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AI: Promise, Peril, and Policy

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AI’s Dual Impact

Opportunities for growth, but poses risks

Why and What Policy

Effective governance and policy decisions will shape AI’s impact.

World Bank’s Role

The World Bank focuses on leveraging AI to reduce poverty and promote shared prosperity worldwide.

Lessons from Korea

World leader in AI policy – other speakers will address

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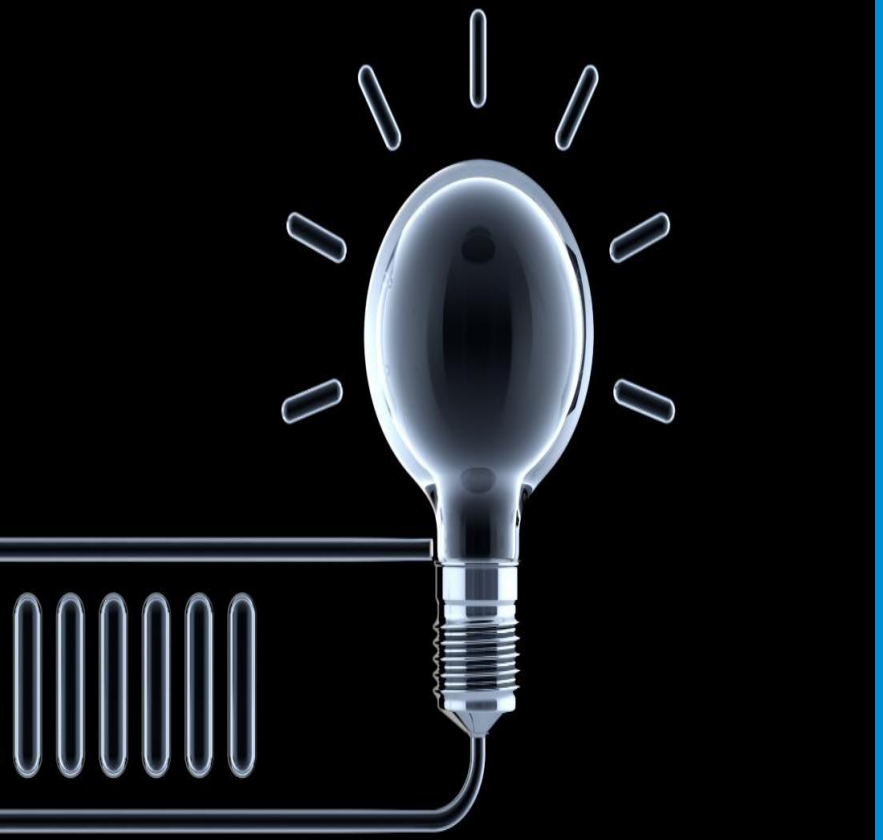

From Steam to AI

Innovation is nothing new:

Horse power, to steam power, to electricity, to ICT, and now AI. Each reshaped economy.

So why all the fuss over AI?

It is distinctive as a general purpose technology.

Impacts more far reaching than anything we have witnessed

(See Nexus by Yuval Harari)

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Two Faces of Technology

Output Effects

Productivity improvements - lower costs, creates jobs. New products

Substitution Effects

Machines replace human labor in tasks, reducing demand for workers -> job loss, low wages

Will Output Effects > Substitution Effects

AI enhances efficiency and creates new products but also automates many tasks.

Even if Output Effects > Substitution Effects --- who captures the benefits?

Will inequality rise or fall?

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Out put effects and The Productivity Puzzle

AI Productivity Gains

AI improves productivity by 10–15% in routine tasks and up to 60% in specialized use cases.

But limited impact on macroeconomic productivity (TFP):

Most estimates

- ~0.5% – 1.5% annual TFP boost (gradual diffusion)

More optimistic projections:

- 2–3%+ sustained TFP growth

Exaggerated claims / hype:

- ‘10x economy-wide productivity’ - disinflation
- Near-total automation of cognitive work

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Who Is Exposed?

Jobs at Automation Risk

Approximately 9% of jobs face a high risk of full automation.

Jobs Undergoing Transformation

Perhaps > 30% cognitive and high-skill tasks highly impacted.

Need for Adaptability

Adaptability and continuous learning are essential to cope with AI-driven changes in the labor market.

=>Countries with weaker education face greater challenges

AI and Inequality

Silicon Divide Across Countries

AI development concentrates wealth and power in few countries and firms, deepening global inequalities.

Domestic Wage Divide

AI widens wage gaps.

Job Losses

Can we re-train workers at scale?

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Technology Is Not Destiny

AI Impact Shaped by Choices

AI’s effects on growth, jobs, and inequality depend on policy choices rather than predetermined destiny (see Acemoglu and Johnson).

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THANK YOU

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References

- Brynjolfsson et al. (2023, QJE) – ~15% productivity gain
- OECD (2018, 2023) – ~9% automation risk
- IMF (2024) – ~40% jobs exposed
- Aghion & Bunel (2024) – 0.7–1.3pp TFP
- Acemoglu (2024) – very modest macro impact
- OECD (2024) – 0.3–0.7pp TFP

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