

# AI, Plutonomy and the Next Crisis(?)

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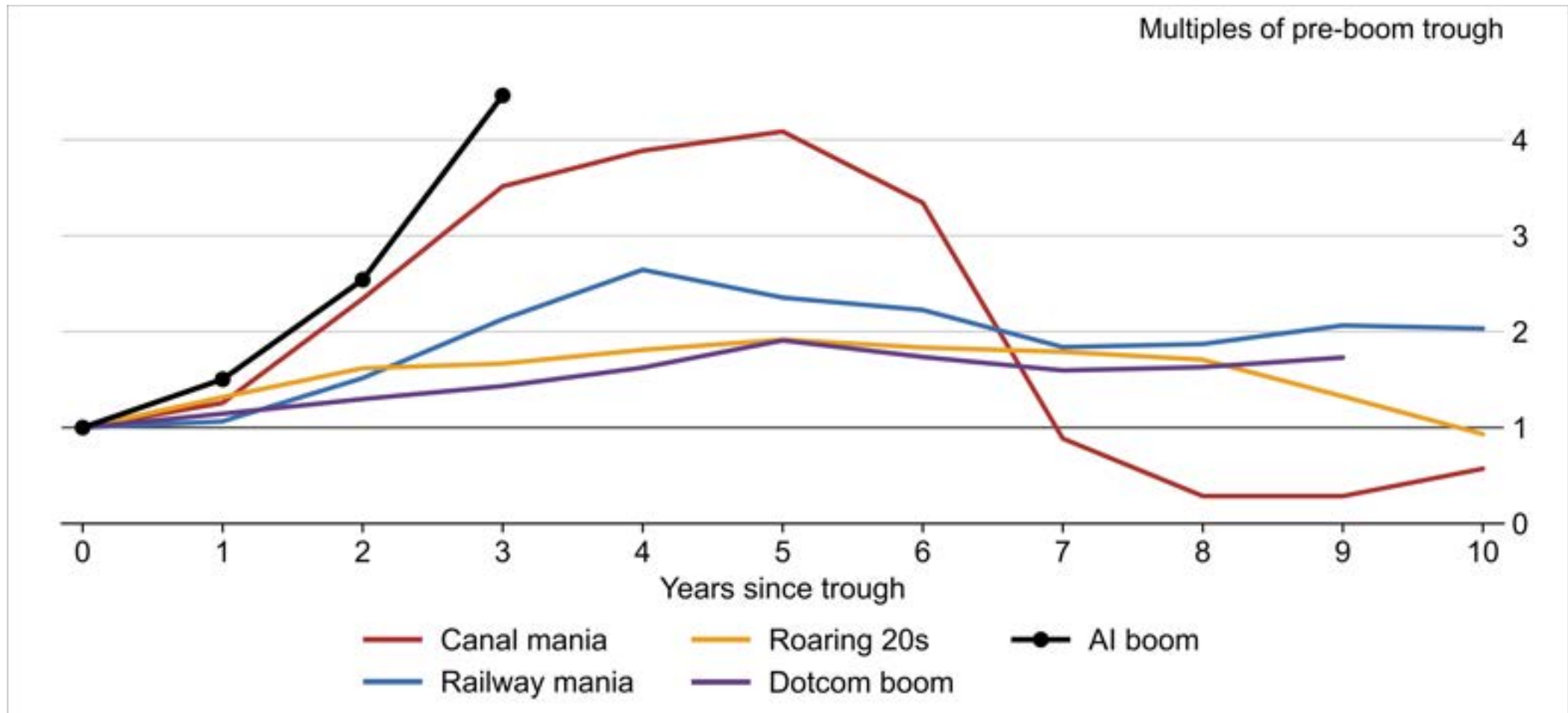
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# The General Framework

- Crises endogenous to the system.
- Economic structure and policy frameworks can facilitate or impede crises.
- Why has the U.S. economy become crises-prone and asset price inflation dependent?

