

Middle Class Challenges and Contested Futures in the USA and South Korea

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Edited by

Kwang-Yeong Shin and Arne L. Kalleberg

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INTRODUCTION

The middle class¹ is widely regarded as the backbone of industrial societies and pivotal to the vitality of democratic capitalism.² Typically defined as the socioeconomic group positioned between the upper and working classes, the expansion of industrial capitalism facilitated the growth of the middle class as it bolstered political democracy and enhanced economic stability. In the past four decades, however, neoliberal political-economic forces, along with successive crises in the global economy, have significantly reshaped the labor market, eroded the middle class's economic status, and challenged the conventional belief that the middle class acts as a stabilizing force in democratic capitalism.

This book examines central challenges facing the middle classes in South Korea and the United States. Despite their distinct paths to post-industrial economies, the middle class in both nations has experienced labor market instability and widening economic inequality due to neoliberal political-economic labor market policies coupled with inadequate social protections. By exploring the nuances of middle-class life in the two countries, we seek to uncover the systemic forces shaping their identities. We hope this book will prompt a reevaluation of policies and practices that impact the middle class, fostering a deeper understanding of the societal shifts at play. Ultimately, the lessons drawn from our studies of the United States and South Korea can inform strategies to bolster the middle class in post-industrial countries generally, ensuring its resilience and vitality in an ever-changing world.

¹ For varieties of the concepts of the middle class in the social sciences, see the first chapter of this book written by Arne L. Kalleberg; Anthony B. Atkinson and Andrea Brandolini, "On the Identification of the Middle Class," In *Income Inequality: Economic Disparities and the Middle Class in Affluent Countries*, edited by Janet Gornick and Markus Jäntti (Stanford: Stanford University Press, 2013): 72-100; and Jürgen Kocka, 1995. "The Middle Classes in Europe," *The Journal of Modern History* 67(4): 783-806.

² For example, see Robert J. Barro, 1999. "Determinants of Democracy," *Journal of Political Economy*, 107(6); Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy* (Cambridge: Cambridge University Press, 2006).

South Korea and the United States

Comparing South Korea and the United States provides a compelling lens through which to examine how different historical, cultural, and political contexts shape economic systems and governance. These two nations illustrate different approaches to economic policies, industrialization, and democratization and the impacts of these forces on socio-economic stability, class relations, and cultural dynamics. This comparison offers valuable insights into the broader implications of neoliberal policies and the ways in which countries navigate the challenges and opportunities of globalization.

South Korea exemplifies a national model of counter-liberal postcolonial development and democratization from below. It is characterized by extensive state involvement in the economy and rapid industrialization and economic growth, which have been associated with socio-economic disruptions. These changes have sparked global scholarly interest in its industrial system, economic governance, political order, class relations, and cultural practices. By contrast, the United States, often hailed as the epitome of liberal democratic capitalism, is the archetype of a liberal market economy with minimal state intervention. It boasts a robust and diversified economy characterized by technological innovation, dynamic financial markets, and a combination of free-market principles and regulatory frameworks designed to maintain economic stability and protect consumer rights. The U.S.'s global cultural and economic impact, coupled with its ongoing internal debates over economic governance and social justice, continues to draw significant attention from scholars and policymakers worldwide.

Despite differences in their political economies—notably the state's role in the economy and racial and ethnic dynamics in segmented labor markets—both countries exhibit highly flexible labor markets. For example, job tenure with current employers in the U.S. averages 4 years while it is 5.9 years in South Korea, both notably shorter compared to the 10-year average in Europe.³

³ Jessica Nelson, “Employee Tenure Averages Four Years.” State of Oregon Quality Information (October, 28, 2022); OECD, *Towards Better Social and Employment Security in Korea, Connecting People with Jobs* (Paris: OECD Publishing): 35; Maurizio Bussolo, Damien Capelle, Michael M. Lokshin, Iván Torre, and Hernan Winkler. *Explaining the Evolution of Job Tenure in Europe, 1995-2020* (World Bank, 2022), Policy Research Working Paper 10205, 9.

These countries also share similar socio-economic trends, such as very high income inequality, elevated poverty rates, low unionization rates, and the absence of leftist parties compared to other OECD countries. In 2021, the level of income inequality in the U.S., with a Gini coefficient of 0.375, was the highest among the advanced industrial societies, and in South Korea, it was also very high, with a Gini coefficient of 0.333, while the Gini coefficients were 0.303 in Germany and 0.298 in France.⁴ In 2021, South Korea's and the U.S.'s poverty rates were the same at 0.151, far higher than Denmark's at 0.065, France's at 0.085, and Germany's at 0.116.⁵ In 2018, both the U.S. and South Korea showed a very low level of unionization, with 10.1 % and 11.6%, respectively.⁶ The power resources of the working classes in both countries seem much smaller than those of European countries due to the absence of strong leftist parties in both countries.

In addition, the U.S. and South Korea exhibit a form of democratic capitalism with relatively low GDP spending on social protection and limited income redistribution compared to OECD countries. In 2019, while OECD countries, on average, allocated nearly a quarter of their GDP to public social expenditures, both the U.S. and South Korea spent significantly less, at 18.7% and 12.2% of GDP, respectively, compared to Germany's 25.9% and Denmark's 28.3%. This lower spending reflects a reduced emphasis on social welfare and redistribution.⁷ Both countries also maintain lower tax burdens compared to the OECD average. South Korea's tax burden is 24.6% of GDP, while the United States is slightly higher at 29.9%. These figures are notably below the OECD average tax burden on labor of 34.8%.⁸ This pattern of lower taxation aligns with their more limited social expenditures and reflects a different approach to balancing economic growth and social welfare compared to many other developed economies.

Moreover, both the U.S. and South Korea underwent the neoliberal revolution that spread throughout the world in the past four decades as an alternative to the post-war economy influenced by Keynesian economics. This transformation underscored the desirability of creating and maintaining greater flexibility in labor markets to promote profits and economic growth.

⁴ OECD (2024), Income inequality (indicator). doi: 10.1787/459aa7f1-en (Accessed on 01 July 2024)

⁵ OECD (2024), Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed on 01 July 2024)

⁶ Data extracted on 01 July 2024 10:10 UTC(GMT) from OECD.Stat.

⁷ OECD (2024), Social Expenditure (SocX) database (<https://www.oecd.org/en/topics/social-spending.html>, accessed July 3, 2024).

⁸ Christina Enache, "A Comparison of the Tax Burden on Labor in OECD," 2024, Tax Foundation (March 31).

