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THE REAL REASON 60 IS THE NEW 30: Consumer Debt and Income Insecurity in Late Middle Age[†]

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In this analysis, we revisit the arguments made in our 2007 book, *Post-Industrial Peasants: The Illusion of Middle Class Prosperity*, and foreshadow our arguments in our forthcoming book, *Middle Class Meltdown in America: Causes, Consequences and Remedies* (2014, Routledge). The plight of the American middle class has been growing steadily since the early 1980s, and has been compounded further by the recession of 2008–2009 and its aftermath. We extend our prior work by examining the particular effects of long-term middle-class decline and the recent recession on Americans over 55 years old. Our retirement savings simulation presents in stark terms the cumulative disadvantage of working in unsteady jobs with stagnant wages over the course of a late-20th- and early 21st-century work career. In our discussion, we suggest that one cultural adaptation to the retirement savings crisis is the denial of the realities of aging and the suggestion that most age-related problems are temporary and fixable. In short, we suspect that one reason "60 is the new 30" is because few Americans can afford to be 60.

> "The notion that all old people are capable of working longer—much longer—to earn their keep encourages procrastination about difficult political decisions . . ." Susan Jacoby (2011, *Never Say Die: The Myth and Marketing of the New Old Age*, 486).

Prior to the 2008–2009 recession, the larger economy was steadily growing, unemployment was relatively low, credit was easy to get, record profits were being made, and the United States was the dominant power in a triumphant world where neoliberal economic thinking was dominant and the "Washington consensus" was spreading to other parts of the world (see Stiglitz 2012).[1] But this overall rosy picture from 1985–2008 allowed us to hide or ignore stagnant wages, rising inequality, job instability, rising poverty rates, and a fraying social fabric (see Leicht and Fitzgerald 2007).

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Then all of the sudden, right on the eve of the 2008 presidential election, the United States and then the global economy collapsed into the worst recession since the Great Depression of the 1930s. The consequences for the global economy were stark, but the consequences for the indebted American middle class were far worse.

In this article, we provide an updated analysis of the long-term decline of the American middle class originally provided in our 2007 book, *Post-Industrial Peasants: The Illusion of Middle Class Prosperity* (Leicht and Fitzgerald 2007). We then focus on the effects the 2008–2009 recession had on the middle class, previewing arguments that are presented in our forthcoming book, *Middle Class Meltdown in America: Causes, Consequences and Remedies* (Leicht and Fitzgerald 2014). We then shift our attention to older workers and the effects of the 2008–2009 recession on typical workers over 55 years old at the median of the earnings distribution, and finish our analysis with a simulation of the cumulative effect of stagnant wages and unsteady jobs on the retirement savings of older workers. We conclude with some cultural observations about the way economic instability in old age has been normalized. We argue that there is an economic reason that "60 is the new 30"—we cannot afford 60 to be 60 with retirement coming at the end of an orderly work career. The cumulative lack of economic stability promises to make the idea of retirement an elusive dream for many in the baby boom generation, and there is little likelihood that these trends will reverse themselves in the near future.

After we revisit the long-term declines in the economic standing of the American middle class (and the rising inequality that favors the wealthy and investors over wage earners and workers), we turn to the economic effects of the 2008–2009 recession and focus on some of the consequences for older workers. Then, we engage in a simple statistical simulation that displays some of the consequences of the long-term trends in stagnant wages on retirement accounts as retirement age approaches.

THE LONG-TERM CRISIS OF THE AMERICAN MIDDLE CLASS

The hidden crisis of the American middle class is not a new problem, though the recession brought the hidden crisis out of the shadows. As we argued in *Post-Industrial Peasants: The Illusion of Middle Class Prosperity* (2007) and as we are arguing in our forthcoming book (Leicht and Fitzgerald 2014), the hidden crisis leading up to the recession and the recession itself were the long-term culmination of a variety of circumstances that all conspired to harm the American middle class. Our argument prior to the recession (backed by extensive evidence) was that:

1. The U.S. middle class has experienced an unprecedented decline in real purchasing power;
2. Gaps between stagnant incomes and consumption aspirations were filled by easily available credit;
3. Credit magically appeared at precisely the time that middle-class incomes were stagnating;

4. The use of debt as an instrument for supporting consumption looks like the debt peonage and serfdom of agrarian economies (the source of the "post-industrial peasant" label);
5. Very real productivity gains of the past 30 years were taken by others and expropriated by the wealthy;
6. The deregulation of consumer credit markets produced a socialization of credit risk through asset-backed securities and Collateralized Debt Obligations that allowed credit to flow freely; and
7. The political consequences were (and still are) real declines in reciprocity, community, and civility and the growth of a general "politics of displacement"—political disputes become shrill, and large segments of the political class want to argue about anything except inequality and economic fairness.

We review some of the updated evidence for this argument below using the latest available statistics at the time of this writing.

The Deflated Income Balloon

By any measure we use, *the real earnings of individuals and the real income of families (in 2010 dollars adjusted for inflation) have undergone a 30-year period of stagnation at the middle*. Median before-tax family income—the figure that separates the top half of the income distribution from the bottom half—dropped from a high of $52,000 in 1976 to $41,000 in 1992. Median income inches upward again but it never reaches the real purchasing power families had in 1976 ($48,324 in 2012, see Figure 1, Bricker et al. 2012). This evidence suggests that family income for those at the middle of the income distribution has not recovered from relatively high levels in the late 1960s and early 1970s, and the 2010–2012 figure reflects the lingering effects of the 2008 recession.

Stagnant Incomes for the Middle, Rising Incomes for the Top

Income inequality has risen substantially in the United States since 1970 (see Figure 2). The top 20 percent of all families went from receiving 43.3 percent of the income in

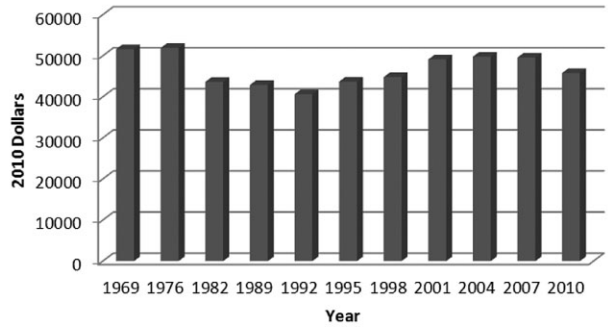

FIGURE 1. Median Before-Tax Family Income (2010 Dollars).
Source: U.S. Department of Commerce, Survey of Consumer Finances (2012).

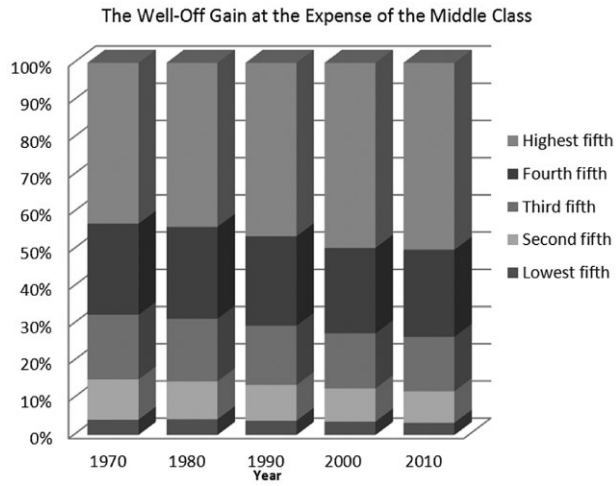

FIGURE 2. Share of Aggregate Household Income Received by Each Fifth of All Households, 1970–2010.
Source: U.S. Census Bureau, Current Population Survey (2012).

