

How will AI affect long run economic growth in developed countries?

The last decade has seen the use of AI soar in developed countries such as the UK. From being little used 10 years ago to being actively used by approximately 54% of UK firms in 2026¹. From healthcare to financial services to consumer goods, AI has found its way into industries right across the commercial world. Not only do firms use AI to drive efficiencies into their process, but also to sell the dream of the functionality it brings to consumers too. A spokesman from IBM states “AI’s ability to optimize processes and reduce inefficiencies is transforming supply chains, helping businesses remain competitive in an increasingly complex global marketplace”². So, is this positive or negative and how will it affect the economy long term?

First, the use of AI in the workplace could lead to increased efficiency and productivity. The increase in efficiency comes from examples such as entry-level white-collar roles, basic customer interface jobs and routine data management positions being amongst those which could be entirely automated and completed by AI enterprise systems. The results of this are twofold; firstly, a smaller wage bill for firms due to decrease the size of their labour workforce, and secondly surplus workers available to be upskilled to work in different roles. Whilst there may be a time lag whilst workers gain the relevant training and skills, the reward is an increased skill set and potential higher salary. Increased productive potential will lead to increased output for firms, an increase in revenue and a higher profit margin.

The higher profit margin brings potential opportunities for investment, perhaps in ways such as improving infrastructure or working conditions, which in turn could trigger a decrease in the cost of production. The cycle continues as firms then have further disposable income to invest which could prompt the multiplier effect, essentially injecting into the circular flow of income, leading to a greater increase in national income. However, not all firms are using this to their advantage. As a spokesperson from PWC stated “It finds that nearly three-quarters (74%) of AI’s economic value is captured by just one-fifth (20%) of organisations, revealing a stark and widening divide between a small group of AI leaders and the majority of businesses still stuck in pilot mode.”³ This clearly depicts that small companies can achieve dynamic efficiency by investing into the business and stimulating aggregate demand but aren’t currently deploying this as strategy. So, more firms need to explore the use of AI, because more available, efficient supply chains support the growth of Gross Domestic Product and encourage consumer’s marginal propensity to consume to increase. An increase in consumption and an expansion in the economy could only be positive, right?

AI is extremely precise and discards human error. This is crucial in several industries where AI is used. For example, within the healthcare sector as it dictates whether people survive or not. The implementation of AI within this sector will significantly benefit not only the economy but also the stress on the healthcare system such as the National Health Service (NHS). NHS England states “AI has been used to help diagnose COVID-19 from chest imaging and used to

¹ Bilal, Taha, AI Automation Statistics (2026): 50+ Data Points on UK Adoption, ROI, and the Workforce - ‘<https://aristral.com/blog/ai-automation-statistics-2026>’, last accessed 25 June 2026

² Finn, Teaganne, AI is revolutionizing efficiency - ‘<https://www.ibm.com/think/insights/how-does-ai-improve-efficiency>’, last accessed 27 June

³ PWC, Three-quarters of AI’s economic gains are being captured by just 20% of companies – with the leading companies focused on growth, not just productivity: PwC – ‘<https://www.pwc.com/gx/en/news-room/press-releases/2026/pwc-2026-ai-performance-study.html>’, last accessed 27 June

help secondary care dermatology referrals, e.g. skin analytics.⁴. The use of AI may lead to increased life expectancy and better healthcare facilitating less time waiting in waiting rooms and more people working and earning a wage consequently they will have more disposable income culminating in an increase in consumption on a variety of goods and services and a rise in economic welfare.

However, this will require lots of aid from the government as it will cost a significant amount to implement and adapt to old system or to create new entire ones solely for AI. Also, it depends on the financial state of their economy, if the government is in a high budget deficit, then the implementation is unlikely. Additionally, the government may optionally choose not to integrate it due to them lacking the correct knowledge on how positively or negatively it will impact firms in the economy – stemming from information failure. AI will also have high maintenance and upkeep costs as well as privacy concerns around handling public sensitive data.

Overall, I believe the use of AI will lead to a substantial positive impact on the economy within developed countries as it benefits both producers and consumers in terms of productivity, efficiency and overall happiness. However, it depends on the confidence of the economy and how well the AI is monitored, trained and what tasks it is left to perform. As AI doesn't think like a human due it being run on an algorithm, it may misinterpret data and make the wrong decision. The decision based around if AI should be implemented into an economy, should also depend on if the future growth gained will be sustainable, this means that the increase of GDP doesn't damage natural resources or the economy for future generations in the long run.

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⁴ NHS England, Artificial intelligence (AI) and machine learning –
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