Figure 1: AI boom and its financing

(a) AI investment boom and historical episodes



Source: BIS

# Scale of AI Capital Expenditures

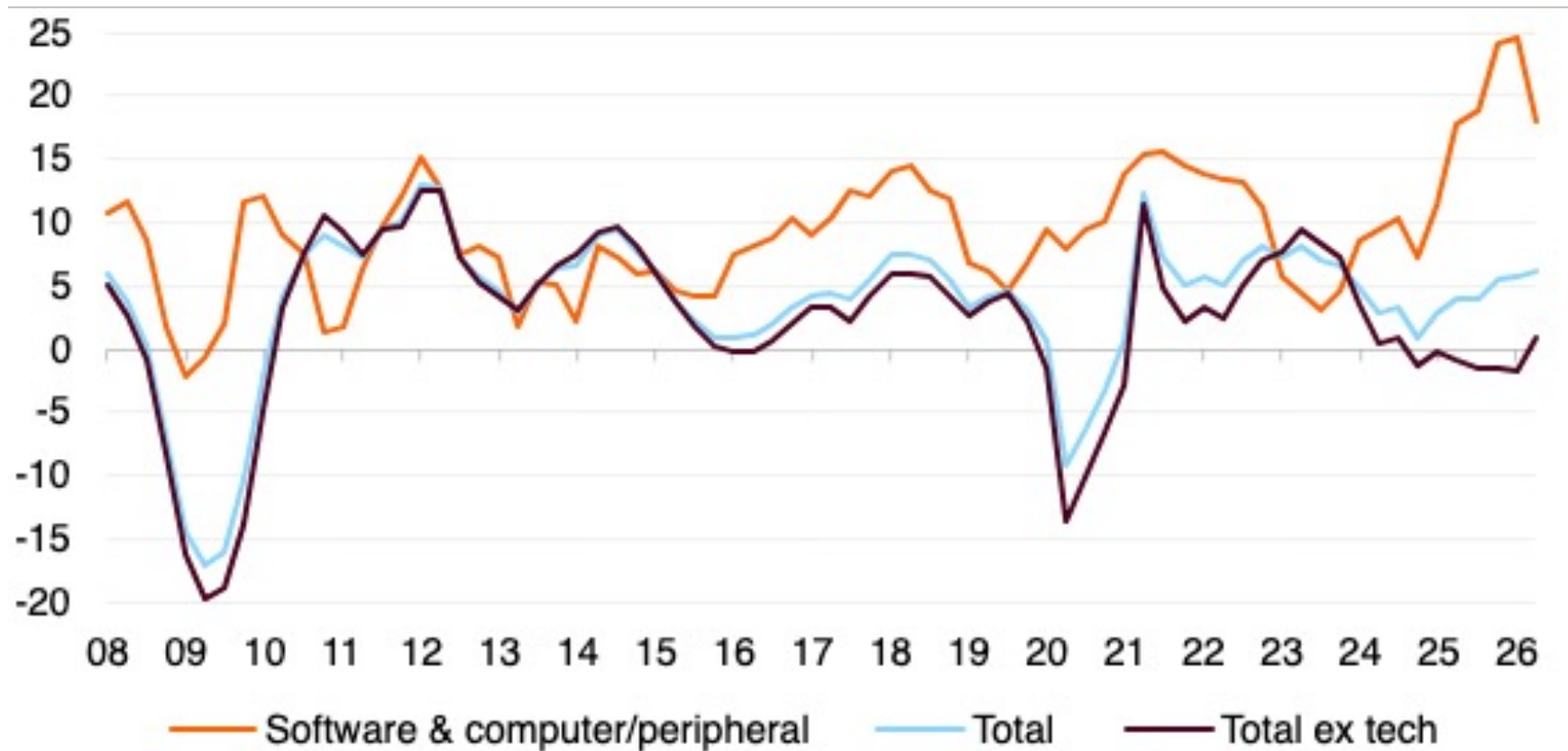
- Total capex by the so-called hyperscalers is set to exceed \$700 billion in 2026 (BIS).
- Brookings projects that “AI investment in data centers, power, and chips could total \$10.3 trillion from 2025 to 2032, or 3.63% of U.S. GDP per year.”

