

## Brief Contents

Preface	xi
Acknowledgments	xv
1 The Illusion of Middle Class Prosperity in the United States	1
2 The Struggling Middle Class	15
3 Macroeconomics and the Income/Credit Squeeze	29
4 Robbing the Productivity Train	53
5 Where Did All That Credit Come From?	68
6 From Washington to Wall Street: Marketing the Illusion	91
7 The Great Recession of 2008–2009: The Illusion Exposed	114
8 The Consequences of Middle Class Meltdown	130
9 What Can We Do? A Manifesto for the Middle Class	147
Appendix: Exhibits	157
Index	179



## Contents

Preface	xi
Acknowledgments	xv
1 The Illusion of Middle Class Prosperity in the United States	1
i. Introduction	1
ii. Why Study the Middle Class?	3
iii. The Changing Rules of Middle Class Life	4
iv. Overview of Key Economic Trends and Outline of Chapters	7
2 The Struggling Middle Class	15
i. Stories behind the Statistics: Trying Not to Drown in Debt	17
1. David and Monica Tread Water	17
2. Bill and Sheryl Need a Snorkel	18
3. Our Diagnosis	19
ii. Three Examples of Indebtedness: Feudal Peasants, Southern Sharecroppers, and the Twenty-First-Century American Middle Class	20
1. Our Feudal Past	21
2. Feudalism in a Contemporary Context: Tenant Farming in the Deep South	23
3. Twenty-First-Century Middle Class Meltdown—The New Indentured Servitude?	25

3	Macroeconomics and the Income/Credit Squeeze	29
i.	Market Economies and Purchasing Power: A Digression into Macroeconomic Theory	30
1.	Enter Macroeconomics	31
2.	The Revival of New Classical and Monetarist Economics	33
3.	Supply-Side Economics and the Reagan Revolution	34
ii.	Public Policy, Purchasing Power, and the Middle Class	37
iii.	The Income/Credit Squeeze	40
1.	The Deflated Income Balloon	40
2.	Stagnant Incomes for the Middle, Rising Incomes for the Top	41
3.	What Was Happening at the Top? The Captains of Industry Cash In	45
4.	Lower Wages and Job Instability	46
5.	Consumer Credit!	47
4	Robbing the Productivity Train	53
i.	What Is Productivity?	53
1.	Profits and Reinvestment: The Other Activities That Productivity Gains Support	55
ii.	What Did Corporate America Do with Profits and Productivity Gains?	56
1.	So Some People Got Rich! Doesn't Everyone Own Stock These Days?	57
2.	Corporate Takeovers as a Competitive Strategy	59
3.	What If Wages Were Indexed to Productivity?	62
5	Where Did All That Credit Come From?	68
i.	The Evolution of Consumer Credit	70
1.	The Deregulation of the Banking Industry: A Sleepy Industry Wakes Up	71
ii.	A Credit Card for Everybody	73
iii.	Other Sources of Ready Money: Home Equity—Betting the House?	78
1.	Auto Leasing—Renting the Car	80
2.	Pawnshops Go Middle Class	81
3.	Taking Your Pay before You Earn It: Check Cashing, Payday Loans, and Title Loans	82
4.	Rent-to-Own or Rent-to-Drown?	84
5.	And to Spread the Risk, Investors Buy Asset-Backed Securities	84
6.	Are Credit Cards and Pawnshops Substitutes for Getting Paid?	85

6	From Washington to Wall Street: Marketing the Illusion	91
	i. The Neoconservative Persuasion	92
	1. The Triumph of Supply-Side Economics	93
	2. The Effects of Tax Cuts	93
	i. The Reality for Everyone Else—	
	Rising Taxes as a Percentage of Personal Income	98
	1. But Wait a Minute! Didn't the 2004 Bush Tax Cuts Do Better?	101
	ii. Persistent Inflation and Benefit Declines for the Middle Class	103
	1. Affording the Middle Class Lifestyle	103
	2. The High Cost of College Education	104
	3. Vanishing Benefits and the Costs of Working	108
	iii. Retirement and the Collapse of Enron	110
7	The Great Recession of 2008–2009: The Illusion Exposed	114
	i. The Financial Crisis: The Emperors Have No Clothes	115
	ii. Betting the House and Losing	117
	iii. Unemployment, Job Loss, and Collapsing Demand: The New Poor	123
	iv. Socialism for the Banks, Capitalism for the Rest of Us: Government Policy Responses	126
8	The Consequences of Middle Class Meltdown	130
	i. “A Pox on Both Their Houses”: Examples of Middle Class Alienation from Politics and Community	132
	1. Record Numbers of Bankruptcies	134
	2. The Cultural Contradictions of American Politics	136
	3. The Fraying of Community	138
	4. Political Alienation and Anger: The Hardening of Public Discourse and the Politics of Displacement	140
	5. And Please! Let's Fight about <i>Anything</i> but Money. . . .	143
9	What Can We Do? A Manifesto for the Middle Class	147
	i. Individual Responses: Avoiding the Trap of Middle Class Indebtedness	148
	1. Credit Is a Good Servant but a Bad Master	148
	2. Buy the Big-Ticket Items You Want, and Don't Lease or Rent Them	149
	3. Saving Money Is a Habit That Starts Small	150
	4. When the Time Comes, Buy a House You Can Afford	151
	ii. Collective Responses: As a Nation, We Can Do Better Than This	151
	1. Reevaluating the Successes of the Past	152
	2. Reconnecting Capital Accumulation to Middle Class Prosperity	152

