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THE DEBATE OVER THE DISAPPEARING MIDDLE

Nancey Leigh-Preston

Introduction

The “plight of the middle-class,” as it is subjected to forces transforming the U.S. economy as a whole in recent years, has become a major topic of interest among economists, political analysts, and policy makers. Understanding the debate, and even engaging in efforts to resolve it, should also be of interest to planners—particularly those who seek to plan for economic development. The debate over the disappearing middle is intertwined with two other major economic debates: that of the U.S.’s industrial decline, and that of the effects of changing demographics, especially in regards to the baby boom generation. The review of literature and research which follows is an attempt not only to identify the major issues of the alleged disappearing middle (which has also been referred to as the “declining” middle, the “shrinking” middle, and the “doomed” middle), but to show how these issues are inextricably linked with those of industrial decline and changing demographics in the U.S.

While the general term “middle-class” is most often used, it should be noted that research has focused only on changes in the middle household income class and/or middle wage class. So, although it has become popular to debate whether the middle-class is disappearing, the supporting data has always been of wage and income variables. No broader sociological or political variable defining the middle-class has been examined. This is actually an important point to keep in mind. For, in reality, social class and income class have not been found to be that well correlated. Coleman, in his article synthesizing several decades of research into social class, gives three reasons for the lack of correlation. First:

It must not be forgotten that social class derives, in its root, more from occupational differentiation than from income...Twentieth century America may illustrate this proposition to an extreme degree: blue-collar workers can outearn both white-collar workers and salaried professionals, yet they still do not rise above either in social status. To put this in the vernacular, the blue-collar workers ‘have more money than class,’ the white-collar workers ‘more class than money.’(Coleman, p. 273)

Second, “income varies markedly according to its earner’s location in the age cycle.” The earnings of younger workers are usually well below the average for the social class they are assigned

to, based on their family and educational background as well as occupation. Coleman notes that a worker usually reaches the norm in earning power for his/her class after the age of 35.

The third reason that income and social class are not well correlated occurs because of family variations in the number, as well as sex, of earners. Over the last twenty years, household incomes well below and above the traditional range associated with a particular class have had to be incorporated within the range. This has been due to, for example, middle-class women becoming simultaneously divorced heads of households and low-income earners, and on the other side of the fence, to middle-class women who are married entering, in increasing numbers, into the labor force and adding a second income to the household. These changes, combined with increases in the number of singles, retirees, and elderly widowed, all contribute to the reduced correlation between income and social class.

Continuing to use the term "middle-class" loosely so as to equate the middle-income class with the middle social class is, this writer argues, quite problematic for any serious discussion in the economic development field. While an assertion that public policy should concern itself with someone's loss of class status would surely incur debate, concern over someone's decline in income status has been a long tradition in public policy. Further, the goal of economic development is to improve economic status, not social status. Throughout the remainder of this paper, the term "middle-class" will refer to middle income class.

The question of what is happening to the middle-class is a subset of a broader area of research: that is, income distribution. Trends in income inequality have been a longstanding area of concern to economics, and economic development in particular. Only recently have examinations been made of trends in the middle income sector specifically.

Particular focus on the middle of the income distribution arises because of the importance attached to this segment for the economy and society as a whole. As Levy and Michel (1986) have written:

A central theme of modern American life is the chance to enjoy a 'middle-class standard of living.' This standard is not officially defined anywhere, but it exists in many subtle forms throughout our society, from television advertisements to casual conversations. The middle-class American dream has come to include such material goods as a single-family home, one or two cars (including a new one), a washing machine and dryer, a dishwasher, a color TV, raising and educating children, providing for a lengthy period of retirement, and so on. (1986, p. 34)

The middle-class is seen, in many ways, to represent the backbone of the U.S. economy and American society. Much of the mass market is structured to satisfy the demands of the middle-class consumer. The middle-class standard of living is a benchmark by which economic progress is measured. A position in the middle-class is generally considered the development goal of the lower classes and of many of those who aspire to assist the lower classes. Thus, demise of the middle-class has been equated with erosion of the very foundations of American society and economy.

The First Appearance of the Disappearing Middle

The research which seems to have been precursory to the middle debate was conducted by Peter Henle and published in 1972. In his article, "Exploring the Distribution of Earned Income," Henle found a "slow but persistent trend toward greater income inequality" in the 1958 to 1970 period. The data Henle examined was for males only. He used the Gini index to measure inequality.¹

Upon examining the sectoral distribution of earnings, Henle found trade and service industries, and sales and service occupations, to have relatively unequal distributions "indicating concentrations of employees in both the lowest and highest income groups." He also found a more equal distribution of earnings among the traditional blue-collar industries and occupations. This appears to be the early factual evidence from which many have since claimed that the continuing shift of the U.S. economy from production to services will lead to increasing income inequality.

Greater inequality of earnings distribution was found for most of the individual occupations and earnings Henle examined for the 1958-1970 period. The managerial occupation was the only one to show a trend toward equality. The greatest trends toward inequality were observed for manual and lesser-skilled white collar workers. In observing industry trends, Henle found only finance and professional services did not show evidence of the trend toward inequality.

In 1980, Henle, along with Paul Ryscavage, published an update to the original study and included women in the analysis. The study carried the analysis to 1977 and found that the basic structure of the earnings distribution still held. The "slow but persistent trend toward greater inequality" observed for male workers still existed, although it had slowed some in recent years. The 1968-1973 period showed the greatest shift toward inequality. For women, the authors found the basic earnings distribution structure (of full and part-time workers) to be somewhat more

unequal than that for men. Further, "the distribution of women's earnings remained about as unequal in the 1970s as it was in the 1960s and late 1950s."

