Financial Crisis in American Households

The Basic Expenses That Bankrupt the Middle Class

Joseph Nathan Cohen

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CHAPTER FOUR

The Big Picture

In the years following the 2008 financial crisis, many saw households' money struggles as a *cyclical phenomenon,* a by-product of the economy's natural rhythm of boom and bust years. The Great Recession may have been an extraordinarily bad economic downturn, and the recovery that followed may have seemed extraordinarily sluggish, but many harbored the view that household money problems would resolve themselves when the economy eventually recovers. Now, nearly a decade has passed since the 2008 financial crisis, and this hopeful view seems harder to sustain. It seems likely that U.S. households face *structural problems*; that is, more deeply rooted circumstances or flaws in U.S. capitalism cause these money problems.

The problem with viewing household money problems as a cyclical phenomenon is that rising financial insecurity has been developing steadily over decades. It is not as if U.S. households were in good shape in 2007, and then they got worse in the years that followed. Household finances deteriorated over decades through an iterative process of deep recessions followed by increasingly disappointing recoveries into progressively worse "new normals." The causes of household financial problems run far deeper than an unlucky economic downturn. We are dealing with a long-term phenomenon whose causes are probably rooted in similarly long-term developments.

This chapter considers some of these possible long-term causes. It contemplates the exhaustion of the post-World War II economy that is widely seen as the middle class's golden age. Globalization and technological advancement are discussed, which are two extremely important changes with complicated effects on households. Finally, the chapter also considers how key sociodemographic changes, such as an aging population or the decline of marriage.

Many of these big-picture forces are difficult, if not practically impossible, to reverse. One might question whether Americans would even want to reverse some of them were it possible. However, there is an additional factor—economic policy—that is easier to change. The choice to change policy seems much less complicated if it is damaging households' finances. Throughout this long deterioration in household finances, economic policymakers have reformed economic laws, regulations, and government programs in ways that embrace libertarian, free market, antigovernment, and antisocialist ideologies. At a minimum, these policies have failed to create an environment in which household finances could overcome these long-term pressures. At worse, they have exacerbated Americans' money problems.

The U.S. middle class faces many big-picture stressors that seem unlikely to reverse themselves anytime soon. This gives us reason to be pessimistic about the possibility that a simple rebound in the economy will restore household finances to their precrisis condition. However, the middle class can demand policies that help buffer their finances from the effects of these big-picture forces. A reversal of these antigovernment policies may be one way of engaging household money problems effectively.

The Exhaustion of Postwar Capitalism

Chapter One discussed how U.S. household finances have deteriorated steadily since the 1970s. At root, diagnoses of middle-class decline involve comparisons between today and the decades following World War II. Compared to the mid-20th century, today's households' earnings have stagnated, savings have fallen, debt has risen, and bankruptcies have become more common. That era was a golden age for the middle class, and Americans' current economic fortunes seem inferior by comparison.

In broad historical terms, the mid-20th century was a period of extraordinary prosperity. Figure 4.1 depicts the average economic growth rate across decades since 1820. During the 1950s through 1970s, the economy not only enjoyed a rate of growth that nearly doubled any other three-decade stretch since 1820, but this growth was also more stable. In the 19th and early 20th centuries, economic growth and prices fluctuated more wildly. Financial crises were much more common.[1] In the mid-20th century, the boom years were very prosperous, and the recessions were comparatively mild.

What happened? This prosperity grew out of a confluence of factors. The United States emerged from World War II as the only major economy

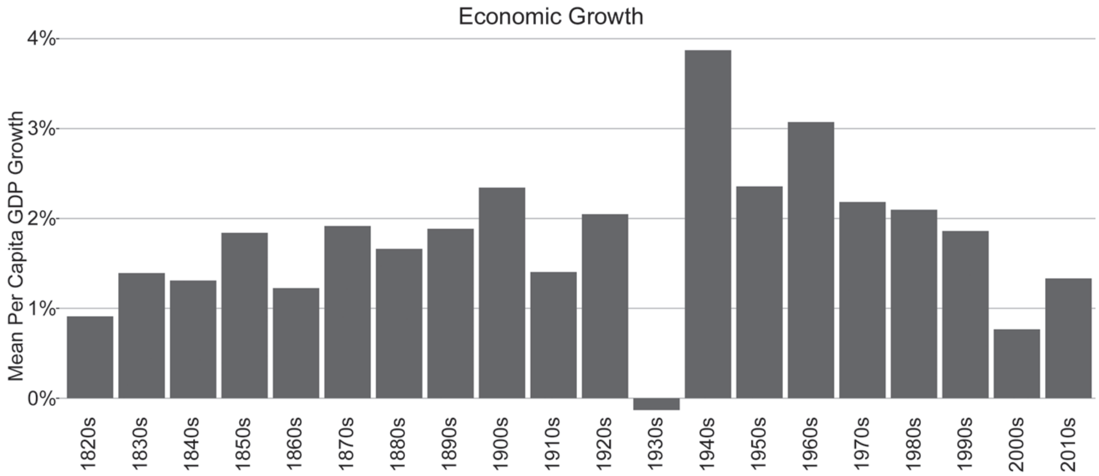

Figure 4.1 Historical U.S. Economic Growth by Decade, 1820–2015.
Source: Bolt, J. & van Zanden, J. L. (2014). The Maddison Project: Collaborative research on historical national accounts. *Economic History Review, 67*(3), 627–651. Available from http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_03-2007.xls

that was not left in shambles, so international competition was weak. Coming out of the war with considerable political, economic, and military power in international affairs, the United States wrote the rules that would govern international economic affairs over the next several decades.[2] The country seized opportunities to grow through industrialization and infrastructure development. Many of these developments capitalized on fundamentally transformative technological advancements, such as electricity, modern chemistry, and the automobile.[3] The country had made tremendous research and development investments during the war, which would serve as a basis for many civilian industries for years.

