The Rise of the Feeling Economy: Labor Market Transitions, Imbalances, and Policy Responses in the AI Era

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Abstract: This paper explores the structural shifts in economic paradigms amid the transition from Industry 3.0 to 5.0, focusing on the emergence of the "feeling economy" as a response to artificial intelligence's increasing automation of physical and cognitive tasks. It argues that while AI enhances efficiency in data processing and routine cognitive work, it simultaneously elevates the demand for human labor centered on emotional intelligence (EI), empathy, and creative interpersonal skills—areas where machines currently lack comparability. The study analyzes the reconfiguration of labor markets, highlighting a transition from cognitive-skill dominance to EI-centric roles, as validated by labor productivity theories and Pareto optimality frameworks. It further examines critical imbalances, such as labor shortages in emotional service sectors due to an overemphasis on STEM education and inadequate training systems. They are juxtaposed with a surging demand driven by rising disposable incomes and shifting consumer preferences toward emotional value. This research contributes to understanding post-AI economic resilience and labor market adaptability.

1. Introduction

Nowadays, people are currently experiencing the era of Industry 3.0 to 5.0. In the past, economic development was largely dependent on the physical economy. However, with the rise of artificial intelligence (AI), we are gradually shifting from a physical economy to a thinking economy.

In the thinking economy, it needs a large number of people with high skills to boost productivity. AI has been able to replace much of the physical labor and simple repetitive tasks. For example, in 2021, Nike (from apparel manufacturing to data-driven sports tech) Further restructuring of the distribution network, closure of some directly owned retailer stores, and layoffs of about 700 people at the head office, as machines can replace jobs. Furthermore, in 2020 and 2023, the number of retailers even dropped to 6565 [1].

AI can automate large amounts of data and complex tasks to improve efficiency and accuracy, thus reducing reliance on human thought labor and, therefore, gradually replacing some human jobs in the thinking economy. It makes it necessary for people to focus on emotional skills and creative thinking that machines and AI cannot replace.

While the human labor force is superior to machines in terms of creativity and emotion, the transfer of skills is more difficult. In contrast, AI has a comparative advantage in cognitive skills. It works to minimize mental effort while maximizing results. This concept is widely used in fields such as psychology, business, and education. Economic development is driven by technological advancement, which has evolved from manufacturing technology to information technology and now to AI [2].

Statistics from the Industry Skills Survey from 2006 to 2026 show that AI is increasingly taking on more physical and cognitive tasks. Communication, supervision, documentation, and

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information processing are all likely to be replaced by AI, thus leading to a declining need for cognitive labor in the information screening and analysis category. As a result, humans will need to demonstrate excellence in areas such as emotion, empathy, and relationships. Change in relative task importance to jobs from 2006 to 2016 by sector is shown in Figure 1.

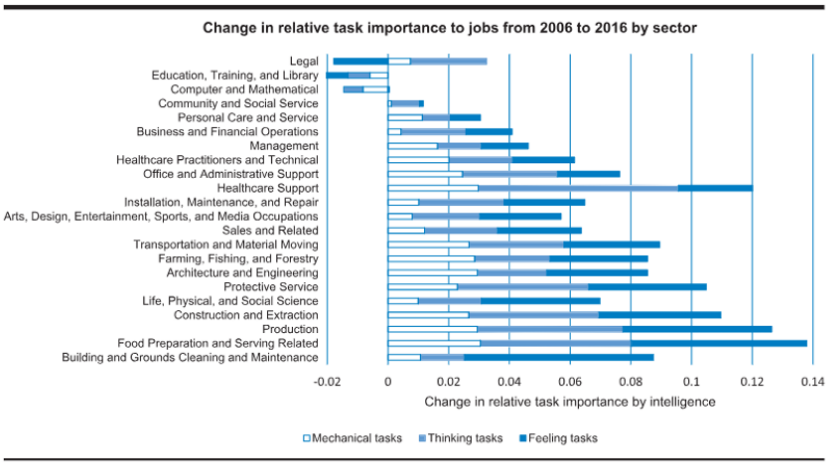

Figure 1 Change in relative task importance to jobs from 2006 to 2016 by sector

2. The benefits of the feeling economy

The emergence of the "feeling economy" has profoundly reshaped labor market dynamics, driven by the interplay between technological advancements and shifting consumer preferences. As artificial intelligence (AI) increasingly automates tasks requiring traditional cognitive skills—such as data analysis, pattern recognition, and routine decision-making—the demand for labor is transitioning toward roles emphasizing emotional intelligence (EI).

