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There Has Never Been an American "Middle Class". The U.S. Working Class Has Always Been Poor

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[The] lack of upward mobility … has jeopardized middle-class America's basic bargain — that if you work hard, you have a chance to get ahead. (from Obama's May appearance on David Letterman)

One of the most firmly entrenched myths of The American Ideology is that the U.S. is a "middle class society," a "land of opportunity" where anyone who works hard has the opportunity to achieve the standard of living which has made America "the envy of the world." A common, and spot on, rejoinder has been to remind us that America has always had a sizable class of permanently poor people and that it is just factually false that those ready, willing and able to work are on the path to middle class status.

But does this reply concede too much? Has there ever been a substantial middle class in America? Or has a poor working class been able to mask its condition by accessing an institution that has disguised a large portion of a poor working class as a middle class? The best place to start is with the history of the modern American middle class.

The First Working-Class Middle Class: The Roaring Twenties

Of course not everyone can get rich, for the same reason that not everyone can be very tall. But most of us are supposed to be able to enjoy the comforts that many Americans enjoyed after the Second World War and earlier, in economically pubescent form, during the Roaring Twenties. That decade was the first in history when any population enjoyed the comforts of a "consumer society." The remarkable growth rates of that decade were driven entirely by Americans' purchases of automobiles, ranges, radios, phonographs, toasters, refrigerators, electric fans and more. The whole world saw the miracle of the first genuine non-professional middle class. These new luxuries were not restricted to the very rich and doctors and lawyers; wage workers were the majority consumers of these "consumer durables."

But the Great Depression led many radical Leftists to argue that the short-lived prosperity (for white people) of the 1920s was a fluke, a temporary aberration from capitalism's default condition in which the working class was flat-out poor. Sure, the war ended the Depression, but if that was so, once the war ended wouldn't the economy revert to normal, with high unemployment and widespread poverty once again the order of the day. This was a major concern in the mid-forties of a great many economists of every political stripe.

The Mature Middle Class: The Long Postwar Boom

But after the historically unheard of postwar expansion (1949-1973), with no major

economic contractions, the Depression came to be dismissed as the outcome of silly mistakes, e.g. the high interest rate policy of the Federal Reserve (the Friedman-Bernanke story), and the shameless shenanigans of profligate financiers. The postwar glory days (again for white people) came to be regarded as the new normal, the resumption and expansion of the middle-class society of the 1920s.

The record was truly spectacular: on the income of one (male) breadwinner, very many families were able to afford a house, at least one automobile, a plethora of durable goods, higher education for the kids, medical expenses and sufficient savings for mom's and dad's retirement. Hard work paid off in a wage supporting a standard of living hitherto unknown to any working class anywhere. Only in America. (Never mind that this story backgrounds women's enforced role as wives and mothers, enabled in large part by Mother's Little Helper.)

During a May appearance on Letterman Fauxbama stated the catechismal account of the myth of the middle class, referring to "middle-class America's basic bargain — that if you work hard, you have a chance to get ahead." Those impressive benefits once available to the Golden Age single-breadwinner household are typically held to demonstrate that the "middle class bargain" was once a reality for the majority of American workers. To be sure, we're in a bit of a wee depression right now, but once that's fixed the middle class dream will again be within the grasp of those willing to "work hard." That was the message of the Obamination's Letterman stint.

An Accurate But Limited Response to the Myth of the Middle Class

A rational and historically informed response to the legend of the middle class is that this alleged stratum of the 1920s and the Golden Age (1945-1973) existed for a mere 34 years of American history. Before the 1920s just about all working-class peole were poor. Since 1974 we have had 42 years of burgeoning inequality, un- and underemployment, growing poverty and steadily declining wages with no end in sight. The middle class was a departure from the historic norm of a materially insecure working class, the default position of industrial capitalism.That response, accurate as it is, harbors a deeper myth that disguises a virtually unremarked and scandalous feature of the history of the U.S. working class, namely that it has always been poor. There never was a middle class, not in the sense in which that concept is meant to pack the punch intended by capitalist apologetics. If that's so, the U.S. has never been a "rich country."

