

The crisis of middle-class America

By Edward Luce

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Technically speaking, Mark Freeman should count himself among the luckiest people on the planet. The 52-year-old lives with his family on a tree-lined street in his own home in the heart of the wealthiest country in the world. When he is hungry, he eats. When it gets hot, he turns on the air-conditioning. When he wants to look something up, he surfs the internet. One of the songs he likes to sing when he hosts a weekly karaoke evening is Johnny Cash's "Man in Black".

Yet somehow things don't feel so good any more. Last year the bank tried to repossess the Freemans' home even though they were only three months in arrears. Their son, Andy, was recently knocked off his mother's health insurance and only painfully reinstated for a large fee. And, much like the boarded-up houses that signal America's epidemic of foreclosures, the drug dealings and shootings that were once remote from their neighbourhood are edging ever closer, a block at a time.

What is most troubling about the Freemans is how typical they are. Neither Mark nor Connie – his indefatigable wife, who is as chubby as he is gaunt – suffer any chronic medical conditions. Both have jobs at the local Methodist Hospital, he as a warehouse receiver and distributor, she as an anaesthesia supply technician. At \$70,000 a year, their joint gross income is more than a third higher than the median US household.



The Freemans Mark and Connie Freeman live in north-west Minneapolis. They have a joint income – from several jobs – of \$70,000. Last year they fought off repossession

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Once upon a time this was called the American Dream. Nowadays it might be called America's Fitful Reverie. Indeed, Mark spends large monthly sums renting a machine to treat his sleep apnea, which gives him insomnia. "If we lost our jobs, we would have about three weeks of savings to draw on before we hit the bone," says Mark, who is sitting on his patio keeping an eye on the street and swigging from a bottle of Miller Lite. "We work day and night and try to save for our retirement. But we are never more than a pay check or two from the streets."

Mention middle-class America and most foreigners envision something timeless and manicured, from *The Brady Bunch*, say, or *Desperate Housewives* in which teenagers drive to school in sports cars and the girls are always cheerleading. This might approximate how some in the top 10 per cent live. The rest live like the Freemans. Or worse.

It only takes about 30 seconds to tour Mark's 700sq ft home in north-west Minneapolis. Cluttered with chintzy memorabilia, it was bought with a \$50,000 mortgage in 1989. It is now worth \$73,000. "At one stage we had it valued at \$105,000 – and we thought we had entered nirvana," says Mark. "People from the banks kept calling, sometimes four or five times an evening, offering equity lines, and home improvement loans. They were like drug pushers."

Solid Democratic voters, the Freemans are evidently phlegmatic in their outlook. The visitor's gaze is drawn to their fridge door, which is festooned with humorous magnets. One says: "I am sorry I missed Church, I was busy practicing witchcraft and becoming a lesbian." Another says: "I would tell you to go to Hell but I work there and I

don't want to see you every day." A third, "Jesus loves you but I think you're an asshole." Mark chuckles: "Laughter is the best medicine."

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The slow economic strangulation of the Freemans and millions of other middle-class Americans started long before the **Great Recession**, which merely exacerbated the "personal recession" that ordinary Americans had been suffering for years. Dubbed "**median wage stagnation**" by economists, the annual incomes of the bottom 90 per cent of US families have been essentially flat since 1973 – having risen by only 10 per cent in real terms over the past 37 years. That means most Americans have been treading water for more than a generation. Over the same period the incomes of the top 1 per cent have tripled. In 1973, chief executives were on average paid 26 times the median income. Now the multiple is above 300.

The trend has only been getting stronger. Most economists see the Great Stagnation as a structural problem – meaning it is immune to the business cycle. In the last expansion, which started in January 2002 and ended in December 2007, the median US household income dropped by \$2,000 – the first ever instance where most Americans were worse off at the end of a cycle than at the start. Worse is that the long era of stagnating incomes has been accompanied by something profoundly un-American: declining income mobility.

Alexis de Tocqueville, the great French chronicler of early America, was once misquoted as having said: "America is the best country in the world to be poor." That is no longer the case. Nowadays in America, you have a smaller chance of swapping your lower income bracket for a higher one than in almost any other developed economy – even Britain on some measures. To invert the classic Horatio Alger stories, in today's America if you are born in rags, you are likelier to stay in rags than in almost any corner of old Europe.

Combine those two deep-seated trends with a third – steeply rising inequality – and you get the slow-burning crisis of American capitalism. It is one thing to suffer grinding income stagnation. It is another to realise that you have a diminishing likelihood of escaping it – particularly when the fortunate few living across the proverbial tracks seem more pampered each time you catch a glimpse. "Who killed the American Dream?" say the banners at leftwing protest marches. "Take America back," shout the rightwing **Tea Party** demonstrators.

