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SWISS CENTRE OF EXPERTISE
IN LIFE COURSE RESEARCH

The myth of the middle class squeeze

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Warsaw, 16. 9. 2022

America's middle class meltdown

For decades, the Sun Belt promised jobs but the problems of wage inequality are catching up

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The Middle-Class Squeeze

The post-1980 era: Slower economic growth and stagnating median incomes

- In the West, GDP per capita (productivity) grew by 3-4% per year 1950-70, but by barely more than 1% 1980-2020
- Moreover, growth in productivity and in median wages became uncoupled – for two reasons:
 - an increasing capital share
 - an increase in wage inequality
- As a result, ordinary people's incomes stagnated

Economic stagnation is seen as hitting the middle class particularly hard

Economists churn out study after study on the “losing middle class”, defined as income group:

- Households in income percentiles p20-p80 (OECD)
- Households with 60-200% of median income (ILO)
- “The middle class starts when poverty ends” (Ravallion 2010)

What's wrong with defining the middle class as middle-income group? (I)

Households in income percentiles p20-p80:

- In Europe, 20% of 25-64 receive benefits from unemployment, disability, social assistance
- In the US, p20 gives access to food stamps for workers

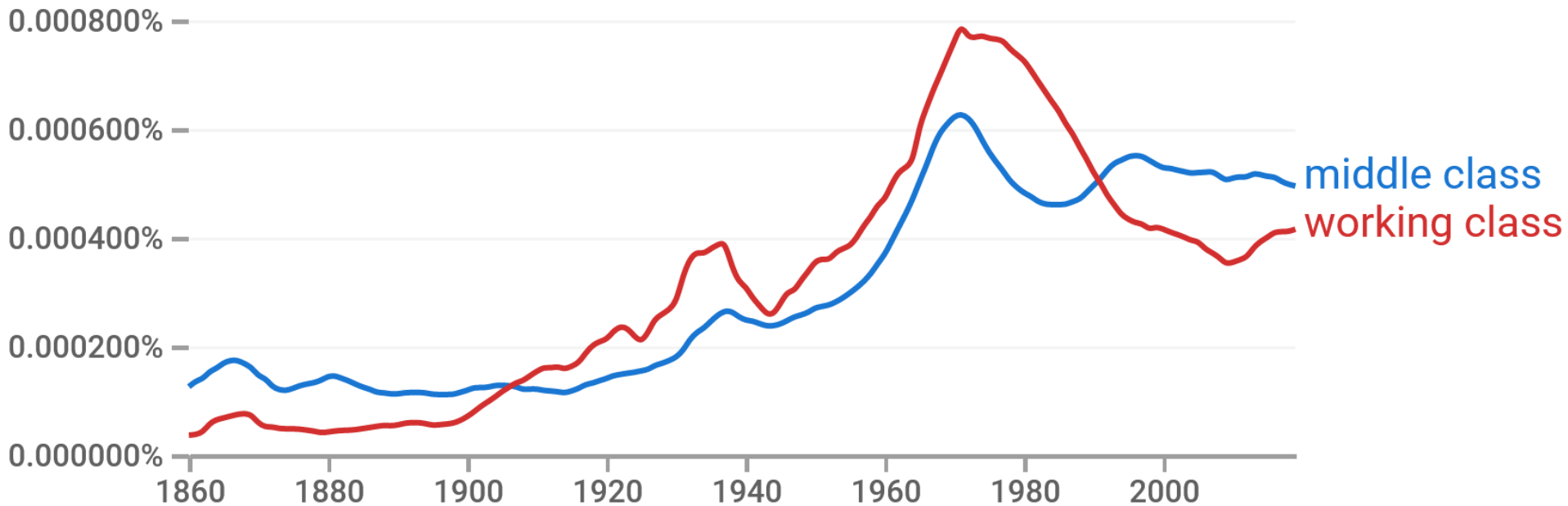
Households with 60-200% of median income:

- In ES, FR, PL or UK, the minimum wage is 55-60% of the median wage
- This includes over 66% of households in DE, IT, UK and over 75% in DK, NO, NL

What's wrong with the middle class seen as middle-income group? (II)

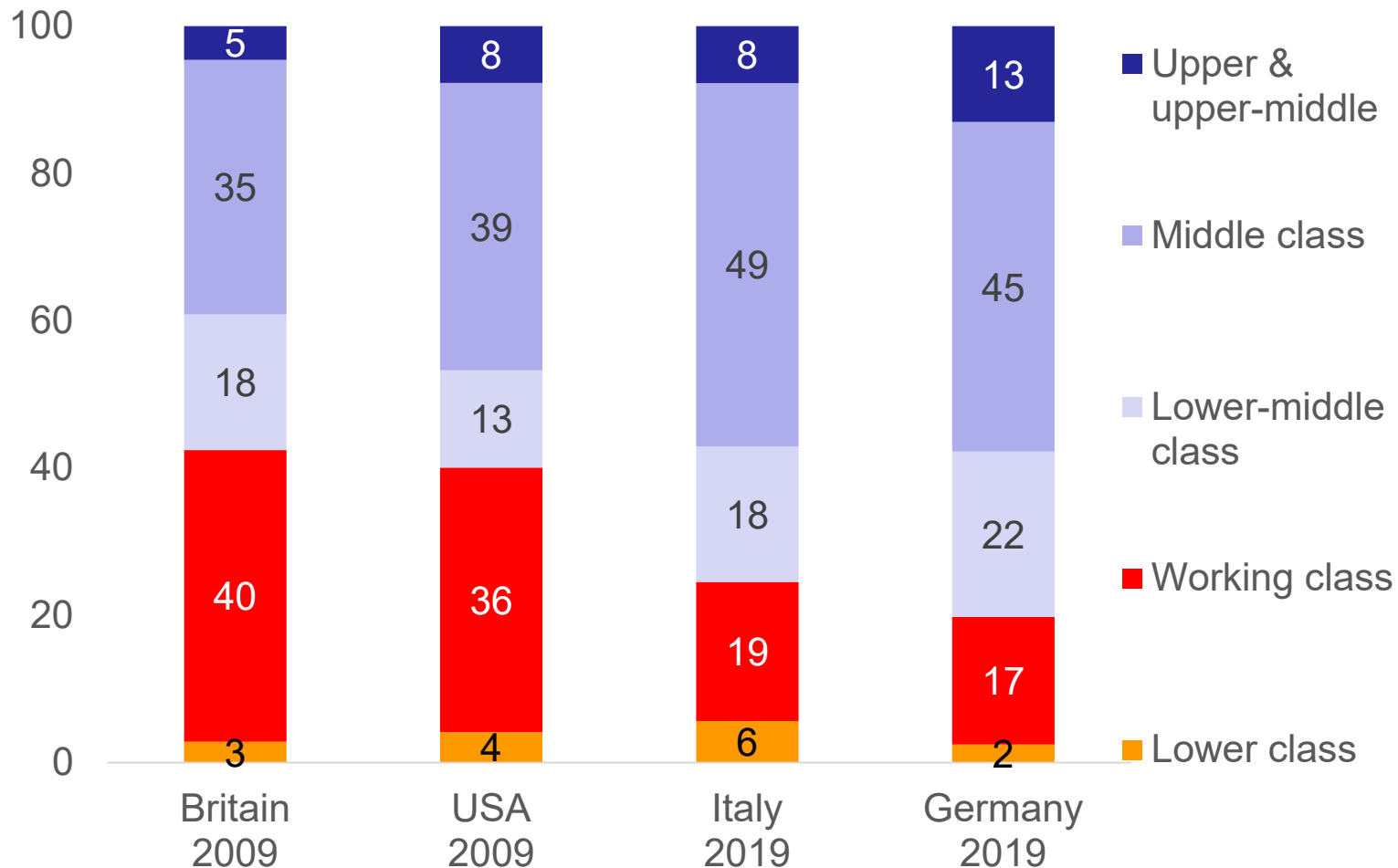
- Over the 20th century, Western societies were dominated by large working classes
- Historically, the middle class comprised the non-manual employees below the tiny upper class, but above the large working class (Hobsbawm 1999)
- The middle class is not in the middle of the wage structure: median wages are earned by mechanics, carpenters, masons, truck drivers

1907-1990: more books included the term “working class” than “middle class”



Source: Google books ngram viewer

Subjective social class in %: many see themselves as working class



Using an occupation-based measure to distinguish the middle class

Workers in different occupations hold different amounts of productive resources, placing them into asymmetrical social relations to each other

In wage-earner societies, the main productive resource are skills (Wright 1997)

The more skills an occupation requires, the more difficult workers are to replace. They have more bargaining power and benefit from better work contracts (Goldthorpe 2000)

Four social classes with similar levels of skill requirements

- Upper & upper-middle class: professionals & managers (ISCO 1-2)
- Middle class: semi-professionals, associate managers, technicians, highly skilled clerks (ISCO 3)
- Skilled working class: skilled clerks, service & craft workers, skilled operators (ISCO 4-8)
- Low-skilled working class: low-skilled clerks, service & craft workers, low-skilled operators (ISCO 9)