The matter hinges on what is meant by 'middle class'. This is no "merely" semantic question. The term is at the core of the justification of modern capitalism, and connotes not merely a statistical income level, but is meant to convey *the relation between one's willingness to earn a living, i.e. to work hard, and the possibility of achieving a desirable standard of living as a reward for one's work*. The example above, describing the benefits available to the one-breadwinner family during the Golden Age, is meant to imply that those benefits are the just deserts of hard work. That was the clear intention of Obama's Letterman claim. The middle class gets what it deserves as a reward for its labor. But the truth is that the working class has never been able to achieve economic security on the basis of its wage.

Being dutifully productive has never been sufficient to guarantee the worker a satisfying life. If working people are to enjoy the benefits once available to the single breadwinner, they must permit a portion of that hard-earned wage to be extracted from their income by

creditors. More precisely, the benefits*might* be forthcoming -remember, hard work is merely a necessary, not a sufficient, condition of material security- but only if the worker is prepared to allow a reduction of her future income by the creditors' extraction of interest from the paycheck to come. Reduced income purchases a higher standard of living. Sounds paradoxical, but it's not. This is what debt is about.

Neither in the 1920s nor during the Golden Age did workers achieve security and the pleasures of capitalist consumerism as the just reward for their labor. Let's have a closer look at the fortunes of working people in the 1920s.

The First "Middle-Class" Society: the 1920s

The most striking feature of the condition of working people in the 1920s is how closely it resembled the declining fortunes of the working class during the post-Boom Age of Austerity (1974 –). Inequality not seen since before 1900 became conspicuous during the Roaring Twenties. 1928 was the year of peak twentieth-century inequality up to that time. 1929 delivered an historic financial crash. 2007 was the first year thereafter to match the inequality of 1928. 2008 gave us the greatest financial crisis ever. The connection between inequality and economic crisis is hard to miss.

The consumption boom of the twenties went along with the century's greatest inequality. In 1919, the percentage shares of total income received by the top 1 percent and the top 5% stood, respectively, at 12.2 percent and 24.3 percent; in 1923 the shares had risen to 13.1 percent and 27.1 percent and by 1929 to 18.9 and 33.5 percent. According to the prestigious Brookings Institution, in 1929 "0.1 percent of the families at the top received practically as much as 42 percent of families at the bottom of the scale." *All* of the increases in real income in the 1920s went to upper-income groups and most of the rest merely held firm or lost ground.

Extreme inequality followed mathematically from the following features of the economy of the 1920s: production soared, productivity and profits skyrocketed much faster than production, while wages remained stagnant. Sound familiar? History shows this to be overripe capitalism's default position. The postwar period up to this day exhibits the same features.

Do the twenties look like a golden age before the Golden Age? In the classic Brookings Institute study of income and poverty levels during the 1920s,*America's Capacity To Consume*, we learn that "By 1929, 71 percent of American families earned incomes of under $2,500 a year, the level that the Bureau of Labor Statistics considered minimal to maintain an adequate standard of living for a family of four. 60 percent earned less than $2,000.00 per year, the amount determined by the Bureau of Labor Statistics "sufficient to supply only basic necessities." 50 percent had less than $1700.00 and more than 20 percent had less than $1,000.00.

Thus, nothing resembling a middle class existed in the 1920s. 60 percent of families earned less than what was required to provide "only basic necessities." Half of all families made even less that that, and more than one in five earned less than half that required to provide bare necessities. Working Americans were poor. America was a poor country.

The employment picture was equally grim. During the steep recession in the first years of the decade unemployment (among nonfarm workers) hit 19.5 percent in 1921 and 11.4

percent in 1922. In 1924 it rose from 4.1 to 8.3 percent, fell to 2.9 percent in 1926 and was back up to 6.9 percent in 1928. 1922-1926 was the period of fastest growth in production and profits before overinvestment and underconsumption slowed the rate of GDP and sales growth. Yet two of those boom years saw unemployment comparable to or exceeding 2015's official unemployment figures.