1970 to receiving 50 percent of all family income in 2010. More interesting from our perspective is the change in the relative size of the middle fifth of the family income distribution (those families that made between $41,000 and $62,500 in 2001) whose relative share of the family income distribution has dropped from 17.4 percent to 14.6 percent over the past 30 years. In fact, the shares for all families in the bottom four fifths of the income distribution have declined relative to the top, suggesting that there has been a strong movement of income in the direction of the nation's richer families (U.S. Census Bureau 2012).

Other evidence clearly shows that family incomes have ballooned for the upper classes and stagnated for the middle class, the group right in the middle of the family income distribution. The ratio of the middle fifth of family income to the top fifth drops from 42 percent to 28 percent from 1970 to 2010 (U.S. Census Bureau 2012). The difference between real mean and median family income increases from under $10,000 in 1969 to almost $34,000 in 2007 and currently sits at $33,000 (Avery et al. 1984; Kennickell and Shack-Marquez 1992; Aizcorbe, Kennickell, and Moore 2003; Bricker et al. 2012).

The evidence clearly suggests that middle-class purchasing power has eroded as income and earnings have either stalled or declined. Income inequality across households has increased, and the relative standing of those we label "middle class" has eroded as well.

But Not Everyone Is Hurting—The Captains of Industry Cash In

Over the past 30 years, the salaries of chief executive officers (CEOs) in the United States (already the highest in the world) moved further away from our economic

competitors in Western Europe and in Asia, while compensation for average workers stagnated or fell (see Figure 3).

Ratios that started at about 35 to 1 in 1970 (with top CEOs making roughly 35 times what the average worker makes) mushroomed to nearly 323 to 1 by 2002, 450 to 1 in 2007, and currently stand at 354 to 1 in 2012, the highest pay gaps in the world. Clearly, the economic landscape for the average worker has shifted, and their relative economic standing has slipped (Forbes 2012; U.S. Census Bureau 2012).

If corporate executives are supposed to maximize profits and shareholder value, then plenty of evidence shows that they did just that, especially since 1980. Stock market returns were historically as high from 1980 to 2000 as they were at any time during the post–World War II period, and the Dow Jones Industrial Average passed 15,000 in 2013. Indeed, it wasn't until the onset of the 2001 and 2008 recessions that these stock market indices turned away from historic highs and unprecedented returns.

And did all this translate into a good corporate bottom line? Definitely. In the 1990s, corporate profits rose to record levels, dropped a bit during the 2001 and 2008 recessions, and, as of 2013, have again returned to record levels (see Figure 4). These trends left most CEOs compensated with stock options in great economic shape compared to their average employee (U.S. Bureau of Economic Analysis various years).

Lower Wages *and* Job Instability for the Rest of Us

What happened to the average employee's job? The U.S. government didn't start tracking what it terms "mass layoff events" until 1996 (see Figure 5), but plenty of anecdotal

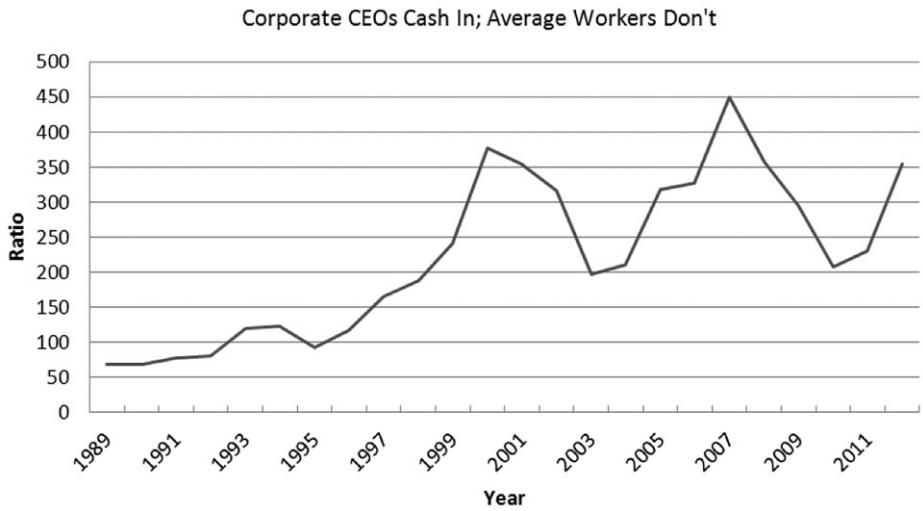

FIGURE 3. Ratio of Average Top CEO Compensation to Average Nonfarm Worker Pay, 1989–2012 (2011 dollars).
Sources: U.S. Census Bureau various years; Forbes 2012. http://www.forbes.com/lists/2012/12/ceo-compensation-12-historical-pay-chart.html

FIGURE 4. Corporate Profits.
Source: U.S. Bureau of Economic Analysis (2012). http://www.bea.gov/newsreleases/national/gdp/2012/pdf/gdp1q12_3rd.pdf

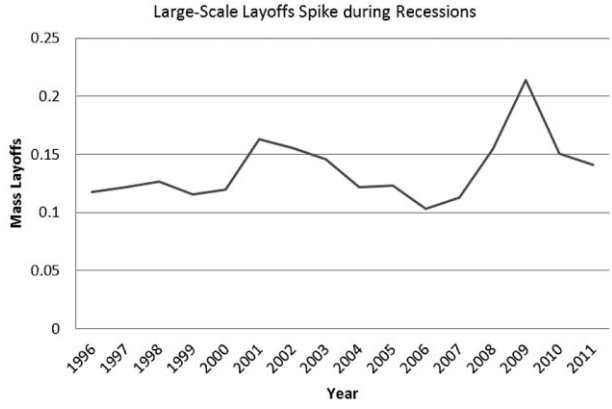

FIGURE 5. Mass Layoffs per 1,000 Workers, 1996–2011.
Source: U.S. Bureau of Labor Statistics, "Mass Layoff Events" (2012a). http://www.bls.gov/mls/mlspnfmle.htm

evidence shows that job instability increased during the 1990s and that middle-class workers were buffeted by the changes produced by globalization. The instability is not only in jobs for individuals, it is manifest in incomes for families that rise and fall more quickly than in prior generations. As Jacob Hacker (2008:2) writes: ". . . over the past

generation the economic *instability* of American families has actually risen faster than economic *inequality*—the growing gap between rich and poor that is often taken as the defining feature of the contemporary U.S. economy."

What Was Fueling All That Consumption? Consumer Credit!

Even though their incomes and earnings stagnated and their CEOs left them in the economic dust, members of the middle class enhanced their purchasing power. They did this by increasing their working hours, reducing their savings, and increasing their debt load. Workers also stopped saving money and started living from paycheck to paycheck, leaving them little or no buffer against the whims of misfortune (see Figures 6 and 7) (Warren and Tyagi 2003).

Not only has real average credit card debt per household risen from just over $4,000 in 1990 to $11,000 in 2003—a change in real dollars of $7,000 (in 2012 dollars), but most of the decline in average credit card debt since the 2008 recession has occurred because credit card companies wrote off uncollectable debt, not because consumers all of a sudden started making big payments on credit cards (Swagel 2010). The overall picture shows that the percentage of growth in mortgage and consumer debts has been positive every year since 1970 up until the 2008 recession, and consumer credit growth resumed in 2009 and 2010.

Some People Got Very Rich from Stock, but Very Few People Actually Own Any

Without question, the overall level of activity in the U.S. stock market has risen dramatically. But how have these gains been distributed? The answer is clear: not very equitably.