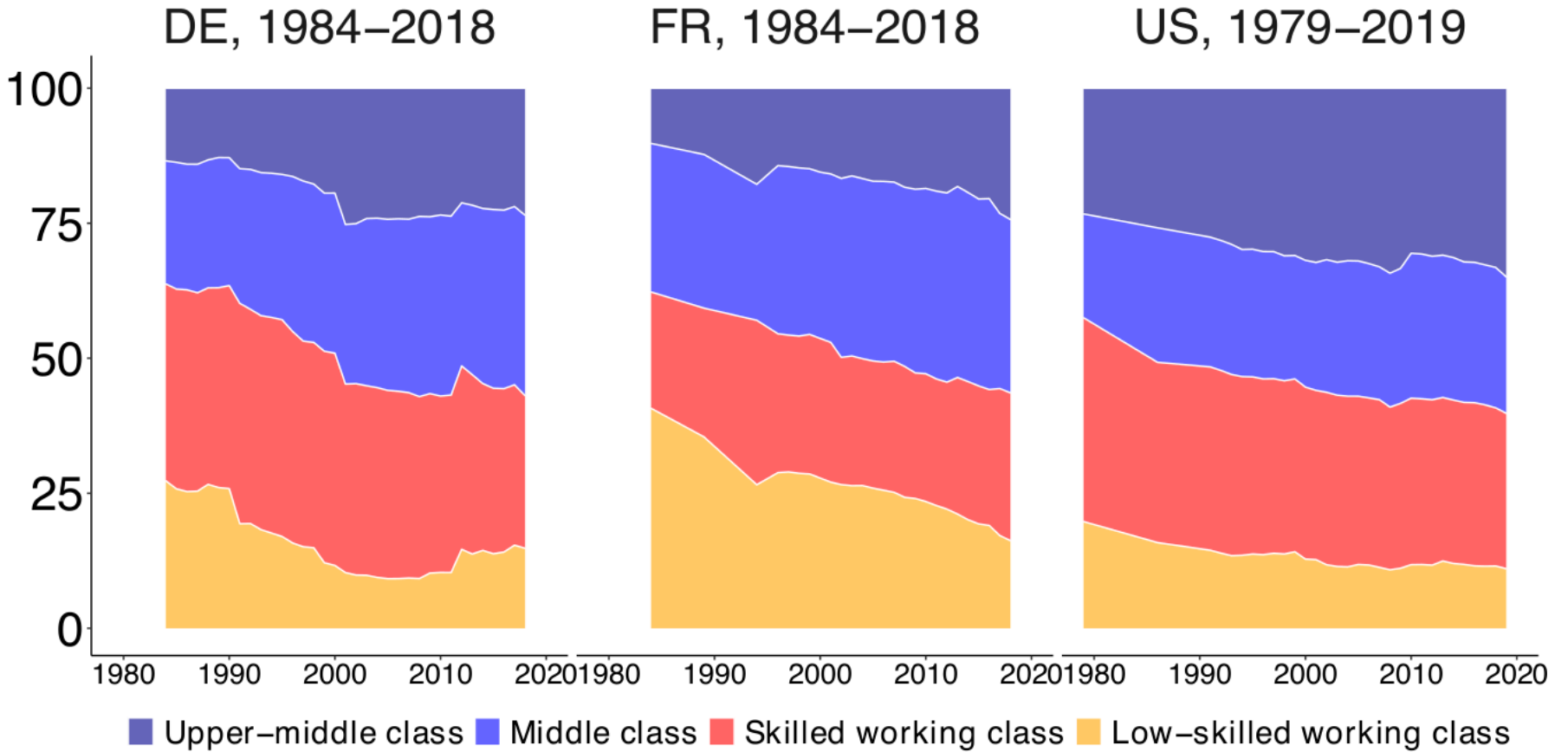
Our argument: not the middle class, but the working class was squeezed

- Only those above fared better than the middle class, not those below
- In the wake of skill-biased technological change, globalization and neoliberalism, labor demand has become biased against the working class
- For the working class, the result has been declining employment, weaker bargaining power and stagnating incomes

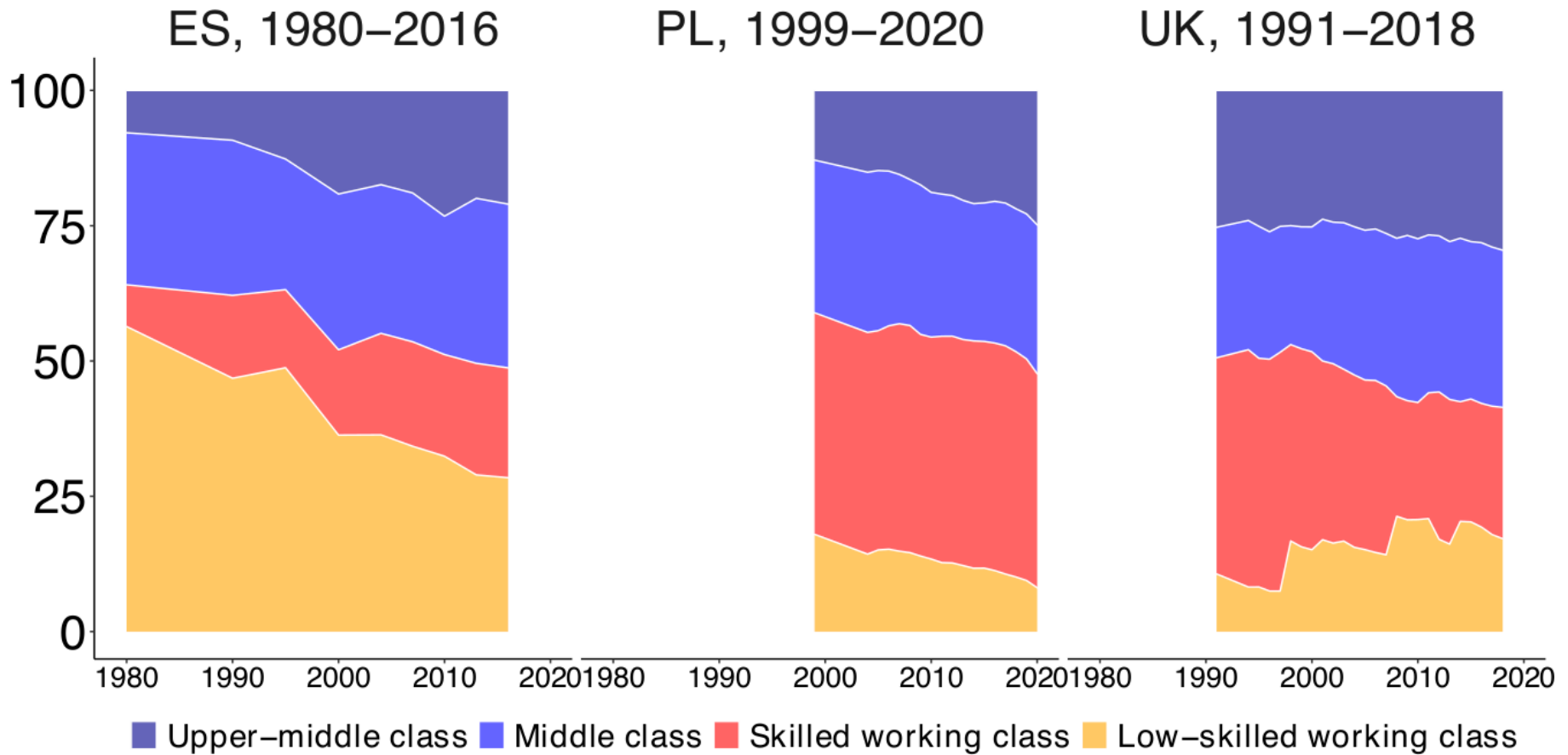
Data and measures

- Luxembourg Income Study, ~1980-2020, adults aged 25-60
- 6 large Western countries: DE, ES, FR, PL, UK, US
- Outcome variable: household labor income, adjusted for inflation and household size
- Key independent variable: class (based on ISCO1, employment status, 3 levels of education)
- Controls: age, gender, household size