Neoliberalism is a political-economic perspective that emphasized the centrality of markets and market-driven solutions, deregulation (and reregulation) of markets, privatization of government resources, and removal of government protections. It led to (and was facilitated by) a continued decline in the power of labor relative to capital.

The two oil crises in the 1970s shattered organized capitalism and accelerated post-industrialization, leading to the neo-liberalization of the economy. The demise of Eastern European state socialism further propelled the continuous expansion of neoliberalism throughout the entire world. Economic and political turmoil, exacerbated by the offshoring of middle-class jobs from core to peripheral countries, led to a reduction in middle-class manufacturing and service jobs. Technological advances in digitalization and Artificial Intelligence have made middle-class, semi-skilled jobs obsolete and fostered a 'brave new world' characterized by flexibility and deregulation, espoused by liberal political leaders and fundamental to state policies worldwide. These forces have diminished the size and economic status of the middle class in the United States and South Korea, widened chasms of income inequality, and escalated levels of personal and household debt. The resulting pervasive sense of economic insecurity in the countries was reinforced with often inadequate social protections.

The chapters in this book discuss a variety of challenges facing the middle class in South Korea and the United States. It addresses some of the major macro-social changes that led to the transformation of the middle class in the two countries, and their consequences for economic inequality, education, and families. It also presents policy ideas for revitalizing the middle class in each country.

The Middle Class in the United States and South Korea

The first part of the book discusses these macro-social changes and transformation of the middle class in the U.S. and South Korean labor markets.

In the first chapter, Arne L. Kalleberg ("Rebuilding the American Middle Class: Political Economy, Technological Change, and the Future of Work") examines the declining socio-economic status of the middle class in the United States, which he defines as individuals located below the top 10% and above the 50% of the income distribution. Since the late 1970s, the middle class has experienced wage and job polarization in the labor market, job displacement due to technological development, and the reduction in institutionalized bargaining power. He proposes three policy suggestions to rebuild the middle class in the U.S.: enhancing social

protections, facilitating skill acquisition, and strengthening collective bargaining power.

In Chapter 2, Sungkyun Lee and Heeju Shin (“Changes in the Economic Conditions of the Korean Middle-Income Group in the 2010s”) examine the shifting socio-economic status of the middle class in contemporary South Korean society, focusing on income and wealth in the 2010s. Lee and H. Shin define the middle class as households with incomes between 75 percent and 200 percent of the median household income. They find that the proportion and economic influence of the middle class was stable in the 2010s, and the financial vulnerability of the middle class was more pronounced in terms of wealth than income. The homeowner middle class is much more secure than the non-homeowner middle class with the rising rent and security deposits because of the increasing housing prices in the 2010s.

In Chapter 3, Hyunji Kwon (“The Professionalization of the Youth Labor Market on the Road to a Creative/Knowledge Economy: What Does this Mean for the Middle Class?”) focuses on the young professional middle class in South Korea. Kwon highlights that the share of young professionals is growing, leading to increased heterogeneity within the middle class. Some young middle-class professionals lack institutional and organizational social protections, however, resulting in a rise in precarious employment in South Korea. Therefore, the digitalization of the economy in South Korea has promoted professionalization but also contributed to the emergence of a precarious middle class.

New Challenges for the Middle Class

The book's second part deals with the socio-economic challenges facing the middle class in the U.S. and South Korea.

In Chapter 4, Lane Kenworthy (“Middle-Class Income Growth: What to Do”) addresses the stagnant wages of the middle class in the U.S. since the 1970s, which has undermined economic stability and prospects for social mobility. Kenworthy argues that wage increases in the middle class have been much slower than that of GDP growth in the U.S., due largely to weak labor unions. He is doubtful about the effectiveness of some traditional approaches to increasing the economic status of the middle class, such as faster economic growth, more education, resurgence of manufacturing jobs, reduced trade and immigration, reduced monopsony power, and employee-board level representation. Instead, he proposes tightening the labor market via the central bank's monetary policy, statutory minimum wages, profit sharing, and earnings subsidies.

In Chapter 5, Kwang-Yeong Shin (“The Captive Middle Class: Rising Debt and the Volatility of the Middle Class in South Korea”) discusses the debt of the middle class in South Korea. The middle class, defined as the middle of the income distribution, has shown a greater propensity to rely on loans compared to the lower income group. The middle class tends to view debt as leverage rather than a financial burden, using it to purchase houses and invest in financial markets. The debt-driven economic behavior of the middle class has been further accelerated by the application of digital technology in the banking industry and the lowering of interest rates during the COVID-19 pandemic. K-Y Shin argues that the excessive liability of the middle class may pose significant risks for debtors and the national economy as well.

In Chapter 6, Soo-yong Byun (“Trends in the Academic Achievement of Children from Middle-Class Families in the United States and South Korea: 1995-2019”) compares the educational achievements of the middle class in the U.S. and South Korea. Byun analyzes the academic disparity among the middle, upper, and lower classes regarding the educational achievement of middle and high school students in the two countries. He reports that the academic achievement of the middle class increased, and the achievement gaps between classes decreased in the U.S. due to the faster improvement of the lower class’s educational achievement. In contrast, the middle class did not show much improvement in South Korea, but the gaps in academic achievement widened due to the decrease in academic performance among students from lower-class families.

Perceptions of the Turbulent World of the Middle Class

Part 3 explores the subjective and ideational aspects of the middle class in the U.S. and South Korea and their impacts on society.

In Chapter 7, Myungji Yang (“The Korean Middle Class and Conservative Politics: Urban Space and Place Identity in Gangnam”) shows how conservative political positions are closely tied to local identity by examining political conservatism among members of the upper middle class in Gangnam, the most affluent area in Seoul, South Korea. Yang identifies a strong spatial identity in Gangnam as based on expensive residential apartment complexes and higher educational attainment among the upper middle class. However, political conservatism is relatively new as the progressive government began to regulate the real estate market to control the high real estate prices in the 2000s. The conservative parties and media criticized the ‘holding tax’ by the government imposed on holders of real estate in the area with rising real estate prices. Homeowners in Gangnam

began to oppose the real estate policy of the progressive government, and the conservative party utilized the conflict between the progressive government and residents in Gangnam. In South Korea, Gangnam becomes a symbol of a stronghold against the Progressive Party in the 21st century.

