The Middle Class Needs to Take Control of its Money

On the Crisis of the Western Middle Class[1]

Shlomo Swirski

Adva Center

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To the extent that one can see the protest movement that popped up seemingly out of nowhere in Tel Aviv in the summer of 2011 as the genuine expression of a frustrated and discontented middle class and to the extent that this movement can be seen as the local expression of a broader movement that emerged at about the same time in different parts of the western world, it may be said that this is a protest that has been very late in coming. In fact, it may even have come too late.

Today the western middle class, a twentieth-century social phenomenon that once seemed to be the harbinger of an irreversible development in human history, is in retreat. Whether we view it as the realization of the French Revolution's promise of equality, or alternatively as the fulfillment of the Industrial Revolution's promise of high standards of living for the entire population, this class is a phenomenon that seems to be all too vulnerable. The ranks of the middle class are dwindling, together with their share of the income pie. Being born into the middle class no longer guarantees growing up into it . These statements apply to the United States more than to Western European countries, to Britain more than to Scandinavia, to Israel more than to Holland. But as a fairly realistic threat, it applies to most if not all western countries.

This paper paints an impressionistic picture of the process of retreat that is peaking at this very time. Now to speak of a "western middle class" is highly, not to say excessively, pretentious. My paradigmatic model will be drawn from the United States, since this is the country where the "middle class" concept was sown and took root. There it was conceived of as a stratum characterized by income and consumption patterns, as opposed to European views of class which underscored politico-economic power. However, during the golden age of the middle class, the first three decades after World War II, the American model gradually came to pervade the imagination of the entire western world. This primarily came about through the spread of American advertising and marketing methods, but it was also the upshot of the reflection of the American middle-class "lifestyle" in the literature, movies, sociology and psychology of the "western world." The political culture of the golden age of the middle-class toned down the intensity of inter-class conflict emblematic of the preceding era, as reflected in the title *The End of Ideology,* a book written by one of the leading American sociologists of that period, Daniel Bell.

Middle-class retreat is far from a uniform phenomenon. It is particularly salient in the United States, especially in those states that used to have major industrial concentrations, such as Michigan, whose largest city, Detroit, was for many years a car manufacturing center. Today, most of its neighborhoods lie derelict and have lost their once affluent residents. In Europe the phenomenon of retreat is less manifest, but just as there are marked differences between the various states that make up the USA, so too in Europe the Scandinavian countries, which are managing to maintain considerable stability, differ markedly from the continent's southern countries, where at the time of writing the middle class is waging a very real battle for survival .

Only after the Six-Day War, just as the golden age of the middle class was drawing to a close in the West, did Israel finally become a member of the club.[2] Israel's golden age was very short, being confined to the two decades between 1967 and 1985, the year that the emergency economic stabilization plan was implemented. That plan, which signaled the transformation of the Israeli developmental state into a champion of corporate-led globalization of the Israeli economy, also signaled the beginning of the demise of the local middle class.

The Golden Age

Today, the first three decades following World War II are referred to as capitalism's "golden age," largely because during that period western countries enjoyed economic prosperity and constant economic expansion. It was also the golden age of the middle class. This in itself was a major change: for until the early twentieth century the overwhelming majority of Europeans – both in Europe itself and in the European-majority colonies – were farmers, generally poor, whose outlay was mainly limited to food and clothing and who were ruled and commanded by a thin stratum of landowners, clerics and military.

It was above all the ability to manufacture consumer goods on a mass industrial scale that made it possible for a broad-based middle class to emerge. This ability grew rapidly in the wake of the Industrial Revolution which began in the eighteenth century

[2] The upper strata of Israel's middle class came into being earlier, following the 1948 war: see Rosenfeld, H., and S. Carmi. 1976. "The Privatization of Public Means, the State-Made Middle Class, and the Realization of Family Values in Israel." In *Kinship and Modernization in Mediterranean Society*, edited by J.G, Peristiany. Rome: The Centre for Mediterranean Studies, pp. 131-159.

and peaked during World War II, when the United States, the Soviet Union, Germany and Britain applied new technologies to the mass production of not only armaments, but also housing, food, clothing and vehicles. Postwar, all these categories could be readily converted to civilian purposes. Large-scale civilian industrial production now included many consumer items that had been developed prewar but became mass consumer goods after the war: urban or suburban housing, automobiles, energy and transport infrastructure, domestic electrical appliances, telephones, industrial clothing and processed food. All of these now went to make up a “middle-class lifestyle.”

Large-scale corporations which had learned in wartime to produce goods on a vast scale came to dominate mass industrial production. As early as the second half of the nineteenth century, these corporations had replaced family industrial entrepreneurs. In Eastern Europe they were state owned, in Western Europe they were both state and privately owned, while in the United States they were privately owned. Like a state within a state, they developed bureaucratic control mechanisms that imparted a feeling of stability and accountability. Their primary activity being manufacturing, they invested much of their profits in improving and expanding production, as well as in their workforce’s employment conditions. Having a job at one of these major corporations provided social prestige, decent wages, health insurance, pension plans and, generally speaking, a sense of financial security. It must also be said that working conditions at these large corporate plants were immeasurably better than in their nineteenth-century forerunners: an eight-hour working day, at least one day off a week, and relatively clean and decent factory floors. Employees tended to identify with their corporation, as in the well-known American phrase, “I’m with General Motors.” Such a saying was tantamount to a statement of middle-class affiliation.

