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Up Against the Wall: The French and American Middle Classes

ARTICLE

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France Stratégie has just published "Middle Class: Half of Americans, Two-Thirds of the French" (*Classe Moyenne : un Américain sur deux, deux Français sur trois*), a comparative study of the two countries' middle income groups.

Middle class. It's hard to imagine this term hardly raised an eyebrow a mere generation ago. And with reason. At the time, it was a given the US was largely a country of the middle class, where a comfortable life was within easy reach of the vast majority of the population.

Fast forward to 2016 and the situation couldn't be more different. Wealth inequality has become a rallying cry for millions of Americans who feel they've be given the short end of the economic stick one too many times.

From the vantage point of other developed countries, that the US is a country of extremes is nothing new. A Canadian driving across cities like New York or Washington, D.C. 30 years ago would inevitably be struck by the crushing poverty almost on the doorstep of august wealth.

But this was clearly more tenable as long the millions of Americans in between didn't start feeling the squeeze of declining income.

A RELENTLESS DECLINE

That that is happening is by now beyond a doubt. According to a recent study by the US non-profit Pew Research Center, over the past four decades the American middle class has declined by no less than 18%.

Whereas in 1971 61% of adults earned between two-thirds to double the national median household income (the chosen definition of middle class, equivalent to roughly USD 42 000 to USD 126 000), in 2015 this middle income group had dropped to 50% of adults.

Perhaps more worrying, the lower income tier, which includes the working class and the poor, increased from 25% in 1971 to 29% in 2015, with the top tier rising from 14% to 21% over the same period. The study highlights this means **the middle class is now matched in sheer numbers by the upper and lower classes for the first time in 44 years**.

THE VIEW FROM ACROSS THE POND

Drawing on Pew's research and using the same definition of middle class, France Stratégie analyst David Marguerit looked at the extent to which similar trends were present in France over the period 1996 to 2012 in the study "Middle Class: Half of Americans, Two-Thirds of the French". The result highlights just how riven by income inequality American society has become.

What is striking from this side of the Atlantic is that the quintessential middle class country, the land of the American dream, now lags undisputedly behind most other developed nations in terms of the relative size of its middle class.

Though they found a similar, albeit less pronounced trend in France, the figures were strikingly different: **in the US the middle income group declined from 54.2% to 50.6% from 1996 to 2012, while in France it declined from 68.9% of adults to 67.4% over the same period** (see graph below).

It also found that contrary to the US, where the trend stretches back over four decades, the **French middle class only began to flag with the onset of the 2008 downturn**.

Moreover, in the US the upper income tier did better than the lower income tier over the period, rising 2.2 percentage points compared to 1.4 points for the latter. In France, it was the opposite, with the upper tier gaining 0.5 percentage points and the lower 0.9 points.

THE RICH GETTING RICHER

These results serve to hammer home the very different income inequalities that exist in the two countries. The gap between rich and poor has reached arguably flagrant levels in the US and is reflected in its Gini coefficient, a measure of a country's income distribution, where 0 represents perfect equality and 1 represents perfect inequality.

According to the OECD, as measured by gross income before taxes, the US had a Gini of 0.487 in 2012. France, for its part, stood at 0.343.

Among OECD countries, only Mexico and Chile have higher Gini coefficients than the US, whereas France scores similar to other European countries. (It should be noted that two other English-speaking countries, the UK and Australia, plus Israel – a country that has clearly adopted the Anglo-American economic model – trail the US in terms of inequality as measured by the Gini index.)

This is not to say that inequality is not rising in France. On the contrary, the wealthy have also seen their slice of the proverbial pie increase significantly in recent years: **the share of income of the top tier of French earners increased from 24.6% in 1996 to 28.5% in 2012** (see graph below).

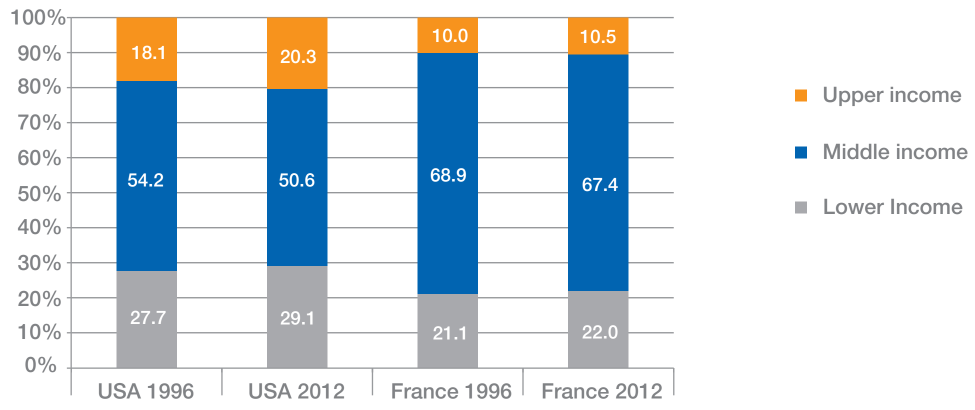
While these numbers are worrying to say the least, they pale in comparison to the US, where the wealthiest tier saw its share swell from 42.3% to a staggering 47.3% over the same period.

