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Nicoletta Corrocher a
Daniele Moschella b
Jacopo Staccioli c,b
Marco Vivarelli c,d,e

a ICRIOS, Bocconi University, Milan, Italy.
b Institute of Economics, Sant’Anna School of Advanced Studies, Pisa, Italy.
c Department of Economic Policy, Catholic University of the Sacred Heart, Milan, Italy.
d Maastricht Economic and Social Research Institute on Innovation and Technology, UNU-MERIT, Maastricht, The Netherlands.
e Forschungsinstitut zur Zukunft der Arbeit GmbH (IZA), Bonn, Germany.
Innovation and the Labor Market: Theory, Evidence and Challenges

Nicoletta Corrocher\textsuperscript{a}       Daniele Moschella\textsuperscript{b}
Jacopo Staccioli\textsuperscript{c,b}       Marco Vivarelli\textsuperscript{c,d,e,f}

Abstract

This paper deals with the complex relationship between innovation and the labor market, analyzing the impact of new technological advancements on overall employment, skills and wages. After a critical review of the extant literature and the available empirical studies, novel evidence is presented on the distribution of labor-saving automation (namely robotics and AI), based on natural language processing of US patents. This mapping shows that both upstream high-tech providers and downstream users of new technologies—such as Boeing and Amazon—lead the underlying innovative effort.

Keywords: Innovation; Technological Change; Skills; Wages; Technological Unemployment

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\textsuperscript{a}: ICRIOS, Bocconi University. Via G. Roentgen, 1, 20136 Milan, Italy.
\textsuperscript{b}: Institute of Economics, Sant’Anna School of Advanced Studies. Piazza Martiri della Libertà, 33, 56100, Pisa, Italy.
\textsuperscript{c}: Department of Economic Policy, Catholic University of the Sacred Heart. Largo Fra Agostino Gemelli, 1, 20123, Milan, Italy.
\textsuperscript{d}: Maastricht Economic and Social Research Institute on Innovation and Technology, UNU-MERIT, Boschstraat 24, 6211 AX Maastricht, The Netherlands.
\textsuperscript{e}: Forschungsinstitut zur Zukunft der Arbeit GmbH (IZA), Schaumburg-Lippe-Strasse 5-9, 53113 Bonn, Germany.
\textsuperscript{f}: To whom correspondence should be addressed: marco.vivarelli@unicatt.it
1. Introduction

While technological progress is unanimously considered as the main driver of productivity gains and ultimately economic growth, the relationship between innovation and the labor market is a much more controversial issue, since substitution and complementary forces are simultaneously at play, both in terms of the overall employment and wage impact of innovation and its effects on specific occupations, skills and tasks.

Indeed, nowadays the world economy is on the edge of a new technological revolution, dramatically accelerated in the direction of automation by the pervasive diffusion of robots and Artificial Intelligence (AI) (Brynjolfsson and McAfee, 2014; Frey and Osborne, 2017; Acemoglu and Restrepo, 2019). Henceforth, the fear of massive technological unemployment and increasing inequality characterizes the current debate.

However, the relationship between technological change and employment is a very old and “classical topic” and the debate about the possible occurrence of “technological unemployment” cyclically comes out in ages of both radical technological change and considerable unemployment levels, such as the current one (Staccioli and Virgillito, 2021a,b). On the other hand, in the history of modern economies, periods of intensive automation have often coincided with the emergence of new jobs, tasks, activities and industries. Therefore, both “substitution” and “complementarity” forces are at play and the challenging questions are related to the overall impact of innovation on the level and composition of employment: is technology labor-friendly or labor-threatening? Which skills and tasks are displaced and which ones are expanding? Which is the ultimate effect in terms of wages and income distribution?

Given this context, this paper aims to unfold the following issues. In the next section, a theoretical framework will be proposed and critically discussed: in particular, the direct labor-saving impact of process innovation will be opposed to the possible market compensation mechanisms and the labor-friendly nature of product innovation. Section 3 will move to the empirical evidence and will focus on firm level analyses, discussing the extant literature on the links between innovation (automation) on the one side and employment, skills and wages on the other side. Section 4 will discuss novel evidence on the geographical and sectoral distribution of labor-saving innovation, on the basis of a textual analysis applied to US patents. Finally, Section 5 briefly concludes.

2. A theoretical framework

To evaluate the overall effect of technological change on employment, different direct and indirect mechanisms must be taken into account.
In general, the innovative effort is focused on reducing production costs as it happens in the case of process innovations. The aim is producing the same amount of output, reducing the use of production inputs, mainly labor; therefore, the very first direct effect of a process innovation is labor-saving, by definition.

However, since the XIX century, economists have put forward a theory that Marx called the “compensation theory” (see Marx, 1961, vol. 1, chap. 13; Marx, 1969, chap. 18; Say, 1964; Ricardo, 1951, chap. 31). This theory was based on different market compensation mechanisms which were generated by technological change itself and which might counterbalance—partially or entirely—the initial labor-saving impact of process innovation (see Freeman et al., 1982; Dosi, 1984; Petit, 1995; Vivarelli, 1995, chaps. 2 and 3; Vivarelli and Pianta, 2000, chap. 2; Pianta, 2005; Vivarelli, 2013, 2014; Dosi et al. 2022). This theory will be discussed in detail in this Section.

Moreover, the way mainstream economists look at technological change is often limited to the obtained efficiency gains in input-output relationships, generally embedded in a standard production function (for instance, a Cobb-Douglas). On the one hand, this view may help in our understanding of both the productivity gains obtained by the economic systems over time and the secular shifts of employment away first from agriculture and then from industrial sectors (de-industrialization, see UNIDO, 2013). On the other hand (leaving apart legitimate epistemological concerns in using a traditional production function approach), the sole focus on input-output efficiency gains appears quite narrow, namely limited to process innovation (and so neglecting intangible R&D investments and product innovation, see Vivarelli, 1995, Edquist et al., 2001; Pianta, 2005), mainly implemented through “embodied technological change”, that is machinery incorporating new technologies (such as robots in present time, see Barbieri et al., 2019; Pellegrino et al., 2019; Barbieri et al., 2020). Indeed, in so doing this view only points to the initial employment substitution effect, neglecting possible complementary (labor-friendly) impacts which may arise from R&D investments and product innovation (see below).

Let us start from singling out the main market forces which can (potentially) counterbalance the initial labor-saving impact of process innovation (and then scanning them critically).

