Tuesday, August 25, 2026
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Analysis of today
Assessment of tomorrow

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# Entering an era of 'gated recessions'

Something strange is happening in the US labor market. The latest data released by the Bureau of Labor Statistics show that the US economy lost 23,000 jobs in July, yet the unemployment rate actually fell to 4.1%. A closer look helps explain the apparent contradiction.

To be counted as unemployed in the United States, a person must be actively looking for a job.

Today, however, the job market is so bleak that people are giving up the search for work. Economists call this the “discouraged worker” effect.

As a result, the unemployment rate can decline even as demand for labor falls, because the supply of labor is shrinking even faster.

Some estimates suggest that more than two million people have left the US labor force since November 2025.

By advanced-economy standards, the US has a high poverty rate. In 2024, 10.6% of Americans lived below the poverty line, which is defined as an annual income of less than $31,812 for a family of four.

As some observers have noted, this figure may not reflect the true extent of the problem, since poverty has many dimensions that are not captured by a single, income-based measure.

Moreover, many workers above the poverty line are seeing their real incomes shrink.

Average US wages grew by 3.2% over the past year, while inflation hovered around 3.5%.

With jobs becoming harder to find and workers losing purchasing power, there would seem to be good reason to worry that the economy is heading toward a recession. But that is not happening—at least in the conventional sense.

## A striking divide

The term “recession” typically refers to a decline in economic activity across the country as a whole. A commonly used measure is two consecutive quarters of falling real GDP.

By this measure, the US is not currently in recession, largely because rapid growth in some sectors, particularly AI, is offsetting weakness elsewhere.

The result is a striking divide. Even as American workers lose out, those whose incomes depend on stocks and corporate profits are enjoying boom times.

> Reports of job losses and deteriorating labor-market conditions coincided with a rise in US stock markets

Notably, reports of job losses and deteriorating labor-market conditions coincided with a rise in US stock markets. The S&P 500, for example, gained 47.68 points, or 0.6%, that same week.

These trends are not unrelated. As firms respond to new technologies by shedding workers, labor costs can fall, boosting profits.

Technology stocks did particularly well as news of US job losses broke, with Nvidia gaining 2.3% and Broadcom up 1.7%.

## India’s youth unemployment

This economic divide is not confined to the US. India is experiencing similar bifurcation.

Youth unemployment remains extremely high, with a severe shortage of jobs for young people graduating from colleges and universities.

The World Bank estimates that India’s youth unemployment rate increased by 2.1 percentage points to 17.7% in 2025.

Consequently, many of these young people and their households may be experiencing a decline in real income.

At the same time, India's economy continues to grow rapidly, with per capita GDP rising by 6.6% in 2025.

> As a middle-income country with relatively low wages, India can, given the right policies, create jobs for its young people

Here, too, aggregate figures conceal a bleaker picture, as strong income growth in a small segment of the population coexists with economic distress for many others.

Allowing such a stark divide represents a major policy failure. As a middle-income country with relatively low wages, India can, given the right policies, create jobs for its young people.

This remains true even if current labor-market trends are being driven by AI and other digital technologies that reduce demand for human labor and concentrate profits in a few hands.

## 'Gated recessions'

As economies become increasingly fragmented, policymakers, journalists, and other observers must pay closer attention to what lies beneath aggregate statistics.

We are entering an era of what might be called "gated recessions": certain groups or regions experience recession-like conditions while the rich grow richer, keeping aggregate indicators looking healthy.

It is possible, for example, that lower-middle-class households in India—especially those with young adults fresh out of college—are effectively caught in a gated recession.


*As AI continues to advance, wealth inequality is likely to skyrocket*

In the US, states with the highest concentrations of low-income residents, like Mississippi, New Mexico, Louisiana, and Oklahoma, could similarly be experiencing localized, gated recessions as the labor market deteriorates.

The point is not to assign blame, as the causes of these disparities are often deep-seated and cannot be attributed to any single individual, party, or administration.

Nevertheless, politicians need to be held accountable for their response, rather than be allowed to dismiss the problem by pointing to favorable aggregates.

Ultimately, addressing these divisions will require multifaceted policy interventions.

As AI continues to advance, wealth inequality is likely to skyrocket. Attempting to protect jobs by discouraging AI adoption through regulation would do more harm than good, creating costly distortions and weighing on productivity growth.

A more effective way to break down the barriers between gated wealth and gated poverty, and ensure that the gains generated by technological progress are broadly shared, would be to impose higher marginal taxes on the fortunes, inheritances, and incomes of the super-rich.

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