small U.S.-based oil and natural gas companies operating near the U.S. southwest border. As part of these schemes, the Cartels are stealing billions of dollars of crude oil, fueling rampant violence and corruption across Mexico, and undercutting legitimate oil and natural gas companies in the United States. FinCEN's Alert provides an overview of methodologies and financial typologies associated with the Cartels’ oil smuggling operations, highlights red flag indicators, and reminds financial institutions of their reporting requirements under the Bank Secrecy Act. This Alert was issued concurrently with an OFAC sanctions action against Mexican individuals and companies linked to CJNG’s fuel theft and oil smuggling operations on the U.S. southwest border. FinCEN Alert (FIN-2025-Alert002): https://www.fincen.gov/sites/default/files/shared/FinCEN-Alert-Oil-Smuggling-FINAL-508C.pdf

	Treasury Press Release: https://home.treasury.gov/news/press-releases/sb0125 ***Comment: After a number of cartels were recently designated as Foreign Terrorist Organizations (FTOs), companies - and banks - doing business with Mexico in particular may need to adapt their compliance approaches when it comes to sanctions, money laundering, and related areas.***
	FinCEN Finds Cambodia-Based Huione Group to be of Primary Money Laundering Concern, Proposes a Rule to Combat Cyber Scams and Heists (05/01/2025) – WASHINGTON — Today, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) issued a finding and notice of proposed rulemaking (NPRM) pursuant to Section 311 of the USA PATRIOT Act that identifies Cambodia-based Huione Group as a financial institution of primary money laundering concern and proposes to sever its access to the U.S. financial system. Huione Group serves as a critical node for laundering proceeds of cyber heists carried out by the Democratic People's Republic of Korea (DPRK), and for transnational criminal organizations (TCOs) in Southeast Asia perpetrating convertible virtual currency (CVC) investment scams, commonly known as "pig butchering" scams, as well as other types of CVC-related scams. Given the money laundering risk posed by Huione Group, FinCEN is proposing to prohibit U.S. financial institutions from opening or maintaining correspondent or payable-through accounts for or on behalf of Huione Group. "Huione Group has established itself as the marketplace of choice for malicious cyber actors like the DPRK and criminal syndicates, who have stolen billions of dollars from everyday Americans," said Secretary of the Treasury Scott Bessent. "Today's proposed action will sever Huione Group's access to correspondent banking, degrading these groups' ability to launder their ill-gotten gains. Treasury remains committed to disrupting any attempt by malicious cyber actors to secure revenue from or for their criminal schemes." As described in the NPRM, for years, Huione Group has laundered proceeds of CVC scams, including CVC investment scams, and heists. Huione Group has set up a network of businesses, each playing a different role in its money laundering enterprise, that includes Huione Pay PLC, a payment services institution; Huione Crypto, a virtual assets service provider (VASP); and Haowang Guarantee, an online marketplace offering illicit goods and services. This network offers services ranging from an online marketplace selling items useful for carrying out cyber scams, to payment services in fiat currency and CVC frequently used for money laundering, as well as a recently developed stablecoin. FinCEN's investigation identified that, in aggregate, Huione Group laundered at least $4 billion worth of illicit proceeds between August 2021 and January 2025. Of the $4 billion worth of illicit proceeds, FinCEN found that Huione Group laundered at least $37 million worth of CVC stemming from DPRK cyber heists, at least $36 million from CVC investment scams, and $300 million worth of CVC from other cyber scams. The risks presented by Huione Group's association with illicit actors and transactions linked to illicit activity are compounded by either an absence of, or ineffective, anti-money laundering/know your customer (AML/KYC) policies and procedures among Huione Group's components. Despite publicly available information describing the use of Huione Group's various services by TCOs for scam activity, none of the three Huione Group components had published AML/KYC policies. Huione Group itself has even recognized this

	deficiency, detecting that the company's KYC capabilities were seriously insufficient after failing to identify that one of its components indirectly received funds from a DPRK heist. The NPRM is available here. Written comments on the NPRM may be submitted within 30 days of publication of the NPRM in the Federal Register. ***Comment: From to FDIC OIG : The FDIC Office of Inspector General has issued new scam alerts to inform banks and consumers about a common type of scam known as 'pig butchering.' This scam is named in reference to the practice of fattening a pig before slaughter. It is a type of confidence and investment fraud in which the victim is gradually lured into making increasing monetary contributions, generally in the form of cryptocurrency, to a seemingly sound investment before the scammer disappears with the contributed monies.*** ***Pig Butchering Consumer Scam Alert*** ***Pig Butchering Bank Scam Alert***

Deposit / Retail Operations

	FTC Rule on Unfair or Deceptive Fees to Take Effect on May 12, 2025 (05/05/2025) – *FTC staff has published FAQs to help inform consumers and businesses about the Rule* Staff of the Federal Trade Commission published Frequently Asked Questions (FAQs) designed to provide consumers and businesses with information regarding the agency's Rule on Unfair or Deceptive Fees, which takes effect on May 12, 2025. ***Comment: While not specific to banks, the rule nonetheless has some good guidance like ensuring that all advertised prices state the full price, including required fees, renaming fee types to transparently identify the purpose of fees and charges, and adopting clear and consistent language - and no 'chasing the asterisk.'***

Lending

	FRB Consumer Credit - G.19 (05/07/2025) – Beginning with the May 2025 G.19 Consumer Credit statistical release, scheduled to be published on July 8, 2025, consumer credit estimates for the nonfinancial business sector will be discontinued beyond 2019. Total balances of consumer credit will include the estimates of nonfinancial business holdings through 2019. For more information, please see the announcement posted on April 7, 2025. March 2025 Consumer credit increased at a seasonally adjusted annual rate of 1.5 percent during the first quarter. Revolving credit increased at an annual rate of 2.3 percent, while nonrevolving credit increased at an annual rate of 1.2 percent. In March, consumer credit increased at an annual rate of 2.4 percent.