# Tech Investment Contribution to GDP Growth



Source: Macrobond, ING

# Tech Capital Expenditures vs. Everything Else



Source: Macrobond, ING

# Crisis or No Crisis is Not the (Only) Question

## **Scenario A: AI disappoints**

- AI fails to deliver on its promised profitability failing to justify the investment made.
- Scale, speed and finance.

## **Scenario B: AI succeeds**

- AI delivers major productivity gains, but what type of economy does that perpetuate?

# Scale: Competitive Overinvestment

- Winner-take-most dynamics in tech creates intense competition and overinvestment.
- No firm can scale back individually.
- But...“The more capacity the sector builds, the higher the productivity bar it must clear to sustain the boom, so a larger boom is both more likely to disappoint and more damaging when it does.” (BIS, 4)

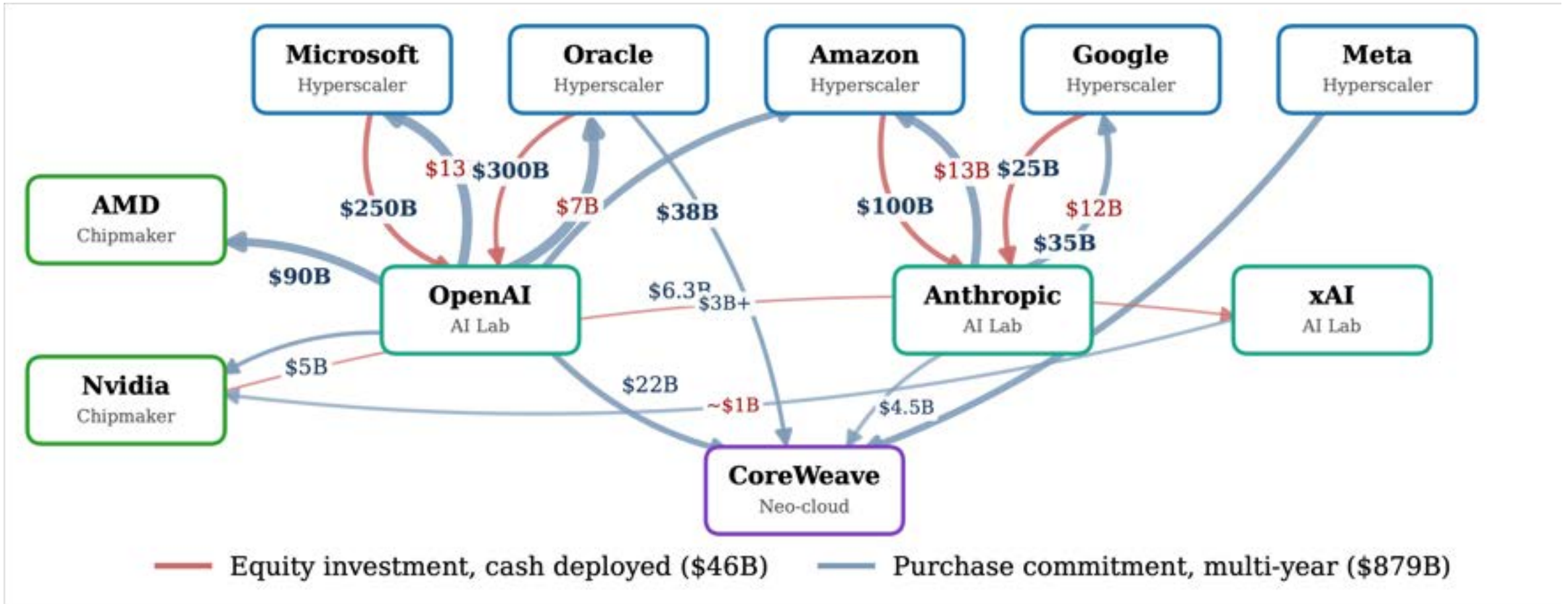
# Speed: Will the Gains Arrive Quickly Enough?

- Enormous upfront investment, rapidly depreciating hardware, and uncertain returns create pressure for gains to arrive quickly and at a very large scale.
  - Firms may have to keep investing in newer hardware even before the previous generation has fully paid for itself.
  - Older chips can still be useful, but less competitive as newer ones deliver more computing power per dollar and/or per unit of electricity.