Statistics only capture one slice of the problem. But it is the renowned Harvard economist, Larry Katz, who offers the most compelling analogy. "Think of the American economy as a large apartment block," says the softly spoken professor. "A century ago – even 30 years ago – it was the object of envy. But in the last generation its character has changed. The penthouses at the top keep getting larger and larger. The apartments in the middle are feeling more and more squeezed and the basement has flooded. To round it off, the elevator is no longer working. That broken elevator is what gets people down the most."

Unsurprisingly, a growing majority of Americans have been telling pollsters that they expect their children to be worse off than they are. During the three postwar decades, which many now look back on as the golden era of the American middle class, the rising tide really did lift most boats – as John F. Kennedy put it. Incomes grew in real terms by almost 2 per cent a year – almost doubling each generation.

And although the golden years were driven by the rise of mass higher education, you did not need to have graduated from high school to make ends meet. Like her husband, Connie Freeman was raised in a "working-class" home in the Iron Range of northern Minnesota near the Canadian border. Her father, who left school aged 14 following the Great Depression of the 1930s, worked in the iron mines all his life. Towards the end of his working life he was earning \$15 an hour – more than \$40 in today's prices.

Thirty years later, Connie, who is far better qualified than her father, having graduated from high school and done one year of further education, makes \$17 an hour. The pace of life has also changed: "We used to sit around the dinner table every evening when I was growing up," says Connie, who speaks with prolonged vowels of the Midwest. "Nowadays that's sooooo rare."

Connie's minimally educated father earned enough to allow her mother to remain a full-time housewife and still fund two children through college. Connie and Mark, meanwhile, struggle to pay off the stream of bills in a dual-income household. The state of Minnesota pays for Andy, their 20-year-old son, who suffers from acute autism, to study theatre at the local community college.

Strictly speaking, Connie actually lives in a four-income household. "When Andy was two, I was told to buy a karaoke machine because autistic children sometimes respond well to it," says Mark, pointing at what can only be described as a postmodern antique. "That's how I got into my karaoke - business. I get about \$100 every Wednesday evening. And on Saturdays I manage the local liquor store. We need all four jobs to keep our heads above water."

So much for the rising tide.

From the point of view of most economists, the story so far is uncontroversial. Most agree on the diagnosis. But they diverge on the causes. Many on the left blame the Great Stagnation on globalisation. The rise of China, India, Brazil and others has undercut wages in the west and put America's unskilled, semi-skilled and even skilled workers out of jobs. Manufacturing now accounts for only 12 per cent of US jobs. Think of the typical **Detroit car worker** 30 years ago, who had a secure middle-class lifestyle, good healthcare and a fat pension to look forward to. Today, he lives in Shenzhen.

Another group singles out the explosion of new technology, which has enabled the most routine and easily automated jobs to be replaced by computers. Think of the office assistant, who once took dictation and brewed the



Andy, the autistic son of Mark and Connie Freeman. Removed from his mother's health insurance, he was only reinstated for a large fee

coffee. She is now a BlackBerry who spends half her life in Starbucks. Or the back office person who, much like those shoemakers in the fairy tale, now stitches your accounts in Bangalore while you sleep.

Then there are those, such as **Paul Krugman**, The New York Times columnist and Nobel prize winner, who blame it on politics, notably the conservative backlash which began when Ronald Reagan came to power in 1980, and which sped up the decline of unions and reversed the most progressive features of the US tax system.

Fewer than a tenth of American private sector workers now belong to a union. People in Europe and Canada are subjected to the same forces of globalisation and technology. But they belong to unions in larger numbers and their healthcare is publicly funded. More than half of household bankruptcies in the US are caused by a serious illness or accident.

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Such are the competing (but not contradictory) theories of what causes it. The "lived experience", as sociologists would say, is another matter. Much like the Freemans, whose street is boxed in for about a mile each side by long commercial roads pockmarked with boarded-up shops, dollar stores and fast food joints, the Millers could be living anywhere in the US. Only the sultry heat betrays that you are in Virginia and thus in the American South.

Falls Church, Virginia is really a suburb of Washington DC. The government's relentless expansion has fuelled an evergreen private sector across the Potomac River that mostly deals in security, defence, government services and lobbying. Pride of place in Shareen Miller's home goes to a grainy photograph of her chatting with Barack Obama at a White House ceremony last year to inaugurate a new law that mandates equal pay for women.

