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## **The Rise of the Educated Class**

Joseph Zeira

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*Joseph Zeira*

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Centre for Economic Policy Research  
33 Great Sutton Street, London EC1V 0DX, UK  
Tel: +44 (0)20 7183 8801  
[www.cepr.org](http://www.cepr.org)

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# The Rise of the Educated Class

## Abstract

Recent decades have seen dramatic developments in Western countries, which happened in a number of areas, political, economic and social. These are the growing support for extreme political parties, mainly on the right. A shift in production specialization in the West, mainly in the US, from manufacturing to global services. The third change is the rapid spread of high education, which increased significantly the educated class since the end of WWII. This paper claims that these three processes have strong relations between them and affect one another significantly.

JEL Classification: E02, F6, H4, I24, N10, O3

Keywords: populism, trade specialization, Globalization, Public Education

Joseph Zeira - joseph.zeira@mail.huji.ac.il  
*The Hebrew University of Jerusalem and CEPR*

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# The Rise of the Educated Class

## 1. Introduction

Everyone who observes Western countries notices that they are going through dramatic changes in recent decades. These are political, economic and social large changes. It is hard to understand such changes that occur over decades. In this article, I focus on three major changes and claim that there are strong connections between them.

The first change is political and it is the growing support to extreme and populist politicians, mostly from the right. There is growing dissatisfaction from traditional politics and support for mainstream political parties is eroding significantly. Recent examples were the election of Trump in the US, of Bolsonaro in Brazil, of Johnson in the UK, of Macron in France and many more. The second change is economic. The West, which specialized in the past in manufacturing, is becoming gradually a supplier of global services. These are mainly computer, information, communication, financial and education services, which target the global economy. Production of these services centers in the US, but it has offshored many activities to many other countries, like the UK, Ireland, Israel and more. As part of this change, production of manufacturing is gradually moving from the West to other countries, of which the main one is China.

The third change is the dramatic expansion of education. In 1870, only 0.4 percent of people of age 15-64 in the US had complete tertiary education. In 1945, this share was higher but still quite low at 5.6 percent. By 2010, it was already 27.5 percent. In other Western countries, the share of people with tertiary education was 0.1 percent in 1870, but reached 17 percent on average in 2010.<sup>1</sup> Hence, this has been a dramatic increase, which happened mainly after World War II. There is a large increase in education in less developed countries as well, although it is somewhat smaller, but this paper focuses on

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<sup>1</sup> Data on education attainment are from Barro and Lee (2020).

the West, as the economic dynamics there have been very different from those in other areas of the world.

This paper claims that in order to understand these three processes, it is vital to understand their interactions, namely how each of them has affected the others. One key to this understanding is the political coalition between the blue-collar working class and educated people that prevailed during the 20<sup>th</sup> Century in the form of many left wing parties. These were Social Democrat or left leaning democrats, like the American Democratic Party, Socialist and even Communist parties. All these parties pushed to expand public involvement in the economy, and thus contributed to the creation of the modern Welfare State. However, toward the end of the 20<sup>th</sup> century, the coalition began to shake and is now facing a significant decline. I show below that in some sense, it was the coalition success in expanding the welfare state, which hastened its collapse.

One of the prominent areas of the Welfare State has been public education, which expanded significantly during the 20<sup>th</sup> century. This led to the rise in the number of people with high education in Western countries. This rise created a new class in the modern Western society, which I call the educated class. This is a class, because it is a large group in the population, but also because this group has distinct economic and social characteristics.<sup>2</sup> The rise of the educated class is a second key to understanding the dramatic developments in recent decades.

The expansion of education is one of the main contributors to the specialization of production in global services. However, it also played an important role in the decline of the political center and the rise of populist politics. Hence, a large part of this paper evolves around this expansion of education. Section 2 examines the forces that led to this expansion and the rise of the coalition of blue-collar workers and the educated. Section 3 examines the changes in the global division of production. Section 4 traces the first cracks in the coalition. Section 5 describes the collapse of the coalition in recent years. Section 6 tries to assess some future possible developments and summarizes the paper.

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<sup>2</sup> The term “class” has different definitions in various social sciences. My definition is clearly eclectic.

