

# Frustrated American Middle Class – Real Causes and Real Solutions

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Since the later 1970's and including the effects of inflation, the American middle class has remained in a flat condition economically in spite of increased productivity and the prevalence of two wage earners per family. Why, and what can realistically be done to address this situation? It is time to stop accepting excuses and looking for scapegoats and identify the real sources of the problem and the real targets for solutions.

There are three major causes of the middle class finding itself in the economic doldrums over the last 50 years. The first and perhaps most significant of these is the emergence of the world economy and the extraordinary power of the World Trade Organization [WTO]. In a world economy, nations must compete to sell their goods and services, and nations with relatively high standards of living with wages to match find it difficult to compete with nations where these standards and wages are considerably lower. And when the “rules” defining commerce of the WTO trump national laws, regulations and tariffs and when competition becomes direct, great pressure is put on higher wage nations. The result is that even with greater productivity as a result of technological innovation, wages for jobs in higher wage nations remain flat or the jobs themselves are lost to lower wage nations with production and service facilities moving within the international marketplace.

The second major factor contributing to the economic stagnation of the middle class is the effect on jobs of technological innovation itself. The advent of the computer when combined with artificial intelligence software and robotics hardware has resulted in manufacturing with greatly increased worker productivity but at the same time eliminated the need for many more jobs than its development has created. Many prominent economists now argue that up until about the time of the Great Recession the jobs created as a result of technological innovation kept pace with those lost as machines of various kinds replaced workers. But they note that a threshold was reached in the early 2010s, and since that time the implementation of new technology has resulted in a net decrease in jobs – worldwide. [For a comprehensive overview for the general reader of the debate on this issue and the emergence of what amounts to the recent consensus on the net effect of technological innovation on employment see: “Technological Unemployment,” in Wikipedia.]

The third major contributor to the middle class doldrums is the conversion in function over the last 40 years of the financial industry from providing the capital for development of business enterprises to focusing on creating secondary financial products designed to manipulate the corporate markets themselves so as to extract the value from existing corporate entities. In short, through various maneuvers, the financial industry [Wall Street, hedge funds, and investment banks] has been allowed to transition into an institution that sucks the value from the corporate world in behalf of maximizing its own profits rather than making its money by providing capital to support business itself. The main results of this situation are a much less vibrant corporate domain throughout the developed world, fewer jobs to offer to middle class wage earners, and much greater economic inequality as wealth is siphoned off to a privileged few. For a cogent discussion for the intelligent general reader of this complex but extremely important change in the function of the financial industry see: Rana Foroohar, Makers and Takers: The Rise of Finance and the Fall of American Business, New York (Crown/Penguin/Random House) 2016. For a synopsis of this work see the author's article in TIME, "How to Save Capitalism," vol. 187 (May 23, 2016) 26-32.

To summarize the causes of middle class economic frustration: Until standards of living achieve a modicum of equality at the international level, there is nothing to stop the depressing economic effects of the world economy on the American middle class from continuing. In addition, for the foreseeable future, ongoing technological innovation is likely to contribute to the problem by suppressing the middle class job market at the same time more people will be seeking work and more people will need to work into what would otherwise be their retirement years. And if regulations are not instituted across the developed financial world to address the negative effects on business of the predatory orientation that has emerged in the financial industry, corporate vitality will likely remain unnecessarily sluggish, further contributing to the negative employment conditions for the middle class and increasing to oligarchic levels the situation of economic inequality.

While middle class economic frustration has a lengthy period of derivation, the escalation in recent years to anger and resentment is largely the consequence of the Great Recession. This recession has resulted in significant job losses and huge financial losses – especially in the core area of home ownership. Middle class financial equity and savings have bottomed out while job insecurity has skyrocketed. This situation has provided a multiplier effect to the middle class's decades long, frustrating experience with economic stagnation. And to

make matters worse, as America as a nation has climbed out of this recession and as the middle class has continued to languish, middle incomers have watched as the Wall Street and Investment Bank perpetrators of the recession have not only avoided prosecution, they and their cronies among the 1%ers have gained enormous additional wealth. So, while the middle class has bailed out those responsible for the Great Recession through federally financed subsidies, it is primarily this same middle class that continues to take the hit. Under these combined circumstances, it should come as no surprise that frustration in the middle class has recently evolved toward full blown anger and resentment. And an emotionally angry American core population is ripe to be exploited by flamboyant, populist politicians offering simplistic solutions and promising a return to the economic prosperity of the past [“Make America Great Again”] without addressing any of the real causes.

This is the current economic reality for the middle class in much of the developed world – including the United States, and as it has developed, this new reality is hitting not just middle class jobs but also an increasing number of basic professional level occupations – legal, accounting, engineering, technical, etc. As the world economy under WTO stipulations advances, jobs in the lower end of the American upper middle, professional class are also being out sourced! Frustration is proceeding upward beyond the middle class!

Any answers to this challenging economic condition for developed nations like America? Yes, but they are not pleasant or simple or easy!!

First, the citizens of developed nations like the United States need to restrain their expectations. The notion that every generation of Americans will enjoy a higher standard of living than the preceding one – a core component of the American Dream, has to be discarded. We have to get realistic about what has become our “need” at ever younger ages for more cars, and more “toys,” and larger houses with fancy finishes and a separate bathroom and bedroom and walk-in closet for every occupant. Actual needs and not just wants have to become the norm that circumscribes our expectations. And unlike in the past, we may need to wait until we have most of the financial resources to purchase the things we want rather than relying on credit and the assumption that we will be positioned to rather easily pay off our debts as we advance economically in our jobs and careers. Such advancement is no longer predictable. Adjusting our expectations and financial behavior to the new economic reality of participating as a developed nation in the world economy is essential.

