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The Long Death of America's Middle Class

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The American middle class is dying.

Nearly half of Americans don't have enough money to cover a surprise $400 expense. Many are living paycheck-to-paycheck, with little to no cushion.

Meanwhile, US homes are less affordable than they've been in decades… possibly ever. On top of that, car and credit card debt have skyrocketed.

These are just a few symptoms of a deeper, chronic disease.

People know something is wrong. They feel in their bones. Yet they can't pinpoint the exact problem, let alone the cause.

I'll explain both in detail in the pages ahead…

The US once had the largest and most prosperous middle class in world history. Today, it's shrunk to its smallest size in generations.

The Middle Class Defined

One common definition of the American middle class is households with annual incomes between two-thirds and double the national median income. That means households making around $42,000 to $126,000 annually.

In 2015, the American middle class reached a demographic tipping point. It dipped below 50% of the population for the first time since data collection started on this issue.

IN THIS MONTH'S ISSUE

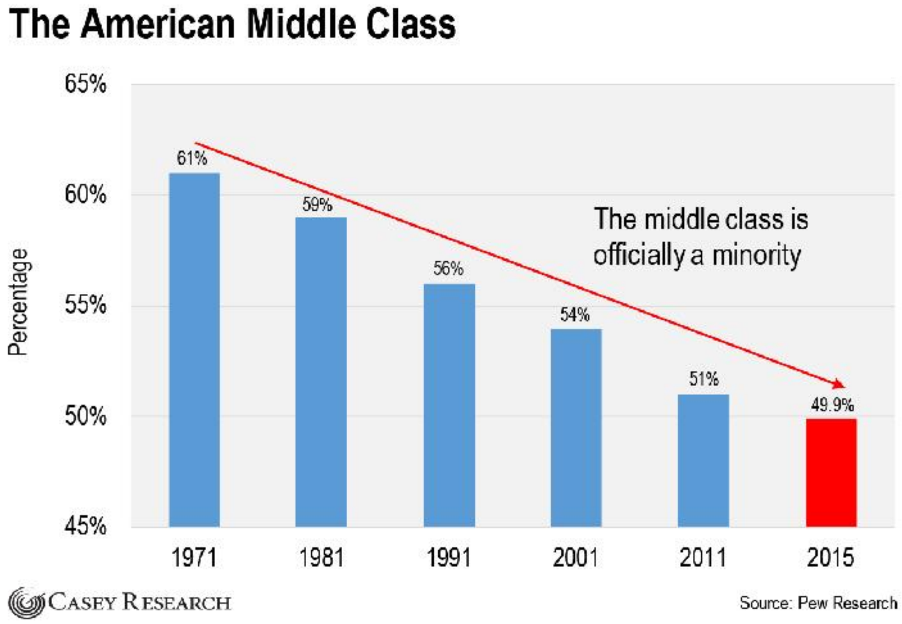
THE CASEY REPORT TEAM

Nick Giambruno | Chief Analyst
Doug Casey | Founder
Laurynas Vegys | Analyst
Joe Withrow | Analyst
Ann Pringle | Managing Editor

PRICES

Gold	$1,309
Silver	$16.42
Oil	$68.56
Bitcoin	$9,234
S&P 500	2,672
Dollar Index	93.07
10-Year Yield	2.6%
US Federal Debt	21.1T

Today, it's an official minority group.



This trend shows no sign of reversing. In fact, I expect it to accelerate.

In the years ahead, a perfect storm of economic pressures will further hollow out the middle class. Tens of millions of Americans will be kicked down the ladder.

Doug Casey: I'm a fan of the middle class; it's made of people who want to work hard, create and run businesses, take care of their families, and move up in life. But the financial gyrations we're going through are destroying the middle class, which naively believes that traditional American values still hold sway and that their government is honest.

The problem with the lower class is that their psychological level varies between desperation and apathy. Both are destructive attitudes. It's why most members of the lower classes are cemented there.

And the upper class, their problem is a poisonous mix of arrogance, greed, and delusions of superiority.

Most middle-class people will end up joining either the upper or lower class—mostly the lower—and that'll be a moral disaster for the country. When a country doesn't have a middle class, it's in trouble.

America used to be a place where class wasn't really important. Most everyone had middle class values, even if they didn't have much money—not at all like Europe or the Orient. But as the middle class gets squeezed, we're likely to get class warfare between those on top and those on the bottom.

