



SALT INSIGHT

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AI, productivity and the danger of believing too soon

The modern economic narrative around artificial intelligence rests on a powerful and increasingly unquestioned assumption that rapid technological progress will soon translate into a surge in productivity, easing inflationary pressure and allowing monetary policy to settle comfortably at lower interest rates. It is an elegant story. It is also, at this stage, far more speculative than many are willing to admit.

History offers a useful balance. General-purpose technologies rarely deliver immediate, economy-wide productivity gains. Electricity, computing and the internet all required long periods of complementary investment, organisational redesign, regulatory adaptation and human-capital development before measurable improvements appeared in official productivity statistics. Early excitement consistently overstated the near-term impact while underestimating the time and cost required for diffusion. There is little reason to assume artificial intelligence will prove different.

Capital intensity, uncertain profits, delayed productivity

Several features of the current AI cycle suggest the path to broad productivity gains may be slower, and more uncertain, than the prevailing optimism implies. Unlike

earlier waves of software innovation, AI is strikingly capital-intensive. The infrastructure required to train and deploy advanced models such as hyperscale data centres, specialised semiconductors and vast energy inputs demands enormous upfront investment. Such capital deepening can support future efficiency, but in the near term it raises costs, concentrates market power and creates pressure for high returns that may prove difficult to realise.

The commercial model remains equally unsettled. While AI capabilities are advancing rapidly, sustainable revenue generation is far less clear. Many applications enhance convenience or automate narrow tasks without obviously transforming aggregate output. Others risk rapid commoditisation, compressing margins rather than expanding them. If the productivity dividend proves modest relative to the scale of investment, the result could resemble previous technology booms in which financial returns lagged technological achievement.

This uncertainty matters not only for investors, but for macroeconomic policy. A growing share of market commentary implicitly treats future AI-driven productivity as a counterweight to structural inflation. Yet this reasoning places significant weight on gains that have not yet appeared in the data and may take years to materialise.

Why productivity matters — especially in an ageing world

Scepticism about timing should not be confused with indifference about outcome. Regular readers of Salt research will know that we very much hope artificial intelligence does ultimately deliver meaningful productivity gains. In a world defined by rising dependency ratios, ageing populations and, outside the United States, persistently weak productivity growth, a genuine lift in efficiency is not merely desirable; it is essential to sustaining living standards. Without stronger productivity, the arithmetic of ageing alone implies slower growth, greater fiscal strain and more difficult distributional trade-offs.

This demographic reality also complicates the popular narrative that AI will usher in an era of mass unemployment. Across most advanced economies, the structural challenge of the coming decades is unlikely to be an excess supply of labour, but rather its scarcity. Working-age populations are stagnating or shrinking even as retiree numbers expand. Technologies that augment human capability may therefore be critical to maintaining output, fiscal sustainability and living standards. Historically, technological change has transformed labour markets rather than eliminated them and there is little evidence so far that AI will overturn that pattern at the aggregate level.

In that sense, the long-run promise of AI is not a luxury but a necessity. The real risk lies not in believing too much in technology's potential, but in assuming its benefits will arrive quickly enough to resolve today's macroeconomic constraints.

