The disappearance of the American middle class

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The Disappearance of the American Middle Class

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The Disappearance of the American Middle Class

by

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# Table of Contents

**Abstract** .................................................. 1

**Introduction**
- A Two-Class-System in America? .................. 4
- Scope of the Paper ............................... 5

**Defining the American Middle Class**
- The American Definition ....................... 13
- Influence of Government ..................... 22
- Strictly an American Creation ............. 25

**Is the American Middle Class Disappearance a Bad Thing?**
- You get what you deserve? ................. 29
- The Middle Class Role as a Buffer ....... 32

**The Rise of the American Middle Class**
- The Original Gilded Age ..................... 35
- The Role of the New Deal ................. 38
- The Golden Era ............................. 41
- A Golden Era Loses Its Lust ............. 43

**Forces Leading to the Disappearance of the Middle Class**
- The Reality of Income Disparity in America .... 47
  - The Rise of the Two-Wage Earner Family ........ 50
  - Stagnant Wages and Rising Consumption ......... 55
  - Why Not Just Increase Minimum Wage? .......... 57
  - The Dual Labor Market Theory ............. 60
- The Role of Education ..................... 65
  - Will Education Help Decrease Income Disparity? .... 67
  - Is the Education System to Blame? .......... 70
- The Emergence of the Service Sector .......... 75
  - Should We Just Work Longer Hours? .......... 82
- The Role of Health Insurance ............. 84
- Consumer Debt ............................. 86
- The Impact of Credit Cards ............. 88
  - The Psychological Effect of Credit .............. 89
- The Financial Markets ..................... 91
  - The Role of Corporate Governance ....... 93
  - Financial Markets and Tax Benefits ....... 95
- The Future of Middle Class Participation ..... 98
Table of Contents (cont.)

The American Tax System ........................................ 99
    Progressive Tax Structure .................................... 101
    Corporations Verse Individuals .............................. 104
    The Welfare State ............................................ 105

Conclusion
    The New Gilded Age ........................................... 108
    Potential Future Outcome .................................... 114
    Where Do We Go From Here? ................................ 116

Curriculum Vitae .................................................. 120
Abstract

The American socioeconomic structure will vastly change in the future, as we will see the American middle class gradually demise in representation. This will ultimately result in a more prominent two-class system in the U.S.

Using the U.S. Census definition to classify the middle class, I will show how various present-day socioeconomic forces are creating this trend. The American middle class's unprecedented ascent in the 20th century, with its roots in progressivism, is illustrated to show how key factors, such as progressive social policy, were conducive to this manifestation. By serving as a buffer against socioeconomic stratification, the American middle class essentially promotes social equity and therefore is integral to the continual progress of the U.S.

One of the socioeconomic forces that are examined is the emergence and continual growth of the service sector. Empirical evidence has shown that there is a disproportionate amount of low paying to high paying service sector jobs. With this income inequality, a more
developed dual labor market (primary and secondary labor markets) forms. Compound this with an increase in stagnant wages, increasing consumption costs, and a regressive tax system, and you have a foundation for class stratification. These elements, among various others, directly correlate with the American middle class and the thesis specifically examines these correlations.

Potential criticisms involved with these forces are also addressed. One example is the use of education in advancing ones socioeconomic status. The role of education in promoting income equality will diminish. This is partially due to an increased demand of the secondary labor market disproportionate to the supply of the secondary labor market. Various characteristics of the present American middle class will be shown to be less conducive in the future due to these various socioeconomic forces.

The thesis will then conclude with a brief summation and will reiterate potential solutions that could help diminish the advent of a new Gilded Age. It is this new Gilded Age that may force us to reevaluate our social ideology.
Someone's sitting in the shade today because someone planted a tree a long time ago.

- Warren Buffett

INTRODUCTION

The United States of America is a country of unsurpassed material affluence, where 97 percent of its poor own a color television and over two-thirds have air conditioning.¹ Its unprecedented high standard of living is not so much a privilege, as it is a common and established part of our everyday lives. In the almost 250 years of existence as a nation, the U.S. has transformed its vast lands into an industrialized nation built upon a representative democracy, of the people, for the people, and by the people.² But a slow and mostly undetected dark cloud has begun to penetrate its socioeconomic structure. The success of our country has been highlighted by many, but in actuality, shared by a few. This situation has created a cross roads in the “land of opportunity” and may very well inevitably change

² At least it is proclaimed this way in the Constitution.
the economic and social landscape as we know it, while adversely affecting future generations of Americans.

A TWO-CLASS-SYSTEM IN AMERICA?

A few alarming statistics will illustrate the severity in which we face this daunting reality: The richest 1% of Americans are worth more than the bottom 90% of Americans.³ Personal bankruptcy filings from 1975 to 1997 have increased over a mind boggling 400%, with many of them affecting middle class Americans.⁴ Nine out of every ten shares of U.S. stock are owned by the wealthiest 10% of Americans. The average annual salary (adjusted for inflation) rose barely from $32,522 in 1970 to $35,864 in 1999, while during the same period, the top 100 C.E.O.'s went from earning 39 times the pay of an average worker to over 1,000 times the pay of an ordinary worker.⁵ In 1995, conclusive evidence found that the U.S. income divide was the worst among the world’s

industrialized nations, including those with long-established class systems.⁶

These statistics demonstrate just how economically stratified our country has become. The old adage, "the rich get richer and the poor get poorer" has never been spoken with more sincerity or truthfulness. While our country currently has a visible lower, middle, and upper class system, it is the former adage and our current practices and polices that may be conducive to creating a new socioeconomic classification system that consists of only two components: the poor and the rich.

**SCOPE OF THE PAPER**

This paper will discuss the gradual disappearance of the American middle class and the catalysts involved in this disappearance. First, the definition of the American "middle class" and its significance in America will be discussed. This will be followed by the importance of the American middle class and whether or not this disappearance is necessarily harmful. I will then briefly examine how America made the transition into

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a society with a dominant middle class. The definition of the American middle class will be evaluated using government and academic research as a guideline as both the explicit and implicit meaning can be rather ambiguous. The importance of the American middle class and the necessity of its existence will be briefly examined. It is essential to ask the question of whether or not the disappearance of the American middle class will affect the well-being of the U.S. Finally, the history of the American middle class will be surveyed using historical documentation and references.

After laying out this crucial foundation, I will then be able to examine the socioeconomic forces that are having a direct impact on the gradual disappearance of the American middle class. This examination will be done by providing analysis of the issues, research data, and statistical evidence. In addition, these forces are interrelated to further illustrate the disappearance of the American middle class. The conclusion will provide a summation of my thesis and briefly reiterate why America is becoming a two-class system. The concluding remarks
also will briefly illustrate potential solutions that could be effective in alleviating this serious matter.

It should be noted that there is no hidden agenda and/or organizational forces contained at any point in the dialogue. Rather the author’s goal is to provide information about an important issue affecting contemporary modern America and in the process hopefully will provide a more focused lens in which to view this critical issue.

Certain parameters have been established and will be followed with precision throughout the paper. While many variables such as gender, race, ethnicity, and religion have a definite and indisputable effect on the socioeconomic structure of our country, they will be brought up only sparingly. Please make no reservations, however; gender, racial, religious stratification and the like is a serious problem in America and should be viewed with equitable treatment. These social variables are important and there are many issues related to these problems that directly affect the American middle class. Crucial and important examples include social
discriminations like the "glass ceiling" phenomenon\(^7\) that have a direct correlation to women and wage disparity when compared with men in the same job position. In fact, only 19.5% of men earn poverty level hourly wages, while this number balloons to 31.1% for women. \(^8\) Another important issue includes the minority wage disparity in the U.S. The median net worth of a White American in 1998 was $81,700, while the median net worth of an African American during the same time period was a paltry $10,000. This alarming differential demonstrates the severity of this issue. It is groups like the above mentioned that have not witnessed the great strides that the American middle class saw in the twentieth century. Topics like these deserve and warrant more individualized and in depth study within itself. Unfortunately in a paper of this nature, these topics can only be sparingly mentioned, but it does not in anyway undermine the vital importance of these serious issues that adversely affect the U.S.

\(^7\) For a better understanding on this subject and the forces behind it, please see: Padavic, Irene, & Reskin, Barbara F., *Women and Men at Work*. 2\(^{nd}\) Ed. Pine Forge Press, 2002.

\(^8\) Taken from U.S. Census Bureau Data, 1999.
This paper will also limit its timeframe to the 20th century and beyond. To fully evaluate all of the necessary forces that propelled the American middle class, one would have to start at the very origins of the class system structure in colonial America. The history of the American middle class will be descriptive, but brief, to illustrate how the emergence of the middle class in the U.S. brought the U.S. to its present state. Also, the American middle class is arguably a 20th century phenomenon with its roots in progressivism so it will be efficient to start there.

The late 19th/early 20th century is a time period that is characterized by the emergence of the industrial revolution in America and also gives us an important glimpse into the time period known as the "Gilded Age." It is this "Gilded Age" that the paper argues will be revisited with what could be considered a "New Gilded Age" in America. Paul Krugman, a respected liberal economist from Princeton University, describes this "New Gilded Age" briefly in his article entitled, *For Richer*. He exclaims, "We are now living in a new Gilded Age, as
extravagant as the original. Mansions have made a comeback. "

The focus will then shift from the Gilded Age to the resultant progressive movement and continue through the modern day polarization of American politics. It is this polarization, which many experts believe has contributed the most to the American middle class's existing state and has helped foster our modern day conservative ideology. This intense, but brief analysis of the rise of the middle class in America will be necessary in providing a clear vision of how the emergence of the middle class materialized, proceeded, and how certain forces had a direct effect on its continual sustainability and viability.

The discussion of political philosophy and systems, while important in a paper of this nature will be kept to a minimum. Classic literature on class struggles, such as the neoclassical work by Marx entitled the Communist Manifesto, is crucial in understanding the subject material, but in its own right, is a viable thesis topic. Comparatively speaking, Marx's definition of class is

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defined by income source (factors of production), not income level, and therefore differs with the U.S. Census's definition that empirically defines the American middle class. The middle class according to Marx had no essential meaning.\textsuperscript{10} Brief explanations such as this example are important to show their relevance to particular themes.

The following information contained in this paper will attempt to be objective, but many subjective arguments will be presented loosely based upon the objective information that is provided. While clear attempts will be made at setting this protocol, the paper will hopefully succeed in giving the reader a deeper understanding of the forces impacting the American middle class, which may have a greater and more influential role in America's future than what is currently believed.

\textsuperscript{10} Please see Marx's Communist Manifesto. Marx categorized the two (notice that Marx had no inclination to the middle class) classes as the following: The working class (Proletariat) as receiving income from labor, while the capitalist (Bourgeoisie) as receiving income from investment, rent, or ownership of the means of production.
A society which reverences the attainment of riches as the supreme felicity will naturally be disposed to regard the poor as damned in the next world, if only to justify making their life a hell in this.

-R.H. Tawney

DEFINING THE AMERICAN MIDDLE CLASS

One of the most fundamental questions of any policy problem is defining exactly what we intend to examine. Before examining the importance of an issue and its historic and present context, a clearer understanding of its definition is necessary. While the definition may be ambiguous, or at best, second-rate, identifying what the subject is will give us a clearer understanding and perhaps question pre-existing stereotypes that are engraved within us. Defining the middle class will provide us with the necessary foundation of which to question its importance in American society, examine its crucial beginnings and evaluate how current forces are contributing to its ultimate demise.

What is the middle class? Is it an imaginary term and/or creation of our modern society, or does it have meaning to it? If it is definable, what constructs do we use? Is the word misinterpreted? And if so, what does it
actually mean? Webster's New World Dictionary defines the middle class as "the social class between the aristocracy or very wealthy and the lower working class." As mentioned in an earlier footnote, Marx does not even define the middle class, but rather only identifies two classes: the proletariat (lower class), and the bourgeoisie (upper class). The definition of the middle class could mean different things based on a culture's ideology or standard of living, to name but a few variables. Defining the middle class in the American context will get us closer to understanding how various forces are affecting it. As we shall shortly see, the sheer ambiguity associated with the meaning of the "middle class" is something that troubles Americans, both students and scholars alike.

THE AMERICAN DEFINITION

To further clarify these questions, I will provide the following hypothetical scenario: Say you own a nice suburban house in the suburbs of a major metropolitan city in America. Fortunately, your parents bought Microsoft at its initial public offering and consequently

11 Definition according to the Webster New World Dictionary of the American Language, 1987.
bought the house for you. You work as a computer programmer for a hi-tech firm specializing in next generation microprocessor equipment. Excluding the potential stock options, you gross around $35,000 a year. Your spouse is an accounting whiz at the IRS and makes about $45,000 a year, excluding the many bottles of Tylenol incurred throughout tax season. You both own a medium size sedan and have them paid off. You are completely debt free and you have plenty of equity (thanks in part to your parents) and occasionally take a short vacation. You are a seemingly average looking American household with aspirations to have children someday.