The American Dream once meant working hard and achieving financial security. It meant owning your own home and giving your children better opportunities than you had.

Today, that dream is out of reach for the average person. Even by the government's own rigged statistics, the standard of living of the average American has steadily declined since the early 1970s.

Legendary comedian George Carlin once quipped: "That's why they call it the American Dream, because you have to be asleep to believe it."

Today, his sentiment is absolutely correct.

How did this happen? Who or what is killing the American middle class?

The truth is, the government is the main culprit. In 1971, it made a historic move, setting off the gradual extinction of the middle class.

You'll notice that all of the charts in this issue have one thing in common: they show things starting to go downhill in the early 1970s. This is ***no*** coincidence.

I'll share more details on this monumental—yet largely overlooked—event shortly. In the meantime, keep "1971" in mind.

The Opportunity

In this issue of *The Casey Report*, I'll explain why the American middle class started shrinking in the 1970s—and share specific steps you can take to secure your spot among the "haves" from here on out.

I'll also introduce a new investment recommendation. It's a Dividend Aristocrat. And we have a rare chance to pick it up at bargain prices.

This may sound counterintuitive, but this company could actually *benefit* from the increasing number of cash-strapped Americans. I think it should be a core part of your personal "empire of wealth."

The America That Was

The late 1950s was the golden age of the American middle class.

This isn't nostalgia talking. The US really did have robust main streets, thriving small businesses and beautiful American-made cars.

Back then, the US produced three quarters of the world's cars and airplanes. Americans produced most of the world's steel and built the majority of the world's skyscrapers.

The US stock market held the bulk of the world's total stock market capitalization.

American business reigned supreme. Back then, "Made in the USA" was a globally recognized assurance of quality. It helped set the US apart.

On top of that, people were friendly. The cost of living was low. And business deals were confirmed by a handshake, not an attorney.

American Main Street of Yesteryear

Doug Casey: I like to look at things from a long-term point of view. If we look at the United States as a civilization, I'd say it reached its peak in the late 1950s. That was probably best characterized by the 1959 Cadillac, the most extravagant car ever made for the common man. Those twin bullet taillights, the opulence of it… In terms of then-current technology, things couldn't get much better. That was our economic peak, relative to the rest of the world.

All this productivity gave the average American a high standard of living.

Around then, a husband could support his family on an average income. He and his wife likely owned their own home, as well as their car. They had multiple children—and didn't think much of the cost of having more. Plus, they had money to save.

The Dream Has Faded

Compare that to the average family today. Both spouses likely have to work—whether they want to or not—just to afford the same basic lifestyle.

Meanwhile, they have little to no savings. Something as seemingly minor as a $400 surprise expense could turn into a big problem.

Today, it costs well over $200,000 to raise a child, on average. And that doesn't even include college costs. Back in 1960, it cost roughly $25,000.

This hefty price tag is one of the main reasons middle class families are having fewer children… or none at all.

In short, the average American's standard of living has taken a huge hit over the past generation or so.

> **Doug Casey:** It used to be that the wife was a backup system. A failsafe in case the man lost his job, or something catastrophic happened. Now, both spouses have to work. If either one of them loses a job, they can't keep their heads above water. That's a prime indication of what we're talking about.

Consider a typical school teacher's financial situation, for example.

In 1959, the median annual salary for a US high school teacher was $5,276, according to the Department of Labor. Meanwhile, the median US home value was $9,627, according to the US Census Bureau.

That means a teacher made enough money each year to cover over half of the price of a middle-class home. Or 55%, to be exact.

Take a minute and think… how does your annual income compare to the price of your home? I'd bet many people make far less than 55%.

Today, the median purchase price of a US home is $241,700. To maintain the 1959 income-to-home price ratio, a high school teacher would need to make $132,935 annually.

