REGULATING THE AI ECONOMY

The Search for the Right Regulatory Lever

Lessons from the Federal Reserve on Managing AI-Driven Unemployment

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This paper presents a policy framework for discussion. It does not constitute legal, financial, or investment advice. The views expressed are those of the authors and do not represent any affiliated organizations.

Abstract

Artificial intelligence is poised to trigger labor disruption at a scale existing regulatory tools are not equipped to manage. We propose a pragmatic, macro-level control inspired by the Federal Reserve's monetary policy: regulate the rate of deployment by pricing and pacing access to compute power. In practice, this means using data-center electricity consumption as the measurable policy lever for all very high-intensity compute, with AI as the principal focus and policy objective, to modulate deployment speed and preserve human employment and relevance.

Why not regulate "AI" directly? Because AI cannot be durably or cleanly defined in statutory text without either overreach or loopholes. Yet AI, despite its conceptual fluidity, runs on a universal, tangible input: electricity. Power use can be measured at data centers, scales with model size and training/inference intensity, and requires no legal definition of "AI." As with interest-rate policy that steers the whole economy without naming hospitals or factories, a power-based approach steers all high-compute activity, and thereby AI, while remaining technology-agnostic and empirically testable.

Implementation would combine progressive taxation on data-center electricity with tradable energy quotas, complemented by preferential pricing or rebates for firms that maintain or expand human employment. This shifts today's economic calculus away from wholesale labor substitution, steering AI toward augmentation rather than automation.

Like the Fed's century of iterative refinement, AI governance will demand decades of institutional learning. Power consumption is a workable starting proxy that can evolve as the technology and evidence base mature. The alternative unconstrained acceleration risks extreme inequality and social fracture. The stakes are existential: channel AI toward sustained human relevance, or drift into technological feudalism.

1. The Federal Reserve Model: Understanding the Regulatory Lever

The Federal Reserve operates through one of the most sophisticated regulatory mechanisms in modern economics. By setting the federal funds rate, the interest rate banks charge each other for overnight loans, the Fed creates ripple effects throughout the entire financial ecosystem. When rates rise, borrowing costs increase for companies and consumers, cooling economic activity. When rates fall, cheaper credit stimulates investment and spending.

The system's power lies in its interconnected mechanisms: markets quickly incorporate Fed signals, arbitrage maintains rate consistency across the economy, and credit allocation directs capital to productive uses. This creates macroeconomic management through a single, adjustable lever [1] [2].

Crucially, the Fed operates under a dual mandate: maintaining price stability (around 2% inflation) and maximum employment [3]. This framework recognizes that these goals are interconnected yet sometimes in tension, requiring careful balance. The Fed doesn't distinguish between different uses of credit, hospitals expanding facilities, factories buying equipment, or families purchasing homes all face the same rate environment. The broad application allows the Fed to learn empirically how different sectors respond and refine policy over time.

2. The Human Dimension: Why Work Matters Beyond Income

Universal Basic Income (UBI) has emerged as a leading response to AI-driven displacement, providing unconditional cash payments to all citizens. Recent pilots show promising results: Stockton's SEED program found recipients experienced reduced anxiety and improved employment outcomes, while Finland's experiment reported better mental health and autonomy [4] [5]. However, UBI addresses only the economic dimension of work.

Extensive psychological research reveals humans have deep needs that work traditionally fulfills. Self-Determination Theory identifies requirements for autonomy, competence, and relatedness [6]. Flow Theory suggests humans are happiest in challenging activities matching their skills [7]. Viktor Frankl's work emphasizes the human search for meaning [8]. Anthropological studies show hunter-gatherer societies worked 2-3 days weekly for subsistence, suggesting modern schedules

aren't naturally required for fulfillment [9]. David Graeber argues much modern work maintains social structures rather than fulfilling genuine human needs [10].

Philosophical traditions reinforce this complexity. Aristotle distinguished between labor for survival and higher activities necessary for flourishing [11]. Hannah Arendt's framework separated labor, work, and action, each serving different human purposes [12]. Modern research on retirees and lottery winners confirms humans inherently seek purpose beyond financial security [14] [15].

The consensus identifies six core human needs often met through work: meaningful activity, purpose, social connection, challenge, structure, and recognition. These can be fulfilled through employment, parenting, volunteering, creative pursuits, or community leadership. However, fulfilling these needs depends entirely on societal structure and resource distribution. If AI development concentrates power in a few hands, the foundations enabling human agency may be systematically undermined [18].

3. The Core Challenge: Oligarchy Risk and Social Disruption

The AI revolution threatens unprecedented power concentration. Unlike previous technologies, AI development requires enormous capital investments affordable only to a few entities, OpenAI, Google, Meta, Anthropic, as exemplars. If AI becomes the primary value creation source, its owners could form a new ruling class where returns flow exclusively to capital rather than labor.