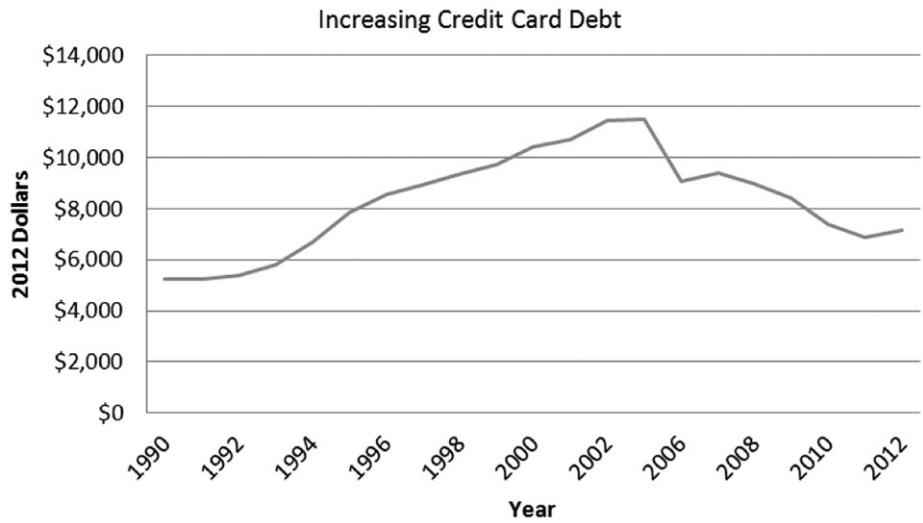

FIGURE 6. Average U.S. Credit Card Debt per Household (2012 Dollars).
Nerdwallet, 2013. http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/

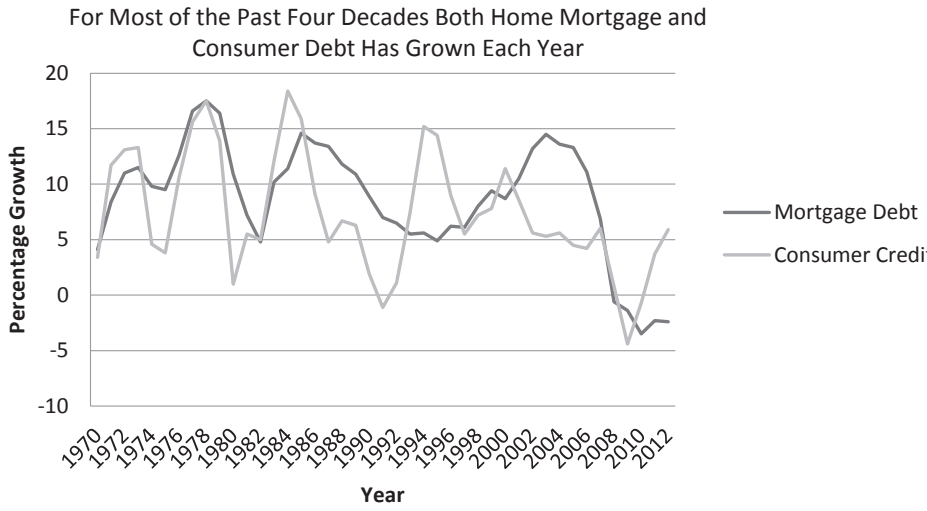

FIGURE 7. Percentage Growth in Home Mortgage and Consumer Debt, 1970–2012.
Source: Federal Reserve Bank (2012, author's calculations).

Only 22 percent of all U.S. households have direct stock holdings, and the overwhelming majority of stocks are owned by an extremely small percentage of wealthy people. In 2010, the bottom 95 percent of stockowners *combined* owned just 33 percent of total stock value (Mishel et al. 2012:392). This isn't the only measure of wealth, nor is it the one most Americans rely on, so let's look at broader indicators of wealth and its distribution.

The more complete story is told by looking at changes in family net worth; that is, the total value of the wealth held by different classes of wealth holders (Figure 8).

In spite of the spectacular gains in the U.S. stock market since the 1970s, *median net worth for all Americans has barely moved*. However, mean family net worth (the average value of all the assets a family has minus its liabilities) increased substantially to almost $600,000 prior to the 2008 recession. Since these changes are in real dollars, they represent improvements in the wealth profile of Americans. But since the median doesn't move, the numbers suggest big wealth gains among those who already possess wealth and not much movement near the middle of the wealth distribution. More ominously, median net worth *declined* almost 40 percent between 2007 (before the recession) and 2010. The wealthy lost money as well, but the effects on those near the median were much more devastating.

What Would Happen If Wages Were Indexed to Productivity?

What would the distribution of earnings for average workers look like if some productivity gains had been distributed to them rather than spent on luxury consumption, corporate takeovers, and financial manipulations like stock buybacks? The evidence that they weren't distributed to average workers at all is pretty overwhelming (see

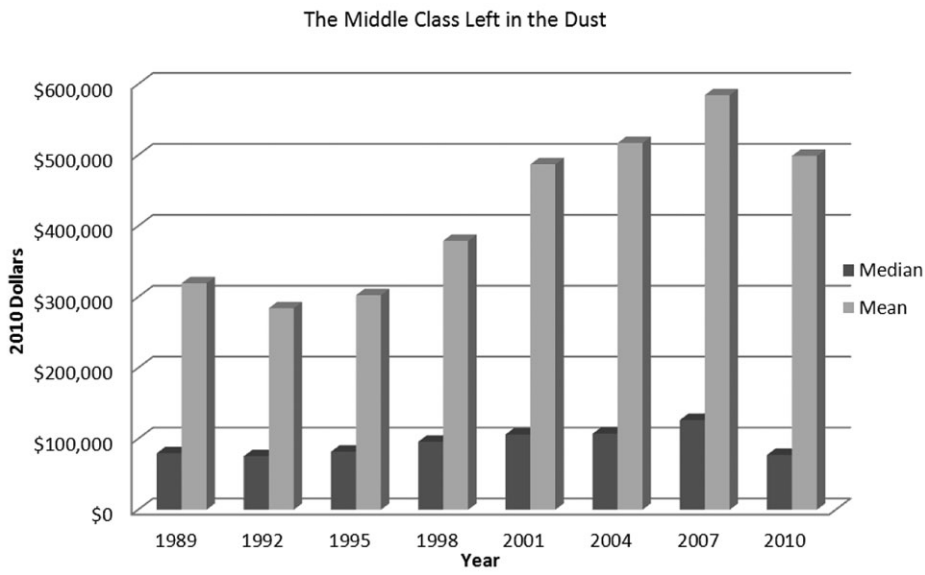

FIGURE 8. Median and Mean Family Net Worth, 1989–2010.
Source: Federal Reserve Bulletin, Survey of Consumer Finances. http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf

Figure 9). Real wages actually decline as productivity increases through 1995, and real wages never return to the level they reached in 1970.

There are complications involved in answering this question. For one thing, workers could be rewarded for increased productivity in several ways, including working fewer hours and taking increased leisure time. (Evidence indicates that this has not happened: Americans now work more hours than anyone else in the industrialized world except for the South Koreans.)

Because of these complications, judging the distribution of productivity gains to average workers accurately is difficult, so we make calculations under three different sets of assumptions:

1. Radically oriented economists and social scientists would argue that wages should rise in direct proportion to productivity. This is not the same as saying that all productivity gains should be redistributed completely to workers; instead, workers' earnings should rise as productivity does, in equal proportion. We will call this the *100-percent solution*.
2. Others would argue that most, if not all, productivity gains are necessary to keep up with technological changes and to remain competitive. Under this assumption, the costs of no wage gains should be compensated for by increased investment in new equipment and the organization of work—investments that would yield more employment and higher wages later on. Since those who produced the productivity gains should receive something for their trouble, we will give

FIGURE 9. Nonfarm Business Wages and Productivity Index.
Sources: U.S. Bureau of Labor Statistics 2012b,c.

them a quarter of the productivity boost as wages. We will call this scenario the *25-percent solution*.

