The Middle Class Hasn't Disappeared. It's Just Sliding Toward the Bottom

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It used to be that the average American resided halfway between two extremes:

- Steven Schwarzman's home was being partially replicated in a Park Avenue hall for his gala $5 million 60th birthday party. The guest of honor's full-length portrait greeted the invitees as they proceeded past rows of orchids and palm trees to the dining area, where they feasted on lobster, filet mignon, baked Alaska, and the finest of wines. Martin Short provided the laughs, and the music came compliments of Marvin Hamlisch, Patti LaBelle, and Rod Stewart.

- Eloise Pittman's home had been purchased in the 1950s by her mother, who washed dishes to pay off the mortgage. In 1985 the younger Ms. Pittman, a schoolteacher, went to Chase Bank and took out a loan on the house. It was a predatory loan with balloon payments, and Ms. Pittman was forced to borrow more and more money to keep from defaulting. When she died in November 2011, she was $400,000 in debt. A week after her death her family received an eviction notice.

There's no 'average' anymore, in the sense of a normal curve with most of the people and most of the money in the middle.

Today, 400 individuals have as much wealth as an entire HALF of America.

Yet it's still argued by some conservatives that in real life the two extremes are split by a substantial group of average Americans in the middle. The income of the middle quintile, we are told, grew by over 35% percent between 1979 and 2007. But, as Jared Bernstein points out, 35% over 28 years is 1.1% per year, over a period when productivity grew at twice that rate. Census data shows that the inflation-adjusted salary of a full-time male worker in 2010 was almost exactly the same as in 1979.

In real life just 2 percent of Americans own HALF of all wealth outside the home. The top quintile owns 93% of all wealth outside the home. The poor half of America owns nothing outside of their homes, because most of them owe more than they own. And their homes have lost much of their value.

Conservatives counter that the 1% hasn't increased its share of wealth for many years, and that the "democratization of stock ownership" is beginning to spread the wealth around.

While it's true that the share of wealth held by the 1% has remained at the same high level since the 1980s, the rest of the richest 5% increased their share by almost 20%. The percentages for the poorest 80% of the population DECREASED by almost 20%.

In other words, the share of wealth owned by the top 1% leveled off because the "democratization of stock ownership" spread the wealth among just 5% of the population, those earning an average of $500,000 per year. A few people — 5 out of 100 — got very rich, but everyone else lost ground.

How can there be a "middle class" with such a lopsided wealth distribution? Is the middle class part of the 65 million households who have virtually NONE of the non-home wealth? Is it part of the 117 million households who have received NONE of the productivity gains over 30 years?

The middle class is somewhere between two extremes, sliding toward the bottom:

- In California Paul Hannum eagerly awaited the birth of his daughter. He got sick, but he didn't have health insurance. His brother Curtis said, "He had a little girl on the way. He didn't want the added burden of an ER visit to hang on their finances. He thought 'I'll just wait,' and he got worse and worse." But he died from a burst appendix without ever holding his baby in his arms. Access to even a single health care worker might have saved his life.

- In 2007 John Paulson had an idea: bet against the mortgage market. He went to Goldman Sachs to help design a financial instrument that would group bad loans in an attractive-looking package. Then he – and Goldman – could take out an insurance policy against their own financial instrument. It worked perfectly. Paulson made $4 billion, enough to pay the salaries of 100,000 health care workers.

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