Henle's method of analyzing the income distribution included not only the use of the Gini index noted above, but an examination of successive quintiles of income recipients in the distribution. In this second step, Henle ranked the population from the lowest 20 percent to the highest 20 percent and looked at the shares of income received by each quintile. He noted, "A trend toward inequality is normally characterized by a loss of income at the lower two quintiles with a balancing gain at the upper two quintiles." In such a characterization, the middle income group's share of income is expected to remain stable. Henle found, however, that the share of income received by the lowest quintile shifted very little between 1958 and 1970, but the shares of the second and middle quintiles each dropped a percentage point. The top quintile gained the two percentage points. This unexpected development has led to concerns that the income distribution is becoming polarized or bimodal.

A Question of Definition?

A succession of articles focusing on what is happening to the middle-class has followed Henle's original research. It is not clear whether the authors of the articles are actually aware of Henle's research, as he is never cited. Further, for the most part, different definitions or measures of the middle income group have been used. One of the most influential articles on the subject, "The Declining Middle," by Bob Kuttner (1983), does not even provide a definition of the middle-class or income group.

The actual definition of the middle used does, of course, make a big difference in what trends are observed and in what policy issues are seen to arise from the trends. In general, however, the articles use or imply they are focusing on the broad middle-class when their analysis is on much narrower variables. The variables analyzed may be earned income or total income, household income or individual earnings, men's and/or women's earnings.

Henle's research was initially on males, later broadened to include females, and was an examination of *earned income*, before taxes. Steinberg and Kirkland, as well as Sternlieb and Hughes, use the Census Bureau definition of the middle-class: *families with income between \$15,000 and \$35,000 per year* (in 1982 dollars). Thurow focuses on a *middle-class household with an income between 75 percent and 125 percent of the median household income*. For 1982, this would mean a middle-class family's earnings would be between \$15,100 and \$25,200. Lawrence looks at *middle-class earnings defined as between*

\$13,000 to \$25, 948 per year (or 66 percent to 131 percent of the median). He examines male and female earnings separately.

Levitan and Carlson divide earners into three equal groups, ranked by annual earnings. Thus, the size of their middle-class stays constant but its *earnings share* varies. (They do not give the income ranges which were used to determine the cutoff points for the three groups.) Danzinger and Gottschalk's method is similar to Levitan and Carlson's, but their unit of observation is the family. For the household income distribution, they divide the number of families into quintiles and examine how the earnings share of each quintile has changed over the 1967-1984 period. Blackburn and Bloom divide the income distribution into five segments: lower class, less than 60 percent of the median family income; lower middle-class, between 60 percent and 100 percent of the median; *middle-class, between 100 percent and 160 percent of the median*; upper middle-class, between 160 and 225 percent of the median; and upper class, more than 225 percent of the median family income.

The task of deriving a satisfactory statistical definition for the middle-class is not an easy one. All of the definitions that have been employed have their problems. Both Thurow's and Lawrence's definitions appear to be too narrow. Thurow refers to household income, and, within most areas of the U.S. today, no family would be considered upper income simply because their income was over \$23,000. Lawrence's definition is of earners, not households; but still, earnings over \$25,948 per year would not provide a one-earner household with an upper-income lifestyle. In both cases, a family would probably have difficulty living a middle-class lifestyle in any major urban area of the country.

Levitan and Carlson, along with Danzinger and Gottschalk, define the middle-class with a variable that says the percentage size of the middle remains constant. What changes is the share of total income that this segment receives. This definition does not seem to get at the underlying reason most researchers have for studying changes in the middle-class. Is the question one of whether the middle-class has more or less income, as such definition would imply, or is the question one of whether more or less households are able to purchase a consumer goods package—implying a certain standard of living—that is generally associated with the membership in the middle-class?

Blackburn and Bloom's definition, on the face of it, seems reasonable. Defining lower-middle, middle, and upper middle-classes may create a wide enough range to coincide with the popular view of the American middle-class. Unfortunately, the authors do not give their rationale for the percentage ranges they chose.

The different definitions used for the middle variable make, of course, direct comparison of different research efforts difficult. However, despite the wide variation in definitions of the middle, as well as in data examined and factors analyzed, those articles which do make a statement about the size trend say that the middle is declining. Most, but not all, say the decline is a temporary phenomenon. However, the analysis which follows of the middle-class research completed, and the authors' assessments of the implications of their research results, may lead us to question whether the phenomenon can, at this point, be labeled temporary.

The Decline in the Middle of Family Income

Six research efforts specifically focus on families or households with middle-level incomes. The size of the middle class in Steinberg's analysis was considerably larger than that used in any other research, and his estimated decline in the size of the middle class was also the largest. Steinberg reported that families with incomes between \$15,000 and \$35,000 annually (1982 dollars) declined from 51 percent in 1973 to 44 percent in 1982. His analysis was of Census data, and the income variable includes earnings of all family members, interest and dividends, and transfer payments, but excludes non-cash benefits. Sternlieb and Hughes' findings are identical to Steinberg's.

Other research estimating the decline in middle-income households covers a much smaller segment of the income distribution. The research findings are fairly similar. For example, Thurow's middle class household declined from 28.2 percent of the total income distribution in 1967 to 23.7 percent in 1982. Blackburn and Bloom calculate the decline for two definitions of middle-class households: theirs and the Bureau of the Census. For their own definition, a middle-class household is a group of related people living together, a single-person household, or each unrelated individual in a multiperson household. This segment of the income distribution declined from 27.4 percent in 1969 to 23.1 percent in 1983. For the Census definition—two or more persons living in the same household—the middle-income sector declined from 31.4 percent in 1969 to 26.5 percent in 1983.

Samuelson's estimates of the decline in total family income are the smallest. He reports the middle fifth of the income distribution declined slightly from 17.8 percent in 1950, to 17.1 percent in 1982.

