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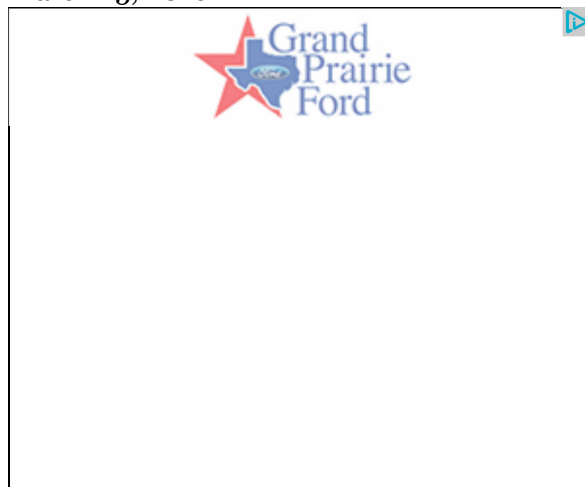
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What Killed the Middle Class?

By Charles Hugh Smith

OfTwoMinds.com

March 25, 2016



If the four structural trends highlighted below don't reverse, the middle class is heading for extinction.

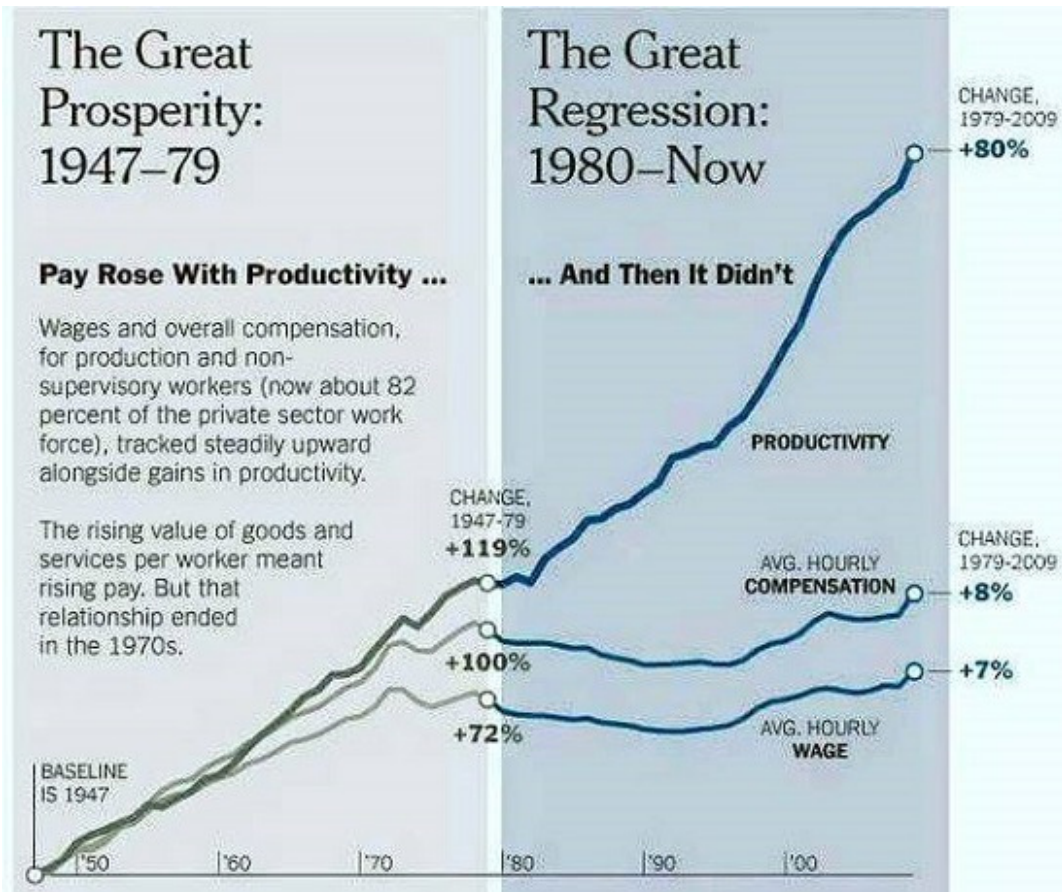
Everyone knows the middle class is fading fast. I've covered this issue in depth for years, for example [Honey, I Shrunk the Middle Class: Perhaps 1/3 of Households Qualify](http://www.oftwominds.com/blogdec15/shrunken-middle-class12-15.html) [<http://www.oftwominds.com/blogdec15/shrunken-middle-class12-15.html>] (December 28, 2015) and [What Does It Take To Be Middle Class?](http://www.oftwominds.com/blogdec13/middle-class12-13.html) [<http://www.oftwominds.com/blogdec13/middle-class12-13.html>] (December 5, 2013)