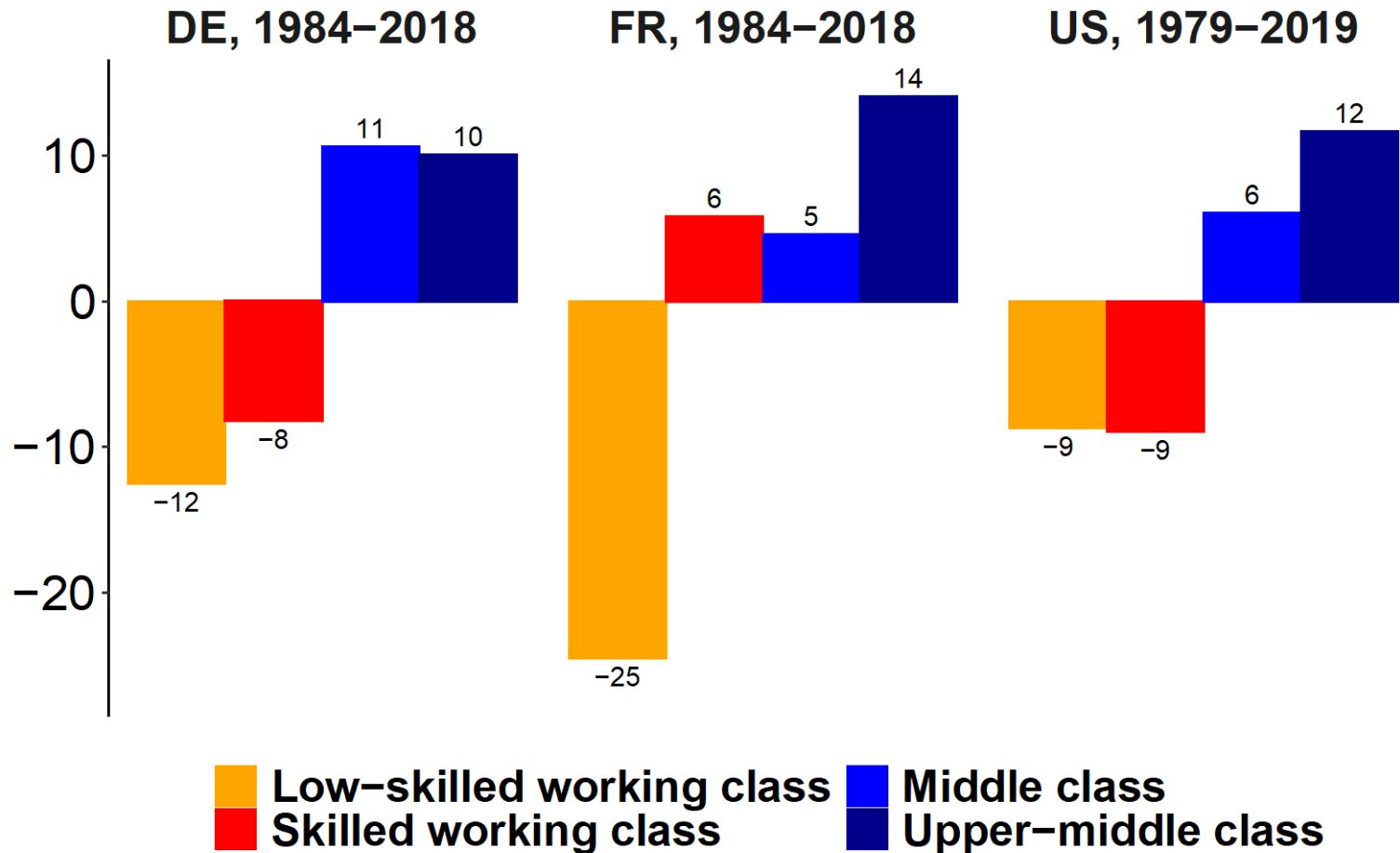
Class composition over time I (in %)



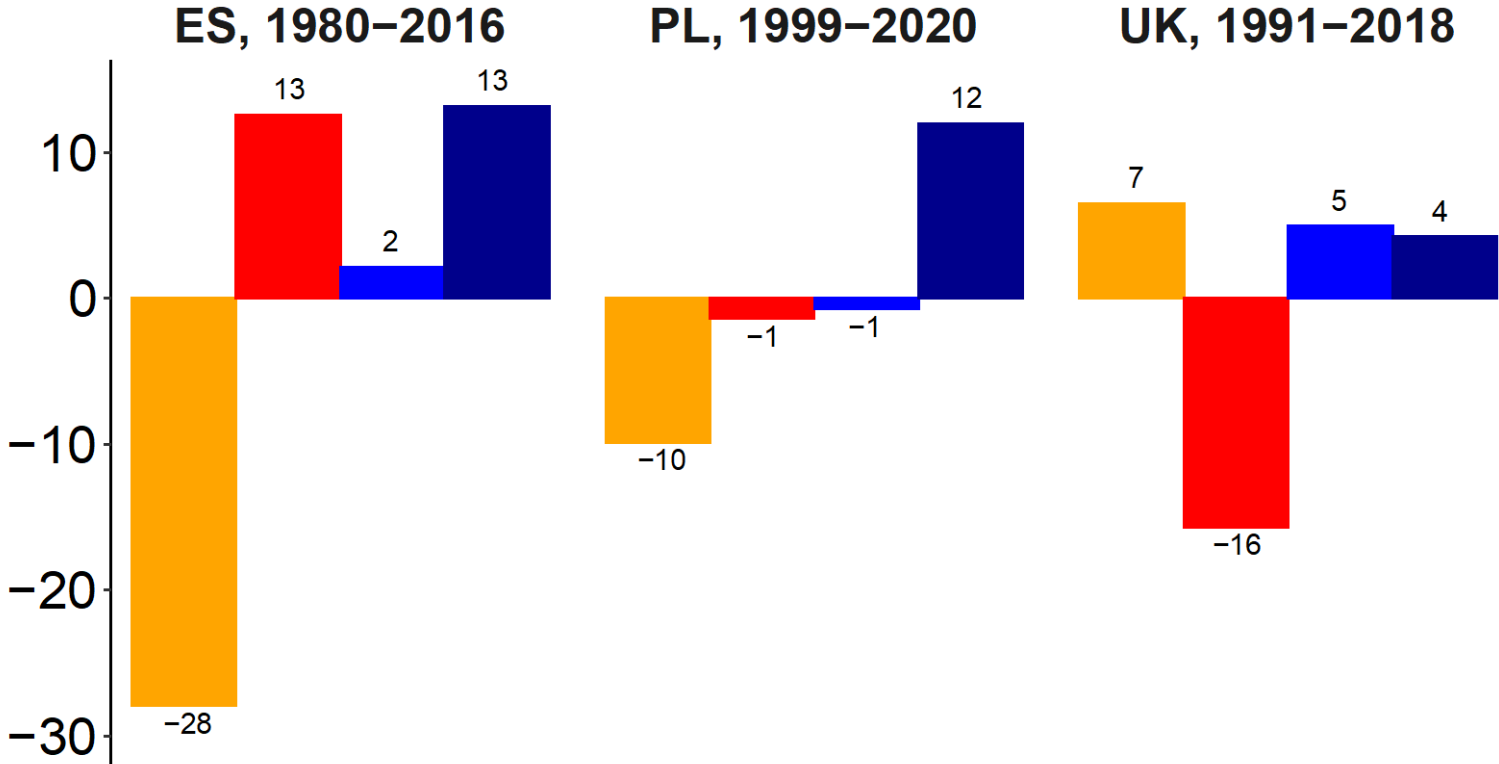
Class composition over time II (in %)



Change in the employment share I (in pp)