Danzinger and Gottschalk found that the *earnings share* of all families with children declined from 18.05 percent in 1967 to 17.50 percent in 1984. By their definition, they found a

substantial increase in income inequality where the bottom 60 percent of the distribution has lost and the top 40 percent has gained.

Individual Earnings

Estimates of the decline in the middle share of all individual earnings (not just male or female) are reported in three of the research articles. Because of the completely different variables used for the middle, these research findings are not comparable. Lawrence estimates the decline in the *middle segment of the earnings distribution*. The size of this segment is similar in breadth to that used by Steinberg in the preceding section. Lawrence found the middle-class segment of full-time wage and salary workers declined from 50 percent in 1969 to 46 percent in 1983. Levitan and Carlson calculate *the earnings share* of the middle group of earners declined from 28.1 percent in 1970 to 26.9 percent in 1982. Rosenthal calculates that the change in the proportion of total employment in the middle occupational sector declined less than one percent (from 34.0 percent to 33.4 percent) between 1973 and 1982.

Male and Female Earnings

All of the studies analyzing male and female earnings patterns indicate there are significant differences between the two.

Henle and Ryscavage do not analyze the middle sector specifically; however, their analysis found the earnings of women who work year-round in full-time jobs were more equally distributed than the comparable distributions for men. They suggest this greater earnings equality may result because full-time year-round female earners tend to be clustered or crowded in a few occupations which have narrow earnings ranges. Henle and Ryscavage do not find any significant trend in earnings inequality for women but do observe a general trend towards inequality for men.

In a related vein, Lawrence finds, in his examination of full-time earnings between 1969 and 1983, that the decline in middle earnings exists for men but not for women. The middle and upper earnings groups of women have increased in size, while the low earnings group has decreased. From this Lawrence suggests "there is no connection between the feminization of poverty and shifts in the earnings distributions of females."

In this sense Lawrence may be right. But there is, of course, a definite connection between the distribution of women's earnings and the feminization of poverty. Although the percentage of women in the low earnings category had declined seven percent between 1969 and 1983 (according to Lawrence's data), 49 percent

of women workers were still in the lowest wage category in 1983. During roughly the same time period (1967-1984), the number of females who head, and provide primary—if not sole—support of a household has more than doubled, increasing from 10.4 percent of all households to 21.3 percent (Danzinger and Gottschalk).

Levitan and Carlson, again looking at *earnings shares* of the top, middle, and bottom earnings classes, found that the 52 percent increase in women in the labor force between 1970 and 1982 resulted in an increased share of earnings for the bottom third at the expense of the middle. This gain occurred because the vast majority of females entered lower-paying and slower-advancing occupations such as clerical and sales groups.

Harrington and Levinson note that women are concentrated in clerical, food, health, and sales occupations. They claim that a trend towards a new occupational structure exists which is characterized by “educated and trained people at the top, a middle ‘sliding down’ the wage scale, and a growing population of the marginalized.” They further claim that most of the “women’s jobs” are located in the sliding middle. However, they do not provide any real substantiation for their claim.

Blackburn and Bloom’s examination of income patterns by gender and industry found that the industry in which the principal female of a household worked had little effect on the family’s income class. (A principal female can either be the family head or the spouse of the family head.) Blackburn and Bloom suggest their finding is attributable to women contributing less to family income and having wages which vary less across different industries. Although the authors do not acknowledge it, both of these factors are a result of the effects of female earners being crowded into fewer occupations and industries than male earners.

Effect of Wive’s Earnings on Family Income Distribution

Several of the articles examining trends in the middle segment of the income distribution include a discussion of the impacts of wive’s earnings on the overall distribution. Kuttner claims the increased labor force participation of women has exaggerated the inequality in family incomes. He claims, “the working wife of a man who makes \$50,000 earns \$5,000 more than the working wife of a man who makes \$10,000.” However, Kuttner holds the minority view.

Samuelson asserts “the flood of women into the work force has equalized family incomes” because women whose husbands have higher incomes work less, and subsequently, earn less proportionately than women whose husbands have lower incomes:

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In 1981, for example, 70 per cent of wives whose husbands made \$17,500 to \$20,000 worked; the proportion for wives whose husbands made more than \$75,000 was only 42 per cent. The average of \$8,700 earned by the first group of wives raised their families' incomes by about 50 per cent, while the average \$9,700 earned by the second increased theirs less than 15 per cent.

Steinberg holds similar views to those of Samuelson. He believes the increased participation of wives in the labor force has slowed the trend towards greater inequality of family income and offset the growing polarization of individual income.

Danzinger and Gottschalk have concluded from their analysis that the increased earnings of wives have had the effect of raising family incomes and reducing poverty and inequality. Specifically, they say:

In 1984, the earnings of two-parent families were 23.4 percent higher than they would have been had wives not worked and had all other income sources remained at their 1984 levels. Because of wives' earnings, poverty was 35.0 percent lower, and the income share of the bottom quintile 14.7 percent higher. That wives increased the income share of the bottom quintile means that the ratio of the earnings of wives to other family income was higher for low-income households than for high-income households.

However, it is generally acknowledged that the great influx of women, and wives in particular, into the labor force has nearly peaked. Thus, even if the claims of Samuelson and Steinberg or Danzinger and Gottschalk are correct, the labor force participation of wives can no longer be expected to have an offsetting effect on income inequality.

Effect of the Changing Sectoral Distribution of Jobs on Income Inequality

A key issue in the middle-level debate has focused on the impact of the changing distribution of jobs among industry and occupation sectors. Perhaps evolving from Henle's research cited earlier, there has been a persistent claim that the continued shift of the U.S. economy towards services has heightened polarization of the labor force. The greatest growth in jobs is occurring among either low-skilled or high-skilled positions. Kuttner states the case most dramatically:

As the economy shifts away from its traditional manufacturing base to high-technology and service industries, the share of jobs providing a middle-class standard of living is shrinking. An industrial economy employs large numbers of relatively well-paid production workers. A service economy, however, employs legions of keypunchers,

salesclerks, secretaries, and cashiers, and the wages for these jobs tend to be comparatively low.

