

## A Jevons Paradox in Bureaucracy

Will AI boost productivity?

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Korea's central bank has just published a study examining the impact of AI on productivity and output. This is obviously a question of vital importance for markets, since you need productivity gains to justify massive hyperscaler investment and their eye-watering valuations. It's also interesting to look at this from the Korean perspective, where AI adoption has outpaced the US. In fact, the Bank of Korea (BoK) study estimates that adoption of generative AI in Korea is happening about *eight times faster* than the initial adoption of the internet in the 1990s.

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Overall, the BoK paper finds that AI adoption leads to a 3.8% reduction in work time, which seems to equal about 1.5 hours saved per week. However, time saved doesn't seem to translate into additional productivity, a phenomenon the study's authors describe as an "AI productivity disconnect." Whatever time is being saved doesn't seem to be reassigned to new, higher value tasks.

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*But* as AI becomes more endemic, it's also not hard to find examples of alternate paths. In the US, for instance, you hear stories now of insurance companies using AI to reject claims. At the same time, there are startups dedicated to using AI to fight back against insurance claim rejections. (Plus, anyone can ask ChatGPT to draft a response to a rejection).

You can imagine a future where AI doesn't lead to productivity gains, but instead generates an endless stream of bots interacting with bots. When paperwork becomes cheaper and faster to produce without real structural change, there's a risk that it simply expands bureaucracy – a kind of Jevons Paradox for administrative overhead and unproductive 'busywork.'

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