That era's prosperity was fueled by a booming manufacturing sector, fast-rising household consumption, a great deal of investment in physical structures, and, up until the 1970s, a dramatic growth in the public sector.[4] The scope of the government's growth during this period is striking, as depicted in Figure 4.2. The figure compiles data from two separate measures of government spending, relative to the overall size of the economy, since 1820.[5]

The figure shows how the U.S. government grew several times larger during and after the World War II. Even during the U.S. Civil War, government spending was a fraction of its present-day levels. This enduring growth emerged during the Great Depression, in the midst of a massive, politically destabilizing breakdown in the Western capitalist economies. The government began raising taxes on higher-income households and corporations, although it eventually transitioned the country's tax burden on

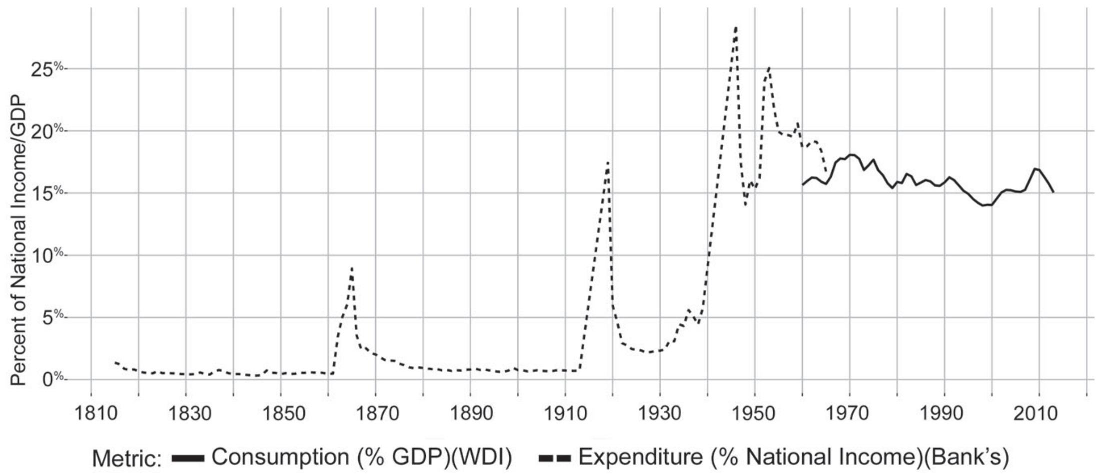

Figure 4.2 Government Outlays Relative to Overall Economy, 1820–2014. *Sources:* Banks (1976); World Bank (2015).

lower-income targeted personal income taxes (e.g., payroll taxes).[6] These funds paid for a range of new public programs and initiatives. In finance, the government established new, stringent regulations on financial institutions, established important financial regulatory agencies such as the Securities and Exchange Commission (SEC) and the Federal Deposit Insurance Corporation (FDIC). The government developed public works programs to absorb the Depression's unemployed, and it eventually came to be the economy's biggest investor and employer by a wide margin. The government established the Social Security program and, eventually, Medicare, Medicaid, and a range of other social programs. It financed a massive expansion of the education system. The government established the National Labor Relations Board (NLRB) and developed a system of more stringent regulations governing employment relationships. And, of course, the government maintained a massive military budget, which financed World War II, the Korean War, the Vietnam War, and the military activities of the Cold War.

Compared to today, the economy was much more equal,[7] so the fruits of this prosperity were more strongly channeled to the middle class. The tax system was far more progressive, with more revenue coming from corporations and high-income taxpayers (in 1950, a single person earning more than $200,000—about $2 million in 2015 dollars—faced rates of 91 percent). The dramatic growth in social programs led to dramatic falls in poverty[8] and a substantial rise in living standards.[9]

However, the system's ability to sustain this prosperity showed signs of wear. Business profitability started to sink almost as soon as the war ended and came to be buoyed by a persistent stream of tax cuts and a redistribution of society's tax burden onto households.[10] Much of this prosperity took place within a broader political and social compact that subjugated women and minorities. The country spent aggressively on the military and war. Reascendant Europe and Japan soon came to assert themselves in economic dealings with the United States, and other developing countries soon followed.[11,12]

At a pivotal moment in modern economic history—1972—Middle East oil exporters joined those who asserted themselves against the United States in mounting an oil embargo. The embargo created a shock in oil prices and set off a chain of events that would ultimately lead the postwar economy to unravel into the stagflation crisis of the 1970s, an unfortunate mix of chronic recession, high inflation, and high unemployment.[13]

Stagflation brought persistent labor conflict and economic frustration, which, along with a revolt against political reforms that sought to equalize the political, economic, and legal status of women and minorities, caused fissures in the Democratic coalition that had underwritten mid-20th-century economic policies. Whites, particularly those in the South, defected en masse to a new Republican coalition. These events culminated in the political ascendancy of Ronald Reagan and the rise of Reaganomics—a policy strategy that sought to restore the U.S. economy by undoing postwar reforms to government's role in the economy and moving U.S. capitalism closer to something more reminiscent of 19th-century capitalism.

In contemporary political and economic policy debates, people often look longingly at the mid-20th century. The U.S. middle class seemed to do very well during this period. Can household finances be helped by turning back the clock and reembracing the economic policies and strategies that prevailed during this golden age? In many respects, mid-20th-century capitalism operated in a different world. It was a world in which foreign competition was more limited, and the country could sustain growth by building factories that did not have to compete with those in low-wage countries. Part of what kept unionized white men in a position to earn good money was that women and minorities were systematically denied the opportunity to compete in these job markets. The government could boost the economy by developing a new program or making new investments, but the government cannot grow forever.

Although the clock cannot be fully turned back, there is reason to believe that some of our departure from postwar capitalism damaged regular households' financial fortunes. While there are clearly implausible ideas underwriting mid-20th–century U.S. capitalism—like the notion that the government could micro-engineer the economy to an eternal state of stable, perpetual prosperity—there is reason to believe that we overcompensated and took antithetical ideas about the benefit of laissez-faire too far. We will discuss this possibility later in this chapter.

Globalization

Postwar U.S. capitalism operated in a highly insulated economic environment. Some of this insularity took root during the Great Depression, an era of trade wars and desperate attempts to stabilize currencies.[14] Some of this insularity was maintained, and sometimes even strengthened, after World War II as part of an endeavor to stabilize the Western economies (and their political systems)[15] and in part because a destroyed European economy made export-oriented economic strategies less viable.[16] The mid-20th century was one in which the United States and other countries largely insulated themselves from international economic pressures and cooperated to maintain each other's insularity.

