

The Social Safety Net and K-shaped Economy

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Focus of my talk

- How have market and disposable incomes evolved across the distribution since 2019 for the working class versus those outside?
 - Is there evidence of a K economy?
- Have these patterns changed after the 2022 introduction of ChatGPT?
 - Need to understand the evolving role of automatic stabilization provided by the tax and transfer system
- What is the future of a work-based safety net if/when work disappears from AI?
- Remarks build off a series of recent projects on automatic stabilizers with Robert Moffitt, and papers on redistribution and inequality with Richard Blundell (and various co-authors)

Data

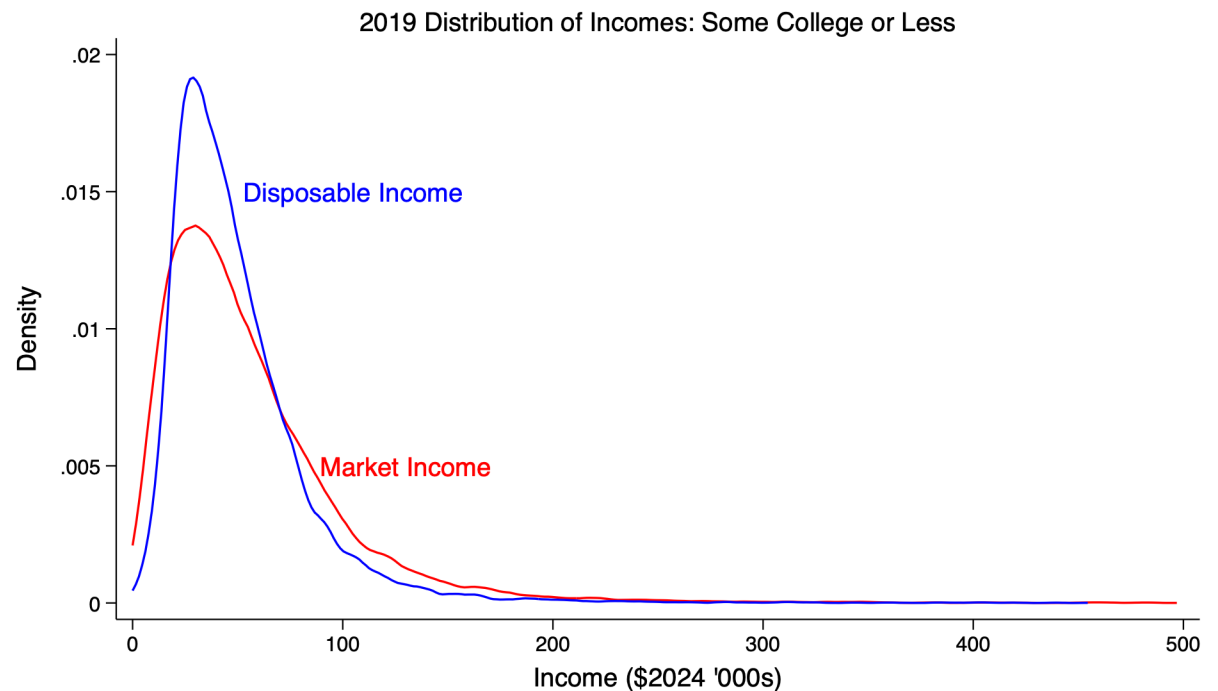
- Current Population Survey Annual Social and Economic Supplement, 2020-2025
 - Calendar years 2019-2024
 - Men and women ages 25-64—to focus on prime-age individuals
- Separate into two education groups
 - Some college or less ...the working class
 - College or more
- Drop those with imputed earnings or hours, or whole supplement imputes
- Nominal incomes deflated by the PCE with 2024 base year

Income Concepts

- **Market Income**
 - earnings plus ordinary capital income (e.g. rent, interest, dividend) and other private income
- **Disposable Income**
 - add in means-tested transfers, social insurance, and near-cash SNAP
 - adjust for underreporting of transfers using regression-based imputation
 - subtract off federal, state, payroll taxes, inclusive of the refundable tax credits (EITC, CTC) and Economic Impact Payments in Covid using TAXSIM
- **Add up contributions of all household members regardless of age, equalize using modified OECD scale, and keep at individual level**
 - Drop households without earnings—to focus on work
 - Use individual-level ASEC Supplement weight