This raises an obvious question: what killed the middle class? While many commentators try to identify one killer cause (for example, the U.S. going off the gold

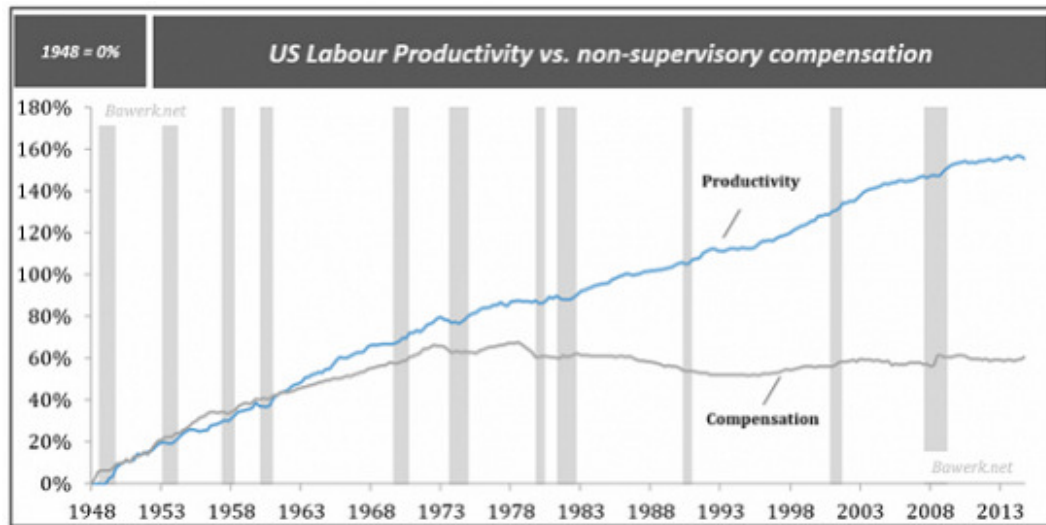
standard in 1971), the die-off of the middle class is more akin to the die-off in honey bees, which is the result of the interaction of multiple causes (factors that increase the toxic load dumped on bees and other pollinators by modern agriculture).

Longtime collaborator Gordon T. Long and I discuss the decline of the middle class and other key topics in a new 29-minute video [How did that work out for you?](https://youtu.be/-BBL-fJd9Lo) [<https://youtu.be/-BBL-fJd9Lo>]

So where do we begin this detective story? With the engine of all real prosperity, productivity. This chart reveals that wages stopped rising with productivity around 1980.