The postwar era decline in international trade is illustrated in Figure 4.3, which depicts the ratio of U.S. imports and exports to the gross national product (GNP) (a proxy for the overall size of the economy) since 1870.[17]

The figure shows that, through the late 19th century, the U.S. economy traded the equivalent of about 15–20 percent of its GNP with the rest of the world. This rate spiked temporarily during World War I, fell slightly during the interwar years, and then collapsed to less than 5 percent of gross domestic product (GDP) during the Great Depression. Through the 1950s and 1960s, trade stood at roughly half its pre-World War I levels, and the United States maintained a small trade surplus (i.e., the country exported more than it imported). These trade surpluses were primarily buoyed by a boom in international markets for chemicals, capital goods, and cars.[18] However, as the U.S. economy grew larger and wealthier, the hunger for—if not reliance on—foreign consumer goods, fuels, commodities, and other

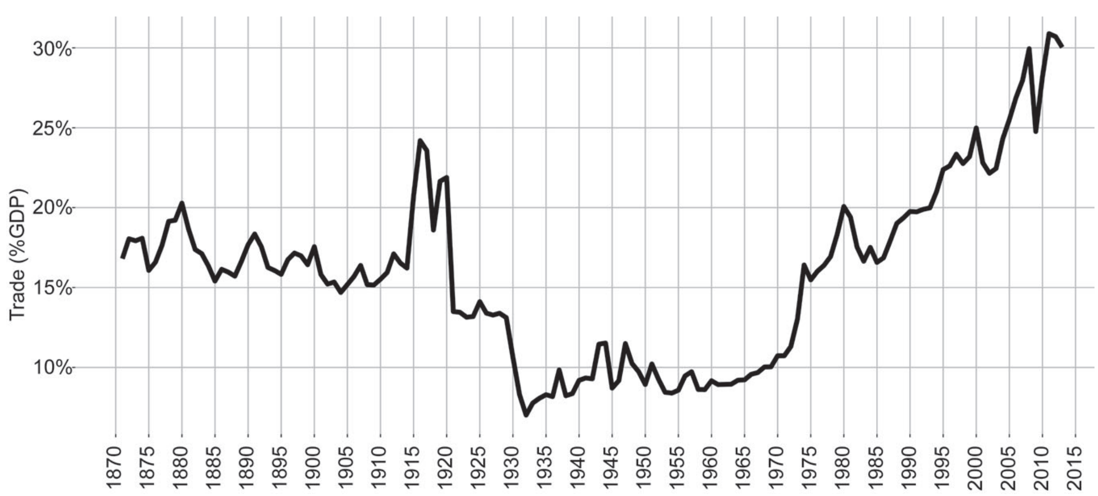

Figure 4.3 U.S. Trade (% GDP), 1870–2015.
Sources: National Bureau of Economic Research (2008); World Bank (2016).

basic production inputs grew. Eventually, Europe and Japan were able to stabilize and retrench their economies, and they developed the ability to compete with the United States in markets for consumer goods and advanced manufacturing (e.g., vehicles, capital equipment). Several East Asian countries were on the path to doing so as well.

By the 1970s, several factors pushed the United States along a path away from mid-century protectionism and toward its eventual embrace of globalization. The Bretton Woods system that governed mid-century exchange among the United States, Europe, and other highly developed countries broke down.[19] Other East Asian countries found ways to forge profitable niches in the global economy and eventually became internationally competitive. The pace of East Asia's development soon outperformed other middle-income countries that were trying to develop with protectionist policies (e.g., those of Latin America), helping push much of the world toward a trade-oriented economic strategy. Over the 1980s and 1990s, as Third World dictatorships fell, and the Soviet system collapsed, free trade became part of a larger project to integrate the world's countries in a politically and economically liberal world order.[20]

Within this globalized international economic order, the U.S. worker found it increasingly difficult to compete with foreigners. Falling trade barriers, along with technological advancements, decreasing transportation costs, and both economic development and better governance in developing countries meant that companies could produce products more cost-effectively with Eastern European or East Asian workers. Workers could be paid far less in those countries and often proved capable of producing as well as their low-skilled U.S. counterparts. The United States assumed a niche that specialized in high-skill activities (e.g., product design, engineering, research and development, marketing, business development, and the operation and maintenance of complex procurement and production systems) and less on lower-skill ones (e.g., manual assembly or processing). U.S. manufacturing remained productive, continuing to grow in terms of revenue, but the manufacturing jobs that remained here tended to be oriented toward high-skill and capital-intensive ones, while the simpler, more labor-intensive tasks moved abroad. This played a role in the slow but steady collapse of U.S. manufacturing jobs (see Figure 4.4).

The decline of manufacturing work (and a similar though smaller decline in natural resource extraction and production, such as mining and logging) resulted in the disappearance of jobs that once provided lower-skilled Americans with a middle-class livelihood. These jobs tended to be unionized, comparatively well-paid, and relatively secure. Over time, manufacturing jobs were replaced with those in the education, health, business

