

SUPER RICH: Decline of the U.S. Middle Class

MINDS-ON ACTIVITY

Take a look at the following two definitions:

Oligarchy

When a government or organization is controlled by a small group of people. From the Greek word *oligarkhia* which means “government by the few.”



Plutocracy

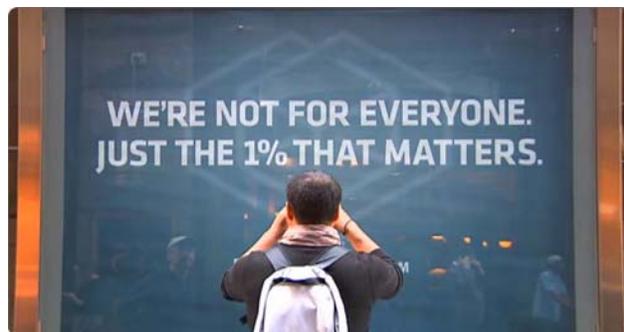
The rule or control of society by the wealthy. From the Greek words *plutos* which means “wealth” and *kratia* which means “rule” or “power.”

1. In what ways does Canada and/or the United States appear to be an oligarchy? If Canada were an oligarchy, who would be the members of the “small group” that controls everything?
2. Do Canada and the United States also demonstrate the characteristics of a plutocracy? Do you think wealthy people control society? What are the tools the wealthy could use to control society?

SETTING THE STAGE

It turns out the message of the Occupy Wall Street movement wasn't that far off the mark. After a small group of protestors took over a park a block away from Wall Street in September 2011, people began paying serious attention to the growing gap between the rich and the poor. The rallying call of the protestors became “We are the 99 per cent,” a clever way

of pointing out that one per cent of the U.S. population was controlling close to half of the nation's wealth. Occupy Wall Street inspired similar protests around the world, including several across Canada. At the time, critics made the protestors seem like a bunch of complainers who simply resented the rich. However, over a year later, it appears their message was right on the money.



Staggering inequality

And by money, we mean a lot of money in the hands of the super rich. According to a report by the U.S. Congressional Budget Office, between 1979 and 2007, the top one per cent of U.S. wage earners saw their incomes increase by a staggering 276 per cent while the bottom 20 per

cent saw their incomes rise by a modest 20 per cent. While traditional economic theory maintains that a gap between the rich and the poor is not necessarily a bad thing as long as the gap is reasonable, the U.S. has managed to create a class of uber-rich elites that are phenomenally wealthy, influential and powerful. In fact, some analysts believe the U.S. is fast becoming a plutocracy with a tight knit group of oligarchs calling the shots from the top.

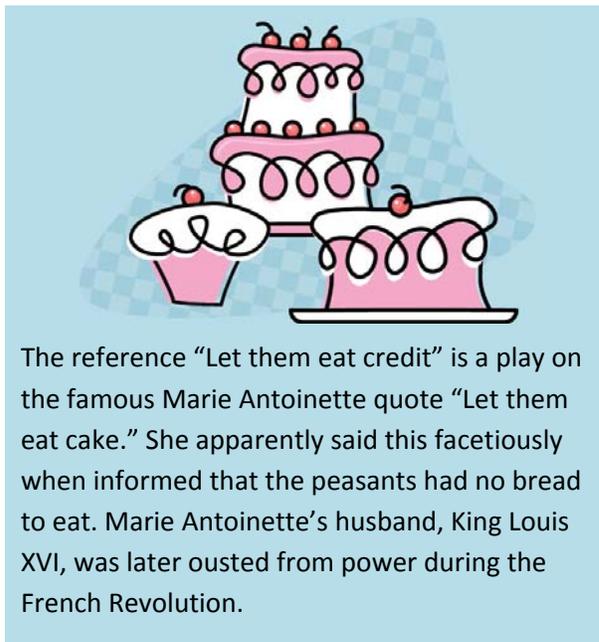
Not investing back into the economy

So how is this different from previous points in history? Haven't the rich always had the most political and economic influence? Well, in the past, the super rich would invest back into the economy and the economic benefits would filter down to the rest of the population. Today, the top one per cent — many of who have gained their wealth through transactions like derivatives, hedge funds and currency trading — are not giving back because they are only making money and not building economic infrastructure. They aren't even paying taxes to the same degree as the average U.S. citizen — a problem that prompted the richest man in the U.S., Warren Buffet, to appeal to lawmakers to make him and the other super rich pay more taxes.