Here we have yet another entry in the list of Things You're Not Allowed To Know: during the Roaring Twenties, the majority of Americans were poor. And even the postwar Golden-Age years, we shall see, do not evidence the existence of a middle-class society. Yet during both the 1920s and the Golden Age America did not *look* like a poor country. Autos were everywhere, households were swimming in consumer durables and home ownership was growing at a healthy clip.

But appearances can deceive. For real poverty can be disguised, and the principal means of obscuring material insecurity when there has appeared to exist a middle class has been the extension of credit to vast numbers of working households. During both the 1920s and the Golden Age households accumulated mounting debt in order to achieve the "middle class standard of living."

Workers' wages needed a substantial supplement of financial speed to goose the buying power required for middle class pleasures. That's not part of the myth of the middle class. In order for the standard story to pack the punch it wants to pack, one of two conditions must be met. Either:

> 1. The wage of the breadwinner must be sufficient to enable the benefits touted in the single-breadwinner story, or
>
> 2. If the wage sometimes needs to be supplemented in order to enable middle class status, the supplement must not be chronic, it must not be addictive, and it must not invariably climax in crisis.

Neither of these conditions was met in the 1920s or the Golden Age. How then was the consumer durables boom of 1922-1929 possible when wages barely rose and workers were poor? The buying spree was sustained by credit purchases, spending more than one earned. Demand out of wage income alone was insufficient to purchase what the economy was capable of turning out. Rising standards of living could not be maintained in the face of stagnant wages without the ability of consumers to mortgage future income. The twenties were the first instance of what was to become *an abiding feature of American capitalism, the need for large scale credit financing to sustain levels of consumption required to stave off macroeconomic retardation and persistent economic insecurity.*

The Hoover Commission Report, a massive study of the economy of the 1920s conducted by a large team of the country's most prominent economists, reported that:

"The most spectacular and the most novel development in the field of credit was the growth after 1920 of a variety of forms of consumers' borrowing… the amount of such credit was tremendously expanded, both absolutely and relatively, during the past decade."

The proportion of total retail sales financed by creditincreased from 10 percent in 1910 to 15 percent in 1927 to 50 percent in 1929. Over 85 percent of furniture, 80 percent of washing machines and 75 percent of phonographs and radios -indeed most new consumer

items- were purchased on time. A prime reason GM pulled ahead of Ford in car sales was that it enabled credit purchases through the General Motors Acceptance Corporation (GMAC).Credit was even used to buy clothes. Young single working women often went into debt to keep up with the latest styles. By 1929 sales on installment approached $7 billion. Many more people bought these goods than would have had they had to save the total price in cash before making the purchases.Credit pervaded the household economy and disguised low wages, as it would again in the postwar period.

In *Middletown*, the landmark study of the industrial town Muncie, Indiana, in the years 1924-1925, Robert and Helen Lynd note the pervasiveness of credit in the everyday lives of working people there:

Today Middletown lives by a credit economy that is available in some form to nearly every family in the community. The rise and spread of the dollar-down-and-not-so-much-per plan extends credit for virtually everything – homes, $200 over-stuffed living-room suites, electric washing machines, automobiles, fur coats, diamond rings – to persons of whom frequently *little is known as to their intention or ability to pay*. (emphasis added)

In the sense of the term required by apologists who use it, there has never been an American Middle Class. During both the1920s and the postwar period household “prosperity” and overall economic growth depended on increasing dosages of debt in order to maintain an increasing standard of living and the appearance of middle-class security. Wages, though, did not increase as rapidly as did debt growth. In fact, wages remained flat throughout the 1920s. So debt grew to the point at which it could not be paid. Borrowing and purhasing power then declined in 1926; underconsumption became conspicuous as excess inventories and capacity built up. Crisis ensued.