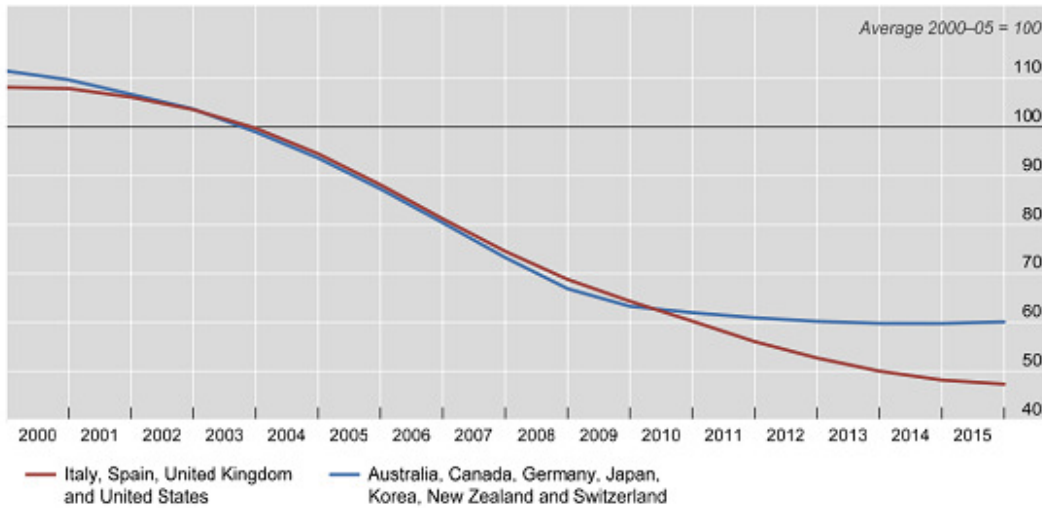


Here's another look at the same phenomenon:



Productivity has been slipping since around 2003: Alan Greenspan: "Productivity is Dead" [<http://mishtalk.com/2016/03/21/greenspan-worried-about-inflation-says-entitlements-crowding-out-investment-productivity-is-dead/>]

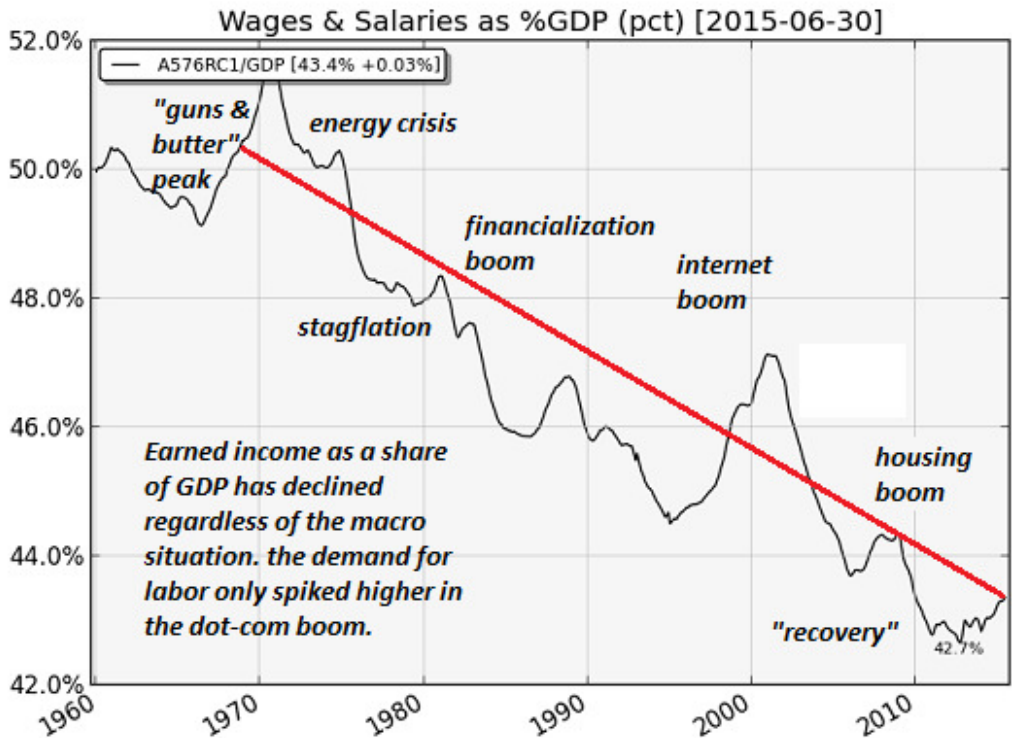
Graph 4: Productivity growth declines



Hodrick-Prescott (HP) filter applied to annual growth of output per person employed. Aggregates are weighted averages of trend growth based on GDP at current PPP exchange rates.

Cause #1: declining productivity, which means the pie of real wealth is no longer expanding.