What is dubbed “the big state” was also something of a “new invention,” again mainly due to the two world wars, especially the second one, which had required the mustering and managing for extended periods of time of all of society’s resources. Postwar these capabilities were applied so as to introduce some degree of mass universal welfare systems: education, health, housing, social security and employment. There were also the standing armies, still fairly large even after the war, especially in the United States, the Soviet Union and Great Britain.

In turn, the state was able to expand, provide universal social services, maintain large armed forces and even be a major client of the various corporations because of a relatively new and highly effective tax base, namely the income tax. It was easy to collect because it was deducted directly from salaries – mainly the steady salaries of the tenured middle class. In western countries the state became an extremely rich institution. This wealth enabled it, for example, to regulate economic activity and contain crises before they could get out of hand.

While industrial corporations constituted one major pillar of the new middle class, the second pillar was composed of state apparatuses. The standing army employed large numbers of officers and NCOs with fair income levels. At the same time, welfare-state apparatuses employed large armies of women, whose generally lower "second income" helped to create the typical middle-class model of a two-income family.

The middle class was the fulcrum of mass industrial production and universal state services. On the one hand it manned the proverbial automobile assembly lines, while on the other hand it womanned the millions of new jobs in the education and health services. The other side of the coin was that it was also a consumer of cars and electrical appliances, and at the same time of school, medical and higher education services. A standard of living that until the twentieth century had been the exclusive province of a small privileged class was now enjoyed by the relatively large middle class: a one- or two-story house in the suburbs, one or two cars, a well-equipped kitchen, children no longer required to go out and make a living but able to study at elementary school, high school, and even college. All of this worked to weaken the bourgeois/proletariat dichotomy that had largely typified nineteenth and early twentieth-century western industrializing societies.

Although the behavioral characterization of the middle class was based on consumption, in other words individual household actions, this stratum also able to safeguard its collective interests through labor unions. These developed in the second half of the nineteenth century on the floors of industrial plants, but expanded in the twentieth century to embrace the employees of state apparatuses. Labor unions succeeded in eradicating many of the exploitative employment practices typical of earlier periods. They also played a key role in introducing macro-economic policies promoting full employment and social rights for workers. In return, the labor unions were loyal partners of state and employers alike in furthering and managing the middle-class economy. In practice, labor unions represented not only the interests of workers but also those of the major corporations, insofar as their struggle for fair wages was at one and the same time a struggle to encourage consumption as well, thereby greasing the wheels of the economy.

Another factor that enhanced the standing of the middle class was the notion that the basic unit of the economy is the nation state.[3] Not only were the borders of the nation state largely the borders of the economy, but the very fate of the economy was identified with that of the state. The existence of the middle class was proof of the success of the national economy and ultimately of the nation-state project. On the one hand, the very existence of the middle class was perceived as vital to this success. The state also fostered the local labor force, primarily through a full employment policy – the macro-economic basis of middle-class existence and prosperity. On the other hand, the large corporations were well aware of the nexus between their business performance and the fortunes of the nation state. In the words of the CEO of General Motors: “What’s good for General Motors is good for the country, and what’s good for the country is good for General Motors.”

In short, this was an economy of and for the middle class, or to paraphrase President Lincoln’s famous statement, “of the middle class, by the middle class, for the middle class.” The only part of this aphorism that is not accurate is “of the middle class,” since the ownership of capital and the means of production were not located in the middle class. Nonetheless, compared with the turn of the century “robber barons” era, socio-economic disparities were small. The proportion of income in the hands of the top decile – whether derived from labor or from wealth – was about one third of total income, compared with 50% in the "Roaring Twenties."

It should be noted that the middle class analyzed here was a phenomenon largely unique to the west. Elsewhere, either there was no middle class in its western sense or it was extremely small in number. Any local wealth generated elsewhere was derived from exports to the west rather than from local consumption. Even so, most world trade took place between western countries.

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[3] Despite three decades of globalization, the basic system of economic accounting is still the System of National Accounts.

The Betrayal of the Corporations

The picture began to change in the 1970s. With hindsight, the three postwar decades can be seen as a bygone "golden age."

The change came about as large corporations enlarged their theater of operations from the national arena to the global one. The reference here is not to international trade, which had always existed; rather, to a corporation's day-to-day operations – financing, production, advertising, marketing – operations that are increasingly carried out in a world arena and on a global scale. This is the true meaning of "globalization." Present-day globalization is often compared to its late nineteenth century forerunner, yet there are major differences: the first wave predominantly involved the flourishing of international trade and massive labor migration. As for the ongoing operations of what were then large corporations, it was mainly financing that was global, while production, advertising and marketing were mainly confined to local settings. Nowadays, all four occur in a global context: financing is likely to come from one or more countries and production takes place in a number of other countries, while advertising and marketing can be done just about anywhere in the world.