Lawrence's research on the declining middle was specifically focused on the influence of sectoral shifts. As a result of his analysis he claims that "contrary to the common perception, the proportion of full-time workers earning middle-class incomes in the production of goods—46 percent—is the same as the proportion for the rest of the economy." However, at a later point in his article, Lawrence states that the proportion of workers receiving middle-class earnings declined from 50 percent to 46 percent between 1969 and 1983. The upper-class gained 1 percent while the lower class gained 4 percent. Goods production experienced an even steeper decline. In particular, middle-class workers in manufacturing declined from 55 percent to 48 percent.

Lawrence also addresses the high-technology issue. He writes that his research refutes the claim that high-technology industries offer few middle-class job opportunities. Instead, there are smaller shares of lower-class jobs in all of the major high-technology sectors when compared to manufacturing. Further, most of the high-technology sectors have larger shares of middle-class jobs. His data show that the proportion of workers with middle-class earnings in the auto and steel industries is actually lower than that of most high-technology industries but the auto and steel sectors are important sources of upper-class jobs. It is important to note here, however, that Lawrence defines the middle-class category as one with an income range of \$10,095.40 to \$18,748.60. It is unlikely that this income range corresponds to many individuals' perceptions of middle-class earnings.

Rosenthal's analysis was for the purpose of deciding whether changes in the occupational structure alone between 1973 and 1982 support the notion of bipolarization. (Recall that his analysis divided the occupational structure into three equal segments based on earnings.) His analysis shows not a trend towards bipolarization, but, rather, a shift of workers from the low- to the middle- and high-earnings levels with the middle level receiving the greatest increase. However, it may also be recalled that his designated middle-earnings range did not even encompass the median point.

Rosenthal acknowledges: "bipolarization can occur without significant shifts of employment to the top and bottom thirds of the earnings distributions if the earnings at the top were to increase significantly faster than those at the bottom." He calculates the percent change in average weekly earnings for the three occupational earnings groups and claims the change was about the same: for all three between 1973 and 1982, "although the increase was slightly larger in the top third [96.6 percent] and

slightly lower in the bottom third [86.2 percent] than in the middle [89.6 percent]...” In comparing the middle to the upper sector, Rosenthal calls the seven percent greater increase in weekly earnings of the upper sector “slight.”

Rosenthal writes: “Proponents of the declining middle income thesis argue that the long-term employment decline of some of the major so called smokestack industries...is a major cause of bipolarization.” He acknowledges that the declining smokestack industries could cause bipolarization, but he says there has been a concurrent decline in low-wage jobs (i.e., in textiles, apparel, and leather products manufacturing) which has offset the decline in middle- to high-wage jobs of the smokestack sector (i.e., autos, blast furnaces, basic steel products, iron and steel foundries). International competition and technological change have supposedly contributed to both groups’ declines. Not mentioned in his analysis is the fact that the lost smokestack jobs were predominantly union jobs. The declining presence of unions in the overall employment structure is a factor that will have longterm impacts on the earnings distribution due to the reduced spillover effects of unionism. Rosenthal noted there had been a slight widening of the earnings distribution. This widening, it may be argued, occurred even before the impact of declining unionization has been felt in full. What impact multiple-round effects of decreased unionization will have on the earnings distribution is an important area for consideration.

Samuelson has noted that between 1950 and 1982, “there was an explosion of low-paid clerical and service jobs, as office work and services...came to dominate the economy.” He says these low-wage jobs did not create greater income inequality because many other low-paying or even worse-paying jobs were being eliminated at the same time. Further,

...workers with low-income jobs do not necessarily come from low-income families. Many of the new clerical and service jobs have gone to working wives and teenagers who used them to boost their families’ income; in part, low pay reflects the flexibility to move in and out of the labor force.

In his article, “Are Service Jobs Good Jobs?,” Kirkland writes:

The shift to services is changing the type of work many Americans do, but it’s not—as some charge—demolishing the middle class. Abetted by a capital-spending boom, it is generating lots of jobs that are better than yesterday’s manufacturing jobs.

He believes the boom in capital spending in the service sector—in which computers play a major role—promises to raise the productivity and pay of service jobs. This boom will eliminate the lowest-skilled and -paid jobs at the same time it increases the

demand for skilled positions. Kirkland says this has been the experience of the financial and insurance industries in which the staffs of major companies have gone from pyramid shapes to "onion" or "football" shapes.

Thus, the mismatch between the good-paying jobs being lost in manufacturing and the service jobs created in their stead may not be the problem some have claimed it to be, according to Kirkland. The evidence suggests white-collar jobs that pay average or above average wages are growing fast enough to keep the middle tier solid. Further, the gap between the average pay of manufacturing and service jobs, while real, is overstated. This is because the service sector has a disproportionate number of part-time workers.

Kirkland does note that the service category growing the most rapidly over the last fifteen years "is inordinately freighted with low-paying jobs." This is the Bureau of Labor Statistic's "other services" category, which includes among others, health, education and business and professional services, advertising, repair shops, and beauty parlors. However, he cites Lawrence's finding that the fastest growth within the "other services" category was in better-paying jobs. Kirkland also cites the research of Neal Rosenthal, chief of the division of occupational outlook at the Bureau of Labor Statistics, who (through a detailed examination of 416 occupations where the occupations were placed into three groups based on income) found that the share of the workforce employed in the top group rose three percentage points between 1973 and 1982, while the middle group shrank less than one percent and the bottom group dropped two percent.

