How can we soften the blow for the public sector when the GenAI bubble bursts?

Summary of the webinar hosted by the AI Policy Lab, Umeå University on December 8, 2025

Background: Governments and public institutions have invested a great deal of trust, resources and political hope into AI, especially generative AI (GenAI). But there is a growing chorus of prominent voices warning of an AI bubble which is soon expected to burst. The webinar explored how the public sector can prepare for such a shift and reverse the false narrative of inevitability - AI development does not happen to societies, we can control and direct the technology.

Panelists: Professor Frank Dignum, Professor Virginia Dignum, Professor Wendy Hall, Dr Gry Hasselbalch, Professor Joshua Gans, Professor Gary Marcus, Dr. Jason Tucker (moderator).

Key Discussion Points:

o **The bubble bursting will provide much needed reflection and breathing space.** It will slow down the uptake of GenAI in the public sector, and give the institutions time to adapt and learn how they can best use the tools. However, with AI being used as a pretext for reducing public sector resources, the adoption of GenAI even after the bubble burst may be due to necessity.

o **Thinking beyond the era of scaling.** The current AI bubble stems from an over-reliance on *scaling* large models, which now has issues of hallucinations, reliability, exorbitant financial costs and negative consequences for environment). Diverse approaches, such as small, specialised and local models, neurosymbolic approaches and hybrid-intelligence systems are among   promising approaches that can be advanced now to soften the blow of the GenAI bubble bursting, as well as set a path for a more sustainable and inclusive future.

o **Shift from hype-driven to purpose-driven governance.** The bubble has been fueled by the "AI race" narrative: Though, the purpose and direction of this race is not clear. The current US administration is actively advocating for deregulation, and the EU is planning to significantly lower the regulatory oversight and accountability standards. An economic crash would quell the hype, encourage regulation and safeguards, as well as change the course from 'AI first' to 'Purpose first' in the US and EU contexts.

o **Reuse and repurpose the infrastructure that remains.** Even if investment slows, the data centres and infrastructure already built will stay. This can be seen as positive for future AI advancements, especially if public investments and shifted to support public interest in different types of AI, not only GenAI. The return on investment will come when we reinvent the whole system. Now and after the bubble bursts, societies and governments around the world will need different types of technology to bring true benefits for societal well-being, regulation, education and redirect funding into research of different types of AI technologies that have been in theoretical and practical development long before LLMs became available to masses.

AI Policy Lab is an interdisciplinary lab pioneering responsible AI governance through rigorous research, policy dialogue and public engagement.