The moment large corporations crossed the borders of the mother state, they entered a non-state land, where they were untrammeled by the shackles and limitations imposed by nation, state, or labor unions. The global arena lacked an authority capable of imposing monetary, fiscal, investment and employment policy, let alone labor legislation. While all of these are to be found, of course, in each and every one of the world's countries where the multinational corporations operate, in the absence of a multinational statal authority, corporations are free to select from among the world's diverse states the ones that are most convenient for them, the decisive factor being the profit-making possibilities. A good example is the ability to make substantial profits out of the fact that the tax rules vary from one country to the next: multinational corporations are supreme masters at tax planning.[4]

[4] The registration of Amazon.co.uk was transferred to Luxembourg, where tax rates are very low, although the British branch is the one that does most of the work. In 2010 the Luxembourg office had 134 employees, and its turnover was €7.5 billion, while its British counterpart, with a workforce of 2,265, reported a turnover of just £147 million. Although corporation tax rates in Luxembourg and the UK are similar, the Luxembourg authorities have a different view of costs that can be offset against

The multinational arena is also labor-union free. Most countries will have such organizations, of course, but as long as there are no multinational labor unions, corporations can choose countries where they do not exist, or where they can negotiate with the state authorities to receive exemptions from local labor laws.

The main corporate motivation for expanding operations beyond the mother countries was the desire to slash labor costs. This became an option as soon as technology allowed the physical transfer of production lines across borders at a convenient cost. Workers in South America, Africa and Asia were and still are cheaper than their counterparts in North America and Western Europe. The outsourcing of manufacturing operations has mainly hurt those western middle-class people who worked in large-scale plants and enjoyed the protection of strong labor unions. This is the lower middle class or "blue-collar workers," many of whom have been made redundant. For these people, as Slavoj Zizek has put it, the chance to be exploited in a long-term job is now experienced as a privilege.[5] The other part of the middle class, consisting of "white-collar workers" and employees in state apparatuses, took longer to feel the chill. Manufacturing has gradually lost its pivotal role in western economies. Today the vast manufacturing firms have been replaced by private services involving a broad range of activities and diverse employment practices, which make it difficult to unionize and to support labor unions.

The industrial production of consumer goods in the west has not come to a complete halt, of course, but an undermining of terms of employment is certainly underway. Corporations learned how to slash labor costs by judicious use of threats that production would be moved overseas, or simply the argument of increasing competition by foreign corporations. Applied simultaneously, these two weapons weakened western labor unions.[6] Governments began to abandon a full-employment

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income, an arrangement that considerably reduces taxable profit. In 2010, Amazon Luxembourg reported charges totaling €7.4 billion – almost as much as its income (€7.5 billion), enabling the company to pay extremely low tax – €5.5 million. Such devices helped the US master company to reduce its effective tax payments there from 49.6% of its profits in 2006 to a lower effective rate in subsequent years than the statutory 35%. (Ian Griffiths, "How one word change lets Amazon pay less tax on its UK activities." *The Guardian*, April 4, 2012; Juliette Garside, "How Amazon finds tax loopholes," *The Guardian*, April 4, 2012.)

[5] Slavoj Zizek.. The Revolt of the Salaried Bourgeoisie. *London Review of Books*. February 7, 2012.

[6] In an interview with the General Secretary of the Electronics Union at the Histadrut (the Israeli Federation of Labor Unions), the General Secretary related a conversation he had with the CEO of Motorola Israel. "Listen," the CEO of Motorola said, "you're a Zionist. The central office [of Motorola} is in the United States, and there the company operates as a closed shop [no unions allowed]. The

policy, instead adopting a “flexible labor market” approach that tallied with corporate welfare. They claimed that this was the only way to safeguard employment, in other words to retain at least some of the corporations’ activities or attract multinational corporations from overseas. The globalization of corporate activities fatally weakened one of the major components of middle-class strength. The corporations betrayed the very class that made them great.

When western corporations stepped onto the multinational stage, they did not need to invent new ways of acting; instead, all they had to do was to exploit the new arena using those tried and tested patterns which had enjoyed a “glorious past” in their own countries and had to some extent lain dormant during the “golden age.” These patterns included a hostile attitude to labor unions, "in-born" suspicion of state authorities, opposition to government regulation, and resistance to any welfare policy. The European corporations, which in their own countries cooperated with the labor unions and the welfare state, readily adopted “American” practices upon entering the multinational arena, or to be more precise, the non-European world.

At a later stage the corporations successfully “re-imported” into their own countries those same patterns that had brought them hefty profits in the multinational arena, in a style reminiscent of Karl Marx’s adage that a nation that enslaves another forges its own chains. The corporate hierarchy only needed to revive long-standing claims that state power needed to be curtailed, either by cutting taxes or by removing the state from the economic arena. Those claims were now reinforced by their experience in third-world countries, where the state was the leading agent of economic development during the post-second world war period, until the arrival on the scene of the multinational corporations, which bought up many state corporations, narrowed the local tax base, and restricted autonomous local economic development.

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moment I tell them that there is a union here that wants to organize the workers, he [the CEO of Motorola in the U.S.] will close the plant and transfer it to Venezuela. He doesn't give a hoot. If you want to keep the jobs for 1,500 people, don't make trouble for me." Interviewer: "Do you accept the 'Zionist' argument [of the CEO of Motorola Israel]?" General Secretary: "It's a consideration. I am first of all a Zionist and after that a socialist." From Barbara Swirski, "Israeli Women on the Assembly Line," 1987, in Barbara Ehrenreich and Annette Fuentes, *Women on the Global Factory*, Breirot Publishers (Hebrew).

