The Link: Wages, Machines, and What Remains

A task model of automation, job rents, and the fiscal system, with U.S. measurements, 1962–2025

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Abstract. Wages are prices on a *link*: the non-uniformity of human capability relative to machines across tasks. A worker's pay decomposes into three strata — an exit floor, a premium set by the level and slope of the capability schedule at the marginal task, and job-specific rents (union premia, licenses, efficiency wages) on top. Automation demolishes the strata from the top down: profit-directed adoption targets the best-protected jobs first (following Acemoglu and Restrepo, 2026), then flattens the schedule, then crosses the participation margin. When machines can make machines, the value released does not vanish but migrates to rents on non-produced factors — land, sites, energy. The real wage in machine-made goods is bounded below by absolute human productivity; the collapse operates through the land-priced components of consumption — immiseration through rent, not through the wage. Because roughly seven-tenths of U.S. consumption and revenue are wage-linked, the fiscal system is a tributary of the collapsing base; conditional transfers fail in regime-specific ways, while an unconditional transfer funded by rents on non-produced factors is the unique instrument whose base cannot contract and whose transfer moves no margin. The paper states the model with proofs, reports U.S. measurements for 1962–2025, and lists eleven falsifiable predictions.

1. The claim

Machines and humans can each do most tasks; what differs is by how much. Where the difference is large and uneven across tasks, human labor is complementary to machines and commands a premium far above subsistence. Where machine capability becomes uniform relative to ours, that premium evaporates — not because humans got worse at anything, but because the *gap* closed. This paper takes one sentence seriously and follows it to the end: **your wage is the rental price of a machine, times your edge over it, at the task where your edge is smallest among the tasks humans still hold.** Not need, not effort, not merit: replacement cost at the margin.

Three consequences follow, each developed below with proofs and then measured. First, a demolition schedule: automation removes the layers of a paycheck in a fixed order — job rents first (and the better protected the job, the earlier the robot comes for it), the capability premium second, participation last — with distinct observable signatures at each stage, one of which has already been found in U.S. data. Second, a conservation law: when machine-making itself automates, machine prices

collapse to their land-and-energy content, so the value released by the demolition reattaches to non-produced factors; "rent dissipation" is really rent migration — with a corollary that answers the classic objection to immiseration stories: machine-made goods do get cheaper, so the squeeze arrives through the land-priced part of the budget, not the goods part. Third, a fiscal theorem: the tax-and-transfer state is plumbed almost entirely into the wage loop, so it thins as the loop does; in the limit, redistribution funded by taxes on wages becomes an exact shell game, while a uniform transfer funded by a tax on site rents is the one instrument that survives — not as a preference among options, but as the only column of the ledger with anything left in it.

Related work

The machinery is Acemoglu and Restrepo's task framework (2018, 2022), run with the new-task margin closed — Section 9 defends the closure — and their rent-dissipation mechanism (2026) transplanted onto the capability schedule. Korinek and Stiglitz (2019) posed the below-subsistence scenario this model resolves through exit; Korinek and Suh (2024) is the closest formal predecessor on wage collapse under transformative AI, differing here in where the collapse ends — at non-produced factors rather than capital accumulation — and in the conditionality contrast of Propositions 5 and 6. Susskind (2017) and Sachs and Kotlikoff (2012) model technological unemployment and immiseration through other channels; Moll, Rachel, and Restrepo (2022) route automation's gains to wealth-holders, where this model names the terminal claimant: land. Caselli and Manning (2019) prove real wages cannot fall in terms of machine-made goods — the objection Proposition 4 concedes and then answers through the land content of subsistence. Aghion, Jones, and Jones (2019) supply the strongest stabilizer — Baumol concentration of expenditure on human-essential tasks — engaged in Section 9. George (1879) supplies the terminal instrument; Ricardo (1817), the margin logic the whole model runs on.

2. The model

Tasks. Producing the final good requires a continuum of tasks $x \in [0,1]$, each in equal amount — a checklist where every box is ticked once per unit of output (Leontief aggregation over tasks). The good's unit cost is the sum of its tasks' unit costs.

Two ways to tick a box. One human-hour completes $\gamma_L(x)$ units of task x; one machine-hour completes $\gamma_M(x)$ units. The *human edge* is $\rho(x) = \gamma_L(x)/\gamma_M(x)$. A machine-hour rents for c — taken as given until Section 5, where it becomes the second protagonist.

Wedges. Some jobs pay more than the market requires: union premia, licensing rents, efficiency wages paid because monitoring is hard. Following Acemoglu and Restrepo (2026), model these as a wedge $\mu(x) \geq 1$ that firms must pay on task x, with $\mu = 1$ on a positive mass of tasks. Wedge jobs are rationed: firms hire into them only up to the point where the inflated wage equals marginal product, and

workers queue for them — a convention that returns in Section 3: because the rationed jobs are full, the marginal participant is evaluated at the base wage.

People. N identical workers each supply one hour or exit to an outside option worth s — the woods, the family, the commons: the value of the best life available *without* selling labor. Note that s quietly presupposes access to some land.

Land. Fixed in total, heterogeneous in quality, worst parcel's reservation rent zero. Idle until Section 5, decisive after.

> **Lemma 1 (Deflation).** Labor holds task x iff $\mu(x)\cdot w/\gamma_L(x) \le c/\gamma_M(x)$, i.e. iff $w \le c\cdot\tilde{\rho}(x)$, where $\tilde{\rho}(x) = \rho(x)/\mu(x)$. All allocation in the model runs on the wedge-deflated schedule $\tilde{\rho}$, not the raw one.