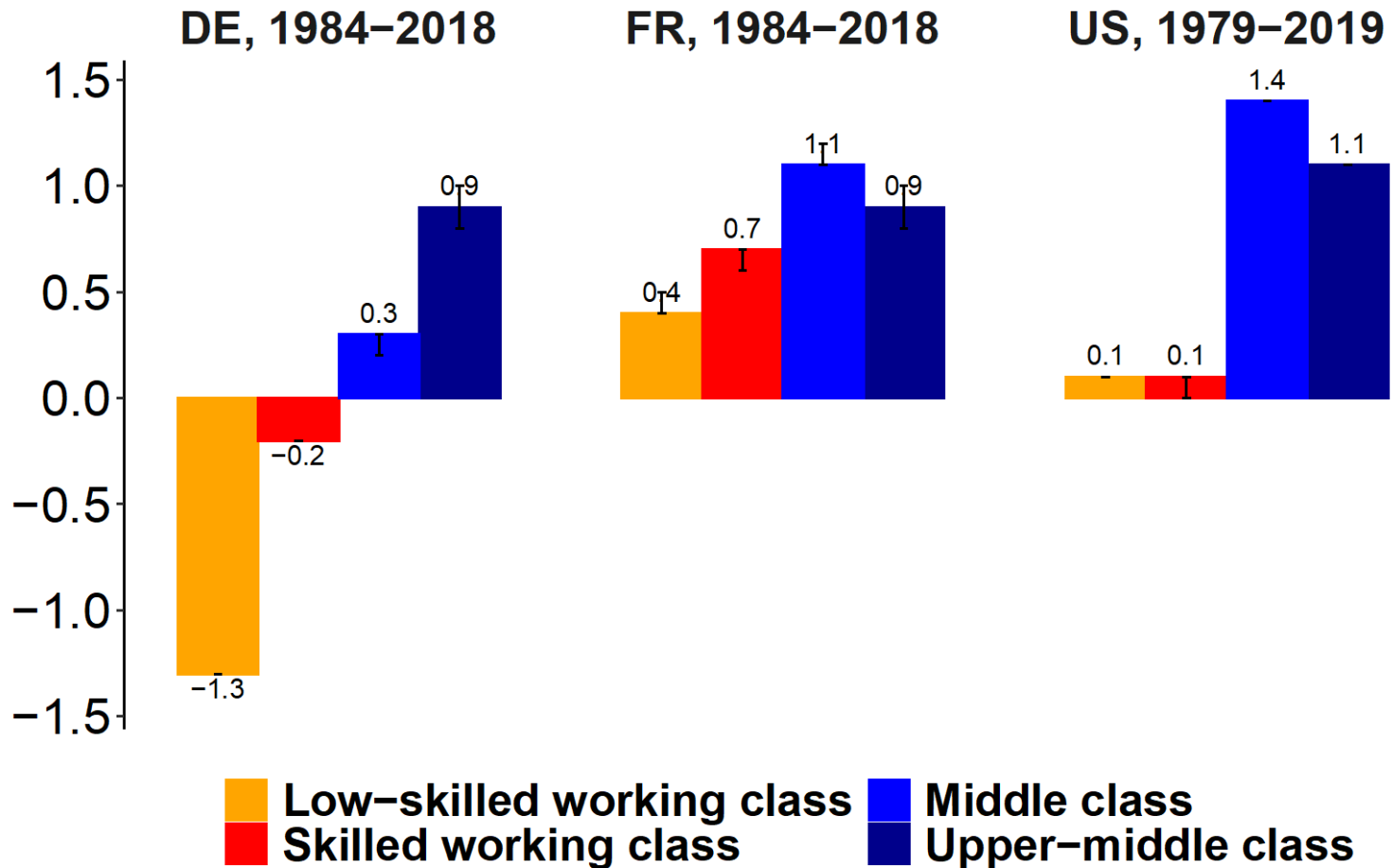


Change in the employment share II (in pp)

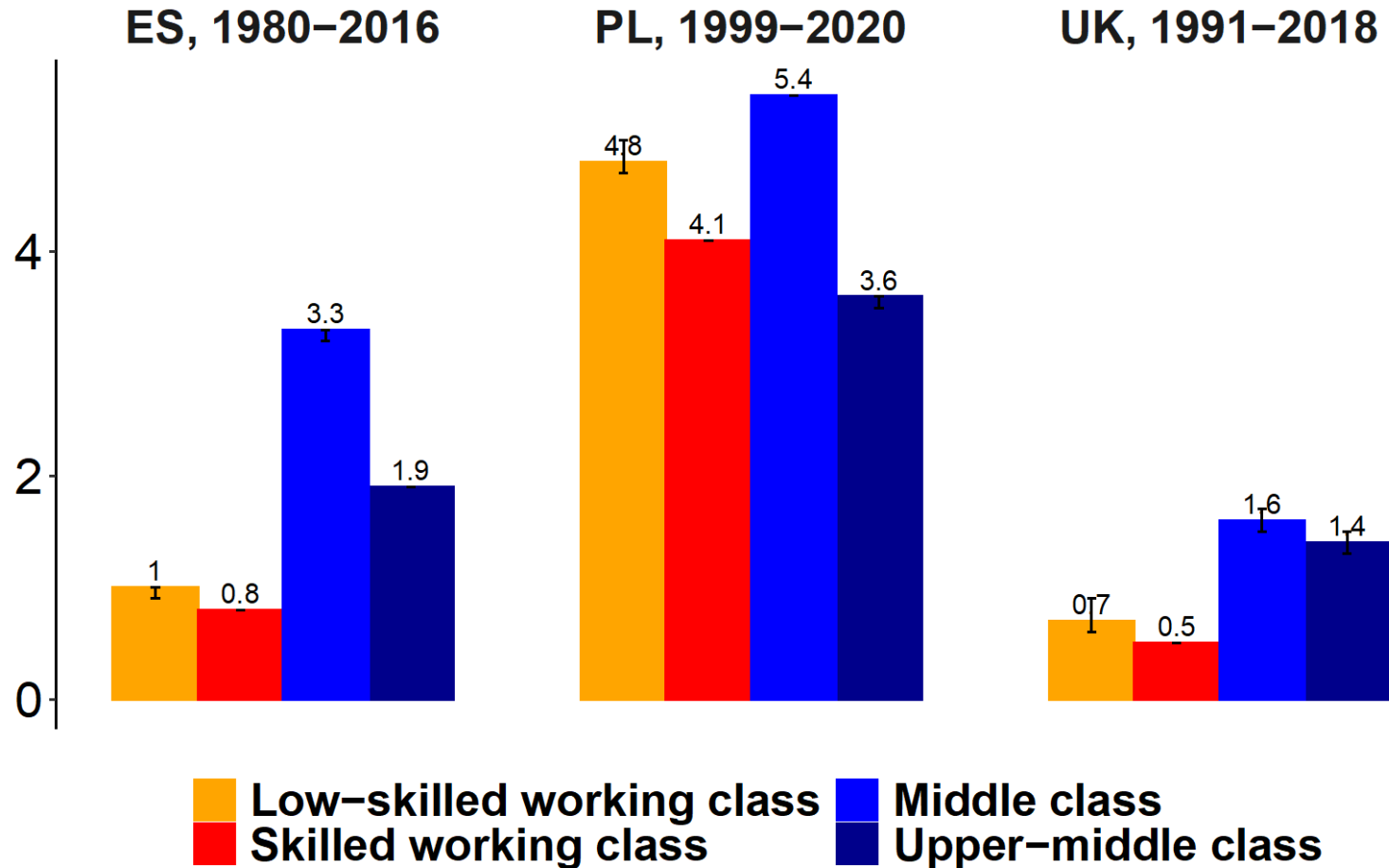


Low-skilled working class **Middle class**
Skilled working class **Upper-middle class**

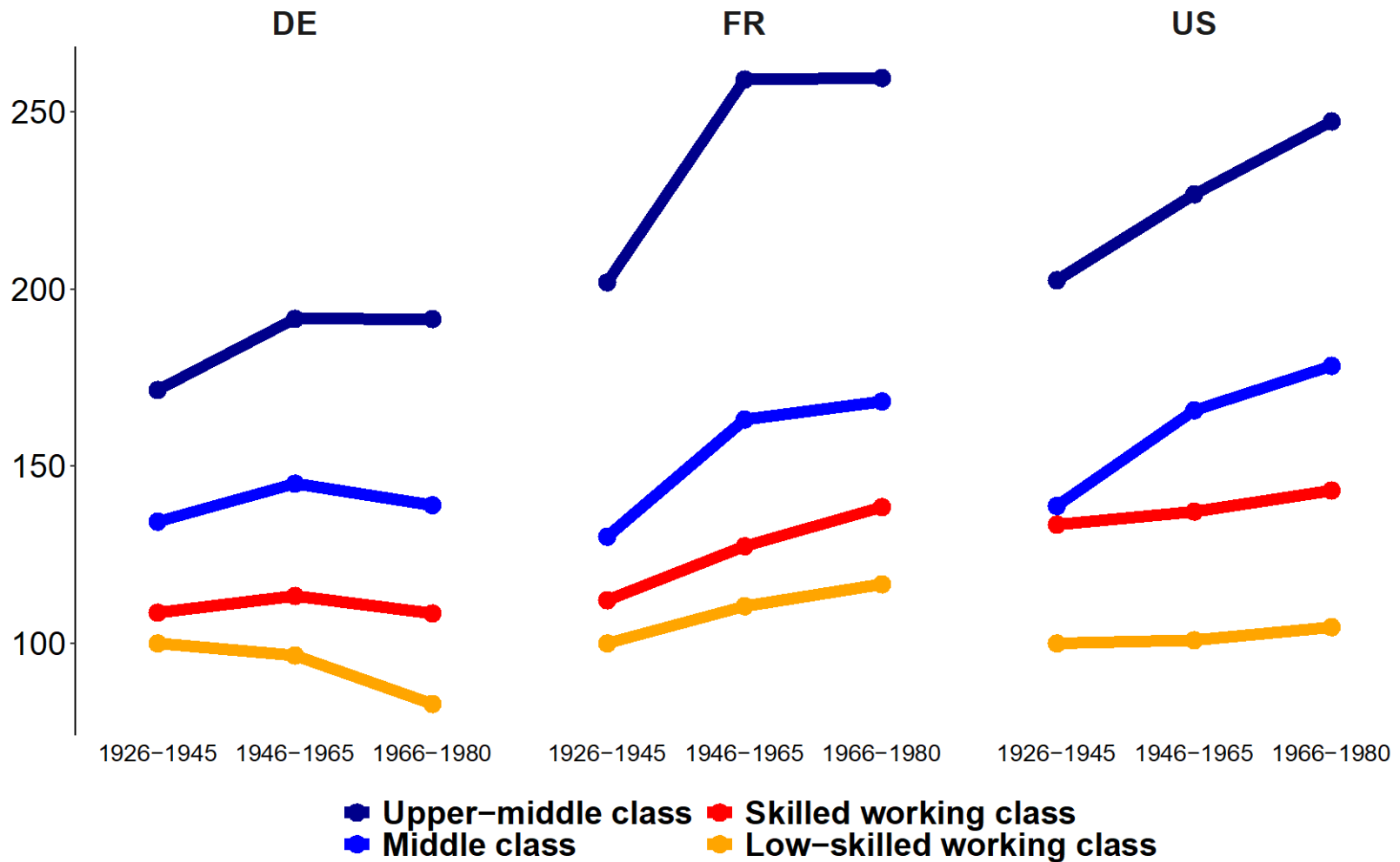
Mean annual change in household labor income I (in %)