Global Middle Class

Western workers' losses translated into relative gains for workers in those countries to which the multinational corporations spread. In countries that had never had any significant industrial infrastructure, these workers became a new middle class, based on wages which, albeit much lower than their western equivalents, were higher than standard levels of income in third world rural areas. In countries with an industrial infrastructure, such as some in Latin America, the arrival of the western multinational corporations heralded the end of the national developmental project, and with it the emergence and nurturing of a locally based middle class. In neither instance did the new middle class enjoy the advantages previously enjoyed by its western counterpart. For one, they could not rely on the support of unions, as it was precisely the desire to avoid negotiations with unions that led the multinational corporations to global outsourcing, In order to achieve that, the multinationals insisted wherever possible on obtaining from the host state exemption from local labor laws. An added difference between the western and non-western middle class is that unlike workers in the west, the new workers could not – and still cannot – buy many of the products that they produce: their income does not allow for that.

OECD researcher Kharas Homi recently published figures indicating that "the global middle class" is expected to grow markedly: from 1.8 billion in 2009 to approximately 3.2 billion in 2020 and 4.9 billion in 2030, most of the growth occurring in Asia; this middle class, however, is defined by Homi as including households that spend between ten and a hundred dollars a day (in purchasing power terms), or between $3,650 and $36,500 a year.[7] By way of comparison, in 2009 median household expenditure in the USA was approximately $50,000.[8] These figures are a clear indication that "the global middle class" is a quiet different creature from "the western middle class."

Another crucial difference is the lack of one of the western middle class's two major supporting pillars – a state apparatus that provides the population as a whole, and the local middle class in particular, with services such as education, health and social security, in addition to employing members of the local middle class. This state of

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[7] Kharas, Homi, The Emerging Middle Class in Developing Countries, January 2010. OECD Development Center; OECD, 2011, *Perspectives on Global Development 2012*: 103.
[8] U.S. Census Bureau, *Statistical Abstract of the United States*, 2012: Table 684.

affairs is in part the upshot of the fact that the state in these countries lacks both the legitimacy and the ability to introduce a stable, universal tax system on which such services can be based. In principle, of course, these countries could fund the development of western style state services by taxing the profits of the multinationals, except that those corporations have made their operations conditional on being exempted from taxes on most if not all of their profits. The profits go instead to their countries of origin - or to global tax havens.

In the absence of universal state-run education, health and social security services, the state apparatus cannot be a source of wide employment at middle-class standards. Concomitantly, western middle-class educational and health standards are the province of very few: in Latin America, for example, in 2010 the average educational level was 8.3 years of schooling, while only a handful enjoyed higher education.[9] In addition, in many countries where public records show a growth in the "global middle class," ownership of items that typify the western middle class such as a car is rare.[10]

Above all, the "global middle class" is vulnerable in the extreme, as their fate lies in the capricious hands of multinational corporation owners, who may at any moment pull the rug out from under them, deciding just like that to relocate, based on some change in currency values, salary levels, productivity, or any other factor that affects "the bottom line." It is not just western corporations that can wander from one country to another; non-western corporations operating in their own countries equally act in this fashion. For example, today Chinese corporations are shifting operations to their neighbors in light of increases – however modest – in Chinese labor costs.

The rise of "the global middle class" is a deal beneficial to many. It is good news for hundreds of millions worldwide – even if it often means European nineteenth-century working conditions. Secondly, it compensates the multinational corporations for the erosion in the purchasing power of the western middle class: while the new consumer class may be small, not to say very small, in each individual country, when taken together on a global level it is big enough to make a significant addition to the ranks of western-style consumers. Finally, the low wages of the global middle-class help to

[9] OECD, 2011, *Perspectives on Global Development 2012*: 104.
[10] OECD, 2011, *Perspectives on Global Development 2012*: 104.

maintain middle-class levels of consumption in western countries -- consumption eroded as a result of outsourced job markets and wage erosion.

Looking at the future, it will clearly take many years, in the best case, for the global middle class to reproduce the achievements of the western middle class in its “golden age”: a “national” economy, “responsible” corporations, profits reinvested in production and employment, jobs aplenty, relatively high wages, ownership of a home, a car and household electrical appliances, collective strength in the form of labor unions, secondary and sometimes higher education, universal state health services (in Europe), and social security systems.

Ironically enough, nowadays mankind has at its disposal vaster financial means than ever before. These means should have served to expand the ranks of such a middle class not only in western countries (in the United States, for example, most African-Americans and Hispanics do not belong to the middle class), but also in other parts of the world. However, instead of being used for the greater good of mankind, these financial means are channeled into the private coffers of a thin upper social stratum.

The Betrayal of Capital

Globalization has generated new ways of enrichment and of capital accumulation. We have already mentioned some of these ways, such as the slashing of labor costs – from the outset, the multinational corporations' primary justification for going overseas; the global scale of sales; and the ability to take advantage of the cut-throat competition to reduce or entirely eliminate the payment of taxes between different countries vying for the corporations’ relocation.