3. Still, others would argue that productivity gains are equally the product of labor and capital, and should be split accordingly. Since both investors and workers make sacrifices during bad times—not a safe assumption, given the last 20 years—they should both be rewarded in good times. We'll call this the *50-percent solution*.

The result of our simulation is presented in Figure 10.[2]

By any standard we use, from the 25-percent solution to the 100-percent solution, the lot of the average worker would be much improved were they allowed to share in at least some of the productivity gains they have helped produce. The changes would be in real dollars accounting for inflation, representing boosts in standard of living and purchasing power. Even using the most modest proposal, the 25-percent solution, and the average nonfarm private business worker would have netted a $2.21 per hour raise in 2011, or an additional $4,420 per year. Granted, this takes into account continuous raises tied to productivity from 1990 to the present, but an extra $4,420 is enough to make payments on a new car (by purchasing it) or to take on significantly less credit card debt.

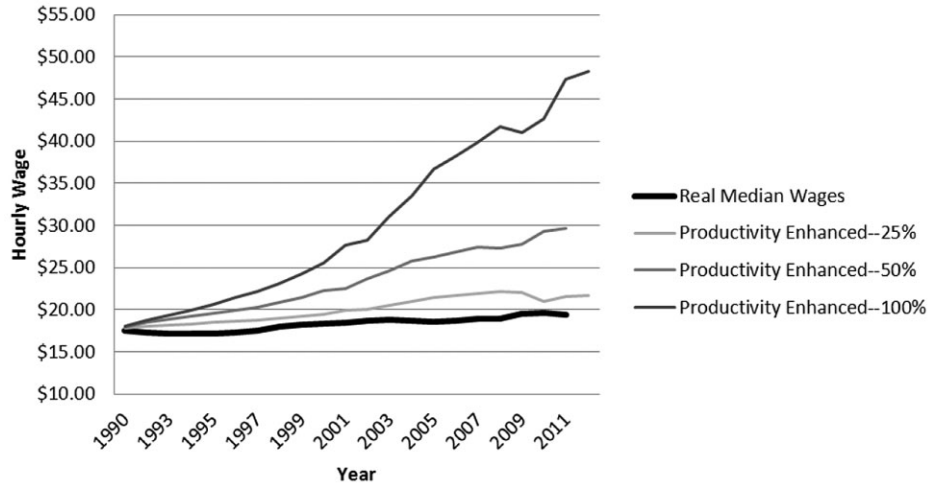

FIGURE 10. Real Hourly Wages for Nonfarm Business Workers Plus Productivity-Enhanced Wages in 2011 Dollars.
Source: Author's calculations from U.S. Bureau of Labor Statistics 2012b,c.

The sustained purchasing power of the middle class is the engine that drives economic growth. During the past 40 years, the American economy has grown dramatically—despite slowdowns, downturns, and periodic recessions—as the middle class continued to spend albeit often with borrowed money. Sometimes, as when companies invest profits in financial markets by purchasing asset-backed securities, the money that could have been given to workers as increased compensation provides the financial backing for lending institutions to extend credit. This is direct evidence supporting our contention that the middle class has been *loaned money that they could have been paid*.

The average worker could accomplish much with such gains in purchasing power. The average worker with employer-provided health insurance now pays almost $330 per month (Kaiser Family Foundation 2012), and $800 more per month (under the 50-percent solution) would allow workers whose employers don't provide insurance to afford health care of their own. Putting some of this money in savings and retirement accounts would be the difference between retiring comfortably and retiring on social security. Saving this money would provide workers' children with college educations, especially if savings accrued over a number of years in interest-bearing accounts.

The cumulative effect over the 12 years from 1990 to 2011 in even the most conservative scenario would be almost $60,000 real 2011 dollars. This is the difference between paying for a new car with cash or leasing it from diminished earnings, giving children substantial boosts toward college funds, enhancing health insurance, saving for retirement, or simply having a nice vacation.

THE GREAT RECESSION OF 2008–2009: THE HIDDEN CRISIS EXPOSED

The consequences of the recession continue to be felt even though we have officially left the recession and economic growth is happening again. In the aftermath, still more people (many of them members of the middle class) were and are being left behind to fend for themselves in a world of pessimism, diminished expectations, and even fewer opportunities. What happened?

The Financial Crisis: The End of the Shell Game

In the United States and globally, the financial crisis and subsequent recession of 2008–2009 were truly gargantuan by any measure we care to use. Global markets lost $50 trillion in market value in 2008 alone, roughly $8,334 for every man, woman, and child on the planet. (To spend $1 trillion dollars you would have to spend $34 million everyday of your life for 80 years.) So much money was lost that estimates are that it will take around 20 years to recover most of this wealth. The U.S. stock market lost over $11 trillion in value in just one year. In an eight-day period in October 2008 (one month before the 2008 election), the Dow lost 22 percent of its value, falling from 10,851 to 8,451. But that drop masks a still larger drop from October 2007 to mid-October 2008—on October 7, 2007 the Dow stood at 14,164 (Paradis 2009).

By most accounts, there were three major stages to the financial collapse that led to the recession. First, from October 2007 until March 2008, the stock market started to go downward in a more or less orderly fashion—no big drops, no big gains, just a steady downward spiral. This is usually a signal from investors that a recession is coming. Investors pull their money out of the stock market and park it in more secure investments (like bonds and U.S. Treasury notes) to wait out what they see as an unstable investment environment. None of this necessarily directly affects the "real" economy where jobs and consumption actually occur.

Then in mid-March 2008, Bear Stearns (a major Wall Street investment house) declared bankruptcy, at the time it was the largest corporate bankruptcy in the history of the United States (they had already written off almost $2 billion in devalued securities; see Shorter 2008). Investors were stunned but not totally rattled, so things remained relatively calm until around Labor Day, when Fannie Mae, Freddie Mac, AIG, and Lehmann Brothers all declared bankruptcy over a 10-day period. Investors panicked and the Dow fell 5,000 more points between October 2008 and March 2009, as credit markets froze and fears of another Great Depression loomed. Worse still from the standpoint of the average American was the decline in real wealth held in mutual funds whose value dropped from $6.5 trillion to $3.7 trillion in one year (January 2007–January 2008). Retirement savings accounts declined in value by 17 percent from October 2008 to 2010 and have not recovered from the recession (Swagel 2010).

AIG and Lehmann Brothers were private equity houses worth $712 billion and $639 billion, respectively. AIG was a worldwide insurance company offering mortgage insurance and investment products to hundreds of thousands of customers. Its international division had invested heavily in Credit Default Swaps, some $57 billion of

which were designed to cover subprime loans issued to American consumers. The general collapse in confidence in subprime loans created a liquidity crisis in September 2008, and the U.S. Treasury offered to immediately cover AIG to the tune of $85 billion dollars. By the time the government support had ended, the Federal Reserve Bank had loaned $182 billion to AIG and received returns of $205 billion (Swagel 2010). Lehmann Brothers was an investment bank and financial manager, at the time the fourth largest in the United States. When the subprime mortgage market started to collapse early in 2008, Lehmann Brothers lost 70 percent of its value and was left holding billions of dollars in worthless securities on delinquent home mortgages. Outside investors started to lose confidence in Lehmann Brothers and began dumping stock, driving the overall value of the company down still further. By September 2008 when Lehmann Brothers filed for bankruptcy, they had liabilities of $613 billion. Unlike AIG, Lehmann Brothers was allowed to go through an "orderly liquidation" (meaning that parts of the company were sold off in pieces to other investment banks). At the time, this was the largest commercial bankruptcy in U.S. history and led to a general crisis of confidence in financial markets in fall 2008.