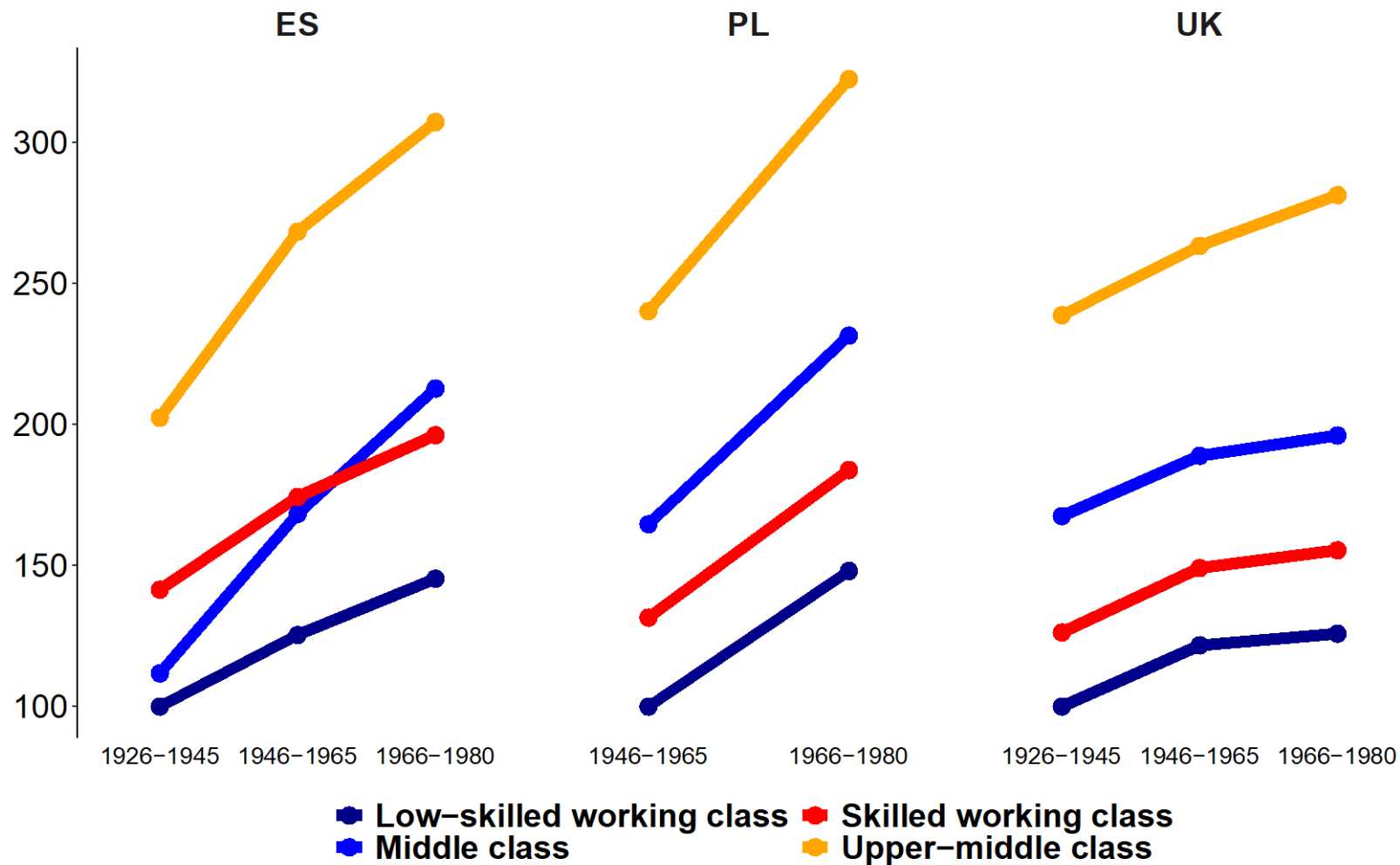
Mean annual change in household labor income II (in %)



Household labor income by class and birth cohort (I)



Household labor income by class and cohort (II)



Conclusion (I): no middle class squeeze

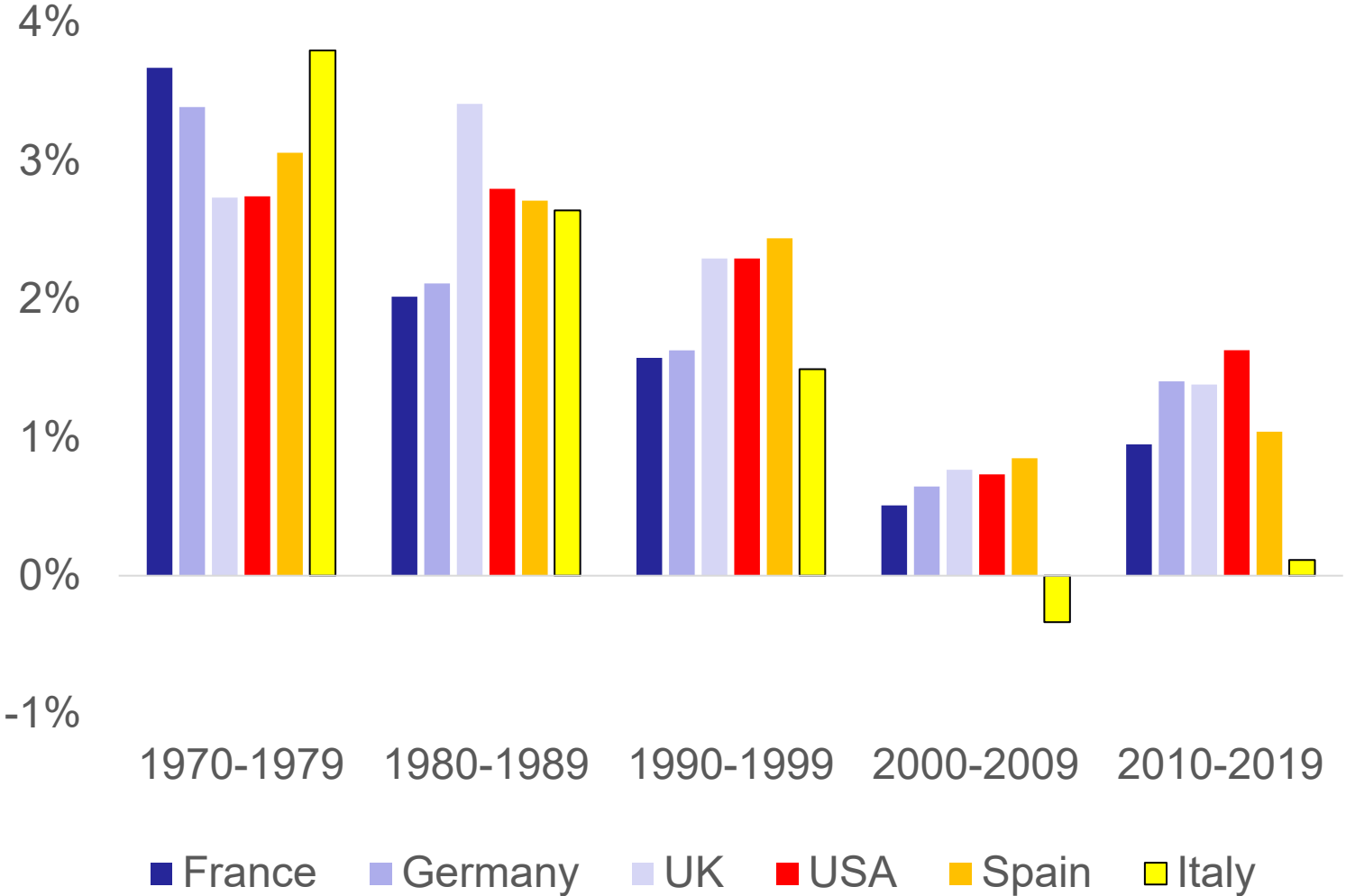
- The middle class stood its ground: expanding employment and annual income growth of 1% in FR, UK, US; 2-3% in ES. 4-5% in PL
- The working class lost: fewer jobs and stagnating incomes of -0.5 in DE, 0% in the US, below 1% in FR and UK
- Working-class decline accounts for much of current political turmoil. As politics and markets provided no improvement in living standards, workers turned towards the Radical Right

