



**Bennett Institute**  
for Innovation and  
Policy Acceleration

# Rebalancing in the digital economy

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# Rebalancing what?



**Income & Wealth:** across generations and countries



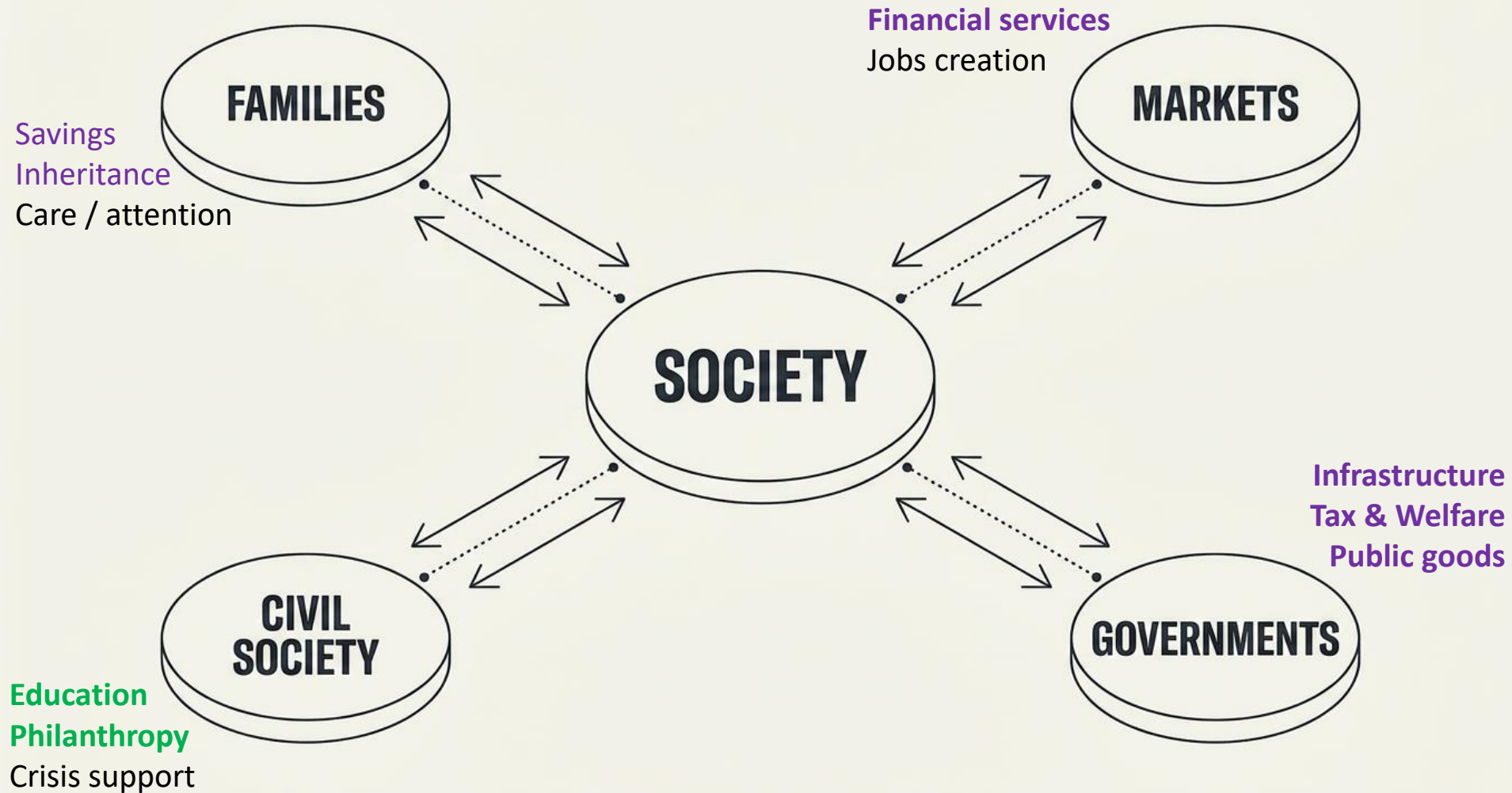
**Opportunity (outcomes?)**



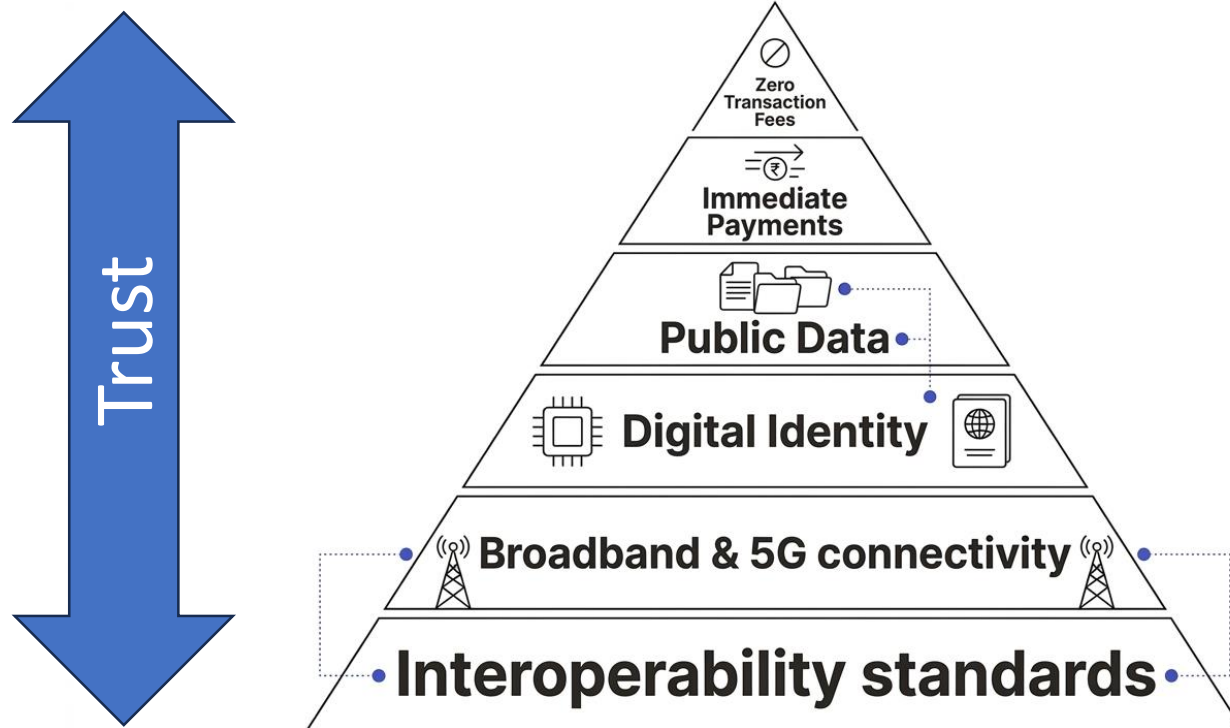
**Power:** do lobbyists have the right amount of influence?



