Funding the Future

Is AI a giant rip-off?

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Is artificial intelligence becoming the biggest economic rip-off in history? AI companies are attracting enormous investment and promising extraordinary profits. But who is really paying the costs of their activities? The answer is that you are, whether you use AI or not.

In this second video examining the real economic costs of AI, I explain how technology companies are passing enormous costs onto the rest of society while hoping to keep the profits for themselves.

Economists call these costs externalities. They arise when businesses impose costs on others without paying for them.

AI provides some extraordinary examples.

Governments are subsidising AI companies through tax concessions, infrastructure investment and favourable planning decisions.

Meanwhile, AI threatens employment and the tax revenues governments need to manage their economies.

There are also enormous environmental costs, the exploitation of other people's creative work, growing risks of misinformation and fraud, and the concentration of economic and political power in a handful of giant technology companies.

And what happens if the AI investment bubble bursts? Could we all end up paying for another financial crisis?

My argument is that AI companies must be made to account for the full economic, environmental and social costs of their activities.

We cannot allow them to privatise the profits while socialising the costs.

Because if AI companies do not pay those costs, you will.

And that really could make AI one of the biggest rip-offs in history.

https://www.youtube.com/watch?v=9zXG-YprzA8?si=aUYYE4be1M1md2oU

This is the audio version:

https://www.podbean.com/player-v2/?i=ycdrb-1bbd00a-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Who is really paying for artificial intelligence? This is the second of my videos examining AI's real economic costs that we, and not AI companies, will bear. The first considered inflation, interest rates, energy, water, and employment most of all. But there are other costs we also rarely discuss. These relate to AI's impact on public finances, businesses in general, individuals, and democracy. The question is: who is paying for the impact of AI on all of them?

Economists call these hidden costs externalities. They arise when businesses impose costs on others. Those costs do not appear in the accounts of the companies who create them. Instead, other people or society must bear them. This makes private investment appear far more beneficial than it is, and AI provides some particularly important examples of this problem. And amongst all the hype about AI, there might be the biggest rip-off in history going on when the true costs are taken into account.

So what sort of costs am I talking about? Let's take an obvious example.

I think governments may be subsidising private AI profits, fuelling the hype as a result. AI companies do, and will, benefit from major tax concessions in many countries. We're already seeing this. Incentives are being given by way of special tax arrangements to encourage AI companies to invest in particular locations.

And public investment in infrastructure may well subsidise these businesses as well. We are seeing this in the UK. The government is putting money aside to provide the infrastructure that AI companies need. They are not paying the full cost of their services.

And we also know that planning decisions are being taken to favour large technology developments. Special conditions are being attached in the UK, for example, to allow AI companies to build their own power stations in places where we would never have imagined these things being built, and the state may therefore be subsidising investments that they do not control. The resulting profits might belong entirely to shareholders, but they are not picking up all the costs.

And at the same time, there is no doubt that AI is concentrating economic and political power. A few enormous companies dominate AI development. It's already obvious that their financial resources are making real competition increasingly difficult. That is exacerbated by governments competing to attract investment from these very large companies and excluding others in the process. This gives these firms leverage over planning, taxation, regulation, and even the direction of economic policy.

We've seen that in the USA. It was not by chance that the tech bros were at Donald Trump's inauguration ceremony when he became president for the second time, and that these people have dominated so much of thinking in the White House since. Economic dominance can all too easily, in that case, undermine democratic decision-making, and that is the risk that we face.

And AI can also undermine existing tax systems. That is partly by giving them additional tax reliefs and allowances. But it's also because they might replace employees and their wages, and that could have a serious consequence with regard to taxes collected from wages in the future. And we know that the government does need to collect tax because it must take money out of circulation in the economy to control inflation.

If income tax and National Insurance receipts fall, and, at the same time, corporate profits are subject to special deductions, reliefs, and allowances, and are always charged at very low rates compared to other forms of income, we could see real problems arising with regard to the macroeconomic control of the economy as a result, unless we can change the way in which the tax system operates. This is going to be a major challenge, and at present, we need the tax burden to shift onto capital, which is what AI represents, or which the returns from AI represent, but we do not have the means to do that, and this is going to make economies much more difficult to manage.

Tax may pay for nothing, but it remains essential, and AI looks as if it will undermine the very basis on which we charge taxes at present, and if that's the case, we could end up with economic mayhem. That's a major cost it could create. And it's not the only one.

There are others as well. After all, let's just look at the environmental costs, and these extend well beyond data centres. Those are a problem, but manufacturing for AI requires minerals, energy , and industrial processes, all of which make demands upon ecosystems and our economies and local communities in ways that may be irreparable.

Rapid technological change also encourages frequent equipment replacement. Discarded equipment then creates additional electronic waste. We've got to work out how to process this stuff.

