



AI-Driven Labor Displacement and the Failure of America's Social Safety Net

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I. EXECUTIVE SUMMARY

The introduction of artificial intelligence in the labor force of America means that millions of employees working for what is known as safe and reliable industries have found themselves displaced by automation processes. Although technological advancements have always created more jobs than they destroy, the unprecedented rate at which AI is being adopted poses an entirely new problem for the welfare system in America. Designed to meet the needs of the 1930s, unemployment insurance (UI) benefits only function well in times when unemployment durations are short and the economy is stable. The reality today is that displaced workers – especially those in white-collar occupations and living in suburban areas of the Midwest – are unemployed for a long time, beyond the scope of benefit eligibility and retraining programs that lack funding and relevance to the current job market demands. In addition, there is a growing divide between employees who can keep up with the pace of AI and those who cannot. This brief evaluates the inability of the current U.S. welfare system to cope with AI-induced displacement, the impact of AI on the Midwest region, and recommendations to improve the situation.

II. OVERVIEW

Artificial intelligence is no far-fetched prediction for the future; rather, it is a current economic force that has changed the face of employment in America. With generative AI, automated scheduling, and intelligent customer service systems, among others, employment in data entry, administrative assistance, customer service, and middle management positions has decreased. As predicted by the World Economic Forum's Future of Jobs Report 2025, while there will be 170 million more jobs created worldwide by the year 2030, about 92 million jobs will be rendered redundant during this time span. While this means there will still be gains in employment, the important thing here is the mismatch between the old workers and the new jobs.

It is here that policy enters the picture. Unemployment Insurance, the main response of the United States to job losses, was set up via the Social Security Act of 1935, which has only undergone minor amendments over the years. It covers less than half of the average weekly salary of a person for up to 26 weeks, with the period chosen to accommodate a temporary loss of work typical of an industrial economy rather than prolonged transitions required due to structural and technological displacements. As of late 2025, about 27% of the nearly 4 million people seeking employment were out of work for more than 27 weeks and thus exhausted their unemployment

insurance prior to finding a job.

However, the problem is not universal. According to research conducted at the Brookings Institution, the Midwest urban centers are some of the most concentrated localities with regard to the amount of people who are simultaneously exposed to a high risk of being displaced by AI and low ability to adapt. Notably, this category of individuals cannot be described as low-skill laborers; many of them are experienced office workers, bookkeepers, and clerks who have suddenly found themselves redundant at the hands of automation. The question is whether American policy is equipped to protect them when it does.

A. Relevance

The concern about losing jobs to artificial intelligence cannot be reduced to a theoretical or economic discussion but must consider the reality that has affected Midwest towns. It involves a slow phase-out of jobs in suburban areas that ranged from office work to light manufacturing. Jobs were steadily disappearing with no need for the company to close operations or lay off workers since technology would simply replace the individual. For instance, there is now a software program to replace a bookkeeper, a chatbot to replace a client service manager, and automation to replace a clerk.

These are not separate concerns but a series of trends that have occurred between 2021 and 2024. In that time frame, administrative assistants' job openings were down by 33% for businesses with scheduling systems powered by artificial

intelligence. Data entry was reduced by 56% for businesses that used form processing powered by AI. Call center employment decreased by 41% in companies that use voice recognition software. Workers – predominantly female and in smaller Midwest metropolitan regions – are losing their economic future since their jobs ceased to exist.

This is especially concerning from a public policy standpoint because of how unequal the consequences become. High-level workers with graduate degrees and higher adaptive skills can easily transition into other sectors enhanced by AI technology. Workers who do not have these opportunities — workers in clerical and administrative fields as well as customer service — see their job options dwindle even more in precisely the area of work they are experienced in. Without significant changes in the safety net and training programs, AI replacement threatens to increase economic inequality.

III. HISTORY

A. Current Stances

Historically speaking, such events have occurred over and over again, and each time, the economy has bounced back from its slump in terms of creating new kinds of jobs. For that reason, the economy is seen as self-regulating and capable of overcoming any problems that arise due to the lack of employment opportunities.

What sets AI apart from other types of automation used in production previously is the fact that it is much more advanced than the

others. The previous iterations only dealt with the manual and mechanical work performed by people, while AI deals with cognitive and communicative functions as well. It can be trained to read and analyze information.

And still the roof goes on rising. With the advent of Artificial General Intelligence, AI systems which are able to carry out virtually any task in a manner similar to the human brain, the number of jobs which are thought to be insulated from automation continues to shrink more quickly than training schemes or policy paradigms can manage to catch up. Unlike mechanization in the 19th Century or computation in the 20th Century, AI does more than alter the process by which we do our jobs; it renders our jobs obsolete.