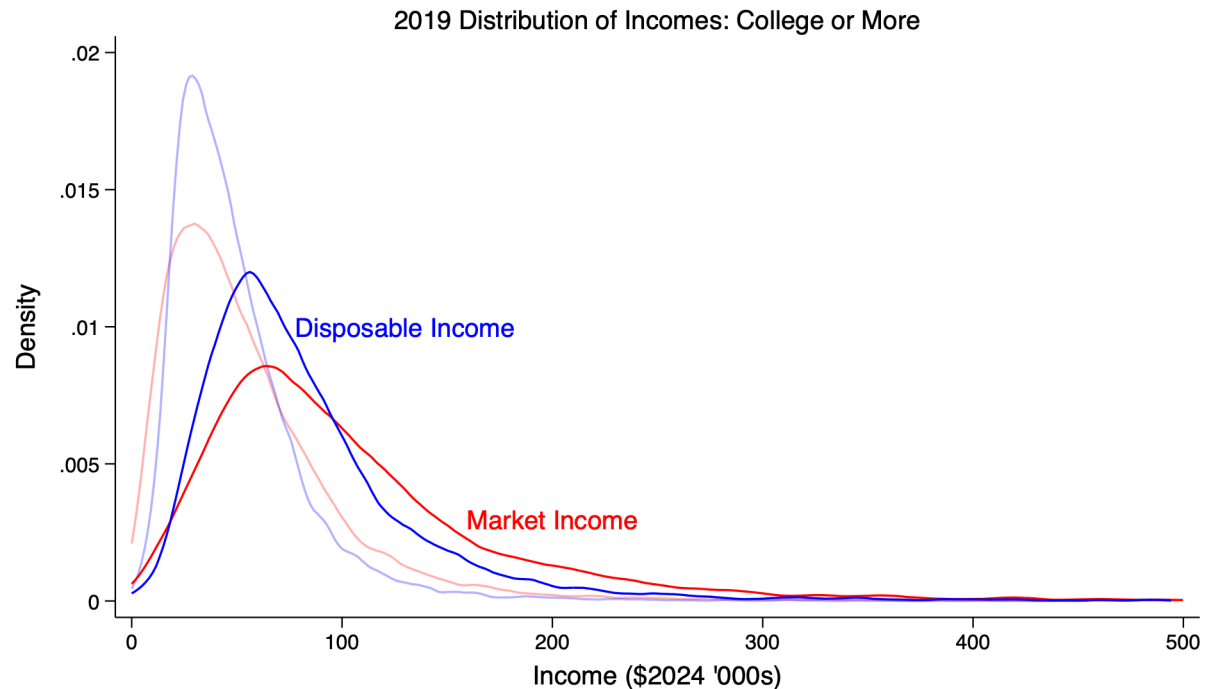
Setting the Baseline: Income Distribution of Working Class in 2019

- The figure presents kernel density estimates of market and disposable incomes for some college or less in 2019
- The tax and transfer system substantially compresses the income distribution—lifting the left tail from transfers and refundable credits, and shrinking right tail from tax payments
- How does this compare to college educated?