According to Kirkland, the occupational projections by Kutscher at the Bureau of Labor Statistics suggest that white-collar jobs paying average or above-average wages are growing fast enough to offset the decline in good-paying blue collar jobs and the rise in lesser skilled services jobs. Further, the middle class may actually be returning in five or ten years because the government forecasts a big slowdown in manufacturing's employment share decline and slower growth in the low-wage "other-service" category.

Kirkland also cites Lawrence's finding of a decline in the middle-earnings sector of the individual income distribution. But, like Lawrence, he does not attribute the decline to sectoral change. Instead, both attribute the decline to changing demographics, an issue that will be discussed in a later section.

While not concerned directly with the distribution of earnings, research by Stanback and Noyelle (1982) suggests a very different relationship between structural change and middle-level employment than that proposed by Lawrence and Kirkland.

Stanback and Noyelle examine the *distribution of wage earners* for 1960 and 1975 for broad occupational categories (professionals, technicians, managers, office clericals, nonoffice clericals, sales workers, craftsmen, operatives, service workers, and laborers) and for major industry groups (construction; manufacturing; transportation, communications, and utilities; finance, insurance, and real estate; consumers services; health; and education.)

Their distribution of wage earners assumes the same average (1975) earnings for each occupation-industry group for 1960 and 1975. Hence, the changes in earnings distribution that they observe over the fifteen-year period only reflects the changing industrial-occupational mix. It does not tell us how average earnings have changed within the industrial-occupational mix. Stanback and Noyelle found:

The shares of employment in the earnings classes 1.20 and above (120 percent or more of average earnings) have risen by 2.6 percentage points; the share accounted for by employment in the .80 to 1.19 class has declined by 8.1 percentage points; and the share in the classes below .80 has increased by 5.5 percentage points.

Thus, they found that the share of employment of the middle-earnings class declined over eight percent.

Technology's Impact on the Declining Middle

Technological change—in particular, change made possible through computer advancements—is cited by Thurow, Kuttner and others as contributing to the decline in middle-income jobs. The increasing introduction of automated production processes in manufacturing has eliminated blue collar jobs, and will continue to do so. Many of these jobs are unionized and relatively well paid. In the white collar field, computer-aided design machines may completely eliminate the need for manual drafters. Further, *Business Week* (1983) has predicted that the introduction of computerized management information systems will eliminate the need for many middle managers in the future.

Levitan and Carlson attempt to refute *Business Week's* claim by noting that the number of managers in the total work force increased from 9.5 percent in 1970 to 11.5 percent in 1982. However, their statistics are only providing information about the past, while *Business Week* is making a projection about the future. Further, Levitan and Carlson's statistics are of all managers, instead of the middle-manager group.

Kuttner writes, based on the opinion that technology has indeed eliminated middle-level employment, that:

It is intriguing to consider whether the loss of middle-income jobs reflects technological imperatives or merely management preferences. Much has been written on the tendency of technology to degrade work, but there are enough instances to the contrary to suggest that managers have substantial latitude in how they choose to reorganize work.

He looks at the banking industry and finds examples where technology has downgraded the jobs of money transfer clerks while upgrading letter-of-credit-department employees.

Kuttner disagrees with those who assert that as the economy grows more productive, technology will eliminate many routine dead-end jobs and replace them with high-skill positions and increased leisure for everyone. He claims the Third World pattern of development proves otherwise, because economies can attain high growth rates based on rapid technological progress and "still function as a society in which one half of the work force waits on the other half, and makes a good deal less." Kuttner goes on to say: "Low wages tend to foster more low wages." Incentives exist to replace high-wage jobs with machinery but not low-wage jobs. However, Kuttner's claim may be wrong if trends in the automation of the U.S. fast food industry are any indication.

The Regional Impact of the Declining Middle

Only one of the research articles on, or relating to, the declining middle attempts to make any geographical analysis of the trend. This analysis is included in Blackburn and Bloom's work. The data source that they use for their analysis is the March Current Population Survey. Between 1969 and 1983, the authors found that the share of middle-class families had declined and the upper-class share had increased in all regions of the U.S. The Midwest and the West have had significant increases in the proportion of lower-class families while they have experienced declines in the share of upper middle-income families. The situation for the Northeast and the South is exactly reversed: decreasing shares of lower-class families and increasing shares of upper middle-class families.

The Racial Distribution of the Declining Middle

Two sets of researchers look at the impacts of the declining middle on whites and persons of color in the U.S. Blackburn and Bloom found that between 1969 and 1983, the share of black families in the U.S. fell from 19.8 percent to 16.9 percent in the middle class and from 4.3 percent to 3.9 percent in the upper-class. The share of white families also declined in the middle class, down to 23.9 percent in 1983 from 28.3 percent in 1969, but their share in the upper-class grew from 8.6 percent to 13.9 percent.

Danzinger and Gottschalk's examination of 1967-1984 changes in the earnings share of each quintile of families with children found a substantial increase in income inequality. "For all families with children, and for whites, blacks, and Hispanics, the pattern is identical—the highest-income families have gained and the lowest-income families have lost: in all cases the bottom 60 percent lost while the top 40 percent gained."

Danzinger and Gottschalk also examined the earnings of working wives by race and yielded an interesting finding: Black wives had higher mean earnings (\$12,204) than white wives (\$9,680) in 1984; a reversal of their positions in 1967.

Macroeconomic Influences on the Declining Middle

A number of writers on the declining middle have asserted that changes in world trade have contributed to the problem. Little documentation of the link between world trade changes and the declining middle is provided, but essentially the argument is given that U.S. manufacturing industries are facing increasing international competition, and that the better paid production workers are losing their jobs to either imports, or to the shifting of U.S. production processes to overseas locations which use much cheaper labor. Increased international competition also leads to downward pressure on the wages of the remaining manufacturing workers and weakens unions' bargaining positions. Samuelson, in an effort to convince us that this is not as big a problem as some would claim, cites Lawrence's research in *Can America Compete?* that manufacturing losses have been due not to the erosion of international competitiveness but, rather, to the too-strong dollar. The strength of the dollar, according to Lawrence, comes from the U.S. government shifting from a net lender to a net borrower to cover its large deficits.