x • Contents

3. If We Value Families, We Should Put Our Money Where Our Mouths Are	153
4. Finally, We Need to Acknowledge That Inequality Is a Social Problem	155
Appendix: Exhibits	157
Index	179

## Preface

This is a book about the American middle class—people who are arguably the cultural, economic, and political bedrock of modern society. The “American dream” is essentially a dream of becoming solidly middle class—of owning a home, having a steady job, and providing educational and other opportunities for your children—and one that has inspired millions of people as they sacrifice and toil. In the following pages, we tell the story of the struggling American middle class by weaving together sociological and economic research, personalized portraits and examples, and an abundance of figures and graphs providing accessible documentation of important social, economic, and political trends. By telling this story, we hope to demonstrate the continued relevance of sociological investigation into contemporary social problems by focusing on the interconnections between economics, politics, and civil society. And we seek to help students become engaged citizens and encourage broad public discussions and action directed toward improving the future prospects of all—including the American middle class.

We began our 2007 book *Post-Industrial Peasants: The Illusion of Middle Class Prosperity* with a pronouncement: “Before you read our book, we’ll give away the ending: The American middle class is in trouble.” At the time, the argument that we developed there seemed bold enough to warrant an opening disclaimer. For decades, the American public had been told that the U.S. economy was consistently growing stronger, more productive, and more efficient. Ordinary Americans watched as the value of their retirement accounts and personal wealth soared due to skyrocketing home values and the seemingly unstoppable upward tick of the Dow Jones. To claim that the American middle class was in trouble seemed to fly in the face of these and other cherished economic indicators.

While it was indeed a bold pronouncement even at that time, we were not alone in sounding the alarm. Our work brought together a wide range of extensive data and analyses generated by academics (including economists, sociologists, political scientists, and anthropologists), policy analysts, and journalists documenting and illuminating the plight of the middle class in contemporary society. However, prior to 2008, those of us claiming that something was wrong—that the economic prosperity generated by the massive U.S. economy was driven largely by risky procedures in the financial sector; that consumer spending and confidence was being supported not by growing wages but by increased personal debt; that the record number of homeowners and levels of real estate wealth came from a growing housing bubble and questionable lending practices—were clearly in the minority, and collectively we spent considerable time simply documenting the various macro-level trends and individual stories that bore out our nagging suspicion that something was wrong.

Much has happened since 2007 that has fundamentally shifted the focus of discussion on the American middle class. In the past few years, we have witnessed the longest recession since the Great Depression of the 1930s, the near-catastrophic collapse of global finance, unprecedented numbers of personal bankruptcies and home foreclosures, and major government interventions into the economy: the 2008 Troubled Asset Relief Program, the 2009 American Recovery and Investment Act, and the 2010 Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act. Tellingly, in 2009, President Barack Obama established the first ever Middle Class Task Force.

In the following pages, we argue that the changes to the middle class over the past forty years are a big deal. While the story is complex, our telling of it is not. Through news accounts, personalized stories, and charts and graphs that are accessible to non-specialists, we show that:

- The middle class has experienced a decline in real purchasing power due to the stagnation of real incomes since the late 1970s.
- The gaps between the stagnant incomes and consumption aspirations of the middle class are made up through easily available credit—credit that almost magically appeared just as middle class incomes were stagnating.
- The use of debt as an instrument for maintaining consumption created an illusion of prosperity that masked important shifts in power and control within society. Workers and families who are living off borrowed money that they promise to pay back later are in a fundamentally different place than those who are able to pay for current consumption with steadily rising incomes.
- During this period, incomes did not rise, even though the economy consistently grew. Very real productivity gains during the late 1980s and 1990s were taken by others, fueling a massive increase in wealth and income inequality.