## 2. The Modern Welfare State and the Coalition

The main contribution to the expansion of education came from public education. This was part of a wider process, called the rise of the ‘modern welfare state.’ Since the industrial revolution and mainly throughout the 20<sup>th</sup> century, the role of government expanded from supplying only a few public goods, like defense, law and order, roads and scientific research, to supplying and subsidizing many additional goods, which are actually private. These are mainly education, health, welfare (insurance against poverty), public transportation and housing. This expansion increased dramatically the size of governments. In 1913, public spending in the leading developed countries was only 8 percent of GDP on average.<sup>3</sup> By the end of the 20<sup>th</sup> century, public expenditures reached 45 percent of GDP on average in these countries.<sup>4</sup>

The economic background to this enormous rise in public sectors is the interaction between two mechanisms. One is that supplies of these private goods suffer from severe market failures. The second is that the demand for these goods has increased significantly in the period of rapid economic growth, since the industrial revolution. To demonstrate it, examine first the rise of public education, which is the focus of this paper. People who want to purchase education for their children need to finance it ahead of time, like any other investment. They need to pay the cost of education for their offspring in the present, while the return from this education, in higher income, due to higher human capital, should arrive only far in the future. Since the credit market for households is not perfect, people who do not have sufficient wealth, cannot finance such an investment, as they face serious barriers to borrowing.<sup>5</sup> Due to this market failure, only few wealthy people could afford general education to their offspring prior to the period of public education, while the vast majority of children did not acquire any education whatsoever.<sup>6</sup>

Although this market failure has been there from time immemorial, public education developed significantly only after the industrial revolution. In previous times, most people could acquire human capital from their parents, on the farm, or by working

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<sup>3</sup> Except Japan, Germany and Britain, which had relatively high military costs at that year.

<sup>4</sup> See Maddison (2001).

<sup>5</sup> See Galor and Zeira (1993) and Banerjee and Newman (1993) for a formal exposition of this mechanism.

<sup>6</sup> See Barro and Lee (2020) for low rates of school attainment in many countries as late as 1950.

as an apprentice for a craftsman. However, after the industrial revolution, when technologies began to change frequently, young people could not learn everything from the previous generation. They needed general education, to read instructions on new machines, to read an invoice or write one, to count large quantities of items for delivery, and more. Since private markets could not supply such education to most of the population, this gave a strong impetus to the development of public education.

The other goods, which public sectors supply, also suffer from serious market failures and face increased demand due to the modern economic growth as well. The main market failure of health care is due to infection, which causes a positive externality that justifies subsidizing health care. However, public health care did not develop much until economic growth led to urbanization. The crowding of people in large cities increased the danger of infections. Similarly, welfare, which is insurance against poverty, also suffers from a market failure, of adverse selection, as people know better their chances to succeed or fail in the labor market. However, supplying public insurance became urgent due to urbanization as well, when people left rural areas to the large cities. This broke up their extended families, which until then used to supply such insurance against poverty, through mutual care within the family. Similar reasons apply to public supply of housing and to public support for public transportation.

Nevertheless, in addition to the economic factors, there were also strong political forces that pushed to increase public support to these services and in general to increase public intervention in markets. One was the rise of the modern nation state. This created greater motivation for public education, as a tool for unifying a collection of communities together into a nation, by teaching a single language, a joint history and a common culture. A second political element that helped to promote the modern welfare state was the spread of democracy, especially after the First World War. The countries that became new democracies gave voice to groups that did not participate in the political game before. As a result, governments had to listen to their grievances and demands and give in to at least some of them. The third factor that pushed to expansion of the welfare state was an important political coalition, which has formed between the blue-collar working class and people with high education.



The workers and the educated forged their political coalition through many parties on the left, mainly Social Democratic, which spread across the developed countries during the 20<sup>th</sup> century. In the United States, the coalition formed itself within the Democratic Party, mainly during the New Deal but it continued also in the first decades after the Second World War. This political coalition helped to push forward the agenda of the Welfare State. The two social groups formed the coalition not only to support public supply of many services, but also to support labor protection, through unions that got stronger during the 20<sup>th</sup> century. Note that the coalition was not symmetric. The blue-collar workers were a large group in the population, while the educated were a much smaller group. However, the educated played an important role in the leadership and in the management of the various parties and labor unions, which formed this coalition.<sup>7</sup>

The coalition reflected shared economic interests, personal ties and shared values. First, two groups had shared interests in the modern welfare state. The workers were recipients of its services, like healthcare, education for their kids, social insurance and public housing. The educated benefitted from these services as well, but more importantly, they found good jobs in the growing public sector, as teachers, doctors, nurses, social workers, and administrators. Another shared economic interest of the two groups was that most educated were employees, and hence both groups benefitted from strong labor unions.

The coalition reflected personal and emotional ties as well. Initially, most of those who graduated from public colleges and universities came from working class families, being first generation to high education. This background prompted close cultural and emotional ties between the educated and working people, which helped to forge political alliances between the two groups. They also shared common political values. Both groups felt at home under the three banners of the French Revolution: liberty, equality and fraternity, namely solidarity. Only over time, they developed different interpretations to these three basic values.

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<sup>7</sup> Clearly, there was strong support to the welfare state from some political parties in the center and even on the right, especially in European countries like Germany, France, Italy and the Scandinavian countries. However, their positions reflected in part pressures from the left.