“Let them eat credit”

And while the rich get richer, the middle class and the poor are still trying to recover from the collapse of the U.S. housing market in 2006 and the financial crisis of 2008. By some estimates, 20 million Americans are either unemployed, underemployed, or have quit looking for work. Others estimate that almost 15 per cent of the U.S. population lives in poverty. Meanwhile, to keep the middle class quiet, financiers are employing a “let them eat credit” strategy that sees consumers pick up cheap mortgages, lines of credit, and credit cards at the expense of their

personal debt load. The strategy is risky because the financial system is counting on consumers maintaining their ability to pay back their debts. In the meantime, slow economic growth and stagnating wages are frustrating a return to previous U.S. financial fortunes.



The reference “Let them eat credit” is a play on the famous Marie Antoinette quote “Let them eat cake.” She apparently said this facetiously when informed that the peasants had no bread to eat. Marie Antoinette’s husband, King Louis XVI, was later ousted from power during the French Revolution.

Resentment

The backdrop of this frustration is a growing resentment aimed squarely at the super rich who have managed to escape every financial crisis since 1980 with barely a scratch. Inequality between the rich and the poor tends to be tolerated as long as everyone’s lot improves. In today’s United States, the circumstances of the middle class are simply not improving (and in many cases are on the decline) and, with the oligarchy of the rich controlling the majority of the nation’s wealth, resentment is growing. Whether that resentment translates into a rebellion of the middle class is difficult to predict. However, one question remains: What level of inequality are the people of the United States willing to tolerate before action is taken to shrink the gap between the super rich and the disenfranchised 99 per cent?

To Consider

1. What was the message of the Occupy Wall Street movement? How accurate was their message?
2. How wealthy are the super rich? Give examples.
3. Why haven't things improved for the middle and lower classes despite the huge advances of the super rich?
4. What indications are there that things are very tough for the bottom twenty per cent of U.S. wage earners?
5. What is the "let them eat credit" strategy? How effective a strategy is it?
6. Use your educated opinion to answer the question posed at the end of the article.

VIDEO REVIEW

Pre-viewing Activity

After the U.S. Civil War, an era of construction ensued that led to a surge in the economy as wealthy industrialists like John D. Rockefeller, Andrew Carnegie, J.P. Morgan, and Cornelius Vanderbilt amassed huge fortunes. The construction of the railway and the emergence of the mining and factory systems allowed the U.S. economy to grow to previously unprecedented levels. However, this massive economic growth seemed to overshadow social problems like poverty and horrible working conditions. This situation prompted authors Mark Twain and Charles Dudley Warner to write a book called *The Gilded Age: A Tale of Today* in which they claimed that the growth of a super-rich class was hiding social problems behind a thin layer of gold. Twain and Warner's ideas were so influential that scholars began referring to the period as the Gilded Age.

How is today's economic situation similar to that of the Gilded Age? Work with a partner to answer this question.

Viewing Questions

1. What is the sobering issue, mentioned at the beginning of the documentary, burdening the presidency of Barack Obama?

2. What competing views do people have of Wall Street?

3. a) When the economy expanded 50 years ago, how were most Americans affected?

b) Over the last 30 years as the economy has grown, how has the situation been different?

4. What was the Gilded Age? How is today's economy similar to the time of the Gilded Age?

5. According to John Steele Gordon, what was Wall Street like during the Gilded Age?

6. What positive things did entrepreneurs of the Gilded Age do to help the U.S. economy?

7. Why was the era from 1945 to 1973 referred to as the Great Compression or the Golden Age?

8. a) Who benefited the most during the Golden Age?

b) Who benefited the most during the period of economic growth that began during Ronald Reagan's presidency?

9. How is Greenwich, Connecticut an example of the tremendous wealth concentrated in some small U.S. towns?

10. a) How did the inequality issue make its way into the presidential election in 2012?

b) What was President Obama vowing to do if he was elected? Was he able to bring his promise to fruition after his victory?

11. What were workers in Lansing, Michigan protesting the day they went to the state legislature?

Post-viewing Questions

1. In the documentary, Yale University’s Jacob Hacker asks if a vibrant middle-class democracy can flourish when wealth is concentrated among the elite few. Hacker says that democracy suffers in this environment. Do you agree with his perspective? Why do you agree or disagree with Hacker?