Producers and consumers enjoy unique market advantages. For producers, these include premium pricing and higher profit margins. The Feeling Economy enables businesses to differentiate through emotional value. Consumers increasingly prioritize experiences over transactional interactions, making them less price-sensitive [3].

2.1 Structural transition in labor demand: from cognitive skills to emotional intelligence

The rise of the "feeling economy" reflects a fundamental shift in labor market dynamics, driven by AI's encroachment on traditional cognitive tasks.

Under MRP theory, wages are determined by labor's marginal productivity. In cognitive sectors, AI reduces (e.g., repetitive data tasks), lowering wages and creating labor surplus. Conversely, in EI-driven sectors, human labor's rises due to irreplaceable emotional value, increasing equilibrium wages and employment —a reallocation that enhances overall resource efficiency.

2.2 Pareto optimality and welfare gains

The shift toward EI-centric labor creates Pareto improvements, where resource reallocation benefits both workers and consumers without harming other stakeholders. For example, in healthcare, AI now handles 90% of preliminary diagnoses (Nature Medicine, 2021), freeing doctors to focus on patient emotional care.

Pareto Frontier Analysis

- Pre-AI: Resources are allocated suboptimally—doctors split time between diagnosis (low human value-added) and care (high value-added).

- Post-AI: Specialization shifts resources to EI tasks (care), moving the economy closer to the Pareto frontier. Total utility increases as emotional services (high MU) replace diminishing-utility goods (e.g., TVs, laptops).

3. Contradiction of demand and supply in labor market

3.1 Shortage in labor supply caused by "STEM"

Both reports on STEM coursework and earnings from STEM careers show that with the rapid development of frontier science and technology fields such as artificial intelligence, big data and biotechnology, the society is good for STEM talents. But according to the theory of diminishing marginal cost, carrying out too many STEM courses may lead to the decline of the overall economic benefit. This problem can be explained from the imbalance of education distribution, the limited development of students' interests and personalities [4].

3.2 Shortage of labor supply caused by lack of training

The issue of a lack of elderly care workers shows another reason why emotional service labor is scarce. Firstly, people need more systematic professional courses. Many current training courses are simple and lack systematic content. According to the Ministry of Civil Affairs statistics, based on the 1:4 ratio of elderly care workers to the elderly, at least 2 million care workers are needed, excluding those engaged in home care services. Secondly, it has weak practical training links.

3.3 Surging labor demand

According to the study, the unemployment rate of the post-00s generation is 2.3 times that of the post-90s generation, the diagnosed rate of depression has soared 470%, and the average working hours are 1.8 hours longer than those of the post-80s generation. The disposable income of Chinese families has been increasing over the years and the Engel coefficient has been decreasing. Under the condition that the material needs can be basically satisfied, the emotional needs have become more and more. Under the equi-marginal principle, the ratio of marginal utility of manufactured goods to price of manufactured goods is equal to the ratio of marginal utility of emotional care to price of emotional care [5]. According to research, television has become an important part of family life in 1990s.The percentage of Chinese residents turning on TV remained at 70% in 2016.

3.4 Consequences

According to the theory of labor market segmentation, with deep expertise and innovative capabilities, highly skilled people can quickly adapt to AI technological changes, work with AI in key labor markets, open up new business areas, and create new jobs. When the market demand for STEM talents grows slower than the supply rate, there will be a talent surplus, and the job competition for STEM graduates will be fierce, the salary level will fall, and the return on education investment will be reduced. Figure 2 illustrates the development of natural unemployment.

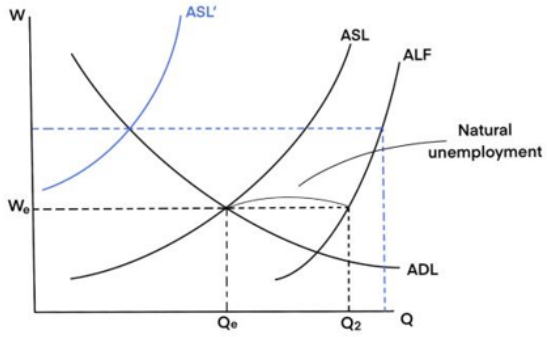

Figure 2 Natural unemployment

4. Policies

4.1 Educational reform

To address the labor shortage issue, the following specific measures can be taken: The primary