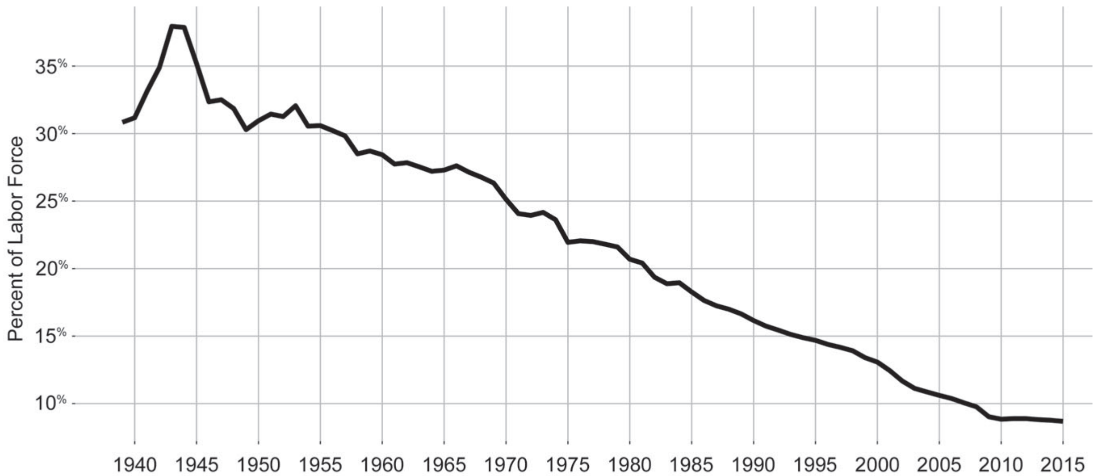

Figure 4.4 Manufacturing Workers (% Total Labor Force), 1939–2015.
Source: Bureau of Labor Statistics. (2016). Employment, hours, and earnings from the Current Employment Statistics Survey (national), series CES0000000001 and CES3000000001 [Online database]. Retrieved from http://data.bls.gov

services, and finance sectors. Some of them were well-paid and absorbed younger generations of better-educated Americans. For the most part, however, they did not, and the U.S. middle class was left with poorer-quality jobs.

All of this paints globalization's effects on the middle class negatively, but that is only part of the story. Globalization not only affected households' incomes but also their living costs. As manufacturers moved their operations abroad, their cost savings generated intense price competition. In the next chapter, we will see that this resulted in stable—and often *falling*—prices across many product markets, including food, clothing, home furnishings and supplies, appliances, and consumer electronics. Globalization is what delivers our $15 Costco jeans, $60 Walmart Blu-ray player, our $100 IKEA dining room set, and much of today's bounty of unprecedentedly cheap products. It not only delivers cheaper physical products but also services. For example, 24/7 customer service was virtually nonexistent decades ago—it would have been a rare luxury to be able to call someone at 2:00 a.m. (or even during a weekend) for help with personal electronics, appliances, utilities, or just about anything else. Today, its prevalence is in no small part due to the cost-effectiveness of foreign call centers.

This leave us with one of the big dilemmas involved in policies designed to bolster middle-class finances. On one hand, the loss of manufacturing jobs represents the loss of a major avenue of good pay and economic security for regular Americans. These jobs have been leaving the United States and leaving the middle class stuck with poorer job opportunities. However, this exodus of jobs is part of what keeps our living costs low, and protectionist policies would probably cut financially embattled families from the lifeline of cheap goods that sustain household consumption. Moreover, globalization has produced export markets that have been an engine for creating higher-skill, well-compensated jobs. This situation makes it difficult to address household financial problems by cutting the United States off from international trade. To protect those whose work has been sacrificed by globalization, we might need to forgo low consumer prices and a number of well-paid, high-productivity jobs. These are not trivial sacrifices.

Technological Advancement

It is often recounted that, at the dawn of the Industrial Revolution, the cloth spinners of Blackburn smashed James Hargreaves' spinning jenny, a machine that allowed a single person to do the work of multiple weavers. The story stands as an example of how technological advancement can destroy people's livelihoods, how people can rise up against the machines that displace them economically, and ultimately the futility of rebelling against technological advancement. It is hard to imagine how manual weavers could have permanently stopped automated cloth production, and, in retrospect, their failure seems like a good thing. Without the mechanized production of cloth, textiles would be rarer and more expensive. There would certainly be no $15 Costco jeans.

More generally, technological advancement plays a critical role in raising living standards over the long run. Still, these advances entail sacrifices to someone's livelihood. Just as the spinning jenny harmed the livelihood of Blackburn's 18th-century spinners, the automobile destroyed that of the horseshoe smith, and so on; technological advancement has displaced many workers and threatens to continue to do so in the future.

MIT scholars Erik Brynjolfsson and Andrew McAfee argue for this notion that technology is displacing workers in ways that may ultimately be harming the finances of the middle class.[21] They note how rising worker productivity and robust economic growth has not resulted in widespread rises in real incomes. The fruits of economic development increasingly accrue to those who own the machines (capital owners) and the high-skill workers who design and operate them. So, the millions of store owners and clerks employed in small local retail stores in the United States have been giving way to the designers and administrators of big-box stores, such as Walmart, Best Buy, IKEA, or Barnes & Noble, and online retailers such as Amazon and eBay. The same story can be told of typists who lost their jobs to Microsoft Office or the bank tellers and cashiers who gave way to ATMs and self-checkout kiosks. With the passage of time, technology has been claiming higher-skill jobs. Whereas thousands of accountants once prepared people's taxes, the task is now performed by TurboTax for far less cost, and proceeds in the tax-preparation area accrue to the Intuit Corporation, its managers, and those who develop and maintain its online platform. The list of occupational categories whose numbers have been whittled down by machines could go on and on, and this list seems poised to grow. For example, think of the millions of vehicle operators whose jobs are imminently being threatened by self-driving vehicles.

Presumably, the jobs destroyed by technology are offset by the new jobs they create. For example, the car may have destroyed the horse harness business, but it created a market for gas stations. Theoretically, these lost secretarial, cashier, or line assembly jobs free people up to perform higher value-added work, such as computer programming, marketing, or machine engineering jobs. The main problem is that many cutting-edge advancements require far fewer personnel than the major economic developments of previous generations. Many observers have noted that the powerhouse technology companies have actually produced very few jobs. A "new economy" retailer such as Amazon has a market capitalization of about $262 billion and 222,000 employees, while a similarly large "old economy" retailer such as Walmart has a market capitalization of $216 billion with 1.4 million employees. Today, the engines of economic progress get by on a smaller group of highly skilled workers. It seems implausible to absorb millions upon millions of workers who once would have worked in lower-skill, largely repetitive work by employing them as computer programmers, research scientists, and business managers. The flip side of these lost jobs is similar to that of globalization. Technology may damage particular people's livelihoods, but it also helps deliver more, better, and cheaper products. Even if it were practical to combat the march of technology, it is not entirely clear that we would want to do so.