### 3. The New Global Specialization

Following the industrial revolution, the countries of Western Europe, together with what Maddison called Western offshoots (US, Canada, Australia and New Zealand) and Japan, became the leading economies. They specialized in industrial manufacturing and grew fast, while the less developed countries lagged behind. The income gaps between these developed countries and poor regions like Africa and most of Asia, increased significantly, from a ratio of 3 in 1820 to more than 20 today.<sup>8</sup> Economists call it the “Great Divergence.”<sup>9</sup> The poor countries specialized globally as well, mainly in production of raw materials, like grains, fuels, plastic, precious stones and more.

There is not much explicit evidence for it, but it is plausible that the West defended actively its global specialization. It did so by using its strength to guarantee global markets for western industrial products. It also applied various means of protection against industrial imports, like control over technologies, strict regulation of standards and more. The large push towards globalization after the 1970s, led by the main Western countries, implies that there were significant barriers to trade previously.

This global specialization of the West in manufacturing began to erode dramatically after the 1970s. The West, and especially the United States, began to move from industry into global services. The provision of these services is global, but their production is mainly in the US and other supporting countries. These services are in several areas. The main area is information and communication, where a small number of American companies, like Microsoft, Apple, Intel, Google, Facebook and a few more, dominate the global market. Another area of specialization is financial services that operate globally. One example is payment systems, run by the two largest credit card companies, MasterCard and Visa, which operate globally. Another area with US dominance is Business Services. Entertainment has always been global, as Hollywood, US music industry, and US Television, have dominated global markets. In the age of

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<sup>8</sup> See Maddison (2005).

<sup>9</sup> See Pomeranz (2000).

internet, the domination of US intensified. In addition, the area of high education has also become a global service, as students from many countries come to study in the elite private universities in the US, in the UK and in a few other Western countries.

In order to understand the scope of this shift in specialization in the West, Table 1 presents the percent of workers in some sectors, out of the total labor force in the US, over the years. It begins with sectors that produce physical goods, which are agriculture, mining, construction and manufacturing. Table 1 then presents employment in sectors that produce global services, which are information and communication, financial services, business services, entertainment and private education.

<b>Year</b>	<b>1948</b>	<b>1980</b>	<b>1993</b>	<b>2000</b>	<b>2011</b>	<b>2018</b>
<b>Sectors that Produce Physical Goods</b>						
<b>Agriculture</b>	4.30	1.83	1.43	1.50	0.92	0.89
<b>Mining</b>	2.04	1.16	0.58	0.43	0.59	0.48
<b>Construction</b>	4.74	4.85	4.33	5.40	5.40	5.23
<b>Manufacturing</b>	31.81	22.72	16.95	14.72	9.45	9.02
<b>Total</b>	42.89	30.55	23.28	22.05	16.46	15.62
<b>Sectors that Produce Global Services</b>						
<b>Communication</b>	1.54	1.42	1.12	1.22	2.08	5.97
<b>Financial</b>	3.48	5.77	6.23	5.76	6.09	6.02
<b>Business Services</b>	0.77	3.19	5.16	7.61	5.60	6.51
<b>Entertainment</b>	0.96	0.91	1.30	1.55	1.31	1.45
<b>Education</b>	0.91	1.29	1.62	1.73	2.42	2.42
<b>Total</b>	7.65	12.58	15.42	17.87	17.49	22.36

Table 1: Employment in US Sectors in Percent of Total Employment<sup>10</sup>

<sup>10</sup> Data are from BLS (2019).

Table 1 shows a dramatic change in specialization in the US. Production of physical goods declined significantly since WWII, from close to 45 percent to 15 percent of the labor force. The only sector that did not decline in share was construction, and that is quite reasonable, as construction is hard to import. However, agriculture and mining declined significantly and manufacturing declined most, from 32 percent of the labor force to 9 percent. The decline in manufacturing was not only in relative terms, but in absolute numbers as well, at during one decade. Between 2000 and 2011, the number of workers in manufacturing declined from 18 million to 11.4 million.<sup>11</sup>

During the same period, of decline in production of physical goods, production of global services increased significantly, as the bottom part of Table 1 shows. The share of total employment of these services increased from 7.6 percent of workers to more than 22 percent. The largest increase was in business services. Note that the remainder of the labor force worked in domestic services, like commerce, transportation and public services. Their share was 50 percent in 1948 and it increased to 62 percent of the labor force in 2018. Hence, employment in domestic services increased as well, but much more modestly. Most of the increase in services in the US has been in global services.