Inflation, recession, tax policies, and the structure of benefit programs are factors which Levy and Michel (1983) have analyzed for their impact upon income distribution. They observe that, between 1973 and 1979, the economy experienced food shortages and OPEC price increases which led to serious inflation. Next came recession, in an attempt to control inflation, and finally economic recovery was experienced. However, by 1979 they note that family incomes had not quite reached their 1973 levels. Levy and Michel predicted that the 1979-1984 period would be a repeat of this business cycle. In their 1986 article, Levy and Michel confirm their prediction. They do not examine a specifically defined middle of the income distribution, but, rather, the shape and level of the distribution itself. They say that, while measures of income inequality have remained fairly constant, the whole income distribution—which kept moving to higher ground over the 1947-1973 period—actually moved backwards after 1973. "This

puts the brakes on mobility” they say, and makes it very difficult for those who were not already in the middle class to achieve its standard of living.

Levy and Michel attribute the decline in median income and the vanishing prospects for achieving the middle-class standard of living to the productivity slowdown. They observe: “Rising productivity—rising output per man hour—is the ultimate source of rising living standards...” And while a precise explanation for the productivity slowdown is not known, it is generally attributable to a rapid rise in energy prices, a fast-growing labor force, and persistent inflation. These factors go hand-in-hand with the extremely high U.S. deficits and debt. Levy and Michel conclude:

We have been avoiding the limits of stagnant income by spending more than we take in and importing more than we export. In doing so, we trade off long-term growth for short-run gain. (1986, p. 38)

Paralleling Levy and Michel, Thurow (1985) believes that the “surge in inequality” currently being experienced in the U.S. is attributable in large part to the balance-of-payments deficit. He says his view can be supported

...by using data on exports or imports and the distribution of earnings by industry along with input-output techniques to essentially split the observed distribution of earnings into three distributions of earnings—that for export industries, that for import competing industries, and that for industries making non-tradeable goods and services. (1985, p. 7)

From his analysis, Thurow found that the income distributions of exporting industries and of import-competing industries are more equal, and their median incomes are higher, than that of the economy as a whole. Thus, if exports continue to contract and imports to expand, as the result of the overvalued dollar, Thurow says we will see lower average earnings, an even more unequal distribution of income, and displacement of the middle and upper-middle classes.

The Impact of the Changing Age Distribution on the Declining Middle

The changing age distribution of the workforce seems to have gained the most acceptance as an explanation for the declining middle. Specifically, the entrance into the labor force of the baby boom generation is given greatest weight in explaining the decline in the middle-income sector and, concurrently, the growth in the lowest earnings sectors.

Henle and Ryscavage observed that earnings inequality has been affected by the rate of entry into the labor force of young people. Further, the slowing of the trend towards income inequality has coincided with the slowing of the rate at which young men have been entering the labor force. "From 1958 to 1968, the number of young men aged 16 to 19 in the civilian labor force increased at an annual rate of 4.2 percent. During 1968-73, the rate rose to 4.9 percent before dropping to 1.7 percent in the 1973-77 period."

The authors also note that the number of young female workers has increased rapidly in the last 20 years, which should have resulted in greater earnings inequality among females. However, although the female earnings distribution is more unequal than the male, its degree of inequality has remained about the same for the past two decades. As a possible explanation for this difference in trends between male and female workers, Henle and Ryscavage note that female workers are clustered into relatively few occupations, where advancement opportunities are limited and earnings increases are more moderate.

Lawrence has written that as the baby boom generation entered the labor force between 1969 and 1983, its earnings declined relative to those of the total workforce. Male earnings, in particular, declined: "Between 1969 and 1983, the ratio of the median earnings of males under age 25 to those of males above age 25 dropped from 74 percent to 55 percent." He further observes that the decline in the middle-earnings sector among young age cohorts has been accompanied by an expansion in the lower-earnings sector, while, for workers aged 35 or more, it has resulted in an expansion of the upper-earner group. Among females, the middle-class earnings sector has declined only in the group aged 25 or younger, and has led to an expansion of the lower-earnings class.

Lawrence cites research by Louise B. Russell indicating that "the reductions in earnings due to a large cohort appear to be greatest in the early stages of careers and to diminish thereafter." Thus, he suggests that the declining middle may be temporary. As the large cohort of baby boom male workers ages, the middle of the earnings distribution may increase.

In an editorial entitled "Myth of the Disappearing Middle Class," Fabian Linden writes:

The demographic pattern of the '80s will be markedly different and will probably result in a significant drop in the percentage of lower-income households. In the coming years, the main thrust of population growth will shift from those under 35 to those 35 to 44. At that point in the life cycle, a hefty proportion of homes move into the middle and more prosperous brackets. Also, the 45 to 54 age group—where

household income peaks—grew very little in the '70s but will expand a lot more rapidly in the years to come.

Here, too, Linden is saying that the declining middle is a temporary trend. Unlike Lawrence, he relies solely on the earnings life cycle hypothesis to justify his conclusion. The effect of crowding in the baby boom cohorts—where large numbers of workers in entry occupations results in a relative lowering of their wages—suggests, however, that his conclusion is too simplistic. Blackburn and Bloom have noted that the median age of principal males and females in the middle-income groups has increased between 1969 and 1983. For males, it increased from 42.6 years to 43.2 years. For females, it increased from 40.7 years to 42.9 years. This trend implies that it takes longer for a younger earner to enter the middle-earnings sector, an implication that fits well with the crowding hypothesis. Whether the effects of crowding will eventually wear off, as Lawrence predicts based on Russell's research, remains to be seen. However, one of the criticisms Thurow raises in regards to the baby boom hypothesis is the implied assumption that supply creates its own demand. He states:

A larger supply of middle-aged workers does not lead to more middle-income jobs. A larger supply of middle-aged workers leads partly to lower wages for those, since they are competing with one another for the existing supply of jobs. These workers are also filtering down into what are less desirable jobs once held by the young or old, disrupting conventional job distribution.