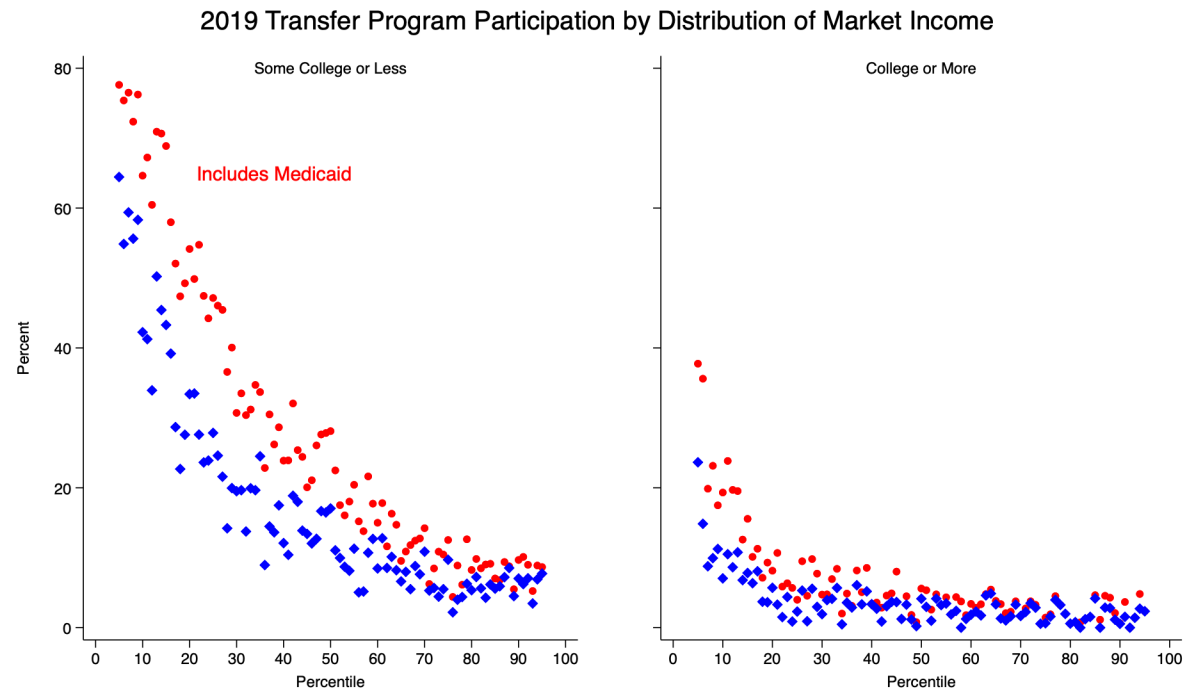
Setting the Baseline: Income Distribution of College Educated in 2019

- Relative to the working class, the college or more market and disposable income distributions are both shifted to the right, and more dispersed
- Left tail is significantly less affected by the tax and transfer system compared to working class
- How does transfer program usage differ across groups?



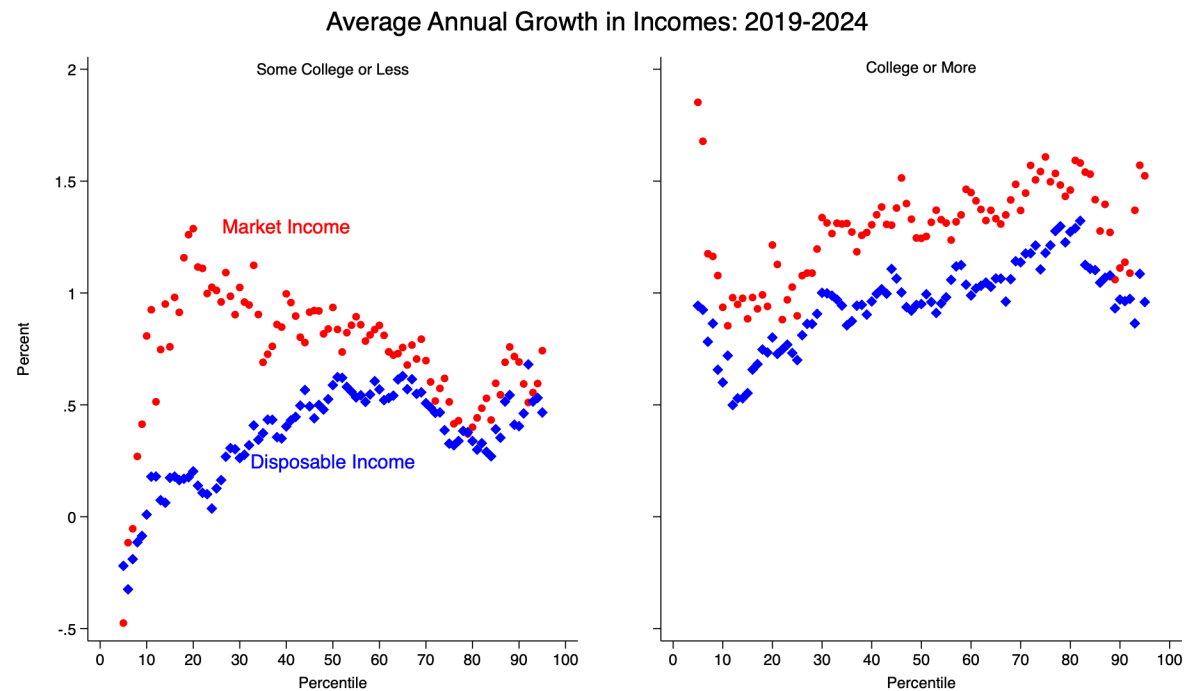
Setting the Baseline: 2019 Transfer Program Participation