Similar shifts in production occurred in other Western countries, like the UK, Ireland, France and Germany, but to a lesser extent. Countries that did not experience such a change and remained focused on manufacturing, like Italy, suffered significant economic stagnation. This raises the question what caused this shift in production from industry to global services. There is not yet sufficient research to provide a full answer to this question, but there are a few potential explanations. The first is technical change. The invention of the computer and the host of technologies that followed it, made the operation of some service sectors much more global and hence more profitable. Investors realized that they could export to the world without ships and even without tangible goods, by using computers and wireless transmission. This is how companies like IBM, Intel, Microsoft, Google, Facebook and others expanded their operations significantly, becoming global suppliers and often, also global monopolists.

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<sup>11</sup> The figures on employment in US sectors are from BLS (2019).

A second explanation to the change in specialization is the impact of the decade of Oil Shocks in the 1970s, which raised oil prices dramatically, reduced industrial production and exposed its vulnerability to such events.<sup>12</sup> These events led investors to view manufacturing as more risky than earlier, so they began to search for alternative business activities.

The third explanation to the change in specialization toward global services is the expansion of education after the Second World War, as described above. This expansion created a large educated labor force that fit very well these new global service sectors. People with high education can perform tasks that others cannot, so their growing number enabled creation of many new types of jobs, most of them in global services. This also induced greater investment in these sectors and contributed much to their expansion. As a result, from some point in time, most new jobs required high education, while jobs for people with elementary or secondary education hardly appeared. Actually, in some sub-periods they even disappeared, as plants closed and as many industries left the West and moved to other countries, mainly to East Asia. As mentioned above, one such period was 2000-2011, which was probably in relation to the NAFTA agreement.

The fourth explanation to the shift in production is ‘globalization,’ namely the growing openness of global trade in goods. This enabled Western countries to reduce production of many physical goods and to rely increasingly on imports of such goods from other countries, mainly developing countries, which became more industrial. The rise of globalization was a result of a long effort by the West to increase global free trade. Negotiations on GATT (General Agreement on Tariffs and Trade) began already in 1947, but then included only a small group of countries. The negotiations stalled for a long period and only the 8<sup>th</sup> round of multilateral negotiations, between 1986 and 1994, led to the final signing on GATT and to the establishment of the WTO (World Trade Organization) in 1995. The United States played a major role in the negotiation and in shaping its outcome.<sup>13</sup>

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<sup>12</sup> See Bruno and Sachs (1985), which discusses the economic effects of these shocks.

<sup>13</sup> Interestingly, in the 1980s, when the negotiations were stuck, the US reached a free trade agreement with Israel in 1985, partly to put pressure on the negotiations. It indeed helped to renew the negotiations in 1986.

The GATT and additional more local trade agreements, like NAFTA (North American Free Trade Agreement), indeed succeeded to reduce barriers to international trade. As Bown and Irwin (2016) show, the average tariffs in the US in 1947 were 22 percent, while in 1999 they declined to 5 percent. While the initial group of countries at the core of GATT in 1947 were only the United States, the United Kingdom, Canada and Australia, in the final GATT there were already 123 countries. The globalization enabled the West to increase its imports of physical goods from other countries and thus to shift resources to production of global services. Hence, globalization played an important role in facilitating the change in specialization that this Section describes.

Of the four potential explanations to the shift in specialization, technical progress has been rather endogenous, as it was the result of market activities. The oil shocks were caused by global unintended events, like the Yom Kippur War in 1973 and the Iranian Revolution in 1979. The third cause, the expansion of public education, was due to policy decisions, but these decisions reflected a wide public support, due to the growing consensus on the importance of education and on the need of governments to participate in the supply of education. However, the fourth cause, globalization, reflects a clear policy initiative by a small number of countries that lead the GATT process, and mainly of the United States.

This effort to increase global trade was therefore target oriented and those who led it were quite aware of its consequences. It is therefore a reasonable hypothesis that it did not cause the shift in specialization, but rather served this shift. The policy makers, who advanced GATT and globalization in general, were aware of the fact that it might reduce manufacturing in the West. They might not have known the exact scale of the reduction, but they were aware of it. Hence, we can say that globalization served as a tool in the effort to enable the shift in production. As the West, and mainly the United States, began to specialize in global services, it needed more labor in these sectors, and that had to come in expense of labor in manufacturing. Globalization served this change very well.<sup>14</sup> Hence, the ultimate causes of the shift in manufacturing were computer

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<sup>14</sup> Interestingly, history shows a similar phenomenon in the early 19<sup>th</sup> century. As Western Europe began to specialize in manufacturing, it began to liberalize trade in agricultural goods, like the Corn Laws.

technologies, expanding education and the oil shocks of the 1970s. Globalization was more a tool that helped to facilitate this large shift in production. Whether the push to globalization served intentionally the interests of the new global services or just happened to help them accidentally, is yet an open question.