Given all of this information you are asked if you would be classified as A) Lower Class, B) Middle Class, or C) Upper Class. If you choose B) Middle Class, you, along with many other Americans are incorrect according to the official definition by the United States Census. If your median household income is over $76,000, you are classified as a member of the upper class.\(^\text{12}\) This confusion is not unfounded and you're certainly not

\(^{12}\) Taken from U.S. Census Bureau Data.
alone. A poll from the National Center for Opinion Research found that 71 percent of Americans who were classified as upper class described themselves as middle class.\textsuperscript{13} Generally, when Americans think of someone who is classified as upper class, we generally think of people such as Bill Gates (whose hourly wage is over $200,000/hr)\textsuperscript{14} or our company executives at the manufacturing or service firms. We tend not to think that our neighbors, who appear to fit the perfect definition of a stereotypical middle class American, are in actuality, officially classified as a member of the upper class.

According to the U.S. Census definition, the middle class is defined as those people with incomes between 33 percent less than the national median and 50 percent more than the national median.\textsuperscript{15} Using recent U.S. Census data from 1999, the middle class would therefore be considered families whose incomes are more than $17,000 and less

\textsuperscript{13} From WKSU News Exclusive transcript entitled, Who Is the Middle Class? <http://www.wksu.org/news/stories/familyseries/middleclass_transcript.html>
\textsuperscript{14} Bill Gates Net Worth Page, This is an average since 1986. <http://www.quuxuum.org/~evan/bgnw.html>
\textsuperscript{15} More insightful literature on this definition and issue can found: Wolff, Michael, Rutten, Peter & Bayers III, Albert. Where We Stand. New York: Bantam Books, 1992.
than $76,000.\textsuperscript{16} Under this measurement (counting all sources of income), the middle class constitutes the largest class at 70 percent of the total population, though this number was five percent higher only ten years ago, with the upper class subsequently constituting only 20% of America. Other attempted studies at quantitatively classifying the middle class have suggested that the 75 percent and 125 percent of the national median be used. This drastically undercuts the middle class and consequently the middle class consists of approximately 25% of the population.\textsuperscript{17} Therefore the importance of statistical indices within the median household income construct should not be underestimated and is essential in determining what the precise “size” of the American middle class actually is.

How does one come up with an equitable classification of what the American middle class truly is? What percentage from the median should be considered appropriate? With this in mind, the particular data


\textsuperscript{17} Youmans, James G. What Does it Mean to be “Middle Class”? Center for Business and Economic Research (CBER), Research Brief, 1997.
presented exemplifies a clear point regarding the classification of the American middle class; it is extremely variable and open to subjective interpretation. Should the middle class be exclusively defined as median household income, or should certain socioeconomic variables (i.e. expected future income, location, etc...) be considered into an all-encompassing index that might give us a better barometer of the middle class? Experts say definitions of middle-class income depend on variables such as the number of wage earners and dependents, the cost of living, whether food stamps and other government subsidies are included and how much wealth has been saved. Also, when describing the American middle class, it is important to distinguish between income and wealth. The U.S. Census definition does not include wealth, which is the value of all assets and properties (could be either positive or negative). Income is money gained from work in terms of salary and wages and/or interest earned from assets. Unfortunately

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this does not fully and accurately illustrate one's financial condition.

An index based on socioeconomic status would appear to be more equitable and give us a fairer construct from which to work with than just having one variable, the median national household income. Presenting this one variable may not fully explain the whole economic situation of any particular household.

While the socioeconomic index may be a more effective barometer, it may also have adverse effects on classifying the class system by creating more complexity and possible inefficiencies. For example, which variables do we include and which variables do we not include in an index of this sort? If we come to an agreed upon array of variables, what are the weights that we should attach to them? While plausible in theory, it may be quite difficult to apply in practice.

Other studies included using a government-defined consumer basket of goods (much like the C.P.I. index) that purported to buy a middle class standard of living. Utilizing this definition, the middle class was defined as 50 to 200 percent of current year median earnings.
This particular study found the median income for a four-person family in 2000 to be $62,228, concluding that these families' incomes ranged from $31,114 to $124,456.\textsuperscript{19} Other various academic studies have looked at such variables as prime earning years to disseminate potential income disparity issues.

As discussed earlier, most upper class Americans felt they were middle class, but in actuality were not. The inverse of this is also true. A majority of Americans in the lower class said they were in the middle class. Is it an American desire to conform to a homogeneous social structure? While this may be unknown or have only partial truth, it appears that the middle class is more artificial in everyday language and does not have a universal meaning that is followed by all Americans.

Since the socioeconomic index has certain complexities, we will now return to the U.S. Census definition and try to adopt this as our official definition for the rest of the paper. Before we do this, let's examine a simple, yet another powerful

\textsuperscript{19} IBID
concept that could make this definition problematic. If we use the U.S. Census median household income as a benchmark for the middle class, would it be fair to compare the purchasing power of a couple with a medium household income of $60,000 and no children who resides in a rural area of Alabama, to a couple bringing in the same amount of money, but who lives in the suburbs of San Francisco and raises two children? According to the U.S. Census data, we would then consider both of them middle class (more accurately, upper middle class). But is this truly accurate? The standard of living in San Francisco is much higher than in the rural area of Alabama. The couple in San Francisco also contends with real wages (to be discussed much more in depth later in the paper) that are either stabilizing or declining, while health and education costs are increasing for not only themselves, but for their children, thus rendering this couple with little to no disposable income and a tight budget. On the other hand, the couple from Alabama, dealing with some of the same adverse variables,

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20 An official U.S. class hierarchy system will include the words lower and upper to each class system. Due to the complexity of the class system in general, this will not be discussed within the paper.
clearly has a financial advantage in terms of demographics alone, not withstanding the savings they incur by not having children. Therefore the importance of distinguishing income, wealth, socioeconomic status and demographics are all-important in gaining a more accurate picture. As David Frum, from the Manhattan Institute asserts, "Are they rich? Not exactly. My definition of rich is someone who, if they stopped working today, wouldn't see a change in their standard of living."^{21}

Is the middle class designation by the U.S. Census necessarily fair or accurate? Probably not, but it illuminates the problem with quantitatively classifying the middle class and suggests that we may, in fact, not have an all intrusive middle class in our country, or at least an accurate description of one. The term "middle class" in America is generally associated with income and for this reason I will use the U.S. Census definition to measure and describe the American middle class.

Many proponents and opponents of the disappearance of the middle class use various income distribution

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methodologies and statistical variables in justifying their positions and it should be clearly stated that in reading all statistics on the middle class, the question of data validity and organization should be questioned. Throughout this paper, many pertinent statistics will be presented to give a clearer understanding of the situation, but it is important to note that not all of these statistics use the same measuring gauge and it may be convenient and useful to the reader to refer to the various references.  

INFLUENCE OF GOVERNMENT

The definition of the American middle class goes beyond statistical parameters. The government, through various mediums and personal agendas, has also helped shaped our conception of the middle class. For example, the executive and legislative branches of the U.S. government have used definitions of the American class system in pursuit of their own self-interests, whether it be in pursuing legislative objectives, such as “pork spending” and their subsequent justification on how the

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poor will benefit, or a president promoting a new social program, such as LBJ’s "Great Society". Perhaps a recent example illustrates this point and shows how these objectives can have an impact on how America views and ultimately defines "class".

In the 2000 presidential elections, the term, "class warfare" became widely quoted by both candidates in justifying their specific positions. Having discovered in the last passage, the ambiguity involved with the "official" definition of the middle class can be perplexing. How could one truly understand the meaning of "class warfare?" The eventual electoral winner, George W. Bush, stated that class appears to be a concept with minimal meaning in a country where access to opportunity and advancement is so widely available. But can class be viewed as having "minimal meaning" in our country when most of us identify with one and where class stratification, as demonstrated in the opening paragraph of this paper, clearly exists?

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The evidence proves otherwise. Studies conclusively demonstrate that during the last fifteen years, a rising share of income is going to the top 20 percent of families (the U.S. Census middle class definition), and within that top 20 percent, to the top 5 percent, with a declining share going to families in the middle. This hardly seems minimal and studies like this are causing major concern within academic and social circles alike.

Is the definition geared towards strictly political motives and incentives? The populist underlining of the Gore presidential campaign could be interpreted as causing the Bush campaign to minimize the importance of "class" structure. On the policy forefront, new fiscal policy directives by the Bush administration have constantly been under scrutiny for catering to the "upper class" and hurting the "middle class". Vice President Bush, in reference to the 1981 Tax Reform Package, stated that the package would benefit "those solely middle class families that earned $50,000 a year," which is the

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equivalent of over $90,000 today.\textsuperscript{26} Bush's definition of the middle class was in actuality the top 10\% of the U.S. population.\textsuperscript{27} While the majority of Democrats in recent years have brought "class warfare" to the forefront to justify their policies, the majority of Republicans have denounced "class" to perhaps sway attention away from the "class" impacts of their directives, or "hide" the cruel reality that income disparity is getting larger in the "land of opportunity" and that the policy directives are actually hurting the American middle class, not helping them.

\textbf{STRICTLY AN AMERICAN CREATION}

Beyond the U.S. Census's rather bland and incomprehensive definition, it appears that the "middle class" exists more as a reflection of American society and ideological practices. In a country that reveres the wealthy (with wealthy defined in monetary and not in social and/or intangible terms), the U.S. Census is only reflecting the American culture in putting a basic

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{26} Rose, Stephen J. Social Stratification in the United States. 2\textsuperscript{nd} Edition, Chapter 15. \url{http://www.oregonvos.net/~jflory/205/ses2_205.htm}
\item \textsuperscript{27} IBID
\end{itemize}
\end{footnotesize}
statistical measure on income and therefore is viewed as the most appropriate definition under this construct.

The following arguments provide us with a possible explanation into what fuels the American class structure and in the process demonstrate the notion that the "middle class" is an American creation. The "upward pull strategy" where middle and upper class aspirations lead lower and middle class Americans to prefer customs and practices of the upper class has greatly influenced our conception of class structure. The American individual is deeply laden in both personal and concentrated self-interest. This element compounded with a fascination and reverence of American monetarily wealthy individuals has fueled this "upward pull strategy". It is through the Horatio Alger construct that Americans believe that their turn is next and that the class that one belongs to is a reflection of one’s orchestrated efforts and ambitions. It is therefore no

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28 Upward-pull strategy has been greatly influenced by marketing and mass media.
surprise that a recent book entitled, *The Millionaire Next Door*, became a N.Y. Times best-seller.\textsuperscript{29}

With this in mind, is the disappearance of the middle class necessarily a bad thing, or are we separating the "haves" from the "have-nots"? If this is true, would the classification of a middle class be necessary within the constructs of American cultural ideology and values and should the "haves" and "have nots" just be considered the lower and upper class? But with this classification, would the resulting stratification equate into personal and social equity?

You will find the key to success under the alarm clock.
- Benjamin Franklin

IS THE AMERICAN MIDDLE CLASS DISAPPEARANCE A BAD THING?

Perhaps using the term "middle class" in regular conversation has now taken on a new meaning, or perhaps the meaning you thought it was, is now under personal scrutiny. Perhaps the question presented has not become clearer, but in fact less translucent. Most would agree that it is wrong that 25% of our country lives in poverty, whether it is on moral or pragmatic terms. But while we may have concern on moral grounds, if it does not directly affect us, is it really something we will act upon, or will we just hope and assume that external forces (i.e. government) will provide the solution?

If the middle class disappears, we can make a rather rational assumption (an assumption that will be elaborated on) that it will gradually and disproportionately shift into the lower class, with a trace amount successfully leaping into the upper class. Thus we could conclude that the disappearance of the middle class is a bad thing and that further study on

30 U.S. Census Data.
this question is irrelevant. Unfortunately this is easier said then done. While more liberal thinkers will naturally gravitate towards this conclusion, perhaps we need to examine a more conservative answer to the same question.

YOU GET WHAT YOU DESERVE?

Let's look at a more conservative viewpoint with a twist of social consciousness and a dose of comparative analysis for good measure. For simplicity, let's use the U.S. Census definition. The middle class has deteriorated into an extremely small percentage of the total population, much like the original Gilded Age. We essentially have the rich and poor and that's it. But now, unlike the Gilded Age time period, we have almost twice the life expectancy (in 1900, it was 47 years and now it is 77 years) and the infant-mortality rate has dropped from 1 in 10 to 1 in 150.\textsuperscript{31} Furthermore, unlike half of the teenagers who labored in factories or fields in 1900, now 9 out of 10 attend high school and the price of food relative to wages has drastically decreased.