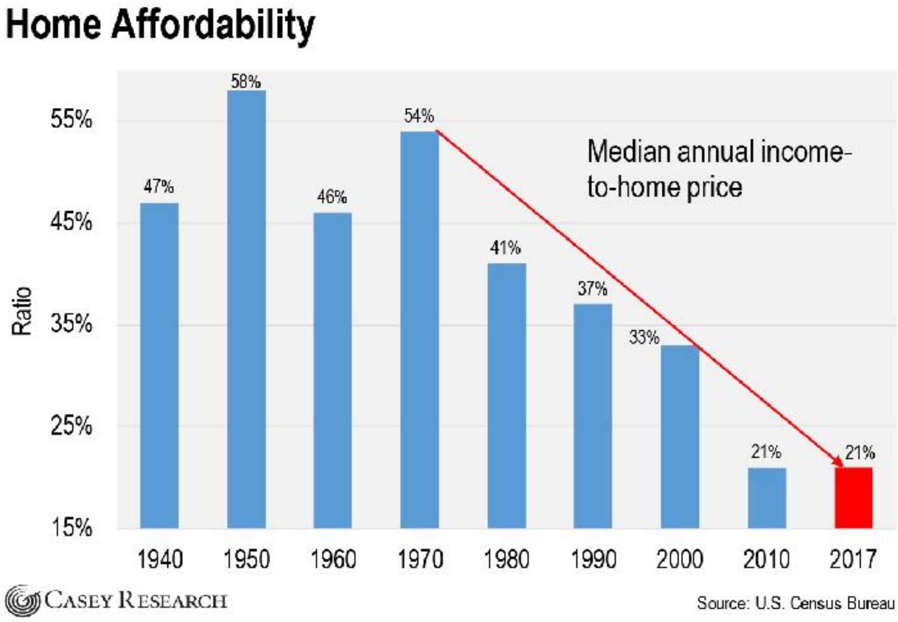
Of course, the average high school teacher doesn't make nearly that much. Not even close. He or she makes around $48,290—or just enough to cover 36% of the median home price.

> **Doug Casey:** It's said that teachers are underpaid. I question that. Today most have degrees in Education, about the least rigorous of studies. Their working day is typically six hours. They have the summer off, with long vacations over the Christmas and Easter holidays. It's hard to feel much sympathy for union members….

This is only one example of a broader trend. In fact, circumstances are actually worse than it lets on.

As you can see in the chart below, the median income-to-home price ratio is just a hair above 20% now. That's a historical low. And a far cry from the 58% peak it hit in the late 1950s.

Notice that the downtrend starts in the 1970s. More on that shortly.



Clearly, home prices have risen much faster than income levels since 1970. For most Americans, an affordable home is further from reach than nearly ever before.

Of course, Americans haven't stopped buying homes. They've just gone deeper and deeper into debt to do it.

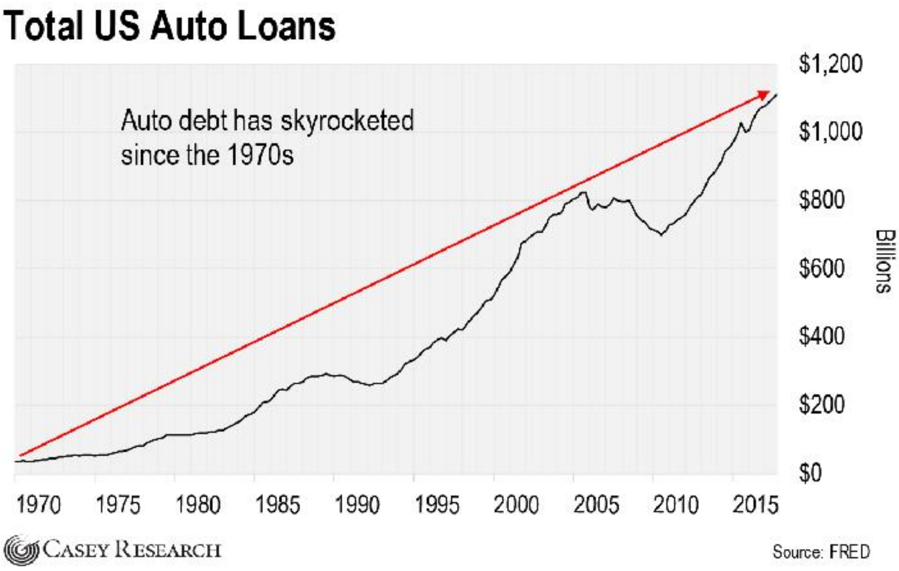
That debt has helped hide the slump in the average person's standard of living.

