

Macro Roundup Article

Headline: [Assessing the Implications of a Productivity Miracle](#)

Article Link: <https://www.bridgewater.com/document/assessing-the-implications-of-a-productivity-miracle?id=0000018c-274a-de3d-a7ae-afeac3310001>

Author(s)	Greg Jensen, Lauren Simon, and Josh Moriarty
Publication	Bridgewater Associates
Publication Date	December 07, 2023

Tweet: Bridgewater forecasts that AI productivity will have a “Model T Effect” where consumers buy more of previously-unaffordable cognitive services, and shift spending to other forms of consumption.

Summary: If AI can perform economically valuable cognitive tasks at very little marginal cost, it could similarly open up new horizons for spending and economic activity. In some cases, we will see a “Model T effect”: consumers buying a lot more when the price of a previously unaffordable item is slashed, causing entire new industries to spring up. Lower prices in one sector also often lead to higher spending in unrelated discretionary sectors because people effectively have more to spend elsewhere. A similar phenomenon (though not productivity-driven) happens over shorter time horizons when energy prices fall and consumers shift wallet share toward more discretionary categories of spending. Over longer periods, this dynamic generally leads to rising activity and employment in sectors facing increased demand. When supply in those sectors is inherently limited—such as in real estate—it can also produce inflation, as cost savings in one area are used to bid up the price of truly scarce resources in another. We’ll likely see a mix of the two dynamics as AI lowers production costs: customers will buy more at the new lower price but will also spend some of their savings in other categories.

Related Articles: Will A.I. Transform the Economy, and if So, How? and Integrating the Goldman AI Report Into Our Views and The Outlook for Long-Term Economic Growth

Primary Topic: Innovation/Research

Topics: Business Cycle, Database, GDP, Innovation/Research, Op-Ed/Blog Post, Productivity

Permalink: <https://www.edwardconard.com/macro-roundup/bridgewater-forecasts-that-ai-productivity-will-have-a-model-t-effect-where-consumers-buy-more-of-previously-unaffordable-cognitive-services-and-shift-spending-to-other-forms-of-con?view=detail>

Featured Image

Link: <https://www.edwardconard.com/wp-content/uploads/2023/12/Bridgewater-AI.png>