

SECOND ORDER

AI, Capital & Work · A Second Order research briefing

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From Doom Loop to Abundance Path

We open the series constructive on where AI ends up and cautious on the path. The collapse scenario needs about five assumptions to hold at once; the brakes are already visible in the data, and the data through mid-2026 reads as transition.

FOR DISCUSSION · NOT INVESTMENT ADVICE

Does AI disruption end in collapse, or in reallocation?

THE THROUGH-LINE

Issue 01 sets the position we mark to the tape from here on, constructive on AI's destination and cautious on its path. Citrini's "2028 Global Intelligence Crisis," the strongest bear case, argues AI agents substitute for white-collar work fast enough to break consumption. We take it seriously enough to test it, and the collapse it describes needs five assumptions to hold at once while the brakes are already visible.

WHY NOW

The doom narrative is already shaping decisions through hiring freezes, panic transformations, and frozen capital budgets. The evidence supports preparation, and the wrong posture is costly whichever way the path runs.

WHAT YOU WILL LEARN

1. The bear case in its strongest form (sec. 01)
2. The five assumptions collapse requires at once (sec. 02)
3. Three brakes visible in the data (sec. 03)
4. The mechanism, Ghost GDP against Abundance GDP
5. A win-either-way playbook and a dated watchlist

THE THROUGH-LINE IN ONE SENTENCE The outcome turns on adoption and reallocation, and the plan is built for transition.

Collapse is a conjunction of five conditions

Even where parts of the doom loop happen, sector repricing and layoffs, collapse needs recursive adoption, extreme substitution, cheap compute, dead reallocation, and frozen institutions to hold at once.

Drop any one and the result is a transition, disruptive and workable with a plan.

5

assumptions that must all hold for a meltdown instead of a transition

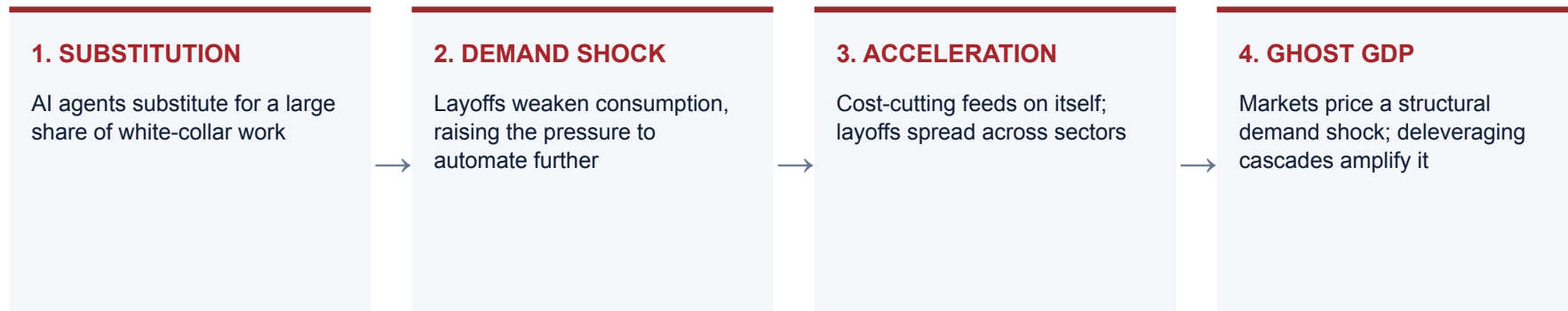
+11%

y/y software job postings, a rebound where runaway substitution implies continued free-fall (Citadel reading Indeed)

+10.4%

employment growth in the most AI-exposed occupations, 2019 to 2025, against +3.8% for the rest (OEWS; Second Order)

The doom loop in its strongest form



☞ *The mechanism compounds, since each round of layoffs erodes the demand that justified the previous round of automation.*

THE QUESTION which assumptions must hold for this loop to dominate, and what brakes exist in the real economy. Taking the scenario seriously is a different thing from treating it as a forecast.

Source. Citrini Research, “2028 Global Intelligence Crisis” (scenario memo), steelmanned, not endorsed.

The five assumptions collapse requires

1. Recursive adoption

Capability gains translate almost at once into deployment; friction stays low everywhere.

2. Extreme substitution

Most cognitive tasks become cheaper by machine than by labor, across sectors, in one window.

