

AI Monthly: Ready or not, here AI come

In our second AI Monthly, we take a look at fiscal policies, AI preparedness, and the differences between sectors. Because, as the Fugees once (sort of) sang: ready or not, here AI come, you can't hide



Testing out an app designed to assist doctors in detecting illnesses – just one of the ways in which AI could potentially be used to support the healthcare sector

Our reading list this month

1. The role of fiscal policies in broadening the gains from Generative AI
2. How AI preparedness may broaden global inequalities
3. Why not all sectors will reap benefits from AI in the near term

1. Fiscal policies

Fiscal policy could play a role in curbing the potential harmful effects of Generative AI, as acknowledged in an interesting [research paper](#) from the IMF. These harmful effects include labour disruptions and increased inequality, both of which are unwanted for policymakers.

In their paper, Brollo et al make several important recommendations to policymakers:

1. **Fiscal policy:** governments should not institute taxes on AI but look at corporate tax incentives that encourage a rapid displacement of labour. This would decelerate possible displacement of labour. Moreover, governments should consider raising general taxes on capital income to offset rising inequality.

2. **Social protection:** social protection systems should be enhanced. This includes unemployment insurance and active labour market policies. These, in turn, would aid workers in adapting to changes brought about by Generative AI.

2. AI preparedness

In a separate study, the IMF warns that Generative AI might not only worsen inequality within countries but also between countries. In its new [AI Preparedness dataset](#), the IMF shows that wealthier countries are better positioned to reap the benefits of artificial intelligence.

Most low and middle income countries have smaller shares of high-skilled jobs than advanced economies. While this means that there will likely be less displaced labour in these countries, it also suggests that many of these countries lack the skilled workforces necessary to harness AI's benefits.

In short, Generative AI may widen the productivity gap between high income countries at one end, and low and middle income countries on the other.

3. Smaller sectors will reap benefits from AI sooner

Our sector economists have assessed how AI will affect productivity in their respective sectors. Sectors that are more digitalised will reap productivity gains from AI sooner than less digitalised sectors. Interestingly, the more digitalised sectors (e.g., ICT) are also those that contribute a relatively small amount to GDP compared with less digitalised sectors like manufacturing and transportation. You can catch the full report on how AI productivity gains are set to diverge between European sectors [here](#).

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