Network effects exacerbate this concentration. AI systems improve with more data and usage, creating winner-take-all dynamics where few platforms dominate entire sectors. Simultaneously, AI threatens social stratification based on expertise. When AI can perform surgery, write legal briefs, and conduct research, traditional status markers disappear. Our merit-based society relies on education and professional achievement determining social position; if these become irrelevant, society loses fundamental organizing principles.

This represents something qualitatively different from historical technological transitions. AI potentially affects all human cognitive labor simultaneously, breaking historical patterns where new jobs emerged from technological advance. The psychological needs identified earlier, autonomy, competence, purpose, cannot be sustained in a society where a technological oligarchy controls production and most humans are relegated to dependency. The question becomes not whether to regulate AI, but how to design mechanisms that prevent this outcome while preserving human relevance [18].

4. Why Traditional Regulatory Approaches Fail

The Fed's power stems from controlling money's price and quantity, creating direct causal links throughout the economy. AI, conversely, is not a centralized commodity but a technology adopted organically by millions of entities in countless ways. There's no single "AI rate" to adjust, and rapid technological evolution prevents standardized quantification.

Ratio-Based Metrics Fail

Proposed measures like Human-to-AI ratios or AI compute per capita face severe limitations. Enforcement is nearly impossible, auditing every company's "AI Colleagues per Team" requires deep access to internal systems and constant monitoring of dynamic metrics. Global competitiveness creates races to regulatory bottoms as companies relocate to lenient jurisdictions. The pace of change outstrips regulatory capability; by the time regulations are implemented, target technologies become obsolete. Even defining "AI" presents endless challenges, does an Excel macro count? A smart thermostat?

Soft Governance Strategies Also Fall Short

Alternatives like human-in-the-loop requirements, tax incentives for human-AI collaboration, workforce retraining programs, and ethical guidelines encourage desired behaviors but lack the direct causal power needed to prevent wholesale labor displacement. These approaches acknowledge the impossibility of direct technological control but provide no effective brake mechanism.

The failure of these approaches points to a critical insight: effective AI regulation requires a lever that is both measurable and directly connected to AI's fundamental constraints, targeting the physical bottleneck all AI systems share regardless of implementation [18].

5. Power Consumption: The Breakthrough Regulatory Lever

Power consumption emerges as the solution. Unlike abstract metrics or enforcement-challenged ratios, electricity represents AI's most tangible and universally required resource, one governments already monitor and can directly control [16].

Three Crucial Advantages

- **Measurability and Centralization:** Electricity usage can be metered directly at data centers, providing clear, auditable control points through existing utility infrastructure.
- **Scale Correlation:** Power consumption directly correlates with AI operations' scale and intensity. Training large models and running billions of queries requires immense electricity. Regulating power effectively regulates AI system size without defining "AI."
- **Universal Application:** Like the Fed affecting the entire economy without distinguishing hospitals from factories, power-based regulation affects all high-compute activities uniformly, AI training, cryptocurrency mining, cloud computing, scientific research.

Implementation Mechanisms

- **Progressive Taxation:** Escalating taxes on data center electricity consumption with higher rates for greater usage, creating direct disincentives for runaway automation.
- **Energy Quotas:** Allocated annual energy amounts for high-compute activities, similar to carbon credits, with tradeable quotas enabling market-based resource allocation.

Enforcement and Control

Enforcement would be dramatically simpler than ratio-based systems. Utility companies report data center usage to regulatory bodies. Smart grid technology enables real-time monitoring, making concealment difficult. Power bills provide easily auditable trails.

Market incentives would be specifically designed to preserve human employment: companies gain strong financial motivation to maintain human workers, innovate in human-AI collaborative systems rather than pure automation, and demonstrate job preservation to qualify for lower energy rates. This creates direct economic pressure where maintaining human workers becomes cost-advantageous compared to pure AI automation, fundamentally altering the current calculus favoring wholesale replacement.

Learning Through Broad Application

Like monetary policy, this framework operates through broad, economy-wide effects rather than micromanaging use cases. The regulatory body studies aggregate market responses: How do companies adapt deployment strategies? Which sectors maintain employment? How do innovation patterns shift? This empirical learning mirrors how the Fed evolved its understanding, through decades of implementation, observing responses, and gradually refining approaches based on real-world feedback [18].

Limitations

Countries with cheap energy could become AI havens, though major economies face similar unemployment concerns and may find cooperation advantageous. Innovation might slow as large model training becomes more expensive, but this directly serves the goal of preventing rapid job displacement. Perfect granular control isn't necessary, just as the Fed manages the economy without distinguishing every credit use, AI regulation can succeed through broad application and empirical learning.