In Chapter 8, Jennifer M. Silva (“Navigating an Uncertain Future: How American Young Adults Narrate their Experiences of Economic Insecurity and Social Upheaval in the 21st Century”) delves into the lives and beliefs of middle-class individuals in the face of growing insecurity and volatility in the U.S. With the diminishing belief in the American Dream of upward mobility, the middle class seeks new ways to navigate their lives and shape their future. She finds that feelings of uncertainty and loss lead to cynicism and helplessness among respondents when they cannot control or influence their work and future. Middle-class families are intensively involved in parenting to ensure their children’s success in educational competition, driven by the fear of slipping into the lower class. Additionally, the American middle class is experiencing stagnant income, inadequate social protection, and lack of support for childcare, leading to a growing sense of mistrust and hostility towards politicians and the government.

Chapter 9 deals with the convergence of the middle and lower classes’ narratives on marriage and family to reveal one of the social causes of South Korea’s record-low fertility rate: 0.72 in 2023. Young-Mi Kim, Inseo Son, Eunji Kim, and Rieun Kim (“Converging Narratives Amid Diverging Destinies: Narratives of Marriage and Childbearing in South Korea”) analyzed 104 individuals to explore differential fertility across social classes, that is, the possible cultural translation of economic inequality in family life. They found that the middle and lower classes share the economized narrative of marriage and childrearing. The convergence of the fertility narratives may be a significant factor in South Korea’s lowest total fertility rate (TRF) in world history.

Contested Futures of the Middle Class in the U.S. and South Korea

The chapters in this book examine the characteristics and challenges of the middle class in South Korea and the United States. Despite differences in their political economies, the middle classes in these two countries have faced similar difficulties, such as job insecurity, family life instability, and unmet educational aspirations coupled with anxiety. The challenge for both the United States and South Korea is to create a stable society that allows the middle class to lead secure and predictable lives. The contest in both countries is between forces promoting neoliberal political-economic

policies and those seeking to provide greater protections for the middle class. This battle will significantly shape the trajectory of the middle class in both nations.

Neoliberal policies in the U.S. emphasize deregulation, tax cuts for the wealthy, and reduced government intervention in the economy. Proponents argue that such policies spur economic growth and innovation. Critics contend that these measures exacerbate income inequality and erode social safety nets, leaving the middle class vulnerable to market fluctuations and economic downturns. In South Korea, neoliberal policies have also promoted labor market flexibility, privatization of state-owned enterprises, and economic liberalization. While these policies have driven rapid economic growth, they have also led to increased job insecurity and income disparity, reducing the stability of the middle class. If neoliberal policies continue to dominate in these countries, their middle classes may face further erosion and polarization, income inequality could widen, and economic insecurity may deepen. The social fabric is likely to fray, leading to heightened political and social tensions.

Advocates for greater protections in both countries argue for policies such as progressive taxation, increased minimum wages, stronger labor unions, and more robust social safety nets. These measures aim to redistribute wealth, reduce inequality, and provide a more secure economic foundation for the middle class. In South Korea, there is a push for comprehensive social welfare programs, improved labor rights, and policies to address housing affordability and education costs. These initiatives seek to mitigate economic insecurity and provide a more equitable distribution of resources. A shift towards policies that provide greater protections for the middle class and addressing housing and education costs could also stabilize and rejuvenate the middle class in the United States.

How these two countries will choose between these two contested futures remains uncertain. Whether policies will be adopted that balance market-driven growth with strategic government interventions to provide protections for the middle class remains unanswered questions. Given the importance of the middle class for sustaining stability and democracy, it is vital for these countries to maintain economic growth while ensuring that the benefits of such growth are more equitably distributed, supporting a robust middle class.

CHAPTER ONE

REBUILDING THE AMERICAN MIDDLE CLASS: POLITICAL ECONOMY, TECHNOLOGICAL CHANGE, AND THE FUTURE OF WORK

ARNE L. KALLEBERG

Introduction

The middle class has long been a mainstay of the United States and other modern countries. In the three decades following World War II, the prosperity produced by the global economy and domestic policies, which mostly benefitted the middle class, played an important role in providing a good quality of life for many people and fostered economic equality. The vibrant and expanding middle class realized during this period provided opportunities for upward mobility and achievement of the American Dream.

However, during the past four decades, the rise of globalization, technological changes related to computerization and automation, union decline, deregulation of product and labor markets, and other political and economic factors have resulted in the stagnation and decline of the American middle class.¹ While the middle class is still among the richest in the world, the United States, which was once called a land of opportunity, has become a land with high levels of inequality, fueled by inherited wealth and patrimonial capitalism.² The American Dream from the post-World War II period is now out of reach for millions of Americans.³

¹ Timothy Noah, *The Great Divergence: America's Growing Inequality Crisis and What We Can Do About It* (New York: Bloomsbury Press, 2012).

² Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014).

³ Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren et al., 2017. "The Fading American Dream: Trends in Absolute Income Mobility Since 1940." *Science* 356 (6336): 398-406.

This chapter presents a macrostructural perspective on the changes in the American middle class since the 1970s. First, I provide an overview of trends in the American middle class during this period. I then discuss alternative explanations for middle-class stagnation, especially contrasting accounts based on technological change as opposed to political-economic factors. These divergent explanations imply different policy prescriptions for rebuilding the middle class, from expanding access to education and skills to agendas based on a more fundamental restructuring of power relations in society.

Who is the Middle Class?

The boundaries of the middle class have often been debated.⁴ In the popular view, the middle class is defined as the group located somewhere between the upper and lower classes. Guillén⁵ described this as follows:

[The middle class is] ... that large segment of people who are neither affluent nor destitute ... Our modern understanding of the middle class goes back to a British government report from 1913, which defined it as people who are neither upper-class nor traditionally working-class. Recent Western history has been about broadening this middle ground. With rising inequality on both sides of the North Atlantic, however, this large segment is starting to shrink.

Disputes about class boundaries mainly focus on divisions between the middle and working classes. These debates center on cleavages in labor markets, since those without property earn their living by working for others and depend on capitalists for their jobs and job rewards. While Marx viewed capitalism as polarized between capitalists (*bourgeoisie*) and workers (*proletariat*), Wright⁶ extended the Marxian analysis to incorporate changes in class relations in advanced capitalism, such as the rise of the middle class, which is considered a “contradictory” class location as it takes on features of the two basic classes. For example, managers control the labor power of workers (like capitalists) and are exploited by capitalists (like workers). From the Weberian perspective, class boundaries within labor markets

⁴ See, for example, Richard Reeves, Katherine Guyot, and Eleanor Krause, “Defining the Middle Class: Cash, Credentials, or Culture?” Brookings Institute, 2018.