# Financial Fragility: “Innovative Finance”

- “Financing is shifting off company balance sheets to joint ventures, private credit, and special-purpose vehicles, making risk harder to see.” (Brookings)
- Private Credit Funds.
  - *Originate to distribute model* : issuing securities with different risk/return profiles against loans.
  - Payment-in-Kind loans where interest is capitalized.
- Banks are still involved as lenders to private credit funds (+pension funds and university endowments).

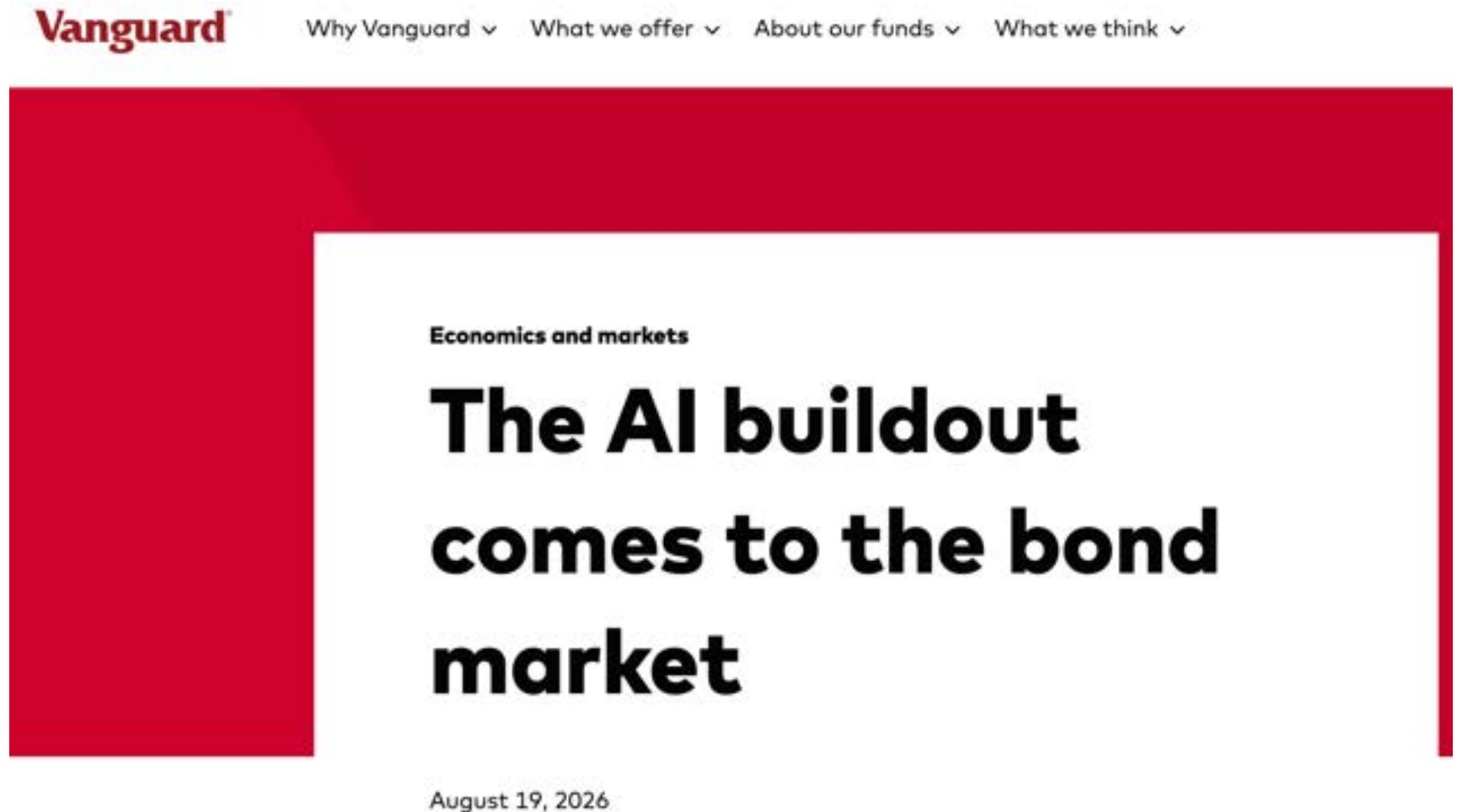
(b) AI's circular financing structure



- “[T]he failure of one lab could hit the hyperscaler’s balance sheet, forcing a retrenchment from another lab, distributing the stress further.” (BIS 2026)
- “The reach of such a cascade widens as the build-out grows and as funding concentrates on the backers that bridge several labs.” (BIS 2026)

