

## From the desk of Chief Economist Beth Ann Bovino

### Unwrapping the K-shaped economy for the new year

The holiday season is widely considered to be a season of warmth, generosity and abundance as the streets glow with colorful lights and the promise of joy. But this holiday season also highlighted economic inequality, with more Americans faced with a crisis not a celebration, facing what they cannot provide for themselves and their families.

Popularized by the post-COVID term “K-shaped economy,” in our report, [The K-Economy in 2026: Same Story, New Amplifiers](#), we found this condition was nothing new. It continued a long-term trend of increasing inequality which describes the divergence in the economic fortunes of different societal groups, with the longer legs going back for decades instead of just to 2022. Wealth inequality runs even deeper than income concentration, with disparities reinforced by compounding returns and inheritance, extending gaps across generations.

The flattening of K was the biggest surprise. Pandemic-era stimulus and lockdown driven conditions briefly narrowed the gap, as measured by the Gini Coefficient, to levels not seen since the early 1990s. Yet the reversal was fleeting. Income concentration has since returned to pre-COVID peaks. And recent policy shifts are expected to push inequality to new record highs for the 2026 New Year. In short, the pandemic didn’t rewrite the narrative – it merely paused it, and the economy has since resumed its previous trajectory.

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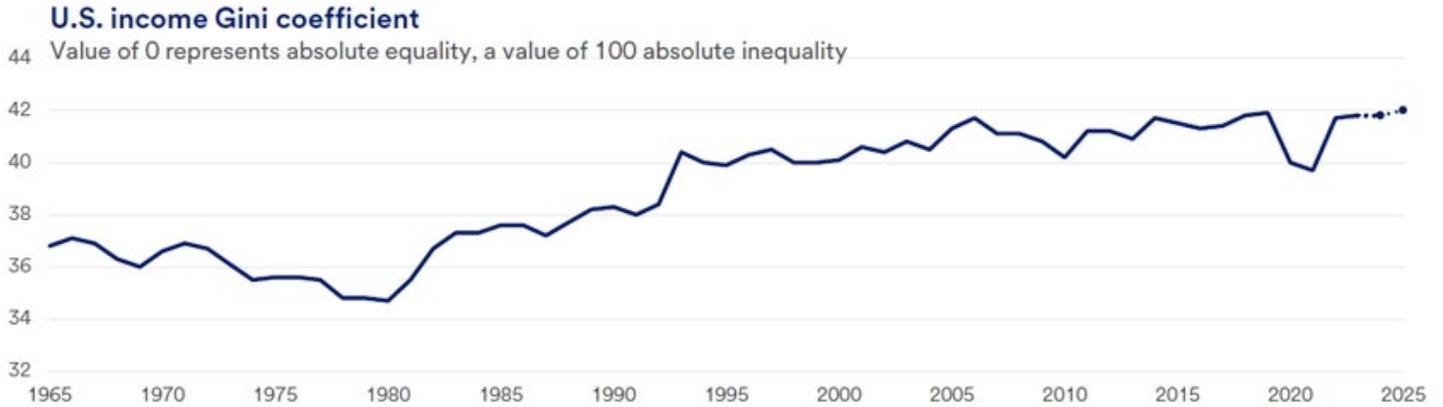
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Beth Ann Bovino, chief economist, U.S. Bank

Inequality is necessary for a market economy to function, as it incentivizes investment and expansion. However, as Keynes demonstrated, inequality often leads affluent households to save more and consume less, while those with less means rely on borrowing and debt until those options are exhausted. When these imbalances become unsustainable, the economy tends to swing from boom to bust – exemplified by the Great Recession.

As income concentration reaches critical mass, more households fall to the bottom leg of “K.” The number of Americans considered to be middle class was a sizable 61% in 1971 according to a 2024 Pew Research Center’s State on the Middle Class. In 2023, it stands at 51%, barely a majority. While the number of upper-income households rose, a sign of progress, the share of lower-income households also increased and stands at 30%, as more people are left behind.

Once crowned the engine of the U.S. economy, the destruction of the middle class’s economic power is even more severe. In 1970, middle class households reportedly earned 62% of the nation’s total income. It has plummeted by 19 percentage points to 43% in 2022.



Source: U.S. Bank Economics; Bloomberg; World Bank; Census ACS (2024 Est.); Statistica (2025 Est.)

Rapid technological change – especially AI – risks amplifying these divides unless adoption becomes broad-based. One way to build a more inclusive economy: investing in digital education and financial literacy for both the current and future workforce. This will not only help improve upward mobility but also add to economic productivity, yielding a bigger pie for all. Policies that promote equality can help ensure that innovation acts as an equalizer rather than a divider. While poorly designed redistribution may undermine incentives, well-crafted policies can be a win-win for both growth and fairness – ‘two sides of the same coin.’

Perhaps, striving for a solution to extreme income inequality can be our New Years resolution this year.

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