Strengthening middle class in skills-based economy

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Is the middle class declining? Yes, definitely. Just like political ideology, the distribution of income has become more polarized, with a much smaller and more fragile center.

The U.S. economy of the first two-thirds of the 20th century successfully generated broad-based growth in incomes with declining overall inequality. It was a truly remarkable economic achievement. But since then, income growth has been weak and anything but broad-based. Median family income is up less than 10 percent since the 1970s and the middle class share of total income has fallen significantly. At the high end, the share of income going to the richest 1 percent has doubled.

Educational earnings differences have also expanded dramatically. In the 1970s, the average male college graduate earned about 40 percent more than a high school graduate. Today that figure is more than 80 percent. Labor markets have been particularly unkind to less educated men, who once earned middle-class incomes in blue-collar manufacturing.

The underlying causes of these labor market changes are complex and varied. Technological change, especially the computer revolution, has raised productivity and expanded the market reach and earnings of more skilled workers, while reducing job opportunities and wages for less-skilled workers.

Globalization has made the low-wage economies of developing countries our competitors. Labor market institutions have weakened.

We cannot easily roll back either technological change or globalization, nor should we. They are by and large beneficial, even though they create some clear losers.

What can we do? Modest increases in the minimum wage might help at the bottom of the income distribution, but we need to be cautious: legislating higher wages can be perilous to employment opportunities. At the end of the day, a stronger middle class requires more workers with more skills, not just income redistribution.

In the skills-based economy of the 21st century, increased investments in human capital – everything from universal preschool to assistance for students in higher education – are more critical than ever. We should also use public policy to buffer some of the shifts in the income distribution, both by shoring up the federal Earned Income Tax Credit (Delaware's is particularly poorly designed) and by making the income tax system somewhat more progressive.

None of this is easy. It will require political will to use government constructively and efficiently, something that is in short supply these days. But the American dream is very much about making it into the middle class. Keeping that dream alive is critical.

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