Doug Casey: Before World War II, you had to put at least 20% down to get a mortgage, and the term would be five years, at most. Then the 30-year mortgage came in, and then zero-percent down mortgages and interest-payment-only mortgages. It all just adds to the mountain of debt the average family lives under. All that debt indentures them; they're tied down like medieval serfs.

Cars are another large expense for Americans. Debt has helped camouflage a big price increase here, too.

Doug Casey: Let's go back to that 1959 Cadillac. If you bought one back then, you paid cash for it. Then they introduced two-year financing. Then three-year, then five-year, then seven-year financing. Now, people don't even buy their cars anymore; they lease them and have to give them back at the end of the lease. Your car used to be a minor asset. Now it's immediately a liability.

As you can see in the next chart, Americans have racked up over $1.1 trillion in auto debt. Again, notice that this trend started in the early 1970s.



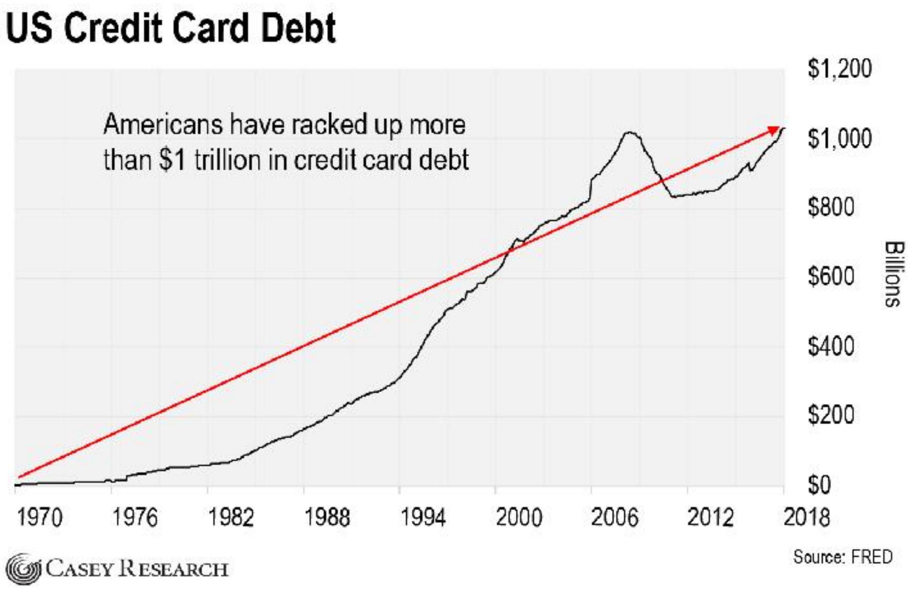
Doug Casey: Americans have become so used to carrying huge loads of debt around that it doesn't even occur to them that there could be any reason for concern over the national debt. It's an abstraction, like the number of light years to the Andromeda Galaxy.

The US Government has amassed an incomprehensible amount of debt that can never be repaid without some sort of default. It's not just the official $21 trillion of Federal debt, but another $200 trillion-plus of contingent liabilities and future guarantees.

If you understand economics, Austrian economic theory in particular, you recognize that since its peak around 1960, the US has been increasingly living off of previously accumulated capital. It's becoming more and more like Wile E. Coyote, who has run off a cliff, but hasn't noticed it yet.

Of course, the trouble extends beyond housing and car debt.

Americans have a staggering amount of credit card debt, too. The explosion in credit card debt also started in the early 1970s.



So, why are Americans going deeper and deeper into debt?

It's simple: the cost of living for the average middle-class family has risen dramatically faster than its income.

With higher expenses and stagnating wages, people have made up the difference with debt.

Doug Casey: One definition of a depression that I use is "a period of time during which most people's standard of living drops significantly."