**Taxation:** do the rich pay enough? Do **you**?



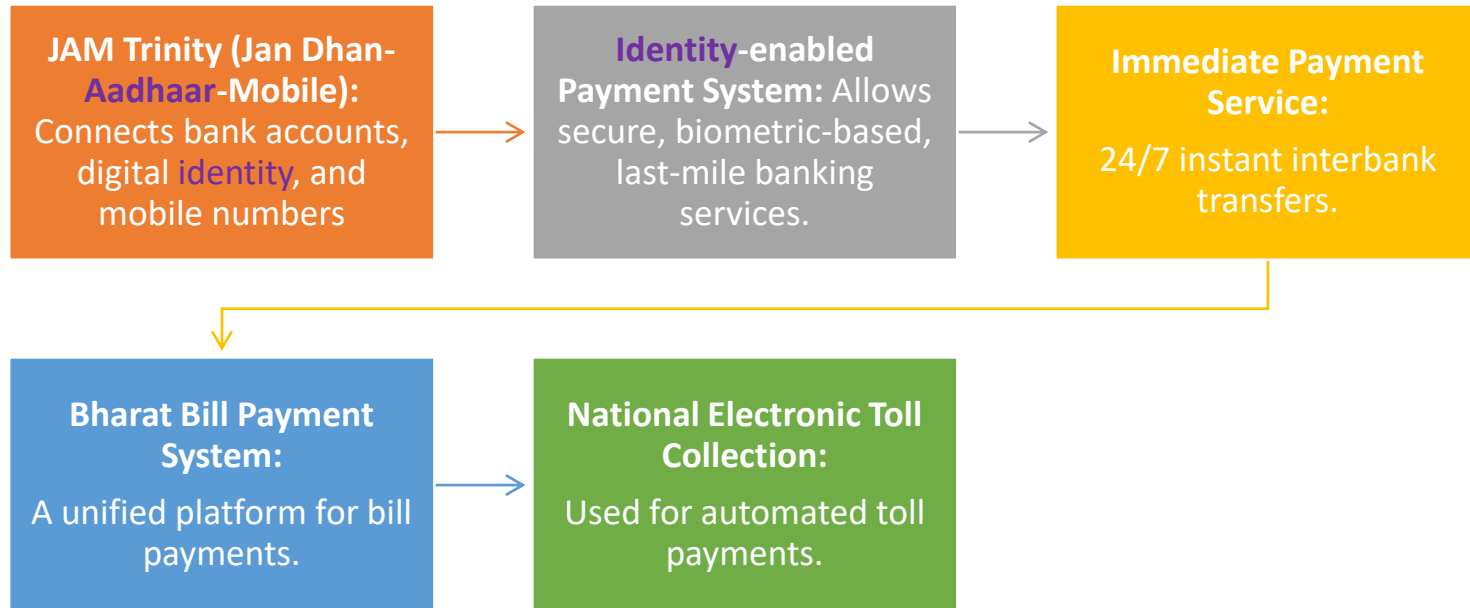
# The New Digital Public Infrastructure



*Shared digital systems that any actor – public or private – can plug into.*

# India's Unified Payments Interface (UPI)

An instant real-time payment system that enables bank-to-bank transfers via mobile apps



# Digital infrastructure shapes state capacity

## Financial Inclusion

Bringing the unbanked into the formal economy

## Welfare Delivery

Direct, targeted, verifiable transfers

## Tax Administration

Reduced evasion, broader base

## Productivity

Lower transaction costs across the economy

## Competition

Open rails prevent platform lock-in

## AI Governance

Data infrastructure enables oversight

# Financial Inclusion enables:

A gateway to the formal economy for hundreds of millions of people.