This is one of two major concerns about technology and the economic circumstances of regular Americans. The second concern, which has most recently been advanced with much attention by economists Tyler Cowan[22] and Robert J. Gordon,[23] maintains that part of the problem is that the United States is going through a long-term technological showdown. For Cowen, much of the economic prosperity of previous decades were purchased by "low-hanging fruits" out of easier accomplishments whose time has passed—untapped land, expanding basic education, and transformative basic technologies (e.g., cars, telephones, or rail). We are now pressed to eke out growth through tougher endeavors, such as accessing resources while trying to limit environmental damage, expanding tertiary education, or refining these earlier basic innovations (e.g., low-fuel-consumption or self-driving cars, phone apps, or high-speed rail). The engines of yesterday's prosperity are implied to have been easier to attain, and the task is tougher today. We are now hypothesized to be in a period of marginal, rather than transformative, technological advancement.

The relationship between technology and household finances is complicated. It is conceivable that technology ultimately hurts the lot of regular Americans. However, it somehow seems more likely that future generations will see today's anxieties about technology as akin to that of Blackburn's spinners.

Sociodemographic Changes

In addition to these larger political-economic factors, society itself has changed in ways that may have affected personal finances. We focus on three: an aging population, the decline of marriage, and immigration.

An Aging Population

Yet another important long-term change that has contributed to souring household finances is an aging population. Figure 4.5 illustrates the scope of this change in a depiction of the changing elderly dependency ratio (the ratio of workers to elderly people).

In 1960, those 65 years of age or older made up 9.1 percent of society, and there were about 6.6 members of the working-age population for every elderly person. That was a period in which the typical 65-year-old man was expected to live an additional 13 years, and women were expected to live 16 additional years.[24] Today, about 14 percent of society is age 65 or older, there are 4.6 members of the working-age population for every elderly person, and the typical 65-year-old male and female is expected to live an

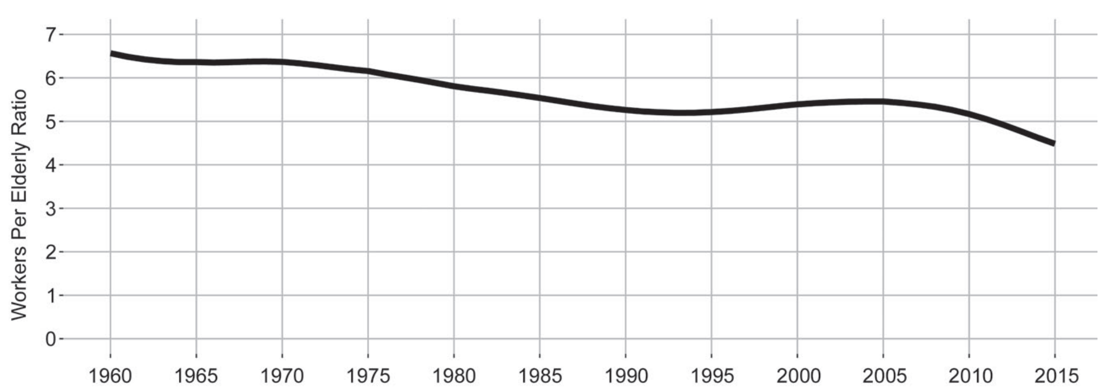

Figure 4.5 The Changing Elderly Dependency Ratio.
Source: World Bank (2016).

additional 18 and 20 years, respectively.[25] There are more older Americans, and they live longer, and there are fewer members of the working-age population in proportion to their members.

As we saw in Chapters Two and Three, households are more likely to have trouble earning incomes if they have not accrued much wealth in their working years (and most have not done so). Some of this difficulty is a product of ageism—older people face many age-related prejudices that discourage their employment.[26] Some of the difficulty is a matter of remaining cost-competitive in today's tough markets—young people are often well-trained and willing to work more for less. Some of it is a matter of health, which is sometimes a decisive factor in older people departing from the workforce. Whatever the cause, older, nonwealthy households have demonstrable challenges finding ways to secure the livelihood they enjoyed in their working years. The rising presence of elderly households seems like a probable contributor to the general deterioration of U.S. households. These problems can be compounded by the costs of medical care, therapeutic goods and services, and assisted living products, any of which can weigh heavily on household budgets.

In addition to the fact that more elderly households means a rising prevalence of households that often face personal earnings problems and health-related costs, an aging population can also weigh on the personal finances of the working-age population. The most straightforward example of such costs occur when an elderly parent becomes dependent on their children, either financially or through direct personal care. A 2015 study commissioned by TD Ameritrade suggests that about one-tenth of working-age households support a mother, and about half that number support a father.[27] Moreover, many of them provide care in addition to financial assistance. Such expenses—both in money and time—weigh on an adult child's ability to accumulate wealth for their own retirement, and, in cases where the demands to give care are high, may even hinder their ability to work and earn.

Even those without dependent parents still indirectly bear the costs of the country's growing elderly population through the costs of its elderly directed safety net programs, Social Security and Medicare, whose costs stood around 8.5 percent of the GDP in 2015, up from 2.1 percent in 1960 and 5.4 percent in 1980.[28] These rising costs are financed by payroll taxes, which are covered by a shrinking proportion of the population who is of working age.

Decline of Marriage and Rise of Living Single

In 1967, about 70 percent of U.S. adults lived with a spouse.[29] By 2015, that figure dropped to 50 percent. Some of this drop has been offset by the rise of those living with partners to whom they are not married, which went from 0.4 percent to 7.5 percent of U.S. households from 1967 to 2015, as well as slight increases in other living arrangements (e.g., living with relatives or nonrelated roommates) over that same period. However, the percentage of adults living alone has doubled, from 7.6 percent to 14.4 percent of all U.S. adults. These changes are depicted in Figure 4.6.

These changes are the product of several forces. Over the past several decades, young people have been delaying marriage. Divorce and cohabitation have become more accepted socially. Traditional barriers to women's access to education, gainful employment and an independent livelihood, and the ability to leave a marriage have been falling.