As with the private investment houses, Fannie Mae and Freddie Mac (major underwriters of American home mortgages) started to lose money as home prices fell starting in 2007 and into 2008. As the value of their holdings fell, so did their ability to borrow more money and continue normal operations (i.e., buying more mortgages from private banks and mortgage lenders). In September 2008, the government had to step in to guarantee debt issued by Fannie Mae and Freddie Mac to avert a far bigger catastrophe in the housing market. Both companies lowered the quality of loans they would buy and back, which increased their vulnerability to a financial meltdown as the housing market collapsed. In 2008 alone, Fannie and Freddie lost 80 percent of their traded value (Samuels 2008).

How did this crisis affect average people? The average household lost $66,000 in on-paper wealth and almost $30,000 in real estate wealth as a result of the crisis (Swagel 2010). That's enough money to take a second mortgage on a house and finance all or part of a college education, save for retirement, buy several nice cars, or retire other debts from wages and earnings that do not grow. The federal government (and specifically the Treasury Department) spent roughly $501 billion on the Troubled Asset Relief Program, the major government program to bail out banks and investment houses (signed into law in September 2008 by President Bush and continued under President Obama). Of this, $205 billion went to the Capital Purchase Program (CPP) to purchase direct stakes in banks to keep them afloat, $20 billion directly to CitiGroup, $20 billion to Bank of America, $70 billion to AIG, $81 billion to the domestic auto industry, $20 billion to Term Asset-backed Securities Loan Facility (or TALF) to securitize new lending in the wake of the collapse of the private mortgage and asset-backed securities markets, $30 billion to Public–Private Investment Partnerships (PPIP) to buy up bankrupt and stressed subprime backed securities, and $50 billion to Home Affordable Modification Program (HAMP) to forestall massive home foreclosures by subsidizing the rewriting and renegotiations of mortgages that are

delinquent or "under water" as housing prices collapsed (more on underwater mortgages shortly). The financial bailout of Fanny Mae and Freddie Mac cost taxpayers $157 billion directly (Swagel 2010).

As a result of the financial crisis, consumers stopped spending, companies stopped hiring and investing, and investors stopped investing as well, leading to serious drops in national gross domestic product (GDP). GDP fell by 5.4 percent in the last quarter of 2008 and by 6.4 percent in the first quarter of 2009. Job losses for that 12-month period ran at 5.5 million U.S. jobs costing an average of $5,800 per U.S. household. The value of American family homes for that 12-month period dropped an average of $30,300 per household or almost $3.4 trillion. Total lost wages from underemployment and job loss are estimated at $3,250 per household (Swagel 2010), and (as we have extensively shown already) job quality and earnings were not keeping up with the rest of the economy before all this started.

The credit market collapse was tied to problems with the subprime mortgage market and the aftermarket for mortgaged-backed securities. There is plenty of blame to go around regarding the collapse of these markets, and at least some evidence that the entire downturn was avoidable (*New York Times* 2011).

Betting the House and Losing

The availability of subprime mortgages was (partially) responsible for the housing bubble of 2004 to 2006, though the generally easy availability of credit for everyone else also played a major role. The ability to originate loans, sell them on the securities market, and then do more lending generated profits that were large and almost impossible to resist.

As housing prices rose more, people had an incentive to get into the housing market, and those already in it had big incentives to "trade up" and buy newer, fancier, and larger homes. Subprime mortgages offered loans that, in the short term, had easier terms with adjustable interest rates (ARMs) (and low introductory rates for the first few years of the mortgage), interest rate balloons (low rates of interest followed by higher market-based rates later on), low or zero down payments, and no closing costs. Buyers were lured by these easy initial terms and the hope that they could refinance their mortgages at easier terms in the near future while still maintaining the rising home equity that came from the inflated home values caused by the housing bubble. Between 2005 and 2007, housing prices were moderating, and interest rates for home refinancing were rising, making it more difficult to refinance out of subprime loans before the ARM interest rates ballooned.

When these easy initial terms expired, mortgage defaults and foreclosures started to go up (see Figure 11).

By 2006, 23 percent of all mortgages originated in the United States were subprime, and a vast majority of those were securitized in the mortgage-backed securities market. Once defaults and foreclosures started, banks and investors started losing money, lost faith in the soundness of mortgage and other asset-backed securities, the securitization market collapsed, and business and consumer credit markets dried up. The resulting

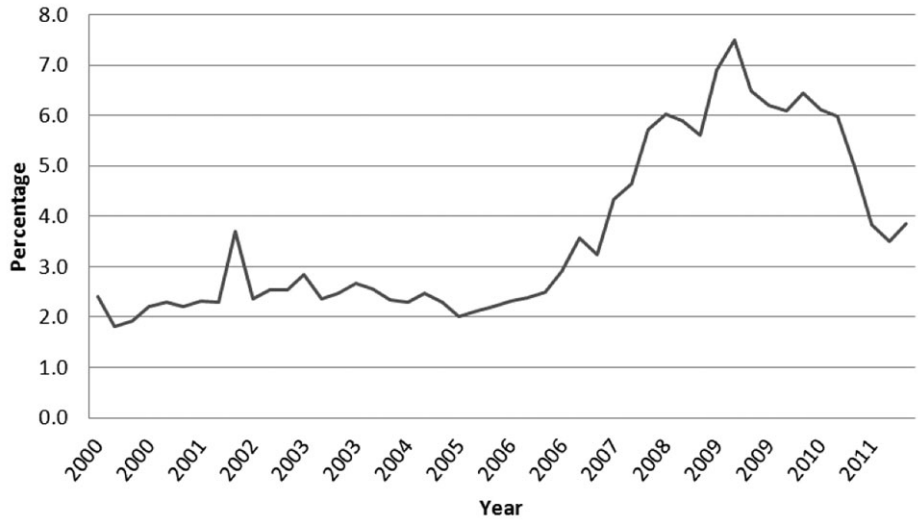

FIGURE 11. Foreclosures per 1,000 Owner-Occupied Dwellings, 2000–2011.
Source: Federal Reserve Bank of New York, 2012.

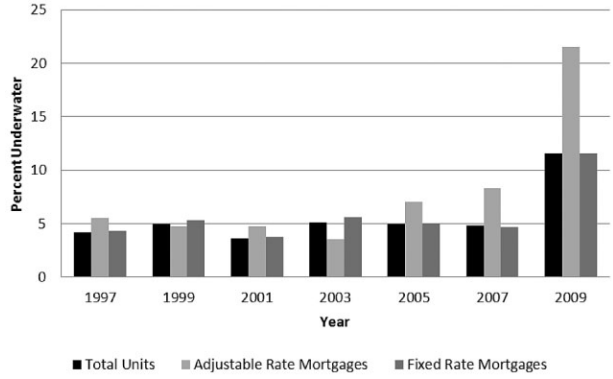

FIGURE 12. Percent Housing Units with Negative Equity ("Underwater"), Total Units and by Mortgage Type, 1997–2009.
Source: Carter, 2012. http://www.huduser.org/portal/periodicals/cityscpe/vol14num1/Cityscape_Mar2012_hsgunits_negative.pdf

foreclosures and falling prices meant that, by September 2010, fully 23 percent of all U.S. homes were worth less than their original mortgage loan (or "upside down" in the language of the housing industry; see Figure 12).

