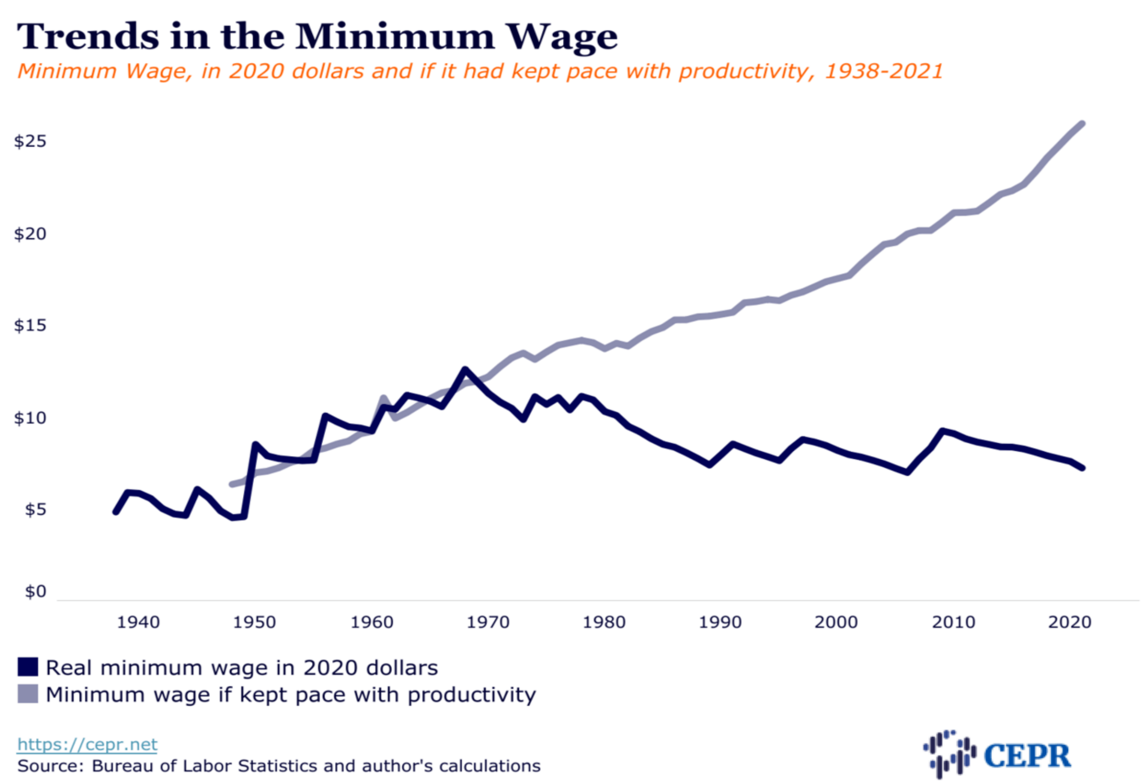
The Rise and Subsequent Downward Slide of the Middle Class in the United States Since 1938