Proof. Divide both sides of the cost comparison by $\mu(x)$. ∎

Geometrically: **a wedge is negative altitude.** It drags a task down the effective schedule toward the waterline without changing how good humans actually are at it. For the threshold argument, relabel tasks so $\tilde{\rho}$ increases from left to right, and assume the relabeled schedule is continuous and strictly increasing where labor is employed; Figure 1 keeps the raw ordering so the pockets stay visible. Competitive firms assign each task to the cheaper input, so there is a threshold x*: machines take [0, x*), labor takes [x*, 1], and in equilibrium firms are exactly indifferent at the margin while everyone willing to work at the going wage is working or has exited.

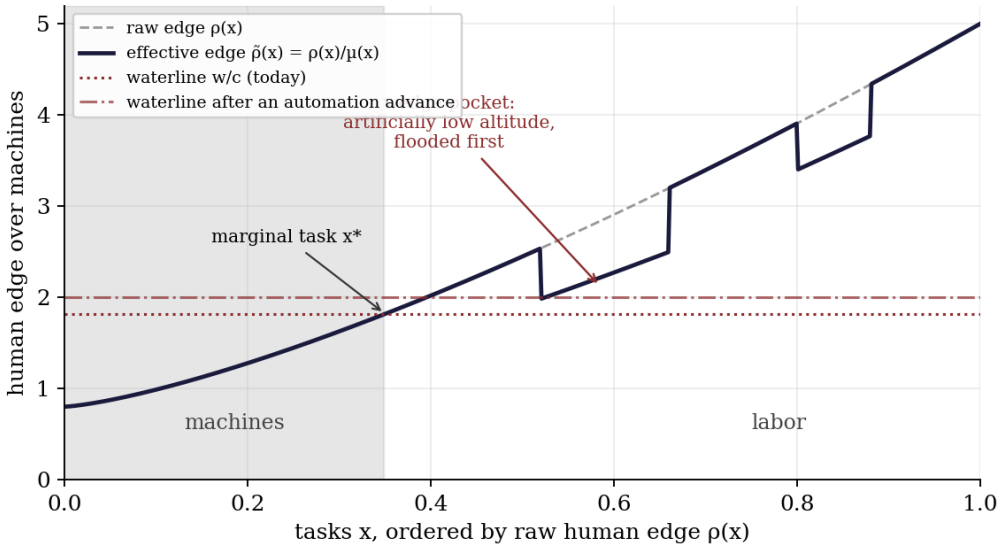

Figure 1. The task space. Tasks are shown in raw-edge order; the dashed gray curve is ρ(x), and the solid effective edge $\tilde{\rho}(x) = \rho(x)/\mu(x)$ sits below it wherever wedges bite. The threshold argument relabels by $\tilde{\rho}$. Machines hold everything below the waterline w/c; labor holds everything above. Wedge pockets sit below their raw altitude — and when the waterline rises with an automation advance, the pocket floods first even though the humans in it are objectively better at their task than neighbors who survive.

3. The wage is a price on the link

> **Proposition 1.** (i) In any equilibrium using both inputs, the base wage is $w = c \cdot \tilde{\rho}(x^*)$. (ii) The wage's sensitivity to human scarcity is governed by the slope of $\tilde{\rho}$ at x^*: steep slope, responsive and insulated wage; flat schedule $\tilde{\rho} \equiv \bar{\rho}$, labor demand perfectly elastic at $c \cdot \bar{\rho}$ and the wage pinned there regardless of how many or few humans exist. (iii) No equilibrium wage sits below s while anyone works; if the clearing wage would fall below s, workers exit until the wage rises to s (possible only when the schedule has slope) or all have left.

Proof. (i) If $w > c \cdot \tilde{\rho}(x^*)$, the marginal task and, by continuity, tasks just above it are cheaper by machine; firms drop labor there; the unemployed underbid; w falls. If $w < c \cdot \tilde{\rho}(x^*)$, tasks just below x^* strictly favor labor; firms demand more hours than exist; bidding raises w. Only equality is stable. (ii) To absorb more hours, labor must win more tasks, and a firm hands over a task only when the wage falls relative to that task's machine cost; so more participants push x^* left and w down, in proportion to the slope. Flat schedule: no wage above $c \cdot \bar{\rho}$ employs anyone, every wage at $c \cdot \bar{\rho}$ employs everyone willing. (iii) is the participation condition applied to (i) and (ii). ∎

Definitions. *The link* is the pair (level, slope) = $(\tilde{\rho}(x^*), \tilde{\rho}'(x^*))$. The level sets the wage; the slope insulates it from scarcity. Call the schedule-has-slope case the *linked regime* and the flat case the *corner regime* — labor demand perfectly elastic at machine parity — with two sub-cases: corner-above ($c \cdot \bar{\rho} \geq s$ — everyone works at a pinned wage) and corner-below ($c \cdot \bar{\rho} < s$ — rational exit). The corner-below case resolves the "wages below subsistence" scenario of Korinek and Stiglitz (2019) the only way it can be resolved: by leaving, not by dying — in practice, by becoming a dependent, because a mother can see value in her child that the economy cannot.