## **Saving → wealth accumulation**

Formal savings accounts accessible for the first time

## **Borrowing → investment & consumption smoothing**

Credit histories built through digital transaction records

## **Insurance → resilience**

Micro-insurance products delivered digitally

## **Reduced corruption → improved efficiency of govt spending**

Direct benefit transfers reaching intended recipients



# India's Universal Payments Interface

**504 million users**

**65M**

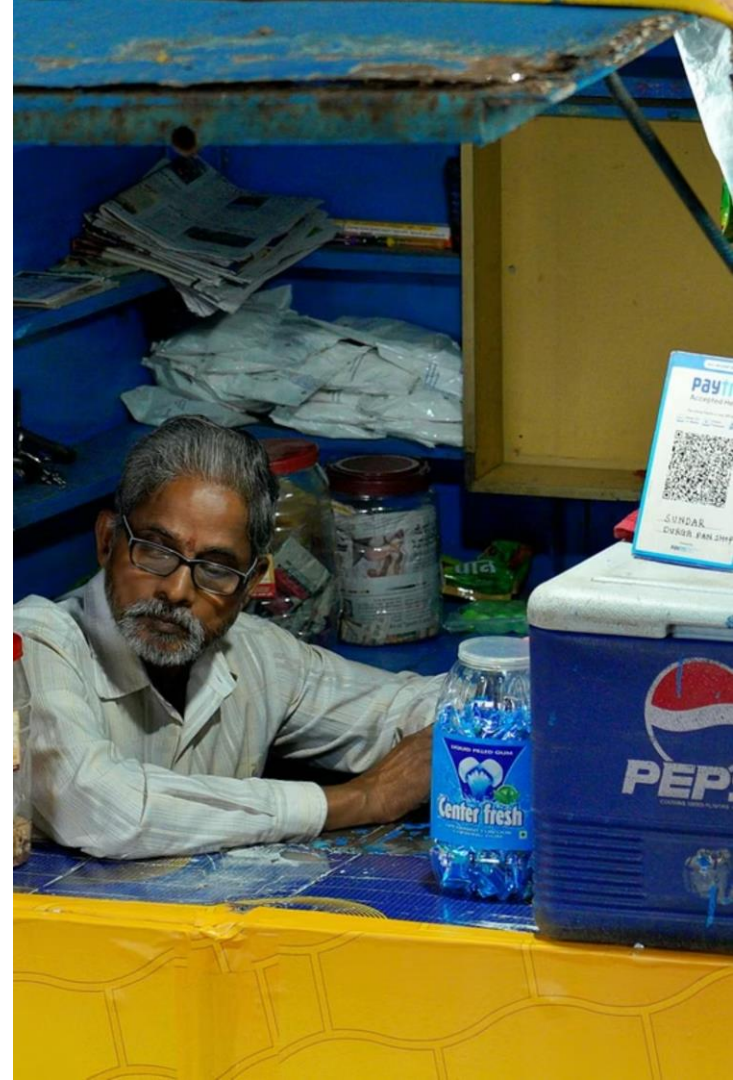
Merchants accept UPI

**81%**

Retail Payments (by \$)

**\$354bn**

Monthly transactions



# Significant reductions in corruption

## Expanded tax base

Shifting from informal → formal economy triggers taxes

## Beating 'Speed Money'

Instant payment & direct service delivery eliminates bribes to expedite

## Ghost busting

Stop wasting services on ghosts

## Reduced Skimming – cuts out middlemen

Welfare payments | govt spending | public sector wages

Government has transferred **+US\$ 588bn** directly to beneficiaries' bank accounts, saving over **+US\$ 45bn** by eliminating ghost recipients.



