



AGDTC LLC

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# Balancing Innovation and Accountability: A Hybrid Framework for AI Governance

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*Comparative Analysis of EU and U.S. AI Governance Models*

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## Introduction

There is fast proliferation of AI technology into various fields in society. This is having a significant impact on economic systems and organizational structures (Kahn, 2024). With the greater incorporation of the technology into areas like labor relations and decision-making, the way power is exercised within organizations and between individuals is significantly affected (Hao, 2025). The issue here is that there will be a greater need for regulation of the development of AI to ensure that it does not become too powerful and work against society's best interests (Dignum, 2023). However, the fast growth of AI technology poses some problems because of the risk of over-reliance. This is because over-automation of processes can lead to a loss of key human cognitive abilities.

Current AI governance structures can be seen to rely heavily on two diametrically opposed paradigms – the regulatory paradigm employed by the EU and the sector-specific approach used by the United States. In its AI regulatory policy, the EU has established a risk-based structure that aims at setting up consistent standards and minimizing uncertainty by implementing regulation prior to deployment. The US employs a fragmented approach where AI regulation is divided among several bodies, with no comprehensive legislation regulating AI as an entire field. While such an approach provides flexibility and promotes rapid development, it does carry certain risks, primarily connected with regulatory uncertainty.

While both approaches have their roots in their respective institutional environments, they still suffer from several flaws. The EU system is vulnerable to the danger of restricting innovation through excessive regulations, while the American system's fragmented nature might result in the emergence of governance driven by crisis responses. In view of this, the necessity to create an integrated governance regime that will combine regulatory structure and flexibility seems evident. It should be designed to minimize potential system risks as well as to protect against exploitation.

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## **The European Union AI Governance Model**

Regulation of AI within the European Union has been undertaken via the implementation of the EU Artificial Intelligence Act, which is regarded as the first risk-based regulation system for AI (European Union, 2024). The EU Artificial Intelligence Act categorizes AI applications into four different types depending on the risk they pose, namely unacceptable risk, high risk, limited risk, and minimal or no risk. AI applications that are of unacceptable risk, like social scoring, have been banned outright, whereas high-risk AI applications, for instance, those used in hiring processes and medicine, are strictly regulated.

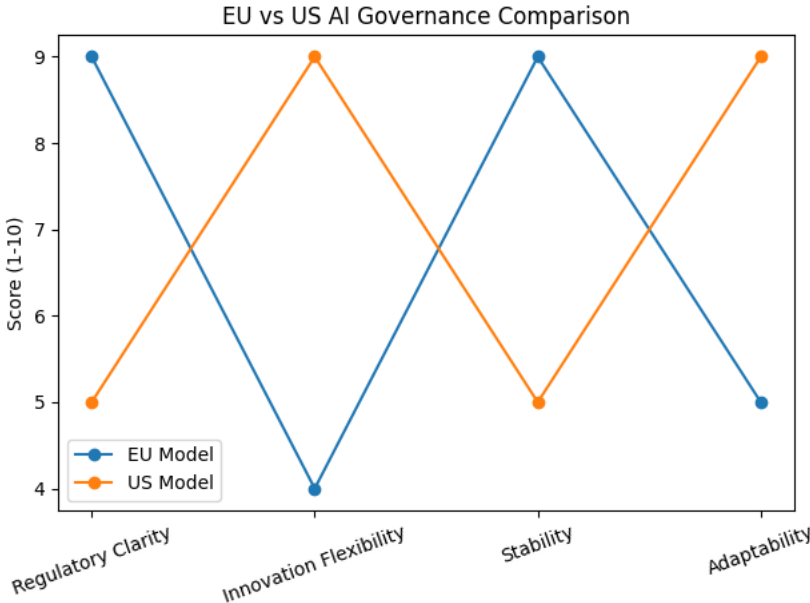
The enforcement measures are quite significant, with sanctions for non-compliance being as much as €35 million or 7% of worldwide yearly turnover (European Union, 2024). Such a regulation system offers a great deal of regulatory certainty and uniformity across all participating states, which helps increase safety and institutional stability. Nevertheless, such an approach may also impose certain limitations on innovation due to the high compliance requirements and classification rigidity that prevent new technologies from emerging at the same pace as in less regulated jurisdictions.

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# The United States AI Governance Model

The American way of handling the AI governance is decentralized and does not have an overarching piece of legislation that covers all the aspects related to AI like the regulatory framework in the EU. There are several government agencies that have different jurisdiction for handling various sectors, and each handles AI according to its own set of authority. Some examples include the Department of Homeland Security, Department of Labor, etc.

This decentralized governance system creates more room for adaptability, allowing for innovations to arise from each agency’s respective areas of technology and expertise, especially with regard to the development of technologies in security, economics, and education. The lack of a cohesive regulatory system, however, brings about certain problems, such as the inability to maintain consistent regulatory standards. In consequence, there may be less stability in the economy as a whole due to the reactive nature of this form of governance.



**Figure 1:** AGDTC LLC analysis of EU and U.S. AI governance models, demonstrating key tradeoffs between regulatory clarity, stability, and innovation capacity.

## Institutional Tension: Clarity vs. Adaptability

The EU AI governance model promotes regulation through its emphasis on clarity, security, and stability, achieved via a centralized and risk-based regulatory approach; yet this may hinder innovation by imposing strict compliance and slow regulatory adaptation. On the other hand, the United States utilizes a decentralized model that is conducive to technology, yet it presents issues with fragmentation and regulatory uncertainty among various agencies.

This juxtaposition highlights the structural dichotomy of regulatory clarity vs. institutional flexibility amidst technological uncertainty. In centralized models, there may be concerns of institutional rigidity, whereas decentralized models suffer from the risk of institutional instability and reactionary regulations. Thus, neither regulatory system alone is entirely efficient in dealing with the complexities of artificial intelligence management.

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## **A Hybrid Governance Model for AI**

Both the EU and the US have different strengths in the field of AI governance, but none of them individually solves the problems that arise while regulating AI in a dynamic environment. A combination of the two systems can be adopted to leverage their respective strengths in terms of governance.

Such an approach would involve the creation of an AI Council that would have delegated legislative authority for coordinating standard baseline risk classifications, thus avoiding fragmented regulation and offering more consistency in the process. Such a council would comprise members from the appropriate government agencies as well as advisers from policymakers, technical specialists, and industry leaders.

Moreover, having a systematic process for a government emergency override will allow for the government to intervene in situations where there is gridlock or risks that need immediate attention. This process will be time-based and subjected to a required process review to ensure that this process is not abused. Through this combination of regulation and adaptability, this hybrid system aims to minimize misuse of AI systems.

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## **Conclusion**

The existing approaches to AI regulation operate within the relevant institutional context; however, there is no holistic framework for dealing with the development of AI over a prolonged period. The comparison of EU's preference for stability and the USA's approach, which prioritizes innovation, points to a more general problem that is inherent to both frameworks. With the rapid growth and expansion of AI technologies, as well as the integration of artificial intelligence into modern life, it is necessary to create an effective and flexible system of governance. A compromise model that involves the combination of centralized and

institutionalized management can serve as a foundation for overcoming these difficulties.\

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