Indeed, from the very beginning of the history of economic thought (see Vivarelli, 1995, 2014) classical economists (with the notable exception of Karl Marx) have provided a theoretical framework (the so-called “compensation theory”) able to figure out how both general equilibrium and partial equilibrium forces may restore steady state full employment in the long-run. The main point put forward by the economic analysis is that when a process innovation is introduced, the same technological change triggers market compensation mechanisms which may counterbalance the initial labor-saving impact of innovation (Freeman et al., 1982; Freeman and Soete, 1987; Simonetti et al., 2000; Vivarelli, 1995, 2015). These countervailing forces can be classified as follows.
Compensation via new machines

If new machines (say robots) are adopted widely, they might replace workers in some or all of their tasks. Nevertheless, in order to have robots available, additional production is needed. As a consequence, a sectoral shift of workers from the downstream robot-using industry towards the upstream robot-producing sectors may counterbalance the initial negative effect on employment (Dosi et al., 2021). This mechanism can be represented in a general equilibrium model, where compensation takes the form of inter-sectoral shifts in employment (see, for instance, the role played by tractors in the dramatic reduction in agriculture employment in the first half of the past century).

However, there are at least three counter-arguments with regard to this mechanism. Firstly, profitability requires that the total cost of labor associated with the construction of the new machinery has to be lower than the total cost of labor displaced by the new capital goods. Secondly, labor-saving process innovation spreads around within the capital goods sector, as well. For instance, nowadays, robots are used to produce robots and so this compensation mechanism can be end out into an endless upward shifting of a possible labor-friendly effect which eventually turns out to be very limited. Thirdly and more important, the new machines can be implemented either through additional investments or simply by substitution of the obsolete ones (scraping). In the latter case—which is indeed the most frequent one—there is no compensation at all (Vivarelli, 2013).

Compensation via decrease in prices

The productivity increase determined by the broadly adoption of machinery and robots able to run automated tasks might induce a decline of the average production costs. This effect, under the strong assumption of highly competitive markets, can be translated into a subsequent reduction of prices. Lower prices should determine a higher demand which might induce new hiring for labor in non-automated tasks (Acemoglu and Restrepo, 2018b). This mechanism operates both in a partial equilibrium setting (where decreasing prices implies an increase in the demand for the sector directly affected by process innovation) and in a general equilibrium framework (where the larger purchasing power due to decreasing prices in sector $i$ is actually spent in sector $j$).

Obviously enough, this line of reasoning does not take into account possible demand constraints: for instance, pessimistic expectations by investors and households may involve a delay in expenditure decisions and a lower demand elasticity. If such is the case, this compensation mechanism is dramatically hindered and technological unemployment becomes structural: in fact, since process innovation are continuously introduced in the economy, a delay in compensation is sufficient to create a component of unemployment that persists over time. Moreover, the effectiveness of the mechanism “via decrease in prices” depends on the hypothesis of perfect competition. If an oligopolistic regime is dominant, the whole compensation is strongly weakened since cost savings are not necessarily and entirely translated into decreasing prices (Vivarelli, 1995; Feldmann, 2013).
Compensation via re-investment of extra-profits

The accumulated extra-profits which may emerge in non-perfectly competitive markets (where the elasticity between decreased unit costs and subsequent decreasing prices is less than one, limiting the scope of the previous mechanism) may be invested into capital formation, expanding both the productive capacity (supply) and the intermediate demand, in both cases implying an increase in employment. As was the case of the previous mechanism, this market force also operates both in a partial equilibrium framework (where additional profits are invested in the same sector affected by technological change) and in a general equilibrium one (where diversified companies may invest the extra-profits in a different sector).

However, also this compensation mechanism (“via new investments”) is based on an apodictic assumption: that accumulated profits due to innovation are entirely and immediately translated into additional investments. In fact, cautious or even gloomy expectations (the so-called “animal spirits”, as defined by Keynes) may involve the decision either to cancel investment plans (diverting the obtained profits into purchasing luxury goods) or to postpone them; here again, a substantial delay in compensation may imply structural technological unemployment. Moreover, the intrinsic nature of the new investments does matter; if these are capital-intensive and labor-saving themselves, “compensation effects […] operate only imperfectly and often with long delays” (Freeman et al., 1982, p.189).

Compensation via decrease in wages

With regard to the labor market, the technological unemployment generated by the initial labor-saving effect leads to an excess of labor supply which might determine a reduction of wages; the consequent labor demand increase is supposed to re-equilibrate the labor market and absorb the initial labor supply surplus. Although originating within the labor market, this mechanism operates at the level of the entire economy and can be fully captured only by a general equilibrium setting.

This mechanism (“via decrease in wages”) clashes against the Keynesian theory of “effective demand”: while—in a partial equilibrium framework—one expects that a decrease in wages may induce firms to hire additional workers, in a general equilibrium framework it must also to be taken into account that the consequent decreasing aggregate demand may lower employers’ business expectations and so their willing to hire additional workers; depending on which of these effects will prevail, total employment in the steady-state may be higher or lower than in the initial stage. Moreover, this mechanism assumes perfect substitutability between capital and labor and this is not often the case, especially when cumulative, irreversible, path-dependent and localized technological progress is going on (Atkinson and Stiglitz, 1969; Freeman and Soete, 1987; Capone et al., 2019).

Compensation via new products

As emphasized by Schumpeter (1912) and briefly mentioned above, technological change cannot be reduced to the sole (potentially labor-saving) process innovation. Indeed, the introduction of new products entails the
raise of new branches of production and stimulates additional consumption and employment. For instance, Dosi and Virgillito (2019) and Acemoglu and Restrepo (2019) suggest that AI—since it is not just a narrow set of technologies with specific, predetermined applications and functionalities—can be deployed for much more than automation. With AI applications creating new tasks for labor (for instance in education, healthcare, augmented reality), there would be potential gains in terms of labor demand. This compensation mechanism can actually be considered an alternative form of technological change, often neglected by the standard economic analysis. Although captured by a partial-equilibrium analysis (since new products creates new industries or increase differentiation within a given industry), this kind of technological change may imply huge labor-friendly impacts (think about the introduction and diffusion of the automobile in the past century). This compensation “via new products” is often called by the current literature “reinstatement effect” (see Acemoglu and Restrepo, 2019 and Hötte et al., 2022).

However, even the labor-friendly nature of product innovation needs to be qualified. First, the intensity of its impact depends on the weight that new products have in the baskets of consumption and on the income elasticities of their demand. Second, goods which are new products for those producing them might well represent efficiency enhancing processes for their users (robots are an example). Third, in order to exert a compensating effect, new products should not exclusively replace obsolete ones: if new products just cannibalize the sales of older ones, the net result might be ambiguous (Katsoulacos, 1986; Vivarelli, 1995).