⁵ Mauro F. Guillén, 2030: How Today’s Biggest Trends Will Collide and Reshape the Future of Everything (New York: St. Martin’s Press, 2020): 77.

⁶ See, for example, Erik Olin Wright, Class Structure and Income Determination (New York: Academic Press, 1979).

reflect occupational differences in skills and other forms of labor market power.

In this chapter, I define the middle class as consisting of *income* differences among *individuals*. While some writers define the middle class in terms of households rather than individuals, my focus here is on the income and wages associated with middle-class jobs. This definition considers the middle class to comprise the segment of the workforce that is situated below the top 10% and above the bottom 50% of the income distribution. Viewed this way, the middle class is a relative rather than an absolute concept, demarcated as the middle of the distribution of income and wages.

My definition of the middle class considers it in objective, relative terms. However, the middle class is not only a group with similar levels of income, education, or other objective characteristics. Hacker⁷ also depicts it as having a cultural component:

“Middle class” is more than an income category. It’s an image of a certain kind of society—a nation in which the gains of prosperity are broadly shared and those who work hard have a good shot at upward mobility and the security of a basic safety net.

The American Middle Class

Income inequality has been increasing in the United States since the 1970s, as Fig. 1-1 shows. This increase in inequality was mostly due to the divergence of the top 1% or 10% from the bottom 99% or 90%, respectively. There is also increasing inequality between the middle 40% and bottom 50%, but the increase is less; the 40% has seen relatively small growth, while the bottom 50% has seen stagnation and decline. The incomes of neither of these two groups have kept pace with GDP growth since the late 1970s. Household results are similar: the Pew Research Center⁸ reports that the aggregate share of U.S. household income held by middle-class households has steadily decreased, from 62% in 1970 to 42% in 2020.

⁷ Jacob S. Hacker, “Reclaiming Middle-Class America,” *The American Prospect*, March (2011): A3–A5.

⁸ Rakesh Kochhar and Stella Sechopoulos, “How the American Middle Class Has Changed in the Past Five Decades,” Pew Research Center, 2022.

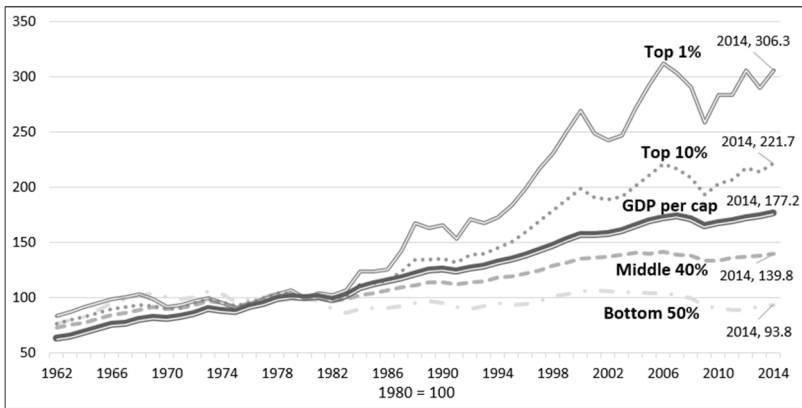


Fig. 1-1. Growth of GDP and market incomes of working-age adults in the U.S., 1962–2014.

Source: Howell and Kalleberg⁹

Structure of American Wage Inequality

My view of the middle class draws on a labor market segmentation perspective.¹⁰ Middle class jobs include semi-autonomous workers who have considerable control over their work activities but are still wage workers controlled by capitalists, as well as “semi-skilled” workers who receive relatively high incomes due to their membership in unions and other institutional protections. The control, skills, and collective organization of these jobs enable them to obtain higher incomes than working-class jobs.

Fig. 1-2 shows the wage structure of working-age adults in the United States, which is divided into two main segments: primary and secondary jobs. In 2017, the threshold for primary jobs was two-thirds the mean wage of full-time prime-age workers. Each segment is further divided into two parts. Upper primary jobs (such as highly skilled autonomous executives and professionals) are defined as those with wages above 150 percent of the primary job threshold (\$26.25 in 2017). Lower primary jobs include semi-autonomous white-collar workers and supervisors. Upper secondary jobs

⁹ David R. Howell and Arne L. Kalleberg, “Declining Job Quality in the United States: Explanations and Evidence.” RSF: Russell Sage Foundation Journal of the Social Sciences, 5 (2019): 1–53. Reprinted with permission

¹⁰ See, for example, Maury Gittleman and David R. Howell, “Changes in the Structure and Quality of Jobs in the United States: Effects by Race and Gender, 1973–1990,” Industrial and Labor Relations Review, 48 (1995): 420–440.

include machine operators, clerks, and cashiers, and are defined as those whose wages are above the poverty wage cutoff (\$13.33 in 2017). Lower secondary jobs include labor-intensive jobs, such as nursing aides and caregivers, whose wages are below the poverty wage cutoff.¹¹

The two middle segments (lower primary and upper secondary) are reasonable approximations of the middle class. The four wage clusters differ not only in their levels of wages, but also in a variety of non-wage aspects of jobs, such as health, pension, and leave benefits, and important working conditions, such as regular and steady work. For example, Howell and Kalleberg's¹² analysis of the 2015 Rand Survey of American Working Conditions shows that non-wage benefits and working conditions vary systematically with wages, which appears to be a good indicator of overall job quality.

Fig. 1-2 displays the trends in the *size* of the four wage segments from 1979 to 2017. The employment share of high-paid upper primary jobs was stable at approximately 33%. The number of lowest-paying jobs expanded somewhat, particularly between the late 1970s and 2014. The size of the middle class (as defined by the combination of the two middle wage contours) has been relatively stagnant over the past half-century at approximately 40%. Nevertheless, this stability masks changes within the middle class as the sizes of the two middle-class segments (lower primary and upper secondary) have converged to some degree. Fig. 1-2 indicates that the employment share of those in the lower primary sector has declined. These jobs were the traditional middle-class jobs that had good pay and benefits, job stability, and steady promotions, such as semi-autonomous workers who had some control over their work activities, and others who were not necessarily highly skilled but were protected by unions. These jobs were most threatened by corporate restructuring and downsizing and by the decline in unions. On the other hand, upper secondary jobs increased their employment share.

¹¹ Howell and Kalleberg, "Declining Job Quality"; David R. Howell, "From Decent to Lousy Jobs: New Evidence on the Decline in American Job Quality, 1979-2017," Washington Center for Equitable Growth, 2019.

¹² Howell and Kalleberg, "Declining Job Quality," Table 3.