2. At the end of the documentary, journalist Keith Boag says:

“So this is the state of the union today as Barack Obama begins his second term. He is at least symbolically the custodian of the American dream, a dream that life will always get better and richer and fuller for everyone. The ideal has never matched the reality, but through much of its history you could argue America was at least moving towards the ideal. You wouldn’t say so now.”

Does Boag’s perspective summarize the current state of affairs in the U.S. or is the American dream still alive and well? Explain.

FOCUS FOR READING: Roots of the Crisis



like hedge funds, derivatives, and currency exchange — money making strategies that essentially expand investment activity in forms that sometimes border on gambling. The deregulated system has made a few people (the one per cent targeted by the Occupy Wall Street movement) a lot of money without necessarily improving the lot of the rest of the working population.

The Super Rich: 1979 to the present

Many economic theorists point to the presidency of Ronald Reagan as the foundation of the current state of income inequality in the United States. After Reagan’s election in 1979, policies removing regulations from the financial system led to the emergence of a paper economy that saw people getting very wealthy, very quickly. Deregulation of the economic system allowed for the birth of complex financial instruments

The Reagan era also saw the introduction of legislation restricting the rights of workers as trade unions came under attack. Over time, wages remained stagnant (or dropped!) while living expenses went up. Meanwhile, economic recessions — like the one in 2008 — have hit the middle to lower classes very hard. All this while a class of super-rich elites has emerged that now controls almost half of the nation’s wealth. The following graphic illustrates the gap between the very rich and the very poor.

U.S. Income Increases – 1979 to 2007



Source: U.S. Congressional Budget Office

While the super rich have enjoyed an explosion in income, the bottom 99 per cent has enjoyed modest improvements. The problem with this kind of inequality is that, when inflation is factored into the equation, the bottom 20 per cent has barely enough to make ends meet. What is most alarming is that the gap between the super rich and the rest of the population continues to grow. While most people would agree that affluent investors deserve to be rewarded for investing in the economy, few would agree that a CEO for a successful

company should make hundreds of times more than their average employee. In fact, the International Monetary Fund (IMF) recently reported that the global financial crisis that started in 2008 might have been caused (at least in part) by the rise in inequality in the U.S.

In the U.S., many CEOs make over 300 times more than their average employee. In Canada, the top 100 CEOs make 189 times more than the average employee.

Questions

1. Why do many scholars believe that the current state of inequality can be traced back to the Reagan era? What did the Reagan administration do to change the economic landscape of the U.S.?
2. Isn't it really just an issue of fairness? Should the top one per cent really be making so much more than the other 99 per cent of the population? What measures could be taken to make things a little more fair?

ACTIVITY: Making Ends Meet

At the core of the issue of a growing super-rich class is a deep concern for the plight of the poor. In early 2012, U.S. President Barack Obama called for an increase in the minimum wage from \$7.25 per hour to \$9 per hour. The call was met with stiff opposition. Take a look at how difficult it is to live on a minimum wage using Obama's projected minimum and Canada's current minimums.



Step One – Calculate your U.S. minimum wage

A) Your ANNUAL Earnings

Calculate your annual earnings based on a 40-hour workweek:

- Multiply your wage per hour by 40.
- Then multiply that number by 52 (since there are 52 weeks in a year).
- Do this for both the current U.S. minimum wage and the one proposed by Obama.

B) Your ACTUAL Earnings

To account for payroll deductions like income tax and other government fees, deduct 15 per cent off your pay:

- Multiply your annual earnings above by **.15**
- Subtract this amount from your annual earnings.
- This will represent your actual earnings.

Step Two – Calculate your Canadian minimum wage

Using the steps above, calculate (A) your annual earnings and (B) your actual earnings based on the province you live in.

Assume payroll deductions of 20 per cent—that is, multiply your annual earnings by **.20** and then subtract this amount from your annual earnings.

In Canada, these deductions are a combination of income tax, the Canada Pension Plan, and Employment Insurance.

Minimum Wage by Province

Alberta	– \$9.75
British Columbia	– \$10.25
Manitoba	– \$10.25
New Brunswick	– \$10.00
Newfoundland	– \$10.00
Northwest Territories	– \$10.00
Nova Scotia	– \$10.15
Nunavut	– \$11.00
Ontario	– \$10.25
Prince Edward Island	– \$10.00
Quebec	– \$9.90
Saskatchewan	– \$9.50
Yukon Territory	– \$10.30

Step Three – Where are you in terms of the poverty line?

