Polarization and the decline of the middle class: Canada and the U.S.

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Abstract Several recent studies have suggested that the distribution of income (earnings, jobs) is becoming more polarized. Much of the evidence presented in support of this view consists of demonstrating that the population share in an arbitrarily chosen middle income class has fallen. However, such evidence can be criticized as being range-specific—depending on the particular cutoffs selected. In this paper we propose a range-free approach to measuring the middle class and polarization, based on partial orderings. The approach yields two polarization curves which, like the Lorenz curve in inequality analysis, signal unambiguous increases in polarization. It also leads to an intuitive new index of polarization that is shown to be closely related to the Gini coefficient. We apply the new methodology to income...
and earnings data from the U.S. and Canada, and find that polarization is on the rise in the U.S. but is stable or declining in Canada. A cross-country comparison reveals the U.S. to be unambiguously more polarized than Canada.

**Keywords** Income distribution · Polarization · Spread · Bipolarity · Inequality · Lorenz curve · Gini coefficient · Middle class · Canada · United States

1 Introduction

The presence of a sizable, well-off middle class is typically presumed to be an important factor in the growth and development of today’s successful industrial economies. The middle class provides much of the labor force for the economy and is a key market for the national product. A large portion of a country’s tax revenue is collected directly or indirectly from the middle class. It also has a special role in the relative political stability these nations have enjoyed. According to Lester Thurow [32], “A healthy middle class is necessary to have a healthy political democracy. A society made up of rich and poor has no mediating group either politically or economically.”

In the mid 1980s several researchers noticed a disturbing trend in the United States: the size and perhaps the relative affluence of the middle class appeared to be declining. Thurow was one of the first to point out the increased polarization of the income distribution. Defining the middle class as those with incomes between 75% and 125% of the median income, he concluded that the percentage of middle class households fell from 28.2% in 1967 to 23.7% in 1983. Blackburn and Bloom [5] broadened the middle income range to 60–225% of the median and found a decrease from 62.4% to 55.9% over the same period. Other studies employing a variety of different definitions and data bases broadly confirm these findings (e.g., Bluestone and Harrison [6, 7], Bradbury [8], Horrigan and Haugen [13]). A number of papers offer evidence to the contrary (e.g. Kosters and Ross [14], Levy [19, 20], Rosenthal [29], Levitan and Carlson [18]). In particular, Levy [19, 20] has noted that the share of income going to the middle 3/5 families in the U.S. has stayed remarkably constant since 1945, at 52–54% of the total. While the various studies on the U.S. experience do not entirely agree on the extent or even the existence of increased polarization, the general topic is proving to be an important one for research.1

The condition of the Canadian middle class has only recently been investigated by researchers, primarily at the Analytical Studies Branch of Statistics Canada. One study by Myles, Picot and Wannell [25] examined changes in the distribution of jobs between the years 1981 and 1986 using two unique surveys conducted by Statistics Canada. They found a slight decline in the middle class over this particular 5 year period. Leckie [17] observed a similar modest decline in the middle class between 1971 and 1981, where the middle income range is defined as 85% to 115% of the median wage. In a recent paper, Wolfson [36] offered some preliminary findings on income polarization in Canada. He noted that the share of labor incomes in the range

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1 See also Beach [4], Harrison and Bluestone [12], Levy and Murnane [21], Maxwell [23], and Winnick [33].