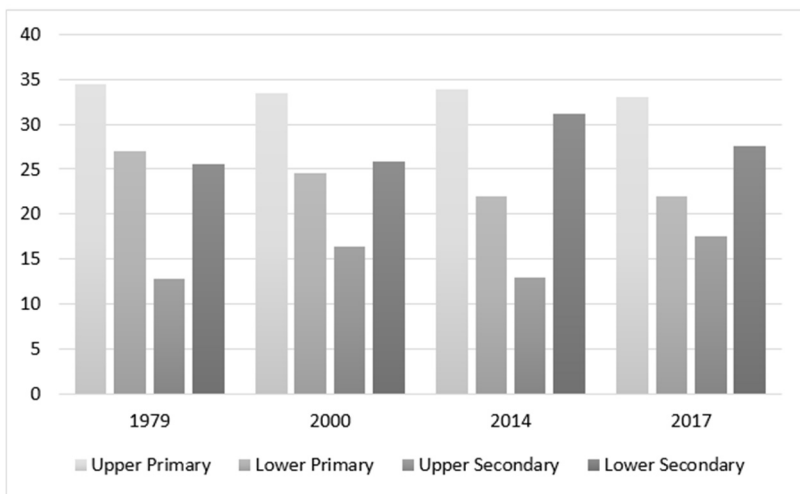


Fig. 1-2. Employment shares of four labor market segments, 1979–2017.

Source: Derived from Howell and Kalleberg¹³

This convergence between the two segments of the middle class is consistent with both theories of working class “embourgeoisement,” whereby the working class becomes more like the middle class, as well as middle class “proletarianization,” in which the middle class takes on interests that are more compatible with those of the working class.¹⁴ While adjudicating between these two explanations is beyond the scope of this chapter, it is noteworthy that this convergence likely reflects, in large part, the restructuring of work organization resulting from changes in technology, such as the various forms of digitalization (automation and platforms). Technological changes may make it more difficult for workers to exercise control and autonomy over their work, thus fostering a growing homogenization of work between the two middle-class segments.

Job Polarization

Stable, secure, and standard employment relations were the backbone of the American middle class and the implicit social contract between employers and employees developed in the three decades after World War

¹³ Howell and Kalleberg, “Declining Job Quality,” Table 2.

¹⁴ Arne L. Kalleberg and Ivar Berg, *Work and Industry: Structures, Markets and Processes* (New York: Plenum Press, 1987).

II. This work arrangement was associated with the Fordism of the West and was a basis for the development of welfare systems in the post-war period. Employers provided protection and benefits as part of the standard employment contract while governments provided them as part of the social welfare system.¹⁵ Macrostructural forces—such as technological change (especially the spread of applications based on microprocessors), globalization, union decline, and political decisions to deregulate markets—led to transformations in standard employment relations, creating non-standard work arrangements that were less stable and more insecure. Standard employment relations have also become more insecure due to the widespread use of downsizing and layoffs as deliberate corporate strategies. These macro-forces have also led to reductions in welfare policies and employer-provided benefits for both standard and non-standard work arrangements.¹⁶

The decline in standard employment relations has led to employment polarization, which is now commonly accepted as one of the defining features of the post-1970s labor market, not only in the United States and South Korea but across the rich world.¹⁷ There has been an expansion in *both* good and bad jobs, reflected in an increase in high-skilled and low-skilled jobs.¹⁸ In addition, there has been a decline in many middle-class occupations that provide relatively steady and moderate earnings while requiring relatively low skills (e.g., administrative support white-collar jobs and semi-skilled machinists and other blue-collar jobs). The decrease in

¹⁵ The standard work relationship was mainly limited to male employees since it depended in large part on a “male breadwinner-female housekeeper” model in an era of relatively stable families and high fertility rates; see Leah Vosko, *Managing the Margins: Gender, Citizenship, and the International Regulation of Precarious Employment* (Oxford, UK: Oxford University Press, 2010).

¹⁶ Arne L. Kalleberg, *Precarious Lives: Job Insecurity and Well-Being in Rich Democracies* (Cambridge, UK: Polity Press, 2018); Arne L. Kalleberg, Kevin Hewison, and Kwang-Yeong Shin, *Precarious Asia: Global Capitalism and Work in Japan, South Korea, and Indonesia* (Stanford, CA: Stanford University Press, 2022).

¹⁷ David H. Autor, Lawrence F. Katz, and Melissa S. Kearney, “Trends in U.S. Wage Inequality: Revising the Revisionists,” *The Review of Economics and Statistics*, 90 (2008): 300–323; David H. Autor, *The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings* (Washington D. C.: The Center for American Progress and The Hamilton Project, 2010); Daron Acemoglu and David Autor, “Skills, Tasks and Technologies: Implications for Employment and Earnings”. In *Handbook of Labor Economics*, Vol. 4B, ed. Orley Ashenfelter and David Card (San Diego: Elsevier, 2011), 1043–1171; OECD, “How Technology and Globalization are Transforming the Labour Market”. In *Employment Outlook*, 2017 (Paris: OECD, 2017).

¹⁸ See Rebecca Keller, “How Shifting Occupational Composition Has Affected the Real Average Wage,” *Monthly Labor Review*, June (2009): 26–38.

these mid-level occupations reduced the size of the middle class and degraded its economic position and status.

Occupations in both the manufacturing and service sectors have strong tendencies toward polarization.¹⁹ This has occurred in manufacturing industries because of productivity growth, technological innovation, and offshoring, leading to a decline in semi-skilled blue-collar occupations that used to be highly unionized. The growth of the service sector over the past three decades has led to the expansion of both high-skilled and high-quality jobs as well as poorly rewarded sales and service occupations. Financial and business services are often paid extremely well, whereas jobs in the retail and some personal service industries are not.

Writers have described this divergent pattern of occupational change as characterized by a “barbell” or “hourglass” pattern. Massey and Hirst²⁰ found empirical support for an hourglass pattern of growth in both high- and low-paying occupations in the period 1969–1989 for men (but not for women). Autor et al.²¹ showed that the share of total hours worked by members of both high- and low-wage occupations increased during the 1990s, while the employment share of middle-wage occupations declined.²² Wright and Dwyer²³ examined the growth and decline of jobs of varying quality during economic expansions and recessions in the U.S. since 1983. They found no evidence of polarization in the 1980s (1983–1990) and clear

¹⁹ Howell and Kalleberg, “Declining Job Quality”; Arne L. Kalleberg, *Good Jobs, Bad Jobs: The Rise of Polarized and Precarious Employment Systems in the United States, 1970s to 2000s* (New York: Russell Sage Foundation, 2011).

