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FROM THE END OF HISTORY TO THE END OF PROGRESS

[Ottawa – September 19, 2014] Twenty-five years ago, Francis Fukuyama penned a seminal essay titled the “*End of History?*”¹ This essay claimed that liberal capitalism had triumphed. This celebratory conclusion was noted in the dissolution of state socialism and the ascendance of the United States to hyperpower² status and the provocative notion that the dialectical tensions of history had ended and the riddle of history had been solved in American supremacy. At the end of the century, the ascension of a growing and optimistic middle class in the last half of the twentieth century seemed destined to continue indefinitely in a post-business-cycle world fuelled by information technology and globalization.³

A mere generation later, this exuberant conclusion appears risibly wrong in the light of the decline of American economic and political dominance and the rise of Southeast Asia and other new superpowers. Even more disturbingly, it would seem that the citizens of upper North America and the advanced Western democracies are no longer convinced of the basic “ethic of progress”, which underpinned the miracle of liberal capitalism.

The high water mark may have been September 10th, 2001, but since then, America has surrendered its hyperpower status and the robust four to five per cent average growth of the last half of the twentieth century has been replaced with a much more tepid one to two per cent growth punctuated with two massive economic disruptions. Moreover, the distribution of this much more slowly growing pie has been increasingly appropriated by a very slender cohort of those at the very top of the economic spectrum.⁴ In this new age of stagnation, the vast majority of citizens have seen almost no progress at all over the last 25 years.⁵ Despite huge growth in human capital formation and a much larger fraction of the population working (particularly as female labour force participation has burgeoned), the net impact has been only the stabilization of household incomes.

So in a very real sense, the very idea of progress – the promise of a better life, security, and the comforts of middle class membership – has halted. Moreover, the evidence is that this new world of “progress lost” is moving further in the wrong direction. The trajectories all point downward in terms of the tracking of these perceptions and experiences. The gloomy outlook on the present fades to black as citizens ponder a future where only around ten per cent believe the next generation will experience the progress achieved by the previous generations.

Self-defined middle class membership has fallen precipitously in both Canada and the United States. In Canada, the incidence of individuals who have fallen behind their father’s income at the same period in life rises from 15 per cent to 34 per cent to 44 per cent as we move from

¹ Francis Fukuyama, “*The End of History?*”, *The National Interest*, Summer 1989. Available online at: <http://goo.gl/Z7OH2Y>

² Robert Kagan, “*Of Paradise and Power: America and Europe in the New World Order*”, New York: Alfred A. Knopf Distributed by Random House, 2003. Print.

³ Friedman, Thomas L. “*The World is Flat: A Brief History of the Twenty-First Century*”, New York: Farrar, Straus and Giroux, 2005. Print.

⁴ Cowen, Tyler, “*The Great Stagnation: How America Ate All The Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better*”, New York: Dutton, 2011. Print.

⁵ Corak, Miles, “*The Economics of the Great Gatsby Curve: A Picture is Worth a Thousand Words*”, January 18, 2012. Available online at: <http://goo.gl/V3q6VA>

seniors to boomers to Generation X. The long fall of the middle class is already occurring as around 20 per cent have fallen out of self-defined middle class status. In net terms, these movements are all downward to the working class and poor.⁶

Despite the near universal public consensus of a brewing crisis of the middle class, as well as a clear sense that new forms of inequality and a broken incentive system are driving this decline, prominent spokespersons and politicians deny – even ridicule – this emerging public judgement as a “phoney crisis”.⁷⁸ The New York Times even goes so far as to say that Canada’s middle class is the richest in the world⁹ (not true, but compared to what Frank Bruni calls “America the Shrunken”,¹⁰ we are around par). The right wing commentariat gleefully seize upon partial stories and research to suggest that: (i) this is a non issue and only of concern to liberal policy “wonks”; and (ii) things are actually swimmingly well and even if public shows fears, they are being foolish.

While the punditry debates reality and severity of the middle crisis, this debate is not reflected in public attitudes or experiences of the economy. Whatever The New York Times or the Globe and Mail may say, the public are not buying it. Indeed, Canada’s “world leading” middle class is convinced it is falling behind. The public overwhelmingly rejects the notion that this is a manufactured crisis of liberal policy and the intellectual elite. Furthermore, 73% of Canadians reject the notion that income inequality is not an important issue. Even in the more conservative, anti-establishment constituencies, a clear majority recognize the importance of this issue. This new crisis of the middle class is possibly the defining issue of our time and, at the very least, one of the pinnacle issues demanding urgent attention.

What Has Changed?

About a decade ago, we started noticing a series of disturbing changes. For the first time, we were seeing evidence that Canadians weren’t moving ahead of their parents’ achievements. Short, medium, and longer term optimism have all been steadily eroding over the last decade. Perceptions of job security are much stronger than in late nineties, but have been trending downward recently. Public confidence in direction of country and trust in government has reached new lows.

