



# **From the End of History to the End of Progress:**

**The Shifting Meaning of Middle Class**

**By Frank Graves**

**Presentation to the Queen's 2014 International Institute on Social Policy**

**Kingston, Ontario**

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# 1. Aims and Strategy

*Why is this important?*

# 2. What Has Changed?

*Evolution of the Crisis of the Middle Class*

# 3. Real Crisis or Fabrication of Policy Wonks?

# 4. The Core Ingredients of Middle Class

# 5. Conclusions

*What can be done?*

# Why is This Important?

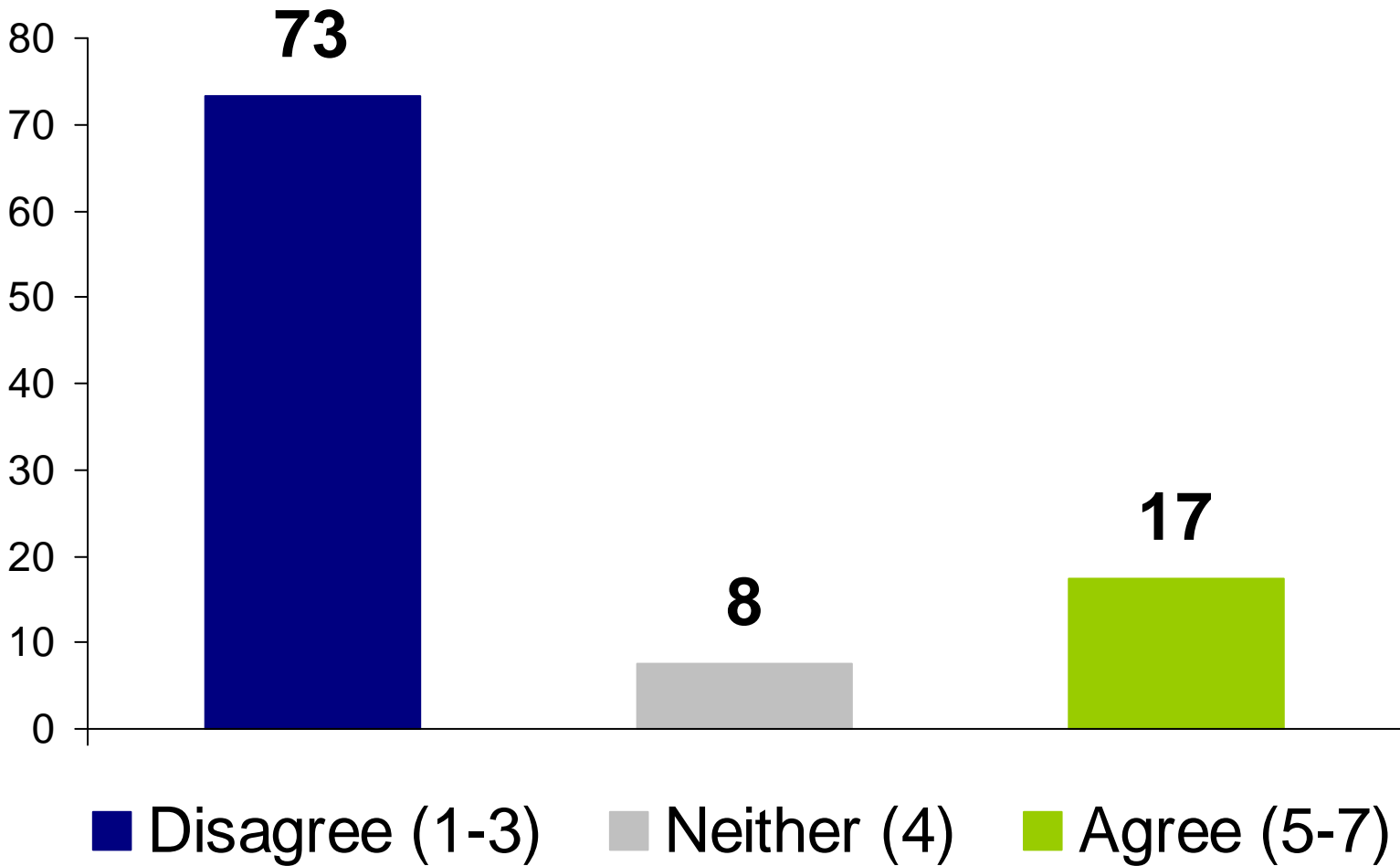
- » Fears are highest when turned to the future, particularly concerns about retirement and the fate of future generations
- » The grey outlook on the present turns almost black as the public ponder the fate of future generations
- » By huge margins, the public sees the middle class as tending to pessimism over optimism and shrinking rather than growing
- » 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.
- » Public sees growing income inequality as a key factor
- » So it appears that we have at least temporarily reached the end of the progress, the defining achievement of liberal capitalism



# Importance of Inequality

Q. Please rate the extent to which you agree or disagree with the following statement:

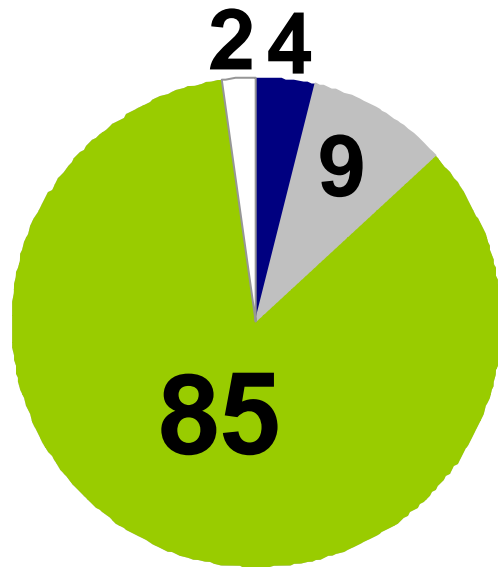
***“Income inequality is not an important public issue”***



# Crisis of the Middle Class

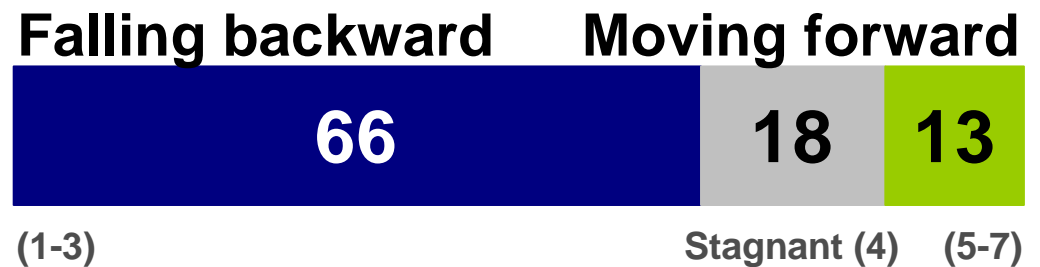
Q. Please rate the extent to which you agree or disagree with the following statement:

**“A growing and optimistic middle class is an essential component of societal progress”**



- Disagree (1-3)
- Neither (4)
- Agree (5-7)
- DK/NR

Q. Overall, which of the following choices do you believe best describes Canada's middle class?



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# What Has Changed? (i)

- » About a decade ago, we started noticing a series of disturbing changes
  - For the first time, growing evidence that Canadians weren't moving ahead of their parents' achievements
- » Past decade rise in short-term pessimism continues
- » Medium and longer term optimism have been steadily eroding over last decade
- » Perceptions of job security are much stronger than in late nineties, but have been trending downward again recently
- » Public confidence in direction of country and trust in government reaching new lows

# What Has Changed? (ii)

- » Economy changing profoundly and affecting public outlook
- » Evidence that a belief in progress and a better future is unraveling
- » Current generation sees itself falling backward and sees an even steeper decline in future
- » Typical youth optimism muted
- » Rooted in fears of Western decline and rising concentration of wealth at top (the 1% phenomenon)
- » The middle class is shrinking, sees itself as the primary loser over longer term



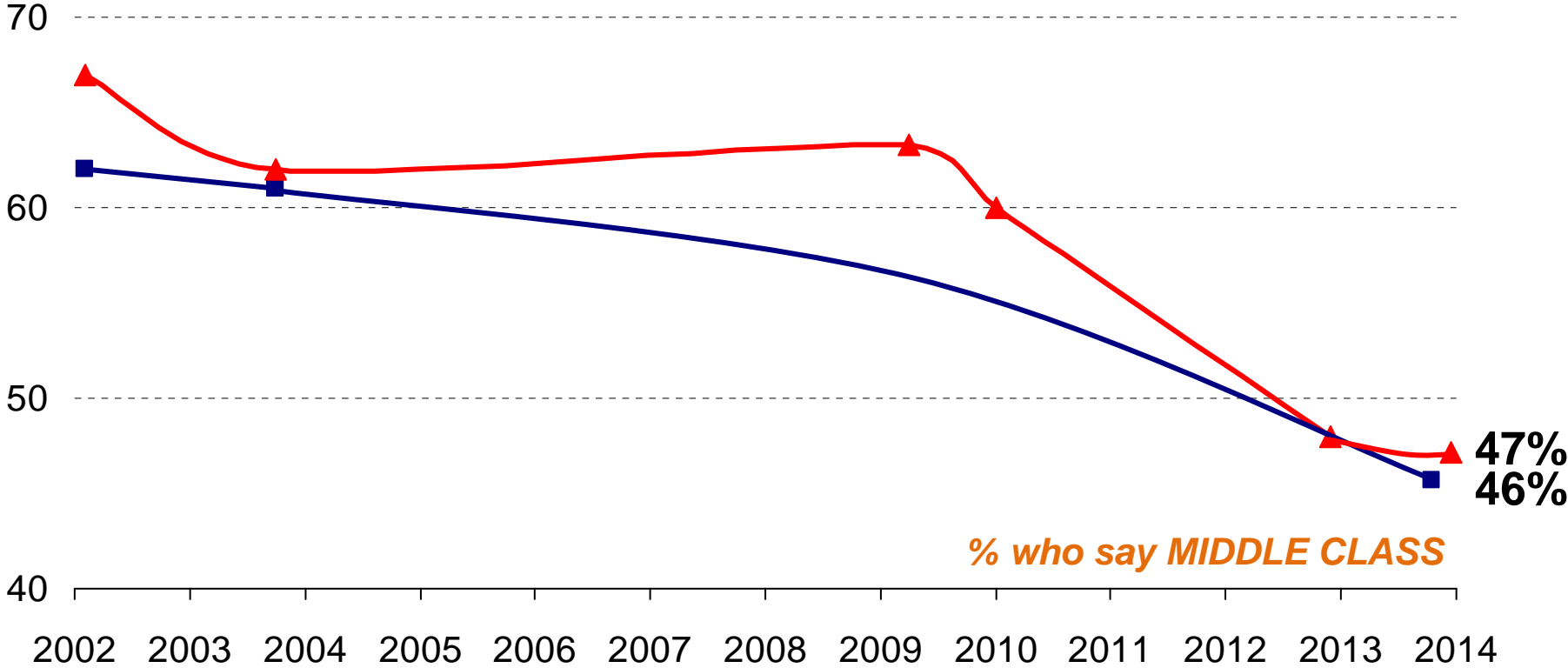


# Tracking the middle class

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

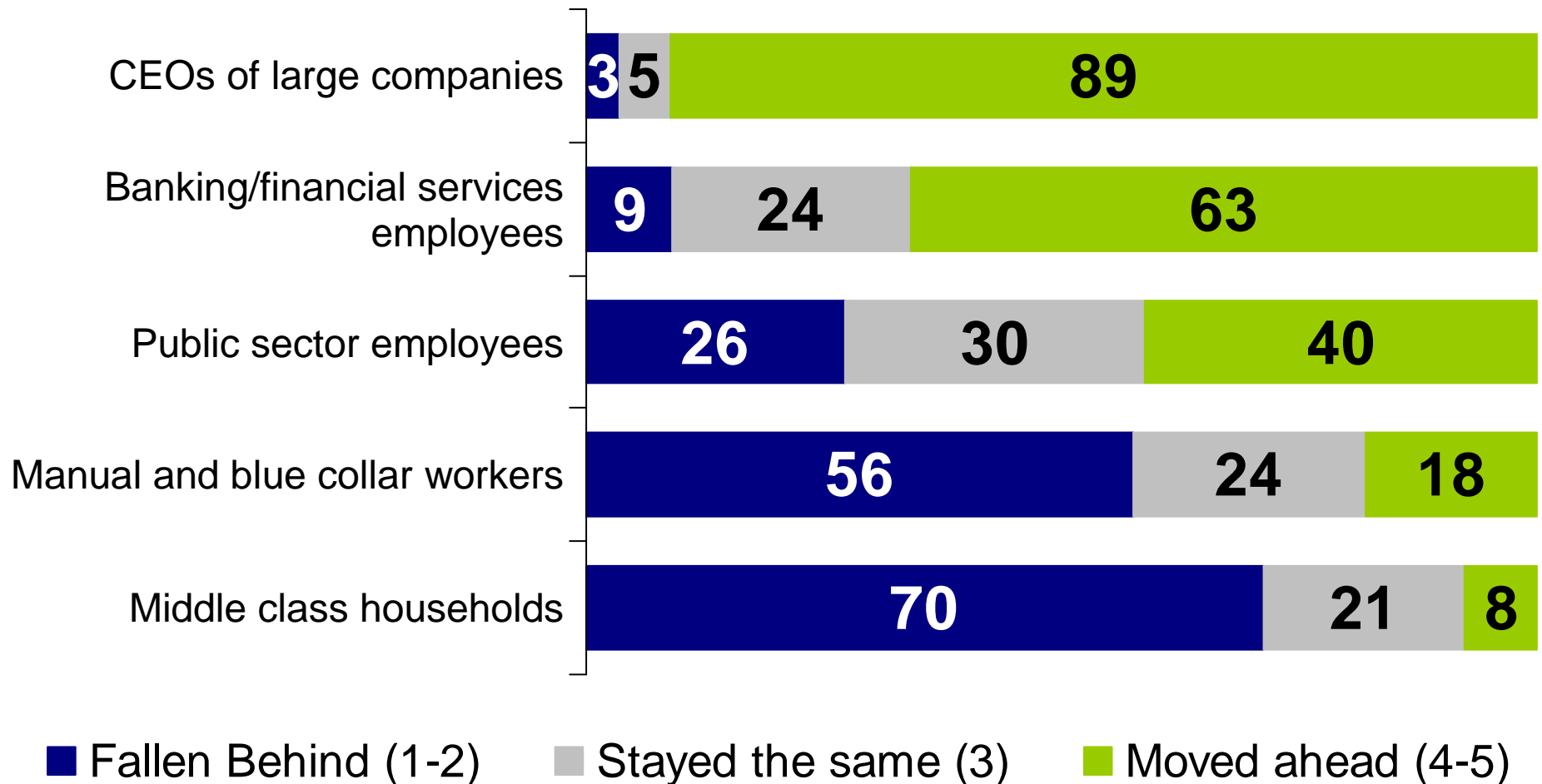


DK/NR  
  Poor  
  Working class  
  Middle class  
  Upper class



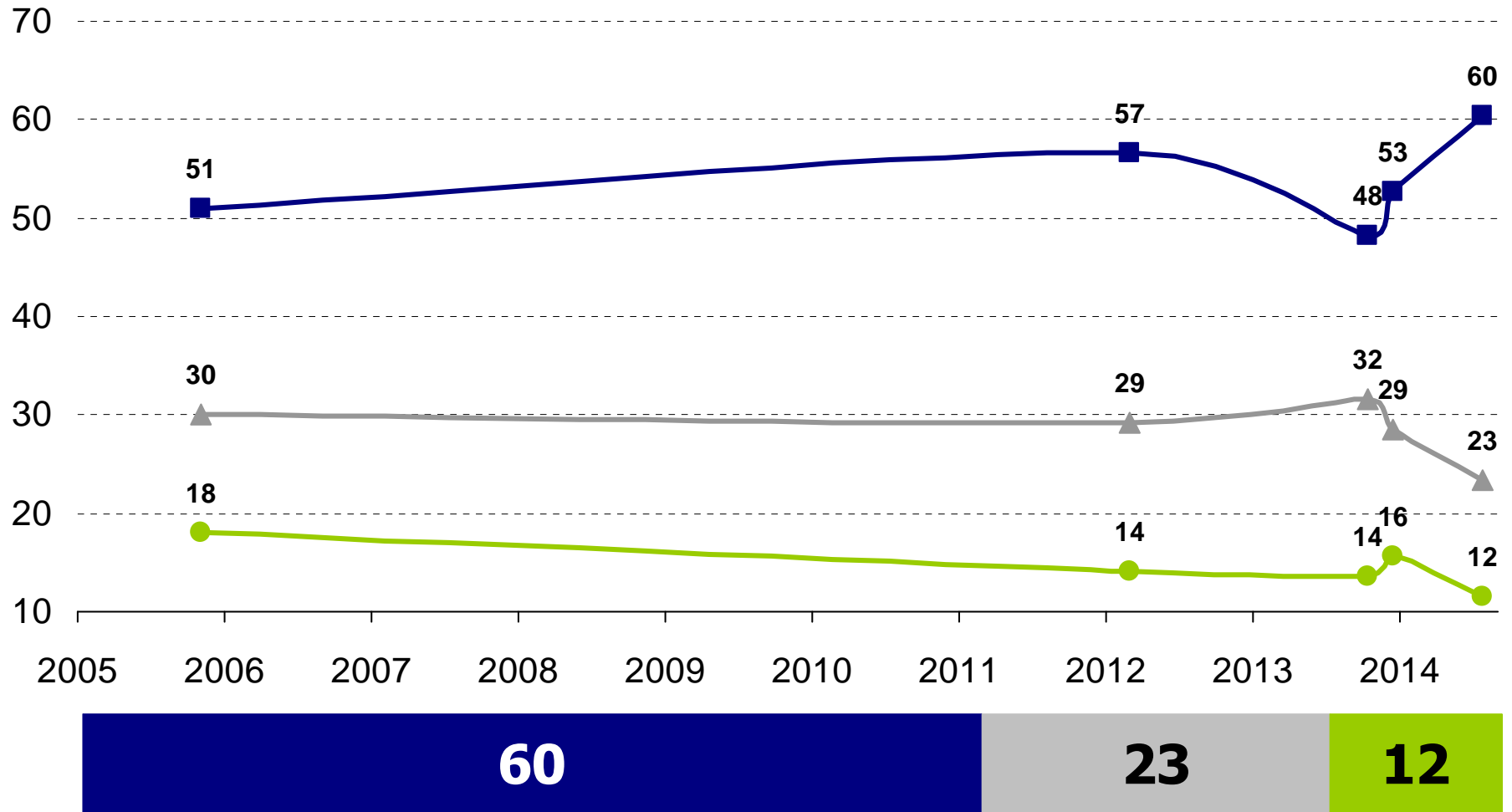
# Long-term winners and losers

Q. Do you believe the following groups have moved ahead, fallen behind, or stayed the same over the last 25 years?



# Changes in Quality of Life Over Next 25 Years

Q. Thinking about your overall quality of life do you think **the next generation** will be better off, worse off, or about the same as **you are 25 years from now?**