²⁰ Douglas S. Massey and Deborah S. Hirst, “From Escalator to Hourglass: Changes in the U.S. Occupational Wage Structure, 1949–1989,” *Social Science Research*, 27 (1998): 51–71.

²¹ David H. Autor, Lawrence F. Katz, and Melissa S. Kearney, “The Polarization of the U.S. Labor Market,” *American Economic Review*, 96 (2006): 189–194.

²² For a similar analysis about the United Kingdom, see Maarten Goos and Alan Manning, “Lovely and Lousy Jobs: The Rising Polarization of Work in Britain,” *Review of Economics and Statistics*, 89 (2007): 118–133.

²³ Erik Olin Wright and Rachel E. Dwyer, “The Patterns of Job Expansions in the United States: A Comparison of the 1960s and 1990s,” *Socio-Economic Review*, 1 (2003): 289–325; Rachel E. Dwyer and Erik Olin Wright, “Low-Wage Job Growth, Polarization, and the Limits and Opportunities of the Service Economy,” *RSF: Russell Sage Journal of the Social Sciences*, 5 (2019): 56–76. Wright and Dwyer, “The Patterns of Job Expansions,” defined “jobs” in terms of occupation-industry cells. They ranked these jobs by their median hourly wage and divided them into equal population terciles at the beginning of each period. These terciles correspond roughly to conceptions of job quality, with the bottom tercile comprised of low-wage jobs.

hollowing out in the 1990s (1992–2000), which accelerated over the next two periods (2002–2007 and 2009–2017).

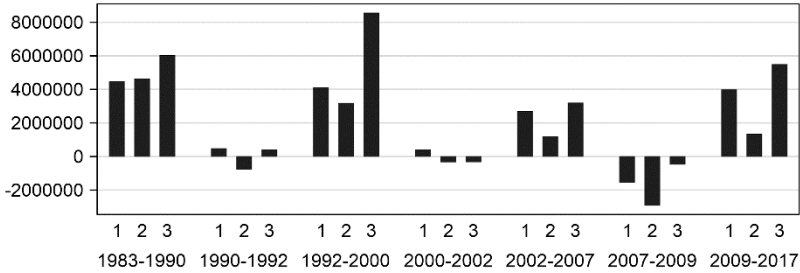


Fig. 1-3. Job growth during economic expansions and recessions in the U.S., 1983–2017 (job-wage terciles).

Source: Dwyer and Wright ²⁴

Fig. 1-3 shows patterns of job growth during economic expansions and recessions in the U.S. Dwyer and Wright²⁵ also defined jobs as occupation–economic sector combinations ranked by their median hourly wages at the beginning of each period. The middle tercile corresponds to decent quality jobs, whereas the bottom tercile comprises low-wage jobs. This figure shows that, in every period of economic expansion, growth in the top and bottom terciles was greater than that in the middle tercile. In recessionary periods, there is also a polarized pattern in which the largest job losses occur in the middle-tercile jobs (especially during the Great Recession of 2007–2009). Dwyer and Wright²⁶ showed that the relative employment share of the middle tercile declined from 1983 to 2017.

Job polarization is not restricted to the United States. An analysis of trends in the relatively rich OECD countries²⁷ shows striking differences between the sharply declining employment growth of the three middle-skill groups (clerks; craft and related trade workers; and plant and machine operators and assemblers), moderate growth of the two low-skill occupations (service workers and shop and market sales workers; elementary occupations), and rapid growth of the three high-skill occupations (legislators, senior officials, and managers; professionals; technicians and associate professionals).

²⁴ Dwyer and Wright, “Low-Wage Job Growth.” Reprinted with permission. <https://www.rsjournal.org/content/5/4/56>

²⁵ Dwyer and Wright, “Low-Wage Job Growth.”

²⁶ Ibid.

²⁷ OECD, “How Technology and Globalization are Transforming the Labor Market.” (accessed June 18, 2024).

These cross-national trends illustrate the decline in the middle-class that characterizes many countries.²⁸

Even though roughly two-thirds of the increase in wage inequality in the United States that began in the early 1990s was due to between-occupational differences,²⁹ there is considerable heterogeneity in job quality *within* occupational groups, which depends on the organizations in which the jobs are performed. For example, the work activities (and rewards) of physicians may differ considerably depending on whether they work in a research lab, a private clinic in a metropolitan area, or a private practice in a rural area. Moreover, some sales occupations (such as those in financial services) have received very high earnings, especially in recent years, whereas other sales occupations (such as cashiers) have received relatively low earnings. Wage polarization results from high-paying occupations being increasingly located in high-paying organizations and low-paying occupations being consolidated in low-paying organizations.³⁰

Job Polarization and Wage Inequality

There are two influential explanations for job polarization. The first emphasizes the role of technology in increasing the demand for high-skilled jobs and lowering the demand for routine, middle-class jobs. The second focuses on the relative power of employers and workers. These two accounts have different implications for the policies aimed at rebuilding the middle class.

Technology

The competitive economic market model argues that wage polarization and inequality result from skill-biased technological change (SBTC) or the growth of employer demand for cognitive skills due to technological changes in the workplace that are not accompanied by sufficient workers

²⁸ OECD, *Under Pressure: The Squeezed Middle Class* (Paris: OECD Publishing, 2019). (accessed June 18, 2024).

²⁹ Ted Mouw and Arne L. Kalleberg, “Occupations and the Structure of Wage Inequality in the United States, 1980s-2000s,” *American Sociological Review*, 75 No. 3 (2010): 402–431.

³⁰ Nathan Wilmers and Clem Aeppli, “Consolidated Advantage: New Organizational Dynamics of Wage Inequality,” *American Sociological Review*, 8 No. 6 (2021): 1–31.

with relevant skills and education.³¹ An updated version of this view emphasizes the roles of technology and digitalization in producing routine-biased technological change (RBTC) as the demands for non-routine tasks at the top (cognitive-skill jobs) and bottom (personal services and caring jobs that are either too complex or otherwise not amenable to computerization) have increased while needs for many routine middle-wage jobs have fallen. Mainstream economists attribute the decline in employment growth in the middle of the skill-wage distribution to RBTC, whereby automation and digitization have routinized many semi-skilled middle-class jobs. The types of jobs in the two middle-class labor market segments (lower white-collar, upper blue-collar, and service occupations) are those that are more likely to be automated (which should decrease their employment shares).