\textsuperscript{31} Williams, Walter E., The Politics of Envy. 4 November 2002, George Mason University. An argument against Krugman's "For Richer" article.
while our leisure time is three times higher than our
great grandparents.\textsuperscript{32}

Without argument, technological advances have
created a standard of living for America that the world
has never seen and created many of the advances that have
allowed us to live comfortably and afford us high
purchasing power among a selection of infinite goods and
services.

Also, the self-fulfilling prophecy theory becomes
appropriate. A poll of 5000 American adults found that
43% stated that lack of effort as a reason why people are
poor. Also, 53 percent of the poll respondents cited
"strong effort" as a reason some people are rich.\textsuperscript{33} Thus
almost half of the respondents feel that your "class"
correlated directly with the amount of effort put in. A
research study by Alan Wolfe, author of \textit{One Nation, After
All}, found that the ideal of personal responsibility is
very deeply ingrained in the middle-class mind and only a
quarter of American middle class respondents to an
interview conducted by Wolfe disagreed with the idea that

\textsuperscript{32} IBID
\textsuperscript{33} Taken from Gallup Poll Social Audit, 1998.
poor people are primarily responsible for their own fate.\textsuperscript{34}

If these statements are proven and we live in a country with one of the highest standards of living, should we care whether a middle class exists or not if a majority of the middle class believes that we are responsible for where we end up?\textsuperscript{35} If we did not put labels on people because of the amount of income they earn, then we can't necessarily say there is socioeconomic stratification. Or if we can, it would be minimal considering the majority of us would be relatively in the same grouping. To further clarify this lets evaluate some data. In 1998, the average household's net worth of the top 1\% of wage earners was $10,204,000, while the bottom 40\% of wage earners had an average net worth of $1,900.\textsuperscript{36} But if this forty percent still has a decent quality of life in world terms (remember how many have color televisions those living in poverty have), then were all still better off, Right?

\textsuperscript{34} Wolfe, Alan. \textit{One Nation After All}. New York: Viking Press, 1998. (204-205)

\textsuperscript{35} For a great resource on comparing the standard of living in various countries can be found in the \textit{World Development Indicators}. Published by the World Bank. <www.worldbank.org>

Perhaps if your view of consumerism and its impact on society is negative, you may actually find this viewpoint somewhat plausible. But all things considered, this will most likely have serious consequences on socioeconomic equality in America.

THE MIDDLE CLASS ROLE AS A BUFFER

Both arguments, for and against the disappearance of the middle class, are interesting, but create uncertainty in theory; thus the importance of the middle class is relative to the individual. While, it is undeniably true that our country has come a long way since the beginning of the twentieth century, the middle class, as a buffer against the possibility of total socioeconomic stratification could be viewed as more important than anything else in terms of equity. The 53% who stated strong effort as citation for an individual becoming rich were half right. Yes, the Horatio Alger story\textsuperscript{37} still proves true and reverberates through our society; from the original pioneers, to the Internet billionaires (if there are any left), the way out of one's class and into

\textsuperscript{37} Quoting from the Horatio Alger Association: "His novels told everyone, no matter how poor, orphaned or powerless, that if they persevere, if they do their best, if they always try to do the right thing, they can succeed."
a higher one begins with ambition and opportunity. But one will only go so far if economic factors and social and policy barriers stunt this transition. With these barriers, the disappearance of a middle class becomes a greater possibility.

To further support the role of the middle class in America, a Federal Reserve Bank of San Francisco economic article states the following:

"A vibrant middle class is often cited among the benefits of our competitive economic system. It is argued that a large and growing middle class is an antidote to poverty, an incentive for individuals to work and improve their economic position, and an answer to those who worry that the disparity between the top and bottom of the income distribution in the U.S. is too large."38

With this we must ask ourselves an important question: At what point do we truly become concerned about the loss of the American middle class and its ability to act as a buffer between the upper and lower class?

The previous discussion has raised some of the basic fundamental questions regarding the definition and importance of the American middle class. The American middle class can be a very ambiguous term that has many

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38 Daly, Mary C. The "Shrinking" Middle Class. Federal Reserve Bank of San Francisco (FRBSF) Economic Letter, 7 March 1997.
different meanings to many different Americans and its exact importance in our society is one that is argued by many alike. With this in mind, using the term "middle class" in America and justifying current policies that proclaim its benefits to middle class America can be a difficult and daunting task that can easily raise controversy.

With a greater understanding of the definition and importance of the American middle class, we can now examine its meteoric rise from a minority of the American population to the largest class segment, all occurring within a tumultuous, but fruitful one hundred year time period.
A superior man is modest in his speech, but exceeds in his actions.
- Confucius

THE RISE OF THE AMERICAN MIDDLE CLASS

As the old adage goes, in understanding the present, it is important to understand the past. This topic is no exception. When one thinks of the formation of the American middle class, visions of 1950’s white suburbia are formed, but the foundation for this time period was already over a half century in the making. In only a half century as opinion polls during the time period show, the vast majority of Americans referred to themselves as middle class, regardless of their income.39 While it could be argued that its roots were set in De Tocqueville’s era, its foundation in modern America is generally associated with the Gilded Age and the resultant progressive era of the early 20th century.

THE ORIGINAL GILDED AGE

The American industrial revolution during the mid to late 19th century ushered in what is known as the “Gilded Age.” This time period is characteristic of a

39 Cassidy, John, Death of the Middle Class. New Yorker Magazine, October 1995. A short version of the article can be found at: <http://www.newint.org/issue281/death.htm>
few industry barons (such as the steel magnate, Andrew Carnegie) who controlled most of the wealth, while the masses worked relatively long hours, earning a barely subsistence living. To give a clearer and more grim characterization of the Gilded Age, in 1890, 11 out of the 12 million families in America earned less than $1200 per year; of this group, the average annual income was $380, well below the poverty line. Rural Americans and a wave of predominantly Irish immigrants crowded into urban areas and subsequently tenements spread across city landscapes, teeming with crime and filth. Americans had sewing machines, phonographs, skyscrapers, and even electric lights, yet most people labored in the shadow of poverty, while rich aristocratic individuals such as Mrs. Stuyvesant Fish, who once threw a dinner party to honor her dog who arrived sporting a $15,000 diamond collar were the sparse minority who were able to enjoy the new material objects afforded by the industrialized America. This outlandish use of wealth exemplifies the extent of wealth and power that a few had over the

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41 IBID
majority. The majority of Americans dealt with poor, unregulated conditions in the workplace. Assorted business ethic concerns such as these helped initiate the anti-business populist movement that would become characteristic of the Progressive Era. These initiatives were carried out by the aptly titled "trust busters" such as the Nobel Prize winner and President of the United States, Theodore Roosevelt. He would ultimately run on the progressive ticket in the 1912 election and make a strong showing as a third party candidate.\textsuperscript{42} Efforts by the "trust busters" and various other figures helped foster greater equality and opportunity in a country that had been characteristic of a variety of extremely unfair economic practices. These initiatives were accomplished by offering and expanding opportunities to the average worker, such as adequate health care, which were previously nonexistent. Ironically as we shall shortly see, the issue of health care, a critical subject that has been at the heart of the individualistic ideology of America, will adversely impact the modern American middle class.

\textsuperscript{42} Brief, but informative information on Theodore Roosevelt: <http://www.whitehouse.gov/history/presidents/tr26.html>
By expanding economic opportunity and presenting more equitable labor practices, the Progressive Era\textsuperscript{43} would be vital in the formation of our present day middle class by helping to break down crucial barriers to entry that were once considered implausible. The opportunities presented through the progressivism movement set the stage for a more empowered middle class, but it would take until the New Deal for our country to see the foundations of the middle class truly blossom.

THE ROLE OF THE NEW DEAL

The New Deal, while striking constitutional controversy, is considered one of the central points of the "Great Compression". The "Great Compression is an expression coined by economic historians Claudia Golden and Robert Margo to describe the narrowing of income gaps in America.\textsuperscript{44} Ms. Golden states,

"By the outbreak of World War I, however, the economy had finally reached a new, more favorable equilibrium. Millions of Americans ascended to the middle class and inequality began a 50-year decline.


Business competition was brisk and there was a burst of economic activity."45

She argues that this turn toward equality occurred only after unions had forced the mines and railroads to share some of their profits, and government moved to regulate monopolies, child labor, worker safety, and the prices charged by natural monopolies.46 It was the New Deal, through its various government regulatory initiatives, that would further develop this turn toward equality. The New Deal consisted of economic reforms that put in place many programs, to protect the middle class and to allow upward mobility into it, from the ranks of the poor, thus acting as a driving catalyst for the "Great Compression".47 By establishing many business labor and regulatory acts, such as the Glass Steagall Banking Act and many civilian work projects such as the Tennessee Valley Authority and the Civilian Conservation Corps, Franklin Delano Roosevelt was essentially regulating private business and therefore ushering in aspects of

46 IBID
socialism into his various programs. These factors, along with the marginal tax shifting under FDR’s tenure helped usher in a somewhat more equitable America, while attempting to minimize the brutal monetary effects of the Great Depression that had cost countless millions of Americans their jobs and many more their entire life savings.

In 1935, U.S. Congress passed the National Labor Relations Act, thus securing the right for Americans to form and execute labor unions. Within twenty years, this legislation created a great increase in wages and benefits and membership in unions. In fact, in 1930, the percentage of the workforce unionized was 6.8%. In only fifteen years this would increase to 21.9% creating a greater number of people able to bargain for a living

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48 IBID, Upward Dreams, Downward Mobility is a great resource on the economic justifications of New Deal.
49 It is important to note that FDR also utilized deficit spending as part of his fiscal spending. This would be a catalyst and justification for expanding our national debt from a few hundred million to its projected seven billion dollar figure, or roughly $25,000 per citizen. Hence there were definitely obvious trade-offs to funding these programs. The national debt clock can be viewed at: <http://www.brillig.com/debt_clock/>
50 The paper only briefly discusses the economics of labor unions. For a comprehensive book on this subject, please see: Booth, Allison. The Economics of Labor Unions. Edward Elgar Publishing, 2002.
51 A perspective from the International Brotherhood of Electrical Workers: <http://www.ibew177.org/preface.htm>
wage. 52 This mobilization allowed lower and middle class workers to have a legitimate voice with business enterprises, that in turn created a greater standard of living for the workers. Golden even suggests that, "the imbalances are corrected only after people intervene to tame the market's worst excesses." 53 This suggests that "liberal economics" was a key ingredient in promoting less socioeconomic stratification and that the labor unions can be construed as a buffer from the deregulated abuses of industry. While the labor unions helped create a stronger and more powerful labor force in America, they were also a key variable in the "Golden Era" of our country.

THE GOLDEN ERA

The "Golden Era," also known as the "era of the common man" 54 was illustrated by continual and unprecedented U.S. economic growth and prosperity from approximately post World War II to the beginning of

1970's, which would usher in the advent of stagflation in the U.S. Noted Historian, David Halberstam describes the Golden Era as "an amazing time in American life. World War II brought us kicking and screaming to the zenith of our power. Millions of lower-class people were merging into the middle-class society."  

Halberstam demonstrates how World War II was pivotal in the development of the Golden Era. He states,

"The war strengthened the economy, and by the time it was over in 1945, the average family had $8,000 in savings. That may not seem like a lot now, but in 1945, $8,000 would buy a house. Never was wealth so equitably distributed among so many ordinary people."  

With positive externalities such as attractive government incentives (i.e. the G.I. Bill) and the general euphoria of becoming the undisputed world power, the U.S. was unified and ready to leave behind the life they had experienced only a few years earlier. It was this vision and subsequent reality of this unlimited potential that fueled lower class aspirations.

While the Golden Era brought uncompromising prosperity for millions of families, for some it was the
extension of the Great Depression. Many segments of the population were left behind; the poor working class, now, more then ever, had the best opportunity to advance, but for many minorities, the Golden Era was anything but golden. It was this facet of the Golden Era that would help usher in the counter culture that would help heighten the awareness of this serious problem and bring about attention of this disturbing inequality.

A GOLDEN ERA LOSES ITS LUST

The 1950’s “Leave It to Beaver” stereotype of the American middle class environment was about to change forever. The ever-increasing burdens of the Vietnam War, the resultant counter culture, and an economy, which had seen virtually uninterrupted growth (as measured in GDP) in the 1960’s, was to foster in a disruptive and volatile economy of the 1970’s, where high inflation, high interest rates, and high unemployment, along with stagnant wage growth, was to reign over an already hostile world environment. The stagnant wage growth associated with this time period was to have a direct effect on the American middle class. The result of this impending hostile economic environment was a shift in the
political landscape (not seen since the FDR administration) that would see a democratic stronghold in Congress become weaker and weaker until it succumbed to the Republicans and its new President, Ronald Reagan.\textsuperscript{57} This transition ushered in the polarization of American politics and continued to impair the prospects of the American middle class, threatening to “undo” the New Deal and the middle class accomplishments that were characteristic of the “Golden Era.”

