The Dwindling Middle Class and the Role of the Government

The role of the government becomes increasingly important as it must resolve challenges facing the country’s middle class.

One of the key reasons for the dwindling middle class is the shortage of sufficient jobs. Labor income from jobs critically determines one’s status of being the middle class or not.

A dwindling middle class has significant social implications for any society. First of all, the fall of the middle class means the loss of jobs and work. Secondly, it can cause social dissatisfaction and uneasiness, especially among the majority forming the middle class. This can ultimately lead to some friction among the middle and upper class, as well as among politicians and bureaucrats. One of the classic examples of such friction is in the retail industry, where smaller retail stores have been accusing the big retail chains for absorbing their customers. Another example is the operation of a chain of bakery shops by large Korean companies, which caused some tension among smaller family-owned bakeries.

While this kind of friction between small and big retail stores is known as ‘horizontal’ friction, there is ‘vertical’ friction between firms intertwined in production or business channels. One such case is the age-old conflict between small shops and giant credit card companies for charging large fees. Another example is the monopolistic business practices in purchasing, subcontracting or merchandising with big players. Such strain between businesses led to the reform of Korea’s economic and business environment, most notably under the slogan of “economic democracy” during the 2012 presidential election.

The role of the government in these matters is becoming increasingly important. In the United States, for example, as soon as President Barack Obama took office in 2009, his immediate action was to establish the Middle Class Task Force (MCTF) under the American Recovery and Reinvestment Act of 2009. Two of the most important components making up the Act and MCTF were the promotion of education for improved social mobility and more disposable income through tax cuts. The UK took similar action, emphasizing education and social mobility to solve the middle class problem. More specifically, the UK implemented a 60 percent increase in the budget for education, endorsed the New Deal of Welfare-to-Work program and reinstated the minimum wage system.

As pointed out earlier, income is the most important and decisive factor determining the middle class. Therefore, job creation has always been the most urgent task for the government and policy makers. On this note, the Korean government has been focusing more on deregulation, especially when it comes to removing regulations for foreign direct investment. Although much work still remains, the government is showing signs of restructuring the private sectors, most notably by training and educating individuals in promising industries like technology development.

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