Interestingly enough, the current economic debate on the labor market consequences of automation closely resembles the “classical” compensation theory. In particular, the main reference is the theoretical framework recently designed by Acemoglu and Restrepo (2018a; 2018b, 2019; 2020; AR in what follows); since it is extremely influential, it deserves a closer critical scrutiny.

The AR model moves from a “displacement effect” triggered by a process innovation (for instance the introduction of robots) affecting a workforce mapped in terms of tasks. These tasks are ordered (continuously) by their degree of “automatability”; in more detail, tasks can be automated or not, depending on relative factor prices and the elasticity of substitution between capital and labor:

“When the wage rate is above the opportunity cost of labor (due to labor market frictions), firms will choose automation to save on labor costs” (Acemoglu and Restrepo, 2018a, p. 1492).

Therefore, the employment technological shock is mediated by relative factor prices. This has important implications: on the one hand, innovation is not considered in its intrinsic nature (as in a Schumpeterian approach) but is actually “induced” by market prices; on the other hand, the compensation mechanism “via decrease in wages” is put forward in a very conventional way, as previously discussed (see above). Since the relative price of labor (in contrast with capital) is driving the entire process of task substitution, it also follows that:
“These economic incentives then imply that by reducing the effective cost of labor in the least complex tasks, automation discourages further automation and generates self-correcting force towards stability” (Acemoglu and Restrepo, 2018a, p. 1526; see also Acemoglu and Restrepo, 2019, p. 9).

A second main self-correcting force formalized by the AR model is what they call the “productivity effect”: “[…] capital performs certain tasks more cheaply than labor used to. This reduces the prices of the goods and services whose production processes are being automated, making households effectively richer, and increasing the demand for all goods and services.” (Acemoglu and Restrepo, 2018b, p. 6).

As the reader may well recall, this is exactly what classic and neoclassic economists call the compensation mechanism “via decreasing prices” (see above). Obviously enough, the “productivity effect” is more or less powerful, according to the very nature of the implemented technologies: in the case of the so-called “so-so technologies” (see Acemoglu and Restrepo, 2019, p. 10; Acemoglu, 2021, p. 22), the impact in terms of productivity may result particularly limited.

A third self-correcting correcting mechanism put forward by AR is “capital accumulation” which, “[…] triggered by increased automation (which raises the demand for capital) will also raise the demand for labor” (Acemoglu and Restrepo, 2018b, p. 1).

This is very similar to what discussed above as the compensation mechanism “via new investments”. Taken together, the productivity and capital accumulation effects can be considered as “real income effects”, accordingly to Hötte et al. (2022).

Finally, a fourth main self-correcting force in the AR model is the so-called “reinstatement effect”: “We argue that there is a more powerful countervailing force that increases the demand for labor as well as the share of labor in national income: the creation of new tasks, functions and activities in which labor has a comparative advantage relative to machines” (Acemoglu and Restrepo, 2018b, p. 2)

For instance, this applies to education, healthcare, augmented reality (see Acemoglu and Restrepo, 2022, pp. 29–30). Although proposed in a peculiar way, this countervailing force implicitly refers to the compensation mechanism “via new products”, which is also discussed above. Agrawal et al. (2019) provide different examples of new tasks associated to new products associated with the application of AI and machine learning, such as medical devices for brain surgery, machine learning algorithms used in academic research in fields external to computer science (economics being an example), AI applications to predict the
trajectories of space debris. In general terms, new products in the AI domain may generate complementary effects, resulting in an increase in the demand for particular tasks/occupations/workers.

As can be seen, the AR framework can be considered a formalization of the compensation theory put forward by the founders of the economic discipline (see above). Interestingly enough, both the Marxian critique and the rejection of Say’s law put forward by Keynes are totally neglected in re-proposing the classical compensation theory. As a consequence, all the theoretical critiques and the possible hindrances related to market failures discussed above fully affect the AR framework; in more detail, the major shortcomings of the AR approach are the following.

Firstly, as common to the standard economic approach, innovation is not explicitly treated in their model, but assumed as exogenous in nature (albeit characterized by a pace of implementation fully responsive to market forces, in accordance with the standard “induced bias approach”, see above).

Secondly, only process innovation is considered (and generally just robots), neglecting the important distinction between process and product innovation (see Schumpeter 1912; Freeman et al., 1982; Freeman and Soete, 1987, 1994) and the possible labor-friendly impact of the latter. In this respect, the “reinstatement effect” discussed above is a very reductionist way to take into account product innovations, that imply not only the occurrence of an additional labor demand for new tasks, but rather the emergence of new sectors and the related increase in aggregate demand (see, for instance, the role played by new products such as the automobile in the Fordist regime and the PC and internet in the ICT era). Indeed, when Schumpeter (new product and new supply) meets Keynes (effective demand) and a new institutional matching arises, new technologies can trigger revolutionary changes with unprecedented consequences on the labor market, which cannot be surely reduced to the extension of the available tasks (see Perez, 1983; Freeman and Soete, 1987; Dosi, 1988; Dosi et al., 2022).

Thirdly, as detailed above, market failures are totally neglected, ignoring the critical thinking put forward by Marx in the classical era, by Keynes (the role of animal spirits and effective demand) in the ‘30s and by non-mainstream economists in recent times (see also the conclusions below).

Therefore, if we are not true believers and we take into account market failures, we have to conclude that economic theory is inconclusive about the employment effect of technological change, since this depends on a number of factors, assumptions, parameters, elasticities, model calibrations. Indeed, theoretical models should be integrated by empirical studies (more radically: in order to be evidence-based, theoretical settings should be “disciplined” by empirical studies; cf. following sections).
3. The extant empirical evidence

3.1 Macroeconomic evidence

Section 2 has highlighted the sectoral and economy-wide compensation mechanisms that can balance the direct labor-saving effect of technologies on employment and make the final outcome ambiguous. This ambiguity is reflected in the mixed evidence coming from macro-, sectoral and firm-level empirical studies, as reviewed, for example, in Calvino and Virgillito (2018) and Dosi and Mohnen (2019). A few stylized facts emerge from the literature. First, there is a positive relationship between product innovation and employment growth in all the different levels of analysis. Second, the effects of process innovations are more controversial: they tend to be non-negative at the firm level, whereas they can become negative at the sectoral level. Third, the effects of innovations can be different across economies, depending on country and technological characteristics. These results confirm, on the one hand, that the distinction between product and process innovation is theoretically fruitful—even if, in practice, product innovations in one industry are often process innovations in other downstream sectors (see Dosi, 1984; Dosi et al., 2021, and the discussion put forward in the conclusions below)—as well as the distinction between different units of analysis (countries, sectors, firms). On the other hand, focusing on process innovation, we should note that most of the studies reviewed there fall short of providing a direct measure of labor-saving technologies adopted at the firm level, primarily relying on general definitions of process innovation. In this respect, while the automation of production activities can be considered a sort of “natural trajectory” of process technologies (Nelson and Winter, 1977), process innovation can also be related to other aspects of the production process, for example, growing rates of utilization of capital or falling “idleness” of intermediate inputs such that one could consider automation as part of a more general trend of time-saving technological change (Von Tunzelmann, 1995a,b).