In the next section, I will examine various forces that have been closely associated with the American middle class. Since we now have a better understanding of how we have traditionally viewed the middle class in America, we can now use them as a reference in viewing how these forces could lead to the gradual decline and eventual disappearance of the American middle class. Some of these forces will focus on income disparity, education, health, manufacturing/service sector, the abuse of debt by American consumers and the current tax system. While all are closely interrelated, the goal

\textsuperscript{57} For more information on this congressional polarization, please see: Dodd, Lawrence C., & Oppenheimer, Bruce I. \textit{Congress Reconsidered}. 7\textsuperscript{th} ed. Washington D.C.: CQ Press, 2001.
will be to examine each issue individually and then attempt to cross-relate them. While it can be generally agreed that rising health costs have helped create a loss of disposable income for Americans, the next section will try to evaluate these concepts within a deeper macro stance. For example, questions such as how will income disparity affect the labor market structure for future generations, and in the process, affect the American middle class will be examined.

Within the context of these evaluations, the same framework that I used in defining and explaining the American middle class and its importance will be used in identifying, evaluating, and implementing these policies. It is within this framework I will look at different justifications and whether they are related to the disappearance of the American middle class. The arguments presented will hopefully allow the reader to look at more than just alarming statistics but rather, at the countering mechanisms that are involved. After the forces are examined and evaluated, a final section will be devoted to showing how all of these forces combined
will lead to the disappearance of the middle class and brief solutions of this problem will be proposed.
"Success has a hundred fathers. Failure is an orphan."
- JFK

FORCES LEADING TO THE DISAPPEARANCE OF THE MIDDLE CLASS

THE REALITY OF INCOME DISPARITY IN AMERICA

"The intense concentration of the nation's wealth in a small sliver of society has raised the specter of plutocracy." This is the sentiment of respected author, Kevin Phillips, who addresses this concern in his book entitled, Wealth and Democracy. But why would one utter such a statement? Yes, it is documented that the top one percent of households earned about 17 percent of the national income and owned about 38 percent of the national wealth, while the bottom 40 percent of Americans earned just 10 percent of the nation's income and owned less than one percent of the nation's wealth. But didn't the robust economic growth in the U.S. throughout most of the 1990's create greater equality and less "control" at the top?

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With over one hundred continual months of growth (measured as an increase in G.D.P.)\textsuperscript{60}, the 1990’s expansionary period became the largest documented continuous growth the U.S. has ever seen and subsequently became the impetus for the “New Economy”\textsuperscript{61}. The largely irrational bull market (largely reiterated by Alan Greenspan) of the late 1990’s should have helped us all in the macro sense. But intentions do not equate into actuality. Remember from the beginning paragraphs, the richest 5% of American households own 9 out of every 10 shares of American stock. With economic growth, one would translate that into higher wages and greater mobility for all participants, but this was not necessarily the case. While some rejoiced, some saw their income become stagnant in real terms resulting in a greater wage disparity as the decade ended and the “New Economy” ran out of its self perpetuating inevitable steam.

The New York Times, in March of 1994, ran a story of a family that provides the crueler side of our New

\textsuperscript{60} Surpassing the 1960’s continuous U.S. economic growth.
\textsuperscript{61} In a speech at the American Enterprise Institute for Public Policy Research, Greenspan coined the term “irrational exuberance” which warned of escalating asset prices “market bubble” developing in the “New Economy”.

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Economy. In the article, we meet a gentleman named Craig Miller. He is a thirty-seven-year-old sheet metal worker who is a married father of four children. He has recently lost his decent paying job at the manufacturing plant and is confronted with a virtually nonexistent job market. To ensure the survival of his family, "Craig and his wife Susan juggle four jobs between them, his flipping hamburgers at McDonald's, driving a school bus, and (not very successfully) trying to launch a small installation business; hers stocking shelves nighttimes at Toys R Us. For eighteen hours a day, the Millers alternated between work and care of their four children, one of whom was learning disabled and doing well only with sensitive and skilled help from his local school. Because of that, the Millers did not feel they could move, despite the dawn-to-dusk grind of their lives as low-wage working parents."\(^\text{62}\)

This illustration of Mr. Miller could be somebody you know personally, perhaps even a relative. Or perhaps you have read countless stories about the many trials and

tribulations of "Mr. Millers" in popular literature. The plight of Mr. Miller provides a great example of the dangers that a middle class family faces in modern day America. The family structure, arguably the most vital institution of America life, has shifted in the past few decades. The rise of wages and the subsequent demand of consumer products, had, by the 1950’s, created a middle class America that had more spending power and a standard of living that could only be dreamed about by the previous generation of Americans. But all of these elements were to help foster in a shift in the American middle class family that would help aid in its demise.

**THE RISE OF THE TWO-WAGE EARNER FAMILY**

Traditionally, American families (it is important to note that a family is defined as two or more relatives living together) have relied more on one wage earner to support a household. In the past, the majority of wage earners were men, which may explain the gender disparity and how this disparity could be justified especially in cultural terms. With the percentage of two wage earner families in America increasing, the common notion is that as household income rises, families are better off.
This, in fact, may not be the case at all. A respected economist from the Public Policy Institute of California, Deborah Reed states,

"In the 1970's and 1960's we were talking about more one-earner families. Now, we're talking about two-earner families having the same income level that one-earner families used to have."\(^63\)

Using Census Bureau data, she was able to conclude that middle class income earners had lost ground.

This two-wage earner family phenomenon has had an adverse effect on the middle class. An increasing amount of women (in the 1960's, there was a 36% increase in female employment)\(^64\) entered the workforce since the 1960's supposedly causing a depression in the wages of the entire labor class, which is arguably correlated with the depression of real wages. But not everyone agrees. Katherine Bradbury states that,

"If the labor force participation of wives had not increased, the fraction of families with middle class incomes and median family income would have declined even more."\(^65\)

While this makes logical economical sense, one could argue that if the labor force participation rate had stabilized and we retained linear economic growth, then the fraction of families with middle class incomes would have remained the same.

The quest to "keep up with the Joneses" had more serious consequences for the consumers than they thought. This middle class ideology and the strive to attain and subsequently, maintain it, ended up costing the middle class a lot more than just income, but a culture saturated in deafening consumerism. The two wage earner family in America had to come to exist in order to support their consumer-driven tendencies of Americans that characterize post WWII America. In the 1960's alone, total consumption expenditure, adjusted for inflation, grew by 53%. The "bigger and better" mentality, along with increasing costs and structural workforce changes (to be discussed shortly) gave the middle class American no choice. It was either "keep up" or "fall out" and the latter was not an option. An

observer sums up this fundamental problem regarding middle class one wage earner families. He states,

"As good jobs become scarce and wages and benefits erode, workers act to forestall potential losses by working longer hours and taking second jobs, while families send more workers into the labor force." 67

As you can see, consumerism is just one of the many variables associated with this issue. The advent of the two-wage earner helped create compression in the labor force, but as you shall see shortly, the increases in legal and illegal immigration in America helped compound this effect.

A report from the Center on Budget and Policy Priorities and the Economic Policy Institute studied a ten-year period (from 1988 to 1998) and found that income for the poorest families rose $110 to $12,990. For the richest families it increased by $17,870 to $137,480, more than ten times that of the poorest sector. One of the studies authors, Elizabeth McNichol concedes that the "benefits of the recent U.S. economic growth have not been evenly distributed." 68 In fairness, it could be said

that this is only a small minor setback for the middle class families and that because of its sheer numbers (according to the U.S. Census definition) it is not in any immediate or future threat of nonexistence.

Utilizing future trend projections of Congressional Budget Office data, by 2020, the "top 20 percent of all families will receive more than two-thirds of all national income, while the lowest 80 percent of all families will receive less than 33 percent!"\textsuperscript{69} It is statistics like these, along with other factors that have led many people such as Thomas Byrne Edsall (author of the \textit{Politics of Inequality}) to state,

"The great bulk of Americans are losing economic and political power, while the affluent are gaining both. This is not a recipe for social comity."\textsuperscript{70}

It is this lack of social comity that creates grave concerns for the gradual disappearance of the American middle class.

We have just demonstrated that the structural family changes in the American middle class, from a minority of

\textsuperscript{69} Dolbeare, Kenneth M., & Hubbell, Janette Kay. \textit{USA 2012: After the Middle-Class Revolution.} Chatham, New Jersey, Chatham House Publishers, Inc. 1996. (60)

two wage earners, to a majority of two-wage earners, has helped cause concern about the disappearance of the middle class. One would question as Ms. Bradbury did that the two wage earners in fact helped alleviate this concern. Let's now look at how even a two-wage earner family may not be enough to halt the rising income disparity in America.

**STAGNANT WAGES AND RISING CONSUMPTION**

Perhaps the largest problem of income disparity is the notion that we are having stagnant wages (in real terms) compounded by rising consumption. To illustrate this example let's say that you are in working on an assembly line for a manufacturing plant earning an average salary. You receive a 2% raise every year, while the inflation rate rises 2% every year (as you can see, this hypothetical situation is not rooted in the 1970s). You also decide to have children. Diapers, baby food, and other essentials boost the amount of money you must spend (or in other words, consumption). Say that it is 1990. Assuming that the numbers are constant, are you any better off in 1992? While you did get that 2% raise, the inflation rate (the price of goods and services)
increased by 2% thus creating a zero-sum wage situation. In other words, your wages are stagnant due to the offsetting inflation. But because of your addition to the family, you still have to pay the "usual" bills and now you have the additional costs of diapers, baby food, and other essentials, which increase your consumption. Therefore you are spending more money (consuming), while you are making the same amount of money. The consequences are obvious and it is this example that happens more often then one may believe. Martin A. Larson, author of, Our World In Conflict, illustrates this example. He states,

"Let us say that when reaching the age of 30, a couple has saved $30,000 to be used as a down payment on a house costing $150,000, with a 30 year mortgage at 10% interest. The monthly payments will be about $1,200 and will total $432,000. The couple would need a gross income of about $70,000 a year in order to support a family of four or five in a decent standard of living. And even so, they would be 60 years old before achieving freedom from this debt."\(^71\)

With stagnant wages not adjusted for inflation, it will be increasingly difficult for families to remain financially solvent.

\(^71\) Effects of the Federal Reserve viewpoints taken from Martin Larson’s, Our World In Conflict.
A study by Frank Levy, an urban economist from the Massachusetts Institute of Technology demonstrates how the above hypothetical example is in actuality a reality for many. Using various U.S. government data, he was able to compute the U.S. Living Standards from 1973 to 1996. Using 1996 dollars, he found that the median family income in 1973 was $40,400, $43,600 in 1989, and $43,200 in 1996. Barely any increase was shown from 1973 to 1989, with median family income decreasing in 1996 even with the continual transition of one-wage to two-wage families. What makes his statistical study even more alarming is that he found that government expenditures per person were disproportionately higher than the slight increases in median family income. 72

WHY NOT JUST INCREASE MINIMUM WAGE?

If many are in fact losing out on real wages, as previously demonstrated, how can we have any class mobility and how can the middle class remain a viable entity. Some suggests that the minimum wage should be increased to at least inflation-adjusted status. But is it possible that we are already achieving this? Not

quite. If it were at the same inflation-adjusted level that it was in the 1970's, our current minimum wage would be over $6.30 an hour. In fact, when Congress championed the increase of the minimum wage in 1996 (successfully raising it to $5.15 an hour), the minimum wage in real value, up to that point, was the lowest it had been in some forty years.

If this were as easy in application as it appears in theory, we would have no problem advocating the benefits of minimum wage increases. Unfortunately there are downsides to increasing the minimum wage. Some look at minimum wage legislation as being special interest politics (i.e. public choice theory). The belief is that if the government coercively raises the price of some goods (which for this example we will use labor) above its market value, the demand for that good will fall, and some of the supply will become "disemployed." Essentially this means that the "disemployed" are the

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74 IBID
workers who earlier were able to work at market-clearing wages.

Another way to look at this is through the lenses of the simple neoclassical supply and demand model. For example, if the workers are in a perfectly competitive environment and the cost of labor is increased (notwithstanding inflationary pressures) the businesses will no doubt have to charge higher prices to consumers thus creating a seemingly endless loop.\textsuperscript{76} The effect of this is cost-push inflation and this is what pretty much drives this seemingly endless loop. If we consistently increase minimum wage than we would just be feeding this endless loop and creating higher and higher inflation, an intolerable word in economic circles and it is generally accepted that the war on inflation is one worth fighting for.

Would an increase in the minimum wage be the savior in stabilizing the American middle class? Research suggests that it may in fact have a positive effect on the middle class. The income gap between the top and bottom income quintiles widened from 1993 to 1996, but

after the initiation of the minimum wage increase in 1996, this widening was mitigated by gains for the two bottom fifths. Unfortunately, the widening crevice between the Top 1% and the middle class remained the same.\textsuperscript{77} As discussed earlier, the minimum wage could be subjected to an endless loop, where the costs of labor are subsequently passed onto the laborer in terms of consumer prices. This notion along with the latter statistic presented makes it difficult to ascertain that increasing the minimum wage is the solution to the problem.