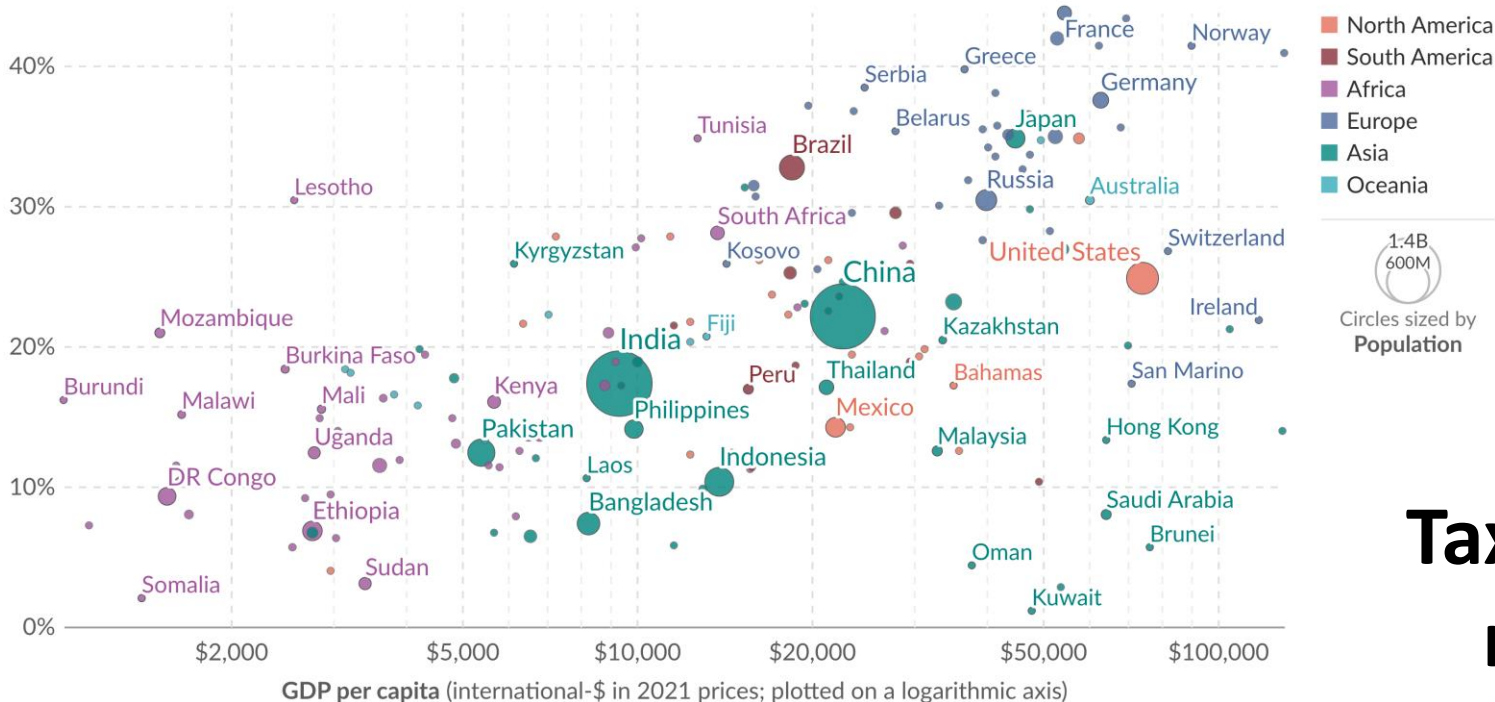
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# The looming AI tax gap... and what to do about it

# Tax revenue as share of GDP vs. GDP per capita, 2023

Taxes include direct and indirect taxes as well as social contributions. GDP per capita is adjusted for inflation and differences in living costs between countries.

Tax revenue (% of GDP)



## Tax capacity matters

Data source: UNU-WIDER Government Revenue Dataset (2025); Eurostat, OECD, IMF, and World Bank (2026)

Note: GDP per capita is expressed in international-\$<sup>1</sup> at 2021 prices.

OurWorldinData.org/taxation | CC BY

# AI may erode the tax base

We tax labour more heavily than capital. As AI substitutes for labour, the fiscal arithmetic changes.