Now we have to consider the growing financial bias in the multinational corporations’ activities. In the nineteenth and first half of the twentieth century, corporate profits were largely plowed back and reinvested in manufacturing and marketing operations. In the globalization era, things changed: while a slice of profits continues to be reinvested, as previously, another slice – sometimes bigger than the former – is now invested in financial operations.

A prime example is currency trading, which became particularly attractive with the destabilization of the international currency system in the 1970s in the wake of the collapse of the Bretton-Woods system. Operating with a slew of currencies in different countries, the multinationals were able to make a great deal of money out of trading in these currencies, whose value fluctuated from one moment to the next. These days, currency trading operations are carried out every single day, on a scale that far outstrips the GDP of practically every single country in the world. Multinationals can make profits that match or even exceed their earnings from manufacturing or service activities.[11]

We are talking about a new sphere of corporate activity. As described above, in the three decades following second world war, the middle class was the hub of economic activity: manufacturing, construction, and the social services provided by the state. Nowadays, the most salient economic activity takes place in the financial arena, which, instead of servicing the arena of production and employment, services itself. As Dumenil and Levy put it, finance finances itself.[12] In the USA, the financial services sector, which in 1947 accounted for 2.5% of GDP and hovered around 4% throughout most of the middle class's glory days, subsequently jumped to 8.3% in 2006.[13] In 1960, financial corporations made up 16% of total American corporate profits; in 2002, this figure shot up to a record 44%. Although the amount has shrunk in the interim, it is still very high: after the 2008 financial crisis, it was 31%.[14]

This is a new financial ballpark, complete with new players such as investment funds and banks that specialize in speculating with both corporate money and the private assets of these major corporations' owners and executives. The new players also include international law firms, international tax experts, international currency experts, language experts, marketing experts, and international tax advisors. The financial bias was also fuelled by what has become a widespread practice: paying senior executives not just salaries but also stocks and option packages, thereby willy-nilly making them players on the financial stage.

[11] Ozgur Orhangazi. 2008. "Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation of the US economy: 1973-2003." *Cambridge Journal of Economics* 2008, Vol. 32.
[12] Gérard Dumenil and Dominique Levy. 2004. *Capital Resurgent: Roots of the Neoliberal Revolution*. Harvard University Press: 124.
[13] Thomas Philippon, "The Evolution of the US Financial Industry from 1860 to 2007: Theory and Evidence." *NBER,* November 2008: 6.
[14] John Bellamy Foster and Hannah Holleman, 2010, "The Financial Power Elite," *Monthly Review*, Vol. 62, No. 1.

The new riches brought with them new fields of production and services: expensive commodities such as private aircraft, yachts, estates, mansions, luxury apartments in select locations around the globe, as well as high-priced services, from private schools through personal maintenance and security services.

Productive investment gave way to financial speculation. Whereas in the past banks derived their profits from the interest paid monthly by the mortgage borrowers, today the piece of paper in question is nothing other than speculation as to the borrower's ability to repay the mortgage over time. In other words, money made from money by individuals and corporations with capital reserves that are not invested in any productive activity. The so called derivatives were the hottest investment product in the 1990s and 2000, and they were responsible for the real-estate bubble which was inflated by financial bodies anticipating double or triple profits, to be derived from the marketing of new homes, the interest on mortgages, and sales of mortgage insurance instruments. All of this collapsed, of course, in the 2008 global financial crisis, which began when it became clear that some borrowers – people who were aiming for "the American dream," in other words joining the middle class of the golden age – were unable to keep up with their payments, largely because of the crisis of the western middle-class.

The new financial ballpark is a closed social domain, totally out of reach of the middle class. To the extent that the middle class is engaged in production and servicing aimed at that ballpark, one could say that today the western middle class resembles its third-world counterpart more closely than in the past, as it produces goods that it lacks the purchasing power to acquire.

A financial aristocracy

Financial capital and financial speculation gave birth to a "global very-high class." This class has lately been enshrined as the top 1% by protest movements around the western world. Yet there is a top 1% not just in western countries but also in the countries traditionally targeted by the multinational corporations. There it comprises local brokers who serve the multinationals and local entrepreneurs who have emerged in the slipstream of globalization and operate in the wings of the multinational scene.. Today there are Korean, Taiwanese, Indian and Chinese multinational corporations operating throughout Southern Asia, Africa and Latin America, as well as in western countries. There are also Israeli multinational corporations which operate in Eastern Europe and other parts of the world.

The 1% has the scent of a 21st century aristocracy. Much of their income derives from rent-like sources – bank fees, insurance company and pension fund management charges, and interest on mortgages. Rent accrues also to operators of electronic communications systems.

It is the middle class that forks out the lion's share of this income. And it is the state that sanctions the rates of rent. In fact, the financial aristocracy controls most of the income of the middle class, whether it is their salaries that are deposited by their employers in the bank, or their pension savings entrusted by the state to commercial insurance companies, or mortgage repayments made to the mortgage banks. In addition, the financial aristocracy has laid claim also to the middle class' tax payments, as these turned in the 2008 financial crisis to be the savior of last resort of financial schemers judged by the state to be "too big to fail."