\textbf{THE DUAL LABOR MARKET THEORY}

To further compound the income disparity issue, we could also look at the U.S. as having two labor markets and it is through these two labor markets that this inequality exists. The Dual Labor Market thesis, developed by Michael Piore of MIT, suggests that the U.S. labor market consists of the primary and secondary labor market. The primary labor market is one where the work is well paid, contains many fringe benefits (i.e. stock options), is generally stable over the business cycle,

and is usually classified as white or blue-collar work. The secondary labor markets consists of casual work, low and unsteady wages, no health insurance, retirement, or other benefits (something we will discuss in-depth) and little chance for advancement. With a declining union membership (from over 30% in the 1960’s to 12% today), shift of primary markets, concomitant layoffs of white collar workers and the effects of mergers and acquisitions on primary labor market jobs has created an increasingly larger labor market stratification where the primary labor market has fewer spots and the secondary labor market has increasingly more spots.

John Kenneth Galbraith noticed that the poor (who predictably consist of the secondary labor market) generally are more politically apathetic and therefore have lower rates of voter turnout. In fact, a voter turnout poll for the 1988 presidential election confirms this notion. The study found that people in the lowest income quintile had a 30% turnout rate, while people in

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80 IBID
the highest income quintile had an almost 70% turnout rate.\textsuperscript{81} Galbraith wrote in \textit{The Culture of Contentment}, "The importance of reduced voter turnout among the poor is a major factor in sustaining the status quo in income distribution and control of government by the capital-enhanced."\textsuperscript{82}

This is an alarming issue in America and has definite and obvious class consequences. It is an ugly and vicious cycle when the general attitude is apathetic in a representative democracy. With an increasing shift into the secondary markets on the horizon, will this political apathy and feeling of "powerlessness" expand into the middle class, who is more inclined to vote? If this happens, we can be assured that Galbraith's "capital enhanced" theory is reality. With this reality, the potential of equity with regards to income distribution becomes increasingly challenging.

A potential variable that has aided the "Dual Market Theory" besides the increase of two wage earner families is the rise in immigration (both legal and illegal) in

\textsuperscript{81} Dolbeare, Kenneth M., & Hubbell, Janette Kay. \textit{USA 2012: After the Middle-Class Revolution}. Chatham, New Jersey, Chatham House Publishers, Inc. 1996. (47)

the U.S., which has seen rates increase at an alarming rate. It is this population who also engulfs the secondary markets and provides a competitive force in this particular labor market, thus threatening a suitable equilibrium level. In fact, in the 1990s, the number of immigrants has been the equivalent of adding at least 13 new cities to the U.S. map - another Philadelphia; Boston; New Orleans; Fort Worth, Texas; Kansas City, Mo.; Portland, Ore.; Tucson, Ariz.; Atlanta; Cincinnati; Buffalo, N.Y.; Louisville, Ky.; Newark, N.J., and Des Moines, Iowa.\footnote{Barlett, Donald L. \\& Steele, James B. America: Who Stole the Dream? Andrews McMeel Publishing, 1996.} This variable (along with the female labor participation example) creates an increase in the supply of low-income labor, which diminishes wages, thus causing even nominal (notwithstanding real) wages to decrease.\footnote{Strobel, Frederick R. Upward Dreams, Downward Mobility: The Economic Decline of the American Middle Class. Maryland: Rowman \\& Littlefield Publishers, Inc., 1993 (64)} To further compound the problem, many of the illegal immigrants, which are estimated to number around 8.5 million in the U.S.,\footnote{Porter, Eduardo. U.S. Border Control: Based on census, demographers estimate there may be as many as 8.5 million illegal immigrants in US. The Wall Street Journal, 14 August 2001.} routinely take even lower wages (usually in unskilled labor with wages that are below
federal requirements) thus "squeezing out" the other potential labor force participants who are legally required to be paid minimum wage. This "squeezing out" effect is viewed in almost the same way as when a factory or corporation leaves the U.S. to work in another country, thus rendering it no more than a statistic in the U.S. GNP calculation. It is this "squeezing out" that drops the equilibrium level and consequently diminishes wages.

If the dual labor market theory holds true, then it appears that the disappearance of the middle class is not inevitable, unless the secondary labor market does become stratified within it. For example, it may be possible that the "push" into the secondary labor market will bring the median household income down, but yet the official definition of the middle class will remain the same, meaning 33% below the median and 50% above the median household income. If this were done, then it would be impossible to destroy the American middle class statistically speaking, but it would be possible to destroy the American middle class, as we know it. If this increasing shift to the secondary market occurs, we would
see a middle class with a median income that is much closer to the lower class, than the upper class or a greater disparity between the upper class and the lower classes. If this happens, the stratification will become more apparent and the possible ramifications of such actions could be surprising. It is here that we may see a brief "New Gilded Age", but also a reoccurring aura of progressivism could be a very real foreshadow.

THE ROLE OF EDUCATION

Perhaps one could argue that these secondary labor and primary market participants will not become too stratified because they will intermingle together, thus eliminating any potential class stratification.

According to Richard J. Herrnstein and Charles J. Murray, authors of The Bell Curve, this may not be a possibility. Using data from the National Longitudinal Survey of Youth, a nationally representative sample of American youths who were aged 14 to 22 in 1979, they found that there was a correlation between I.Q. and the amount of education one receives. They were also able to show that as the amount of education goes up, so does the amount of income, therefore showing that the I.Q. of an individual
will predict future potential income. They also raise an interesting idea that has been previously found to have statistical significance. The proposal is that men and women will generally mate with people of the same socioeconomic status. And since the authors believe that I.Q. is hereditary, their children will repeat this process thus not only creating stratification, but continually promoting it as well. This insight illustrates potential problems for the middle class because as the secondary labor market widens and the primary labor market stabilizes, the individuals within these labor markets will most likely stay within the same labor market. Thus one could look at the disappearance of the American middle class not only in income disparity terms, but in educational terms as well.

As one’s education increases so does his or her respected wealth. According to the U.S. Census, the median household income for high school graduates was $35,744. This number increases to $64,406 for college graduates and reaches $100,000 for professional degree

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87 IBID: (98-100)
holders. Thus the importance of an education right now is integral to one’s income distribution. But is this education achievable for all or are there barriers impeding their progress and will education become the saving grace for the American middle class in the future?

WILL EDUCATION HELP DECREASE INCOME DISPARITY?

The future of the American middle class in terms of maintaining sustainability through education is doubtful. In Growing Prosperity, the authors illustrate this point. They state,

“The demand for another key service, education, is also likely to be quite income-elastic in the years to come. As income rises and the demand for skills increases, more and more adults have the desire and see the need to return to school.”

This passage brings up two interesting comments that are worth expanding on. First, the assumption is that income will rise. As we have seen in previous passages, this has not been the case for many people. Many have suffered through stagnant wages, while increasing consumption (costs). Second, if the demand for skills increases and subsequently more people go back to school,

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88 Taken from U.S. Census data, 1999.
won't they still mostly be competing for the same secondary market jobs, especially as adults? Generally, it is harder for educated "adults" to advance, as they get older. Why not hire a young freshly minted student, who is willing to work for lesser wages (minimal responsibilities) and arguably has more energy to give than the adult. While age discrimination is illegal, it is an unfortunate aspect of the American reality and could create an ugly loop for future generations.

The question of whether a college education will help the middle class in the future is quite interesting. If a college education becomes the norm (if it isn't considered this already) much like high school was the norm thirty years ago, one may expect that the amount of income received for having an undergraduate degree will decrease in proportion to the supply of education. Regardless, a college degree is important and invaluable, but as more and more people receive an undergraduate degree and as barriers of access and opportunity to receive this education become nonexistent, its value to society and business will decrease and subsequently we are back to square one. With the adoption of greater
technology in the work place, a more skillful workforce will be a necessity and not considered as much of a premium. It is this transition from the standard high school education to a new standard of a college education for most Americans that may have adverse or minimal effects on income equality and consequently the middle class. The expectations of increasing or maintaining one's class based on education may be diminished. With this in mind and real wages stagnant or decreasing, and personal educational costs increasing, it is then that we will have to ask ourselves if we will truly be better off if we receive a college degree.90

The American middle class is also faring no better in the present. Take the story of Michael Reed M.D. After completing his medical schooling he went on for residency as a psychiatrist. He is thirty-two years old and does not receive help from his parents, due to family conditions. He makes $24,000, but due to school and personal expenditures he is in debt over $180,000 of which over $150,000 is unsecured. He knows that his future potential earnings may very well improve his

90 Education costs in the future are expected to maintain or increase steadily from current levels.
current situation; he may not be able to make it to that point without declaring bankruptcy.\textsuperscript{91} In fact in 1991 alone, roughly 100,000 college graduates filed for bankruptcy of which a majority was of middle class background.\textsuperscript{92} For many, the pressure of receiving a degree does not come from the classroom, but rather from the financial aid office. Kenneth Redd, director of research and policy analysis at the National Association of Student Financial Aid Administrators concludes,

"The big concern for students from middle-income families is how much debt they're leveraging to go to school. The average debt load for students graduating from four-year private colleges is more than $17,600; from four-year public schools, its $15,800.”\textsuperscript{93}

\textbf{IS THE EDUCATION SYSTEM TO BLAME?}

Bernard Sanders, an Independent member of the House of Representatives from Vermont reaffirms the problem current college students are facing. He states, “Over the past four years, the tuition and fees for a public college in Vermont have risen more than $900 per year, to

\textsuperscript{92} IBID (55)
$4,946 - the highest in the nation. The cost of private college rose from $11,694 to $14,629. These figures do not include room and board, books or other expenses. The truth of the matter is that many countries that are our competitors in the global economy do a much better job in this area than we do. In Germany, Sweden and France, for example, students pay nothing to go to college. In many other countries, the cost is negligible.⁹⁴ According to an annual College Board survey, average tuition at the nation's public four-year universities rose by 9.6 percent this year, the highest increase in 10 years and significantly more than the 5.8 percent average increase at private four-year universities.⁹⁵ While financial aid has risen, over 50% of that is the form of loans.⁹⁶

Should schools be blamed for increasing college tuition rates? Because schools are faced with declining revenues due to the troubled economy, many public and

⁹⁶ IBID
private colleges have raised tuition. The recent economic woes have helped cause the declining tax base of many U.S. states, which has led schools to look for alternative revenue generating solutions. Unfortunately these solutions are usually associated with raising student's tuition, which has disproportionately affected middle class Americans. But is it the individual schools that are the problem or is the real answer found in the American educational system? Is it our current educational system that is really aiding in the disappearance of the American middle class?

The American educational system has direct correlation between income and mean SAT score. According to SAT Program Information from 1998, the mean SAT score for children in households with incomes less than $10,000 was 873. For children in households with incomes above $100,000, the mean SAT score jumps over 250 points to 1,131. Scoring a high SAT score is integral to receiving a top college education. With a disproportionate amount of poor children receiving an

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98 Taken from SAT Program Information, 1998
inadequate secondary education and not having the necessary opportunities to participate in an SAT preparation course, our current education system could at best be characterized as the few "haves" and the many "have nots". Clearly the American education system is discriminatory. Poorly funded inner city and rural schools and lack of adequate post secondary financial education are two clear and documented causes of how it discriminates.\textsuperscript{99}

While something should be done about our education system, the issue will become less of a problem in the future, as education will have a more and more limited impact on class structure as the secondary market and primary market become more stratified and many compete for menial jobs with higher education classifications. As education becomes more of a requirement (due to increasing technical processes in all industries) for the labor force, the access and availability of education will become more equal and consequently the value of education and its role in promoting class climbing will

\textsuperscript{99} The inequality between school districts in the U.S. has been partially caused by the loss of tax bases associated with the "white flight".

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become increasingly diminished. Unfortunately the effect education has on income disparity will diminish in role and postsecondary education (if costs grow linear or even worse, exponentially) may actually minimize the benefits of even pursuing this education. If the income disparity decreases between high school and college students (as discussed earlier), the demand for postsecondary education may actually decrease at a certain point or become a virtual requirement, such as a high school education has become in America. If this happens, heredity, not education (much like in the first Gilded Age) will again be the predominant catalyst in deciding your fate as a member of the upper or lower class. If education diminishes in importance, its beneficial role in creating the middle class will be an important variable in the demise of the middle class.

So far, we have looked at how both the labor market and education have affected the American middle class and its consequent effects on income disparity. A crucial piece of the puzzle that provides a better idea of why the dual labor market is becoming more apparent and the use of education as a tool to discourage income disparity
will not be feasible is the emergence (and henceforth continual dominance) of the service sector.