Despite the widening gap between the rich and poor in France, median income increased by roughly 20% for all groups, even though it has decreased slightly since 2008.

In the US, on the other hand, a stronger rise in real per capita GDP than in France was only able to boost median income by a meagre 2% over the period. The reason, as upstart US presidential candidate Bernie Sanders has been reminding audiences, is because earners at the top of the pyramid have been able to capture almost all of the gains, leading to a minimal impact on median income.

Indeed, Marguerit cites a recent study by economist Emmanuel Saez, "Striking It Richer: The Evolution of Top Incomes in the United States", that shows that between 2002 and 2007 a whopping two-thirds of income growth went to the top 1%. From 2009 to 2014, it dropped to a still hard-to-believe 58%.

Adult population in the US and France by income tier, 1996 and 2012



Source: France Stratégie based on data from the fiscal and social income study (ERFS) of the French national statistics office (Insee) and the Pew Research Center.

Unsurprisingly, France Stratégie's study confirms **those hardest hit in both countries by income inequality are young people between 18 and 29 and seniors over 65**. However, though the percentage of youngsters at the bottom of the income ladder in the US did increase from 30.1% to 34.0% over the period, seniors saw their share of low earners decrease from 43.0% to 37.0%. In France, both groups saw a slight increase in their ranks among the bottom tier – from 26.9% to 27.0% for the former and 22.9% to 24.5% for the latter.

EDUCATION A DRIVING FORCE

If any proof were needed that when it comes to income the US has seemingly switched positions with Europe and become a country of haves and have-nots, one need only look to the role education plays in inequality.

Marguerit found that **adults with a high school diploma or less in the US had a towering 58.7% chance in 2012 of finding themselves stuck in the low-income group**. On the other hand, in a country famed for its elitist education, **French adults with no post-secondary education only had a 29.4% chance of being among the lower income class**.

But what is troublesome for both countries, however, is that the poorly educated have seen their ranks rise at the bottom from 1996 to 2012: 56.1% to 58.7% in the US and 25.2% to 29.4% in France.

This educational elitism in the US is confirmed at the other end of the educational spectrum. Those with three years or more of university had a 40.3% chance in 2012 of being at the top of the ladder, while in France the highly educated had only a 30.0% chance.

Interestingly, this cohort in France experienced a 25% drop from 1996 to 2012 in their chance of being in the top tier, from 40.0% to 30.0%. At the same time, the probability of them being in the middle income group grew from 52.8% to 60.8%.

ONE PERCENT TAKE ALL?

There is perhaps no more contentious issue stateside than inequality. A glance at the numbers is enough understand why: America is cleft in two by an income gap it has not seen in generations.

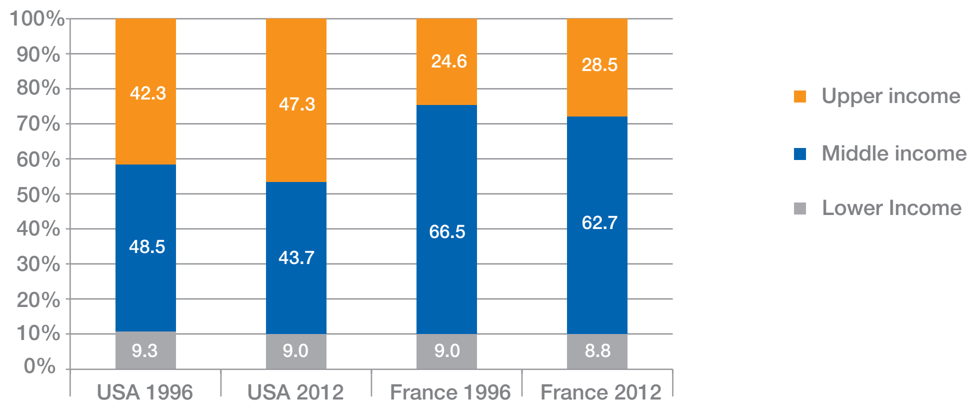
France Stratégie has shown that though the French enjoy a much more equal society, their middle class began to show signs of decline in the aftermath of the Great Recession.

Job insecurity has been on the rise, especially for young people. Certain regions have been hit particularly hard, while others have fared better, creating divides within the country. Add to this complex questions regarding national identity, and the overall picture is anything but rosy.

The question then is whether France has embarked on the long and rocky path of a waning middle class the US has come to know only too well.

What is certain is as Keynes demonstrated 80 years ago during another time of economic turmoil, a vibrant middle class is essential to a vibrant economy. Nothing less than the stability of our contemporary capitalist democracies is at stake.

Share of income in the US and France by tier, 1996 and 2012



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