This belief shows up in many current labor policies. For example, Unemployment Insurance, created in 1935, was designed for temporary job loss during economic downturns, not for situations where jobs disappear permanently. The WARN Act of 1988 requires companies to give 60 days notice before large layoffs. This helps workers prepare, but it does not provide financial support. The Trade Adjustment Assistance program offers extra benefits and retraining, but only for workers who lose jobs because of foreign competition. If a job is replaced by a machine, there is no similar support.

So far, the government's response to AI has followed a similar cautious approach. In 2023, an executive order asked the Department of Labor to study whether Unemployment Insurance could be updated for AI-related job loss. This shows

awareness of the issue, but it does not propose actual changes. Some research groups, like the Economic Policy Institute and the Center for American Progress, have suggested stronger solutions such as longer benefits, better retraining programs, and support for gig workers who do not qualify for traditional benefits. At the state level, New York Governor Kathy Hochul proposed requiring companies to say if AI caused layoffs, which could help track the scale of the problem.

However, there is definitely a discussion concerning what should be done. Some are convinced that artificial intelligence will bring about more job opportunities than it will eliminate, and fear that the intervention from the side of the government will only hinder progress. Still, there are those who recognize that while it may eventually boost the economy, artificial intelligence may cause some trouble in the short-term, thus leaving employees who are fired today without any kind of compensation.

IV. POLICY PROBLEM

A. Stakeholders

Those who are most immediately impacted are the working and middle classes of America in jobs that have a very high exposure to AI, and a low level of adaptation capability; namely people with administrative, clerical, customer services, and logistics responsibilities. These types of workers represent a sizable portion of the Midwestern suburb workforce. These workers are certainly unskilled laborers. They are experienced and professional individuals who have invested considerable time in their field. The only thing

that these individuals are lacking are the proper channels and opportunities to be able to enter this new economy.

The second group of stakeholders consists of women. The Brookings Institution has determined that the majority of employees (about 86%) with a very high exposure to AI and a low adaptive capability are women, and specifically those with clerical and administrative jobs, like those often held by workers in smaller Midwestern metros. For these people, being displaced represents more than just a problem of economics.

The other stakeholder group that plays an important role in this debate is employers. The reason why companies adopt technologies such as AI is to become more efficient. However, while this approach yields results in the short run, the large-scale displacement of workers without effective social policies leads to the reduction of consumer spending within communities, an increased need for state intervention, and eventually undermines the economic viability of the area. Therefore, businesses, which depend on local consumer spending, will suffer from those practices.

Finally, state and federal governments have an important role in designing any potential policy response to the problem under consideration. Unemployment Insurance is financed equally by the state and the federal government, and any serious reforms require collaboration between both entities. In fact, Illinois legislators currently contemplate adopting legislation establishing the state commission that would be responsible for

studying unemployment caused by AI.

B. Risks of Indifference

It is a serious threat because there are plenty of communities from the Midwest where inaction is already a reality. Once employees are unable to find themselves jobs due to automation, which means there is no sufficient safety net left to compensate for the loss in earnings, then everything starts falling down at an incredible pace. Loss of income, loss of consumers for the business establishments, tax decline and increasing expenses for the public services become a norm. The lack of a sufficient number of taxpayers who contribute to the payment of food assistance and Medicaid means a structural issue that can only get worse.

There is also a generational element to this threat that comes from adopting automation technology into the working process. The older the person who loses the job, the harder it is for them to receive reeducation and earn some money to save up for their retirement years. It has been found out that displacements of jobs are 27% higher in the case of people aged between 40 to 50 years compared to others. Additionally, they rarely obtain a well-paid job as a result of AI integration due to the required qualification level.

C. Nonpartisan Reasoning

The justification of modernization of the safety net as a response to AI displacement is not a politically motivated idea; it is a necessary one for efficient functioning of the economy.

First, stability of employment guarantees economic activity. Unemployed people cannot afford to make payments; thus, businesses lose income that could be used to pay salaries of their employees, and this causes chain reactions. An effective safety net will ensure continuous circulation of money in local economies instead of causing the closure of a whole city at once.

Second, it costs less to prepare than to react to AI-induced displacement. Assistance measures, the increase in healthcare costs due to higher levels of depression and other psychological problems, along with higher levels of long-term unemployment will put extra pressure on state budgets and citizens' wallets, and thus, investments in education and salary are preferable.

Third, this topic does not have anything to do with politics. It concerns all employees regardless of their political beliefs. It was found that Midwest communities, which have always supported Republican politicians, are highly vulnerable to AI displacement. A policy framework that safeguards those who are transitioning between jobs is an issue that can gain support from all quarters.