**THE EMERGENCE OF THE SERVICE SECTOR**

The transition from a manufacturing to service economy has progressed quite swiftly in America. In 1947, with post WWII consumer good production commencing, the service sector industries accounted for a little over 50% of total hours of employment. Today this number is almost 80%. To further illustrate these statistics, the manufacturing sector consisted of 27% of total employment in 1970 and by 1993 it consisted of only 16% of total employment. On the contrary, the service sector actually grew almost in the same proportion, growing from 66% to 78% during this period. According to estimates by the U.S. Bureau of Labor Statistics, the manufacturing sector will consist of a paltry 12% of total employment by 2005.

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102 IBID
In fact, since 1998, the U.S. has lost 11 percent of its manufacturing jobs, which is the second worst rate of job loss in the past fifty years.\textsuperscript{103} It is clear that the manufacturing sector has suffered, but in fairness, the service sector is not the only cause of this loss of manufacturing jobs. An increase in the government sector, diminishing agricultural interests, and a rising U.S. dollar has (that negatively affected U.S. exports and allowed cheap foreign imports to have a greater domination that resulted in an increase in the current account deficit) also played a key role in the demise of the manufacturing sector. Also, higher interest rates raised the expectation levels for a suitable rate of return, which has had dire consequences on some of the manufacturing firms.

How did we get to this point and why should this alarm us? Why should this transition be viewed in negative light? Economist, Jay Kaplan, from the University of Colorado states,

"Wages in the manufacturing sector have historically been relatively high in the United States and other developed countries. Part of the reason was the

\textsuperscript{103} Friedman, David. One Dimensional Growth. The Atlantic Monthly Vol. 291, No. 1 January/February 2003. (109-110)
higher level of unionization of manufacturing employees. As employment in the manufacturing sector has given way to the service sector industry, there is concern that overall wage rates will fall."\textsuperscript{104}

As we should see shortly there are some valid concerns to this point.

A distinguished economist, Colin Clark, over sixty years ago viewed the transition from a manufacturing to a service economy as a positive sign for the U.S. He states,

"The most important concomitant of economic progress, namely, the movement of the working population from agriculture to manufacture and from manufacture to commerce and services."\textsuperscript{105}

From this quote, Frank Levy, author of \textit{The New Dollars and Dreams} states two specific factors:

"One is the tendency for business and consumers to demand more services as they grow richer. The other is the way in which service industries use relatively large amounts of labor."\textsuperscript{106}

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These two specific factors will be used as a basis of which to demonstrate why it is a problem and how it will aid the disappearance of the middle class.

Let's consider the latter point first. Clark was right in stating that service industries use relatively large amounts of labor; studies have shown that sometimes quality is better than quantity. In a Fortune magazine article by Bruce Steinberg, utilizing U.S. Census data from 1980, he states, "production workers in manufacturing earned an average of $15,000 per year versus $23,000 for managers and professionals. In the service sector, nonsupervisory employees made an average of just $9,900 per year, while their supervisors averaged nearly $30,000 per year."\(^7\)

The other alarming aspect of this is that there is a disproportionate amount of service sector growth between low paying and high paying service sector jobs. Most of the growth has occurred within the low paying jobs. In fact, two of the relatively lower paying service jobs, retail trade and general services, grew over 79% and 144%.

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\(^7\) Bruce Steinberg, *The Mass Market is Splitting Apart*. Fortune, November 28, 1983. (78)
respectively from 1970 to 1990. The Department of Labor predicts that the greatest job growth over the next ten years will not be in computer programmers or financial services, but in cashiers. This explosion of low-paying service sector jobs contrasted with better paying service sector jobs may eventually split the secondary labor markets into two sections, each classified as poor, but with one having considerably more income disparity than the other.

This above paragraph fits perfectly into the dual labor market construct. The service sector is providing more jobs, but as we have already seen, the increase in immigration and two wage earner families have provided somewhat of a buffer against this increase in jobs resulting from this transition. What is alarming is that an increasing amount of the average labor force in the service sector is earning less than its manufacturing sector counterparts, while service sector management is earning more than the manufacturing sector. Not only does this create an even larger income disparity, but

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also further stratifies the secondary market from the primary market. Also, a continual increase in low-paying service sector jobs may possibly minimize the effects of education, as more and more educated individuals may have to fight for the many secondary jobs, because of the lack of primary job growth that is needed to keep up with the subsequent demand. Many studies have shown this in developing countries and its resultant "brain drain" effect on the country. With these comments in mind, the gradual and continual rise of the service sector will only help the two-class system become an inevitable reality.

But won't productivity from the assumption that the resultant technological advances in labor in the service sector allow us to have higher wages? The social activist, Jeremy Rifkin, in response to the question of what will happen to unemployment if service sector productivity continuously rises at a rapid rate, states, "We are on the verge of seeing an end to work with an
associated cataclysmic rise in joblessness."\textsuperscript{110} The authors of Growing Prosperity state,

"Underlying this view (by Rifkin) is the implicit assumption that the income and price elasticity's of services are so low that as we become more proficient at producing everything from communication and banking services to education and recreation, the demand will not be able to match supply. Productivity growth will, therefore, destroy jobs faster than new demand creates them."\textsuperscript{111}

Compounding the last paragraph with the stagnant wages and increasing consumption problem outlined earlier brings about a serious problem. While productivity increases mean that consumers can buy more without triggering inflation, how beneficial will this ultimately be to the secondary labor market participants if jobs become less plentiful? If demand cannot keep up with supply and we have a resultant surplus produced by the service sector, the competition for the secondary labor market jobs will become increasingly tight, notwithstanding the added supply forces caused by immigration and two-wage earners who must contend with rising consumption costs. With a declining manufacturing


\textsuperscript{111} IBID
sector that is continuously becoming more and more outsourced to foreign countries and a service sector that may possibly be constrained by demand-side forces, Americans not only compete for lower paying non managerial service positions, but now have added competition and labor market instability established by the service sector that essentially makes it increasingly difficult for the sustainability of the American middle class. Also, note that the labor unionization movement associated with the increase in the middle class during the mid 20th century is not as apparent or relevant in the service sector (as it was in the manufacturing sector), where efforts to mobilize can be very difficult. Include the possibility of a highly competitive labor force and this almost becomes an impossibility.

**SHOULD WE JUST WORK LONGER HOURS?**

One solution to this problem is to simply work longer. While possible, this is hardly a feasible solution. The warning signs that this is the way the American middle class is trying to hang on already exist. From 1995-1998, middle-income households added 70 hours a year to their work schedule, almost two extra weeks.
From 1989-1998, the increase in work was over 3 weeks. Most people are working longer hours and are glad to be earning the same or even less, when measured against inflation! Studies demonstrate that had U.S. trends in the reduction of normal workweeks from 1900 to 1940 continued, the average full-time workweek would now be over 35 hours. The social ramifications of working more to keep up with your accustomed standard of living presents many problems, including a greater disruption of the American family structure as we currently know it.

With all of this said, the first point from Clark that the tendency for business and consumers to demand more services as they grow richer becomes somewhat irrelevant if the labor force (in particular, the secondary market) is constrained by demand-side forces and consequently does not become "richer". Assuming wages remain stagnant or do not outstrip personal increases in consumption costs, the overwhelming majority

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112 The Global Economy & the New Middle Class 1990's Impoverishment Source: Democratic Socialists of America (DSA). Source found at: <http://www.uwec.edu/geography/Ivogeler/w111/5-poor.htm>
of the American middle class may very well become the "have-nots".

THE ROLE OF HEALTH INSURANCE

If our current system is a foresight to the future, the notion that real wages will outstrip consumption costs will not hold true. Education costs, which I have already discussed, are necessary, but frail in importance to health insurance. Health costs have become a serious issue and a viable threat to the sustainability of the American middle class and the service sector has helped contribute to this ongoing and pressing issue.

Meet Diane MacPherson and her husband, who live in Lowell, Massachusetts. Mrs. MacPherson lost her job at a relocation management company recently and consequently the health insurance coverage that was provided for her, her husband, and four year old child was dropped. MacPherson’s husband does not have access to health coverage. The McPherson’s are not alone as the U.S. currently has 41 million Americans without any health insurance.114 This does not include inadequate health care which constitutes yet another segment of the American middle class.

population. With skyrocketing coverage compounded with employers switching to part-time jobs, hiring positions as temp jobs, and cutting back on coverage for both retired and current workers, the health care problem, if not resolved, could exasperate health care costs and add salt to the consumption wounds. It is not unusual to hear stories of people only receiving thirty nine hours of work a week, thus not classifying them as full-time employees and letting the employer increase its profit margins. With the lower pay associated with the service sector this has translated into lower benefits. The pressure for companies to maximize shareholder return has translated into less equitable social responsibility on their behalf.

Worse, as the working population gets closer to retirement, they will not be able to sustain these health costs at a time when they become more necessary. Assuming our current system of Medicare is the same (or perhaps even worse) and health insurance premiums continually increase disproportionately to real wages and/or benefits, then the health consumption cost will
continuously increase and become a greater burden as the secondary labor force becomes older.

Not only do we have a more competitive and less paid workforce caused by the service sector, we now have a consumption cost issue related to health care (among others) that only gets worse as the population ages. Thus not only will the labor market have to work longer hours, but they will also have to work longer than previous generations. This cruel reality will not allow the middle class to progress and they will find it increasingly harder to secure middle class distinction or reach upper class distinction. As a business executive in charge of benefits recently stated,

"Over time the only two people in this country who will be able to have health insurance are Bill Gates and Warren Buffett. No one else can afford it."\(^{115}\)

**CONSUMER DEBT**

In the highly acclaimed book entitled, *Credit Card Nation*, we meet 22 year-old Sean, a seemingly average middle class student with high ambitions and good intentions. A young individual with his whole future ahead of him: a liberal arts student and a National Merit....
finalist. His mom describes how the temptations of easy
money affected her son. She states,

"A week before Sean killed himself [we] had a long
talk about his debts and about his future. He told
me he had no idea how to get out of his financial
mess and didn’t see much of a future for himself.
He had wanted to go to law school, but didn’t think
he could get a loan to pay tuition because he owed
so much on his cards...He was working two jobs while
attending college and still couldn’t make ends
meet."\[116\]

To add injury to insult, within the year, a debt
collection agency, having full knowledge of Sean’s death,
called Sean’s mother exclaiming, “Wouldn’t you want to
honor his memory by paying off his debts?”\[117\]

THE IMPACT OF CREDIT CARDS

Consumer debt in this country has literally become a
dangerous proposition to millions of Americans who have
found their consumption costs outweighing their earnings.
In fact, 95% of the average family’s disposable income
consists of debt and fixed expenses (i.e. mortgage and
car payments).\[118\] The most threatening and most
accessible vehicle of debt is the credit card. Since the

\[116\] Manning, Robert D. Credit Card Nation: The Consequences of
\[117\] IBID (161)
\[118\] Wollstein, Jarret B. The Endangered Middle Class. ISIL Educational
< http://www.isil.org/resources/lit/endang-middle-cls.html>
introduction of the Diners Club card in 1950 and American Express’s charge card later in the decade, credit cards have become a staple of payment for Americans. In fact, in 1995, credit cards overtook cash payments for consumer purchases, a first in American history.\textsuperscript{119} By 2001, the total outstanding consumer credit topped $1.5 trillion, easily topping the GDP of many countries combined.\textsuperscript{120}

Credit cards are a fantastic opportunity to avoid a short-term situation and a tremendous way to destroy your long-term solvency and well-being. Its effects are especially felt on the American middle class. The emergence of the service sector did more then create individual harm; “it also shifted the epicenter of U.S. economic growth from corporate investment in capital goods to individual consumer decisions. By the late 1980’s, consumer spending accounted for two-thirds of U.S. GDP and three-fourths of employment. In the process, the vast majority of newly created jobs were in low-wage, service occupations.”\textsuperscript{121} Once again we see how

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\footnote{\textsuperscript{119} A timeline from a U.S. News Cover Story entitled, Hooked on Credit. 19 March 1999 is available at \url{<http://www.usnews.com/usnews/nycu/money/articles/010319/debt.b.htm>}}
\footnote{\textsuperscript{120} IBID}
\end{footnotesize}
increasing consumption costs with minimal or no real wage advancement is hindering the American labor force and how the increasing service sector is serving as a stimulate in the progression of this ideal.

THE PSYCHOLOGICAL EFFECT OF CREDIT

The use of debt and its consequential bankruptcy effects on the American middle class can be looked at as also being a psychological issue. For example, "home ownership is one of the most visible signs of participation in the middle class. Families in bankruptcy often want desperately to hold on to their homes, and their bankruptcy filings may be an attempt to clear out other debts so that they can pour their often-shrinking incomes into their mortgage payments."122 This is economically unfeasible and comes at a great expense to the American consumer.