Running example. $c = \$10$, $s = \$25$. Task A: $\rho = 1$, $\mu = 1$ (machines hold it). Task C: $\rho = 4.5$, $\mu = 1$. Task B: $\rho = 5$, $\mu = 1.25$ — objectively humans' best task, but wedged. Effective edges: $\tilde{\rho}(B) = 4$, $\tilde{\rho}(C) = 4.5$, so B is the effective marginal task and $w = \$40$. The C-worker earns \$40; the B-worker earns $\mu \cdot w = \$50$. Now let AI improve machines uniformly by 25%: raw edges fall to $\rho(B) = 4$ and $\rho(C) = 3.6$. If nothing else changed, the new wage at the B-margin would be \$32 — a 20% pay cut delivered entirely by someone else's machine getting better at *your* task, with no human getting worse at anything. One caveat carries its own proposition: this arithmetic is nominal — it holds the machine rental c fixed while machines improve, and machine progress also cheapens machine-made goods. Proposition 4 does the general-equilibrium bookkeeping and locates exactly which part of the cut is real.

History in one figure. Before the industrial era, machines scarcely existed; wages sat near s, pinned by land scarcity — Ricardo's version of the same margin logic, run through soil instead of silicon. The industrial revolution split capabilities violently: machines absurdly better at the physical, useless at the cognitive. The schedule became enormously dispersed and steep, the link tight, wages high and insulated — the historical anomaly we mistake for a law. Computing began flattening the simple-cognitive end. AI makes the flattening general, and Figure 2's annotation is the whole argument: the level falls and the slope falls, and they are separate injuries. Technology giveth, and technology taketh away.

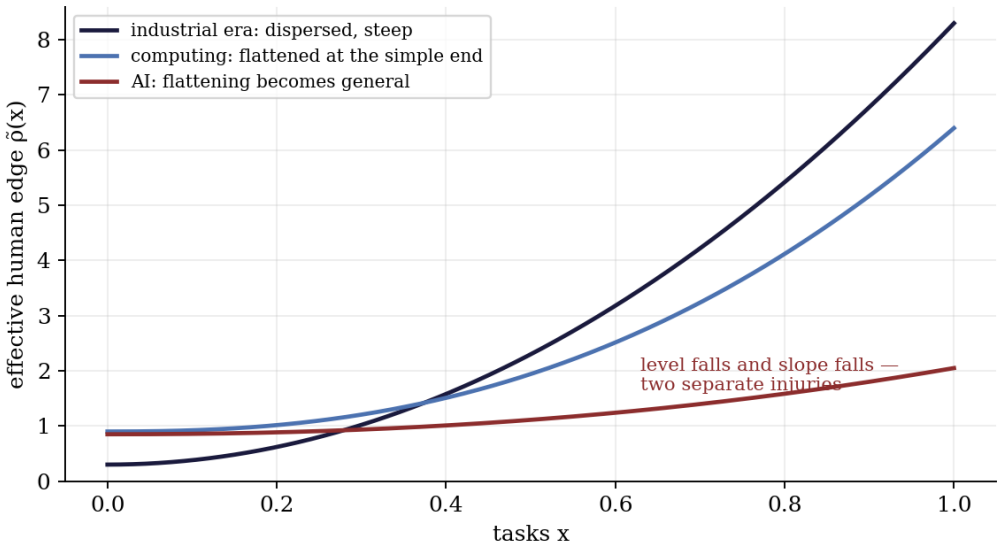

Figure 2. The capability schedule across three technological eras (the pre-industrial case is off-chart: almost no machine tasks at all, with the wage floor enforced through the land margin instead). Flattening lowers the wage through the level and strips its insulation through the slope.

Heterogeneity. Real people carry personal schedules and personal outside options. Every result below holds worker-type by worker-type; "heterogeneity lifts the mean above the floor" is the cross-sectional shadow of Proposition 1, and floor statements refer to the bottom of the support, not the average.

4. Demolition from the top

A paycheck now has three geological layers, and the model's central narrative is that automation removes them in order.

$$\textit{wage at task } x = s + [c\cdot\tilde{\rho}(x^*) - s] + [\mu(x) - 1]\cdot c\cdot\tilde{\rho}(x^*)$$

(exit floor) + (link premium) + (wedge rent)

> **Proposition 2 (Targeting; Acemoglu–Restrepo 2026, transplanted).** When an automation advance makes a set of tasks feasible for machines, the tasks actually flipped are those with the lowest $\tilde{\rho}$ among the feasible ones. Provided the advance is not biased toward low-wedge tasks, the flipped set is first-order stochastically the high-μ set: **automation is targeted at the best-paid versions of each job.**

Proof. Adoption occurs where labor cost exceeds machine cost, $\mu(x)\cdot w/\gamma_L \geq c/\gamma_M$, i.e. where $\tilde{\rho}(x) \leq w/c$: the adoption region is a lower set in the effective schedule, and wedges are what push otherwise-high tasks into it. ∎

In the running example: after the 25% machine improvement, $\tilde{\rho}(B) = 3.2$ and $\tilde{\rho}(C) = 3.6$, so **B floods before C — automation takes the task where humans are objectively better** ($4 > 3.6$), because the wedge made it the cheapest conquest. The displaced worker loses twice, and differently: the \$10 wedge rent vanishes with full incidence — a composition effect that moves no margin, so nobody shares it —

while the base-wage decline is spread economy-wide through the margin. Acemoglu and Restrepo find exactly this asymmetry empirically: displacement effects propagate across groups; rent losses land undampened on the displaced.

Three corollaries, each a prediction:

Self-liquidation of labor-side protection. A wedge that operates through price raises its own task's automation priority. Union premia, licensing rents, and any legally mandated "human-made" price premium are self-undermining under sustained automation; the only protection that survives Proposition 2 is quantity exclusion — law removing a task from the automatable set entirely. The better protected the job, the earlier the robot comes for it.