- Figure depicts percent participating in any of the major working-age safety net programs across the market income distribution of each group (5th – 95th)
 - UI, SSDI, SSI, SNAP, TANF
 - plus Medicaid
- The bottom half of the working-class distribution is heavily reliant on the safety net, and differs substantially from college educated
- How did incomes evolve for each group over next the 5 years?



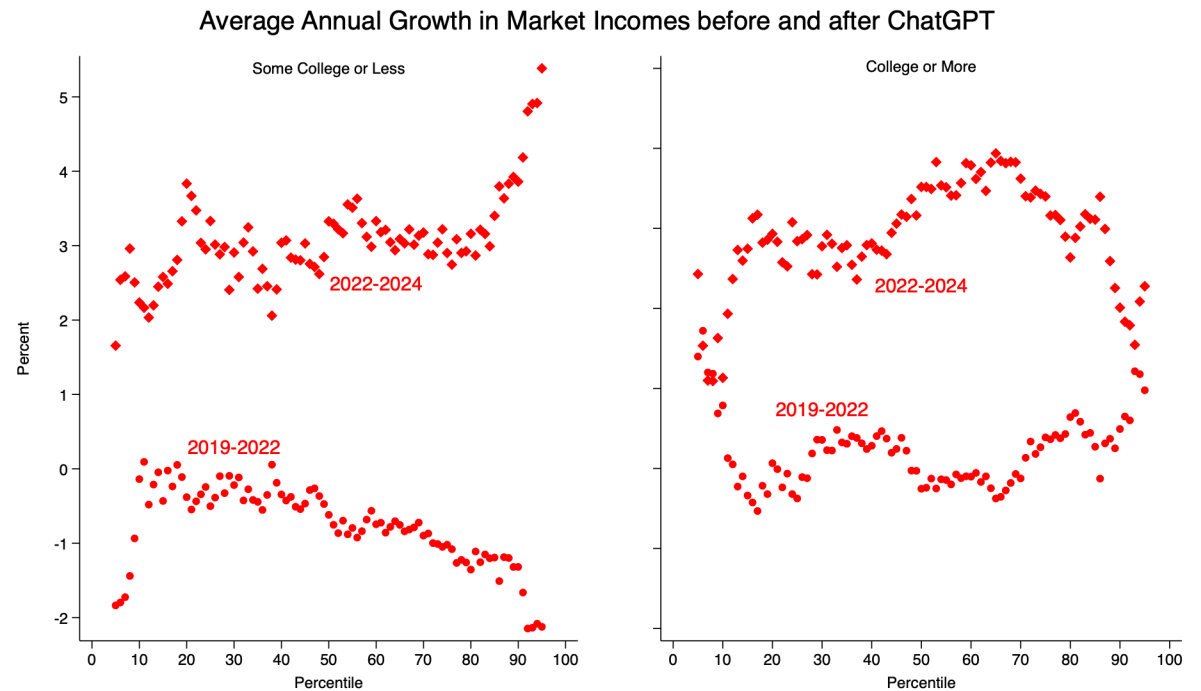
Income Growth 2019-2024: Glimpses of K

- Figure depicts average annual growth at each centile of respective income distribution from 5th - 95th
- The working class experienced much lower growth rates over most of the income distribution, suggesting a weaker recovery
 - especially pronounced comparing top half of distributions
 - note the role of automatic stabilizers from taxes and transfers
 - patterns hold across gender and race
- Did incomes evolve differently post 2022 after ChatGPT?