As an organiser for Virginia's 8,000 personal care assistants – people who look after the old and disabled in their own homes – Shareen, 42, was invited along with several dozen others to witness the signing. But that was all she gained from her fleeting proximity to the president. Since then, her pay and her hours have moved steadily downwards. Last year she made \$1,500 a month. Now it is \$900. In common with other state governors, Bob McDonnell, Virginia's chief executive, has been cutting budgets ruthlessly since the recession began.

Although roughly twice the size of the Freemans' home, Shareen's house feels even more cramped. Along with two sons, a daughter-in-law, a grandchild and her husband, Shareen has a menagerie of pets. Her patient, Marissa, a 26-year-old with cerebral palsy, often stays with them.



The Millers: Shareen and Mark Miller (front right) with (left) their son Dustin, his wife Ruth and their two-year-old child, and (back right) Shareen and Mark's other son Josh. Out of necessity, they all share the cramped family home in Falls Church, Virginia

Shareen exhibits that knockdown goodwill that you find in many Americans – in spite of having little time on her hands, she volunteers on Saturdays for the Lost Pets charity. To get anywhere the Freemans must drive. About a quarter of a mile down the road is the local intersection, with the identikit Taco Bells, 7-Elevens, dollar stores and payday loan outlets that punctuate America. It is the physical geography that differentiates places: the human geography simply repeats itself.

A well-built lady with a permanent laugh, Shareen sketches out her complex family tree – a retired father who worked in the Oregon State Penitentiary and several half brothers and half sisters, none of whom appears to be making ends meet. "Guess which one I'm closest to?" she asks with an impish smile. "None of them."

Again, technically speaking, Shareen is relatively comfortable. Because her husband works for a fire safety company and brings in \$70,000 a year, the Millers are clearly surviving. But they dread what would happen if either had a medical crisis. A few years ago Shareen had a tumour removed from her diaphragm, which left her \$17,000 in debt. And her husband suffers from a herniated disk. Remarkably, given that their gross joint income is double the US median, Shareen has had to postpone a dental operation for six months in order to pay off her car loan. Nor does she have time to upgrade her skills. "One thing about people who work with the disabled is that they never have any spare time," she says.

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Much as they disagree on what has caused the Great Stagnation, economists also differ on the remedies. Most agree that better education improves people's earnings potential, even if it does not solve the underlying problem. Others point out that not everybody can be a bond trader, a software entrepreneur or a Harvard professor.

Many of the jobs of the future will be in "inter-personal" roles that cannot be easily replaced by computers or foreigners – janitors, beauty technicians, home carers and landscape gardeners, for whom college is often superfluous. Furthermore, a large chunk of Americans who have been hit by stagnation over the past decade are college graduates. Even they are not immune. But more education, at the very least, will improve one's chances. Paying for it is another matter.

Shareen's son and daughter-in-law, Dustin and Ruth, both aged 23, recently had to move back home because they could not afford to rent, even though both hold down jobs – Dustin with a bath remodelling company, Ruth in

a fabrics store. Both did well in high school and would like to study marine biology – a skill of the future. But they cannot afford the debt.



The Miller family. Both Dustin and Ruth (left) would like to go to college, but can't afford to take on the debt

While incomes in America are stagnating, the cost of education is soaring. Since 1990, the proportion of Americans who are paying off more than \$20,000 in student loans a decade after they graduated has almost doubled. Lawrence Summers, Obama's chief economic adviser, who has long worried about the growth of what he calls America's "**anxious middle**", points out that of the major economies, the US has the highest share of graduates in the workforce. But if you take the 25-34-year-old age group, America is not even in the top 10.

More and more young Americans are put off by the thought of long-term debt. "It's not only fear of the debt – it is the four years of lost earnings," says Ruth Miller, who was raised a **Mormon** and, to the bemusement of her parents-in-law, has converted Dustin to the faith. During my visit two expressionless Mormon "home visitors" wearing identical shirts and ties turned up and whisked Dustin, Ruth and their two-year-old son into their bedroom for counselling. "I would love to know what they're saying in there," says Shareen in a stage whisper.

Having been apolitical, Shareen had a road-to-Damascus moment three years ago after she was contacted by Mark Warner, now one of Virginia's senators, who asked to fill "a day in her shoes". The episode, which was used for publicity in Warner's election campaign, made a fan of Shareen. Having seen how tough Shareen's work could be, Warner bought her a \$6,000 outdoor lift that enables her to bring in wheelchair-bound Marissa through the patio. "What a wonderful man he is," says Shareen. "I'd love to meet him again."

So far, Warner's governing Democratic party has taken only limited action to address the Great Stagnation. On the campaign trail before the downturn, Obama often talked of the long years of "flat incomes" that most Americans had suffered and promised to turn their situation around. His administration has taken some steps, such as lifting budgets for community colleges to retrain workers, and launching the widely praised **\$5bn "race to the top" award** for states to improve their schools. But the White House, too, has been overwhelmed by the immediacy of the recession.