3. Compute scales cheaply

No binding energy, capital, or supply constraint slows the rate of substitution.

4. Savings do not reallocate

Profits are hoarded; no new firms, products, or demand emerge, and competition among capital owners stops.

5. Institutions fail to adapt

Policy and organizational change arrive too late, everywhere, with no offset.

Drop any one

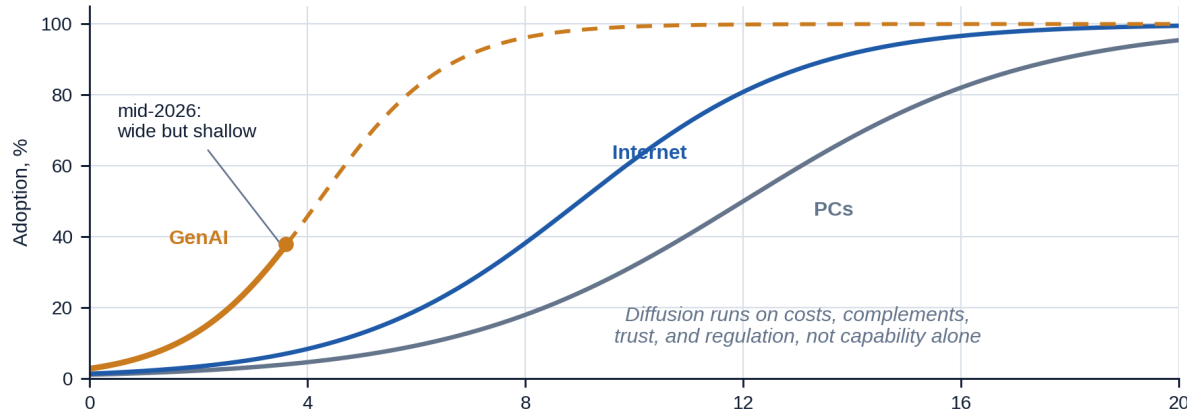
and the result is a transition instead of a meltdown, repricing plus reallocation. That is what the data shows so far (sec. 03).

Brake #1, adoption is an S-curve and not a step

EXHIBIT 1

Capability can jump; diffusion grinds

Stylized adoption S-curves: share of users or firms adopting against years since introduction



Note: Illustrative schematic, not a measured series; the generative-AI path beyond 2026 is shown dashed as a projection.

Source: Illustrative logistic curves, after Citadel Securities' comparison of generative-AI adoption to PCs and the internet.

SO WHAT

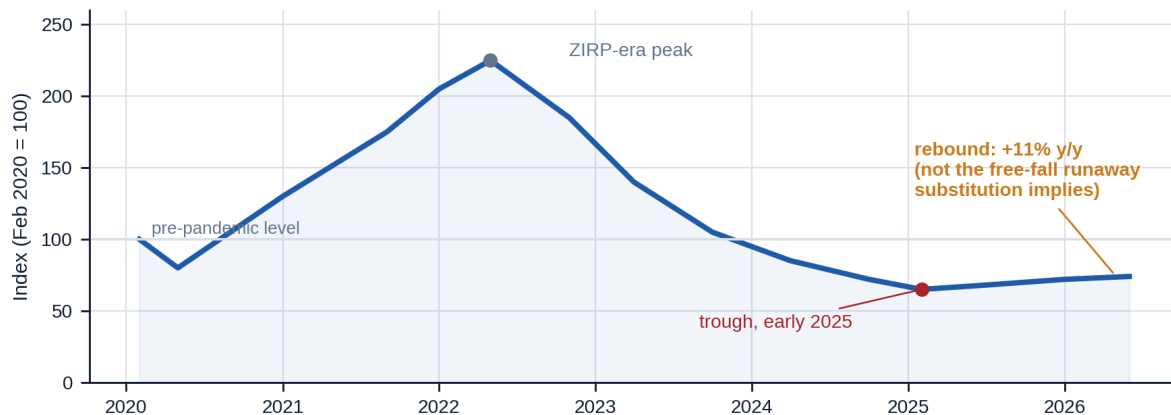
- Diffusion runs on costs, complements, trust, and regulation, and capability alone does not deploy itself.
- Intensity of use matters more than whether people have tried AI; usage is wide and still shallow.
- Slower diffusion cuts near-term displacement risk, and adoption can be planned and staged.