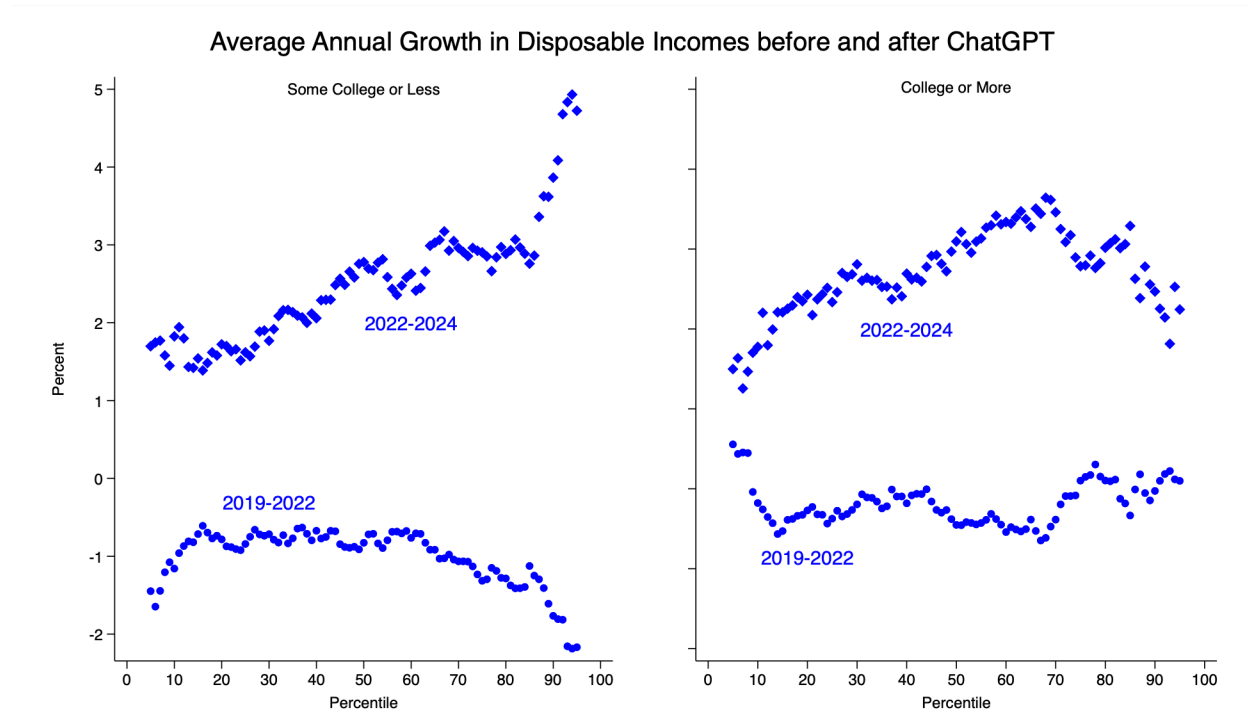
Market Income Growth before and after ChatGPT: Not so K

- Figure depicts average annual growth at each centile of respective market income distribution from 5th - 95th
- The 2019-22 period for the working class was quite bad, especially the top half of the distribution, but 2022-24 growth was comparable or exceeded the college educated
- What about disposable incomes?



Disposable Income Growth before and after ChatGPT: Not so K

- Figure depicts average annual growth at each centile of respective disposable income distribution from 5th -95th
- Disposable income growth post 2022 for the working class was equally impressive
 - Suggests early concerns of AI for working class may be misplaced, or perhaps too soon to tell
 - Also suggests that sour mood of voters in 2024 elections heavily influenced by 2019-2022 period... 'vibecession'?
- What are the implications for automatic stabilizers?