As with age, the data presented in Chapters Two and Three make it clear that single-adult households earn less, accumulate less wealth, and are more economically vulnerable. Living arrangements with multiple adults give a household multiple income streams and the capacity to split major living costs (e.g., housing, food, transportation). Even if the second adult in a union does not work, their ability to perform family and household work represents a considerable savings over commercial alternatives, which can be considerable in a household with children. Some estimates maintain that a stay-at-home mother renders household services whose commercial substitutes would run well over $110,000 per year.[30] A paired-adult household is better positioned economically.

Some researchers believe that causality also runs in reverse—that marriage is increasingly being confined to those at the top of the income scale.

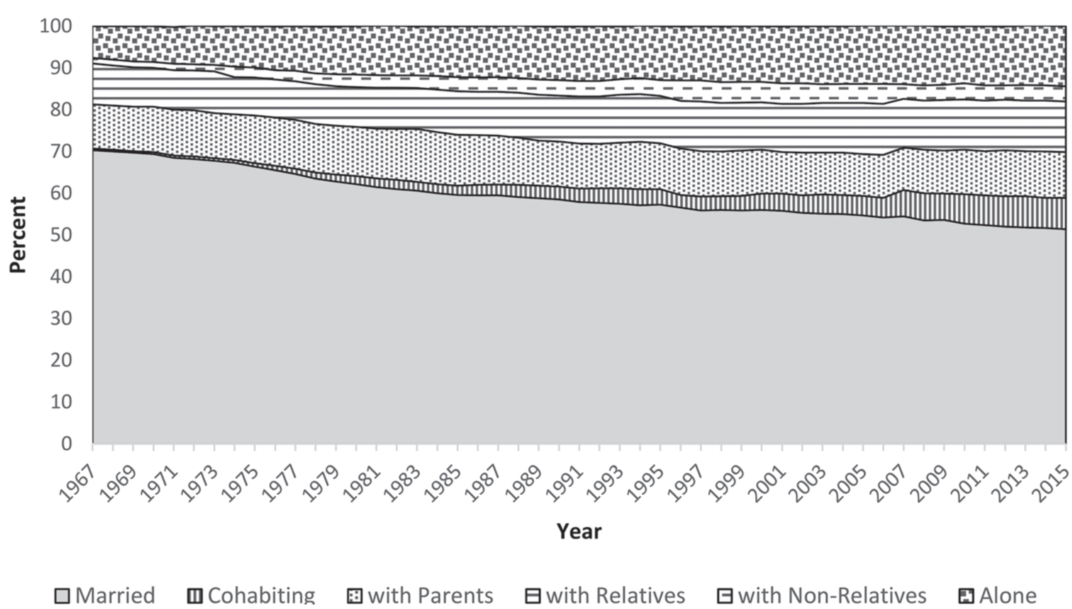

Figure 4.6 Living Arrangements, 1967–2015.
Source: U.S. Census Bureau (2016).

A 2010 report by the Pew Research Center[31] found that while marriage rates were broadly declining, marriage remained substantially more prevalent among the college-educated than lower education populations. The study found that lower education groups want to marry but often make economic stability a priority. In an era in which marriage is more frequently within economic classes instead of across class lines, those in the economy's lower ranks might face more challenges finding economically stable partners, if that is what they prioritize.

Immigration

Immigration is a perennially contentious issue, which always seems to attract the ire of some segment of society. Today, anti-immigration attitudes appear to be prevalent and strong. About half of Americans believe that immigration should be decreased and see immigration as having negative effects on the economy.[32] Figure 4.7 depicts changes in the foreign-born population as a percent of the total U.S. population.[33] The graph shows how the U.S. immigration policy was comparatively restrictive from the 1950s through the 1970s, the period in which the U.S. middle class seemed to prosper.

One might presume that immigration—particularly illegal immigration—damages the middle class by undercutting wages and pricing the native-born, citizens, and legal residents out of jobs. There is some evidence that such pressures may exist on low-skill workers in high immigration areas.

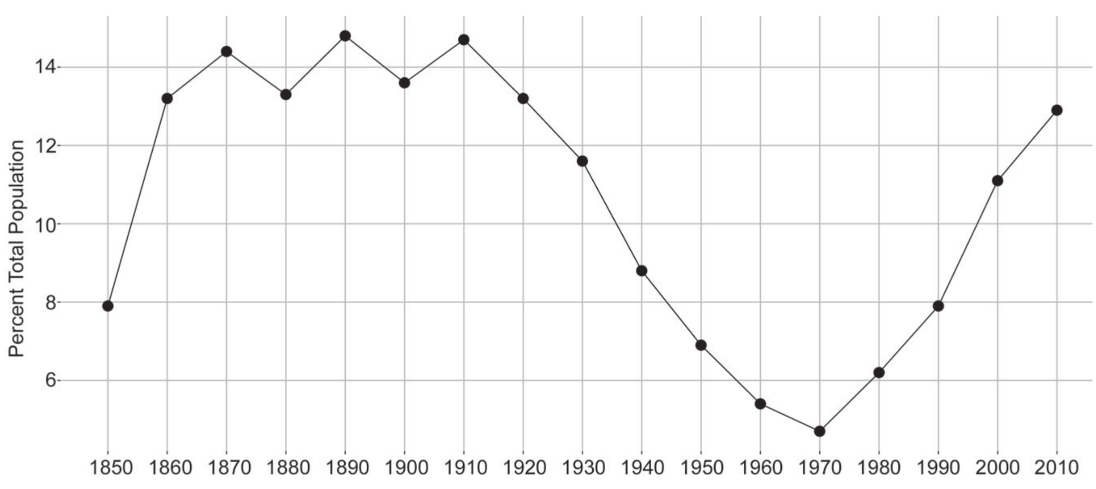

Figure 4.7 Foreign-Born Population (% Total Population), 1850–2010.
Source: U.S. Census Bureau. (1999). Table 1: Nativity of the Population and Place of Birth of the Native Population: 1850 to 1990 [Online data table]. Retrieved from https://www.census.gov/population/www/documentation/twps0029/tab01.html