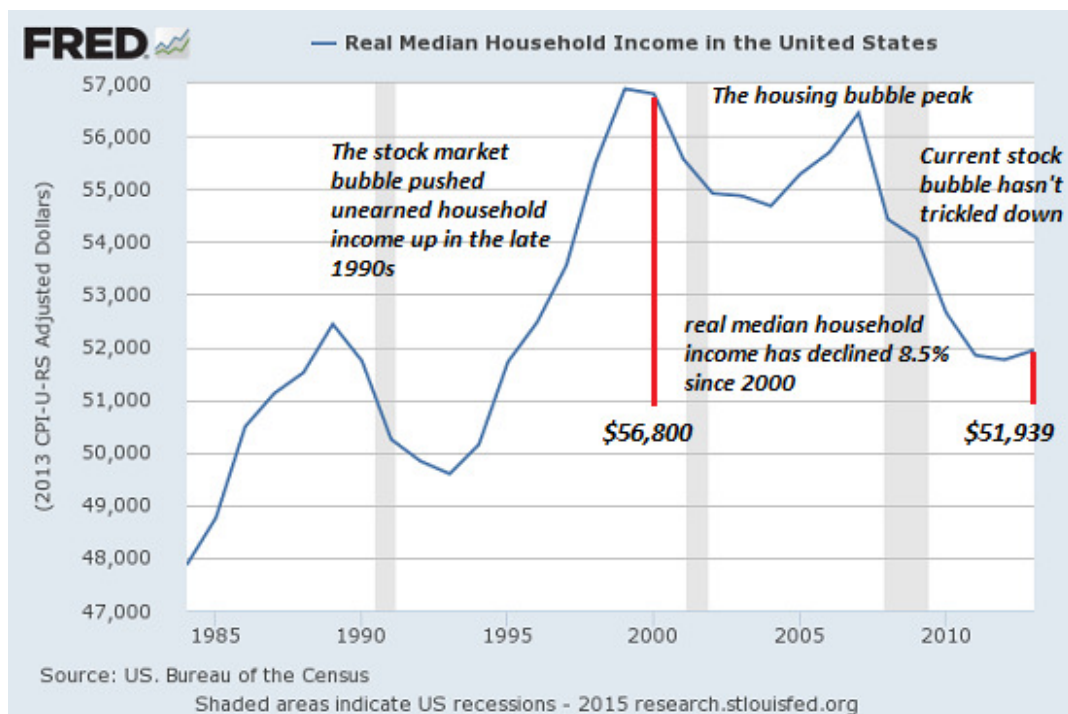
Exhibit #2: middle-class wage earners have not received any of the gains. Wages as a percentage of GDP have been falling for decades, with occasional blips up in tech/housing bubbles:



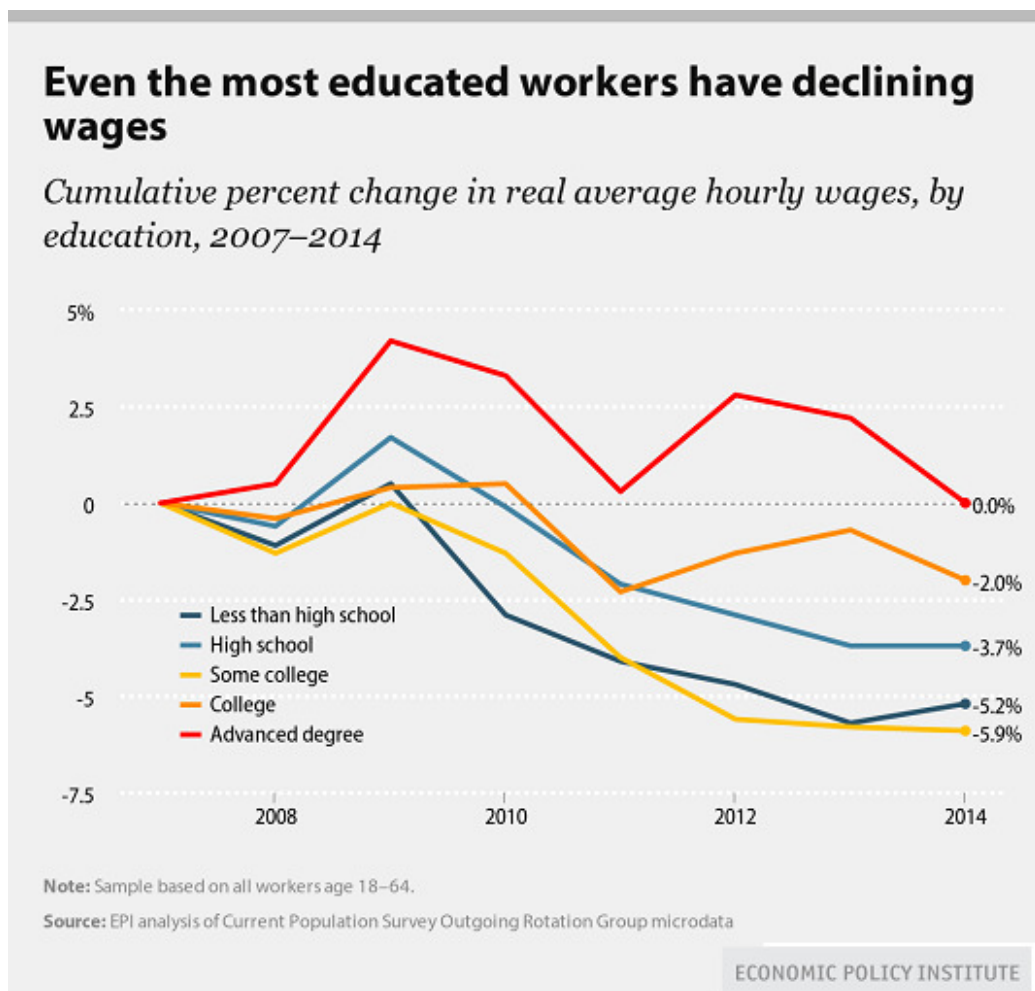
Last update Aug 6, 2015

<http://www.mdbriefing.com>

Inflation-adjusted household income has dropped back to levels first reached in the 1980s:



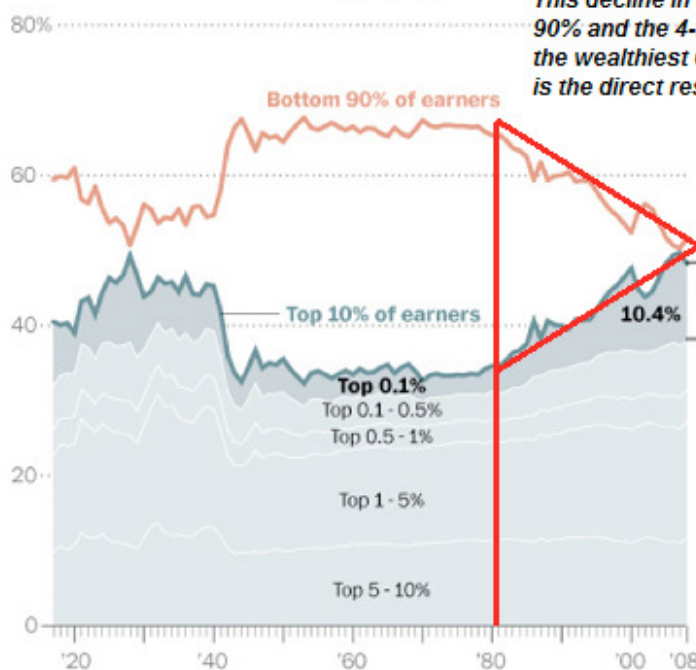
More recently, wages have actually declined, regardless of educational attainment:



Income gains have all flowed to the top 10%, with most of the gains being concentrated in the top 5%

and top 1%:

SHARE OF NATION'S INCOME Including capital gains



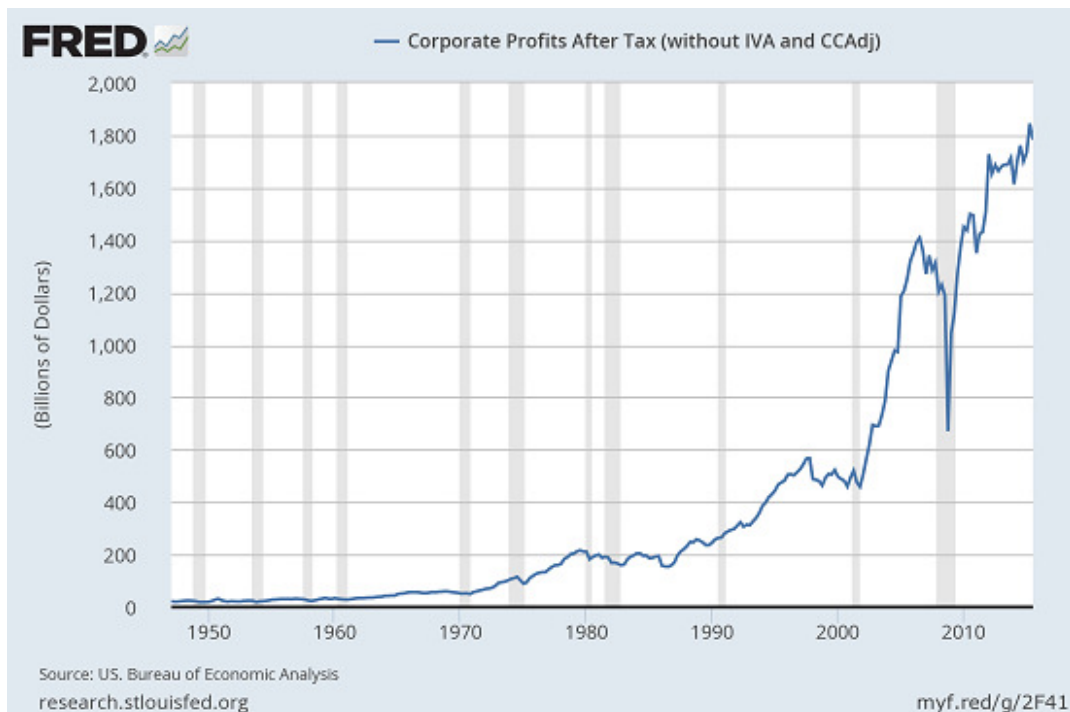
This decline in the income of the bottom 90% and the 4-fold rise in the income of the wealthiest 0.1% is not coincidental-- it is the direct result of financialization.

The top 0.1 percent of the population (those making about \$1.7 million or more) saw the sharpest increase in income share, taking home 2.6% of the nation's earnings in 1975 and 10.4% in 2008.

This is a 4-fold increase in the era of financialization

INCOME LEVEL	NUMBER OF PEOPLE	AVERAGE INCOME	OVERALL CHANGE 1970-2008	
Top 0.1%	152,000	\$5.6 million	+385%	<i>Oligarchy</i>
Top 0.1-0.5%	610,000	\$878,139	+141%	<i>New Nobility</i>
Top 0.5-1%	762,000	\$443,102	+90%	
Top 1-5%	6.0 million	\$211,476	+59%	<i>Upper Caste & Nomenklatura</i>
Top 5-10%	7.6 million	\$127,184	+38%	
Bottom 90%	137.2 million	\$31,244	-1%	<i>everyone else</i>

If the middle class didn't receive any of the gains, who did? Corporate profits have soared to unprecedented levels:



Cause #2: all the gains in the economy have flowed to corporations and the top 10% of financiers, managers and technocrats.

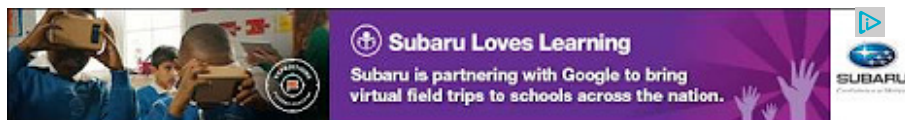
But wait a minute—hasn't the rising stock market enriched the middle class? Short answer: no. Middle-class household wealth has absolutely cratered since the top of the housing bubble in 2007 and hasn't recovered.

Read the Whole Article [<http://www.oftwominds.com/blogmar16/death-of-middle-class3-16.html>]

The Best of Charles Hugh Smith [<https://www.lewrockwell.com/author/charles-hugh-smith/>]

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