But is it the so-called American dream of having a family, owning a home and driving a car that permeates our feelings and is it these expectations that sometimes move us to act irrational? It is our consumer-driven

psyche and "I want it now" attitude that channels us to behave like this. For example, credit cards allow us to purchase consumer goods right away. We hand the card to the sales clerk and we instantly have the item in our possession. Unlike cash payments (also known as fiat), we don't physically see the money being exchanged and thus lose some notion on just how valuable and important the transaction is. This unfortunate psychology of credit is no doubt fueled by the entities that stand to profit from this opportunity, and in particular credit card companies, whose constant barrage of free items and "easy payment plans" lure the mostly uneducated consumers. The extremely easy access to credit cards (of which many educational facilities help and profit from) also preys on the American middle class as they establish bad credit, which can impact the financial solvency and credibility of the consumer for their entire life. The abuse of credit exacerbates consumption costs to exponential levels. The result is an increase in bankruptcies, which have increased from "an annual average of 183,700 in the 1970s to 373,300 in the 1980s, and then soared to 811,100 so far in the 1990s. That's an
increase of 342 percent over the 1970s (the population increased only 20 percent)." If personal bankruptcies, especially those resulting from personal credit abuse, continue to escalate, we will find the American middle class saddled with one more unneeded and unnecessary negative externality that will not only infringe on their lifestyle, but on their future generations lifestyle as well.

**THE FINANCIAL MARKETS**

For the lucky individuals of the American middle class that have so far not been affected by stagnant wages, increasing consumption costs, different labor market conditions, bankruptcy or any of the other myriad factors discussed earlier, may find their net wealth (investments if you will) become stagnant, or worse, decreasing. In 1980, 10% of net wealth was invested in the stock market. In 1997, this number increased to 80%. With most of our net wealth invested in equities, the integrity of the equity market becomes increasingly important. But with over $6 trillion in equity lost

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124 Wollstein, Jarret B. The Endangered Middle Class. ISIL Educational Pamphlet Series, December 1997.
<http://www.isil.org/resources/lit/endang-middle-cls.html>
since 1999, a mixture of behemoth accounting scandals such as Enron, Adelphia Communications, WorldCom and the media-friendly Martha Stewart insider-trading scandal, the opportunity to improve one's status through prudent investing may become increasingly difficult without proper safeguards.  

In a recent Fortune magazine headline entitled, "You Bought. They Sold", we see the all too apparent illustration of executives cashing in their stock options, as they willingly knew their company was headed toward financial difficulty. The article asks, "Who was left holding the bag?" The answer was quite obvious. It was "You." The days following the progressive movement where social responsibility was a mainstream word in the business world are gone. The emphasis on the "bottom line" is clearly emphasized upon all, including the well-being of a country becoming more fragile in the financial solvency department.

The effects of this clearly impact the American middle class and the lower classes attempt at reaching

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125 This sell-off of equities has also seen record volume in the U.S. and abroad. A recent article in The Business Times report that global stock losses total US$13 trillion in last 2 years.  
the prized middle class. With widespread corruption (not seen since pre-SEC) of the financial markets, conflicts of interest (such as investment firms who participate in both investment banking and retail financial services)\textsuperscript{127} and the dismal average investor confidence resulting from this, the opportunity to increase one's wealth (both short-term and long-term) will become increasingly difficult. Without appropriate safeguards to protect the average investor, equal opportunity to profit from the markets, and proper education of the financial markets to the average investor (i.e. such as abusing margin accounts), class stratification will be enlarged.

\textbf{THE ROLE OF CORPORATE GOVERNANCE}

One of the safeguards is a concept called corporate governance, which has received more and more media attention amidst the various corporate scandals. Corporate governance is loosely defined as: promoting corporate fairness, transparency, and accountability to

\textsuperscript{127} This was seen with the passing of the Gramm-Leach-Bliley Act in late 1999. The Act repeals the 66-year old Glass-Steagall Act, which prohibited banks, securities firms and insurance companies from affiliating.
shareholders.\textsuperscript{128} The overwhelming goal to provide a suitable ROI for stakeholders has perhaps compromised business ethics and in the process, caused financial hardship for the average investor and worker. Not providing corporate governance creates an ethical obstruction that provides a huge threat to the American’s middle class’s ability to increase net wealth.

Unfortunately it appears that the invisible hand of the market has become the invisible accounting work and communication of “insiders”.

One of the causes of this new investment culture is what Harvard professor Rakesh Khurana calls the shift from managerial capitalism to investor capitalism where institutional investors had a greater say and consequently an adverse effect on companies.\textsuperscript{129} It is no surprise that this shift coincided with the yuppie years of the 1980’s where movies like Wall Street,\textsuperscript{130} which portrayed the effects institutional investors had on the

\textsuperscript{128} J. Wolfensohn, president of the World Bank in The Financial Times, 21 June 1999, defines this. Shareholders are referred to as owners of the company.
\textsuperscript{130} A great visual of the yuppie Wall Street years where junk bond king Michael Milken was cheating investors out of millions of dollars.
average American family and how a few "haves" (such as the junk bond king, Michael Milken) caused a lot of others to become "have nots".

One of the highest annual yield and stable investments in the 20th century was to invest in the Dow components of the stock market. But with increasing instability, lack of basic investing education and "irrational exuberance" the markets as an investment vehicle for aspiring class climbers has become regressive. Increasingly, horror stories of families losing most of their life savings (usually through 401K retirement plans) are becoming more wide spread. While history has shown that market corrections are not permanent, rather, only running the gauntlet of the business cycle, the importance of putting even more safeguards on the market needs to be addressed.

**FINANCIAL MARKETS AND TAX BENEFITS**

Notwithstanding the barriers to access, corruption and mistrust, financial markets have also been shown to disproportionately affect the more affluent specifically

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131 Alan Greenspan coined this phrase in 1997 with regards to the ridiculous market capitalizations of some stocks; in particular, technology related stocks as discussed earlier with regards to the New Economy.
within the American tax system. Two types of taxation
that have had a regressive effect on the middle class,
the income tax deduction for investment interest and the
capital gains tax have disproportionately benefited the
upper class. If the current tax system regresses further
or maintains its current pace, the income disparity
between classes will become even more apparent.

The income tax deduction for investment interest
essentially enables individuals to "borrow" money to
invest in equities and derivatives and subsequently
deducts the interest from their gross income at tax time.
While this at first glance does not seem like
overwhelmingly critical blow for decreasing social
stratification, take into account that over 81% of the
$11.6 billion in write-offs were claimed by 669,000
individuals and families with incomes over $100,000 with
less then 2% of tax-fliers taking advantage of this.\textsuperscript{132}

The capital gains tax also has the same regressive
effect on the American middle class. Profits on
financial investments (i.e. stocks, real estate, etc...)

\textsuperscript{132} The tax structure penalizes lower income groups. Source from:
are not taxed as regular income and long-term investments (those held for more than a year) are only taxed at 20%, as compared to a regular savings account (a more stable and secure investment vehicle), which requires a larger tax percentage off of the interest earned. The regressive nature of the current U.S. tax system with regards to investments is clearly illustrated within these two examples. Those who are in a better financial condition clearly receive greater benefits and opportunities to invest, while those (in the lower and middle class), who have minimal to no disposable income are comparatively penalized. It is systems like this that are conducive to greater income disparity and greater social stratification as the middle class will find it increasingly difficult to build upon any disposable income they may have. As we shall see in the next section, the overall current tax system and its regressive nature, compounded with corporate friendly loopholes, will also aid in the gradual disappearance of the American middle class.
THE FUTURE OF MIDDLE CLASS PARTICIPATION

If the equity markets become even more controlled and corporate governance is not established, the middle class, in particular, will find barriers to entry too high to justify being involved/participating in them. If the upper class has a greater and greater hand in the determination of the financial markets as we are starting to see due to the general lack of confidence in the financial markets, it will create a recipe for disaster for the middle class. With this we will increasingly demonstrate Marxian theory of capitalism and fall into two very distinct classes, "the property-owners and the property less workers."\(^{133}\) This promotion of investment disparity will have a direct correlation with income disparity and subsequently with equality because of the unequal balances of wealth between classes. If one doubts that investment disparity is not that serious, one has to look no further then the Center for Budget and Policy Priorities Study that found that the top 1% of the American population owned almost 50% of the stocks, while the bulk of the shareholders (80%) held just four

\(^{133}\) From the Marx-Engel's Reader. (70)
percent. With this formation, the rich will get richer and the poor will get poorer and the lucky few from the middle class that have not been affected by stagnant wages, increasing consumption costs, different labor market conditions, bankruptcy or any of the other myriad factors discussed earlier will most likely become increasingly disoriented and play the role of the "property less worker", thus promoting only inopportunity, not beneficial advancement, through mostly no rational fault of their own.

THE AMERICAN TAX SYSTEM

In Dickens's classic, David Copperfield, we are confronted with the following statement, "it was as true...as turnips is. It was as true...as taxes is. And nothing's truer than them." This comment has had increasing meaning for American taxpayers during the last half of the twentieth century. As we have discussed earlier, the 1950's were conducive and largely influential in the rise of the American middle class. With this in mind, enclosed is the following statistic:

134 Smith, Jack A. Boom was a Bust for Many. Found at: <http://www.mdcc.edu/users/jmcnair/Joe23pages/Defining%20Middle%20Class.htm>
"In 1956, the average American paid less than 10% of his or her income in taxes. Today the average person pays at least 47% in federal, state, and local taxes, including hidden taxes."\textsuperscript{135} These statistics demonstrate that our current tax system is regressive in nature. This means that taxes disproportionately affect one group more than another group. In our case, regressive taxation is harmful to the lower and middle classes, while beneficial to the upper class. For example, let's use sales tax to illustrate the affects of regressive taxes on effective tax rates. With a sales tax of 5%, a middle class family earning $50,000 a year buys a new minivan that costs $20,000, while a family earning $500,000 buys the same exact minivan at the same cost. Both will have a sales tax of $1,000, but the middle class family's effective tax rate (tax measured by percentage of income) is 2%, while the upper class family's effective tax rate is .2%. Therefore the middle class family is paying a much greater amount of sales tax as a percentage of income than the upper class, even if the upper class family had bought a $150,000 Ferrari. Various other taxes,

\textsuperscript{135} Wollstein, Jarret B. The Endangered Middle Class. ISIL Educational Pamphlet Series, December 1997.
including the social security tax have the same effect. With our current regressive tax system, the impending doom of the American middle class becomes even more apparent.

**PROGRESSIVE TAX STRUCTURE**

In 1906, Teddy Roosevelt stated,

"The man of great wealth owes a peculiar obligation to the state, because he derives special advantage from the mere existence of government."\(^{136}\)

This has increasingly not become the philosophy of modern America as demonstrated by its regressive tax system. Since the 1950s, the top tax rate for the richest citizens in America fell from 91% to 27%, while the corporate tax rate went from 52% to 35%. The notion that the higher your income is, the higher your tax rate should be has long been advocated by many respected policy analysts, academics, and elected officials. But in America, a culture deeply rooted in individualism, progressivism may somewhat fall on deaf ears. Some people believe that a more progressive tax structure will

adversely affect everyone in a negative way. Journalist, Robert Samuelson, states,

"Too much redistribution becomes politically corrupting and economically destructive. Under the guise of "meeting national needs," politics becomes an exercise in buying votes because burdens (taxes) fall narrowly and benefits are spread widely. The danger is suffocation under an excess of taxes, government subsidies and welfare programs. It's insidious because it creeps up slowly."\(^{137}\)

The goal of a more progressive tax reform is not to promote equal distribution characteristic of a communist entity, but to promote a fair and equitable taxation that is not as regressive on the lower classes. Another example of a regressive tax would be what is commonly referred to as a "flat tax". A flat tax charges an equal tax percentage to everyone regardless of whether you earn $20,000 or $350,000. This is clearly regressive (much like a national/consumption sales tax as we saw earlier) in that it affects the lower income groups disproportionately more than the higher income groups. The flat tax destination would only speed up the American middle class disappearance, not impede it.

Promotion of an even greater marginal tax rate system in direct correlation to earned income is a viable

\(^{137}\) IBID
and plausible solution that discourages the regressive nature of the current tax system. Keynesian fiscal policy aimed at supply-side tax cuts, much like Ronald Regan and George W. Bush have promoted, have been a dagger in the heart of the American middle class. Its incentives of promoting an increase in investment, subsequently promoting economic growth has directly benefited the upper class and its success has been nonexistent to the middle class, except in discouraging any benefits they should have seen to counter their stagnant wages.