The impact on people such as the Millers and the Freemans has been acute. First there was stagnation. Then came the recession. "It is like continually bailing water out from a sinking boat and then they take your bucket away," says Mark Freeman. Out went the pestering calls from the banks urging them to take on even more debt. In came the bailiffs. "One day, the banks are sucking up to you, the next they hate your guts," he says with a Gallic shrug. Only through the help of a friendly lawyer did they escape foreclosure. The Bank of America, which received a **\$45bn taxpayer bail-out** in late 2008, lost the Freemans' paperwork several times. Each time they had to go through the laborious appeal process again.

"I suspect the bank wanted to foreclose because we were so near to paying off the mortgage," says Mark. "It was more profitable for them that way." Eventually the Freemans proved they could keep up with the payments. Mark calculated they have paid \$163,000 so far on a house they bought for less than one-third of that amount. It could all have been for naught. More than four million homes have been repossessed in the past three years. "Things have gotten so bad that before the price of copper fell, people were breaking into boarded-up houses to strip them of their wiring," says Mark.

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What, then, is the future of the American Dream? Michael Spence, a Nobel Prize-winning economist, whom the World Bank commissioned to lead a four-year study into the future of global growth, admits to a sense of foreboding. Like a growing number of economists, Spence says he sees the Great Stagnation as a profound crisis of identity for America.

For years, the problem was cushioned and partially hidden by the availability of cheap debt. Middle-class Americans were actively encouraged to withdraw equity from their homes, or leach from their retirement funds, in the confidence that property prices and stock markets would permanently defy gravity (a view, among others, promoted by half the world's Nobel economics prize winners, Spence not included). That cushion is now gone. Easy money has turned into heavy debt. Baby boomers have postponed retirements. College graduates are moving back in with their parents.

The barometer is economic. But the anger is human and increasingly political. "I have this gnawing feeling about the future of America," says Spence. "When people lose the sense of optimism, things tend to get more volatile.

The future I most fear for America is Latin American: a grossly unequal society that is prone to wild swings from populism to orthodoxy, which makes sensible government increasingly hard to imagine. Look at the Tea Party. People think it came from nowhere. While I don't agree with their remedies, most Tea Party members are middle-class Americans who have been suffering silently for years."

Spence admits he is thinking aloud and going "way beyond the data". And he concedes that America probably still retains its most vibrant strength in its still world-beating capacity for technological innovation. Most economists are not as bleak as Spence. But it is in the neighbourhoods among ordinary Americans that his pessimism gets its loudest echo. "To be pessimistic about the future is so new for Americans and so strikingly un-American," says Spence. "But most people grasp their own situations way better than any economist."

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Every now and then the Freemans invite their neighbours round to their front porch, to watch the world go by, drink beer and eat Connie's justly renowned dish of Minnesota wild rice. In the best American spirit, Mark and Connie are active neighbourhood people. They are the types who shovel your snow, volunteer for school events, and coach the baseball little league – Mark has done all three.

It takes optimism to be like this. But in the past few years the Freemans have been running low on it. "I guess the penny dropped in the last 18 months when we finally realised that it's always going to be like this – we are never going to be able to retire on our savings," says Connie. "As for Andy," she says, referring to her painfully shy but acutely observant son, "the future really frightens me. If you're young, it's bad enough nowadays. But for a kid with autism?"

When I asked what the American Dream means to them, Mark looked despondent. "It's not a dream," he said. "I would hate to sound like one of those Tea Party people but I really do want my country back. I just don't feel like that is going to happen." His words reminded me of a famous quip by George Carlin, the late, great American comedian – "It's called the American Dream because you have to be asleep to believe it."

Having been told that karaoke had worked miracles on Andy's autism as an infant, I asked whether he still liked to croon. Mark and Connie both instantly beamed. "You should see Andy down at the club singing word-perfectly and playing up flirtatiously to the women," said Connie. "He turns into a different person."

When Andy came outside, I asked if he would sing. Without skipping a beat he launched into a flawless rendition of "The Impossible Dream", the song from *Man of La Mancha*, the 1970s Broadway hit. His performance was uncanny.

"To dream the impossible dream, to fight the unbeatable foe, to bear with unbearable sorrow, to run where the brave dare not go. To right the unrightable wrong, to love pure and chaste from afar, to try when your arms are too weary, to reach the unreachable star. This is my quest: to follow that star, no matter how hopeless, no matter how far."

It was one of those only-in-America moments. When Andy stopped singing, I turned to Mark and Connie. For an uncharacteristic moment, they were both silent.

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