While Canada does not officially acknowledge a “poverty line” they do keep track of a statistic called low income cut-offs (LICOs). LICOs describe the minimum amount of money a person would need to live a sustainable lifestyle.

Low Income Cut-Offs 2010					
Size of family unit	Rural areas	Less than 30,000 inhabitants	Between 30,000 and 99,999 inhabitants	Between 100,000 and 499,999 inhabitants	500,000 inhabitants or more
1 person	12,271	14,044	15,666	15,865	18,759
2 persons	14,936	17,094	19,069	19,308	22,831
3 persons	18,598	21,283	23,744	24,043	28,430
4 persons	23,202	26,554	29,623	29,996	35,469
5 persons	26,421	30,237	33,732	34,157	40,388
6 persons	29,301	33,534	37,410	37,881	44,791
7 or more persons	32,182	36,831	41,087	41,604	49,195

Source: Statistics Canada

Use your U.S. and Canadian minimum-wage calculations and answer the following questions:

1. Refer to the table above. Based on your calculations, as well as on the population of the town or city where you live, can you live a sustainable lifestyle? Are you earning above or below the LICOs line?
2. a) Suppose you got married to someone who also earns a minimum wage and you had one child. Does your combined income (factoring in your child) finish above or below the LICOs line?
 b) Suppose one of you chooses not to work and stays home to raise the child. Where do you stand in terms of the LICOs line now?
3. What if you and your partner decided to have four children? Would you have enough money to support your family?

Followup

Suppose you are a single person living on minimum wage. Make a budget based on \$800 per month for rent, \$250 per month for food, and \$200 for utilities. How difficult would it be for someone earning minimum wage to live with these expenses? How much money would be left to spend on things like entertainment, a cell phone or a vacation?

ACTIVITY: What Do the Economists Say?

Many economists worry that the decline of the middle class could have catastrophic consequences for the financial future of the United States. Read the following perspectives and complete the activity that follows.

David Moss, Economist Harvard School of Business

Moss points out that the current level of income inequality is almost the same as it was in the 1920s. The 1920s ended with the collapse of the financial markets and the onset of the Great Depression.

the fate of the overall economy through infrastructure development and tangible assets. Brown believes that if the gap between the rich and poor had stayed at the same level as it was in 1986 (before the deregulation of the financial system and sanctions discouraging trade unionism) consumption spending would have grown by 12 per cent.

Jonathan Rauch, Journalist The National Journal

Rauch claims that US lawmakers and financiers are appeasing consumers with a “let them eat credit” strategy. This allows consumers to stretch their available money with easy access to lines of credit, credit cards and home mortgages. This tends to cause instability as a weak economy hides behind cheap credit while consumers are encouraged to spend money they don’t have.

Raghuran Rahan, Finance Professor University of Chicago

Rahan’s research found that: “Of every dollar of real economic growth that was generated from 1976 to 2007, 58 cents went to the top 1 per cent of households.”**

Christopher Brown, Economist Arkansas State University

Brown believes that the banking and investment sectors have engaged in what he calls “financial engineering” with the creation of complex financial instruments designed to stimulate the economy. Investment options like hedge funds and derivatives are highly speculative and, according to Brown, promote inequality because they only serve to make a small group very rich and do little to improve

Joseph E. Stiglitz, Economist Columbia Business School

In his book *The Price of Inequality*, Stiglitz writes, “Widely unequal societies do not function efficiently, and their economies are neither stable nor sustainable in the long term... Taken to its extreme — and this is where we are now — this trend distorts a country and its economy as much as the quick and easy revenues of the extractive industry distort oil- or mineral-rich countries.” Stiglitz believes that the emergence of vast inequality — that started as early as 1980 — is responsible for the entire shortfall in the U.S. economy today.

Sources:

“How income equality is damaging the U.S.” by Frederick E. Allen. *Forbes*, October 2, 2012.

“Inequality and its perils” by Jonathan Rauch. *National Journal*, September 27, 2012.**

Activity

Write a newspaper article about the tenuous state of the U.S. economy. Use the information provided by the economists listed above as the basis for your article.

Length of the article: 300-500 words