Granted this, what do we know from the more recent evidence related to the latest wave of labor-saving process innovations? At the aggregate level (economy- and sector-wide), they tend to display mixed results. Using variation across local labor markets, thus taking into account potential compensation mechanisms across sectors, Acemoglu and Restrepo (2020) report robust adverse effects of robots on employment and wages across US local labor markets, whereas Dauth et al. (2021) find no overall effect of the adoption of robots on German local labor markets, even if they highlight a compensation mechanism: workers are displaced in manufacturing, but new jobs in services fully offset this effect. In Graetz and Michaels (2018), who use variation in a sample of countries and industries from 1993 to 2007, robots are not found to decrease employment, even if they reduce low-skilled workers’ employment share. Interestingly, using very similar data, Klenert et al. (2020) find the opposite results: robots increase aggregate employment, without reducing the share of low-skill workers.

Even if most of the recent literature has dealt with the effects of robot adoption, it is essential to note that robots are still at an early stage of the diffusion process. According to data from the International Federation
of Robotics (IFR), robots are currently concentrated in a few specific industries, such as automotive manufacturing, electronics, and machinery. These industries account for the majority of robot installations worldwide. Additionally, robots are primarily being adopted in advanced economies, such as Japan, South Korea, Germany, and the United States (see also Fernandez-Macias et al., 2021). Moreover, automation may take many other forms and is only performed by robots in some work processes, for example, in the automotive industry, in welding, painting, and material handling (Krzywdzinski, 2021). Looking at the long-term effects of computer numerical control (CNC) technologies, Boustan et al. (2022) find that industries more exposed to CNC increased total employment, and the employment gains are the strongest in the case of unionized jobs.

Taken together, these results seem to suggest that the employment effects of automation technologies might be country-specific and industry-specific (Gentili et al. 2020; Dottori, 2021), possibly as results of different systems of social relations and institutions (Dosi, 1984), and/or differences in corporate strategies across countries (Krzywdzinski, 2021).

3.2 Firm-level mechanisms

This mixed evidence also calls for a better investigation of the underlying micro process brought about by technological change. In the following, we will offer such a complementary perspective, looking in particular at the role of firms. Firms are, after all, the locus in which most technological activity is carried out (Pavitt, 1987), including the adoption of labor-saving technologies. As firms exhibit heterogeneous adoption patterns of new emergent technologies (Dosi and Nelson, 2010), and the diffusion of those technologies takes time, the sectoral and the economy-wide effects of labor-saving technologies are the consequences, at each point in time, of the interaction between adopting and non-adopting firms. In this respect, we do not expect, in general, that granular micro evidence maps one-to-one into more aggregate (say, industry or economy-wide level) results. In particular, sector- or economy-level effects are not informative about the adjustment process that firms and workers go through. Since these adjustments can have profound distributional consequences, it is also crucial for policymakers to be informed about them (Raj and Seamans, 2018).

To better interpret the recent and increasing empirical evidence from micro-level studies, we can make some hypotheses about the effects of labor-saving technologies on firms and workers. To begin with, only some of the above-mentioned mechanisms (see Section 2) can be expected to exert a direct compensation effect within adopting firms. First, firms adopting labor-saving technologies can enjoy an increase in productivity which, under specific market conditions (e.g. non-monopolistic markets), can be translated into lower prices and so into an increase in market share for the adopting firm, possibly at the expense of non-adopting firms—what the mainstream literature calls the “business stealing effect” (see Bloom et al., 2013) and the evolutionary tradition simply and clearly calls “selection” (see Nelson and Winter, 1982). Therefore, the net effect could be a net employment increase at the level of the single firm. Second, adopting firms may
introduce new products or new tasks, which again could more than compensate for the displacement effect of the adoption of the new technologies. Also, the compensation via re-investment of extra-profits could work as a compensation mechanism at the firm level.

Recent labor-saving technologies can also have heterogeneous effects across workers depending on their occupations. One of the most investigated hypotheses holds that the recent phenomenon of job polarization, documented in several countries in the last decades (see, for example, Autor and Dorn, 2013 for the United States and Goos et al., 2014 for Western European countries), is partly due to technological change, which would be replacing labor in routine tasks (the so-called routine-biased technical change, RBTC), decreasing the demand for middle relative to high-skilled and low-skilled occupations (Autor and Dorn, 2013). In general, displacement and compensation effects could work in favor of workers performing non-automated tasks and against workers performing automated tasks, thus leaving room for unequal effects across workers performing different tasks, both across and within firms (see also Frey and Osborne, 2017).

### 3.3 Microeconomic evidence: employment

Most of the extant firm-level studies show a possible labor-friendly impact of new technologies; however, some qualifications are needed.

Firstly, the job-creation effect of new technologies—although statistically significant—is generally negligible in magnitude (Piva and Vivarelli, 2005; Vivarelli, 2015) and often limited to the high-tech sectors (Coad and Rao, 2011; Bogliacino et al., 2012).

Secondly, most of the extant microeconometric evidence is based on studies where process innovation is either systematically underscored, as in those works using R&D or patent data which are innovative proxies much more correlated to product rather than to process innovation (Buerger et al., 2010; Van Roy et al., 2018); or constrained to be measures through a mere discrete variable or even by a simple dummy (Lachenmaier and Rottmann, 2011; Harrison et al., 2014; Dachs et al., 2016; Hou et al., 2019; Lim and Lee, 2019); or limited to a very narrow typology (as robots, see below). Indeed, in the few studies where a more comprehensive and continuous measure of process innovation is considered (that is the whole amount of “embodied technological change” incorporated in new machinery, intermediate goods and software; well beyond the sole robots) a labor-saving impact of new technologies clearly emerges, at least in traditional downstream sectors and SMEs (see Barbieri et al., 2019; Pellegrino et al., 2019).