On the other hand, high-paid (primary) jobs are characterized by greater skills and market power. This type of work tends to be difficult to automate because it is harder to reduce tasks to sets of rules.³² For these occupations, workers' valued skills give them considerable individual and collective labor market power. At the other extreme, low-paid (secondary) jobs are characterized by little collective or individual power. Nevertheless, this type of work can also be difficult to automate and routinize (such as bathing patients or moving a piano up the stairs in a house). Some of these low-skill jobs may also not be worth automating from an economic perspective if employers are able to find workers to do them at low wages.

While there is evidence in the U.S. that workplace technologies led to polarized employment growth in the 1990s (fast growth at the top and bottom, and slowest growth in the middle), critics have questioned whether this is due to skill- or routine-based technological change. For example,

³¹ Claudia Goldin and Lawrence F. Katz, "Long-Run Changes in the Wage Structure: Narrowing, Widening, Polarizing," *Brookings Papers on Economic Activity*, No. 2, 2007, 135–165; Stephen Machin and John van Reenan, "Changes in Wage Inequality," *London School for Economics and Political Science: Centre for Economic Performance Special Paper No. 18*, 2007; Maarten Goos, Alan Manning, and Anna Salomons, "Explaining Job Polarization in Europe: The Roles of Technology, Globalization and Institutions," *London School of Economics and Political Science: Centre for Economic Performance Discussion Paper 1026*, 2010; Daron Acemoglu and David Autor, "What Does Human Capital Do? A Review of Goldin and Katz's 'The Race Between Education and Technology'," *Journal of Economic Literature*, 50 (2012): 426–463; Acemoglu and Autor, "Skills, Tasks and Technologies."

³² See Frank Levy and Richard Murnane, "Dancing with Robots: Human Skills for Computerized Work," *Third Way*, July 17, 2013.

Mishel et al.³³ argued that “the declining middle” has been occurring since the 1950s and is not just a post-1970s phenomenon whereby computers are being used to eliminate routine-task jobs. These long-term perspectives are consistent with the deindustrialization view proposed by Bluestone and Harrison³⁴ and Harrison and Bluestone³⁵ as early as the 1980s. This view maintains that polarization is mainly due to the shift away from manufacturing and toward high- and low-skilled services.

It is also difficult to establish a strong causal link between computerization and employment polarization. A study of wealthy countries found that the decline in manufacturing explained about one-third of the observed polarization, while the rest was associated with an increase in the use of information and communication technologies (ICT). However, the evidence also indicates a strong but largely unexplained pattern of job polarization as there were no statistically significant effects, either of ICT on employment polarization outside of manufacturing or for measures of globalization in either manufacturing or non-manufacturing sectors.³⁶

Technological changes are undoubtedly important factors in job polarization and wage inequality. Nevertheless, technology is not the only explanation for middle class stagnation; other factors, such as the relative power between employers and workers, play an important role. Moreover, historical research has shown that technological changes do not always drive work organizations in a deterministic fashion. Rather, the ways in which technology has been used to restructure work largely reflects how it is used by powerful employers. Thus, while technological factors (e.g., digitization and automation) have affected all industrialized countries, their incidence and consequences for wage inequality and the middle class depend on countries’ labor market institutions and social welfare protections.

³³ Lawrence Mishel, John Schmitt, and Heidi Shierholz, “Don’t Blame the Robots: Assessing the Job Polarization Explanation of Growing Wage Inequality,” Economic Policy Institute Working Paper, November 2013. See also Zsófia L. Bárány and Christian Siegel, “Job Polarization and Structural Change,” *American Economic Journal: Macroeconomics*, 10 (2018): 57–89.

³⁴ Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (New York: Basic Books, 1982).

³⁵ Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Polarizing of America* (New York: Basic Books, 1988).

³⁶ OECD, “How Technology and Globalization are Transforming the Labor Market,” *Employment Outlook*, 2017, Chapter 3. (Paris: OECD, 2017).

Political Economy

Political-economy explanations emphasize how institutions, policies, and market structures reflect the relative balance of power between employers and employees. They maintain that social and economic institutions, such as the decline in union membership and reductions in institutional bargaining power, have been the main reasons for the deterioration in the middle class's economic position and status in the United States since the 1980s, as compared to the more balanced situation during the 30 years after World War II. Hence, the growth of inequality and stagnation of the middle class are caused by the relative increase in employers' market power, combined with declines in protective institutions and policies that supported the interests of workers and that permitted those in semi-skilled jobs to obtain sufficient wages to access a middle-class income and lifestyle. While these low-skilled jobs have declined (due to the kinds of technological changes described above), jobs that pay low wages have not. This reflects a structural demand for low-wage occupations, such as those in retail sales, food service, personal service, and healthcare support.³⁷

Labor market imbalances such as mismatches between the demand and supply of skills cannot account for large and persistent differences in the levels of inequality across countries and within-country changes in inequality over many decades (e.g., in the U.S. since 1980). Long-term trends in inequality and stagnation of the middle class are due to changes in wage-setting institutions, policies, and market structures.³⁸ These include the rise of imperfect competition in product and labor markets produced by the monopoly and monopsony power of firms over workers and suppliers³⁹; business-friendly tax laws and policies that enhance the attractiveness of

³⁷ Matt Vidal, "Inequality and the Growth of Bad Jobs," *Contexts*, Fall 2013: 70–72.

³⁸ Bruce E. Kaufman, "The Postwar View of Labor Markets and Wage Determination," In *How Labor Markets Work: Reflections on Theory and Practice*, ed. John Dunlop, Clark Kerr, Richard Lester, and Lloyd Reynolds (Lexington, MA: Lexington Books, 1988): 145–203; Bruce E. Kaufman, "The Theoretical Foundation of Industrial Relations and its Implications," *Industrial and Labor Relations Review*, 64 (2010): 74–108.

³⁹ Alan Manning, "Imperfect Competition in the Labor Market". In *Handbook of Labor Economics*, Vol. 4B, ed. Orley Ashenfelter and David Card (Amsterdam: North-Holland, 2011), 973–1041; Efraim Benmelech, Nittai Bergman, and Hyunseob Kim, "Strong Employers and Weak Employees: How Does Employer Concentration Affect Wages?" *Journal of Human Resources*, 57 (2022): S200–S250.

financialization; and the decline of institutions, such as protective labor regulations, that provide workers with countervailing power.⁴⁰

Policies to Rebuild the Middle Class

New labor and social policies are needed to shift the American economy from the unequally shared growth of the post-1980 period to a new shared growth path that provides ways to rebuild the middle class by improving its economic position and status. Large and increasing inequalities in wages, earnings, and employment pose fundamental questions for social scientists and critical challenges for policymakers.