Conclusion (II): why is the middle-class thesis so popular? Some guesses

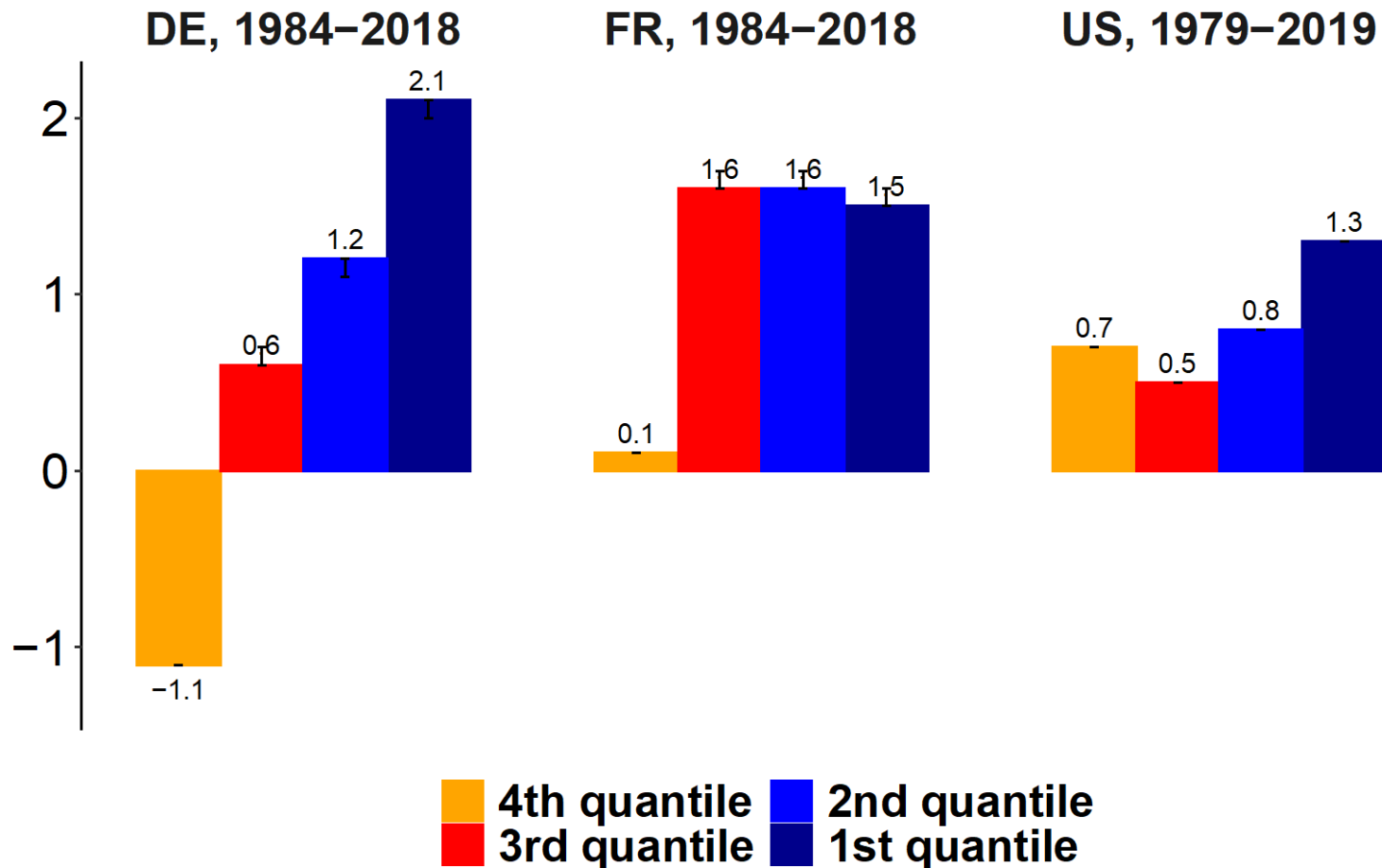
- There is no such a thing as the working class
- Unlike for the working class, halted progress for the middle class seems undeserved: a broken promise
- 1945-1975 entrenched expectations of rising living standards – expectations that were no longer met
- The middle class has clearly been shortchanged when compared with those above – yet not when compared with those below

Thank you for your attention!

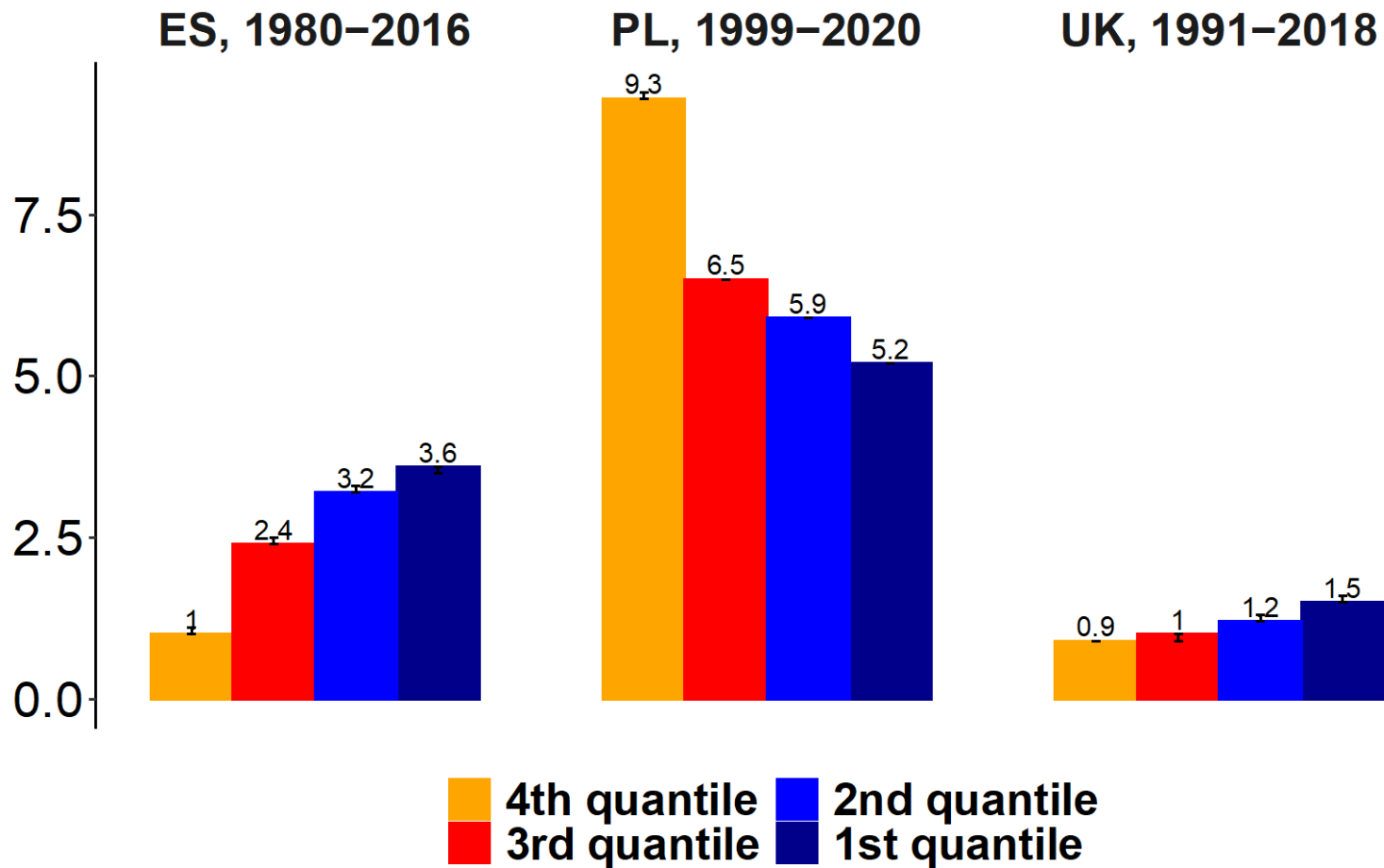
Mean annual change in GDP per capita (in constant prices, in %)



