

From Sandbox to Standards: A Risk-Based Strategy for Responsible AI Innovation in California

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Executive Summary:

To safeguard the interests of California and its population, it is time to create a comprehensive AI regulation system based on inclusion and experimentation to support the unfettered development of AI technology in our state. California has the unique opportunity to cultivate its own version of a prosperous “Good AI Society,” defined by transparent and flexible regulations conducive to innovation and firmly anchored in the principles of freedom of speech and the unwavering pursuit of the American dream amidst the golden hills of our Silicon Valley.

To achieve this ambitious goal, **we propose the following recommendations:**

1. **Regulatory Sandboxes:** California should create **AI regulatory sandboxes** that allow developers **to test AI innovations in controlled environments**. This will help identify potential issues before commercial deployment and mirror the successful model of the UK’s fintech sandboxes, supporting experimentation while maintaining the creativity and innovation that the U.S., especially Silicon Valley, is known for.¹
2. **Risk-Based Classification Regulatory System:** California should implement a tiered, risk-based regulatory system similar to the EU AI Act, requiring **high-risk AI programs** that use biometric data, for example, to undergo various assessments and **face government oversight**. This approach will prioritize safety while promoting innovation and creating a transparent risk evaluation system to guide AI developers and policymakers in the future.
3. **Make AI Policy Violations Punishable by Law:** The **lack of regulation in the U.S.** regarding AI development and implementation remains **a significant issue**, as most policies are self-voluntary and not enforceable by law. *California should take the initiative to lead in both AI innovation and AI governance by creating a comprehensive regulatory system with enforceable statutes and policies, such as significant fines for breaking the law and prosecution in severe cases.*

Challenges:

Challenges associated with our proposed policies include **access inequities between small firms and bigger firms** and the **risk of regulatory capture**, as well as concerns regarding the **enforceability** of policies given the expansive influence of AI. However, *most of these*

¹ Goo, Jayoung James, and Joo-Yeun Heo. “The Impact of the Regulatory Sandbox on the Fintech Industry, with a Discussion on the Relation between Regulatory Sandboxes and Open Innovation.” *Journal of Open Innovation: Technology, Market, and Complexity* 6, no. 2 (2020): 43.
<https://doi.org/10.3390/joitmc6020043>.

challenges are not unique to our policies; rather, they *are universal hurdles that affect the AI industry as a whole*. These concerns stem from the AI field's relative novelty and immaturity (such as lack of universally agreed upon terminologies) and external factors beyond our control (such as sector differences).

We also acknowledge that concerns have been raised regarding the sandbox method, particularly about the **difficulties associated with transitioning out of the sandbox** and the **temporary nature of the sandbox itself**. It is important to note *however* that *policy sandboxes are intended to serve as an additional step in the development process of AI programs, allowing us to identify violations within a controlled environment that carries low stakes, which is a remarkable benefit that outweighs its weaknesses*.

Outcomes:

1. **Bipartisan Acceptance**: Policy sandboxes encourage innovation with responsible oversight, ensuring development within defined parameters created to protect public safety, while appealing to stakeholders across the political spectrum. This policy recommendation is likely to gain bipartisan support, as it aligns with conservative goals for technological innovation while catering to the progressive party's demands for ethical safeguards against AI misuse.
2. **Financial Benefits**: According to a study published in the *Journal of Open Innovation: Technology, Market and Complexity*, “**In the United Kingdom**, the first country to adopt a regulatory sandbox, **30% of venture companies that graduated from the regulatory sandbox** received venture investment, and the **average investment amount increased 6.6 times**.”² Therefore, not only will these regulation policies empower safer production of AI models, but also provide greater financial benefits.
3. **Prosperous “Good AI Society”**: Our proposal will lay the foundation of a thriving and equitable AI society in California, with growth fueled and reinforced by the transformative experimentation method introduced through the sandbox policy.

Conclusion:

In conclusion, **we are in favor** of creating an **experimentation and risk-based AI regulation framework backed by enforceable policies in California** because we believe this approach will optimize innovation through experimentation while minimizing harm.

² Goo, Jayoung James, and Joo-Yeun Heo. “The Impact of the Regulatory Sandbox on the Fintech Industry, with a Discussion on the Relation between Regulatory Sandboxes and Open Innovation.” *Journal of Open Innovation: Technology, Market, and Complexity* 6, no. 2 (2020): 16.
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