#### 4. Cracks in the Coalition

The coalition between blue-collar workers and the educated was very successful in achieving its main goal of building and expanding the welfare state. However, over time the coalition began to experience severe internal tensions, which led gradually to cracks. Historically, some very preliminary cracks appeared already in the 1930s, when the Stalin purges in the Soviet Union caused dissent by many intellectuals in the left, who cared about free speech, while many blue-collar workers tended to be more sympathetic with the new workers' state. However, the first serious cracks appeared in the late 1960s, with the students' revolt and the emergence of the New Left.

The rise of the New Left reflected, among other things, the post WW II struggle of many colonies against their rulers and gaining independence in the early 1960s. One of the most contentious issues in this area was the Vietnam War. The students showed great sympathy to the struggle against colonialism and opposed strongly the Vietnam War. Blue-Collar workers were less sympathetic.

To understand the economic background for their position toward the war, we need to go back to the process of economic divergence between the rich and poor countries in the last two centuries, called the "Great Divergence," as described above. This process made blue-collar workers in the West partners to their countries' success and growing income. They shared this high income because there was strong demand for their labor, as they contributed to their countries' growth. Hence, they felt that they were part of the developed countries, and should cherish their belonging to these countries, whenever there were clashes between the rich and the poor countries. These national feelings were stronger for the workers than for the students, because they were lower on

the social ladder and did not share the privileges on the upper social groups. Hence, it was more important for them to stress their belonging.

The sympathy of the New Left and the students to Third World countries caused blue-collar workers to feel somewhat betrayed. They were worried that the educated neglected their solidarity with their own fellow citizens, by supporting instead people from faraway countries. Instead of pushing toward a more egalitarian society at home, the educated supported a more egalitarian world. This frightened blue-collar workers, as it might mean lower income for them, despite being in the rich countries.

The sympathy of the New Left to the struggles of Third World countries spilled over also to sympathy to struggles of ethnic minorities within Western countries, especially in the US. This also raised suspicion among blue-collar workers, who did not want to lose their preferred position on the struggle to equality. The new rise of feminism, which came with the 1960s as well, further alienated blue-collar workers. First, there were few women in the ranks of blue-collar workers. Second, the new feminist movement spoke mainly to educated women. Third, this development also led them to suspect that they were not any longer at the front of the struggle for equality. The rise of the movement for gay rights in the 1970s further intensified these worries as well.<sup>15</sup> Blue-collar workers felt that the educated were drifting away from their partnership in the coalition, towards new partners.

These early cracks in the coalition were relatively mild in the beginning, as long as blue-collar workers felt that their position in society was strong and solid. It began to change radically during the 1980s. The main threat on blue-collar workers appeared when the change in the global division of production, described in Section 3, began to materialize. The shift from producing physical goods to producing global services reduced domestic demand for blue-collar workers, while newly created jobs were mainly for the educated. This caused fear and anger within the blue-collar working class and distanced them further from the educated.

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<sup>15</sup> Later this movement developed into a wider LGBTQ movement.



The shift from manufacturing to global services cracked the coalition through weakening labor unions as well. The shrinking blue-collar working class lost much of its power and its organizations weakened.<sup>16</sup> The rise of global services did not prevent this process, as these sectors succeeded to avoid unionization in many ways. Two other historical events contributed to the decline of labor unions. One was the oil shocks of the 1970s and the second was the collapse of the Soviet Union. The ‘Stagflation’ that followed the oil shocks created unemployment, which required a decline of wages, as it was not a regular cyclical unemployment.<sup>17</sup> This weakened unions significantly. As for the Soviet Union, during most of the 20<sup>th</sup> century, it created a strong fear of communism in the West, especially in Europe. This led governments and employers in Western countries, to tolerate labor unions as a barrier against communism. However, once the Soviet Union weakened in the 1980s and completely collapsed in 1990, the fear vanished and the tolerance to unions declined with it.

As happens in many cases, the anger of blue-collar workers did not focus on the main cause for their decline, which was the shift from manufacturing to global services. Instead, they focused on the tool of change, namely on globalization. Globalization opened the door to imports of cheaper goods from developing countries, which replaced the goods they used to produce in the past. Globalization enabled entry of immigrants, who worked in low paid jobs, and dragged blue-collar wages down.

The educated tended to support globalization, namely free international trade and migration. These policies not only fit their liberal values, but also their personal interests as middle-class consumers. Imported goods from less developed countries are cheaper, and migration lowers the costs of many services, like help at home, restaurants, laundry etc. Blue-collar workers gained less from cheaper services, as they usually tend to use more homework. For them, globalization meant mainly fewer jobs and lower wages. These different attitudes toward globalization, and especially toward migration, further intensified the tensions between the blue-collar workers and the educated.