Brake #2, forward labor signals are not in free-fall

EXHIBIT 2

Forward labor signals are not in free-fall

US software development job postings, indexed (Feb 2020 = 100)



Note: Levels approximate between published anchors; read shape, not decimals.

Source: Reconstructed from Indeed Hiring Lab postings index; 2026 rebound (+11% y/y) per Citadel Securities.

SO WHAT

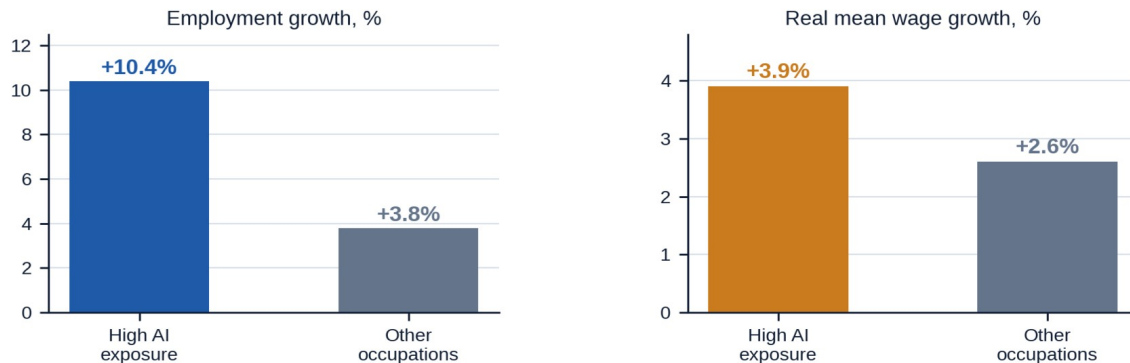
- Software postings rebounded about 11% y/y on Citadel's reading of Indeed, after a steep 2023 to 2025 decline.
- Runaway substitution does not produce a rebound; this is repricing and retooling, where demand shifts and does not disappear.
- Levels are approximate between published anchors, and the +11% is Citadel reading Indeed, not a Razor series.

Evidence, the most-exposed jobs grew and paid better

EXHIBIT 3

The most AI-exposed occupations grew employment 10.4% and real wages 3.9%

May 2019 to May 2025: high-AI-exposure SOC groups (50.1M jobs) against all other occupations (105.4M)



Note: High exposure = management, business and financial, computer and math, engineering, science, legal, office support. Excluding office support, employment rises +25.2% against +1.7% but real wages run -2.3% against +2.4%; the direction is sensitive to that one group. Excludes self-em.

Source: BLS OEWS national estimates (May 2019, May 2025); CPI-U deflator via FRED; exposure groups per Pew Research (2023); Second Order cal

SO WHAT

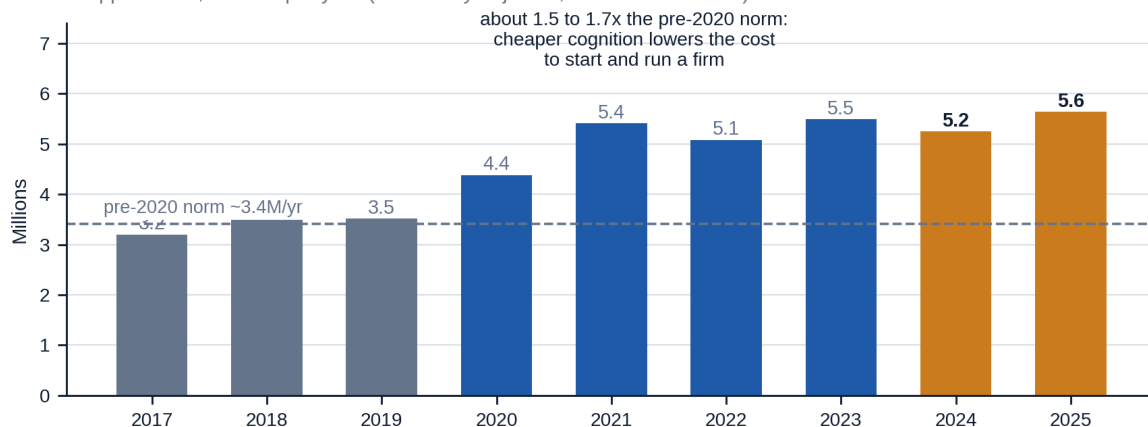
- High-exposure occupations grew employment +10.4% and real wages +3.9% from 2019 to 2025 (OEWS; our count).
- That beats +3.8% and +2.6% for the rest, the signature of an augmentation phase.
- Sensitive to one group, since excluding office support gives employment +25.2% and real wages -2.3%. Not proof AI cannot displace.