Structural inflation pressures are already here

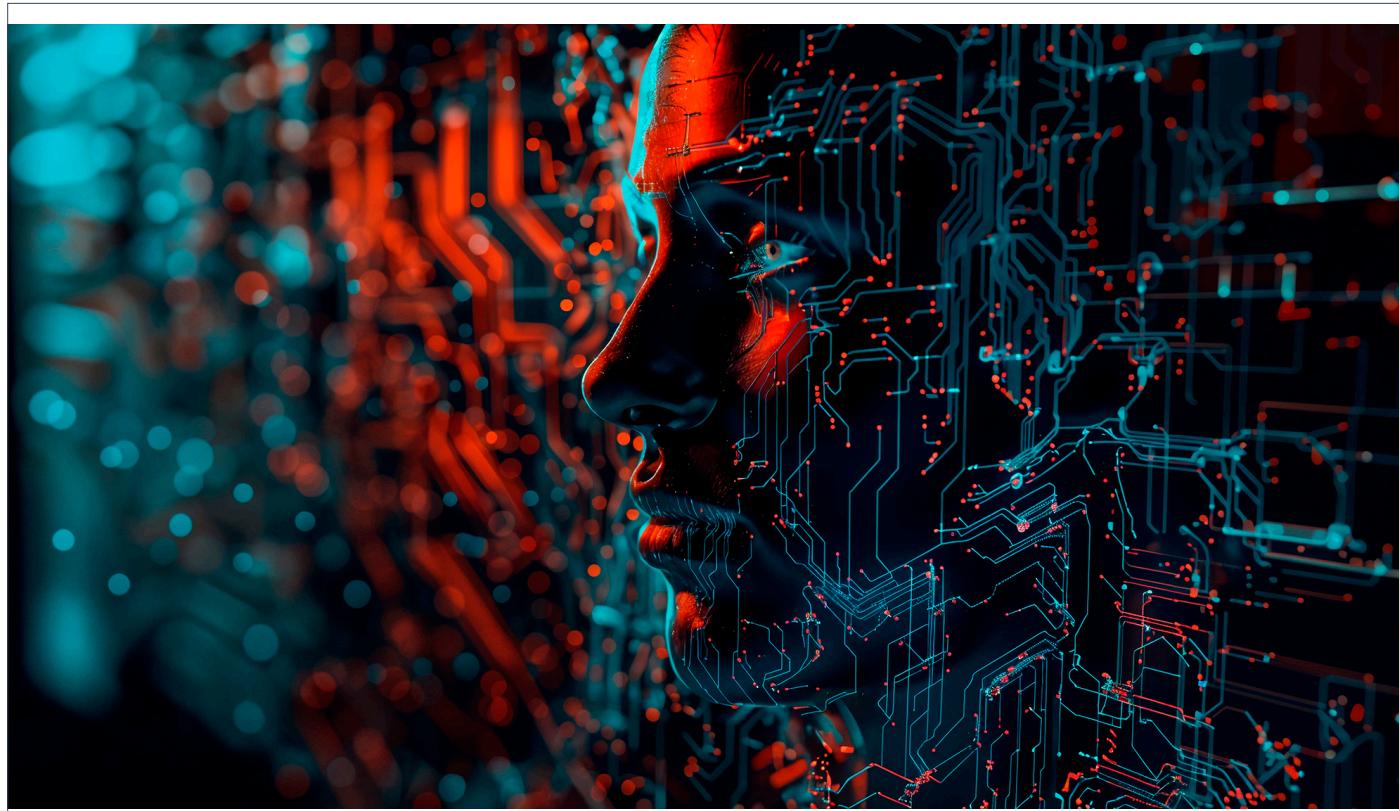
Meanwhile, the forces shaping the inflation outlook today look considerably less benign. Fiscal policy across much of the developed world remains expansionary, with structural deficits elevated even outside recession. Demographic ageing is tightening labour supply while raising public-spending pressures. Geopolitical fragmentation is prioritising resilience over efficiency. And both the energy and digital transitions require sustained, capital-heavy investment unlikely to be disinflationary in the near term.

Against this backdrop, the assumption that AI will smoothly neutralise structural inflation risks begins to look less like analysis and more like hope.

Markets are already priced for success

Financial markets already appear to be operating on the assumption that the productivity promise of artificial intelligence will arrive smoothly and soon. Global equities have delivered a third consecutive year of unusually strong returns despite geopolitical disruption, erratic policy signals and elevated valuation starting points. Momentum, narrative and belief in technological transformation have outweighed traditional fundamental concerns.

Nowhere is this clearer than in the extraordinary concentration of global equity indices in a small group of US mega-capitalisation technology firms. Current valuations implicitly assume not only that artificial intelligence will generate substantial productivity gains, but that those gains will translate into durable profitability within a relatively short timeframe.



The risk is therefore not merely technological uncertainty, but temporal uncertainty. If widespread commercial monetisation of AI emerges within the next couple of years, today's valuations may ultimately prove justified. But if the productivity and earnings dividend takes materially longer to appear, the adjustment required in both expectations and asset prices could be significant.

Importantly, the regions and sectors where artificial intelligence could ultimately deliver the greatest marginal productivity gains are not necessarily those currently commanding the highest valuations. Labour-intensive industries and less-efficient economies may stand to benefit most—suggesting the long-run productivity story could be broader than current market leadership implies.

Meanwhile, sovereign bond markets offer a parallel warning. Persistent fiscal deficits, demographic pressures and structurally higher inflation risks are keeping long-term yields elevated. If AI fails to deliver rapid disinflation, the coexistence of high equity valuations and firmer bond yields may prove difficult to sustain.

From market narrative to monetary policy risk

This debate is now moving from markets into monetary policy itself. US Federal Reserve Chair nominee Kevin Warsh appears sympathetic to the view that artificial intelligence could prove materially disinflationary by lifting productivity. The intellectual lineage is familiar. In the 1990s, Alan Greenspan judged that the internet-driven technology boom was raising productivity and thereby allowing stronger growth without inflation, an assessment that, for a time, proved broadly correct.

But the deeper lesson is not that central banks should anticipate productivity miracles. It is that policy credibility rested on evidence that productivity gains were visible in the data, and monetary policy adjusted accordingly. Technology validated policy, not the other way around.

The risk today is the reverse sequencing. If policymakers and markets ease financial conditions on the expectation of future AI-driven productivity that proves slower or narrower than hoped, inflationary pressure may become embedded before supply-side relief arrives.

Hope, evidence and the importance of timing

Artificial intelligence may yet reshape the global economy in profound and positive ways. Given demographic headwinds and weak productivity trends across much of the developed world, we should hope that it does. But hope about the long run cannot substitute for evidence in the present. Until broad-based productivity gains are visible in the data, confidence in a painless, AI-driven disinflation looks premature.

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