The Betrayal of the State

The state, according to most commentators on globalization, has become weaker as the corporations have become stronger. Its budgets have shrunk, its revenues have contracted, its functions have been restricted, its regulatory ability vis-à-vis the major corporations has declined.

Factually, all of these pronouncements are correct, but they do not necessarily point to any weakening as such. Rather, I would suggest that those developments point to a change in the rules of the game: under the conditions created by corporate globalization, in most western countries, the state feels obliged to go along with the local corporations in an attempt to secure for both sides in tandem – and on a declarative level for the entire nation state as well – a solid position in the center of the global arena. Moreover, during the "golden age," the national interest was defined in terms of advancing the state-led national economy and thereby achieving a "modern" standard of living – goals that tallied with the good of the middle class. Nowadays, the state is far more willing to accept corporate demands and is attenuating its obligations to the middle class. Under the banner of advancing towards the center of the global arena, the state is betraying the middle class.

Today, after almost five years during which states bent over backwards to save the financial establishments in their own domain, the argument that the state has become weaker is less convincing than in the past. If truth be told, the historical overturning of the former definition of the national interest could not have taken place at all had the state been weak or weakened. This upheaval has been variously named: from Lyndon Johnson's "Great Society" of the 1970s to the Reaganism of the 1980s; from Labourite welfarism to neo-liberal Thatcherism in Britain; from Keynesianism to Friedmanism; from a "developmental state" to free market policies; and so on and so forth. Irrespective of the name attached to this upheaval, it could not have happened without robust state intervention: it was the state under Ronald Reagan's leadership that broke the American air traffic controllers' strike; it was the state under Margaret Thatcher that broke the UK coal miners' strike; it is the state that is imposing on the middle class in the some European Union countries an austerity regime that will undo much of what has been achieved since the second world war. The multinational corporations, with all their considerable power and capital, could not have done this on their own. The corporations are dependent on the state to provide them with local conditions beneficial to their multinational operations.

If we look briefly at Israel, it was the state under Shimon Peres that implemented the first stage of the neo-liberal process, in the framework of the 1985 emergency plan for the stabilization of the economy; and it was the state under Ariel Sharon and Benjamin Netanyahu that put the second stage into practice, during the sweeping budgetary cuts of 2002-2004. The state slashed its budget in order "to free resources for the use of the business sector," in other words to make large amounts of credit available to the business sector, at the lowest possible price; the state slashed taxes on corporate profits and high salaries; the state nationalized pension funds and sold them to insurance companies, with the aim of further expanding the credit supply available to Israeli multinational corporations; the state paid a goodly part of the National Insurance payments for workers due by employers in their stead; the state established a labor court with the aim of softening the impact of trade union protests; the state – in Israel as elsewhere – dispensed with the services of the Bank of Israel as the financier of state-developmental activities, limiting it to the fight against inflation adversely affecting multinational corporate operations; the state allowed the admission into Israel of hundreds of thousands of Palestinians and set in motion the “importing” of hundreds of thousands of migrant workers in order to slash Israeli labor costs – and these are just a few examples. The state was able to muster its best institutions – the Cabinet, the Knesset, the Supreme Court, the Bank of Israel – in order to initiate, plan, legislate and put all of this into practice “democratically”: indeed, it managed to avoid provoking significant public opposition, not to say backlash. True, the workers of privatized plants struck and protested, but the leadership of the state was instrumental in presenting them as nothing more than an anachronistic phenomenon; Vicky Knafo, a single mother whose monthly income maintenance check was cut by 30% in 2003, walked from far-flung Mitzpe Ramon to Jerusalem, but she was easily presented as someone who had got used to "living on welfare."

We have referred to these measures as a betrayal by the state, because the other side of the coin of state aid to the corporate elite was disinvestment in the middle class. A slashed budget meant fewer jobs for the middle class, and in particular for women, and at the same time fewer educational, health and welfare services for middle-class children; a reduction in taxes on wealth and corporate profits impacts negatively on the state’s coffers, which are intended to finance these services; privatization of the pension funds means a cut in pensions, mainly through the hefty management charges levied by insurance companies (and pensions are especially important to the middle class, because the lower classes have scanty retirement savings, while the upper class can get along fine without one).

Single mother Vicky Knafo marched from far-flang Mitzpe Ramon to Jerusalem soon after her income maintenance was cut, in 2003. The better-off urban middle class took much longer to react. It was not until the summer of 2011 that it finally woke up. And by 2012 it had gone back to bickering.

The Middle Class Aristocracy

If the car industry is emblematic of the golden age of the post-second world war years, hi-tech symbolizes the present era. Hi-tech is often portrayed as the driving force that powers our contemporary economy. But whereas the car industry provided a large enough rug on which to place the entire middle class, the hi-tech sector is just a runner, capable – in the west – of providing a livelihood to not more than a small proportion of the workforce. In other words, hi-tech is no substitute for the car industry of the golden age. But the terms of employment of this small workforce are so good that the people who work in the field deserve the title of the middle class aristocracy.