■ Worse off   
 ▲ About the same   
 ● Better off

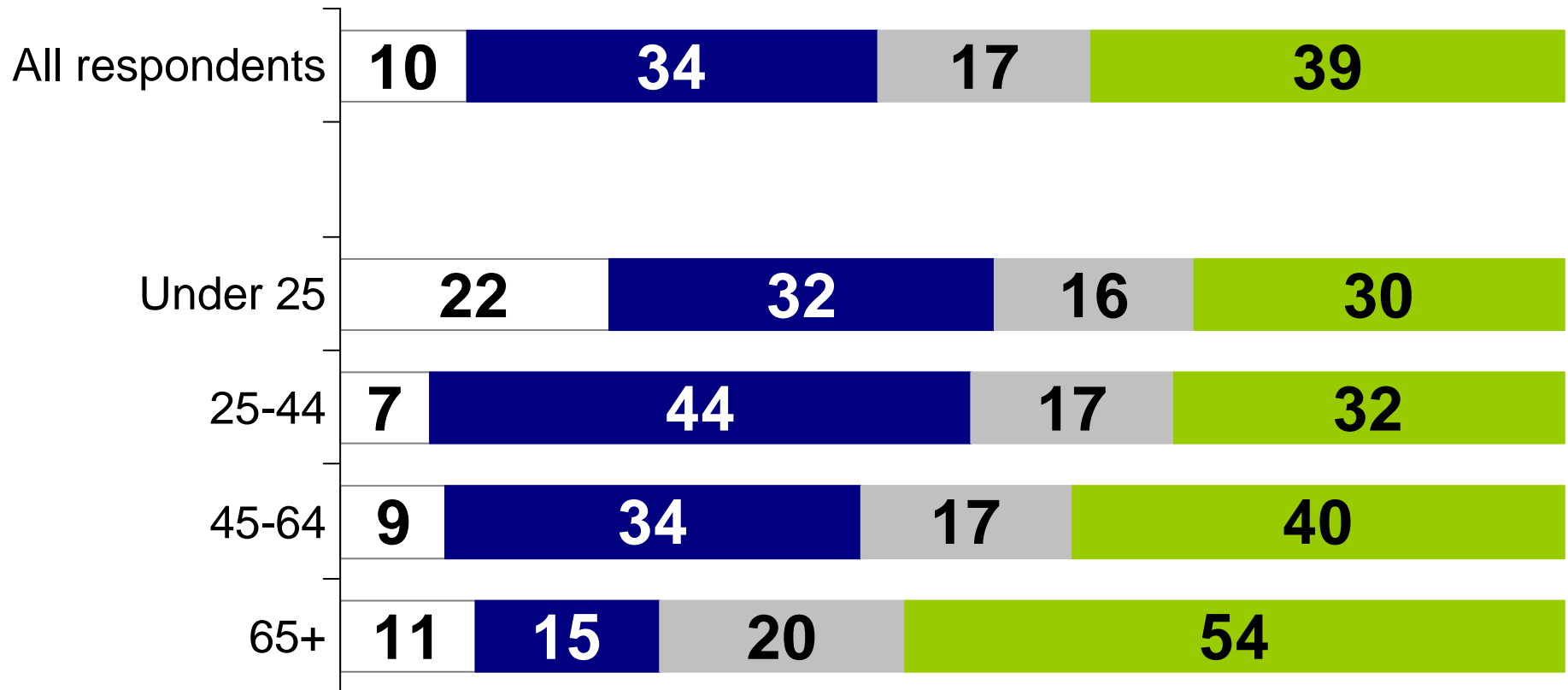


BASE: Canadians (half-sample); most recent data point July 16-23, 2014 (n=1,304)

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# 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?



Not applicable/DK/NR  Less (1-3)  About the same (4)  More (5-7)

# Progress by Social Class

Q. What would you say your personal annual income was 10 years ago, before taxes and not adjusted for inflation?  
And what is your personal annual income today?

## Poor/Working Class



## Middle Class



## Upper Class



■ Fallen behind   ■ Stagnated   ■ Moved ahead   ■ Already at the top

*Note: Income was asked in discrete categories (Under \$20,000, \$20,000-\$30,000, etc.). "Fallen behind" indicates a lower income bracket than in 2004. "Stagnated" indicates the same bracket or a one-bracket increase (i.e., less than the rate of inflation). "Moved ahead" indicates an increase of two or more income brackets or a movement into the top income bracket (i.e., \$100,000 or more). "Already at the top" indicates the top income bracket in both 2004 and 2014.*

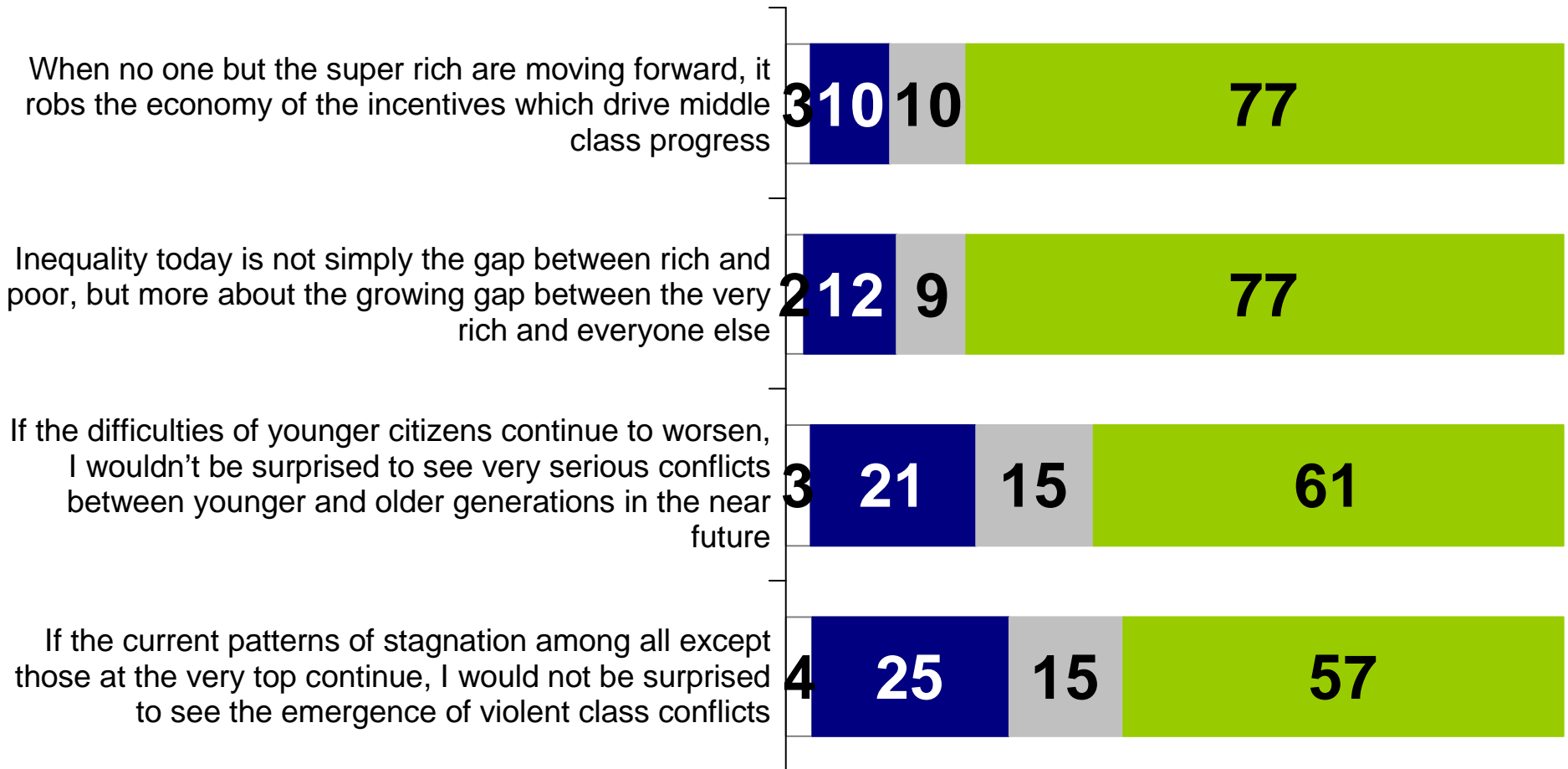
# Evolution of the Crisis of the Middle Class