Second, as under-developed nations play economic and standard of living catch up and as they consume a greater percentage of the resources of the world, developed nations, including their middle classes, must get realistic about what proportion of the economic wealth and material and ecological resources of the world rightfully should “belong” to them. Indeed, a strong argument can be made that all citizens of the world must find ways to reduce the resources assigned to them – if we are to avoid the collapse of the Gaia ecosystem. Our expectations need to be tempered by the realization that all resources are limited [even the most basic like fresh water and clean air!]

Third, the WTO “rules” of commerce that currently define international economic relations have to be modified to include more than just economic factors so these rules do not irresponsibly promote out sourcing. The ecological consequences of generating services and producing goods must be considered in the equation, not just wages. And subsidies and tax benefits offered by nations to support certain industries and economic activities are variables that must be included in WTO “rules.” Out sourcing and the pressure it puts on middle class wages will be curtailed somewhat if the WTO rules include factors that make economic competition among all nations more fair.

Fourth, the financial industry at the international level must be regulated to re-institute the separation of banking and investment and to eliminate the off hours, predatory and gambling level financial manipulations and instruments that are currently permitted in the world's financial markets. Allowing the current situation to persist risks not just the economic stability of the middle class but also the viability and integrity of the world economy in general. The financial industry cannot be allowed to pursue its exclusive economic self interests while it puts the world economy at risk of depression. And, in addition, the escalating financial inequality that the financial industry is presently promoting is unhealthy for sustaining and advancing democracy worldwide.

Fifth, in America and much of the developed world, the enormous wealth generated by participation in the world economy has accrued to a select few while economic conditions for the many have stagnated. Taxation on income and benefits has not been adjusted to address this situation of gross inequity. In fact the exact opposite has occurred where taxation on the wealthy has been reduced in the last 40 years – exacerbating the problem! If America and other developed nations are to avoid slipping into oligarchy status – economic power and political control in the hands of the rich – they must redistribute wealth by increasing progressive taxation on income, benefits and inheritance. And

America must get serious about exposing and prosecuting individuals and corporations who park their wealth in off-shore havens to avoid taxation. Reasonable wealth redistribution is one way to take some of the financial pressure off the middle class. Taxation must be shared more fairly so the needs of the country can be met more adequately, including the cost of the whole array of social services and needed infrastructure and public facility repairs and improvements.

Sixth, The United States can reduce the amount it pays of the enormous military bill to police the world. The American military budget is currently as large as the combined military budgets of the next eight nations with the largest military outlays. Historically, excessive military extension with its huge costs is one of the major sources of the collapse of great civilizations, and America may well be headed in this direction. If America were to pay only what is its proportional share of international military expenditures, there would be a huge amount of money available to assist in supporting the needs of its citizens, including its middle class. If middle class Americans want economic relief in the face of long term economic stagnation, they can stop directing such a great proportion of their federal budget to support the military industrial complex and a standby military presence in bases all over the globe. And it is worth noting that from an economic investment perspective, support for the military domain has a much lower positive roll over effect on the rest of the economy than does spending and investment in most other economic spheres.

Seventh, we must replace a world economy based on the assumption of ever continuing expansion with an economy based on stability and sustainability. We – the middle class – can no longer afford to finance huge national debt under the assumption that we can diminish it with the effects of inflation and grow out of it by constantly enlarging the gross national product [and thereby reduce the proportion of debt to income]. And the “hidden” component supporting the expanding economy model is the assumed driver of an ever expanding human population. So, if we expect to initiate sustainability as the new worldwide economic norm, we must finally eliminate worldwide population growth as a driver. The American middle class may well not realize the ultimate relationship of their economic prospects and our failure as a species to address human population growth, but it is there and it is significant.

The time has come for most Americans to stop looking for fanciful solutions to their current stagnant economic condition. The real source of the problem is not migrants or terrorists or even “evil” corporations. These are secondary

symptoms at best, not causes, and focusing on symptoms will not address the causes or suggest real solutions. The causes are real, and they are on-going for the foreseeable future, but there are ways to alleviate the effects, if we make some significant adjustments at the national and international levels. As frustrated as many Americans are, we need to: 1) recognize the unsustainable, privileged economic condition that we have enjoyed until the last generation, 2) distinguish our real needs from our inflated wants, 3) support at the national level reforms that address economic inequality and that limit military spending, 4) elect state and national leaders and representatives who will implement the reforms that are required, 5) support reforms of the WTO rules to reduce unwarranted out sourcing, 6) support at the international level reform of the financial industry to curtail its risky and predatory excesses and to support business enterprise, 7) support the effort by all nations to seriously control human population growth and to move from an expanding economic model to a sustainable model that is committed to a sustainable world ecology, and 8) stop complaining and looking for scapegoats and simplistic answers to the complex situation where we find ourselves. As middle class Americans, we need to recognize the real causes for our current economic conditions, and get on with the real work that can actually help to address our national economic plight.

Everything is interconnected in an infinite system of connection. Focus on one problem/issue and all the rest inevitably comes into view. Beware single variable explanations when it comes to nearly anything at any scale. In this essay, I have tried to respect and uncover some of the system complexity that is involved when we make an effort to understand the issue of the currently frustrated American middle class.