The within-group signature. Because wedge jobs sit in the upper-middle of each group's internal wage distribution, stage one of the demolition *compresses* wages within exposed groups: losses concentrate in roughly the 70th–95th within-group percentiles, with the bottom (no rents to lose) and the very top (unautomatable rent jobs) moving only with the base wage (Figure 4). Acemoglu and Restrepo (2026) document precisely this U-shape for U.S. groups, 1980–2016 — a finding that contradicts the folk assumption that technology always widens inequality at every level of aggregation, and one this model predicts rather than accommodates.

The subsidy mirror. An in-work benefit is algebraically a wedge $\mu < 1$ — labor accepting less at a task — producing over-employment where private rents produce under-employment. Private and public distortions are the two half-lines of a single μ-axis, with the competitive model at $\mu = 1$; Section 6 returns to the public half.

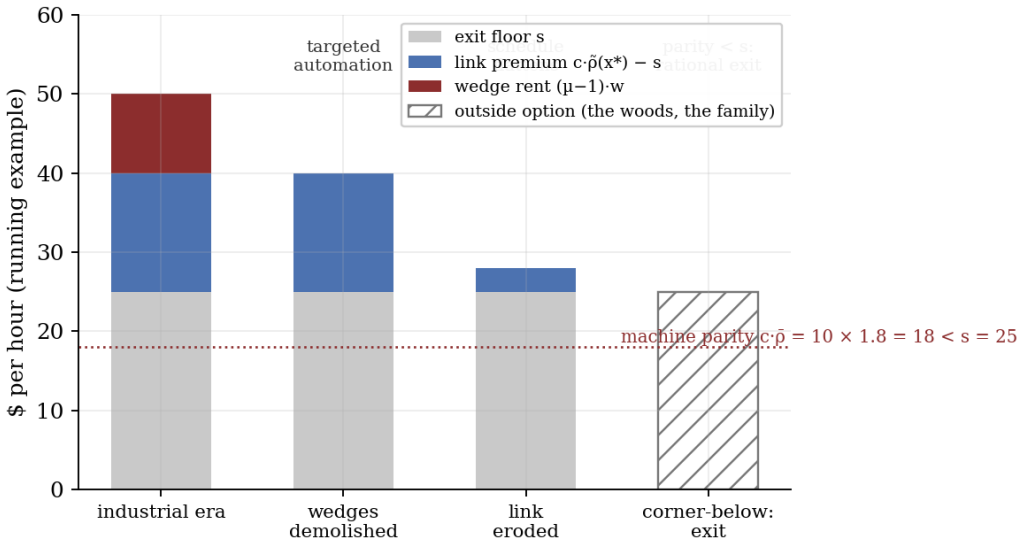

Figure 3. The demolition schedule, in the running example's dollars. Wedge rents die first (Proposition 2 targets them); the link premium erodes second as the schedule flattens; participation goes last, when machine parity crosses the outside option and the rational move is exit — in practice, dependency. Each stage has a distinct empirical signature. Terminal-stage numbers: c = \$10, $\bar{\rho}$ = 1.8, s = \$25.

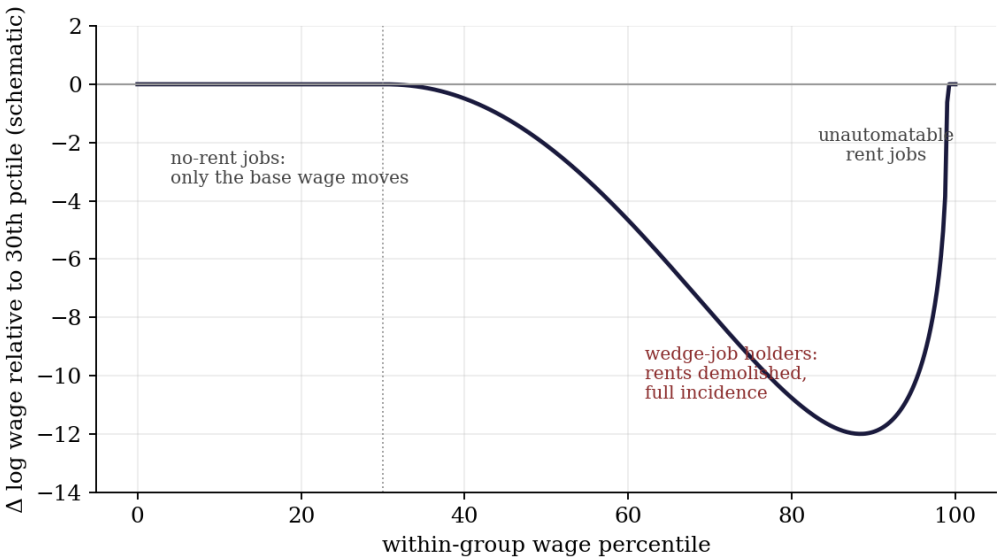

Figure 4. Predicted change in wages across the *within-group* distribution for a group exposed to automation (schematic). The U-shape is the fingerprint of stage-one demolition: rent-holders lose their stratum with full incidence while everyone else moves only with the base wage. Acemoglu and Restrepo (2026) estimate this exact pattern in U.S. data, 1980–2016, with automated jobs estimated to pay rents on the order of 40–50% above base wages.