From our perspective, all of these problems were caused by the same underlying dynamic. U.S. middle-class consumers were loaned money they could not afford to pay back in order to fuel the profits driven by a consumer economy that (until the middle

of the 1970s) was fueled by rising wages and earnings. But, as we have seen, median earnings and the earnings of most Americans have gone essentially nowhere for at least two decades. In the absence of rising incomes to rely on, easy credit seemed to be the only way to drive consumption forward and secure record financial profits. Once lenders could offload the risks of consumer lending onto investors and the financial markets, the interaction of the long-standing American desire for home ownership combined with the ability to write and dispose of loans and make instant profits was irresistible. Homeowners would benefit from steadily rising housing values as new buyers were continually available. Investors would be assured that housing prices continued to rise and that mortgages were paid. The government would see the benefits of a deregulated financial market generating profits and tax revenues. What's not to like?

As we will see, the results for middle-class Americans is still more job loss, more income decline, and declines in real assets and wealth. As of 2013, corporate profits have recovered, but the middle class isn't even back to where it was in 2007 before the recession started.

How bad did the housing situation get? In some parts of the United States where there was the most subprime lending (Arizona, California, Florida, and Nevada) and in surprising places in the rust belt (like Cleveland) home values collapsed, foreclosures rose to catastrophic levels, and vacancy rates for existing homes rose massively. In most of these places, homes lost around 50 percent of their value, and almost as many homeowners were "under water" on their mortgages (see Leicht 2012).

Unemployment, Job Loss, and Collapsing Demand: The New Poor

But far more things went wrong than just the decline in housing values. The credit market for employers and consumers in other realms also dried up, job losses started to mount, the unemployment rate rose to levels not seen since the recession of the early 1980s, reaching 10 percent in 2009 and only dropping below 8 percent in 2012 (Current Population Survey 2012). Wages remained flat or declined in real value from their already-dubious position.

One of the long-term problems that reared its head again for the average indebted member of the middle class was the rise in bankruptcies. Bankruptcies declined significantly in the aftermath of bankruptcy reform legislation passed by the U.S. Congress in 2005, and there is considerable debate about whether bankruptcy reform legislation met its intended goals. Just prior to the recession bankruptcy filings hit record highs and, even after the legislation took effect, bankruptcy filings started to climb again (see Figure 13).

Recent research suggests that the biggest determinants of bankruptcy filings are unexpected medical expenses and job losses, and that bankruptcy filers are typical Americans living typical lives, not spendthrifts attempting to make a quick buck or avoiding their financial responsibilities (see Porter 2012).

The most serious outcome of all has been the near collapse of the U.S. job market. The unemployment rate prior to the 2008 recession was very low (just over 4 percent, almost the level where economists and other policy analysts declare that we have met

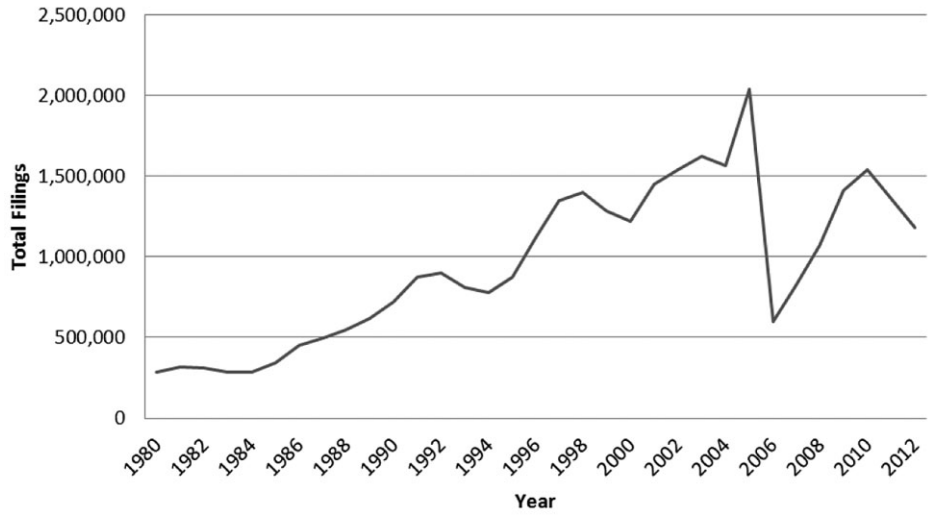

FIGURE 13. U.S. Personal Bankruptcy Filings, 1980–2012.
Source: U.S. Courts, 2012. http://www.uscourts.gov/Statistics/BankruptcyStatistics.aspx

"full employment" goals) but almost immediately skyrocketed in late 2008 and 2009 as credit markets dried up, investment dried up, and consumer spending dried up. Unemployment in early 2010 actually rose above 10 percent, and the percentage of unemployed who were out of work for six months or longer reached record high levels (see Figure 14). Worse, there is considerable evidence that the long-time unemployed became "discouraged workers" who have left the labor force entirely (there were well over a million such workers in 2012, although the number has declined some as of 2013). People who stop actively looking for work are not counted in unemployment statistics even if they have looked for work for over six months and have given up looking for a job.

Worse still, evidence from the Bureau of Labor Statistics suggests that the recession created a serious jobs shortage relative to the number of people looking for work. In December 2000, there was just over one job seeker per job available, a quite favorable job-to-job-seeker ratio, and on the eve of the 2008 recession, the ratio was still under two seekers per job. But by July 2009, the ratio had ballooned to almost seven job seekers per job and currently stands at 3.3 job seekers as of May 2013. The Bureau estimates that at the current rate of job creation, it will take between three and six years to get back to the levels of employment we were at in 2007 (Economic Policy Institute 2013). And (needless to say) all of this is happening in an economy where the median real weekly and hourly wage has fallen to levels not seen since 1999.

What does all this suggest? Our argument is that the indebted middle class has needed ongoing help and support for decades, at least since the early 1980s if not before. But now, the situation is even more dire than it was when we began our analysis. Billions of dollars of personal wealth has disappeared. The ability to find a good,

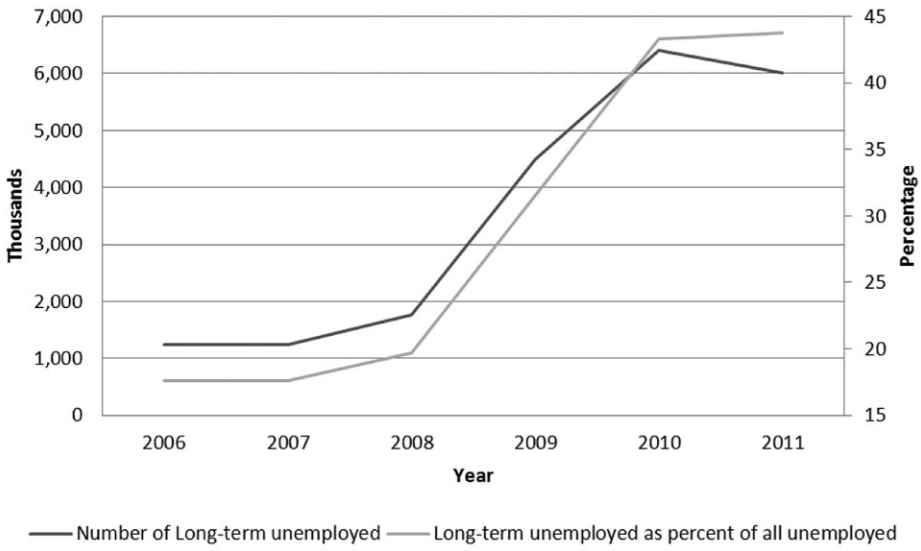

FIGURE 14. Long-Term Unemployed, 2006–2011.
Source: U.S. Census Bureau, Current Population Survey (2012).

steady job is more elusive than ever and (if you manage to find one) your wages, earnings, and benefits will be a fraction of what they were in the 1970s.