Thirdly, the positive relationship between innovation and employment at the firm-level is not a guarantee that technological change will not lead to job displacement at the industry-level. According to the "growth of the fitter" concept, rooted in different heterogeneous firms’ models (from “equilibrium evolution” models à la Jovanovic, 1982, to Schumpeterian evolutionary models as in Nelson and Winter, 1982), more efficient firms should grow more (see also Dosi et al., 2015). Within this framework, it is possible that firms adopting
new technologies, by improving their productivity, grow at the expense of non-adopting firms. Limited existing evidence confirms the existence of a significant “business stealing” effect: Acemoglu et al. (2020), provide evidence that automation leads to firms’ expansion at the expense of competitors. Because of the intra-industry reallocation, firm-level effects do not necessarily translate into similar industry-level impacts. In Acemoglu et al. (2020), robot adoption is indeed associated to an overall decline in industry employment, whereas Aghion et al. (2020), find that positive firm-level effects are maintained at the industry-level.

Turning our attention to the recent literature devoted to the employment consequences of automation, a critical limitation in studying the adoption of automation technologies at the firm level has usually been the lack of reliable data. Most empirical evidence was previously based on innovation surveys, where firms were asked to say yes or no to questions concerning whether the firm introduced new or improved processes that differ significantly from previous processes. Although these surveys provide a first picture of the heterogeneous adoption of new technologies, they usually fail to provide a more fine-grained picture. Emerging literature has started to work around this problem by leveraging different sources and measuring adoption through specific surveys on robot adoption and other automation technologies, or through imports. Taking stock of this recent literature, let us summarize a few points.

First, cross-sectional firm-level evidence has confirmed that, at each point in time, firms adopting automation technologies are different compared to non-adopters. Using a survey on Chinese firms in 2015, Cheng et al. (2019) document that robot adoption varies considerably across industries and regions and firm characteristics. In particular, adopting firms tend to be larger, more capital-intensive and pay higher wages; interestingly, their data does not support the conjecture that robots are more likely to replace routine tasks as the only significant correlation is between robot adoption and manual task measure. This evidence is confirmed in other countries and datasets (see, for example, Koch et al., 2021 and Deng et al., 2021 for robot adoption in Spain and Germany, and Dinersoz and Wolf, 2018 and Domini et al., 2021 for automation technologies in US and France). This is consistent with the idea that, in market-based economies, the adoption of new technologies depends, among other things, on the capabilities and the stimuli embodied within each firm (Dosi, 1988) and with the established empirical evidence reporting significant intra-industry differences across firms both on the input and the output side (see, among many others, Bartelsman and Doms, 2000; Dosi and Nelson, 2010).

Second, the investment in automation tends to occur in spikes at firm-level. In recent studies, Domini et al. (2021, 2022) used product-level custom data to create a measurement of a firm's investment in automation. Building on the classification system outlined by Acemoglu and Restrepo (2022) the authors identified imports of capital goods equipped with automation technology through their 6-digit harmonized system product code (these goods, which are a narrow subset of the more general category of machinery and equipment, include industrial robots, numerically controlled machines, automatic machine tools, and other automatic machines). They show that, similarly to physical investment in general (Grazzi et al. 2016), imports of capital goods embedding automation technologies are rare both across firms and within firms.
Among firms who import automated goods at least once, close to 30% does it only once; when it happens more than once, the concentration of investment in a single year is close to 70%. The same evidence is reported in Bessen et al. (2023), who use annual automation costs among Dutch firms, and Humlum (2021), who similarly report that in sample of Danish firms, 70.6 percent invest in a single year only, and the peak year of investment accounts on average for 90.7 percent of total firm robot expenditures.

Third, automation tend to be concentrated in some sectors. In Domini et al. (2021, 2022), the manufacturing sectors, in particular, electronics, machinery and automotive sectors, are the more represented in automation-related imports, but there are also some service sectors, including IT and retail sectors, that play an important role. Similar evidence is reported in Bessen et al. (2023).

However, to gain a comprehensive understanding of the impact of automation adoption, it is necessary to analyze longitudinal evidence. Recent research by Domini et al. (2021) examines the before-and-after effects of an automation spike within French importing manufacturing firms over the period 2002–2015. The study reveals that in the year of the automation spike, firms experience higher employment growth, which is attributed to a rise in the hiring rate and a decrease in the separation rate. Although the effects tend to fade over time, two years after the automation event the automating firms are larger than they were before. These findings align with what has been found, both in France and in other countries, for more specialized forms of automation, like robot adoption, as seen in Acemoglu et al. (2020), Dixon et al. (2021), Koch et al. (2021), Benmelech and Zator (2022), respectively in France, Canada, Spain, and Germany. Additionally, these results are consistent with the findings in Aghion et al. (2020) concerning the effects of automation in France. However, some studies, such as Bessen et al. (2023), have suggested the opposite. Using a Dutch firm-level survey on automation expenditure between 2000 and 2016, they found that after an automation event, the firm-level employment contracts.

Despite this, the overall positive relationship between automation and firm-level employment suggests that compensating mechanisms, which favor the relative competitiveness of firms and, thus, their expansion, tend to outweigh the direct labor-saving effects, as observed in earlier studies. Focusing on France, which has more evidence available, this pattern appears to hold across different technologies and identification strategies, and even in the short-term, ruling out the possibility of temporary negative effects on labor demand.

However, a possible labor-friendly impact of innovation at the firm-level cannot be generalized at the sectoral and, a fortiori, at the macroeconomic level. As pointed out by Freeman et al. (1982), particularly in recessionary periods, the overall labor-saving impact of new technologies in the adopting firms may well turn out to be dominant in comparison with the limited labor-friendly effect of product innovation in the innovative companies (ibidem, p.141).
3.4 Microeconomic evidence: skills and wages

Even if automation may increase employment at the firm level, it could have different impacts on different workers. Various studies have predicted that certain jobs and tasks will be more susceptible to computerization and automation compared to others (Frey and Osborne, 2017; Arntz et al., 2016). These predictions have led to concerns that the Fourth Industrial Revolution, characterized by the emergence of new technologies such as robots and AI, could exacerbate existing inequalities or even create new ones. In particular, the introduction of these technologies could lead to the displacement of certain jobs, particularly those that are based on routines and repetitive in nature, and accelerate the polarization of the labor market, resulting in increased benefits for workers at the top and bottom of the wage and skill spectrum, while leaving those in the middle behind (Piva and Vivarelli, 2004; Acemoglu and Autor, 2011; Autor and Dorn, 2013; Goos et al., 2014).

All these concerns are not new as they echo what happened in the history of previous technological revolutions. For example, during the First Industrial Revolution, the adoption of labor-saving technologies profoundly impacted the organization of labor and the market structure within the cotton industry, transforming the economy from a landscape of small cottagers to an industry of factories.