The transition can be negative-sum. Wedges break the comforting theorem that automation, however brutal distributionally, always raises total output. A firm automating a $50 wedge job saves $50 minus the machine; society only frees what the worker produces elsewhere — $40 minus the machine. The $10 gap is a pure allocative loss, incurred every time Proposition 2's targeting fires. Acemoglu and Restrepo estimate that for the U.S., 1980–2016, this loss offset 60–90% of automation's productivity gains — possibly all of them. Privately profitable automation ran close to socially break-even, and perhaps negative-sum, *before any of this model's later concerns arrive.* The loss has a finite fuel tank — it is capped by the wedge stock, and once the wedge stratum is demolished the competitive envelope logic resumes — but "finite" here has already meant four decades.

5. Where value goes when machines make machines

Proposition 3 (Value collapse). Let producing one unit of machine services require a units of machine services (a < 1: machines net-reproduce) and ℓ units of non-produced services — sites, energy, ore — renting at r. Free entry forces c = a·c + ℓ·r, hence

$$c = \ell r / (1 - a).$$

With time preference δ (building takes a period), c = ℓr(1+δ)/(1 − a(1+δ)), finite iff a(1+δ) < 1; the wedge δ is interest — the wage of waiting — competitive, real, and thin. An idea's reproduction requires approximately nothing of anything, so its competitive price is approximately zero; any positive price for an idea is institutional scarcity, chosen rather than natural — chosen, as Romer made canonical, because at marginal-cost pricing ideas with fixed creation costs are not created at all: the institutional scarcity is constitutive of the idea sector, not a gratuitous distortion. Which ideas earn rents, and for how long, remains a policy dial; and once an income floor exists, it is itself a second margin for funding creation.

Proof. Above recipe cost, entrants build machines with machines and undercut; below it, builders exit. The displayed equation is the zero-profit condition; solving it is one step. (With many machine types this is a matrix equation c = Ac + Lr solved through $(I-A)^{-1}$; the scalar carries the full logic.) ∎

Corollary (the surviving-income taxonomy). In the corner regime, gross income decomposes exhaustively into rents on three kinds of scarcity — *physical* (land, energy, sites, water: permanent), *institutional* (whatever law elects to protect: IP, licenses — and by Section 4's self-liquidation result, only quantity-exclusions endure), and *dynamic* (transition rents while capacity builds: real, temporary, and "temporary" can mean decades for a nuclear plant) — plus thin interest. Wages have left the list.

Worked instance. Model weights are just numbers — an idea. Distillation pierces even trade secrecy, because the behavior leaks out through the product's own outputs; no patent regime fully contains a function you can query. The ownable things are, surprise, the datacenters, the land under them, the power contracts and the water rights. Proposition 3 says the market value of the AI sector migrates from the former to the latter — whatever the current market believes.

Proposition 4 (Real wages and the land content of subsistence). In the corner regime, with the recursion of Proposition 3: (i) the real wage in machine-produced goods is $w/p_g = 1/\bar{L}$, where $\bar{L} = \int dx/\gamma_L(x)$ is the labor a human would need to complete the whole checklist alone — absolute solo productivity, invariant to machine quality; the machine rental cancels. (ii) The price of non-produced services relative to machine-made goods is $r/p_g = (1-a)/(\ell \cdot \bar{\rho} \cdot \bar{L})$, and it diverges along every margin of machine improvement: $\bar{\rho} \to 0$, $a \to 1$, or $\ell \to 0$. (iii) Against a consumption bundle with expenditure share σ on non-produced services — housing, siting, energy, food-acreage — the real wage collapses if and only if $\sigma > 0$; at $\sigma = 0$ it is bounded at $1/\bar{L}$. The participation constraint $w \geq s$ binds through the land-priced component of subsistence.

Proof. (i) With ρ flat at $\bar{\rho}$, $\gamma_M(x) = \gamma_L(x)/\bar{\rho}$, so $p_g = c \cdot \int dx/\gamma_M = c \cdot \bar{\rho} \cdot \bar{L} = w \cdot \bar{L}$. (ii) Substitute $c = \ell r/(1-a)$ into $r/p_g = r/(c \cdot \bar{\rho} \cdot \bar{L})$. (iii) A geometric price index $P = p_g^{1-\sigma} \cdot r^{\sigma}$ gives $w/P = (1/\bar{L}) \cdot (p_g/r)^{\sigma}$, which by (ii) tends to zero as machines improve, for any $\sigma > 0$. ∎

This concedes and then answers the strongest objection to every immiseration story (Caselli and Manning, 2019): cheaper machines cannot starve anyone *in terms of the things machines make* — correct, and beside the point, because subsistence is not made of machine-made goods alone. Space, shelter, energy, and the acreage under food carry irreducible non-produced content, and that is precisely where Proposition 3 sends the value. **Immiseration, when it comes, arrives through rent, not through the wage**: the pay packet buys ever more gadgets and ever less ground. The exit option s was land-backed from Section 2; the theory closes on itself.

Conservation of rents. Section 4's "rent dissipation" and this section's recursion combine into a single bookkeeping statement: the rents demolished off labor are not destroyed. In the corner regime every flow of spending resolves, through the recursion, into claims on non-produced factors. **Dissipation is migration: from labor-attached institutional scarcity to land-attached physical scarcity.** The wealth data already lean this way — Rognlie (2015) shows the entire postwar rise in the net capital share is essentially housing, which is to say land.

