

NEXT SOCIAL CONTRACT INITIATIVE POLICY BRIEF

# LOSING MIDDLE AMERICA:

## The polarization of jobs in the United States

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VALUABLE RESEARCH ASSISTANCE PROVIDED BY SHAYNE HENRY.

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### Introduction

Is the American Dream of opportunity and increasing prosperity out of reach for the average American worker?<sup>1</sup> What is happening to the American middle class? If the labor market ‘polarizes’ into low- and high-income jobs, what does this mean for continuing inequality in America? What does it mean for the American social contract, and the American Dream?

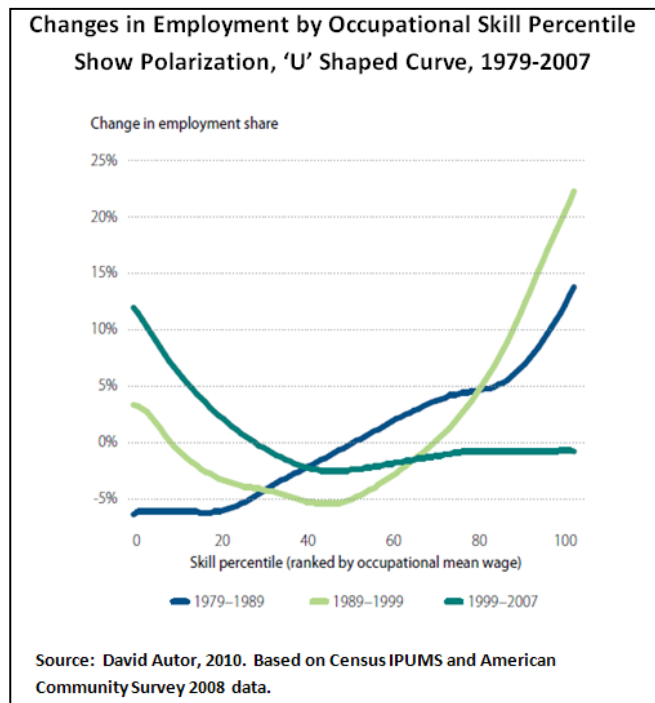
The opportunity to move up the economic ladder is a central component of the American social contract, or the “agreed-upon social arrangements that provide basic security and access to basic necessities for individuals in modern, industrial societies.”<sup>2</sup> Besides economic opportunity, the social contract encompasses social agreements on access to employment, healthcare, retirement, unemployment insurance, education, as well as labor regulations and civil rights.

America’s existing social contract is inadequate for more and more Americans.<sup>3</sup> While the Great Recession and the housing bubble implosion destroyed the savings of many middle and lower income families and caused mass unemployment, a number of longer term trends have also contributed to the woes of Americans.<sup>4</sup> Stagnating wages, shrinking retirement savings and the loss of defined-benefit plans, rising health care costs that eat into discretionary income, easy credit used to maintain living standards and the subsequent exploding debt of the middle class,<sup>5</sup> and most importantly, fewer decent jobs, have all chipped away at hopes for a better future. This Next Social Contract Initiative series, *Losing Middle America*, examines the polarization of the labor market, growing wage inequality, and the causes of these phenomena in both the United States and other wealthy countries.

### The Polarization of Jobs

One of the most worrisome trends for the long-term health of the American economy is the trend of polarization: the decline of middle skill, middle wage jobs in the U.S.<sup>6</sup> Empirically, we now know that middle income work in the U.S. – and thus the middle class lifestyle that is the foundation of the American Dream – is being eroded. Since the 1980s, growth in the U.S. labor market has increasingly moved into high-skill jobs performed by well-educated workers and into low-skill jobs concentrated in

service occupations, leaving behind the middle – those with more than a high school degree but less than a bachelor’s degree.<sup>7</sup> This worrying trend of polarization of work away from middle skill employment forms a “U” shaped distribution curve, as MIT economist David Autor has shown.<sup>8</sup>