Some economists have argued that immigration has resulted in a large, negative effect on the incomes of low-skill Americans.[34] A 2007 study by UC Berkeley economist David Card found that cities with large immigration inflows see a modest rise in the gap between high- and low-skill native-born workers, implying that immigration raises the gap between the lower and higher economic classes.[35] Moreover, he argues that a rising immigrant population may affect rents and general housing prices. Illegal immigration is also said to damage state and local government finances,[36] with some estimates running as high as more than $14,000 per family.[37]

On the other hand, it is often said that many of these immigrants—particularly illegal ones—do work that most Americans do not want to do, at least at the prevailing rates of pay (which may be influenced by immigration). Illegal immigration probably plays some role in keeping prices low, although there is reason to believe that these cost savings are limited to the extent that labor makes up the cost of producing and delivering goods.[38] In labor-intensive industries, they may have more impact on prices. For example, illegal immigrants are said to constitute one-fifth of the country's cooks and more than a quarter of its dishwashers, and their absence has been speculated to threaten the failure of restaurants and rising dining costs.[39] It may help make personal services less expensive—for example, as maids, drivers, grounds maintenance, janitorial staff, or moving workers—though these cost benefits seem more likely to accrue to better-heeled households.

It is important to remember that immigrants are disproportionately very low-skill or very high-skill workers. Immigrants compete not only at the lower-paid tiers of the labor market but also its highest. Many immigrants are economic high performers. The foreign-born population is more likely to have a graduate degree,[40] more likely to be entrepreneurs,[41] and less likely to be unemployed.[42] Immigrants who are participating in the formal economy are contributing both to the economy and public finances like any other American, and their presence helps spur consumer demand, investment, and other activities that ultimately result in more businesses and jobs. Immigration has helped the United States maintain a large working-age population as its natural birthrate has been falling. Moreover, as someone who lives and teaches in what is perhaps the United States' largest immigration community (Queens, New York), it is my personal view that immigration allows the United States to skim talent and energy from the rest of the world, regardless of whether those people are highly educated or not. The United States gets other countries' smart, ambitious, and determined people, while those who are dull, lazy, and unambitious are more likely to stay at home.

The Neoliberal Revolution

Earlier, it was noted that many of the long-term forces that weigh on household finances are either very difficult—if not practically impossible—to reverse or are changes that are probably things that we do not want to reverse. In contrast, economic policy is malleable—it can be willed to change much more easily than an aging population or technological advancement. Moreover, it is harder to find compelling reasons to cling to economic policies that do not serve regular Americans well.

Throughout this long deterioration of household finances, U.S. economic policies have followed a steady course toward embracing ideals that many commentators characterize as "neoliberal." *Neoliberalism* is a political and economic ideology that advocates for the dismantlement of Great Depression-era and postwar-era reforms that led to the dramatic growth and empowerment of the government. This ideology holds that individual freedom, economic prosperity, and societal betterment are achieved by pushing the country toward a more faithful emulation of free market principles, and replacing the influence of government policy-makers with that of investors and businesspeople. Neoliberalism's relationship with household finances will be a running theme over the remainder of this book. The following section introduces some background on neoliberalism and its basic tenets.[43]

Background

The neoliberal movement was rooted in early opposition to the mid-century government expansion. Some of this opposition was intellectual, part of a movement that disagreed with the economics of John Maynard Keynes and the policies of the Depression and wartime-era Roosevelt administration. Perhaps the best-known member of this movement was the Austrian economist Friedrich Hayek. He believed that the growth of government left the United States vulnerable to the kind of dictatorships seen in Germany or France.[44] He questioned the effectiveness and responsiveness of central planners, and he advocated for the superiority of economic decisions made by entrepreneurs.[45]

During the 1950s and 1960s, such notions were more marginal in the field of economics. Society maintained its faith that economic policy-makers were capable of controlling the economy in ways that could produce a regular, stable prosperity that benefitted society. Such promises were delivered in those decades, but, as noted earlier, this system broke down in the 1970s. There are several ways in which this crisis—and its then-unforeseen combination of high inflation, output recession, and high unemployment—hurt postwar "big government" policy strategies. First, it shook confidence in economic experts, and it sowed frustration with economic planners' seeming inability to resolve the country's economic problems. These macroeconomic problems produced a lot of labor conflict and strikes, laying the groundwork for an eventual backlash against unions. It was a crisis that defied conventional policy-making wisdom and shook economists' belief in their ability to fully control what goes on in the economy.

This set the stage for the ascendancy of Ronald Reagan, whose economic agenda had great affinities with this burgeoning antigovernment sentiment on economic issues. "Government is not the solution to our problem," he argued in his 1981 State of the Union address, "government is the problem."[46] Reagan led a movement to fundamentally depart from the policies and strategies of mid-century U.S. capitalism in several ways. First, he made substantial cuts to income taxes, most of which were targeted toward high-income earners—between 1981 and 1982, the top tax bracket for married people fell from 70 percent on incomes over \$215,000 (about \$560,000 in today's dollars) to 50 percent on incomes over \$85,000 (about \$221,000).[47] Second, he continued a broad initiative to deregulate the economy (which began under Carter) that ultimately reshaped credit markets, transportation markets, utility markets, and many others. Third, he altered the tenor of union-employer relations by firing striking air traffic controllers, a move that is widely believed to have led businesses to adopt hard postures toward the unions with which they dealt. These changes, coupled with a Federal Reserve that aggressively sought to control inflation, ultimately saw the stagflation crisis subside under his watch. Reagan's approach to economic policy was lionized and has served as a template for every subsequent administration until the 2008 crisis. Eventually, Democrats embraced deregulation, opposition to social services, tax cuts, and a range of other policies that would have been considered archconservative just two decades earlier.

Basic Principles

Neoliberalism is generally considered to be motivated by the principles of laissez-faire ("leave alone"), as in "the government should leave the economy alone." This view maintains that society's interests—however defined—are best served when the government refrains from interfering in economic affairs and more readily acquiesces to whatever outcomes stem from private decision-making and transacting. Neoliberalism's position on limited government should not be exaggerated. Adherents of this view do see some role for government in economic affairs but maintain that those functions should be more narrowly restricted to providing the social or legal infrastructure upon which a market system depends. For example, the government's role in providing a working money system, enforcing contracts, or maintaining public order garner little to no dispute. Exceptions are taken where governments are seen as overriding choices that belong to the province of business owners, managers, and consumers. These kinds of reforms include tax cuts, spending cutbacks, deregulation, the sale of government-owned property, the replacement of public sector employees with private contractors, free trade, free international capital movement, increased migration, and cuts to social programs. Such reforms were implemented in a variety of ways by the Reagan, Clinton, and both Bush administrations.