- The deregulation of consumer credit has led to the socialization of credit risk through the marketing of asset-backed securities. These debt instruments have made credit—and credit cards—more widely available and have fueled the spread of unconventional subprime lending schemes.
- Many (if not most) of these changes have been politically fueled by the marketing of an illusion—the idea that deregulated markets, federal tax cuts, and the gutting of public infrastructure will benefit everyone, including the middle class. The theoretical evidence supporting this claim was dubious, and the empirical evidence that exactly the opposite has happened is overwhelming. The federal government now exists as a vehicle for redistributing funds to the already prosperous, tax burdens have shifted toward the middle class, and costs for many of the goods that the middle class consumes have been rising. Yet in election after election, no candidate seems to point this out in a way that resonates with voters.
- This gutting of the middle class has led to serious declines in feelings of reciprocity and community; record numbers of personal bankruptcies; and a general “politics of displacement,” in which people apparently get angry about virtually anything *except money and wealth*. The contradictions of American politics are now so pervasive that they are self-perpetuating: unfettered markets destroy jobs, families, and communities; politicians complain about cultural decline while expanding the purview of the unfettered markets that perpetuate it; yet another round of tax cuts and privatizations occurs, and still more complaints about cultural decline follow.

Our conclusion does not mince words: Our nation can do better than this. We can reconnect capital accumulation to middle class prosperity. We can acknowledge that most of us won't really benefit from a capital gains tax cut. We can value families and communities. We can acknowledge that cavernous inequality gaps are corrosive to the political and social order. And we can make better choices as consumers.

During much of the twentieth century, the American middle class served as the economic, cultural, and political bedrock of the United States. We, the authors, are products of the middle class, and we believe that future generations of Americans would benefit from the availability of the opportunities promised to this group. American capitalism owes the middle class these opportunities, and the American economy is more internationally competitive, productive, and just when the American middle class is treated fairly.

### **A Note Regarding Classroom Use**

We have written this book primarily for use as a thematic or supplemental text in the undergraduate classroom. It is particularly well suited for courses in sociology, economics, political science, anthropology, and American Studies.

The book is written in accessible prose and technical academic discussions are held to a minimum. Data are presented in easy-to-read figures and graphs (as opposed to statistical tables), and extensive documentation provides resources for those interested in more detailed treatments. A few highlights:

- 1. Wide range of topics.** We bring together a diverse set of issues to illustrate the interconnections between economics, politics, and civil society (e.g., macroeconomic theory; fiscal and monetary policy; productivity; consumer debt; subprime lending; rising economic inequality; trends in the cost of housing, health care, and higher education; feudal and contemporary economic arrangements; political discourse; the fraying of community bonds; the Great Recession; federal bailouts).
- 2. Extensive use of figures and graphs.** We use figures and graphs throughout the book (including a few dozen in the appendix) to provide the evidence supporting our argument. This approach allows us to document our claims and provide guidance for readers interested in exploring these data and findings in greater detail without overwhelming readers with statistical tables and numbers. Using figures and graphs provides a quick and accessible way to present these data in a format accessible to non-experts, without sacrificing analytical rigor.
- 3. Sociological analysis, and a primer on macroeconomics and finance.** Our argument is essentially a sociological one, and is developed by bringing together insights from various disciplines, especially political economic perspectives. Broadly, this approach demonstrates the importance of examining the intersection of politics and economics when analyzing the difficulties facing the American middle class. By doing so, we illuminate the sociological insight that lies at the heart of this analysis: our lives are shaped in profound ways by the economic, social, and political arrangements of our time.
- 4. Pitched at a level appropriate for college students and interested general readers.** As much as possible, we employ non-technical language throughout the book and sidestep technical and arcane academic debates. At the same time, we provide useful resources (e.g., definitions) that can aid readers not familiar with terms related to personal finance, economic theory, and a variety of other topics. These concepts are relevant to readers trying to make sense of their own financial lives as well as students trying to learn about these subjects. Additionally, we present journalistic coverage of middle class families, and we also employ the literary device of composite profiles to help the reader understand the broad, macro-level trends and theories that we discuss. These characters (David and Monica, and Bill and Sheryl) appear throughout the book in order to illustrate how these broad forces can impact individuals and families. This approach is particularly effective in connecting personal troubles to public issues.