Hi-tech emerged during the era of corporate globalization, and it has most of its characteristics: production lines are far more mobile and transportable than car production lines; while financing, production, advertising and marketing are done on a global scale; and some products, first and foremost cell phones, can be bought not only by the western middle class but by the global middle class as well. In the hi-tech sector, great importance attaches to research and development, with startups the darlings of the financial sector.[15]

The hi-tech sector attracts huge amounts of financial capital, largely because it can generate a series of "hits" in the wake of successive innovations that in turn trigger successive waves of consumption, even when the new product is not very different from its predecessors. True, during the golden age of the western car industry manufacturers tried to boost sales by launching new models, but they did this no more than once a year; nowadays, in contrast, this happens every few months. Whereas in the old days car manufacturers earned kudos for providing every household with an item that was considered vital for the acquisition of middle-class status (and of course large numbers of jobs too), today Steve Jobs, the legendary Apple CEO, earned the laurels of genius primarily for succeeding in selling nonessential communications devices to the same households time and time again. Steve Jobs would not have been justified in saying: "What's good for Apple is good for the country." He could, however, have rightly said, "What's good for Apple is good for Apple."

[15] This was aptly described by Tamar Ben-Yosef: "… the capitalists in a global world jump through hoops for highly mobile money. Investment in machinery and equipment for plants is not mobile. By definition, it is a quintessentially territorial and long drawn out business. In contrast, investment in R&D is increasingly casting off the shackles of national borders. When things pan out, it also generates a dramatic and rapid return. Hence startup companies, of which there have been so many in Israel since the 1990s, have become the darlings of the international financial sector – spanning the gamut from venture capital companies to banks."Tamar Ben-Yosef. 2008. *Welcome to the Free Market* (Hebrew), Jerusalem: Tsivoni: 125.

Apple is a perfect illustration of globalization's implications for the middle class, western and global alike. In the US, in 2010 the corporation had a workforce of just 43,000 – far fewer than the 400,000 workers employed by General Motors as late as the 1980s. Apple had another 20,000 or so employees in other countries. In contrast, most of the production of the iPhone and iPad and Apple's other devices is done by a Chinese subcontractor who employs 700,000 people under conditions that would be rejected as unacceptable in the west.[16] Under the same contractor, a foreman with a university degree earned $22 a day, or under $7,000 a year – an amount sufficient to put him in what the OECD calls "the global middle class," but far less than what is needed in order to be included in the "western middle class." Of course, most of those who worked for this Chinese contractor earned less. In contrast, the Apple CEO's 2011 monthly salary was $1.4 million. In addition to this he was entitled to a generous stocks package amounting to tens of millions more.[17] These amounts make the CEO of Apple, together with thousdands of CEOs of hi tech and financial corporations like him around the world, extremely respected players on the capital market: regular investment in the many financial instruments created over the last twenty or thirty years can give each of them returns that would make it possible for large numbers of Chinese workers to make a decent living.

True. the CEO's salary is almost literally out of this world, but hi-tech industries and services have created what may be called a "middle class aristocracy." While 30,000 of Apple's 43,000 American employees are sales persons who earn about $25,000 a year, most of the rest are engineers and executives making much more. In Israel, people in hi-tech earn four times and more the median wage. The mere use of the concept of an aristocracy, however, goes to show that hi-tech is not an alternative solution for the middle class, as it creates fewer jobs than the former automobile industry or for that matter the state-run health, education and welfare services. In Israel, a country so well known for its hi-tech industry that it has been dubbed "The Start Up Nation,"[18] the numbers employed in the hi-tech industry and in hi-tech services combined constitute at most 10% of all wage earners. We have also seen the

[16] Duhigg, Charles, and Keith Bradsher, "How U.S. Lost Out on iPhone Work," *New York Times*, January 21, 2012.
[17] Duhigg, Charles, and David Barboza, "In China, Human Costs are Built into an iPad," *New York Times*, January 25, 2012.
[18] Senor, Dan, and Saul Singer, 2011. *Start-Up Nation: the Story of Israel's Economic Miracle*. New York: Twelve.

relatively tiny number of people employed by Apple in the USA compared with the size of its workforce in China. In the 27 countries of the European Union, the two hi-tech sub-sectors of industry and services together employ a mere 3.7% of the workforce.[19] Hi-tech industry and services are ostensibly open to the middle class, but in practice joining them is a heart's desire that can only be attained by a handful. Hi-tech, today at least, is not a new promised land for the middle class. One of the most striking drawbacks is that in hi-tech, unlike the car industry of the past, no labor unions are allowed a foothold, and hence there is no knowing how steady a job is and for how long.

People Need to Control their own Money

The financialization of the world economy, with its negative impact on the western middle class – and increasingly on the multinational middle class as well – is a particularly ironic development given the fact that the money that fires it up is to a large extent middle-class money, appropriated routinely and completely legally by the major financial bodies. The lion's share of business credit given out by banks, insurance companies and pension funds is money deposited and saved by "the public," that is, primarily middle class households. This is one more important legacy of the glory days of the middle class; it is anchored in two developments whose origin goes back to the nineteenth century but did not really come into their own until after the second world war. One involves the method of paying workers' wages: in the nineteenth and early twentieth centuries, wages were paid in cash, either at the end of the working day or at the end of the working week, or once every two weeks. In many instances these wages went very quickly, going on rent, on what was owed at the grocery store, and so on. After the second world war, the practice of paying wages once a month and depositing them in workers' bank accounts became more widespread. This was so mainly at major corporations, which nurtured large administrative machines. So now a corporation would deposit its employees' salaries in the bank, where they immediately turned into business credit – which could be borrowed by that selfsame corporation and reinvested in production - or in financial transactions. The second development was the institution of work pensions, which