6. The fiscal system is a tributary of the labor loop

For each fiscal instrument i, let λ_i be the wage-linked share of its base — for transfers, of its funding or its eligibility, as the question requires. Four accounting facts follow from Propositions 1 and 3. (i) In the corner regime the current-wage base shrinks toward participation × parity — toward zero in corner-below — so λ-weighted revenue contracts in proportion. (ii) The eligibility scissors: work-conditioned claims contract with participation while need-based claims expand; revenue and obligations cross like blades. (iii) Instruments taxing *embodied past labor* — the structures share of property tax, consumption financed from past-wage savings — keep yielding through the collapse and decay only at depreciation and drawdown rates: the fiscal cliff has a time constant, measured in years to decades.

Cushion, not comfort. (iv) VAT is the exception that matters: its base survives, and its incidence migrates by itself to whatever finances consumption — which in the corner regime, by Proposition 3, is rents. The one instrument that follows the value without being redesigned.

> **Proposition 5 (Conditionality).** (i) An unconditional transfer u enters both sides of the participation condition — work iff w + u ≥ s + u — and cancels: no margin moves, while the disposable floor rises by exactly u. Once u ≥ s, exit is feasible without woods or family: the transfer is a purchased commons, re-providing the outside option that enclosure priced away. (ii) An in-work benefit b lowers the reservation wage to s − b. In the linked regime, the induced participation pushes the margin left and part of b leaks into lower wages — the Speenhamland result rebuilt without employer power, the leak flowing through the market's own margin and growing as the schedule flattens. In the corner regime the wage is pinned, so there is no leak — but if s > c·ρ̄ ≥ s − b, the benefit summons work whose replacement value is c·ρ̄ from people whose time is worth s outside: society burns s − c·ρ̄ per hour to preserve the appearance of employment. The failure mode is regime-dependent: leak when linked, make-work in the corner. (iii) An out-of-work benefit b′ raises the reservation to s + b′ and taxes the first hour of work at b′; as parity compresses the wage distribution toward the floor (Section 4, stage one), the mass of workers inside any fixed withdrawal band rises mechanically. The same rulebook generates a worsening trap; the dysfunction belongs to the regime, not the rules.

Proof. The displayed inequalities plus Proposition 1's comparative statics. ∎

Proposition 6 (Funding). (i) In the corner regime, labor demand is perfectly elastic at gross wage $c\cdot\bar{\rho}$, so a payroll or income tax t cannot pass to firms; workers' net wage is $(1-t)\cdot c\cdot\bar{\rho}$. With full participation the transfer is $u = t\cdot c\cdot\bar{\rho}$, and disposable income is

$$(1-t)\cdot c\cdot\bar{\rho} + t\cdot c\cdot\bar{\rho} = c\cdot\bar{\rho} \text{ — identically, for every } t.$$

A wage-funded universal transfer in the corner regime is a closed loop through the same pockets. With partial participation it is worse than futile: the transfer spreads over N people while the tax falls on fewer, each worker's disposable income drops below $c\cdot\bar{\rho}$, and when it crosses s, marginal workers exit, the base shrinks, and u falls — a self-undermining spiral. (ii) Land's supply is fixed and its rent is a residual, so a tax on site rent capitalizes into the land *price* while leaving the rent flow and land use unchanged: the base cannot contract in response to being taxed. By (5i), the transfer it funds moves no margin either. That conjunction — untaxable-away base, distortion-free transfer — is the theorem. Two practical caveats, acknowledged: assessment must separate site value from improvements — a century-old valuation literature, hard but workable — and a near-complete tax capitalizes into land prices, compressing the collateral channel during transition. Neither touches the invariance logic. (iii) By Proposition 3's corollary, the non-empty funding bases in the corner regime are physical rents, institutional rents, transition rents, and thin interest; the wage column is blank. Funding transfers from the wage base is therefore impossible; and among the non-empty columns the site-rent base is distinguished rather than merely available — institutional rents are policy-elastic by construction and self-liquidating where labor-attached (Section 4), transition rents expire, interest is thin, while the land column, by (ii), is the only one that cannot empty itself. Base-class necessity plus within-class dominance; not, strictly, instrument necessity.

Proof. (i) Incidence under perfectly elastic demand, plus arithmetic. (ii) Fixed supply plus residual rent, plus (5i). (iii) Exhaustiveness of the taxonomy. ∎

Remark (the regime dial). Away from the corner, everything is continuous. With labor-demand elasticity ε_D — which Proposition 1(ii) maps to the inverse slope of $\tilde{\rho}$ at the margin — and participation elasticity ε_S, workers bear $\varepsilon_D/(\varepsilon_D+\varepsilon_S)$ of a payroll tax, and exactly that fraction of a wage-funded transfer is shell game; the in-work leak of Proposition 5(ii) is the same ratio mirrored. The corner is the $\varepsilon_D \to \infty$ endpoint, not a knife-edge: the theorems degrade smoothly in observable incidence. Which makes the regime measurable — every payroll-incidence estimate is, in this model, a reading of the slope of the link.

The converse deserves equal billing: **in the linked regime, standard redistribution works roughly as advertised** — labor demand is inelastic enough that taxes stick where aimed. The theory does not say the textbook was wrong; it says which regime the textbook was written in, and identifies the switch. Redistribution purely among labor, in a fully wage-linked economy at machine parity, pins its floor to subsistence no matter how the rules shuffle; the George program — tax the site rent, pay the uniform dividend — was suspended by the

industrial era's steep schedule and is resumed by its flattening. George is not merely elegant; in the corner, he is necessary.