Supply-side tax cuts have been shown not to be an effective policy tool in dealing with this problem. When taxes are cut, some other policy is adversely affected. Worse, if a policy, such as defense, is increased, while taxes are cut, then some policies are potentially going to be eliminated, or are federal debt will balloon. This is exactly what Reganomics did and its outcome may have helped the upper class in the short-run, but it could potentially negatively affect all of America in the long run. Cutting taxes on a regressive level is essentially what Newt Gingrich, in his Blueprint for the Future, has
called an “opportunity society”. It is this opportunity society that rewards America's most privileged individuals and families and that has and will continue to fuel the upper class, leaving the other classes to become defenseless spectators in the conservative arena.

CORPORATIONS VERSE INDIVIDUALS

By 1954, “for every dollar of income tax paid to the U.S. Treasury by individuals and families, corporations paid $0.75. By 1994, they were paying only $0.20.” According to a study by Ralph Nader and the Center for Study of Responsive Law, eliminating just five corporate subsidies and five corporate tax breaks would result in substantial $50 billion a year savings with most of these corporations earning tidy profits even without the "friendly" subsidies. Since 1988, “Congress has found about a trillion dollars in cuts, the bulk of it (over 98%) from social services to the poor, but less than 2%
of those cuts came from subsidies to big business.”\textsuperscript{141} In fact, if today’s corporations were taxed at the 1950’s level, the federal government would have over $250 billion more dollars in government revenue.\textsuperscript{142} While global competition has provided a greater incentive for efficiency, providing subsidies and loopholes to the corporations who have the largest lobbying and special interest dollars and yet still make a suitable profit, is completely unnecessary and provides only the shareholders with the benefits (mostly upper class individuals), while leaving the lower classes to pick up the tab.

**THE WELFARE STATE**

"From 1988 to the present, Congress has found about a trillion dollars in cuts, the bulk of it (over 98%) from social services to the poor, but less than 2% of those cuts came from subsidies to big business."\textsuperscript{143} The word “welfare” carries with it a stigma of “hopelessness” and “despair” and is considered a taboo, an embarrassment of sorts, in American culture. But the welfare state, sparked by the New Deal and accelerated by the Great

\textsuperscript{141} IBID
\textsuperscript{142} IBID
\textsuperscript{143} IBID:
Society, has become a staple of our culture and has become a detriment to the middle class. A recent article by the Philadelphia Inquirer demonstrates this by illustrating Social Security and Medicare taxes. They found that these taxes paid by a median-income family increased an earth shattering 3,498% between 1955 and 1995. The amount deducted from paychecks rose from $84 in 1955, when only Social Security was withheld, to $3,022 in 1995, when both Social Security and Medicare taxes were deducted.\textsuperscript{144} These programs have predominantly hurt the middle class, especially the Social Security tax, which is a prime example of regressive taxation. The amount of income subject to tax is capped at $62,700 (as of 1996), but is adjusted for annual inflation. Essentially this means the more money you make, the lower your effective tax rate is.\textsuperscript{145} It is loopholes like the $62,500 taxable income for Social Security cap that are hurting both the lower and middle classes because the effective rate is much higher for them. While proponents of the cap state that this alienates the upper class


\textsuperscript{145} IBID
because the benefits are capped, the true and more realistic alienation is aimed at the lower classes.
"How do you define success? When you can wake up in the morning knowing you can smile all day long."

-Mark Cuban

CONCLUSION

Through the various forces described above, the disappearance of the American middle class appears inevitable. Our current systems, ideology, and practices, as demonstrated throughout, have pictured the grim but true reality of this gradual disappearance of the American middle class, into what could become a virtual two-class system much like the early days of the Gilded Age.

THE NEW GILDED AGE

Perhaps as economic structures change within a capitalistic, representative democracy, the country must readjust its social construct. This could be a natural evolution that has been proven over time and is illustrated by the original Gilded Age. The original Gilded Age of America saw the likes of industry titans such as Carnegie, Rockefeller, Gould, and the Vanderbilt’s owning much of the countries wealth through the various industrialization movements that spawned the
industrial revolution in America. The labor force could be characterized as consisting of the minority primary labor force and the majority secondary labor force, which precipitated a growing labor movement due to the low wages and conditions characterized by this labor force. Technological advances that ushered in scientific management and mass production brought an increase in goods and services to consumers that resulted in a more consumer/material driven society.

The Gilded Age of old has strikingly eerily and similar characteristics to present day America. While the manufacturing sector gained ground and ultimately surpassed the agrarian interests during the industrial revolutions, the manufacturing sector has now been replaced by a predominant service sector in the U.S. This transition of labor classification in both cases has resulted in an increase in technology and an increase in income disparity.

The dual labor markets are becoming a reality in the U.S. due to this emergence of the service sector. The resulting low wages characteristic of the majority of service sector jobs and the disparity between management
and the average worker compounded with stagnant wages and rising consumption is leading the U.S. ultimately to a two class system that will leave the middle class, as we know it, extinct.

The use of education in decreasing this income disparity will become increasingly less significant because as technology increases and the labor force becomes larger due to constant immigration, two-wage earner families and a secondary labor market that will become increasingly more competitive. Participants of the labor force will be forced to fight for "lower" jobs with higher levels of education attainments. The participants who do not reach high levels of education attainment may be "squeezed" even more as illegal immigrants will work below minimum wage. Therefore education will see decreasing marginal benefits, while (assuming the current system remains constant) consumption costs that may not warrant the feasibility of such a proposition. Since the middle class has relied on education and decent paying manufacturing jobs to facilitate and maintain their standing, they will find it increasingly difficult to rely on these two elements for their survival.
To elevate the severity of this matter, the burdensome costs of education may fail in comparison to that of health insurance and consumer debt that has plagued America and disproportionately affected the American middle class. Even if stagnant wages are miraculously lifted and the middle class at least receives inflation-adjusted wages, there are still the consumption costs that will make the middle class unable to move upward. Unfortunately the middle class will be more mobile to move downward, unless health care and consumer debt have less impact on our future, though this is highly doubtful due to historical evidence and cultural ideology. The majority of the middle class will not only be with the poor in the secondary labor market, but will have no chance to achieve suitable progress due to these burdens.

Even worse, the control of the financial markets (which ultimately control the factors of production) and an increasingly feel of distrust and lack of confidence by the average American will result in a decease of ownership in equities by the lower classes. This has devastating effects on trying to prevent social
stratification as the middle class gradually begins to fail in its role as a buffer between a two-class system.

The current American tax system also is aiding in the demise of the middle class due to its regressive nature on the lower classes. This regressive framework helps the upper class disproportionately to the middle class. Consequently, the middle class must unequally pay taxes that otherwise would not have happened if certain caps were taken off and the tax system were to implement a more marginal tax structure that would ultimately promote equity across the board.

It is these forces that will have a part in the demise of the American middle class. With all of these elements in mind, perhaps one of the greatest contributors to the gradual disappearance of the American middle class is the cultural ideology of Americans. The conservative nature of individualism and the notion of individual responsibility in achieving middle class aspirations are rooted in the theory that America is the “land of opportunity” where all individuals “are created equal”. This is far from the truth. In our culture we idolize the rich; everyone knows who the richest person
in the world is, but many do not know true personal happiness that material wealth cannot attain. With American progress has come a greater number of goods and services, which has promoted consumerism and unending list of wants and desires. While progress has increased our standard of living greatly and has benefited us, Americans have become more dependent on consumerism, and in the process, while dealing with all of the structural changes that adversely affected them; they also have to deal with the cultural pressures associated with this.

All of these elements combined will lead to the disappearance of the middle class and garner in the transition of a new Gilded Age. The American middle class as we know it will be substantially altered with a very few select making it to the upper class and a majority being demoted into the lower class. The labor market structure will become more homogenized as fewer individuals habituate the primary labor market and the masses struggle in the secondary labor market. Of course unforeseen world events could change this equation (i.e. the mass destruction of capital), but at our constant pace, social stratification will become increasingly
larger and the two-class system will be the predominant social system in America.

Theodore Roosevelt, alludes to the saving grace of today’s middle class, much like it fueled the accession of the middle class during the original gilded age, when in 1905, he stated,

"When I say I believe in a square deal I do not mean... to give every man the best hand. If the cards do not come to any man, or if they do come, and he has not got the power to play them, that is his affair. All I mean is that there shall be no crookedness in the dealing."

This paper does not profess a socialist regime, but rather shows how our current practices and policies will virtually eliminate the American middle class. The solution, as Theodore Roosevelt stated, is to provide trust, confidence, and equity to our current socioeconomic system to prevent this disappearance of the American middle class.

POTENTIAL FUTURE OUTCOME

If this hypothesis does in fact come true, we may see a new form of progressive movement that will not focus as much on poor labor conditions and social equality for all, like the progressive movement of the early 20th century, but rather a progressive movement
founded in response to the dual labor markets and the lack of mobility associated within this structure. This will be compounded with a much more liberal viewpoint that will replace the more conservative viewpoint we currently have. While we would like to think of ourselves as a civilized country, the potential economic and social consequences of such a movement could be devastating for America. One can look at the Pullman Strike during the original Gilded Age to realize what labor mobilization can do to the economic well being of the U.S. and post-Treaty of Versailles Germany to show what economic upheaval can do to the social construct of a country. Too much financial power in the hands of an extreme minority spells trouble. Financial power equates into political power, which equates into control, which consequently equates into larger barriers of economic and political entry. Will we still revere the financial powerful at this point in history?
WHERE DO WE GO FROM HERE?

During the next few decades, we will need to increase our understanding of this issue and educate the masses on how current policies will affect them and their future generations. As a popular quote states, "Education is emancipation from poverty." Educate the dangers of consumer debt and that borrowing to pay a loan off is not financially healthy. Also, voter education will be essential in promoting the wants and needs of the majority. Voter apathy, which is more evident in the lower class, will only stunt any progress in establishing equality.

Instead of providing unnecessary subsidies, cap limits, and incentives to corporations and the wealthy, use the money to fund a more universally accepted health care and education system. If the education system does have less of an impact on income disparity, it will still be a necessity in that the globalization of the economy will steadily bring a stream of competitive and educated workforce from overseas for the foreseeable future.

The tax system needs to promote marginality. The regressive tax system undercuts the American middle class
and makes it difficult for them to maintain themselves. While there are some economic benefits to having tax benefits on long-term investments, there are also benefits to the average “small” investor keeping their money in a FDIC insured savings account. Being penalized more for saving money in a small savings account adversely affects the middle class. The incentive to save money, especially at very low interest rates (as we are currently experiencing) when they are going to be taxed reduces their already negative real return.

The emergence of a large service sector has had an adverse impact on the middle class. Unfortunately, the future trend in the U.S. is towards low paying service sector jobs and the outsourcing of manufacturing jobs. It may take until the convergence theory\textsuperscript{146} is in full effect, that our country can have any type of comparative advantage in manufacturing. Manufacturing jobs have traditionally provided the middle class with higher paying jobs, but the concern is that if this convergence is met, the necessity of cost effectiveness may overrule

\textsuperscript{146} Convergence theory (in the economic sense) is the notion that less developed countries will eventually catch up to the U.S. in standard of living and capital infrastructure.
any chance of reaping the benefits enjoyed previously by U.S. manufacturing jobs. If the service sector keeps producing meaningless low paying jobs, we may see a split within the secondary market where the poor are extremely impoverished to the acceptable living standards of the U.S. While these low paying service sector jobs provide employment, immigration and the continual up trend in two wage earners will make even this employment competitive. Of course there is a lot of "ifs" in this scenario, but it is definitely plausible.

The employment of corporate governance in the financial markets is the first step in promoting middle class interest in the equities market. While the free market force is beneficial, the free market cannot always work by itself when there are market discrepancies (in this case, insider trading). Government regulation of the equities market and their respected firms is needed on a vastly increased scale. With the middle class acting as a buffer by actively participating in the markets, the threat of a monopoly on the factors of production, which essentially is held by shareholders, becomes less.
These solutions will be necessary if the U.S. wants to avoid a two-class system. It is not too late to change our policies, practices and procedures, but time is running out.

The most important thing we can do for ourselves is to be educated and build healthy foundations for our future generations. Our habits and desires are developed at a young and impressionable age and are subsequently carried throughout adulthood. It is at this impressionable age that the solution to the problem must begin. Molding the impressionable mind to realize the dangers and consequences of cultural byproducts, educating them to value life beyond material substance, and empowering them to make a difference, are the three key ingredients in building this foundation. It is this foundation that will become key to promoting equitable income and a system that does not emphasize and revere extreme material wealth, but rather intangible wealth, such as family and health. In a country that is dictated by income and wealth, this would be a refreshing and healthier aversion that could decrease the importance of "class" and its effects in America.
Curriculum Vitae

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Phi Alpha Theta: International Honors Society for History.
Deans List: Multiple times.
Honors Convocation: Recognition.
S.T.A.R. Academic Excellence Award and Joseph Petragillia Community Spirit Award.
President’s Scholar: Full tuition for fifth year.
Future: Short-term: Investment/Retail Banking.
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