

AI could cost you a fortune

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AI could cost you a fortune, and not because of the price of a ChatGPT subscription.

The AI investment boom is drawing enormous amounts of capital towards US technology companies. At the same time, war in the Gulf is pushing up energy and other real-world costs. These forces are colliding in global financial markets, with potentially serious consequences for interest rates, mortgages, rents, inflation, public spending and jobs.

In this video, I explain how the rush into AI shares is connected to movements in government bond markets, why central banks may respond by raising interest rates, and why those higher rates cannot solve supply-driven inflation caused by war, energy shortages or disruption to world trade.

The danger is that governments will then use higher borrowing costs as an excuse for austerity. Pensions, social care and other essential public services could come under pressure, even though ordinary people did not create the crisis.

This is about more than AI. It is about the relationship between financial markets, political power, war, central banks and economic policy.

The extraordinary concentration of money and power behind the AI boom has consequences. The question is who will ultimately be made to pay for them.

https://www.youtube.com/watch?v=7nDJ23DK_Eo?si=C26VsH9MaqEwz_UL

This is the audio version:

<https://www.podbean.com/player-v2/?i=g2g89-1b733c1-pb&from=pb6admin&>

This is the transcript:

AI could cost you a fortune. And I'm not talking about the subscriptions that you might pay to ChatGPT, Claude or anybody else. I'm talking about the cost it's going to impose on you in terms of increased interest rates, austerity, job losses, inflation, and so much more.

All of that is going to come your way because of AI, and I know because, in the present year, \$1 trillion has moved out of the world's economies and into US stock markets. And that's why we have increasing interest rates around the world, and we're all going to pay the price for this. That's what this video is about.

And let me say right now, if you need any more information on the subjects we touch on in this video, don't wait till the end to find out where they're available. They will be found on my Funding the Future blog, and there's a link right down below, and there's a link on the screen now.

AI, war and economics are all now colliding. Let's be clear: that's obvious. Donald Trump's war in the Gulf is pushing up real-world costs, and so prices. And at the same time, the AI boom is redirecting vast amounts of global capital into that industry where we do not know the outcomes. As a consequence, vast numbers of government bonds are being sold by the bucketload as investors chase US shares, and those sales are taking place outside the USA.

UK government bonds are being sold. Australian government bonds are being sold. Canadian government bonds are being sold. Everywhere, central banks are responding to this sale of bonds and the consequent fall in bond prices, which is pushing up what appear to be the real required interest rates on bonds, with threats of higher interest rates in the economy as a whole. And these combined forces of inflation as a result of war and increased interest costs as a result of the demand for money by the AI industry is creating a vicious cycle of economic destruction.

And let's put some numbers on this. We have seen data, published by the Financial Times, that shows that almost \$1 trillion of money moved into the USA by the end of July this year, so we can now expect that it is well over \$1 trillion that has moved into the USA this year to buy shares in AI companies. After all, the hype around AI companies is fed by an investor boom, and this is like a gold rush.

Money was once upon a time thrown into gold because people believed they'd make a fortune. Well, now the same thing is happening, but people are buying shares in AI companies instead. The US economy appears to be overheating as a consequence. That is putting pressure on US interest rates as a result. And the AI boom is helping to drive this process at the same time as we are getting inflation for another reason: that is because of Trump's war in the Gulf.

But let's be clear: pressure on US interest rates is increasing. The AI boom is helping drive this process. And the result is that financial markets are presenting the appearance that government borrowing costs are becoming unaffordable. But actually it's AI madness that is creating this appearance. The reality is, there is no problem with government borrowing costs apart from the consequences of the AI boom. But we are going to see arguments for political austerity as a result of this madness, and that would only compound it.

The result is that because of this boom, everyone who relies on the government could be punished, and most of us do in some way or another. Higher bond rates are being presented as evidence that the government's debt is unaffordable. Old age pensions are under threat in the UK. So is social care, and support for children with autism and ADHD is being rationed. Economic support for everyone in need is being withdrawn when it is needed most, and the AI boom is creating this outcome. It's imposing costs on everyone except the tech bros and Trump, of course.

And at the same time, war is genuinely increasing household costs. Petrol and diesel prices are rising. Gas and electricity costs are expected to go up again soon, and they will do again in January. And higher fertiliser costs feed through into food prices. Climate change is exacerbating these pressures, as is El Niño, and there are real supply side costs facing households as a result. But many of them, and let's stress this, could have been solved if only Trump and Netanyahu hadn't gone to war.