V. TRIED POLICY

The US government has previously attempted to solve the issue of structural displacement caused by technology and international trade, and the lessons learned could be used going forward. The Trade Adjustment Assistance program, created way back in 1962 and continuously amended ever since, is the most pertinent

initiative of its kind created anywhere in America. It provided extended benefits of unemployment compensation, employment counseling, and vocational training opportunities to those workers who were able to show proof that they were laid off owing to increased import competition or offshoring of work. The program peaked when hundreds of thousands of workers benefited from it. Sadly, this program was discontinued in 2022 as Congress declined to renew funding for the program, which thus brought to an end one of the few programs developed with the specific purpose of helping out people who were displaced structurally rather than temporarily. Meanwhile, various state-level initiatives to track and respond to layoffs due to AI are being proposed, even though most of them are still in their formative stages. For instance, in New York, a proposal has been made that requires an employer to inform of using AI as the basis for layoffs under the WARN Act. However, neither measure addresses the problem in any manner; nonetheless, they provide more insight into the extent of the issue. A bill was passed in the state of Illinois to create an AI Commission, which will examine how job losses occur due to AI in different industries, locations, and demographics, mainly manufacturing, logistics, office, and customer service jobs.

At the federal level, the Executive Order on AI in 2023 asked the Department of Labor to examine ways to reform the Unemployment Insurance system to account for AI-related disruptions, whereas the AI Workforce PREPARE Act, introduced in the 119th Congress, aims to gather information systematically about the consequences of AI in the workforce. Neither

initiative has yet led to any change in the current benefit structure.

VI. POLICY OPTIONS

Extension and Update of Unemployment Insurance

The first policy priority here should be extending the length of unemployment insurance and boosting the wage replacement rate up to 60% for at least 52 weeks. At present, the national average unemployment insurance pays less than 50% of average weekly earnings for a period of 26 weeks. While this may seem sufficient for some workers, those facing artificial intelligence-driven job losses usually need to retrain for much longer, up to a year or more. For this reason, raising the benefits period to 52 weeks and increasing the wage replacement rate to 60% would allow displaced workers a reasonable chance to make the switch successfully. As applied to our Midwestern suburb – Danville, Illinois, this would ensure that, for example, a secretary or salesperson who becomes redundant due to artificial intelligence can receive a living wage while pursuing a community college degree or certification in a different field. This benefit could be administered by the State of Illinois Department of Employment Security within the existing UI program. The only difficulty here will be financing, but a special small levy on businesses cutting jobs because of adopting AI technology can be used.

A Federal AI Retraining and Transition Program

The termination of Trade Adjustment Assistance has created a vacuum that should be filled through

an innovative program that addresses technological displacement in a unique way. This could take the form of a federal AI Retraining and Transition Assistance program, similar to TAA but adapted to suit the present context. It would give displaced workers financial help through wage replacement while providing free tuition fees for retraining programs and facilitating access to job placement services. For instance, in a small Midwest suburb, a partnership with the federal initiative could see community colleges establishing fast-track programs in nursing care, trades training, cybersecurity, and data analytics, areas that are expanding and require only two-year diplomas. The major drawback to the idea is that small Midwestern communities might find it difficult to implement due to their limited resources. This is because most community colleges in such areas lack enough personnel to deliver the courses within a short period.

Benefit Portability for Workers in the Gig Economy

There is an increasing number of individuals who leave traditional employment and join the gig economy only to discover that there are no safety nets at all in these jobs compared to their former jobs – no access to unemployment insurance, healthcare through an employer, and retirement plans. Legislation introducing portable benefits would make it possible for a worker to accumulate their contributions in a fund and keep it portable between employers.

There are already some initiatives on this matter both at the federal and the state levels. Congress has been considering passing the Unlocking Benefits for Independent Workers Act, which

proposes that companies could contribute to the portable benefit fund without making the worker appear like an employee. The state-level effort involves a pilot program introduced by DoorDash in 2024 in Pennsylvania. In the Midwest region, where a lot of individuals leave traditional jobs to perform delivery, logistics, and administrative freelance work, portable benefits could play an important role.

VII. CONCLUSIONS

The basic premise of this policy brief is very simple. Namely, the displacement caused by the rise of artificial intelligence represents something entirely new, which the current American welfare system has not been equipped to address – and the people who stand to lose the most from that displacement will likely be the people least prepared to handle it. Suburbs in the Midwest, where administrative work and clerical jobs have traditionally served as a source of reliable middle class employment, are some of the areas most at risk. The workers who have lost their jobs in these industries are not failing – they are being failed by a set of policies geared for an economy that has changed far too quickly.

As stated above, none of these suggestions represent any type of extreme policy change. In many cases, they simply involve taking steps to ensure that our current institutions can adapt to an ever-changing environment. They do not entail doing away with the market or preventing technological progress, but rather ensuring that everyone can share in its fruits. It is not just the financial security of individuals. It is also the

economic well-being of whole communities, as well as the very principle that, in America, a combination of hard work and flexibility can ensure a good quality of life. Unfortunately, this principle has become increasingly irrelevant to more and more workers in recent times. Policy has the potential to alter the situation. The issue is whether it will do so before it is too late.

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