The economy is also changing profoundly and affecting public outlook. There is growing evidence that society’s belief in progress and a better future is unravelling. These shifts are rooted in fears of Western decline and the rising concentration of wealth at top (although they reject the zero-sum argument that the rise of China and other BRIC nations is an important factor). The middle class is shrinking, and it sees itself as the primary loser over the longer term. The point isn’t that Canada is in a state of privation and economic distress (it clearly isn’t). Rather, the point is that the policies and institutions that produced progress and success don’t seem to be working the same way anymore. For example, the New York Times article pointed to unions and progressive

⁶ EKOS Research Associates: “*Looking Backward, Looking Forward – Part 3*”, January 3, 2014. Available online at: <http://goo.gl/qzBrrS>

⁷ Margaret Wentz, “*The Phony Crisis of the Middle Class*”, The Globe and Mail, Feb. 27 2014. Available online at: <http://goo.gl/z3ZY9U>

⁸ James Carville and Stanley B. Greenberg, “*It’s the Middle Class, Stupid!*”, New York: Plume, 2013. Print.

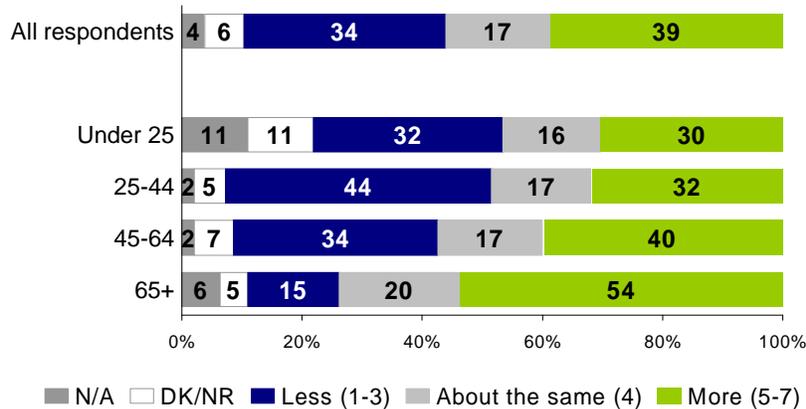
⁹ David Leonhardt and Kevin Quealy, “*The American Middle Class Is No Longer the World’s Richest*”, The New York Times, April 22, 2014. Available online at: <http://goo.gl/1KGWzY>

¹⁰ Frank Bruni, “*America the Shrunken*”, The New York Times, May 3, 2014. Available online at: <http://goo.gl/7SAknk>

taxation as key to Canada's better-than-the-USA performance – and both are in decline in this country. Indeed, the problem is accelerating as we move down the generational ladder.

Income relative to father

Q. Thinking about your current annual income and comparing that to what your father earned at the same age as you are now, would you say that, using inflation-adjusted dollars, you earn more, less, or about the same as your father?

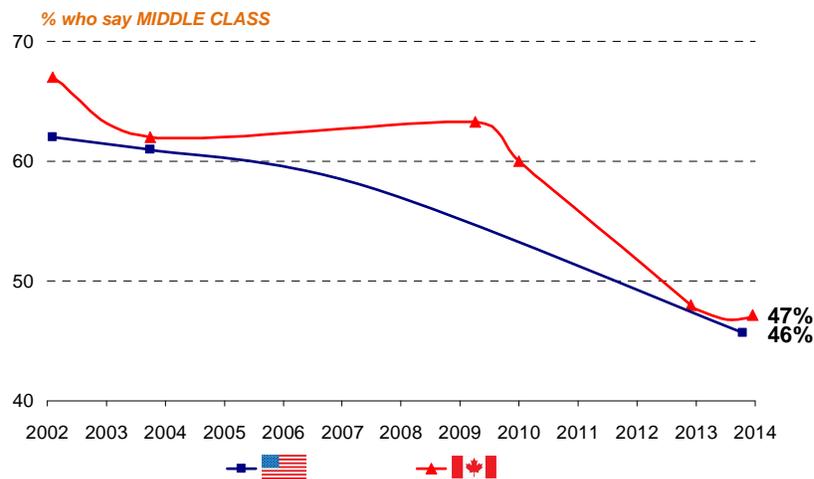


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BASE: Canadians; December 12-20, 2013 (n=1,531)

Tracking middle class

Q. Would you describe you and your household as poor, working class, middle class, or upper class?



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BASE: October 2013, US (n=1,600); Canada: December 12-15, 2013 (n=3,468)

Finally, fears are highest when turned to the future, particularly concerns about retirement and the fate of future generations. The grey outlook on the present turns almost black as the public ponder the fate of future generations. By huge margins, the public sees the middle class as tending to pessimism over optimism and shrinking rather than growing (and they see growing income inequality as a key factor). This vividly contrasts with a virtual consensus that the

opposite – a growing and optimistic middle class – is a precondition for societal health and well-being. So it appears that we have at least temporarily reached the end of progress.