By the end of the eighteenth century, England had seen an increase in large production units, often near towns and always marked by a much finer division of labor. The factories of the Industrial Revolution helped to shift the barycenter of economic output from the rural to urban centers, while also bringing about significant changes in labor and social organization. Furthermore, the organization of the labor force involved establishing rules regarding working hours, methods, wages, and movement within and between positions.¹

Relatedly, history also shows that the process of deskilling is not just a matter of human-machine relationship but also co-evolves with the reorganization process of hierarchical layers within the firms. For example, at the beginning of the twentieth century, Taylorism emerged as a new archetype for dividing labor within an organization. Taylor's principles of “scientific management” were a prerequisite for codifying previously implicit knowledge held by workers into a set of elementary procedures and routines. This codification became essential, in turn, for exerting control over such knowledge, which had previously resided solely in the collective experience of skilled workers. The transfer of tasks from skilled workers to “specialized” workers was accompanied by the establishment of new rules for hiring, firing, and labor mobility to support the implementation of the new working procedures within the organizations. Taylorism defined a new economy of time and a new economy of control, thus becoming the organizational capability of collectively simplifying what was previously individually complex (see Dosi, 2023, pp. 245–256).

¹ See, for example, Gragnolati et al. (2014). For an overview of the literature on the transition toward factory productions, see Mokyr (2001).
Granted this—and based on the evidence available at the country-level—it appears that recently there is a positive correlation between automation and shifts in the skill composition of the workforce. Specifically, the data suggests that jobs that are routine-intensive and require low to middle level skills are particularly susceptible to being replaced by automated technologies such as robots (Barbieri et al., 2020, Cirillo et al., 2021a,b).

Looking at the impact of automation within firms, it is clear that there are several ways in which it can lead to changes in organizational structure. For example, it can affect how production activities are organized and how human capital is managed (Dixon et al., 2021). Additionally, automation can result in changes to the composition of the workforce, both across and within occupations (Freeman et al., 2020). Furthermore, it can have an impact on the distribution of wages and on the hiring and separation rates (Cirillo et al., 2022).

However, using French data, Domini et al. (2021) found that automation spikes do not have significant effects on the composition of the workforce, in terms of 1-digit and 2-digit occupational categories, and routine-intensive vs. non-routine-intensive jobs. Domini et al. (2022) further examined how automation affects wage inequality within firms. They showed that investments in capital goods embedding automation did not lead to an increase in within-firm wage inequality. Instead, wages increased by 1% three years after the events at various percentiles of the distribution. These findings were also confirmed by Aghion et al. (2020).

A series of country-specific studies show the relevance of institutional differences across countries. For instance, Humlum (2021) used an event study to measure the impact of industrial robot adoption in Danish firms. He found that the overall positive effect on wages was driven by the impact on tech workers, while production workers experienced wage loss. In a study of Norwegian firms in the manufacturing sector, Barth et al. (2020) found that robots increased wages for high-skilled workers and managerial occupations, positively affecting wage inequality. Dixon et al. (2021), using Canadian data, show that robot adoption affects skill polarization of non-managerial workforce, with decreases in middle-skilled employment and increase in low- and high- skilled employment. Interestingly, they also find a decline in managerial employment and an increase in the span of control for supervisors. Chung and Lee (2023), using data on Korean firms, find that the adoption of automation technologies differently affects the risk of job separation of young and old employees, favoring the former over the latter.

Overall, the impact of automation on the workforce composition and wages within adopting firms appears to be complex, and the results can vary depending on factors such as the type of industry, the skills of workers, and the institutions of the country, for example the prevalence of collective bargaining in determining wage, and future works should take into account all the different facets of this relationship. And, relatedly, this also highlights the importance of distinguishing technological conditions, input prices, and the demand for those inputs more clearly. Indeed, when all these aspects are singled out and the relevant issues are properly
separated, general theoretical settings such as the AR framework discussed in Section 2 appear, at best, oversimplified (see Dosi, 2023, pp. 328–333).

Here, we mention some possible challenges that appear to be relevant. A first important aspect concerns the existence of gender wage gap and the role of automation in affecting it. Indeed, there is some evidence of a decline in routine tasks among women, which partially explains the declining of the gender wage gap (Black and Spitz-Oener, 2010). However, as such gap continue to be very relevant and is especially large in the upper tail of the wage distribution (Blau and Kahn, 2017), there are rising concerns about how new technologies are expected to affect the gender wage gap, even within the same firm, and to date there exists very little evidence to support policy making. Using data from 20 European countries, Aksoy et al. (2021) find that robot adoption increases both male and female earnings but also increases the gender pay gap. They argue that such an affect can be explained by the fact that men at medium- and high-skill occupations disproportionately benefit from robotization, through a productivity effect. Emerging firm-level evidence provides mixed results. Domini et al. (2022) do not find any effect of automation spikes on within-firm gender wage inequality. On the other hand, Pavlenkova et al. (2023) report a positive effect. They study the effects of imports embedding automation technologies within Estonian manufacturing and services firms over the period 2006–2018. They find that automation increases the wage of male employees more than female employees, thus enlarging the gender pay gap.

Another emerging issue is related to the fact that automation and technological change affects not only incumbent workers, but also workers that leave the firm. In this respect, more work is needed to understand the main driver of this dynamics. Bessen et al. (2023), using a firm-level measure of automation for Dutch firms, find that workers separating after an automation event experience a 5-year cumulative wage income loss of 9 percent of one year’s earnings, driven by decreases in days worked. One possible driver of this income wage loss is the characteristic of the occupation. Martins-Neto et al. (2023) use a rich Brazilian panel dataset to examine the effect of job displacement in different groups of workers, classified according to their tasks. They show that following a layoff, workers previously employed in routine-intensive occupations suffer a more significant decline in wages and more extended periods of unemployment.

Finally, national and local institutions play a role in shaping the relationship between wage dynamics and technological change. As mentioned before, institutions are important in determining, for example, the extent to which wages respond to technological change. Additionally, labor-market institutions can also influence the nature of technological change. For instance, El-Hamma et al. (2023) show that the interaction between the adoption of digital technologies and learning capacity is crucial in determining the innovative outcomes of EU countries and industries. On the other hand, Zhou et al. (2011), show that flexible labor markets are linked to better performance for firms that specialize in imitative new products, but worse performance for those creating innovative new products. Hoxha and Kleinknecht (2023) provide firm-level evidence that removing labor market rigidities can harm productivity growth in industries that depend on the accumulation of tacit knowledge. Turning our attention to the regional level, Dughera et al. (2023) show that workers
employed in regions with a multi-specialized knowledge structure earn positive wage premia, while technological specialization has a negative effect on compensation levels.