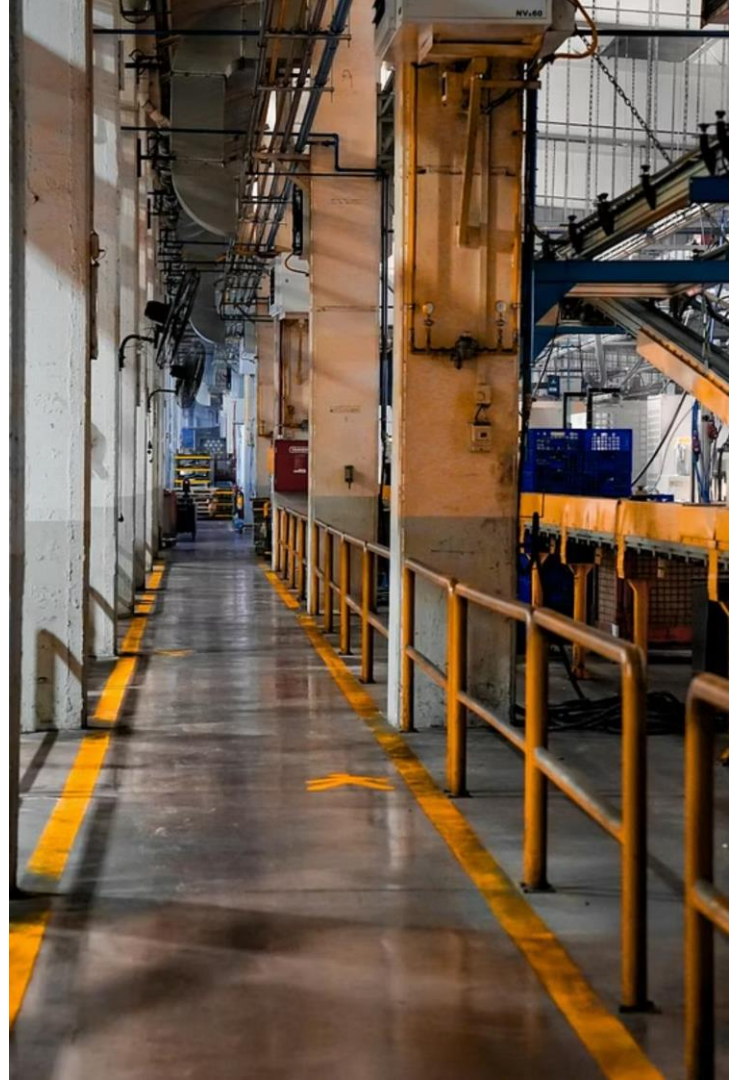
## Labour Income **35.1%**

High effective tax rates — income tax, national insurance, payroll levies

## Capital & Algorithms **19%**

Lower effective rates — corporate tax, capital gains, often deferred or avoided

⚠️ As value creation shifts from workers to algorithms, the structural tax advantage of capital over labour becomes a fiscal crisis — not just an equity concern.