7. Measurements: the United States, 1962–2025

How wage-linked is the economy the demolition is aimed at? Working from BEA national accounts (annual NIPA series via FRED), every contestable classification — the labor share of proprietors' income, the progressivity tilt of personal taxes, corporate incidence, transfer funding rules, saving-attribution order, deficit attribution — was computed under all defensible variants; figures below are medians with bands across the full rule grid in brackets. None of this tests Propositions 1–6; it measures the exposures that make them consequential — the model's test surface is Section 8.

Object	Value (year)	Note
Wage-linked share of consumption financing, λ_C	0.72 [0.66–0.81] (2025)	down from ≈0.80 in 1965
Wage-linked share of tax revenue, λ_R	0.68 (2025)	0.64 in 1965, ≈0.70 by the mid-1980s, flat since
Work- or means-conditioned share of benefits	≥0.84 floor; ≈0.99 by withdrawal rule (2024)	the only sizable unconditional cash transfer is Alaska's oil dividend
Government purchases paid as direct public wages	0.47 (2023)	$\lambda = 1$ exactly; the rest is procurement and capital consumption
Transfers, share of GDP	15.8% (2025)	borrowing funds 19% of transfers in 2025
Household net worth / GDP	5.8 (2025)	3.6 in 1965, 3.4 in 1980, 6.1 in 2021

Two structural findings sit underneath the table. First, **the corporate veil**: the labor share of GDP is in the mid-fifties, yet the labor share of income households actually receive is 73% — because of the $9.8T gross operating surplus (2023), $3.8T is consumed by depreciation, $0.85T retained by business, and $0.6T intercepted by corporate tax before any of it becomes spendable income. Depreciation, the largest term, is Proposition 3 wearing accounting clothes: most of gross capital income is the machines maintaining themselves — the a·c term of the recursion, visible in the national accounts. Second, **the scissors in time**: the economy's wage-linkage (λ_C) has drifted down for sixty years while the fiscal system's wage-exposure (λ_R) rose and locked — the state deepened its dependence on exactly the base the technology erodes.

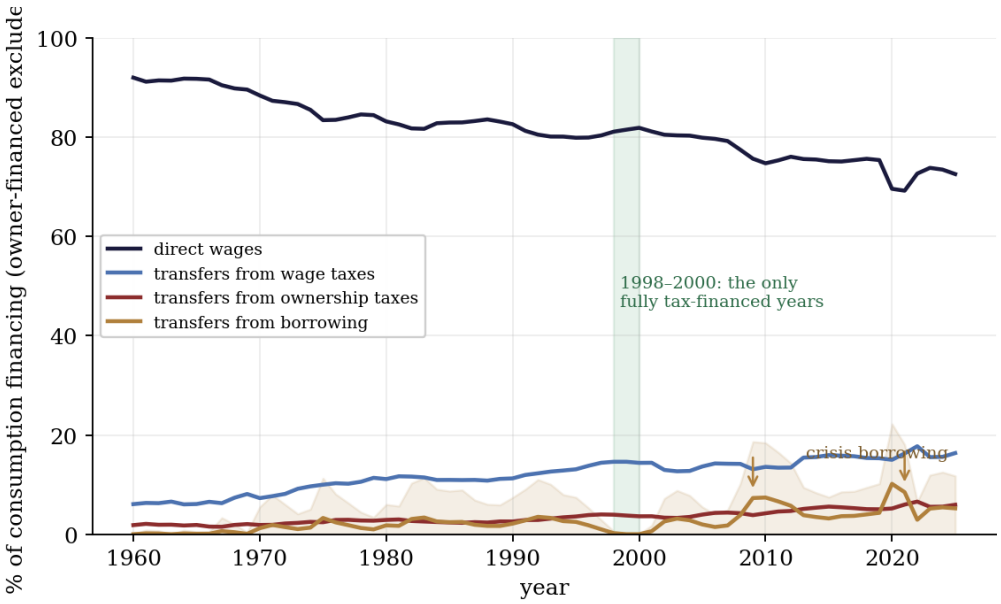

Figure 5. Financing of U.S. consumption outside the owner loop — the portion financed directly by household capital income, owners consuming their own returns — 1962–2025 (medians across the classification-rule grid; shaded band spans deficit-attribution rules). Direct wages have ceded twenty points in sixty years, in a ratchet: every recession bites, every recovery returns only part. Transfers grew on a funding mix that stayed roughly quarter-ownership; the borrowed channel — promises whose ultimate payer is undecided — reached 19% of transfers by 2025, and only in 1998–2000 did it vanish. In the model's terms, these are promises that will eventually harden into claims on whichever column the regime leaves standing: wage taxes if the link holds; rents or inflation if it does not. Funding attribution is pro-rata accounting, not estimated incidence.

8. Predictions

1. **Within-group compression precedes between-group collapse.** Groups exposed to automation lose most at the 70th–95th within-group percentiles; dispersion inside exposed groups falls even as gaps between groups widen. [Confirmed for the U.S., 1980–2016: Acemoglu–Restrepo 2026.]

2. **Protection accelerates replacement.** At equal capability, the unionized, licensed, or premium-priced version of a task is automated earlier than the unprotected version. Price-based human-provenance premia get automated away or normalized away; only legal task reservations endure. [Testable with matched task/occupation data.]

3. **The transition can be negative-sum.** Periods of intense wedge demolition show automation raising output while yielding little or no net TFP gain. [Estimated for 1980–2016: rent dissipation offset 60–90% of automation's productivity gains.]

4. **Wages pile up toward the floor, so traps worsen without rule changes.** The share of workers inside benefit-withdrawal bands — facing high effective marginal tax rates — rises mechanically as compression proceeds. [Testable in METR microdata.]