4. Mapping labor-saving technologies

While in the previous sections we have discussed—both theoretically and empirically—the possible labor market impacts of new labor-saving technologies, an often neglected issue in current research concerns the origins of these labor-saving innovations. Indeed, most of the extant literature (see above) “assumes” the notion of labor-saving automation (sometimes including the overall capital formation, sometimes focusing on the sole robots), without any effort to precisely single out the source and nature of labor-saving technologies.

This section is one of the first attempts to fill this gap, investigating where labor-saving automation technologies originate by means of the textual analysis of actual patents. For doing so, we identify explicit labor-saving (hereafter, LS) heuristics embedded in American patents related to automation technologies and characterize their emergence across sectors, innovative actors, and geographic location.

In particular, we leverage on natural language processing of patents full-texts (including title, abstract, summary, description, claims, and drawings captions) and we follow a methodological approach similar to Montobbio et al. (2022), which we extend along three main directions. First, while Montobbio et al. (2022) only focused on robotics, here we adopt a broader definition of automation, which encompasses artificial intelligence (hereafter, AI). Second, while their timeframe was limited to relatively new patents, published at the USPTO (United States Patent and Trademark Office) between 2009 and 2018, here we look at the long-term evolution of automation innovations, granted from the mid 1970s onward. Third, in place of a manual and prone-to error validation of each (potentially) LS patent, we exploit an automated validation routine based on part-of-speech tagging and rule-based matching, along the lines of Rughi et al. (2023). This methodological innovation enables the aforementioned enlargement in the time period and technology scope.

Our main data sources are PatentsView (USPTO), which provides all patent full-texts, and Orbis IP (Bureau Van Dijk), which we use to match patents to their corporate owners. At the time of writing, PatentsView contains data for a total of 8,169,776 patents granted between January 6th 1976 and 28th June 2022. From this universe, we single out automation patents by means of CPC (Cooperative Patent Classification) technological classification codes. In particular, we select patents which are assigned at least one of a list of 367 (full-digit) CPC codes which are known to be relevant to either robotics (124) or AI (243). These codes come from statistical concordance tables relative to USPC (United States Patent Classification—a legacy classification scheme) Classes 901 (“Robots”) and 706 (“Data Processing: Artificial Intelligence”) which have been extensively used in the past to identify patents thereof. This search step returns a total of 286,283
patents, of which 32,588 belong to robotics, 255,863 to AI, and 2,178 to both. Similar orders of magnitude and degree of overlap are observed in Santarelli et al. (2022).

Figure 1: Lists of keywords used for the labor-saving query.

The textual content of each patent document is queried, sentence by sentence, against a triplet of words, among the Cartesian product of the three lists outlined in Figure 1. These keywords, borrowed from Squicciarini and Staccioli (2022), extend the ones used originally by Montobbio et al. (2022). A patent is deemed potentially LS if a verbal predicate from the first list, a direct object from the second list, and an attribute from the third list simultaneously belong to at least one of its sentences. In fact, the query checks for the presence of the morphological root (or stem) of each keyword, so that the matching is established regardless of inflectional changes (e.g. conjugation or declension). The additional validation routine by Rughi et al. (2023) further checks the coherence between these keywords, requiring that the logical analysis of the sentence reflects certain corroborated patterns. A total of 5,162 LS patents are singled out, of which 4,640 are related to AI (approximately 1.7% of all AI patents), 638 to robotics (approximately 2% or all robotics patents), and 116 to both (approximately 5.3% of the previously computed overlap). For the sake of example, an excerpt from a LS patent is reported below, with emphasis added to highlight the matched keywords.

“The proposed methodology is completely automated, requiring no human intervention, as compared to traditional mesh-based methods that often require manual input.” (US10013797B1)

The bar plot in Figure 2 depicts the time evolution in the number of LS automation patents granted each year. Since data is available up to mid-2022, the figure for that year is not represented in the picture. An overall increasing trend is apparent, with a sudden acceleration in the past decade and notable peaks around
2013 and 2020. It seems useful, in the following analysis, to use year 2010 as a watershed to make a comparison between the preceding period (1976 to 2009) and recent times. Indeed, 2010 is both a post-financial-crisis divide and a turning point in Figure 2.

![Figure 2: Number of LS patents per year; reference period is 1976–2021 inclusive.](image)

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Table 1: Top 20 corporate owners of LS patents, their 6-digit NAICS industry classification, and their ranking only considering patents granted before 2010.

Our next step consists in identifying the corporate innovative actors behind LS automation patents and characterizing them in terms of industry and geographic location. To this purpose, we retrieve from Orbis IP the relevant firm level information. The total number of firms which hold at least one automation LS patent
is 1,702. Table 1 lists the top 20 holders, ranked by the number of LS patents in their portfolio, their main sector of activity, represented by a 6-digit NAICS 2017 code, and their rank and number of LS patents held before year 2010, for temporal comparison. The chart is dominated by American high-tech firms which either develop software or manufacture computer hardware. Remarkably, the top holder, IBM, has twice as many LS patents as any other assignee. A few notable exceptions are Boeing, an aircraft manufacturer, consulting firms Accenture and Carma, and banks and insurance companies such as JPMorgan, Bank of America, and StateFarm. It is worth mentioning that Boeing was found by Montobbio et al. (2022) to be the single largest holder of robotics LS patents; additionally, although the company is more than a century old, its ranking has increased substantially in the past decade, from a 23rd position before 2010 to an overall third place. Similar specialization patterns apply to Amazon, another archetypal case in Montobbio et al. (2022), and Google, both established in the 1990s (i.e. around halfway in our time window), Rockwell Automation, and Micro Focus, founded in 1903 and 1976, respectively. Finally, a few companies were either established after 2010 or did not hold any LS patents beforehand, including Headwater, Strong Force, StateFarm, WinView, and Carma, meaning that they have either produced or acquired a substantial amount of LS patents within a relatively short period of time.