Thurow has two more criticisms of the baby boom hypothesis. First, he notes the hypothesis does not explain why there are more high-income households than there used to be, observing that young and old workers are not normally considered high-income earners. Second, he says the baby boom theory "does not explain what needs to be explained." He observes that if the 1967 age distribution of households is kept constant and applied to the present income distribution for those age groups, we find that the percentage of households with middle-level incomes declines to 23.6 percent from 28.2 percent in 1967. The actual percent of middle-level income households is 23.7 percent. Thus, the decline in the middle class is not due to fewer middle-aged households but, rather, to *fewer middle-income households within each age cohort*. Hence, he observes, there are proportionately fewer middle-income dollars.

More along the lines of Thurow, Levy and Michel (1986) argue that baby boomers, instead of being able to expect upward mobility across generations, can expect downward mobility. Postwar society used to operate under the assumption of rising real wages, but the economic stagnation that began in 1973 has

made it clear “acquiring the middle-class dream was becoming more difficult.” Levy and Michel assess the economic status of the young middle class (perhaps we should say the young “hoping to be” middle class) by examining wage growth and the price of housing. They note that the average 30-year-old person purchasing a median-priced home in 1985 would have had to devote 44 percent of gross monthly income to carrying charges, compared with 21 percent in the early 1970s, and with only 14 percent in the 1950s.

The aging of the baby boom generation, Levy and Michel’s “young middle class,” will not improve their prospects of achieving the American dream or bring to them guaranteed upward mobility. What the baby boom generation needs is the conditions of steady wage growth that go hand-in-hand with rising productivity.

Unanswered Questions and Unaddressed Issues

The debate over the disappearing middle is simply a variation of the age-old income inequality issue, but it is a significant variation. The importance of the middle class in the economic, social, and political spheres of American society is undisputed. Any significant change in the size of the middle class is, therefore, likely to alter the paths these spheres travel, requiring more than minor adjustments along the way.

Although the debate has not been resolved, the effect of a declining middle class is already being discussed by political analysts. For example, in his political analysis of the impacts of middle-class decline, Thurow (1984) reminds us that Karl Marx did not foresee the rise of the middle class and so predicted that capitalism would generate a bipolar income distribution. The lower class was supposed to revolt against this distribution and establish communism. However, Thurow notes that the middle class which developed has an interest in preserving capitalism—its source of bread and butter. At the same time, this middle class has “voted to alleviate the worst excesses of capitalism with social welfare programs.” Thurow implies that without the middle class, and the hope it offers to the poor, Marx’s predictions of communism and revolution may very well come true.

Ehrenreich also refers us back to Marx’s prediction and writes that although “it would be easy to conclude that the Marxist vision at last fits America’s future... America is unique in ways that still make any prediction foolhardy.”

She claims that not only is class consciousness lacking in America, there does not exist the political leadership necessary to articulate “both the distress of the have-nots and the malaise in the middle.”

Further, Ehrenreich says the political response among the embattled middle class is fragmented. In recent elections, "Downwardly mobile single mothers...may have helped create the gender gap that emerged, for the first time, in 1980 and was still prominent in the 1984 election in which a greater proportion of women than men voted for the losing Democratic ticket." On the other hand, the financially distressed farmers—another group pushed out of the middle—has shown no coherent trend. Ehrenreich claims some have responded to Jesse Jackson's "liberal populist message," while others have joined extremist right-wing groups. Ehrenreich notes:

The financially squeezed middle-income baby boomers are perhaps the most enigmatic of all. After much lush speculation as to their political inclinations, we know only that they tend to be liberal on social issues and more conservative on economic issues, and that they admire both Ronald Reagan and Bruce Springsteen.

Finally, Ehrenreich claims the political polarization Marx predicted can be seen only in the behavior of those at the extreme ends of the income distribution. This polarization has strengthened the trend for the Republican party to represent the haves and the Democratic party to represent the have-nots.

Thus, the political discussions of the impact of the disappearing middle have already begun, even before the debate about whether the phenomenon really exists has been resolved. Redirecting our attention, it is important to note that within the debate over the disappearing middle, what income range should be used to define the middle class is critical and not easy to resolve. Using household or family income enables one to look more at the total income picture. If the main research concern is with impacts on the standard of living, then household or family income may be the most appropriate variable for analysis. Individual income figures, on the other hand, tend to focus on earnings. If the primary concern is what effect the declining middle has on employment and earning opportunities, then individual earnings is the appropriate variable to analyze. Ideally, however, an examination should be made of both household income distribution and the individual earnings distribution, since, from an economic development perspective, we are not concerned with only one or the other. The two distributions continue to be strongly related, but in a different manner than in the past. Once, the individual male's earnings were predominantly synonymous with household income. Today, the two-earner household increasingly makes up the family income unit while, at the same time, there are growing numbers of single earner/occupant households.

The literature reviewed above makes clear that not everyone agrees the middle of the *family* or *household* income distribution is declining. However, even if one is of the opinion that the middle of this income distribution is not disappearing, it is important to examine in what ways the profiles of middle-income households may be changing as a result of overall economic transformation. Does it take more than one earner in a household to achieve a middle-class income and lifestyle? Is this because the middle of the earnings distribution is shrinking, or because real earnings and income overall have declined, or because of both? Can we say we have made economic progress, or even maintained the same standard of living overall, if it takes two earners to maintain a middle-income household where one could do so previously? What about the additional resources that must be consumed by the second worker in order to work? Does this not imply a less efficient use of resources if more must be consumed in order to generate the same level of income?