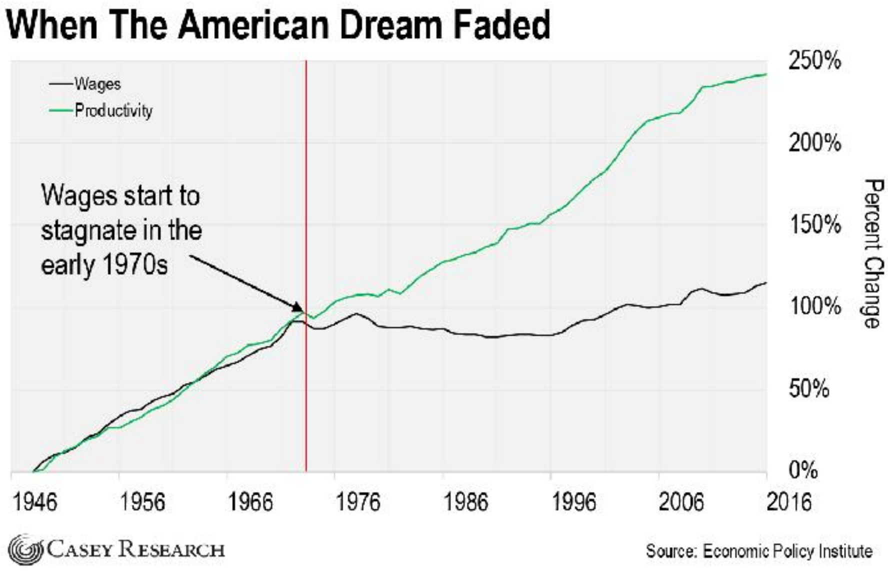
For the working class in the US anyway, the depression started in the early 1970s. After inflation, after taxes, their take-home pay hasn't risen in real terms for over 40 years.

In the golden years of the American middle class, one bread winner could provide a good life for a family.

There was also a predictable route to success: work hard, make more money, and move up in life. The next chart reflects this. It shows how inflation adjusted wages and productivity increased in tandem during the golden years of the American middle class.

In other words, the more productive you were, the more money you made. It was the key to social and income mobility. And it nurtured a healthy middle class.

Then something significant happened in 1971. It caused a dramatic split between work and wages. As the chart on the following page shows, the average person's real wages have more or less stagnated since the early 1970s.



The Usual Culprit

It's no coincidence that things started to go downhill for the middle class in the early 1970s. August 15, 1971, to be exact.

<u>This is the date President Nixon killed the last remnants of the gold standard.</u>

It was one of the most significant events in US history—on par with the 1929 stock market crash, JFK's assassination, and the 9/11 attacks. Yet most people know nothing about it.

Here's what happened…

After World War 2, the US had the largest gold reserves in the world, by far. Along with winning the war, this let the US reconstruct the global monetary system around the dollar.

The new system, created at the Bretton Woods Conference in 1944, tied the currencies of virtually every country in the world to the US dollar through a fixed exchange rate. It also tied the US dollar to gold at a fixed rate of $35 an ounce.

The Bretton Woods system made the US dollar the world's premier reserve currency. It effectively forced other countries to store dollars for international trade, or to exchange with the US government for gold.

By the late 1960s, spending on welfare and the Vietnam War, combined with money printing to cover the deficit, had drastically increased the number of dollars circulating relative to the amount of gold backing them.

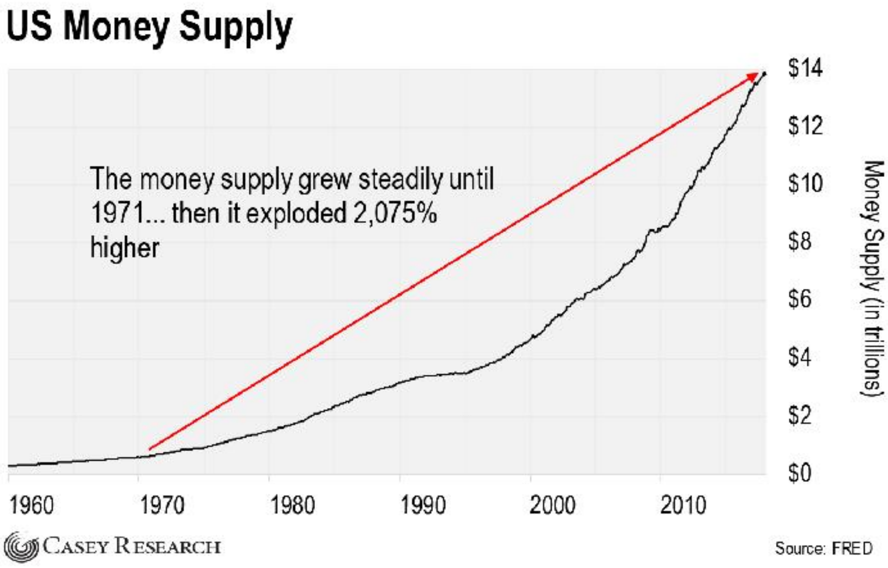
This encouraged foreign countries to exchange their dollars for gold, draining the US gold supply. It dropped from 574 million troy ounces at the end of World War 2 to around 261 million troy ounces in 1971.