The top 15 sectors of economic activity of patents holders are reported in Table 2, aggregated at the 3-digit level. The picture broadly echoes the overall concentration of LS patents in the high-tech and financial industries (cf. codes 541, 334, 522, and 511, the latter of which is predated by software publishers in our sample). However, it is apparent that more traditional manufacturing sectors also rank high, namely machinery (code 333) and transportation equipment (code 336), respectively at the 5th and 6th place. This partially reflects the findings of previous studies on robotics LS patents (Montobbio et al., 2022; Montobbio et al., 2023; Squicciarini and Staccioli, 2022) which single out occupations in automotive and logistics as the potentially most exposed to LS innovation. Given the roughly 90%-to-10% imbalance between the number of LS patents related to AI and robotics in our sample, it seems intuitive to deduce that AI and robotics act as complementary technologies for the underlying innovators, which include Caterpillar and Siemens regarding machinery manufacturing, and General Electric, Bosch, Honda, and Ford, alongside Boeing, regarding transportation equipment manufacturing. Over time, the software and the telecommunication industries have gained importance, respectively with code 511 jumping from 8th place before 2010 to 4th place overall, and code 517 gaining 6 positions from 20th to 14th. On the other hand, most of LS innovations in “Electrical Equipment, Appliance, and Component Manufacturing” took place before the past decade, making code 335 to slip from 5th to 13th place.
<table>
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</table>

Table 2: Top 15 3-digit NAICS sectors of belonging of LS patents’ owners, and their ranking only considering patents granted before 2010.

Table 2 clearly provides only a partial picture with respect to the sectoral dispersion of LS patents. Figure 3 depicts the frequency distribution of 3-digit NAICS codes in our sample. The figure tells a twofold story. On the one hand, most patents are concentrated within a small number of sectors: around 82% of patents belong to (at least one) of the top 15 industries of Table 2. On the other hand, LS patents permeate as many as 76 3-digit sectors, out of 99 of the NAICS classification. This seems to suggest an extensive degree of pervasiveness of LS technologies across the supply chain. In this respect, the fact that a certain industry owns less than a handful of LS patents may indicate either the infancy of a technological development, or an abandoned strand of research.
Finally, we assess the geographic penetration of automation LS technologies by looking at the distribution of LS patents across countries, given the location of their assignees. It is worth remembering that our sample only includes patents granted by the USPTO, and therefore a positive bias towards American companies is to be expected. In fact, 3,483, i.e. roughly two thirds of LS patents in our sample, are owned by American assignees. However, it is well known that the US jurisdiction has also proven to constitute one of (if not) the most preferred outlet for protecting inventions by non-US firms, outside of their domestic market. Figure 4 shows a World heatmap representing the overall number of LS patents in each country. Alongside the US, this picture is in line with traditional top-tier competence centers in high-tech innovation, which include...
Japan (393 patents), China (130), and Germany (118). Ireland appears as an outlier, ranking third with 151 LS patents, although its reputation as a tax haven makes it likely that companies doing most of their business elsewhere decide to be incorporated therein.

![Map showing number of LS patents by country](image)

**Figure 5:** Number of LS patents by country of ownership, rescaled by population (in millions).

A more telling picture, which allows for better international comparisons, is provided in Figure 5, which rescales the number of LS patents by the population in each country, expressed in millions. Population data is taken from the United Nations dataset and refers to year 2022. Besides Ireland, which for said reasons tops the chart with more than 30 LS patents per million people, and excluding micro-nations which are likely to be over-represented (Luxembourg and Barbados), the US is the only country to reach, and stop at, the 10 LS patents per million mark, the figure reading 10.40. Next come Switzerland (5.23), Singapore (4.75), Iceland (3.33), which is however biased by a small population, Israel (3.26), Japan (3.13), and Canada (2.68). For the rest of the World, rescaling by population acts as an equalizer, and the bigger picture of countries engaged in LS automation innovations embraces most of Europe (excluding Portugal, the Balkans and Baltic Republics), more and less developed Asian countries (alongside Japan, South Korea, India and China), selected Central and South American nations, (Mexico, Panama, Venezuela, Brazil, and Chile), Oceania (Australia and New Zealand), and, only partially, the Middle-East (Israel and Saudi Arabia).

5. Main findings and conclusions

In the first part of this paper, a theoretical framework has been proposed and critically discussed; moreover, it has been shown that the recent debate is not so different from the optimistic and market oriented approach that was put forward by the proponents of the classical compensation theory. However, if we take properly into account the critical thinking pointing to the role of expectations, the possible occurrence of demand
constraints and the overall market failures connected to the widespread presence of non-competitive markets (which may render compensation mechanisms partial or even ineffective), we should depart from the array of the true-believers and admit that market mechanisms may fail in assuring full employment as a long-term steady state. In this respect, the lessons from Keynes are the cornerstones.

Moreover, the sources and nature of new technologies should be properly taken into account, starting from the basic distinction between product and process innovation and then investigating how new technologies are produced by the supplier firms and then adopted by downstream companies. In this respect, the lessons from Schumpeter are seminal.

In this framework, Keynes+Schumpeter agent based models, able to properly take into account innovation, market forces, market failures and “effective” demand” are much more flexible in framing the complex relationship between technological change and employment evolution (for instance, in Dosi et al., 2022 the interdependency between two vertically integrated macro-sectors may indeed generates persistent technological unemployment when a systematic mismatch occurs between the Schumpeterian provision of new product and process innovation on the one side and the Keynesian demand generation on the other side). Moreover, these models are not aiming to obtain any kind of steady state equilibrium, but they rather give account of the continuous “disequilibrium” characterizing the supply and implementation of new technologies in dynamic and imperfect markets. Finally, this theoretical framework is “open” in terms of empirical outcomes: for instance, the model put forward by Dosi et al. (2021) gives account of both a labor-friendly effect of innovation in the upstream and high-tech sectors, and a labor-saving impact of process innovation in the downstream more traditional industries.

The second part of this study has been devoted to discussing the extant empirical literature, which is affected by two serious shortcomings. First, the very recent debate appears to be characterized by a sort of obsession about robots, which does not take into account the fact that process innovation is a much broader category that should be measured by more comprehensive indicators of “embodied technological change”. Second, the dominant role of firm-level studies in the current literature is conducive to a widespread optimistic bias, particularly when estimates do not properly take into account the “business stealing effect” which can entail an opposite outcome (i.e. job destruction) at the sectoral and/or aggregate level. However, this general aptitude turns out to be less optimistic when the focus is turned to skill and wages, where unbalances and inequalities are largely recognized within the available evidence.

The third part of this work presents and discusses novel evidence on the geographical and sectoral distribution of labor-saving automation (comprising both robots and AI), on the basis of natural language processing applied to the full text of US patents. To summarize just some of our findings, we can recall that: i) robots are just a minority of automation patents (see above about the current over-emphasis on robotization); ii) an acceleration in labor-saving automation is obvious since 2010; iii) although relatively pervasive, labor-saving automation is geographically and sectorally concentrated; iv) interestingly enough,
among the leading sectors and companies, upstream high-tech providers are listed together with some main users of the new technologies (such as Boeing in aircraft manufacturing or Amazon in retail and logistics).

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