- » 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 as we unbundle the data from older to younger citizens
- » 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 Piketty’s remarkably gloomy *Capital*) that may well see the collapse, not of state socialism, but of liberal capitalism



# Consequences of Inequality

Q. Please rate the extent to which you agree or disagree with the following statements:



DK/NR 
  Disagree (1-3) 
  Neither agree nor disagree (4) 
  Agree (5-7)

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# The Debate Over the Middle Class Crisis



MARGARET WENTE


The phony crisis of the middle class

**THE GLOBE AND MAIL** 

**NATIONAL POST** 

Andrew Coyne: It might not actually be the richest middle-class on the planet, but Canada certainly isn't struggling



Ralph Goodale  Become a fan

Deputy Leader of the Liberal Party of Canada, Member of Parliament for Wascana and former Finance Minister

HUFF POST POLITICS CANADA

**Canada's Middle Class Shouldn't Celebrate**

**thestar.com** 

**GTA**

Middle-class communities disappearing

According to a U of T study, Toronto is undergoing an increase in both poor and rich districts – and that means subtle but significant changes to individual neighbourhoods.

By: Daniel Dale STAFF REPORTER

**THE GLOBE AND MAIL** 



MICHAEL BABAD

Canada's middle class richest in study of big nations

**NATIONAL POST** 

Michael Den Tandt: The faltering 'middle class' is a real issue, regardless of who wins the next election

**thestar.com**   
COMMENTARY

Closer reading of StatsCan report troubling for middle class

Most of the net worth increase in Statistics Canada survey is due to phenomenal inflation in home values, not in income growth.

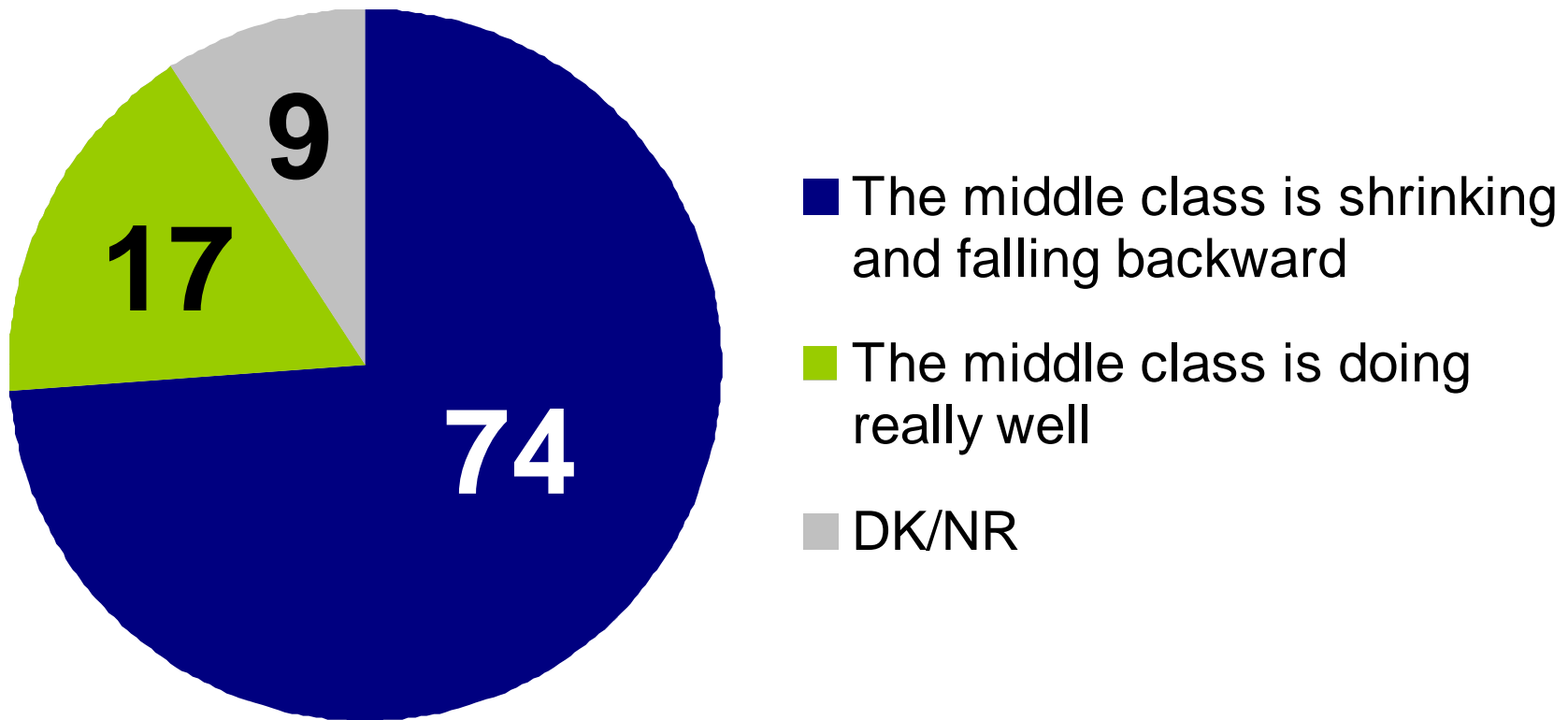
By: Eugene Lang Frank Graves

# State of Canada's Middle Class

- » While the punditry debates reality and severity of the middle class crisis, this debate is not reflected in public attitudes or experiences of the economy
- » Most differences emerge between age cohorts:
  - Much of what benefits older Canada harms younger Canada
- » Public overwhelmingly rejects notion that this is a manufactured crisis of liberal policy and the intellectual elite
- » 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