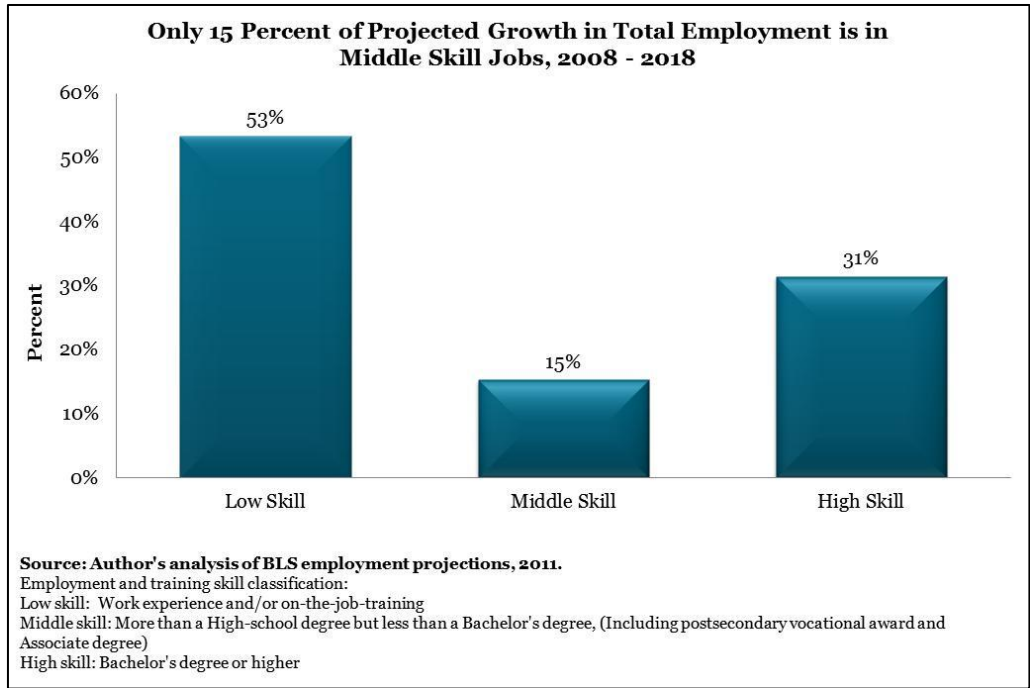


The polarization of the U.S. labor market is rooted in the decline of middle-skill manufacturing alongside the expansion of low-skill retail and personal services and high-skill technology sector jobs.<sup>9</sup> The movement of job growth between industries is important because workers in service sectors do not enjoy the goods-producing sector’s legacy of union activity, which led to the normalization of employer-sponsored medical and pension benefits for middle-skill workers. For example, while 81 percent of production workers can access employer-sponsored medical care benefits, only 44 percent of service workers can do so; a rate far lower than the average of 71 percent for private sector workers.<sup>10</sup> Similarly, 65 percent of production workers have access to employer-sponsored retirement benefits, while only 42 percent of service workers can participate in employer-sponsored pensions; again, this is far below the average private sector access rate of 65 percent. The loss of middle-skill jobs – especially in manufacturing – means that American workers are losing not just wages, but their valuable employer-sponsored benefits as well.

## The Road Ahead

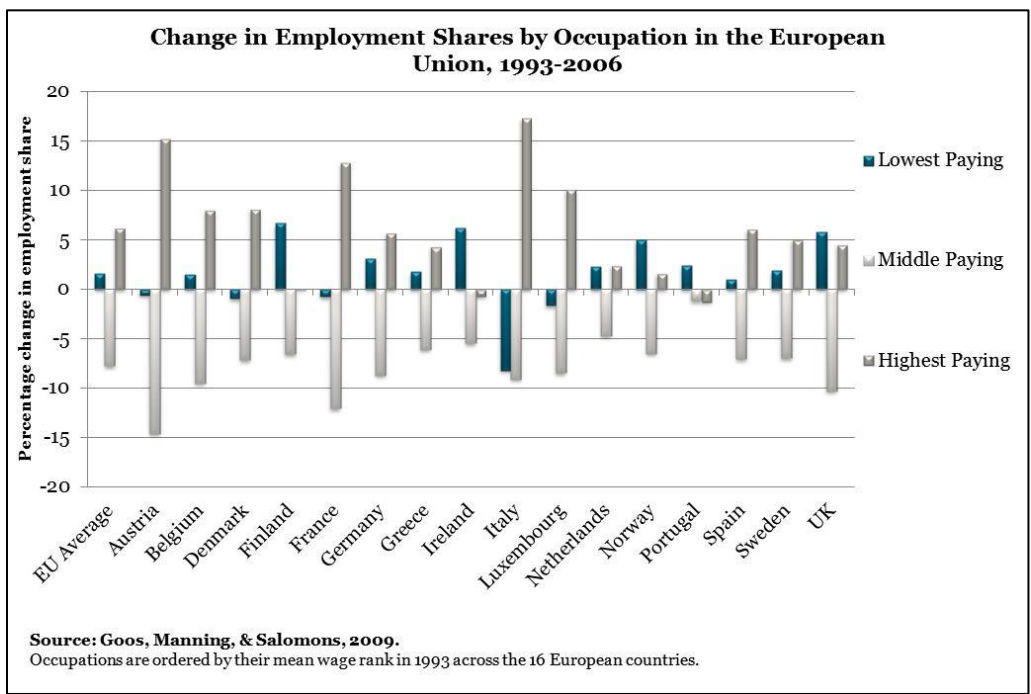
The trend of job polarization seems likely to continue as our economy moves away from traditional middle-income manufacturing jobs and towards both low-skill service work and highly-skilled abstract work. A recent analysis of job growth and loss by occupation during and after the Great Recession finds that middle-wage occupations have been hit twice: job loss during the recession was concentrated middle-wage occupations, and post-recession job growth has been concentrated in low-wage occupations, with little growth in middle-wage jobs. As a result, while higher-wage and lower-wage occupations are 4.1 percent and .3 percent below pre-recession employment levels, mid-wage occupations suffer a deficit of 8.4 percent.<sup>11</sup>