To plug the drain, President Nixon "suspended" the dollar's convertibility into gold in 1971. This ended the Bretton Woods system and severed the dollar's last tie to gold.

Doug Casey: Most people just don't get what money really is—and what it isn't. They take it as something stable, as part of the cosmic firmament. It used to be, but it no longer is. The "dollar" used to be a commodity, gold or silver. Today it's just an accounting abstraction, created arbitrarily, by a bankrupt government. Americans shouldn't trust the dollar any more than Mexicans trust their peso.

Since then, the dollar has been a pure fiat currency. This allows the Fed to print as many dollars as it pleases. And—without the gold standard to hold it in check—it does precisely that.

The next chart shows the explosion in the US money supply since the early 1970s.



Doug Casey: Inflation is one of the most misused words; few even think about its actual meaning. What is inflation? "Well, that's prices going up." No, it's not. To say that is to confuse cause and effect. Inflation is an increase in the money supply. You inflate when the money supply is increased by more than real wealth increases.

Prices go up as a result. People have forgotten about that. They believe inflation comes out of nowhere, like a freak storm. No cause. Or they blame the butcher, the baker, or an evil oil company. Few people think it's a central bank—the Fed in the US—that actually creates more money and causes inflation.

You've heard that the Federal Reserve is trying to create a little bit of inflation because, they say, "A little bit of inflation is good." No, even a little bit of inflation is deadly poisonous. For two reasons: It creates the business cycle. And it destroys the value of savings. Saving is the basis of capital creation. People who say that a little inflation is a good thing are dangerous fools.

When Money Becomes Trash

You may have seen images depicting hyperinflation in Germany after World War I. The German government printed so much paper money that it became worthless.

Technically, German merchants still accepted it. But it was impractical. Buying a loaf of bread would have required wheelbarrows full of paper money.

At the time, no one would bother to pick up money off the ground. It wasn't worth any more than the other crumpled pieces of paper on the street.

Today, there's a similar situation in the US. When was the last time you saw someone pick up a penny off the street? A nickel? A dime?

Walking around New York City earlier this year, I saw pennies, nickels, and dimes just sitting there on busy sidewalks. This happened at least five times in one day. Even homeless people didn't bother to pick up anything less than a quarter.

The US dollar has become so debased that these coins are essentially rubbish. They have little to no practical value.

We're Adding a Great Inflation Hedge This Month

The new company I'm recommending this month is a Dividend Aristocrat. It's increased its dividend for over consecutive 40 years. This is a good sign that the company can pass on price increases, making it a great inflation hedge. We're picking it up at a bargain price, to boot.

Refusing to Acknowledge the Truth

It costs 1.7 cents to make a penny and 8 cents to make a nickel, according to the US Government Accountability Office. The US government loses tens of millions of dollars every year putting these coins into circulation.

Why bother? Because phasing out the penny and nickel would mean acknowledging currency debasement. And governments don't like to do that.

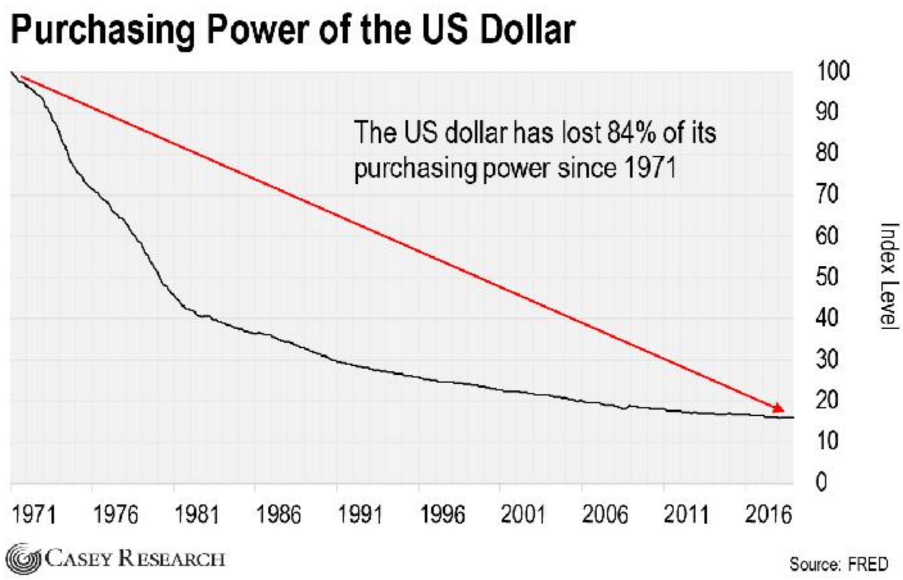
It would reveal their incompetence, and make it harder to hide their role in killing the middle class through inflation.