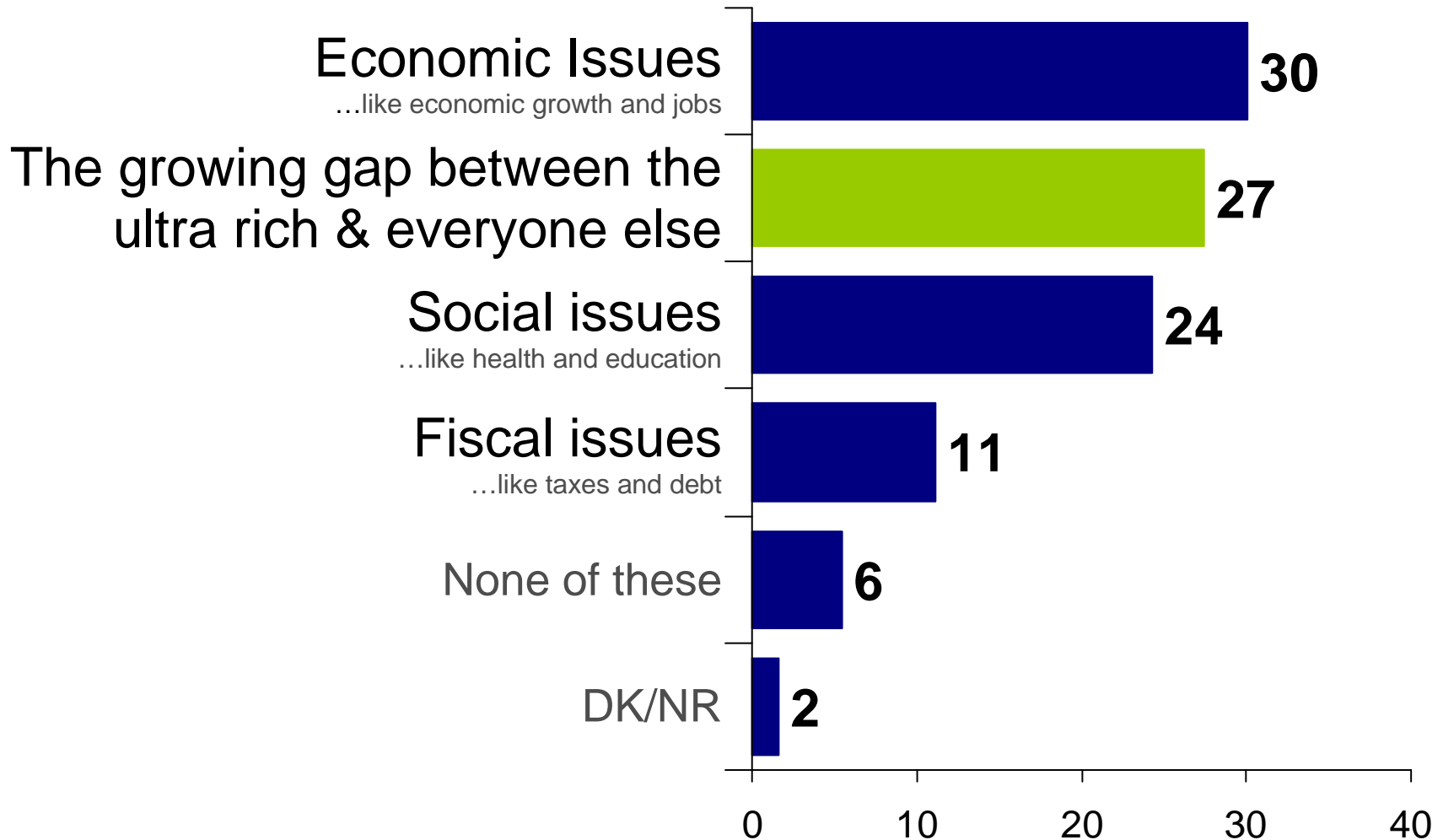
# Perceived State of Canada's Middle Class

*Q. Some say that the middle class is shrinking and falling backward and that restoring middle class progress is the critical challenge of our time. Others say the middle class is doing really well and that this notion of middle class crisis has been manufactured by policy wonks and it really isn't an issue at all. Which statement comes closer to your point of view?*



# Most Important Issue

Q. Which of the following do you think should be the most important issue in discussions about Canada's future?



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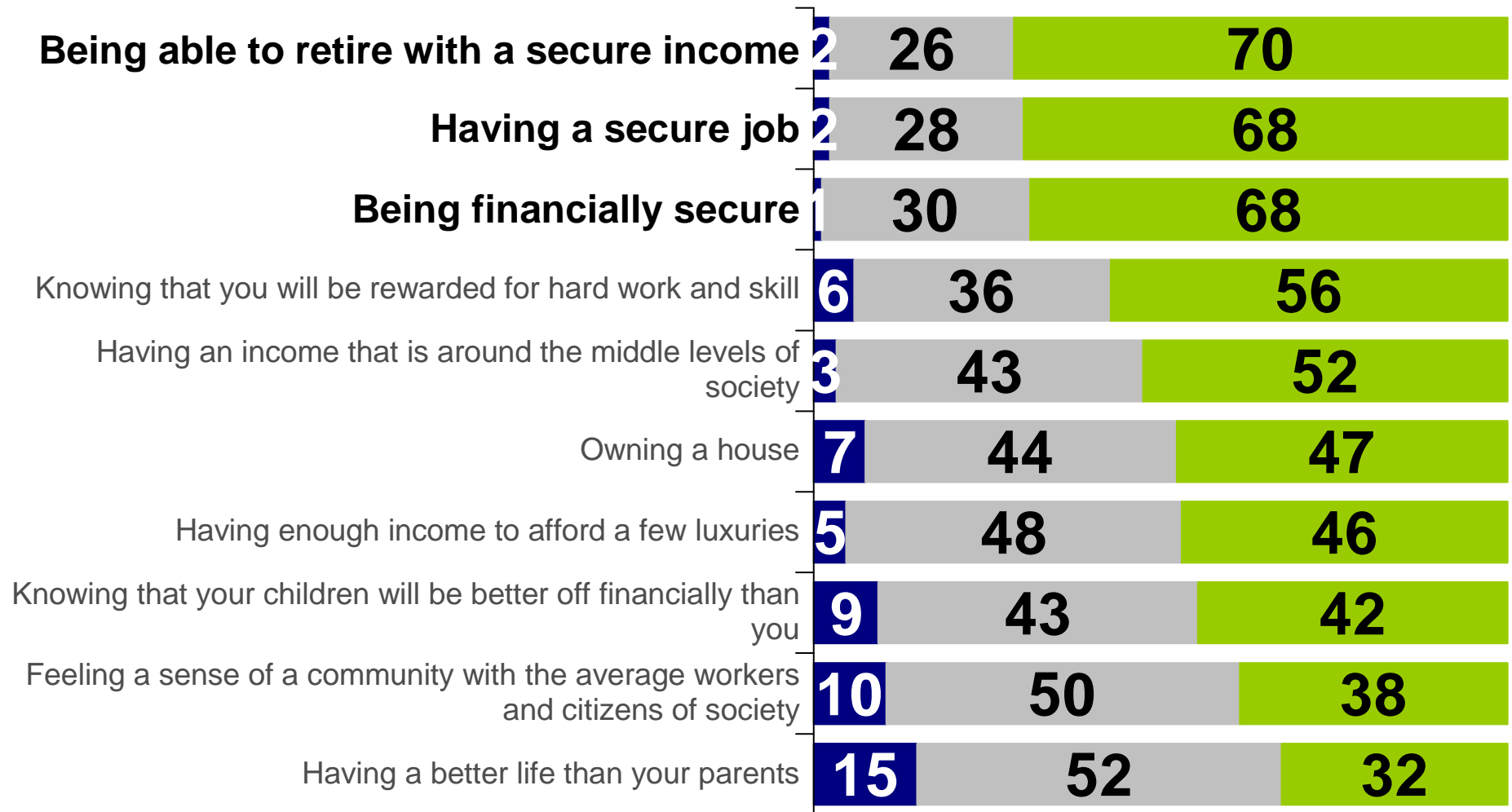
# Meaning of Middle Class: Security, Security, Security

- » While income is an important ingredient of middle class membership, security, or more properly, the lack thereof, is seen as the salient concern of increasingly anxious society