The future of middle-income job growth, estimated by skill level, seems similarly dim. Only 15 percent of projected job growth between 2008 and 2018 will be in middle-skilled jobs – defined here as jobs requiring an associate degree or postsecondary vocational award – with the most growth concentrated in low-skill occupations.<sup>12</sup>



## Europe: Same Changes, Different Impacts

The erosion of middle skill jobs is not unique to the U.S. At least since the 1990s, the sharp decline of middle paying jobs has affected virtually all wealthy western European countries, perhaps pointing to common causes for the divergence (a topic explored in the third brief of this series).<sup>13</sup>



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However, polarization does not have the same impacts on workers in Western Europe and the U.S., for two reasons. First, in the United States, many social supports for education, retirement, health care, and home ownership are delivered through the tax code, effectively excluding many lower-income workers from the benefits of government subsidy for these services.<sup>14</sup> Second, non-wage benefits such as health insurance and pensions are largely tied to individual employers in the U.S., which further results in uneven benefit coverage across the workforce, as noted in the comparisons between the employer-sponsored benefits of manufacturing and service workers. In addition to service workers, other groups of workers – single parents, Hispanic workers, low-income workers, part-time workers, employees of small firms – are less likely to have access to employer-sponsored health insurance and retirement benefits than the average American worker.<sup>15</sup> These benefits tend to be universal or citizen-based in Western European countries. Thus, polarization and the growth of low-skill jobs more acutely impact the quality of life of workers in the U.S. than those in countries with more comprehensive, citizen-based social support institutions.

Temporary payroll tax cuts and other short-term stimulus will not address the longer-term issue of the polarization of jobs. If policymakers want to keep the American Dream alive for the American people, we need a thriving middle class to support our economy. Our middle class is not a naturally-occurring phenomenon: workers and policymakers worked together to create decent wages and benefits for the low- and medium-skill manufacturing jobs that we today think of as traditional middle income work. To sustain a middle class in the future, we must build the same basic rights and support around the next generation's low- and medium-skill jobs, which are service jobs.

Given the role of institutions in creating our middle class, it is not surprising that the trend of job polarization has had different impacts on wages and incomes in countries depending on their policy responses. The next brief in the *Losing Middle America* series examines the differing experiences of the United States and other wealthy countries with the growth of wage and income inequality.

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## Endnotes

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<sup>1</sup> Rasmussen Reports. *21% Say Today's Children Will Be Better Off than Their Parents*. March 25, 2011.

[http://www.rasmussenreports.com/public\\_content/politics/general\\_politics/march\\_2011/21\\_say\\_today\\_s\\_children\\_will\\_be\\_better\\_off\\_than\\_their\\_parents](http://www.rasmussenreports.com/public_content/politics/general_politics/march_2011/21_say_today_s_children_will_be_better_off_than_their_parents)

<sup>2</sup> Lind, Michael. *A citizen-based social contract*. Principles Paper. The Next Social Contract Initiative, New America Foundation. Page 1. July 2007.

<sup>3</sup> Pew Charitable Trusts, The Mellman Group, Inc. and Public Opinion Strategies. *Economic Mobility and the American Dream: Where Do We Stand in the Wake of the Great Recession?* Pew Economic Mobility Project, May 2011.

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<sup>4</sup> For discussion of these causes, see:

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<sup>5</sup> For more on the debt situation of middle class Americans, see:

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<sup>6</sup> Autor, David, and David Dorn. *The growth of low skill service jobs and the polarization of the U.S. labor market*. August 2010. Available at: <<http://www.cemfi.es/~dorn/Autor-Dorn-LowSkillServices-Polarization.pdf>>

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<sup>7</sup> Author's application of David Autor's definition of "moderate education" to Bureau of Labor Statistics 2008-2018 occupational employment and worker characteristic projections.

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See also as NBER Working Paper Series, No. w15150. July 2009.

<sup>8</sup> "Polarization" first coined by Goos and Manning in: Goos, Maarten and Alan Manning. *Lousy and*

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<sup>9</sup> Wright, Erik Olin and Rachel E. Dwyer. *The patterns of job expansions in the USA: A comparison of the 1960s and 1990s*. Socio-Economic Review (2003) 1, 289-325.

<sup>10</sup> U.S. Bureau of Labor Statistics. *Employee Benefits in the United States – March 2010*. USDL-10-1044. 27<sup>th</sup> July 2010.

<sup>11</sup> National Employment Law Project. *The Good Jobs Deficit: A closer look at recent job loss and job growth trends using occupational data*. Data Brief. July 2011.

<sup>12</sup> Author's application of David Autor's definition of "moderate education" to Bureau of Labor Statistics 2008-2018 occupational employment and worker characteristic projections.

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<sup>13</sup> Goos, Maarten; Manning, Alan and Anna Solomons. *Job Polarization of the European labor market*. American Economic Review Papers and Proceedings, 22(22). 2009.

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<sup>14</sup> For details, see:

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