Implications of the Crisis of the Middle Class

Growth has been proceeding – albeit at very tepid pace. But the relatively smaller, more slowly growing pie isn't being equally consumed. Too little growth is going to an increasingly slender cohort and the rest are left with a simmering sense of betrayal and despair.

Most foresee serious generational strains as these pressures grow dramatically and when we unbundle the data from older to younger citizens we see that the problems are infecting those after the seniors in harsher and harsher ways. Unusual and profound differences emerge between age cohorts; typical youth optimism has given way to a growing sense of insecurity. The current generation sees itself falling backward and sees an even steeper decline in future. Unfortunately, much of what benefits older Canada actually harms younger Canada. "Wealth" in Canada is being floated on burgeoning debt fuelled by an unprecedented housing bubble that obscures stagnation for older Canadians and poses insurmountable barriers to those under 40.¹¹

Shockingly, the majority sees this trajectory leading to the possibility of "violent class conflict" if these trends continue. In a relatively short time, we have gone from the exuberant triumphalism of the "end of history" and a flat world immune from business cycles to a world (suggested by Thomas Piketty's remarkably gloomy *Capital in the Twenty-First Century*¹²) that may well see the collapse not of state socialism, but of liberal capitalism.

Conclusions

There are a myriad of complex and interconnected factors seen as the agents of this stagnation and pessimism, but none is more important than a newfound failure of the economy to provide the balance of incentives and fairness which permit economic and societal progress. This reflects the broad historical conclusions reached by Damon Acemoğlu in his book, *Why Nations States Fail*.¹³ Whatever the specific causal mechanisms there can be little doubt that a shrinking, pessimistic middle class which feels it is falling backward is not a harbinger of a healthy economic or societal future.

Given the trends we have identified in recent years, we are witnessing what we have called the "End of Progress".¹⁴ Wages and vertical intergenerational mobility have stagnated – even

¹¹ Eugene Lang and Frank Graves, "Closer Reading of StatsCan Report Troubling for Middle Class", Toronto Star, March 2, 2014. Available online at: <http://goo.gl/hwF3DW>

¹² Thomas Piketty and Arthur Goldhammer, "Capital in the Twenty-First Century". Cambridge Massachusetts: The Belknap Press of Harvard University Press, 2014. Print.

¹³ Acemoğlu, Daron, and James Robinson. "Why Nations Fail the Origins of Power, Prosperity and Poverty", New York: CROWN GROUP (NY), 2012. Print.

¹⁴ EKOS Research Associates, "The End of Progress? Brewing Generational Tension?", March 9, 2012 Available online at: <http://goo.gl/scKISS>

declined, and there are even deeper fears about a dark, long-term economic future. While these fears are somewhat exaggerated, they reflect harder trends (for example, see Lemieux¹⁵). Disentangling our data by generational cohorts explains some of the apparent paradox. The problem magnifies dramatically as we move down generational spectrum. Things which temporarily cushion middle class fortunes in older (over 42) Canada actually worsen the plight of younger (under 42) Canada (e.g., swollen housing equity).

The latest public opinion data show no improvement; in fact, the numbers seem to be worsening. This is particularly troubling, since sentiment and perception can condition behaviour (self-fulfilling prophecy). Inequality is seen as the key driver of this end of progress, but a new form (or perhaps re-encounter of old form) of inequality from the Gilded Age has arisen. It is no longer the traditional income inequality narrative of the rich versus poor, but rather the über rich versus everyone else.

So what can be done? First, it is important to note the collapse of faith in trickle down economics – Canadians are no longer buying into the narrative that small government and low taxes translates into prosperity for all. Indeed, the rising tide of austerity and lower taxes has failed to lift all boats, although it has raised a few spectacular yachts. From coast to coast, Canadians are calling for changes to incentives, a more active state, and a reversal of the exponential rise of the plutocrats.

The public emphatically reject notion that this is a manufactured or artificial crisis. The vast majority of Canadians believe that a growing and optimistic middle class is essential to economic growth and prosperity, but a similar proportion doesn't see this in place. New inequality and middle class decline maybe the issue of our age. The window for dealing with this situation is closing and we need bold action tantamount to those which transformed Gilded Age into the era that saw the ascension of an inclusive, growing, and optimistic middle class.

¹⁵ Thomas Lemieux, "The Changing Nature of Wage Inequality", *Journal of Population Economics*, Springer, vol. 21(1), pages 21-48, January 2008. Available online at: <http://goo.gl/b7IV3U>