And all of these environmental costs, and they could be very significant, are rarely reflected in corporate profits. They are instead borne by society, and are we ready to face them? Because this might be the tipping point that creates an even bigger crisis that threatens us with long-term climate change and environmental and biosphere degradation, which we cannot manage. AI is a real threat.

And let's not ignore the fact that AI companies may just be exploiting other people's work. Their systems are trained using enormous quantities of existing material. I know they have been trained on my material. How do I know? Because I can ask them about it. They have therefore read everything I've ever written. Have they ever paid for it? No, not a penny.

They are copying writing, images, music, and other creative work, including just about everything you might have ever written if you put it into the public domain, and that material is being used without permission or compensation. AI companies then profit from what others have created.

This raises fundamental questions about ownership and economic fairness and future incentives to create, none of which have been properly addressed by our existing economies or by the law around intellectual property, which I often criticise, but which in this case appears to be too weak.

And amongst all of this, let's be clear: AI is making misinformation and fraud cheaper and easier to perpetrate. Convincing fake images, voices, and documents are easier to produce. Fraudsters can use these tools to deceive people. I know it is possible to recreate my voice already using AI. I have heard someone doing it. The fact is, when this becomes commonplace, fraud becomes easier.

Businesses and public authorities must respond to these threats. Society will bear the cost of prevention, investigation, and enforcement, but AI will still take the profit. Society, democracy, and trust suffer when people cannot trust information.

And let's be clear, this cost is very real because AI does simply make mistakes. It says so. Every search that you make on AI normally comes with a little footnote attached saying, "This answer may be wrong." And the fact is, it could be, and sometimes I know it is. I know enough about my subject to know when AI tells me nonsense, and I can question it.

But if that is a cost that we all have to bear, that we get information we pay for which turns out to be misinformation or straightforward category error, somebody has to pay the cost of putting that right or suffer the loss that arises as a consequence of using

this. This cost could then offset any productivity gains being promised by AI. Producing information cheaply is not the same as producing it reliably, and we don't know whether AI ever will be reliable because it works on the basis of putting large amounts of information in and hoping that something useful comes out.

But if the large amounts of information put into the AI system is garbage, some of the information coming out will most certainly be the same. The garbage in, garbage out, or 'GIGO' principle applies here. Do we really want to go down this route and rely upon this for mission-critical systems in our lives, in our countries, and in our critical industries?

And never forget that there's another cost that AI is imposing as well. I keep on finding them, and this one is enormously important. AI speculation could impose costs way beyond the gains that investors have made from this process so far. Enormous investment depends upon expectations of future profits, and that is exactly what is sustaining the investment in AI at present.

But those expectations may themselves prove unrealistic. I admit, I cannot work out where the market for AI is, and that's reflected in the fact that no AI company has yet made a profit or even come close to thinking about one. In fact, in most cases, their losses are bigger than their total sales revenues because their costs are so disproportionate to the income that they can generate.

In this situation, a collapse in valuations is possible. I've talked about the risk of this destabilising financial markets before, and I have no doubt that I will do it again. But businesses and households could suffer wider economic consequences if this were to happen. People who invested in AI could lose their money, but society could bear the costs of the bailout for banking and everything else that will suffer as a result. We have to recognise that this risk is real. It's another externality that AI is threatening to impose upon us all.

What I am saying therefore is that AI companies are creating enormous real costs for us. Many of these are not being recognised in their accounts. They do not account for the costs that they're imposing on society. And this means that governments should require demonstrable benefits from the public subsidies that they're providing to AI and accountability for AI companies' actions. If you're giving them money, you expect something in return. Accountability is the expectation.

Environmental damage and infrastructure costs must be properly charged for as a result.

Special tariffs might need to apply with regard to electricity, water, and other supplies.

And monopoly power, taxation and intellectual property laws must be reviewed to ensure that effective regulation is in place because otherwise we will pick up more

costs.

That’s true, especially with regard to taxation. We have not yet thought through what the government is going to do with regard to taxation in an AI environment, and yet that environment is being created all around us now. We have to adapt.

And in the midst of all of this, there is one other issue to think about, and that is democratic accountability. How are we going to use democratic accountability to hold AI to account? And how are we going to use AI to hold government to account? All of these questions need answers. I’m not saying AI can go away. We’ve got it. It won’t disappear. But we need to work out how it is used for public benefit.

So the question is: should AI companies pay the full cost of their activities? I think they should, because you will if they don’t. And we do therefore need to restructure the way in which we can capture the costs of an operation inside a company’s accounts, and that is something we’ve not done yet. We need to, and we need to do so urgently, or AI will quite literally potentially cost us the earth.

That’s what I think. What do you think? There is a poll down below. Please let us have your opinions. Please do like and share this video. Please do subscribe to the channel. Hit the bell button. You'll then know when we’ve made another video. And if you want to see what else we’re doing, there are playlists down below, and they’re worth looking at.

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Poll

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