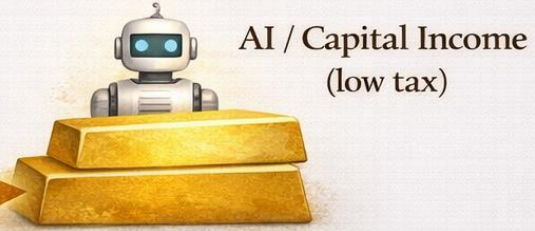


# As AI Replaces Labour, the Tax Base Shifts

— BEFORE —



— AFTER —



10% Shift of Value-Added → 2.1% Drop in Global Tax Revenue



# Falling revenues. Rising demands.

## Rising Expenditure Pressures

### Ageing Populations

Pension and healthcare costs compounding

### Inequality

Demand for redistribution intensifying

### Transition Costs

Climate, automation, and structural adjustment

## Shrinking Revenue Base

### Labour Tax Erosion

Automation reducing the primary tax base

### Mobile Capital

Profit shifting and tax competition

### Global Firms

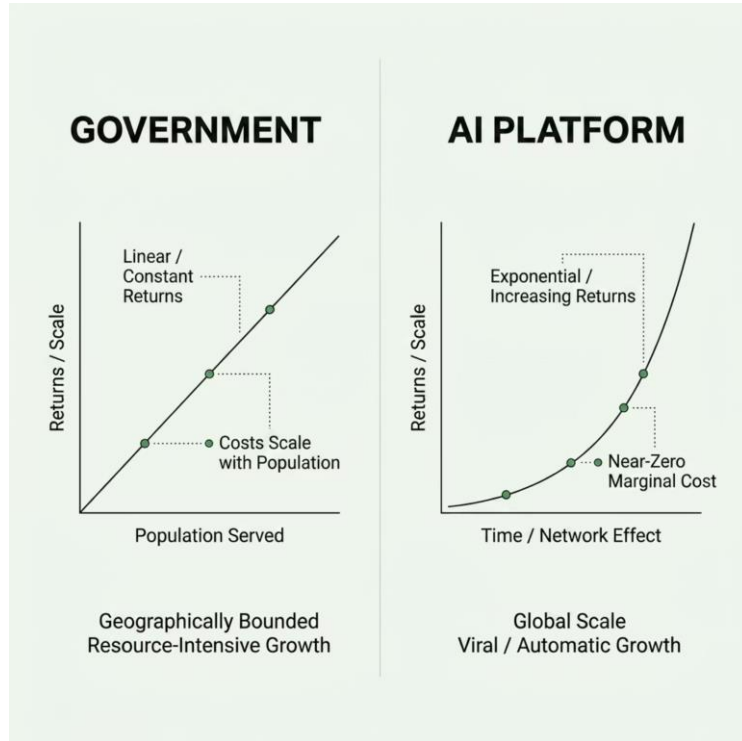
Value creation detached from tax jurisdiction

⊗ The AI tax gap is a future risk. But I don't know how far away the horizon is.



# The exponential problem

We have constant returns to scale government, in an increasing returns to scale economy



# AI creates three asymmetries

## Information

Firms know more than regulators. AI systems are opaque, fast-moving, and technically complex — creating a permanent knowledge asymmetry between the regulated and the regulator.

## Geography

Value creation is detached from location. AI firms generate revenue globally while concentrating profits in low-tax jurisdictions — severing the link between economic activity and fiscal contribution.

## Power

Scale and lobbying concentration. A handful of firms control critical AI infrastructure, giving them disproportionate influence over the regulatory frameworks that govern them.

# Where to tax

## Asymmetry

	Low	Medium	High			
	Capacity to address asymmetry			<b>Compute (AI hardware)</b>	<b>Energy use &amp; local externalities</b>	<b>Data &amp; data flows</b>
<b>Expertise &amp; Information</b>				<ul style="list-style-type: none"> <li>• Observable</li> <li>• Quantifiable</li> <li>• Excludable</li> </ul>	<ul style="list-style-type: none"> <li>• Metered inputs</li> <li>• Existing regulatory infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Valuation and attribution remain difficult</li> </ul>
<b>Legal &amp; Jurisdictional</b>				<ul style="list-style-type: none"> <li>• Bypasses profit shifting but concentrates revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Territorial</li> <li>• Source-based</li> <li>• Hard to arbitrage</li> </ul>	<ul style="list-style-type: none"> <li>• Potentially strong with coordination</li> </ul>
<b>Political Power</b> (lobbying & regulatory capture)				<ul style="list-style-type: none"> <li>• Concentrated supply chains but geopolitical resistance</li> </ul>	<ul style="list-style-type: none"> <li>• Pigouvian framing</li> <li>• Local legitimacy</li> </ul>	<ul style="list-style-type: none"> <li>• High lobbying resistance</li> <li>• Coordination-intensive</li> </ul>

# The future of rebalancing is digital

## Infrastructure Matters

Digital public infrastructure can become the foundation of state capacity, inclusion, and democratic governance in the 21st century.

## State Capacity Matters

The ability of governments to tax, deliver, and regulate is changing. It must be built, maintained, and defended.

## International Coordination Matters

No single state can resolve the fiscal and governance challenges of the AI economy alone. The solutions are inherently multilateral — and urgently needed.

“Rebalancing in the digital age will be determined by who wins the evolutionary race between big tech and our ability to govern it.”

*Matthew Agarwala — Bennett Institute for Innovation & Policy Acceleration*