And faced with all this evidence, central banks are, instead of doing the rational thing - which is to say they cannot impact these inflation rates and they cannot control a boom in AI stocks, which is pushing up the interest cost on government bonds at present - are saying instead they must take action.

They are saying they must push up their interest rates. The Australian central bank is the latest to do so. It has pushed up its rates and is expected to do so again. And all of this is because of situations entirely beyond their control.

They cannot, by increasing interest rates, have any impact on the supply of energy, food, fertiliser, or anything else into Australia.

They cannot, as a consequence of increasing the cost of mortgages in Australia, change the rate of inflation driven by AI in the USA.

They cannot change interest rates worldwide if that interest rate rise is driven by a madness to buy AI stocks.

But nonetheless, they're going to push up interest rates come what may. And the Australian people are going to be punished, just as the people of the UK are going to be punished; the people of the USA are already being punished, and the same is true of people inside the Eurozone. Monetary policy is then reinforcing rather than solving this problem.

So the world is going politically mad. That is what I think is happening here. That's what I believe is going on. And what is there to say about that?

The first conclusion is that this madness is pervasive. War is creating continuing and untold human costs. People are losing their lives, homes, and futures. Billions will experience the economic consequences. And a few men's folly is imposing enormous costs on the world. This is what madness looks like, and these costs are going to extend far beyond the countries directly involved.

There's a second form of madness as well, and that is economic madness. There is no proof that AI can justify the capital now being thrown at it. There is no proof that AI can deliver the returns investors expect. There is no proof that AI can generate genuinely useful information at the required scale to justify the investment being made, but at the same time, the climate consequences of AI look to be enormous, and the consequences for human lives and livelihoods could be equally profound. And the disruption to financial markets that is present is going to create untold impact upon the wellbeing of very many people.

And let's face it, the madness of AI and the madness of politics are deeply connected. Extreme wealth is concentrating economic and political power in the world at present, and particularly in the USA, and far-right politics is increasingly associated with that concentration.

AI industry leaders exercise enormous influence, and their commitment to humanity's wider well-being is difficult to identify. And that means Donald Trump is not the only connection between this war and this AI madness. So too are the AI tech leaders.

And the third conclusion to draw from all of this is that ordinary people will pay the price for this madness. Higher prices are creating a cost of living crisis. Higher interest rates are creating a mortgage crisis. Higher financing costs are feeding into rents. And recession and unemployment are being deliberately imposed on much of the economy of many countries in the world precisely because AI is going mad, as have Donald Trump and Benjamin Netanyahu. We are paying an extraordinary price, and everyone except those with very high wealth will pay that price, but they will just become richer still.

So what is happening here? It is that power is deciding who is going to pay for this madness. Political power and economic influence are increasingly reinforcing each other. Media influence helps shape the resulting economic narrative, but the same people are now controlling much of the media as well. And we're seeing that concentration going on in real time in the USA right now.

Ordinary people are being told that government spending must be cut and that they must expect to bear the costs they did not create. The political economy of this crisis determines who suffers. That's you, and that's me, and that's everyone who's like us, who is not extraordinarily wealthy.

We need then to join the dots between AI, war and economic policy. These are not separate crises operating independently. Financial markets are being used to transmit the consequences from one crisis to another. And central bank policy can only amplify these consequences in the way it is being delivered at present. Austerity can then transfer the cost onto ordinary people, and understanding these connections is essential.

There has to be another way out of this situation. Finding that will require politicians of considerable courage. It will require economic understanding beyond that which most politicians now display, and it will require them to challenge the power currently shaping economic policy, including in the conventional bastions of power like the Treasury in the UK and in our central banks.

This situation is what concerns me most of all at present. The failure to think is what troubles me. We have politicians who are failing to think, economists who are failing to think, bankers who are failing to think, and that gives me a cause for pessimism. But it also gives me a reason to get up in the morning.

I make these videos because I do think there is another way of managing the world's economy. This is why I'm writing a book on the subject at the moment. I hope it will be out early next year. This is why I write blogs, and why I create infographics and so much more, all of which you will find on my blog, which I mentioned earlier, so do have a look there. We have to live in hope. I'm trying to create narratives of hope.

That's what I'm doing. You may disagree with what I'm doing. There's a poll down below. Please let us have your comments. We are now analysing them to understand what you think, and that analysis is now going to inform our future videos, so please comment away. Please like this video. Please subscribe. Please hit the bell button, and if you'd like to buy us a coffee so that we can continue to afford to make these videos, that would be great.

Poll

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