

**The Ecology
of the Middle Class
by**

David L. Armstrong

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This more of an essay than a research paper. I am also going to talk the paper rather reading it word for word. This not a statistical paper or a paper of "proof". It is a simple topic with a powerful message. My last paper was based on the book, "Grow or Die" by George Land. I have known George for over 25 years and is currently an active consultant and has a local representative using he ideas and techniques of application. He first book was biology based, whereas his later books have been more individual or organization based. He is usually classed as a "general system theorist". This background may seem superfluous, but gives you some idea why I have used the word "ecology" in the title.

As an economist, I like these kind of topics. Despite my subtle and not subtle persuasion, I was never successful in luring my children to this topic. They said was boring and not very practical and Jane, my wife, said was a wonderful subject. I could cover the reading so fast, since, I never looked at the tables or graphs. I hope this carefully selected audience will accept this paper as interesting and good food for thought.

I have laid this topic on the table whenever I met with people for lunch, driving time or as break in the conversation. Everyone has something to say on this topic. Some of it not too logical, but it does generate considerable emotion. I just had a new grandson and that brings together the family. My Father-in-law and mother-in-law in their late 80' responded. You want to know about middle class, look at us. We never pretended to be anything else. We, and people like us, built this country. You can't beat good hard work, family and budget minded people like. The thing that bothers me is that know one understand what built this country and it is disappearing. I changed the subject. One more thing, my Mother-in-law, said the middle class use to own a majority of the country's wealth and it would be good if it were still true. I didn't have the heart to tell her it was never true, but that's another paper.

Some would say things like, "what middle class"? Isn't the middle class something to remember, but it doesn't seem very significant these days. Others have reacted with academic responses-- define it maybe I have a comment--do you mean from an economic point of view-- is this an economic as well as social issue--maybe it is even psychological-- I think my parents are middle class and I am a lot like them-- the values of the middle class are good for all of us. One person gave me this thought, please don't glorify this middle class stuff too much-- it was hard work, many didn't make it, we worked to live, there weren't many fringe benefits. It may have seemed like the good old days, but it wasn't.

Even as the perception of the middle class has stretched to encompass an enormous range of people, the reality is that economic growth does raise all boats equally. The "yuppie" word, seemed derogatory in the mid 1980's. As a result, even those who achieve affluence may downwardly aspire to respectable and decent middle-class status-not financially, of course, but as a matter of principle. At the other end of the

spectrum. people who in the past described themselves as working class may now feel uncomfortable with the unfashionable term, so they opt for middle-class.

Just to get you thinking about this topic. I think there is all kinds of evidence we are all influenced by the middle class mystic and want desperately to protect it if we can. Think about progressive taxation-- was it help the poor or to favor the middle class. I must divert, to get your attention. Jane and I were part of the Danforth Fellowship Program for several years. I have a colleague in this club. In the early years of the program the program was rich in many ways-- Book allowances, discussion camps, roundtables, experience adventures and much more. It was a costly program, but incredibly powerful. Jane and I chose an "experience adventure" in the ghetto of Oakland, California. It was 1966 or 1967. I will refresh your memory about Oakland and that period if you like. We had a host. He said he know he didn't like us, but he was doing he duty to expose be the ghetto life. Back to the reason for this diversion. Clem took me down an alley to a garage door. We walked in. on the black board was the topic, "How to the Whitey, Middle Class Application form". Topics like, do you own you own home, do you play sports i.e. golf, work experience, references, etc. Let me just flirt with these thoughts; Are itemized deductions for the middle class? Are farm subsidies for the middle class? Think about the soil conservation service, REA, Small Business Administration and others.

What creates or builds a middle class? The middle class in the United States was the most powerful during and following WWII. There is always a creation or a middle class phenomenon associated with each major economic revolution. If you believe my premise, a middle class developed during the Agricultural Revolution, again with the Industrial Revolution, again with the Information Age and again with Information Technology Revolution. We need to stay with this thought for a minute or two. The middle class appears to be largest, proportionally, and tends to last longer when it is associated with extractive industries. Thus farming, mining and forestry, have created middle class families that lasted for several generations. With a topic like this it takes no time at all to reflect on the good old days. Everyone seemed the same or existed the same or similar environment. At the same time, it is easy to trace the countryside in our minds. I remember when farming communities developed and prospered, I also saw it mature and hardships seemed more common, the farms began to consolidate and change, barns weathered and fell, small communities struggled. These communities may not have died, but the middle class associated with these businesses is too small to count. The importance of the middle class development is critical part business development. In econometrics terms, it may contain the necessary and sufficient conditions and it may actually optimize, but it is not stable and no amount of political legislation, monetary and/or fiscal policy can preserve it. meaning the middle class.

Social systems or dictatorships have not been very successful for the middle-class. There all kinds of papers on the internet about the wage or income inequities among the economic classes. The assumption is, if you make a good and honest wage and that wage keeps pace with inflation, we have it made. When the middle-class was at its peak in energy, it was not wage or income that was the criteria. Many families during this time would have quit if they calculated an hourly wage. It had to do with ownership, pride, independence, capital accumulation, you finish the list. My Father dies earlier this year, we were small time Ohio farmers. I recalled this story. It was questionable in my mind whether, we were making any money on the farming thing. So, I asked Dad, are we making any money doing all this hard work? He said, is there something you need? No, I guess not! Then we must be doing okay.