The two accounts presented above to explain wage and job polarization, and the middle class's lack of progress and decline in recent years, imply different policy prescriptions. In a competitive market model, rising economic inequalities result from the growth in employer demand for cognitive skills due to technological changes in the workplace that are not accompanied by sufficient numbers of workers with relevant skills and education. The central policy recommendation emerging from this explanation is to improve workers' skills.⁴¹ This would help to decrease skill mismatches through education and training programs designed to build a more appropriately skilled workforce. This policy solution is also consistent with a political economy approach as good-quality jobs in the future will require workers with high levels of various skills.

Raising educational and skill levels is crucial as the transformation of work accompanying the decline of the institutional protections underlying standard jobs places greater importance on individual sources of labor market power, especially education. Workers with skills that are in high demand do better regardless of whether the job is standard or non-standard (e.g., some highly skilled independent contractors and gig workers are well

⁴⁰ Michael Wallerstein, "Wage-Setting Institutions and Pay Inequality in Advanced Industrial Societies," *American Journal of Political Science*, 43 (1999): 649–680; Josh Bivens, Lawrence Mishel, and John Schmitt, "It's Not Just Monopoly and Monopsony: How Market Power Has Affected American Wages," Economic Policy Institute, 2018; Alan B. Krueger, "Reflections on Dwindling Worker Bargaining Power and Monetary Policy," Economic Policy Symposium, Jackson Hole, Wyoming, August 24, 2018; Anna Stansbury and Larry Summers, "Productivity and Pay: Is the Link Broken?," NBER Working Paper #24165, 2020; Lawrence Mishel and Josh Bivens, *Identifying the Policy Levers Generating Wage Suppression and Wage Inequality*. (Washington, D.C.: Economic Policy Institute, 2021).

⁴¹ Autor, *The Polarization of Job Opportunities*, 35.

paid).⁴² Education has become a key divider in the labor market.⁴³ All jobs have become more precarious, but some workers have been less vulnerable than others, and the labor force has become increasingly polarized into those with more education and marketable skills and those without valuable human and social capital attributes. For workers without advanced degrees, inflation-adjusted wages have been stagnant, and these workers are more likely to be in low- and poverty-wage jobs.⁴⁴

However, raising workers' skills is not sufficient to remedy wage inequality and enable individuals to enter the middle class. Many of the reasons for middle class stagnation and decline are rooted not in the shortage of jobs, or in the quality of workers themselves, but in the *quality of jobs* employers offer. As Case and Deaton⁴⁵ put it, the answer is not that "people should simply get more education"; the problem is, rather, that "American capitalism began to look more like a racket for redistribution upward than an engine of general prosperity."

Policies are required to promote the growth of good, middle-class jobs. The United States is characterized by a decaying infrastructure of roads, bridges, schools, airports, and mass transit, which need to be rebuilt or improved. Public investments to address these infrastructural challenges would help maintain full employment and create well-paying jobs that engage the skills that workers can obtain through enhanced education and training. Necessary policy changes must also recognize the growing diversity of the labor force, especially in terms of age, gender, race/ethnicity, and immigration status, which has resulted in different groups with distinct needs.

Rebuilding the middle class will require major institutional and policy changes designed to enhance the power of workers and alter bargaining power over rents (above-market returns) in the labor market between employers and workers.⁴⁶ Labor laws must be made friendlier to both

⁴² Arne L. Kalleberg, Barbara F. Reskin, and Ken Hudson. "Bad Jobs in America: Standard and Nonstandard Employment Relations and Job Quality in the United States." *American Sociological Review* 65 (2000): 256-278.

⁴³ See, for example, Claude S. Fischer and Michael Hout, *Century of Difference: How America Changed in the Last One Hundred Years* (New York: Russell Sage Foundation, 2006); Peter Temin, *The Vanishing Middle Class: Prejudice and Power in a Dual Economy* (Cambridge, MA: MIT Press, 2017).

⁴⁴ Howell, "From Decent to Lousy Jobs."

⁴⁵ Anne Case and Angus Deaton, *Deaths of Despair and the Future of Capitalism* (Princeton, New Jersey: Princeton University Press, 2020): 9, 12.

⁴⁶ See, for example, Krueger, "Reflections"; Josh Bivens, Elise Gould, Lawrence Mishel, and Heidi Shierholz, "Raising America's Pay: Why It's Our Central Economic Policy Challenge," *Economic Policy Institute Briefing Paper #378*, June

collective bargaining (for example, ending forced arbitration in employment contracts) and individual bargaining (for example, restricting employers' use of non-compete clauses that keep workers from moving to other employers). Labor laws also need to be updated to recognize the large shifts in standard employment relations (on which many existing labor laws are based) and the growing diversity in work arrangements, such as the rise of independent contracting, the gig platform economy, and a variety of complex combinations of employers and labor market intermediaries.

It is also essential to strengthen the social safety net and decouple economic security from market work. In the United States, the key elements of the safety net (such as health insurance) are delivered to workers mainly through employers (until they are eligible for Medicare). Providing a more robust safety net outside the labor market is necessary to protect people from the negative consequences of uncertainty and insecurity (related to changes in work, for example), which will certainly continue to characterize the American (and global) economy in the foreseeable future. The highest priority should be to provide three types of social insurance: portable health insurance benefits; more generous retirement benefits; and expanded unemployment benefits, along with other wage supports (including assistance with acquiring new skills and relocation) to help people navigate the increasingly treacherous transitions between jobs and employers.

Conclusions

Decades of unshared economic growth in the United States have increased economic inequality and led to the stagnation and decline of the middle class. The most dramatic aspect of inequality was the separation of the top 1% or 10% of the population from the rest. Political-economic and technological forces have led to job polarization along with a rise in wage inequality.

Technological changes play a significant role in shaping the types of work that people perform and their associated rewards. The uses and consequences of technological change and digitalization for work organizations, workers, and inequality depend on the relative power of employers and workers to control the development and implementation of technology. Advances in AI offer vast opportunities to enhance employers'

4, 2014; David R. Howell and Arne L. Kalleberg, "Labor Market Inequality: A Comparative Political Economy Perspective," *Oxford Open Economics*, 2024, 3, i940-i950. <https://doi.org/10.1093/ooec/odad058>; Paul Osterman, "Improving the Quality of Low-Wage Work: The Current American Experience," *International Labour Review*, 147 Nos. 2-3 (2008): 115-134.