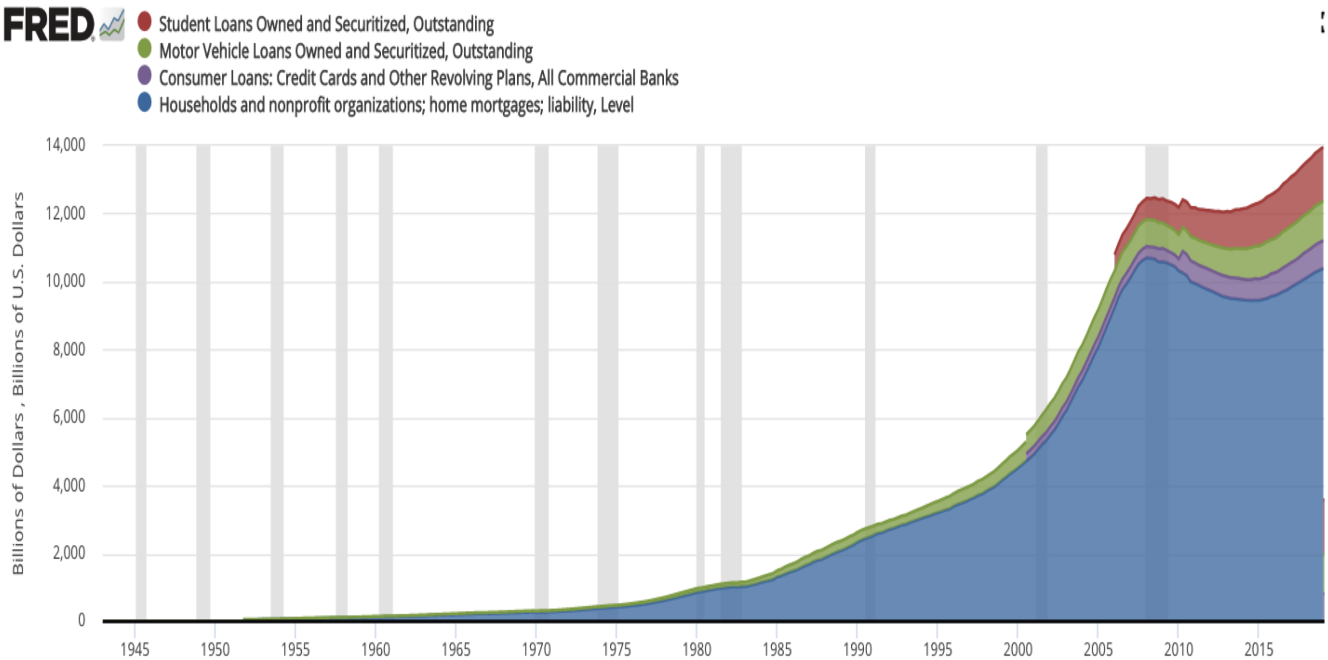
by John M Repp

An economic historian looking at the USA over the past 70 years would be alarmed, assuming they wanted the American people to be healthy and happy. The two charts below tell much of the story.

In the first chart, the minimum wage kept pace with the rise in productivity from 1938 to 1968 as the left-hand half of the chart shows. That was the period when the great American middle-class came on the stage of history. After 1968 the productivity curve climbed ever higher but the minimum wage and the general wage level stagnated. This means there was a great increase in wealth creation, but the wage earners, which was most of the American population, were not receiving their fair share of that wealth. The workers were not getting raises commensurate with the wealth they were creating.



As the next chart shows, after 1968, many households became heavily indebted, with student loans, car loans, consumer loans and home mortgages. Households tried to maintain their standard of living despite the leveling off of wages. Often, more than one person in each household had to go out of the house and work for wages. Even that was not enough, so, typically, the household borrowed money and went into debt.



As family income stagnated and debt levels increased, many people experienced a great deal of stress. People know when they are slipping behind. Scholars have shown that when the wealth gap in a society increases, the health and well being of the society deteriorates. There is less trust between people. There is more mental illness and drug abuse. There is more obesity, more crime, more violence and more teen pregnancy. This is what that economic historian of the last 70 years of American life sees.

What is to be done?

A few years ago people started to demand $15 dollars an hour minimum wage. However, as Dean Baker writes, 26 dollars an hour should be the actual minimum wage if the wage level had kept pace with the increase in productivity, as the first chart shows. Baker writes that if the minimum wage level were somehow magically raised to 26 dollars an hour, over the next 5 years, there would be some serious economic problems. Injecting so much new money into the economy through the wage system would cause large-scale unemployment and inflation. Why? Because in the last fifty years there have been **major changes** to: 1) rules of corporate governance effectively **allowing the executives to set their own salaries**, 2) **near monopolistic** patent and copyright laws that cause prices of drugs and software to be more expensive than they would be, and 3) the development of a "industry" made of hedge funds and huge banks that **siphon off massive amounts of money** to traders who contribute no real wealth to the economy. These facts about our economy are not understood by most people.

In other words, **we must restructure the economy as we raise the wages** of the lowest paid and give raises to the rest of the workers to improve the standard of living for all. The progressive's plan is definitely needed, but **a permanent fix** would involve **changing corporate governance law, patent and copywrite law and regulating hedge funds and the big banks**. If these reforms are being talked about on corporate media, I am not hearing them. I only hear about them from a progressive economist like Baker.

Baker has written a book entitled Rigged (2016) which explains in detail how the structural changes in our economy over the last 50 years make it necessary to reform that structure before we can inject enough new money into the economy to lessen the massive inequality in our system. The new money can be injected, either through massive government spending (currently being proposed) or through raising the wages of millions of Americans (a preferable way that is not being considered except by what remains of the labor union movement)

Such a change would not just improve the lives of millions but would make our political system much more functional. Commenting on the lack of unity in the Democratic Party and the opposition to our democracy by the Trump Republicans, Alexandria Ocasio-Cortez said " the problem in American democracy today is that the people have lost faith in us, in government, that we actually will fight for working people." Considering the lost ground of the millions of wage earners over the past 50 years, we can understand why so many people have lost faith in government.

Yet, it will be through government action that we can rectify the wrongs enumerated above. We may not like what the government is doing, but we need a government to do what we want. We cannot individually change policy.

If history is any guide, to get the action we need, a powerful progressive political movement must push the government while direct action must force American industry to deal with the economic inequality as well as climate change. After FDR was pushed by the voters and started the New Deal legislation, it was the sit-down strikes of 1936-1937 in the most powerful sector of the economy at that time, the automotive sector, that forced the largest corporation of the time (General Motors) to bargain with the unions. These events inaugurated a 30+ year period when with the unions bargaining, the wage levels kept pace with productivity increase (the left-hand part of the first graph). We need something as powerful as the sit-down strikes to achieve policies that deal with inequality and climate change.