strategy is to advance educational reform. In “David Scott”'s “Educational Reform: An International Perspective”, the author emphasizes that educational reform must keep pace with economic development trends. As the global economy transitions to a knowledge-based economy, education systems need to cultivate highly skilled talent and adapt to technological advancements and labor market demands. Curricula should incorporate STEM, digital skills, and other relevant areas, while strengthening vocational education and lifelong learning to enhance national competitiveness and workforce quality. Educational reform and economic development mutually reinforce each other, requiring a balance between local and global trends [6]. The government should guide the optimization of the curriculum structure, moderately reduce the proportion of STEM (Science, Technology, Engineering, and Mathematics) courses, while increasing the share of courses such as mental health education. Additionally, a fundamental transformation of the educational model should be promoted, shifting from the traditional exam-oriented education to an innovative teaching model that places greater emphasis on students' mental health, creativity, and self-directed learning capabilities. The advantage of this reform lies in its ability to equip future graduates with more skills that meet market demands, thereby enabling them to adapt more quickly to changes and developments in the labor market.

Here are relevant evaluations for the education reform. Firstly, as a complex and long-term systemic project, its implementation cycle is lengthy, and its effects are slow to materialize, resulting in limited short-term impact on alleviating the labor shortage issue and almost negligible direct effects on the current labor market. Secondly, there is currently a lack of a sufficient number of teaching staff equipped with new educational philosophies and teaching capabilities, and due to the deep-rooted nature of traditional Chinese educational concepts, the effectiveness of teacher training remains uncertain. Therefore, although educational reform is a long-term solution to the labor shortage problem, its implementation effectiveness still needs to be gradually realized through continuous policy support and practical validation [7].

4.2 Open immigration policy

Open immigration policy involves introducing overseas labor to fill domestic labor shortages. For example, Japan is facing a severe aging population, leading to a critical shortage of labor in the nursing care industry. To address this, Japan has introduced nursing personnel from countries such as the Philippines and Indonesia through the Economic Partnership Agreement (EPA). Compared to the educational reform mentioned earlier, this measure is characterized by its rapid effectiveness and can alleviate labor shortages in the short term. At the same time, an open immigration policy can save the government significant funds that would otherwise be invested in educational reform, thereby reducing the associated opportunity costs [8].

Here are some evaluations of the open immigration policy. Firstly, the large-scale introduction of foreign labor may impact the domestic job market, increasing competitive pressure on local workers. Even if labor shortages are mitigated, unemployment rates may remain high or even rise further. Secondly, rising unemployment could push certain groups into poverty traps, exacerbating social inequality and potentially triggering deeper societal issues. Therefore, when implementing an open immigration policy, it is crucial to carefully balance its short-term benefits with its long-term social impacts.

4.3 Information release

The government can actively release information related to essential skills required for future occupations, thereby guiding the demand for skill training in the labor market. This information-driven approach not only helps workers clarify their career development directions but also, through market supply and demand mechanisms, encourages enterprises to increase their investment in training for skills related to the emotional economy. For instance, in industries reliant on emotional labor, such as nursing, education, and psychological counseling, the government can publish industry trends and skill demand reports to stimulate workers' enthusiasm for participating in training. Simultaneously, as market demand for emotional economy skills grows, businesses will be more motivated to provide relevant training programs, creating a virtuous cycle that effectively

alleviates labor shortages [9].

This measure not only helps reduce government fiscal expenditures but also leverages high-quality educational resources provided by the private sector for training, improving skill absorption rates. However, as these skills become a hot topic for training, increased demand may lead to price hikes, making it difficult for the impoverished to afford such training and exacerbating wealth inequality [10]. Additionally, if everyone shifts to the emotional economy sector, some relatively simple skill-based jobs may be neglected, leading to imbalances in the industrial structure.

5. Conclusion

This study examines the developing status of the feeling economy, as well as analyzes the labor market transitions, imbalances, and policy responses in the AI era. Educational reform is the most effective policy compared with other policy, since compared with relying on foreign immigrants, educational reform would improve employment for domestic citizens which reduce unemployment rather than being replaced by foreign immigrates. Also compared with informational provision, although educational reform tends to be more costly and time consuming, making all groups of people involved into skill reform would promote more equitable distribution of income. In this study, policy proposals are evaluated, including educational reforms to balance STEM and emotional skill development, immigration policies to address short-term labor gaps, and information dissemination to guide skill training. The findings conclude that educational reform, despite its lengthy implementation timeline, provides the most sustainable solution by promoting equitable domestic employment that aligns with the needs of the feeling economy.

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