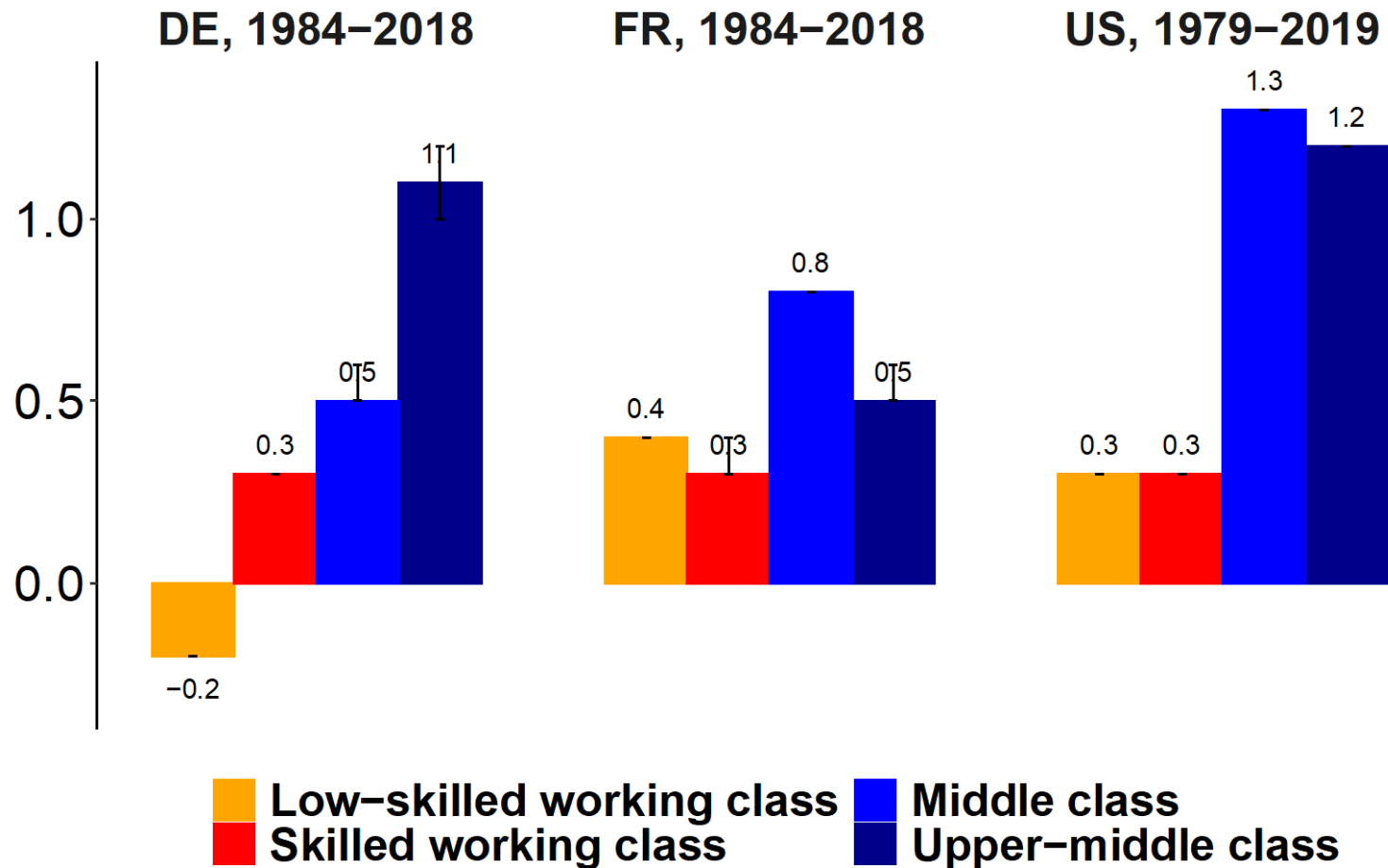
Mean annual change in household labor income I – four income quartiles (in %)



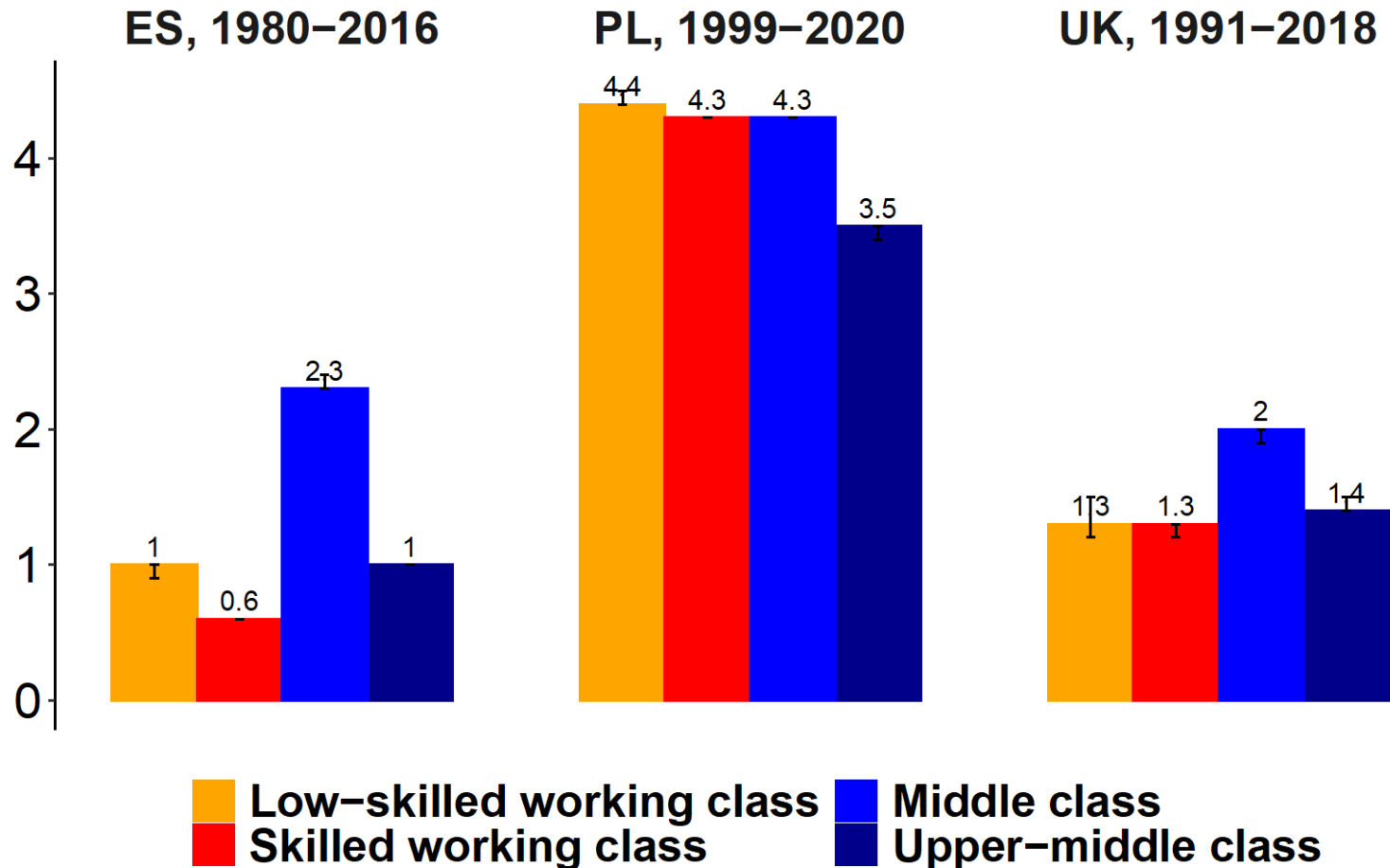
Mean annual change in household labor income II – four income quartiles (in %)



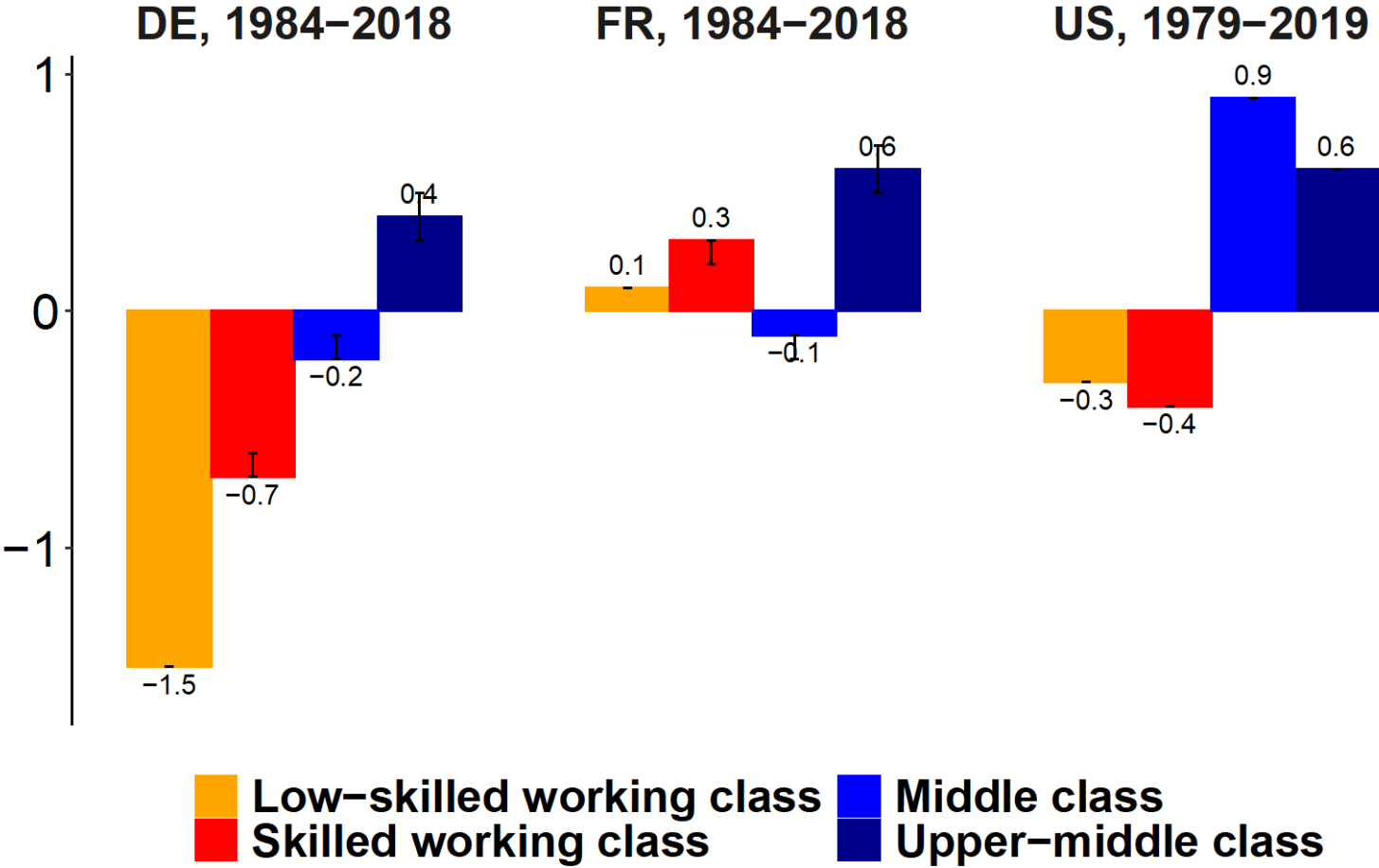
Mean annual change in household disposable income I (in %)