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<sup>16</sup> Since 1970, share of unionized workers in the US declined from 25 percent to 10.8 in 2020. Significant declines occurred in other OECD countries as well.

<sup>17</sup> See Bruno and Sachs (1985) for this point.

Another way to describe the growing tensions between blue-collar workers and the educated is by use of the three banners of the French Revolution, mentioned above: liberty, equality and solidarity. Of the three, the workers cared more about solidarity and less about liberty, while the educated cared more about liberty and less about solidarity. Equality was important for both, but in different ways. While the workers cared mainly about economic equality, through higher wages, the educated cared more about legal equality, mainly to minorities, to women, and to other victims of discrimination.

## 5. Pressures on the Coalition

By the end of the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup> century, there were significant pressures on the Welfare State and through it on the coalition. These pressures led in many countries to the collapse of the coalition, where blue-collar workers left it and supported populist right-wing political players. Three main forces put pressure on the coalition. One was the continuing shift from manufacturing to global services, the second was the rise of neoliberalism, and the third was the expansion of education, which made the group of educated into a class of its own. Section 4 already describes how the shift to global services affected the coalition. We next turn to the two other pressures, neoliberalism and the rise of the educated class.

Neoliberalism is a political trend or ideology that calls for reducing the scope of the Welfare State. Its two main political pioneers were President Reagan in the US and Prime Minister Thatcher in the UK.<sup>18</sup> There are four main neoliberal policies. One is reducing budgets of public services, relative to GDP. The second is lowering tax rates. The third is privatizing supply of many public services, also called outsourcing. The fourth is reducing constraints on business, like weakening labor unions and scaling down regulation.<sup>19</sup> Note that there are strong relations between reducing expenditures and lowering tax rates, so it is not always clear what comes first. Obviously reducing public budgets enables lowering tax rates. However, in many cases, lowering tax rates might

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<sup>18</sup> Some notable economists, who were proponents of Neoliberalism, like Friedrich Hayek, Milton Friedman and others, preceded Reagan and Thatcher.

<sup>19</sup> Sear Harvey (2005) for history of Neoliberalism.

come before cutting budgets, as it creates a deficit, which helps politicians to justify budget reductions later on. This is the famous ‘starve the beast’ strategy.<sup>20</sup>

What caused and enabled the rise of neoliberalism in recent decades? One explanation is the weakening of labor described above. One of the causes for it was the decline of the sectors that produced physical goods. Second, the workforce in the rising sectors became more diverse, hence more fragmented, which made it weaker as well. This decline in the power of labor made business more powerful, which led to push toward policies that served it better, like reducing regulation, weakening labor unions, and increasing outsourcing, which adds business activities to the private sector. The growing power of the private sector meant also growing power to the rich, who began to push to lower tax rates, as described in Sachs (2011). Neoliberalism gained also from the collapse of the Soviet Union in 1990. Capitalism was now the only game in town and it helped many to push toward a more radical version of capitalism.

The growing popularity of neoliberal politics put significant pressure on the coalition between blue-collar workers and the educated. Although both sides had strong interests in the welfare state and both suffered from its decline, neoliberalism hit blue-collar workers especially hard. In a period of job losses and of wage stagnation, losing welfare benefits, the ability to send their children to college, health care, and more, were very harsh blows. The educated suffered much less. They could replace their lost jobs in the public sector by the growing demand for their skills in the private sector.

Another pressure on the coalition came from the expansion of education. The group of educated rose from a negligible size to more than a quarter of society, which specializes in white-collar jobs and has relatively high income. Hence, they have formed into a new class, with specific economic and social characteristics. Economists view the educated mainly through their role in the labor market, as suppliers of human capital. However, more broadly, they have their own special interests, which fit their education,

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<sup>20</sup> An interesting example of such a policy is the Trump 2017 tax reduction. See Ghilarducci (2019).

their employment and their income.<sup>21</sup> These interests led them to support migration, women rights, gay rights and globalization, goals not fully shared by blue-collar workers.

The increase in the number of educated changed significantly the composition and conduct of all left wing parties, namely it changed the coalition profoundly. These parties ceased to be working class parties, where blue-collar workers are the majority and the policies of these parties reflect their interests. The number of educated in these parties has grown and they gained more confidence. This led them to pursue their own interests and their own political agenda, which was more liberal, focusing on rights of minorities, of migrants, of women and gays.

Furthermore, not only the number of the educated increased, but also their composition. Most of them were no longer first generation to education, but already second or third generation. This distanced them emotionally from the blue-collar workers, and strengthened their different political agenda. Now the main projects of these parties were not education, health and other public services, but human rights, liberalism and globalization. As explained above, this fit not only their political values, but their interests as consumers as well.