This helps the government deny the problem even exists. It refuses to issue currency in higher denominations for the same reason.

At one point, the US had $500, $1,000, $5,000, and even $10,000 bills. The government eliminated these large bills in 1969, about the time things headed downhill for the American middle class.

The $100 bill has been the largest note ever since. But it has far less purchasing power than it did in 1969. Decades of rampant money printing have debased the dollar. Today, a $100 note buys less than a $20 note did in 1969.

Even though the Federal Reserve has devalued the dollar over 80% since 1969, it still refuses to issue notes larger than $100.



"Whoever Does Not Respect the Penny…"

Consider what a penny and a nickel would be worth today if the dollar were backed by gold.

During the golden years of the American middle class, the gold price was fixed at $35/ounce. Under this system, it took around 3,500 pennies to make an ounce of gold.

At today's gold price, a penny during the golden age of the middle class would be worth about 38 modern pennies. A nickel would be worth nearly $2. A dime, nearly $4.

I don't pick up pennies off the sidewalk. But I sure would have in the 1960s. I doubt there were many pennies sitting on busy New York sidewalks back then.

Ron Paul said it best when he discussed this issue:

> There is an old German saying that goes, 'Whoever does not respect the penny is not worthy of the dollar.' It expresses the sense that those who neglect or ignore the small things cannot be trusted with larger things, and fittingly describes the problems facing both the dollar and our nation today.
>
> Unless Congress puts an end to the Fed's loose monetary policy and returns to a sound and stable dollar, the issue of U.S. coin composition will be revisited every few years until inflation finally forces coins out of circulation altogether and we are left with only worthless paper.

There's an important lesson here: The Federal Reserve and fiat money are mortal enemies of the common man.

The Fed has completely abandoned sound money. And, as a result, it's debased the currency.

Think of the Fed as a colony of termites eating away at the American dream. It's the main culprit in the death of the middle class.

Recall that all of the charts you've just seen show the middle class beginning to deteriorate in the early 1970s… when the Fed no longer had to answer to gold.

Since then, living expenses have skyrocketed. Incomes have stagnated. And Americans have made up the difference with debt.

Today, very few single breadwinners can support a family. The middle class is a shrinking minority. And most families don't have an extra $400 to spare.

As the story goes, Lenin once suggested that the best way to overturn a society—and specifically the middle class—was to debase the currency. The fate of the American middle class in the post-1971 fiat money era proves him right.

A Trend in Motion

The death of the middle class is a trend in motion. It will continue rolling in the same direction until a more powerful force stops it.

Eventually, I think this trend will lead to a genuine crisis. And it won't be pretty. I'll share more details in future issues of *The Casey Report*.

In the meantime, I expect this trend to accelerate—if only for the unprecedented amounts of "stimulus" the Fed has pumped into the economy since the 2008 crisis.

Think of the trillions of dollars in money printing programs, euphemistically called quantitative easing (QE) 1, 2, and 3.

All this money printing—and the money printing that will inevitably follow the next 2008-type crisis—will ultimately destroy what remains of the American middle class.

Only Two Places to Go

If you take the long view, the middle class and economic mobility are historical aberrations.

There was no sizable middle class until the mid-1800s. At that point, the Industrial Revolution and rapidly increasing productivity started to create high-paying industrial jobs.

The middle-class grew larger as the Industrial Age progressed. Then it peaked in the late 1950s. It's been in rapid decline since the 1970s.