International Applicability

This regulatory framework extends naturally beyond the United States. The European Central Bank operates through similar interest rate mechanisms to manage the Eurozone economy, making the Federal Reserve analogy equally applicable. Notably, current EU AI regulation (the AI Act) focuses primarily on content safety, transparency, and fundamental rights protection, with minimal attention to labor market impacts or unemployment prevention. Power-based regulation would complement rather than conflict with these existing frameworks, addressing the economic dimension that current regulations overlook. European countries' existing experience with energy regulation and carbon markets, combined with their tradition of stronger labor protections, may actually make implementation more politically feasible. International coordination between major economies (US, EU, China) becomes essential, as all face similar unemployment concerns that could align their regulatory interests despite competitive pressures.

6. Preserving Human Agency: The Path Forward

UBI, while potentially necessary, could fundamentally alter what humans have been since civilization's beginning. The shift from societies organized around work and achievement to ones based on universal entitlement may be too profound to absorb rapidly. Psychological, social, and cultural foundations built over millennia could collapse faster than alternative structures develop.

Rather than accepting wholesale replacement, regulatory approaches should prioritize human-AI collaboration, potentiating humans through AI enhancement rather than facilitating replacement. Power-based regulation can be calibrated to encourage applications that enhance human productivity. Tax structures can favor companies demonstrating collaboration over pure automation. Energy quotas can prioritize AI applications with clear human benefit over those merely reducing labor costs.

While power consumption regulation lacks the elegant simplicity of Fed interest rates, it offers the best available approach. The alternative, unregulated development leading to extreme wealth concentration and social collapse, presents far greater risks than imperfect regulatory attempts.

7. Conclusion: An Evolutionary Approach

The Fed's history reveals no straight path from its 1913 beginning through the Great Depression, adoption of Fed Funds in the 1950s, Volcker's monetarism in the 1980s, to modern inflation targeting [17]. The Fed evolved through decades of experience, crisis, and refinement.

AI regulation should follow a similar evolutionary trajectory. We don't know if power consumption will become the main lever, but it serves as a workable starting point. The journey may involve failed attempts, unexpected crises, and gradual refinement, much like the Fed's century-long evolution. The key insight: this won't happen overnight; it requires institutional learning, crisis management experience, and gradual refinement of both tools and understanding.

The ultimate goal is preserving human agency and dignity while harnessing AI's benefits. This requires moving beyond replacement paradigms toward sophisticated co-existence models. The light at the end of the tunnel isn't inevitable human obsolescence, but the possibility of thoughtful regulation enhancing rather than replacing human potential.

Success demands unprecedented international cooperation, adaptive frameworks, commitment to human-centered development, and patience for institutional learning. The stakes couldn't be higher: a future of human relevance enhanced by AI, or technological feudalism where humans become obsolete dependents of their digital creations.

About the Authors

Hernán Asorey is Co-Founder and Managing Partner of AVC Turing. He brings practitioner-level expertise from three of the defining technology organizations of the AI era. At Salesforce, he served as the company's first Chief Data Officer, launching the Einstein AI platform and earning recognition from the World Economic Forum at Davos and a dedicated feature in Marc Benioff's book *Trailblazer*. At Microsoft, he partnered with OpenAI to deliver the first enterprise-ready generative AI copilots and led strategic alliances that helped define how large enterprises adopt AI at scale. At Google, he directed global data science and engineering, overseeing the experimentation and measurement infrastructure across the company's core products. He serves on the boards of Contentsquare, Klaviyo (NYSE: KVYO), Alation, Syncro, Faros AI, and Trebellar, was named to the HITEC 100 in 2021, and is a Stanford GSB alumnus.

Asorey's perspective on AI governance is grounded in the conviction that effective policy must be built from infrastructure up. The binding constraints on AI advancement are not conceptual but physical: energy, compute, and the organizational systems that deploy models at scale. Regulatory frameworks that ignore this architecture will fail at implementation. His early career as a university lecturer in Buenos Aires reinforced a lifelong commitment to making complex systems legible to the practitioners who must navigate them.

Pablo Venturino is Co-Founder and Managing Partner of AVC Turing. His academic foundation spans computer science, applied mathematics, and economics, a combination that shaped a career built around the design logic underneath complex financial systems. Over two decades on Wall Street, he led the Investment Banking team at ABN AMRO in New York, advising corporations and sovereign clients through cross-border transactions, restructurings, and episodes of acute global market stress. That experience gave him a practitioner's understanding of how capital flows respond to policy signals, and where well-intentioned regulatory frameworks break down under real-world pressure.

After co-founding White Bridge, Venturino joined forces with Asorey to establish AVC Turing with a specific mandate: to give international sophisticated investors structured access to the private companies reshaping AI, aerospace, and critical infrastructure. His analysis of AI governance is shaped by that structuring lens. The question he brings to any regulatory proposal is not whether it is theoretically coherent, but whether it holds under the pressure of real capital flows, sovereign interests, and cross-jurisdictional enforcement. The power-consumption framework proposed in this paper is precisely the kind of durable, measurable lever that meets that test.

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