Agreement has not been reached on the overall effect of working wives' earnings on income inequality. There are a number of possible effects. For example, the working wife's earnings may have helped a household to remain within or move into the middle-income group when, otherwise, it might fall into the lower income group based on the male's earning pattern. A working wife's earnings could also have moved a middle-income household into the upper income level.

It is well acknowledged that record numbers of wives and mothers have entered the labor force since the trends in increasing income inequality and the declining middle have gained attention. Understanding the interrelationship between these trends is important for economic development policy. Has the labor force participation of wives offset the trend towards family income inequality? If so, with the deceleration of this trend, will the offsetting effect disappear? Further, as the tenure of women in the labor force increases, will there be an increase in income inequality among the female earnings distribution, as well as the family income distribution? This could happen if women with higher skills and education begin to get returns for their labor which are more commensurate with their experience, and if women with higher skills and earnings are paired with men in similar job positions. If the labor-force participation of wives and mothers is necessary for the continued existence of a strong middle-income class, or more fundamentally, to maintain a family's existing standard of living in the face of declining real income, then society will have to decide whether it wants to provide the support services necessary (e.g., affordable quality child care, flex time) to enable the participation of this segment of the female labor force in a manner that places less strain on the

family unit overall.

There is relatively greater agreement that the middle of the individual earnings distribution has declined. This agreement is for the male income distribution. The baby boom hypothesis has been used to explain the decline and to predict that the trend is only temporary. But the criticism that Thurow levels against this perspective ("Supply does not create its own demand.") has not been addressed. Is it appropriate to employ the life cycle earnings model to predict the resurrection of the middle class as the baby boom generation enters middle age if other factors besides the changing age distribution have contributed to the decline of the middle? The life cycle model cannot predict the influence of such variables as inflation, international trade, or changing tax, industrial, or occupational structures.

A related criticism pertains to the baby boom hypothesis and its seeming inability to explain the differential declines in the middle that some researchers have observed for race and geographic region. For example, the percent of the population that are baby boomers, (ages 25-34 years in 1984), among whites (17.2 percent) is very close to that of blacks (17.5 percent). Further, there is no significant amount of variation in the percentage of baby boomers among the major regions of the U.S.² Whether or not the middle-income group is declining overall, a declining trend among a specific racial group or specific area of the country is an important area of policy concern.

None of the research to date has attempted to measure the impact of declining unionization on the disappearing middle. As with the trend in increased labor-force participation of wives and mothers, the course of declining unionization has coincided with observations of increased income inequality and a smaller middle class. Because unionization rates vary greatly by industry and occupation sectors, Lawrence's sectoral analysis would have benefitted from inclusion of the unionization variable. Thurow and others assert that unionization has had an impact on the declining middle but they do not provide substantiation. However, the significant influence unions have had on the nation's wage and benefit structure is well-documented in the field of labor economics. Thus, we can only conclude that the relationship between the declines in the middle-income sector and in union membership are an important area of study for our understanding of past and future changes in income distribution.

Not unrelated to the union question is Kirkland's observation that the changing sectoral distribution—with its upskilling of services jobs and continued relative shrinkage of manufacturing jobs—poses problems for the poorly educated. The future does not hold the opportunities that the past did for those with high

school educations (or less) to earn middle incomes. Unions, which are most prevalently found in the manufacturing sector, have helped to provide a supply of good-paying jobs for the less educated of the work force. However, unions have had relatively little success in organizing the growing service sector.

A more fundamental issue of the relationship between the declining middle and the changing sectoral distribution still needs to be resolved. Lawrence claims his constant-shares analysis demonstrates that the actual number of middle-class jobs should have increased by 7.3 million instead of the 4 million he has observed. However, he says only 271,000 of the missing middle jobs "can be accounted for by the relatively high growth rates of sectors with below-average proportions of middle-class workers..." It should be remembered, though, that Lawrence defines the middle-income range here as between \$10,095.40 to \$18,748.60 (1979 dollars). We should question whether his definition, and consequently constant-shares analysis, of the number of middle-level jobs is acceptable.

Whether or not we accept Lawrence's estimates, the question remains as to whether U.S. industrial policy should promote and protect industries (predominantly in the manufacturing sector) which are seen to generate significant proportions of middle income jobs.

The attempts to resolve the debate over the declining middle have been piecemeal and inconclusive. The question of the declining middle is too important for economic development policy not to warrant further investigation. Still needed is in-depth research on the changing size of the middle of the income distribution, as well as an analysis of its impacts for the present and future patterns of U.S. economic development.

NOTES

1. The Gini index, more correctly called the Gini coefficient, is a summary measure of inequality derived from the Lorenz curve. The index has a value range between 0 (absolute equality) and 1 (absolute inequality). Because it is a summary measure of relative size, the Gini coefficient cannot tell us whether different segments of an income distribution are more or less equal than other segments. Likewise, income distributions for different time periods or different populations could have the same index value when there are great differences in inequality between them.

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2. See the tables below:

Baby Boom Population by Region, 1984 (000s)			
	Total	25-34 yrs.	% of Total
United States	236,158	40,912	17.3
Northeast	49,728	8,267	16.6
Midwest	59,117	10,189	17.2
South	80,576	13,806	17.1
West	46,738	8,649	18.5

Source: *Statistical Abstract of the United States*: 1986, derived from Table 28.

Baby Boom Population by Race, 1984 (in percent)	
25-34 years	
Total	17.3
White	17.2
Black	17.5

Source: *Statistical Abstract of the United States*: 1986, derived from Table 29.

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