Brake #3, entrepreneurship is the pressure valve

EXHIBIT 4

When the cost of starting a firm falls, firms form

US business applications, millions per year (seasonally adjusted, summed to annual)



Note: Annual totals are sums of monthly seasonally adjusted prints; 2024 and 2025 are complete calendar years. The post-2020 run holds near 1.5 to 1.7x the pre-2020 norm.

Source: U.S. Census Bureau, Business Formation Statistics (series BABATOTALSAUS via FRED); Second Order calculations.

SO WHAT

- US business applications have held near 1.5 to 1.7x the pre-2020 norm every year since 2021 (Census BFS).
- Cheaper cognition lowers the cost to start and run a firm, so the surplus reappears as entry and investment.
- For Razor, AI is an internal entrepreneurship engine that spins up new offers faster and cheaper.

One shock, two endings, Ghost GDP or Abundance GDP

GHOST GDP, THE DOOM ENDING

AI commoditizes cognition, and incomes fall faster than prices.

- Output rises while labor income falls; prices fall and corporate margins expand.
- Productivity surges while demand collapses, and the savings never reappear as reinvestment.
- Credit stress and forced deleveraging amplify the shock.

ABUNDANCE GDP, THE REALLOCATION ENDING

AI commoditizes cognition, and services get cheaper.

- Household purchasing power rises even where wages are flat.
- Businesses redeploy the savings into expansion and new markets, and new categories emerge.
- Every prior transition, steam, electrification, computing, raised output and real incomes.

WHY REPRICING CAN BE BULLISH the surplus shifts from intermediaries and overhead toward consumers and investment.

A win-either-way operating playbook

1. Be the governance layer

Productize AI-enabled reporting (WBR, QBR, KPI narratives) with human sign-off, and safe-by-default permissions, personal data, and audit trail.

2. Bank the saved hours

Redeploy time into root-cause work, scenarios, and alignment, so status assembly becomes decision clarity.

3. Launch agent-assisted offers

Intake and triage, roll-ups, and exception detection, the entrepreneurship brake applied inside the firm.

4. Pick two workflows now

The reporting pipeline and intake and triage. Automate relentlessly, and experiment liberally elsewhere.

5. Write the AI delivery standard

Security, QA, citations and audit trail, human sign-off. In a commodity-model market the discipline is the differentiator.

6. Measure the through-line

Differentiate where AI cannot, in domain trust and operating rhythm. Track cycle-time-to-insight, rework, and exec confidence.

The next 12 months, crisis signals and abundance signals

CRISIS SIGNALS

- AI-at-work intensity inflects sharply up, in daily use and the share of tasks run autonomously.
- White-collar unemployment rises and stays elevated for 12 to 18 months or more.
- Service prices fall on weak demand (bad deflation) instead of on productivity (good deflation).

ABUNDANCE AND TRANSITION SIGNALS

- Business formation accelerates and small-team output rises.
- Investment absorbs the savings, through capex, R&D, and expansion, and cash hoarding falls.
- Compute and energy constraints tighten, slowing the pace of substitution.

Falsifier. A sustained, broad decline in high-exposure employment, with AI-at-work intensity inflecting up and business formation rolling over, would break the thesis.

BOTTOM LINE

Capability is accelerating, and the outcome turns on adoption and reallocation

AI will reprice routine coordination and reporting. that part is real, and it is already under way.

Collapse is not automatic. diffusion is frictioned, compute is costly, and savings reallocate, so the five assumptions do not all hold.

Razor wins by making ops teams faster and safer. governed automation plus better decisions, in either scenario.

“Knowledge is a choice. And curiosity is a compounding asset. If you are the most curious person, constantly learning in your field, you will do extremely well.”

Bill Gurley, on the TBPN podcast

NEXT ISSUE · THE WRONG DENOMINATOR. The compute-cost brake arrived first. Tokens count a lab's revenue and not a buyer's value, and the wrong denominator makes the AI economy look cheaper and more fragile than it is.