BUT WHAT HAPPENED TO THOSE OVER 50? MORE OF THE SAME WITH MORE SERIOUS CONSEQUENCES

What happens in situations where the middle class does not do well? The answer is that many of the same problems that happen to younger and middle-aged members of the middle class happen to older Americans too. But as we will see, the cumulative retirement effects of jobs that don't pay well is very devastating to the idea that retirement is a distinctive phase of life, and that aging is a natural process that brings changes in life roles with it, including a lessened commitment to the labor force.

Not to belabor the point, older Americans have suffered from the same problem of flat or declining wages as the rest of the population has, though the fluctuations have been less extreme. Real median income for American men over 55 years old (in 2010 dollars) are at the same levels as they were in 1972 (AARP 2012), and as late as 2010, one in six workers over 55 years old was unemployed (Current Population Survey 2012).

Their total debt burden has grown as well as more Americans take debt to their graves (or even beyond, Federal Reserve; Survey of Consumer Finances 2012). Clearly, the life course/life cycle conception of debt (we accumulate debt when we were young and then pay those debts off when we were old) has collapsed.

Older Americans make up a larger and larger proportion of all bankruptcy filings and have mortgages that are underwater (AARP 2012; U.S. Courts 2012). Between 2008 and 2011, one third of AARP respondents report that their homes have declined in value, 25 percent report exhausting or using up all of their savings, 20 percent reported accumulating more credit card debt or having trouble making payments on installment debt, and 14 percent lost their health insurance (AARP 2012). Average retirement savings (never where they should have been in the first place) took a considerable hit from the recession as well, dropping an average of 20 percent in value (Employee Benefits Research Institute 2011). Retirement, (to the extent it comes at all) will be paid for by 401(K) and other defined contribution plans, rather than defined benefit pensions (see Figure 15).

But what we argue is that even these recent statistics *hid a crisis that is tied to foregone wealth when retirement savings do not rise as wages remain stagnant and productivity gains are paid to others.*

Flat Earnings, Productivity Gains, and Retirement Savings: A Simulation

To show how serious and acute the retirement and savings crisis has become, and to tie that crisis directly to the earnings of the median wage earner, we engage in a simple statistical simulation. In this simulation, we compare the median retirement savings in 401(k)s in the United States now ($83,000) to a simulated value calculated from 1990–2012 (a 22-year work career). Our first simulated worker does the following:

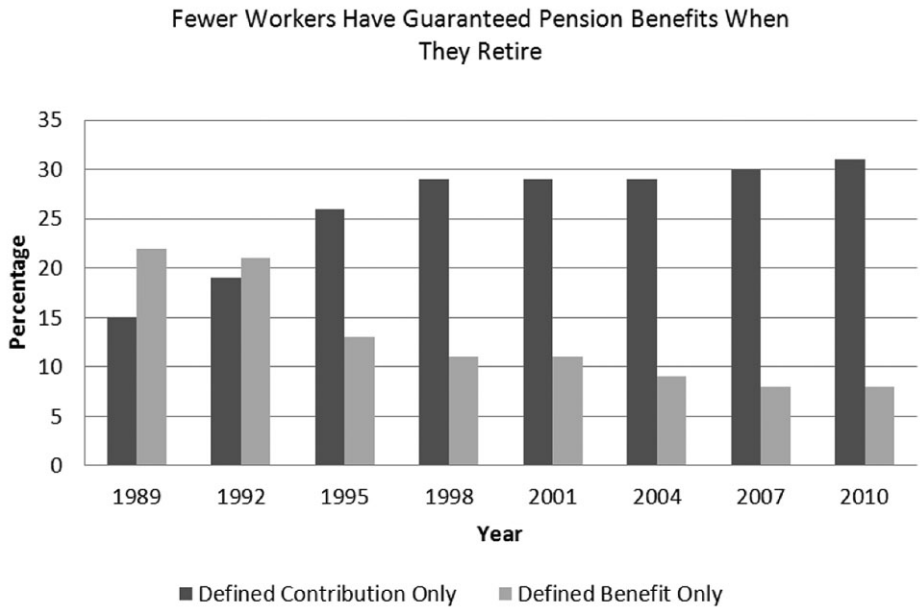

FIGURE 15. Workers with Pensions.
Source: Authors' analysis of Center for Retirement Research. http://crr.bc.edu/wp-content/uploads/1980/04/Pension-coverage.pdf

1. S/he starts in 1990 with the median worker earnings in 2012 dollars.
2. Her/His pay advances in inflation-adjusted dollars (or in a historical sense, does not advance) in the "real" economy with wages shifting as actually occurred in the U.S. labor market from 1990–2012.
3. This worker saves 10 percent of their income with a 5-percent match by their employer in a 401(k) whose returns are tied to the Standard & Poors (S&P) 500 (similar results would be produced by tying returns to the Dow Jones Industrial Average).

The resulting retirement income figure is the amount that workers would have if they (and their employers) had put money into retirement accounts at levels recommended by financial analysts *AND if this were possible on earnings that do not grow in real dollars' terms*.

Our second simulated worker is a bit more advantaged. S/he works in an economy where some of the productivity gains they produce actually accrue to them. This second simulated worker

1. Starts in 1990 with the median worker earnings for the United States in 2012 dollars (no different than worker #1).
2. S/he is paid 25 percent of the rate of increase in worker productivity over their 22-year career.
3. The worker saves 10 percent of their income with a 5-percent match by their employer in a 401(k) whose returns are tied to the S&P 500.

The results of the simulation are presented in Figure 16.

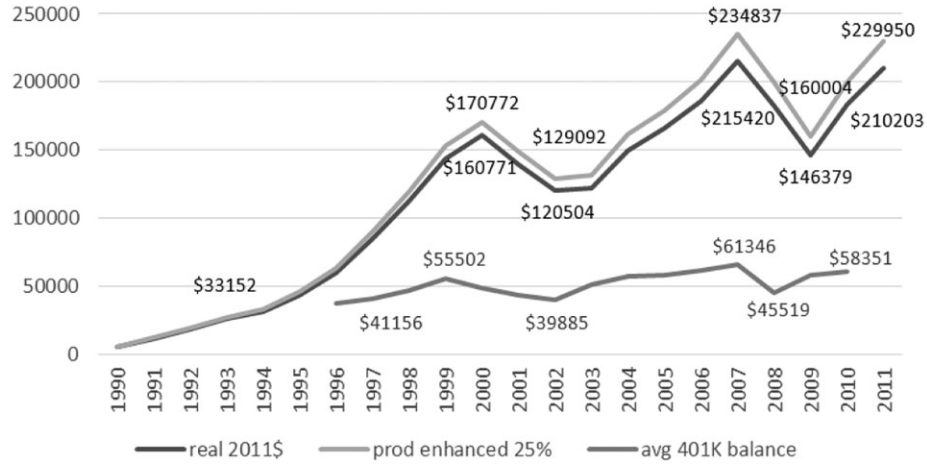

FIGURE 16. 401(K) Balances, Average Balance (1996–2010), and Simulated Balances for 2011 Real Median Wages and Productivity Enhanced Wages, 1990–2011.
Source: Author's calculations from Bureau of Labor Statistics (2012c); real 2011 dollars data is from the Employee Benefits Research Institute 2011. http://www.ebri.org/pdf/briefspdf/EBRI_IB_12-2011_No366_401%28k%29-Update.pdf

The first thing we see is that the average 401(k) balance from 1996–2010 really does not move very much. The mean 401(k) balance in 2010 is $58,351 but the median (not shown) is just $17,000 (Employee Benefits Research Institute 2011). But if we look over time, things look a little better—the average worker in his/her 50s with 20 years of experience has an average 401(k) balance of $98,200 (also not shown).