Although neoliberalism is strongly identified with a laissez-faire approach to economic governance, it is not a pure libertarian ideology. For example, many neoliberal era policies sought to actively encourage financial investments by giving special tax incentives for finance-related income. Governments developed programs to subsidize home ownership. States and localities often granted special tax breaks and regulation exemptions to businesses who promised to invest and create jobs locally. These types of policies are hardly hands-off—they privilege people or activities favored by economic planners and effectively channel resources to them. This is the second side of neoliberalism: trickle-down or supply-side economics. The two concepts are somewhat distinct, but they have a common core. *Trickle-down* economics is a doctrine that prioritizes channeling resources to those at the top of society's economic hierarchy, on the premise that their enrichment will spur spending, investment, and job creation that will ultimately raise everyone's living standards. Supply-side economics advocates for economic rules that channel income and decision-making power to investors and business managers—who are also those at the top of society's economic hierarchy—on the grounds that they make better decisions and are best positioned to create or expand businesses and jobs. The tie that binds is this view that channeling economic resources and power to investors, business owners, and managers serves society's best interests.

Effects on Household Finances

Neoliberalism's broad effects on people's economic and overall well-being is the subject of endless debate. On one hand, many see neoliberalism as a vehicle for redistributing resources toward the rich, which is presumed to have resulted in the impoverishment of the nonrich. By cutting taxes on the wealthy, undercutting laborers' bargaining power, or reigning in social programs, the government is thought to have tipped the scales against regular people, and put them in a weaker position to earn and save money. On the other hand, some see neoliberalism as having helped households in the face of other headwinds they face. Many of the aforementioned pressures facing regular households took root in the 1970s—before Reagan—if not earlier. If one accepts that neoliberal policies helped end the stagflation crisis and helped spur nearly two decades of prosperity and reasonable stability, then neoliberal policies can be seen as something that helped regular people.

It is very difficult to pass a clear, unhedged judgment on neoliberalism's effect on household finances. On one hand, it played a role in creating the social forces that pressure middle-class finances. It underwrote the free trade accords that propelled globalization. Its damage to unions and deinstitutionalization of labor market protections made the rise of today's "gig economy" of precarious, temporary work more viable. It championed cuts to redistribution and social programs. The list could go on. The main point is that one can mount a credible argument that neoliberalism damaged people's ability to sustain a livelihood.

Before wholly embracing the proposition that neoliberalism was a detrimental development, it is worth keeping two caveats in mind. The first is that the pressures of globalization, technology, and so on are not *only*—or even necessarily primarily—caused by neoliberalism. Globalization was arguably just as much a politically minded enterprise designed to integrate other countries into a shared, peaceful, rule-bound world order. There is good reason to believe that the computing revolution would have occurred without Reaganomics and that millions of cashiers, tax accountants, bank tellers, typists, and so on would still be facing increasing difficulty finding jobs. Many of the aforementioned demographic changes were well underway before 1980. One could mount a credible argument that neoliberalism was in fact a strategy that saved jobs in the face of these mounting pressures. Such an argument might ultimately prove false, but it is credible enough to take seriously.

Second, neoliberalism is widely argued to have helped drive down costs. In part, Chinese imports, automated production, small retail-crushing big box and online retail may have cost jobs, but they have also helped contain prices. It may have cost jobs or made it harder for people to get higher wages, but lower prices have the same effect as rising incomes. The absence of these price-containing effects might have made it harder for families to manage the nonpolicy headwinds that have made it harder to earn money.

This discussion proceeds with the view that neoliberalism's effects on household finances is complicated. It has helped in some ways and hurt in others. While there are clearly ways in which this movement resulted in policies that weakened workers' hands in dealing with employers, and clearly failed to produce a bounty of good jobs, it is difficult to say that such a bounty would have emerged under policies that prevailed in the 1960s or 1970s.

U.S. household finances have deteriorated over decades. During this long deterioration, the United States has experienced a range of concurrent changes. The country has had to contend with foreign competition and adjust to technological change. Regular Americans' money situation has been affected by an aging population and an increasing number of single-person households. There is considerable disagreement about whether economic policy has helped alleviate or exacerbate these problems. What is clear is that it is hard to see how household finances will simply self-resolve after the economy recovers fully. Household financial problems appear to be a long-term phenomenon with long-term causes. Absent any profound change to U.S. capitalism, it is hard to see why we should expect family finances to come roaring back, especially because they haven't done so since at least the 1990s.

(SCF)—which lacks the fine-grained geographic information required to develop anything more than the broadest estimates. Given the high degree of generalization involved in making such assumptions, and the false sense of certainty that such estimates might impart, we opt for a straightforward, inexact measure that is roughly commensurate with the official poverty-line of a two-person elderly household.

31. For a conservative portfolio with 25 percent invested in T-bills (with a long-term return of 3.6 percent), 50 percent in T-bonds (5.4 percent), and 25 percent in Fortune 500 equity (11.3 percent).

32. We use the average of male and female expectancies from the Social Security Administration's 2016 Actuarial Life Table published at https://www.ssa.gov/oact/STATS/table4c6.html

33. This is a presumed portfolio that is 40 percent S&P 500 shares, 40 percent Treasury bonds, and 20 percent Treasury bills. Many investment professionals would consider this to be a highly conservative portfolio for a young person and a very aggressive one for someone near retirement.

34. The present value of a target retirement nest egg is calculated as $PV=FV/(1+r)^n$, were P = present value, FV = future value, r = rate of return, and n = compounding periods. We discount the estimated value of future payments, presumed to be 10 percent of gross income, which is obtained by $PV=(INC*0.1)*[((1+r)^n - 1)/r]$, where INC = current gross income, and other terms are as in the previous formula.

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