The rise in the number of educated coincided with a change in their professional composition as well, as many of them got jobs in management. Initially, capitalists selected managers from the ranks of workers, picking the most able and the most experienced ones. In recent decades managers are mainly university graduates, like engineers, MBAs, and lawyers, who arrive to management jobs from outside the companies. This increased the alienation between workers and the educated as well. In addition, managers gradually adopted views more favorable to business, like restricting labor unions, lowering taxes and reducing the welfare state. In short, many of them became neoliberal and found themselves closer to the economic elite than to the working class. Actually, these managers also influenced many of the other educated, who increasingly adopted neoliberal positions. Thus, many leaders of Social Democratic

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<sup>21</sup> The term “educated class” appeared first in Brooks (2000), which describes how many educated made their way to the elite and changed it. This article focuses instead on the majority of the educated, who moved up, but remained in the middle-class and on their relationship with blue-collar workers.

parties, like Mitterrand, Schmidt, Clinton, Blair, Peres, Renzi, and others, began to support neoliberal policies.

Thus, the three pressures on the coalition, one from the labor market, the shift to global services, one from the political sphere, the rising tide of neoliberalism, and the third from inside the coalition, of the rise of the educated class, all shook the coalition significantly, separately and jointly. Note that the rise of the educated class was actually due to the great success of the coalition, which was the Welfare State and the expansion of public education. Ironically, this success contributed to its demise.

## 6. The Political Crisis

The three pressures on the coalition created great animosity between blue-collar workers and the educated. Blue-collar workers felt 'betrayed' by the Social Democratic parties, as they felt that they no longer care for them and their sufferings. They felt that the left shifted to care for minorities and for human rights in general, but forgot the specific needs of its fellow citizens. They began to leave the educated and the social democratic parties and search for alternative political allies, mainly on the nationalistic right. They turned right for many reasons, among them anger and seeking revenge against the educated class, but also due to economic reasons.

As explained above, the decline of the welfare state happened at the worse period for them, when blue-collar workers faced a contracting labor market and when the services of the welfare state were shrinking. They had two options. One was to struggle for improving the welfare state. This seemed to be a rather lost battle, both because of the growing weakness of blue-collar workers and because of the convergence of all political parties to the neoliberal ideology. When both right-wing parties and left-wing parties began to support austerity measures, namely fiscal contractions and a narrowing down of the welfare state, such a struggle seemed to be hopeless. Losing ability to reverse the decline of the welfare state, blue-collar workers at least hoped to reduce access to it by others, especially immigrants. We can liken the protection of the welfare state to a social umbrella. Blue-collar workers witnessed a painful diminishing of the umbrella, which

now could protect less people from the rain. Since they did not believe they could increase the umbrella, they preferred instead to limit the number of people who huddled under it. In other words, they developed opposition toward immigrants. This is part of a wider issue, which is growing nationalism among blue-collar workers.

As described in Section 2, income gaps between developed and less developed countries increased continuously over the last two centuries. These gaps made it very beneficial to belong to the rich countries. For many years, blue-collar workers felt sure of their belonging to their developed countries, due to the high demand for their labor. However, the shift from physical production to global services reduced this demand significantly. Blue-collar workers felt threatened, and as a result stressed their belonging to the national collective more than others did. This is an economic explanation to their growing nationalism. The educated, in contrast, did not doubt their belonging, as there was growing demand for their skills. Hence, they did not become nationalistic. On the contrary, the high demand for their skills made them more able to move across countries and helped them develop a more internationalist view.

The tensions between the blue-collar workers and the educated led to the collapse of the coalition in many countries. The growing nationalism of blue-collar workers, explained above, led them to support populist and extreme right-wing parties. This led to the rise of such parties and to the decline of the old Social Democratic parties. This shift dealt a painful wake-up call to the educated. On one hand, the educated grew in number and they now controlled much more the social democratic parties. Hence, they could implement their liberal agenda in these parties. On the other hand, they lost their largest partner and realized that they were not large enough to win elections on their own.

It is now clear that the shift of many blue-collar workers from social-democratic parties, which became neoliberal, was key in the rise of populists and of extreme right-wing parties. This is what happened in the US in 2016, when Trump won the elections, and his loss in 2020 does not yet signal a decisive change in this trend. This has been the case in the UK, when many blue-collar workers supported Brexit, together with the right-wing elite, while the educated opposed Brexit vehemently. A similar decline of the social democratic parties happened in France. The educated succeeded in electing neoliberal

Macron to the presidency, but soon enough blue-collar workers turned against him in the yellow vests' protest. Similar shifts to populist extreme right-wing leaders happened in many other countries, like Brazil, Hungary, India, Israel, Poland and more.