However, if you look at our simulated calculations we get some idea just how under-saved our median wage worker is. Over a 22-year career (1990–2011) if our worker had saved 10 percent of his or her yearly earnings, the employer had matched this 10-percent savings with an additional 5 percent, and the returns on the 401(k) account were indexed to the S&P 500, the typical worker should have around $210,000 saved for retirement in 2011. And that is if wages are flat and do not rise with productivity at all.

The difference is even more dramatic if we allow wages to rise somewhat with productivity. Allocating 25 percent of national productivity gains to median wage workers would increase the 2011 retirement nest egg to almost $230,000. While this does not seem like much of a difference, both simulated numbers reveal a very serious crisis—when wages do not rise with productivity *and* average workers stop saving, the cumulative wealth loss over time accumulates like a compound interest problem in reverse. Differences that start at a few hundred or a few thousand dollars early in the career get much, much larger. As it stands, it appears that our average worker has lost roughly $150,000 in accumulated wealth over the past 20 years as a result of flat wages and low savings.

DISCUSSION AND CONCLUSION

Clearly, many of the changes that were originally outlined in *Post-Industrial Peasants* in 2007 have been extended and deepened by the 2008–2010 recession. We are only now starting to see a more systematic political and economic push-back by those who claim that basic economic fairness and the ability to understand how a social stratification system works is central to American political and cultural legitimacy. Social scientists and commentators have known for a long time that many dimensions of the American Dream reflected cultural ideology more than reality, but for much of the 20th century for significant numbers of people there was enough mobility, opportunity, and income to justify the claim that America had a budding middle-class society with a high standard of living. The results of some of the real economic and political changes of the past 30 years have completely changed the rules of the middle-class game, and the effects on older Americans (not originally documented in Leicht and Fitzgerald 2007, 2014) suggest we are in uncharted territory.

More seriously, the changes in the way our social stratification system works and who it rewards deprive most Americans of a narrative for getting ahead. As cultural sociologists and others continually remind us, narratives allow us to make sense of our social world and provide advice and guidance regarding ways of thinking and behaving in specific situations. We would like to suggest that an economic system that rewards

only the top 1 percent, and rewards them with dividends and investment income most Americans have no access to, does not produce a coherent narrative of legitimation that most people would, or should, accept. What, exactly, would be your advice to young people in a system like this? *Choose your parents wisely?*

A Remedy for Older Folks? If Aging Costs Money, Don't Do That, Then!!

The cumulative result of spending your prime working years in this anomic, globalized free-for-all are scarcely better, as our focus on those over 55 makes clear. The result of many of the changes we have outlined above is that some 40 percent of respondents in a recent AARP survey claim they are going to "Work Until They Drop" (AARP 2012). There have been many positive changes that have allowed the social roles occupied by aging people to change for the better. And it is certainly true that baby boomers have sought to redefine successful aging so that it is more active and involved. There are many good reasons for trying to do this that go beyond the reach of this article. General improvement in quality of life is never a bad goal even if many attempts to pursue this appear gimmicky and sentimental.

What we have in mind here is a more-than-interesting coincidence. In 1986, the Equal Employment Opportunity Commission and the Americans with Disabilities Act eliminated (for most workers) a mandatory retirement age, an age when workers were required to retire from their primary jobs and leave the labor force. At the time, this was defined as a civil rights issue for older Americans—people should be able to retire when they want to and when they are ready, and that time should not be defined by age. The agency in this situation seemed to be ruling in favor of the worker and away from employers and the larger labor market.

But one thing this set of rulings produced was an ambiguous set of markers about aging and retirement: who should pay for it; when it should start; and what our cultural expectations for it should be. In light of the evidence presented, we are starting to suspect that there are other far more convenient motives that have crept into the retirement and aging debate—the desire to eliminate old age as a distinctive stage of the life course where people are rewarded for putting in long and hard hours for decades with some time to age with dignity, outside of the daily grind of work.

Our argument has a cultural component as well. *Not only have we turned middle-class prosperity into an illusion but we have defined normal aging and the physical, social, and cultural changes that accompany it out of existence*. Following the argument of Susan Jacoby in her well-received book *Never Say Die: The Myth and Marketing of the New Old Age* (2011), our cultural and opinion leaders have decided aging just does not happen and, if it does, *it's your fault*. Worse still, if you need the accommodations that come with the normal process of aging then you are inconveniencing the rest of us and need to "get with the program" and just *be younger* (!). In our sociological mind it is very ironic that, at almost precisely the time that people can't afford to retire, when income and job security are at their lowest especially for older workers, and in an era where we defined mandatory retirement ages out of existence in the name of free choice and autonomy, *we have defined old age out of existence*.

Much of what we have presented above eliminates an orderly basis for retirement as a stage of life. People must either work forever and die at their office desks, or they need to proceed directly from the workplace to the nursing home and hospice to spend a final few months on morphine. Those with a financial interest in this are the same people that do not pay workers adequate wages, increase economic inequality by commandeering productivity gains for the top 1 percent, do not want to pay their fair share of taxes, and who themselves want to live longer and more productive lives in a privatized health-care system that privileges them (Jacoby 2011).

As a policy for the future of a rapidly aging country, this certainly will not do. Old age (like family values) costs money. Treating older people with dignity and rewarding them for years of hard work costs money. If we are already shorting younger and middle-aged workers' with respect to pay and benefits they should be receiving, how do economic elites propose to deal with the problems and expectations of old age? The answer is culturally quite simple, and Jacoby and others point to a ready solution—*eliminate aging*. We now have entire cultural industries devoted to defining aging out of existence or defining aging when it does occur as the "fault" of the individual who does not take care of themselves, eats the wrong foods, drinks the wrong drinks, and "experiences stress" that a flat paycheck and economic insecurity obviously contribute to (but that practically nobody mentions). Obviously, nobody is supposed to take a can-do, positive attitude and demand a raise, demand fair tax treatment, or demand that social security and retirement be a stage of life where older people are treated with dignity. Instead, that very thing which financial planning retirement is supposed to take care of just does not happen and then ("presto!") the money and planning for doing it disappears, as if by magic.

As anyone who actually studies the biology of aging knows, 60 is not the new 30, and 60 can't economically be the new 30 either. Defining aging out of existence is simply another projection of neoliberal/neoconservative thinking to new and more invasive realms of life where markets and free choices fix everything. The result of all this is financial hardship for most of us, a financial bonanza for a very small number of us, and yet another set of social obligations that capitalism defines out of existence by fiat.

In short, 60 is the new 30 simply because we cannot afford to be 60.

NOTES

[1]The Washington Consensus involved an agreement between the United States, the International Monetary Fund, and the World Bank that the promotion of free markets and free trade was the only way to promote economic growth and development around the world (see Stiglitz 2012:58–64). This phenomenon is sometimes called the "neoliberal consensus."

[2]The calculations were conducted in Excel and Stata by the authors. The yearly percentage change in productivity was used as a baseline. In the "100-percent solution" real wages for workers rise in lockstep with the percentage change in productivity—if, for example, productivity rises 4 percent, then workers' wages rise 4 percent. In the "50-percent solution" the percentage change in productivity is halved. In our example above, a 4 percent change in productivity

would produce a 2-percent change in workers' wages. In the "25-percent solution" the percentage change in productivity is divided by 4. In our example, a 4-percent change in productivity would yield a 1-percent change in workers' wages. To illustrate the cumulative wages foregone over time, the enhanced wages build on each other so, for example, the "100-percent solution" enhanced wages in 2000 are used as the baseline for the "100-percent solution" changes in wages from 2000 to 2001. The effects of not being paid a wage that changes with productivity builds on itself each year over the course of individuals' work careers, and this method allows us to illustrate that point.

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