The Postwar Period Resurrects the Debt-Drenched Twenties

It is often claimed that the sustained growth of the postwar Golden Age was possible only because labor unions were able to keep wages rising in step with productivity gains. But this historic achievement was a necessary, not a sufficient, condition of the increase in purchasing power necessary to produce the “middle class” standard of living (for white people) of the Golden Age. It is a measure of just how high wages must be in order fully to avert mass unemployment and growing inequality that*increasing injections of household or consumer debt were required to provide the requisite purchasing power*. *This was as true during the Golden Age as it was in the 1920s.*

Capital again worked its magic: another underconsumption crisis was averted even as wages were kept below what was needed to avert crisis. This was accomplished by initiating a bubble in consumption, encouraging households to augment their buying power by taking on *increasing*burdens of debt.

In 1946 the ratio of household debt to disposable income stood at about 24 percent. By 1950 it had risen to 38 percent, by 1955 to 53 percent, by 1960 to 62 percent, and by 1965 to 72 percent. The ratio fluctuated from 1966 to 1978, but the stagnation of real wages which began in 1973 pressured households further to increase their debt burden in order to maintain existing living standards, pushing the ratio of debt to disposable income to 77 percent by 1979. And keep in mind that accumulating debt was necessary not merely to purchase more toys, but to meet rising housing, health care, education and child care costs. With prohibitive health care costs the leading cause of personal bankruptcy, debt was

necessary for most workers to stay out of poverty.

By the mid-1980s, with neoliberalism in full swing and wages stagnating, the ratio began a steady ascent, from 80 percent in 1985 to 88 percent in 1990 to 95 percent in 1995 to over 100 percent in 2000 to 138 percent in 2007. (http://www.federalreserve.gov/releases/z1/20110916/z1r-1.pdf

see also *Business Week*, Oct. 12, 1973 The Debt Economy, 45, 94-6) As debt rose relative to workers' income, households' margin of security against insolvency began to erode. The ratio of personal saving to disposable income under neoliberalismbegan a steady decline, falling from 11 percent in 1983 to 2.3 percent in 1999. (Economic Report of the President, Table 30, 2000)

The debt bubble that became unmistakable in the 1990s was to be far greater than the bubble of the 1920s; the financial system by now was capable of far more fraud and treachery than was possible in the 1920s, thanks largely to deregulation and derivatives.

But what gets to the heart of captalism is the overall similarity of the 1920s and the postwar periods: during each period wages failed to be high enough to purchase the requisites of a decent, much less a rising, standard of living without an unsustainable, and therefore crisis-generating, household debt bubble. In neither period was hard work and the corresponding wage sufficient to avert sub-middle-class status.

The Golden Age, like the 1920s, was an age of a debt-junkie nation of poor workers. The much touted "vanishing middle class" is rooted in time-released conditions fully in place during the Golden Age. Poor workers were allowed to mask their economic insecurity with debt-financed widgets permitted by their social and economic masters on the condition that they agree in exchange to turn over a significant portion of their future earnings to those masters, and at a time when they could least afford it. I'd call those workers poor from the get-go.

In the absence of organized resistance, the current age of rising inequality, low wages, high un- and underemployment and inceasing economic precariousness will persist indefinitely. Mainstream economic luminaries such as Larry Summers, Paul Krugman and Robert Skidelsy tell us so in their contributions to the current rediscovery of the reality of secular stagnation. If most Americans have always been poor in the sense that counts, how shall we describe the condition of working people in the age of secular stagnation? Repressed for sure: persistent and hopeless austerity will generate social dislocation on a disturbing scale – rising crime and suicide rates, domestic violence and psychological depression. I think of these as expressions of unorganized resistance. Oppressive conditions are naturally resisted in one form or another. The form taken depends on the existence and scope of savvy agents of political resistance. In any case, the State is preparing for what it fears will be significant outbursts of mass recalcitrance. The infrastructure of a police state is in place. State repression apparently must be practiced, rehearsed in preparation for full fledged assault. The experimental "subjects" have thus far been largely black people. But that's just the dress rehearsal. Only an organized, active Left with a mass base can avert what's in the wings. So far, it doesn't look good. So far.

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