5. **The labor share's decline is not mean-reverting.** It resumes after each cyclical recovery rather than reverting to the postwar mean, deepening with each wave of capability uniformity. [Ongoing.]
6. **The rising capital share is land in disguise.** Measured capital income increasingly resolves into housing and site value rather than returns on reproducible equipment. [Consistent: Rognlie 2015; continued concentration predicted.]
7. **AI value attaches to sites, power, and water — not weights.** Model-only firms' margins compress through distillation and copying; the durable balance-sheet items are datacenters, land, energy contracts. [Unfolding.]
8. **Real wages fork by deflator.** Wage series deflated by machine-producible goods hold or rise while the same series deflated by shelter-heavy, land-content bundles stagnate or fall, and the gap widens with automation; the land-content share of low-income budgets climbs. The divergence is the mechanism of Proposition 4, not a measurement nuisance. [Visible already in shelter-share trends; sharpens as parity spreads.]
9. **The fiscal scissors widen.** Wage-linked revenue exposure stays high while the wage-linkage of the economy falls; crises ratchet transfer growth financed by borrowing, and the borrowed channel's ultimate incidence stays undecided until the regime decides it. Operationally: each recession lifts the borrowed share of transfer financing by several points, with less than full retracement. [Visible in Figure 5.]
10. **Payroll incidence migrates onto workers.** As schedules flatten, the estimated pass-through of payroll taxes to net wages rises toward one, and wage-funded transfer expansions show progressively fuller worker incidence — the regime dial of Section 6, read from the incidence literature. [Testable against payroll-incidence estimates over time.]
11. **Conditional programs' failure mode migrates.** In-work subsidies shift from leaking into lower wages (linked regime) toward financing negative-value make-work (corner regime) as machine parity crosses outside options occupation by occupation. [Testable as parity thresholds cross.]

9. Assumptions, honestly

Where a skeptic should push, in descending order of importance. **Fixed task space — the real dichotomy:** Acemoglu and Restrepo (2018) derive reinstatement: falling wages redirect invention toward new labor tasks, and for two centuries that counterweight operated. This paper closes that margin deliberately, and the closure should be read as the pessimistic branch of a stated fork. Branch one: reinstatement continues — which requires a standing reservoir of latent tasks where humans retain comparative advantage after each advance; that reservoir *is* the link, so the stabilizer presupposes what is at issue. Branch two: the reservoir thins — the branch supported by the displacement-versus-reinstatement accounting since 1987 and by the generality of AI, which targets the task-creation process along with the tasks. On branch one this paper's corner is postponed and its

propositions describe a direction of travel; on branch two they describe a destination. The paper takes branch two and says so. **Exogenous wedges:** wedge locations are taken as given; if institutions regenerate wedges, stage one slows and the deadweight tank refills. **Rationed wedge jobs:** the participation margin is evaluated at the base wage (queue logic); a lottery convention softens the floor by the mean wedge and flips nothing downstream. **Checklist (Leontief-over-tasks) production, one good, homogeneous workers:** CES aggregation softens thresholds into bands; heterogeneity makes every statement type-by-type; regimes and propositions survive. **Human-premium tasks:** a permanently steep patch of the schedule where consumers insist on humans is possible; where it relies on enforced provenance it is institutional scarcity — chosen, revocable, and self-liquidating if enforced as a price — and familiarity appears to erode the taste side. Aghion, Jones, and Jones (2019) give the strongest version of the objection: if a human-essential task set persists, Baumol dynamics concentrate expenditure on it and labor's share can persist indefinitely — conceded as mechanism, contested as premise, since the set must remain both non-automatable and non-substitutable, and every price-mediated version of that protection self-liquidates by Proposition 2. Treated as a transition buffer, not a rescue; this is a judgment, flagged as one. **Closed economy; transition dynamics unmodeled:** trade is wage arbitrage arriving before machine parity — same direction, earlier — and the buildout era's very real bottleneck rents are classified (dynamic scarcity) but not tracked.

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Data and computation. All U.S. figures are gross annual flows computed from BEA national accounts (annual NIPA series retrieved via FRED, 2026 vintage). Revenue is decomposed into wage- and ownership-linked parts (payroll to wages; personal income tax split by the labor/capital mix of household income with a progressivity tilt; corporate and sales taxes bracketed between standard incidence readings; property taxes to ownership); transfers draw on the pool pro rata (accounting attribution, not incidence estimation), with the borrowed share equal to the government current-account gap times transfers' share of current expenditure, attributed under three labeled rules. Benefit conditionality follows program rules: conditioned on work history, or withdrawn as earnings rise, counts as wage-linked; the six largest named programs alone give the 0.84 floor. Every arguable classification was computed under all defensible variants; reported values are medians with min–max bands across the grid. Flows are gross: a retiree's pension counts as a flow to a past worker, not netted against their own contributions. **Notation.** $\rho(x)$ here is a capability schedule; the scalar $\hat{\rho} \approx 0.5$ in Acemoglu–Restrepo (2026) is a wedge-markup estimate, and their λ is a task-substitution elasticity unrelated to the wage-linkage shares λ_i used here.

AI use. This paper was written in collaboration with Claude (Anthropic). The theory and its central claims are the author's; the formalization, proofs, computations, figures, and much of the prose were drafted by Claude under the author's direction and review. All data were pulled live from public sources under a strict rule against substitution or approximation, with every series validated before use; the code and data are public. Errors remain the author's. The subject matter makes the disclosure doubly obligatory.