Thus, this paper claims that the shift of blue-collar workers was a result of two deep economic processes that happened in the West in recent decades. One is the change in production specialization, and the other was the large expansion of high education, namely the rise of the educated class. Some may disagree with such an economic explanation and claim that it is all due to cultural changes. People have become more nationalistic, more conservative and more religious, and hence they turn to the right and to extreme parties. However, this cannot be a satisfactory explanation. Why have working people become more nationalistic and more conservative now and not in the 1950s or the 1960s? What happened later and changed their position so dramatically?

Finally, it is interesting to compare the rise of current right-wing populism to the rise of extreme right-wing movements in the 1920s and 1930s. Despite the similarities, there are large differences between the two periods. The rise of Fascism was a result of the expansion of capitalism and of the pain, it inflicted on people from rural areas, who had to move to the growing cities and felt alienated there. This economic change involved most of the population. In the current crisis, capitalism is already fully established. It still leads large economic changes and some cause much suffering, but they affect much smaller segments of society. A second difference is that in early 20<sup>th</sup> century welfare services hardly existed, while today, despite some recent erosion, welfare services are wide and strong. However, the experience of extreme right-wing radicalism a hundred years ago, is still an important historical precedent.

## 7. Where Do We Go from Here?

The collapse of the coalition between the workers and the educated in many countries is not only a severe blow to Social Democratic parties and to the Left in general. It poses a significant risk to democracy in general. The adoption of neoliberal policies by the Social Democrats has not only alienated workers from these parties, but also led to alienation

from democracy in general. One of the basic tenets of this regime is that people should be able to choose between alternatives. The convergence to the center by parties from left and right made it difficult to distinguish between their economic and social policies. This reduces trust in democracy itself. When people feel that the democratic system does not serve them well, they become open to explore other options. This is risky, as democracy is a relatively new and fragile political regime.

The risk is of course not apocalyptic, but a risk of gradual erosion. In my view, the main risk lies in the feeling of large groups in the population that democracy is not 'working for them' any longer, that it does not enable them to influence policies and outcomes in society. We saw such feelings recently around the events surrounding the US elections of 2016 and 2020. Many supported Trump in 2016 because he was an outsider, because he expressed feeling of alienation from the ruling political circles. It is not surprising that when the previous rulers returned in 2020, many reacted strongly and even violently against this development.

Therefore, it is very important to understand as much as possible the rise of extreme right-wing politics. This paper claims that we cannot understand it without two other processes, economic and social. One is the shift in production in the West, from manufacturing to global services. The second is the expansion of public education and as a result the rise of the educated class. An important connection between these three processes, the economic, the social and the political, is the coalition between blue-collar workers and the educated.

These three phenomena, the political, the economic and the social, have many connections. The coalition contributed to the expansion of the welfare state during the 20<sup>th</sup> century and thus contributed to the expansion of public education and to the rise of the educated class. This expansion of education was one of the causes for the shift in production in the West, from manufacturing to global services. This shift in production created a great tension between blue-collar workers and educated. It thus contributed to the weakening and even collapse of the coalition. The rise of the educated class made the educated stronger in the social democratic parties, led them to implement their specific agenda and thus further cracked the coalition.



Before we try to think about possible future developments of these processes, we can draw some lessons to the present. The first is the importance of reversing the decline of the welfare state in Western countries. Such a reversal can contribute to lowering the fears and anxieties of blue-collar workers. It is impossible to reverse the shift in specialization in the West and to renew the lost jobs to blue-collar workers, as Trump falsely promised. However, it is still possible to offer them decent wages, by raising minimum wages, to give them better health care, and to enable their kids to go to college. This can even reduce their tensions with the educated.

Another lesson from this analysis is both political and human. The educated should avoid looking down on working people, whom they view as not sharing their liberal values. They should remember, that their own support of liberal values reflects not only their high morality, but selfish interests as well. Blue-Collar working people also should confront some critic on their nationalistic bias. You cannot denounce inequality at home, but support it against other ethnic groups. Bigotry means falling to easy traps of divide and rule.

As for future developments, social scientists should refrain from predicting them, especially when they involve three such complex processes. Furthermore, the picture this paper draws keeps changing continuously, as all historic processes do. One important change is that the educated class is no longer uniform and has a generational split. The educated young enter a much less favorable labor market than the older educated faced, as unions are much weaker and employers much stronger.<sup>22</sup> Many firms who produce global services are large global monopolies and many also hold monopsony power in local labor markets. Hence, educated young are worse off than older educated and as a result feel more sympathetic to blue-collar workers. This is why many of them show stronger opposition to neoliberal policies. Such young educated were prominent in the recent campaigns of Bernie Sanders in the US, Jeremy Corbyn in the UK, Syriza in Greece and Podemos in Spain. It is still hard to tell how they will evolve in the coming years, but it is interesting to follow them closely.

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<sup>22</sup> See Benmelech, Bergman and Kim (2018).

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