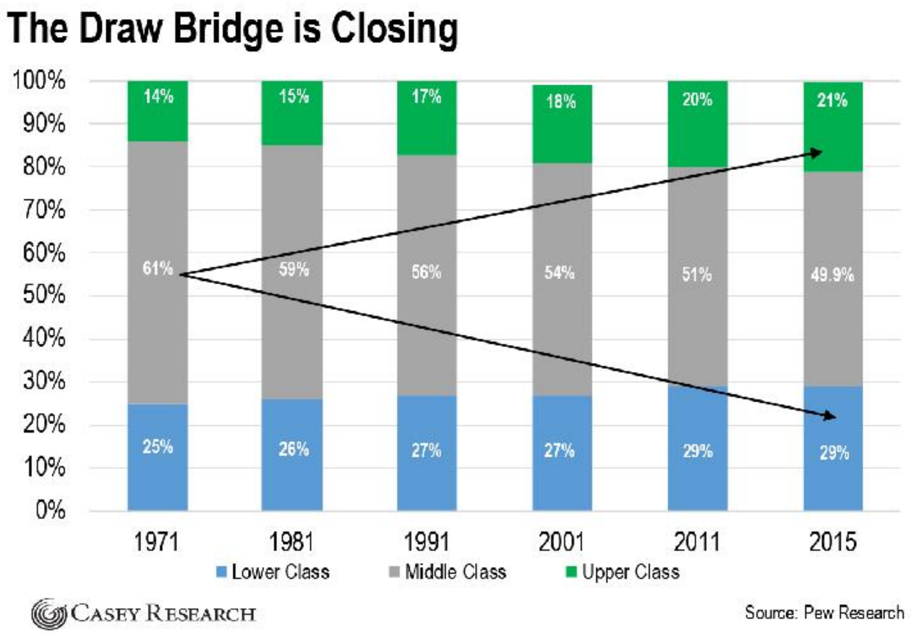
Will a large American middle class prove fleeting? Likely so, if current trends continue.

Today, the shrinking middle class is looking at a rising draw bridge. You'll either make it to the other side of the moat, and live comfortably inside the castle. Or you (and your offspring) will be stuck outside with the peasants, a member of the permanent underclass.

Now, that may scare a lot of people. But it doesn't have to. I'll show you a way across the draw bridge in a moment.

For now, take a look at the next chart. It shows the size of the middle class shrinking and the upper and lower classes growing.

Which side of the bridge do you want to be on?



An interviewer once asked Ayn Rand, "What can society do about poor people?"

Her response: "Don't be one of them."

Here at *The Casey Report*, it's my job to help you do that—to show you across the draw bridge before it permanently closes.

We can help you firmly establish yourself in the world of the "rich." Getting there will mean:

- Owning hard assets like physical gold, silver, and certain real estate
- Owning the highest-quality elite businesses. Think businesses with attractive dividend yields that send increasing cash payments directly into your pocket. Even better if you buy these standouts at bargain prices
- Holding some speculative investments. They can leapfrog your wealth. Think transformative technologies like cryptocurrency and blockchain, the booming cannabis industry, and natural resource stocks
- Protecting what you've earned from taxation, inflation, and other forms of confiscation by internationalizing your assets. This reduces the threat any one particular government poses to your wealth

These are the four tenets of lasting wealth. They're time-tested strategies. And they work. We'll discuss each one in future issues.

This month, we're focusing on the second tenet: owning the highest-quality elite businesses. The new investment recommendation I'll share with you shortly is one of these companies.

Dividend Aristocrat Radar

One of the keys to building lasting wealth has been the same for centuries: owning enduring, high-quality businesses. Think Standard Oil, McDonald's, Disney, Starbucks, Nestlé, or Coca-Cola.

This isn't going to change. Enduring, high-quality businesses built the fortunes of Rockefeller, Rothschild, Steve Jobs, and Bill Gates.

The easiest and fastest way to find the highest quality, most elite businesses is to look for Dividend Aristocrats. They're the safest and strongest companies in the world.

A Dividend Aristocrat is a company that's increased its dividend for at least 25 consecutive years. A business has to have a strong and sustainable advantage over its competitors to be able to do that. It also shows that a company can manage the ups and downs of the business cycle.