I claim this wage inequity research, is interesting, but misguided. Social systems analyze individual, family and community needs and portend to supply the basics. It is a system of equality but it does not build a middle-class. The situation in Malaysia and Indonesia are a current case in point.

When 80 percent of the economy was agrarian, the middle class that developed was broad based and lasted for years. The middle class was not immediately threatened by upper class economic or political power. The first thing to remember about the middle class ecology, is the higher the proportion of the total economy controlled or heavily influenced by the middle class the longer it will last. Now, for another flash back that can be verified by each individual here. Before we had retail chains, conglomerates, franchises everywhere, there was not much threat from being bought, merged, or put out business. The Armstrong Grocery and Meat Market was in business in Lexington, Ohio for my Uncle's entire working life. The same was true of the Pharmacy, Service Station, Feed Mill and other businesses. The true middle class entrepreneurs of those days took the risk, accumulated capital, and knew that hard work and do-it-yourself business practices would or at least had a good chance of success. The first point to remember, the middle class that we know so well was a significant, if not, the largest of the social/economic classes.

The statistics on middle-class can be misleading in my judgment. First, the middle class is not a dying breed. But, regardless of how you define it, the proportion of households with moderate income is declining. Yet the actual numbers are high or even increasing slightly. Middle-class households with incomes between \$30,000-\$60,000 has declined from 38 percent to 30 percent. If you broaden the base, it has declined from 70 to 64 percent. The mobility within the middle class has increased, both in and out, that the numbers make it look more stable and robust than it is.

Since thinking about this topic, my hearing got tuned to the words middle class. I can't begin to tell you how many times I have heard the term. Just this week, NPR had a whole series on the under lawyered middle class. A group with common everyday problems, but who neglect their own needs by not using lawyers and lawyers on the other not being so interested in that kind of practice.

China, Russia, and most all Eastern Europe are generating a significant middle class. Those who are breaking out of the pack with new found freedom and generating cash flow that is theirs. If no one has any cash, then a little bit looks pretty good and the race is on. In China the farmers who produce a surplus and set corner stands were the first to pocket some cash. That is not the same as barter. To the new middle class entrepreneur, you barter for survival. But it's the cash and slow but constant accumulation of capital that distinguishes the group. The Wall Street Journal had a big story about a small noodle maker in China. An American Group had done some modest homework and decided to make a noodle factory in the United States and later open a factory in China. Then they met their match. A small, but fast growing family was in the noodle business "big time". He was only making one half penny per bag. The U. S. Group could not compete. Remember, if you have never had any cash, one half penny per bag is better than no penny and it was adding up. There is so much to do in these cultures and willing souls you will give it a try. The treatment of big business does not exist for many in this new wave. It works and it too will ride its own growth curve to a slow crawl.

I never will claim the middle class will disappear, only that it will lose energy, size and influence on the total society.

What about this claim that the Information Age is creating its own middle class. It is true, but entirely different than what we have been talking about. This is a true statement. But since the United States is a developed economy. The rash of business, started by the unbelievable group of young techies, has a different kind of ecology. They are small, short-lived. These businesses in many cases will be merged, bought or fail within a matter of months. The length of the business and product cycle a life most of us do not understand.

What do we lose or miss when the middle class is minimized. Let me suggest three significant things.

1. The middle class was the communicator or the focus of attention. The upper middle class or upper class has always been able to identify with middle class. Many of these groups had been in the middle class, had parents and relative in the middle class. Despite their good fortunes, they had middle class values. Our policies and practices reflect this thinking.

The middle class communication factor was very powerful to the less fortunate as well. They know first hand friends and relatives who had lived the dream. It was real and it was available. Many immigrant who comes to the U.S., sooner or later will, the U.S. is the land of opportunity. If you put your mind to it, it can happen. It is true, but getting tougher every year. College tuition example.

When the middle class diminishes we lose the focus and communication power.

2. When the middle class diminishes, it is a squeeze play and we lose stability. People move up and people move down. And too many of those that are left find what looked like the America Dream, slowing fades. Wage rates in this group often stagnate, even go down. Job security is a thing of the past. Their support group move on-- either up or down. Not only is it not the focus anymore, but it is not the goal. We lose a lot when this happens. The "have" and "have not" phenomena grows. This is true of our policies, our commerce and maybe even our values. I said in my first paper, nothing "mid priced" is a growth market anymore. Think about it.

3. When the middle class diminishes, we lose incentive. Education and training have always been great predictors of success. The Information Technology Age is not equally available to all people. Manual work was a great equalizer. The more sophisticated the training the greater the divide. I the cycles of technical products continues to shorten and the retraining needs cycle at ever increasing speed the divide between the 'haves' and 'the have nots' gets even wider. If you have to run so fast for so long and still not catch up, you lose the will to run. The examples of the quickening cycle are abundant.

I know ecology is used mostly with biology and lesser with sociology. The relationship of creatures and their environment. Time changes the relationship. The pattern is often predictable and is difficult to alter. The middle class phenomena is a special group of people in relation to the economic and social climate. With time, the pattern is predictable and difficult to alter and so it goes with the middle class.