# Reliance on Traditional Borrowing

Increased correlation  
between stock and  
bond markets?



# Scenario A: AI Disappoints

- Investment spending contracts, company valuations fall, and losses spread.
- Debt service becomes harder, financial “innovation” comes back to bite.
  - Private credit, banks, pensions, equity, and bond markets potentially affected.
  - Will monetary policy pop the bubble as it did in the 1990s?
- No full-blown financial crisis, but a mild recession
  - Can still have prolonged job market effects. Another bubble to the rescue?
- Will the Fed be under pressure to intervene?

# Scenario B: What if AI Does “Succeed”?

- Labor is either deskilled significantly or replaced.
- Even if new jobs eventually emerge that does not guarantee a smooth transition.
  - If job losses spread rapidly across many occupations, displacement could happen faster than workers can move into new jobs.
- The new jobs need to generate enough aggregate labor income to support demand.
- Big question: who gets the gains from increased productivity?

# Will the Success of AI Perpetuate the Plutonomy?

- An economy in which the wealthy minority disproportionately drives consumption, saving and asset accumulation.
- “[d]isruptive technology-driven productivity gains, creative financial innovation, [and] capitalist-friendly co-operative governments”



See page 15 for Analyst Certification and Important Disclosures

## Industry Note

### Equity Strategy

#### Revisiting Plutonomy: The Rich Getting Richer

March 5, 2006

#### SUMMARY

- The latest Survey of Consumer Finances, for 2004, has been released by the Federal Reserve. It shows the rich continue to account for a disproportionately large share of income and wealth in the US economy: the richest 10% of Americans account for 43% of income, and 57% of net worth. The net worth to income ratio for the richest 10% of Americans increased from 7.4x in 2001, to 8.4x in the 2004 survey. The rich are in great shape, financially.
- We think this income and wealth inequality (plutonomy) helps explain many of the conundrums that vex equity investors, such as why high oil prices haven't seriously dented growth, or why "global imbalances" are growing along with the equity bull market. Implication 1: Worry less about these conundrums.
- We think the rich are likely to get even wealthier in the coming years. Implication 2: we like companies that sell to or service the rich - luxury goods, private banks etc. Favored names include LVMH and Richemont.

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- “Labor’s share of gross domestic income sank to 51%, the lowest since records began in 1947. Profits’ share climbed to 12.1%, the highest since 1950.”
- “Adjusted for inflation, hourly wages are up 3% since...2019 while profits are up 50%.” (WSJ)



Source: Board of Governors of the Federal Reserve System (US) via FRED®

*Shaded areas indicate U.S. recessions.*

[myf.red/g/1Z5C6](https://myf.red/g/1Z5C6)

# Plutonomy and Asset Price Bubbles

- As the wealthy derive their income from assets, maintaining aggregate demand requires continuous asset price appreciation.
  - A system built around rising asset values needs those values—and the spending they support—to continue.
- If AI investment slows and/or asset prices fall, the economy lacks the broad-based consumption to cushion the shock.
- The ultimate plutonomy experiment?
  - Mass production *without* mass human labor or mass consumer demand, relying on the appreciation of asset prices held by the wealthiest households.

# What Needs to be Done?

- The goal should be not just to stop a crash or mop up afterwards, but to change the structure that creates repeated bubbles.
- Return to “trickle-up” fiscal policy: strengthen mass purchasing power, employment, and income security.
- Address the wealth and income inequality.
- Refocus finance: shift finance toward productive “enterprise” and what Minsky called the capital development of the economy.