# Meaning of Middle Class: Security, Security, Security

Q. How important are the following aspects to your definition of what it means to be middle class?



■ Not important (1-2)
 ■ Somewhat important (3-5)
 ■ Important (6-7)



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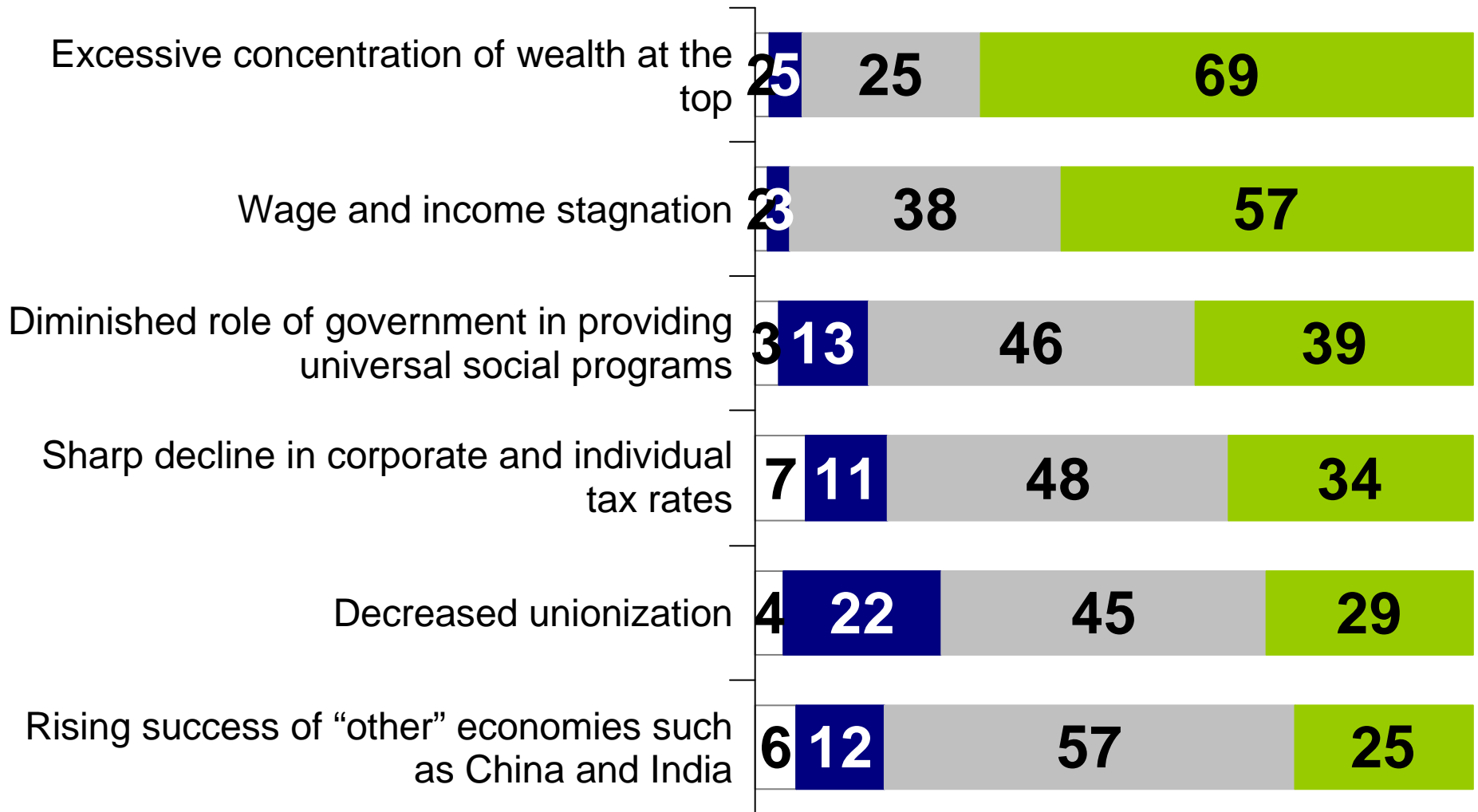
# Causes of Middle Class Stagnation / Decline

- » 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



# Causes of Middle Class Stagnation / Decline

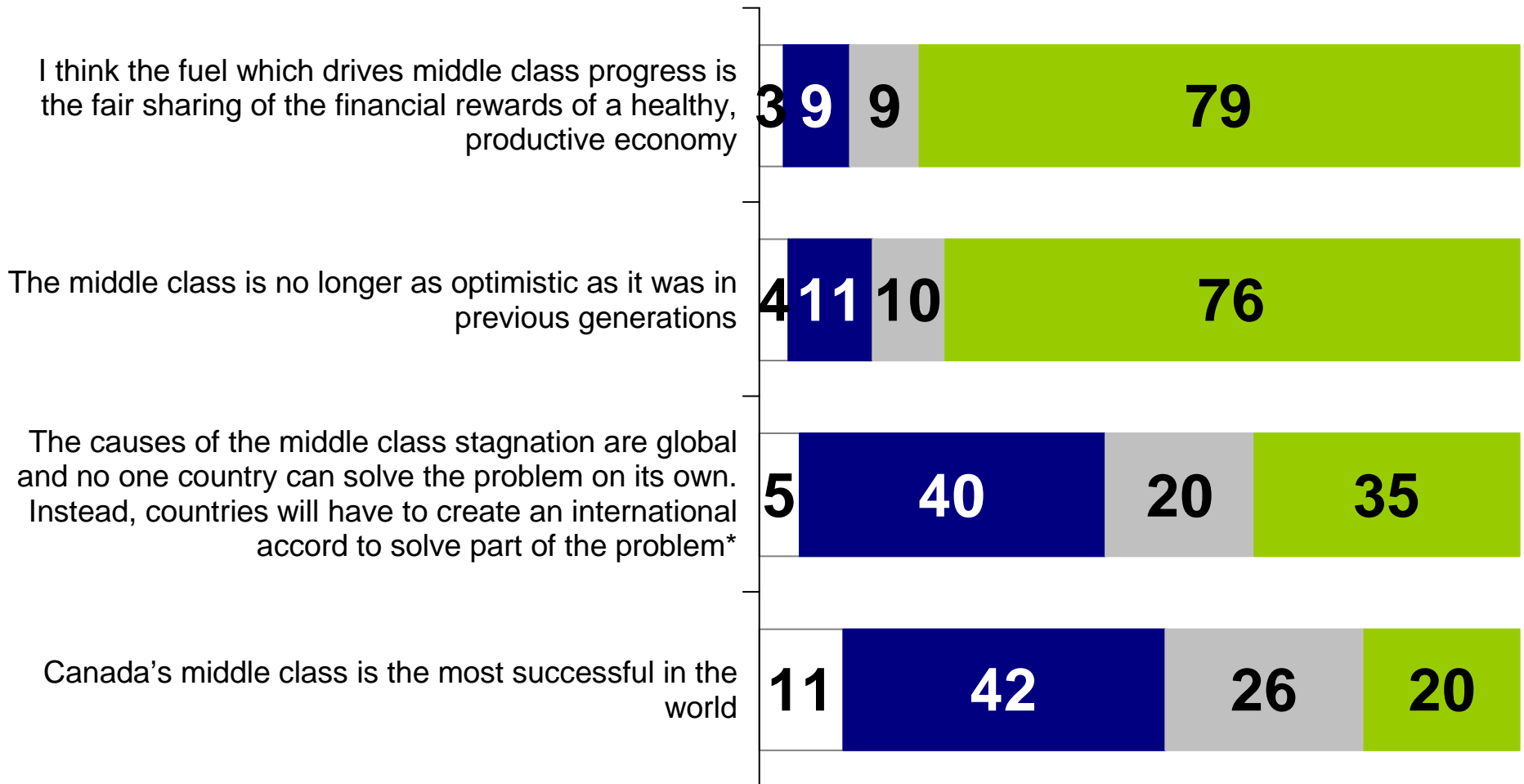
Q. How important are each of the following factors in causing the stagnation or decline of Canada's middle class?