Automatic Stabilizers: Not Every Recession is the Same

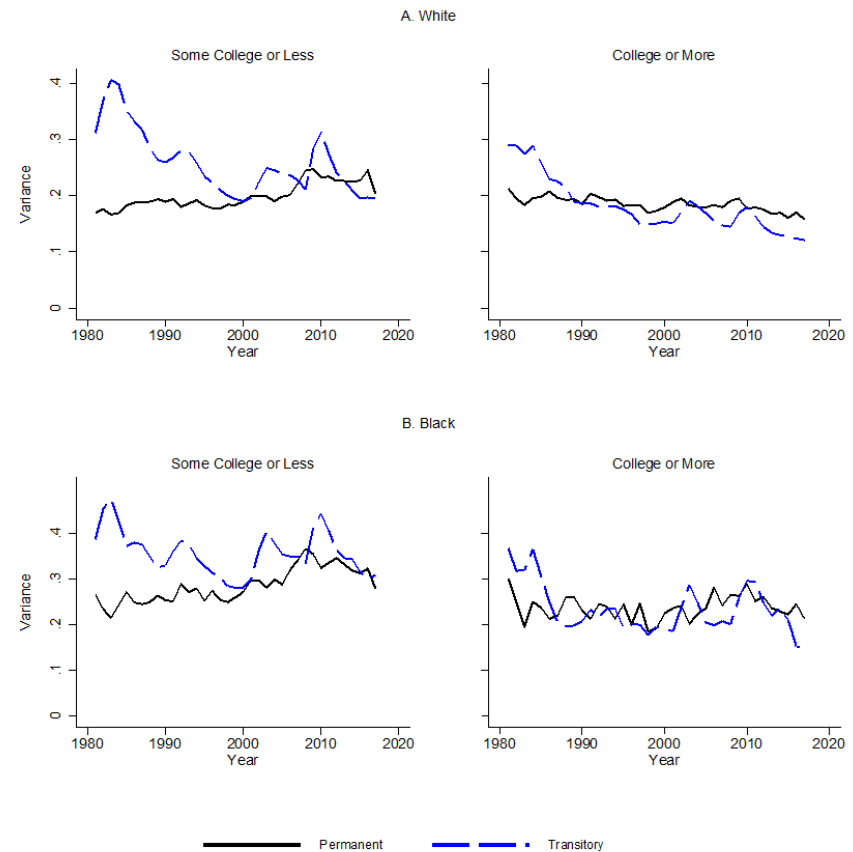
- Bitler and Hoynes (2016 JOLE) found that TANF was less responsive in Great Recession than in 1980s recession, while SNAP and UI were more responsive
- Hembre, Moffitt, and Ziliak (2024) found that UI and SNAP were more responsive in Covid period than Great Recession, while TANF and SSI were less responsive, and Medicaid was acyclical across both recessionary periods
 - Differences stemmed from sources of business-cycle shocks, and Congressional response
- Is AI a sudden shock similar to earlier recessions, or is it a secular change more akin to the rollout of the PC?
 - If the latter, current estimates do not directly speak to how AI may interact with the cyclical responsiveness of the safety net

Permanent Earnings Shocks are Increasing for Working Class Men

- Figure depicts estimates of transitory and permanent earnings shocks over 1981-2019 from panel of workers' SSA earnings linked to CPS ASEC (Blundell et al. 2025)

- Transitory shocks were pervasive in 80s and 90s, but replaced by permanent shocks post 2000
 - Extrapolating suggests that AI is likely to reinforce this pattern, which could attenuate long-term economic mobility

- If work disappears, what safety net?



If/When Work Disappears from AI....A Work-Based Safety Net

- The U.S. made a strong turn toward a work-based social safety net with passage of the 1996 Welfare Reform Act
 - Social insurance from Social Security, Medicare, UI, SSDI, Workers Comp always had work history test
 - Same with EITC and CTC
- Welfare reform added work requirements for low-income families to receive assistance from TANF. It also added work requirements for so-called ABAWDS receiving SNAP
 - TANF work requirements vary by state, and sometimes age composition of children.
 - SNAP is limited to no more than 3 months of assistance out of any 36-month period for nondisabled, single adults ages 18-49 unless work at least 20 hours per week. Increased to ages 18-54 in 2024.
- Public Law 119-21 (OBBB 2025) expanded SNAP work requirements to age 64, and to parents with dependents ages 14 and older. Medicaid added ABAWD work requirements effective Jan 1, 2027
 - HUD Secretary recently proposed adding work requirements and time limits for Section 8/public housing
- The implication is that if AI permanently displaces workers, they have little to fall back on with the current safety net to insure income and smooth consumption

Works referenced

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