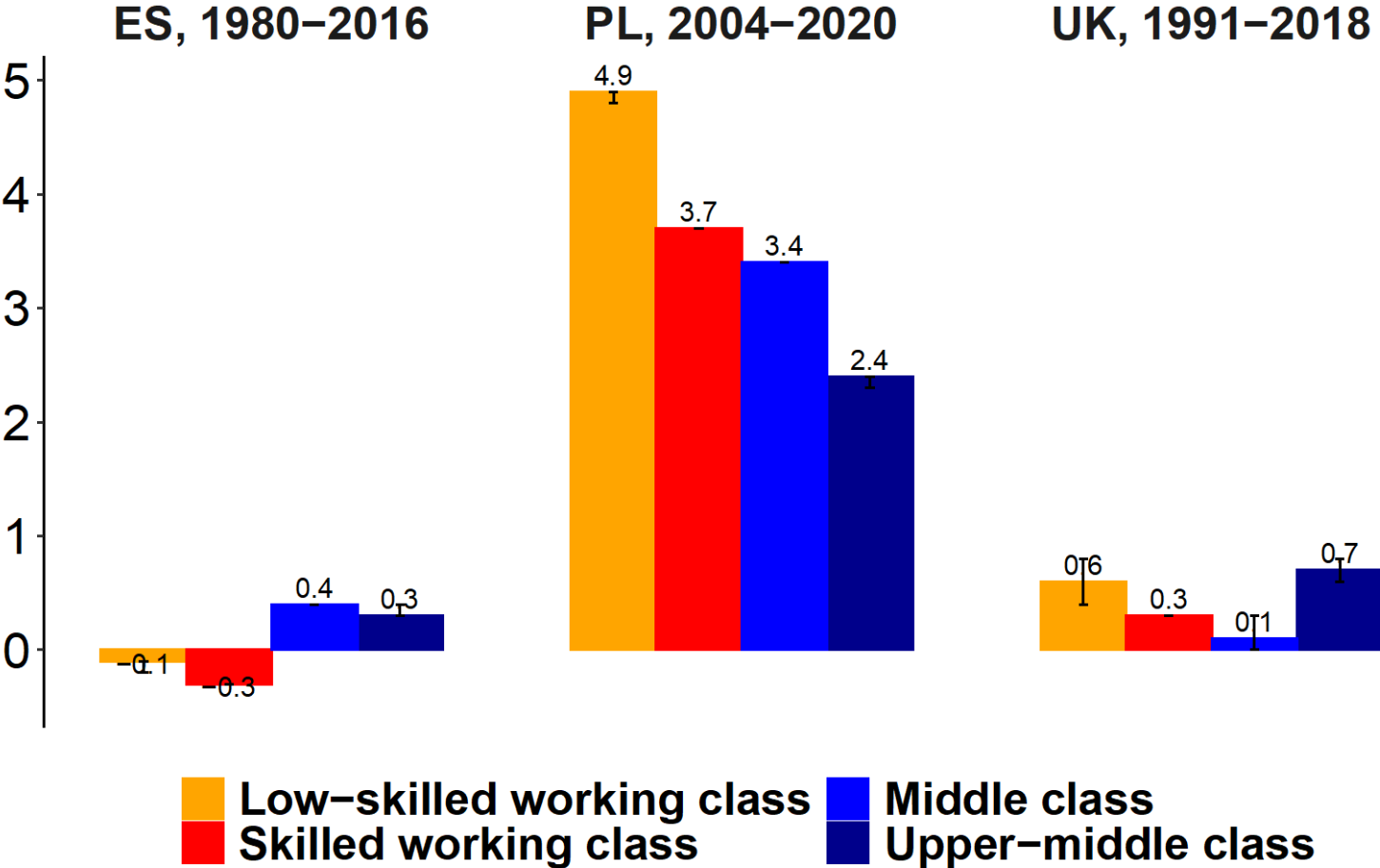
Mean annual change in household disposable income II (in %)



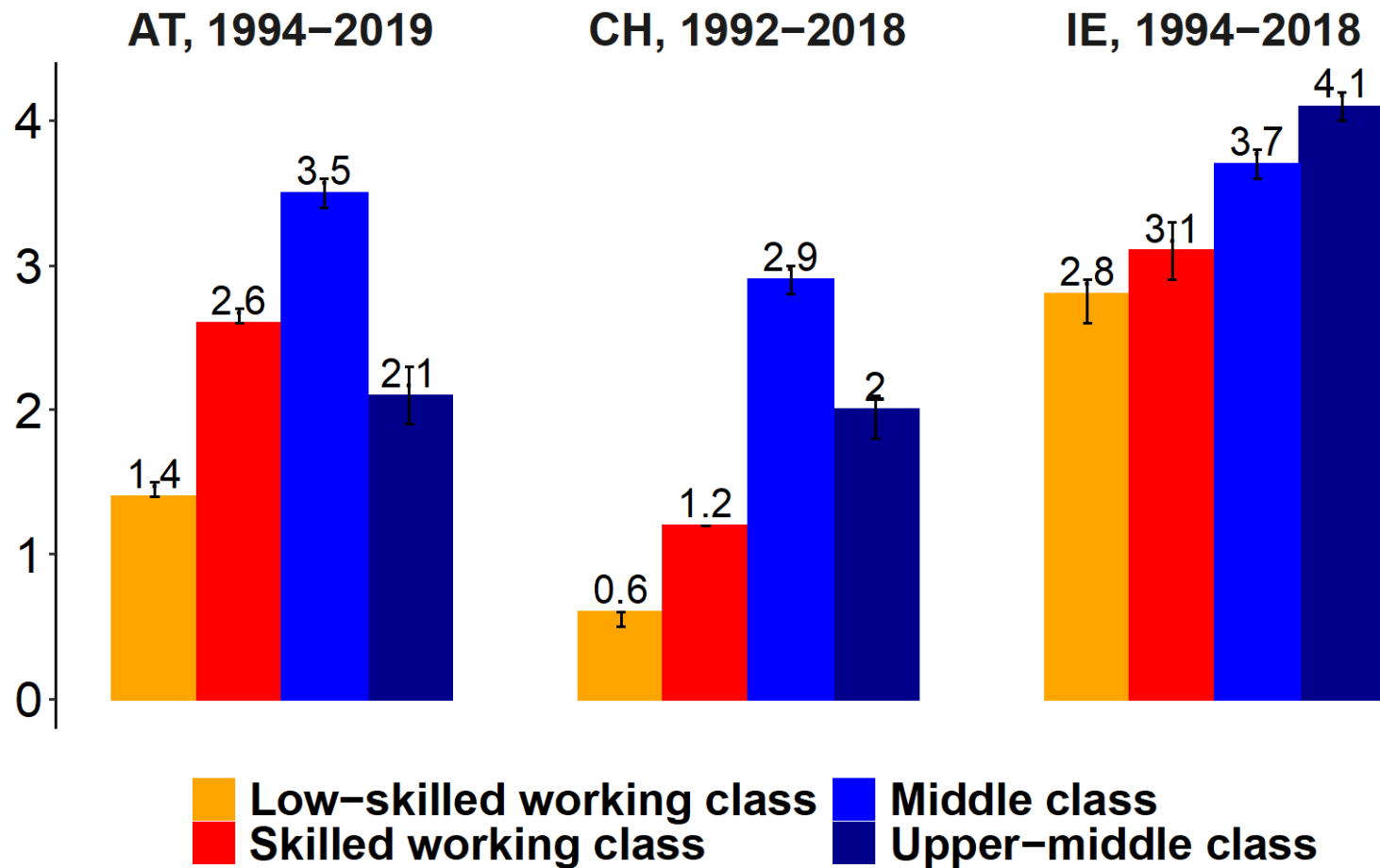
Mean annual change in individual labor income I (in %)



Mean annual change in individual labor income II (in %)



Mean annual change in household labor income in small countries I (in %)



Mean annual change in household labor income in small countries II (in %)