DK/NR  
  Not important (1-2)  
  Somewhat important (3-5)  
  Important (6-7)

# Perceived State of Canada's Middle Class

Q. Please rate the extent to which you agree or disagree with the following statements:

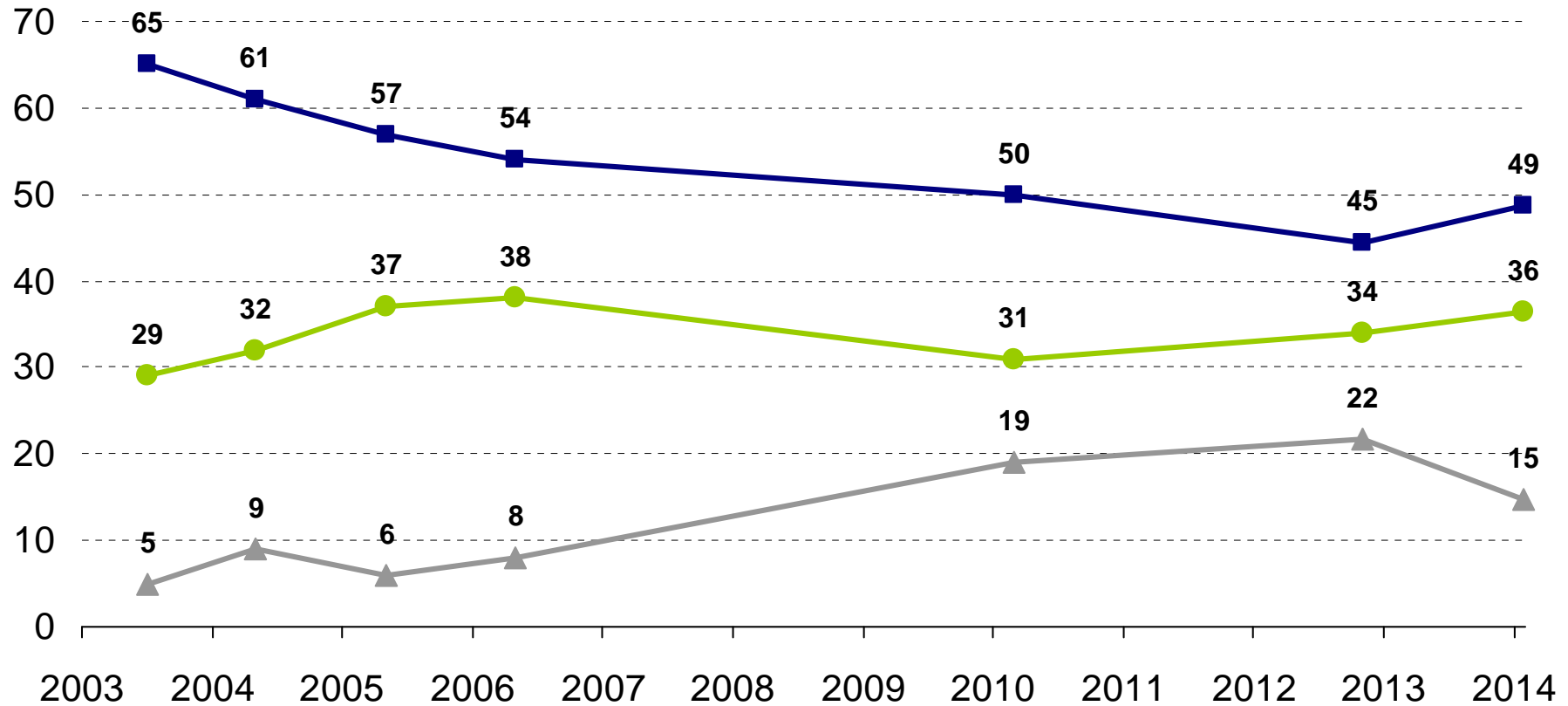


DK/NR  
  Disagree (1-3)  
  Neither agree nor disagree (4)  
  Agree (5-7)

\*Only asked of those say that Canada's middle class has declined/stagnated (n=2,191)

# Preferred Size of Government

Q. Generally speaking, which of the following would you say that you favour: 1) a larger government with higher taxes and more services; or 2) a smaller government with lower taxes and fewer services?



■ Smaller government
▲ DK/NR
● Larger government

# Conclusions

- » Given the trends we have identified in recent years, are we witnessing an 'End of Progress'?
- » Stagnation/decline in wages and vertical mobility, even deeper fears about a dark, long-term economic future
- » While fears/perceptions are somewhat exaggerated, these reflect harder trends (for example, see Piketty<sup>1</sup> / Lemieux<sup>2</sup>)
- » 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)

1. Piketty, Thomas, and Arthur Goldhammer. Capital in the twenty-first century. Cambridge MA: The Belknap Press of Harvard University Press, 2014. Print.  
2. Lemieux, T. & Riddell, W.C., "Top Incomes In Canada: Evidence from the Census", IRPP-CLSRN Conference, February 2014.

# Conclusions

- » Latest data show no improvement; numbers worsening
- » Sentiment / Perception can condition behaviour (self-fulfilling prophecy)
- » Inequality is the key driver, but a new form (or perhaps re-encounter of old form) of inequality from Gilded Age
- » 85% believe that a growing & optimistic middle class is essential to economic growth and prosperity
  - A similar proportion don't see this in place
- » The public emphatically reject notion that this is a manufactured or artificial crisis
- » New inequality and middle class decline maybe the issue of our age

# Conclusions

- » Meaning of middle class:
  - Insecurity is the salient driver – but other factors important
  - Public believes strongly that US decline is one of the most – if not *the* most – important factors in the decline of the middle class
  - Public also rejects the zero-sum argument that the rise of China and other BRIC nations is an important factor
  - Role of state – and especially taxation – key ingredient
- » There is a folk theory of causality which mirrors new expert theories (e.g., Acemoglu<sup>3</sup>)
- » Incentives, fairness, inequality, role of state/taxes
- » Window closing for dealing with this?
- » 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

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





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