[19] Eurostat. 2009. *Statistics on Employment in High Tech Sectors, EU-27 and Selected Countries*.

become an inseparable part of collective agreements between employers and employees, especially in major industrial and commercial corporations, that is, the major employers of the middle class. In Israel, for example, most of the money that is known as “financial assets held by the public” refers to bank deposits and pension savings.[20] These are the monies used by the corporate giants for their investments and acquisitions. Thus it happens that the money of the average middle class person may well find its way into investments in business projects in faraway countries in Eastern Europe, Asia or Africa, rather than being invested in Israel itself, or in cities in central Israel rather than in peripheral areas of the country.

At issue, then, is the question of who controls capital. The financial bias in present-day economies is reflected in the way that financial bodies take control of the money of the public, first and foremost the middle class; they invest a goodly part of it in projects in the global arena, where they generate enormous profits thanks to being unfettered by the shackles of the nation, the state and the unions; and invest part of these profits in financial instruments of one kind or another, making profits for themselves that are no less enormous – and quite often actually more enormous – than those they make from investments in the real economy. Middle class money supports a financial aristocracy whose prosperity is to a great extent the outcome of the growing enfeeblement of the middle class.

The fact that the financial chain is forged from the pensions and salaries of the middle class opens up possibilities for change. The middle class can put the brakes on its enfeeblement and attrition by taking control over its own money. If capital is publicly owned, then in principle it will be possible to curb and even put an end to the present financial bias. It will be possible to invest in job creation and raising wages rather than in financial adventures. It will be possible to require that any new investment anywhere in the world comply with the labor and fiscal legislation of the major corporations’ parent countries.

Attaining public control over the capital stockpiles that are today controlled by financial corporations is of course not a straightforward matter. It suffices to consider just how difficult it is to reduce bank charges and how hard it is to slash the management fees charged by the insurance companies that run the pension funds.

[20] Bank of Israel, Information and Statistics Department, current data on the capital market.

Today, public control over banks and pension funds seems like mission impossible. But what looks like formidable difficulties becomes less so once things are broken down into concrete measures. For example: operating a public bank, along the lines of a postal bank that can offer checking accounts, does not seem to lie outside the realm of the possible; in a number of countries, including Japan and Germany, for years the official postal agency offered banking services until finally in the last few decades the agencies themselves were privatized. Another example: in Israel, the new pension fund holdings are managed by insurance companies that charge outrageous fees, while the holdings of the old pension funds are managed by the Finance Ministry and charge far more reasonable fees.

If capital is under public (not necessarily state) control, this could inject the middle class with new vigor, strengthening it immeasurably. It could curb the present trend toward ever spiraling concentration of control over profits and capital, on the part of just 1% or 0.1% of the population. Hence the all-embracing slogan of the Israeli protest movement of the summer of 2011, “the people demand social justice” should be dropped in favor of a new, more concrete slogan: “the people demand control of their own money.”

There are a few other things that can be done in order to help maintain and even expand the middle class, western style. The multinational arena which for the last forty or so years has been a kind of corporate “wild west” needs to develop multinational state mechanisms of control. In the long run, the change requires the creation of larger states than the present ones, to be achieved through regional federations. These superstates will curb the freedom to act presently enjoyed by multinational corporations. On the one hand, they will facilitate joint action by the trade unions of the various federated states, and on the other hand, the implementation of labor laws throughout the area of the superstates. If and when the European Union manages to overcome its present difficulties and to save the middle classes of its southern members, it will be able to provide a positive example to other clusters of states, such as those in Latin America and the Middle East.

Another way of strengthening the “stateness” of the multinational arena is to impose global taxes on financial operations, along the lines of the Tobin tax. At the present time such taxes can only be imposed by each of the existing states. Support for a Tobin tax has recently been voiced by some states, most notably France, only to meet the vehement opposition of England, where the City, London's financial center, controls 75% of the financial operations carried out in Europe, and of the United States, the seat of the world's largest financial center, Wall Street. Taxing the present-day corporate "wild west" will benefit not only the western middle class, but also the multinational one, which will benefit from the growing ability of non-Western countries to invest in reasonable state services.

And in the Meanwhile

In the meanwhile, the Golden Age of the western middle class seems to have come and gone. This is not of course the same as the disappearance of this socio-economic grouping: rather, its emblematic features are cracking and wasting away. They include full employment, reasonable wages and employee benefits, strong labor unions, and free or low-cost education for children. Manufacturing has migrated to Third World countries, and the corporations will not be returning to a geographically constricted existence in individual nation states. They will not return to the pens from which they managed to extricate themselves: as far as they are concerned, their drama will continue to be played out on the stage of the entire world. In principle, their potential work force presently comprises five billion people, give or take – the number of those in the 15-64 age group in the entire world – and their potential market is 7.5 billion – every single person in the world.

The state itself has become multinational,[21] whether in the sense that today state-level administrations must deal with multinational corporations and international financial bodies, or in the sense that every single state is now gauged on a daily basis by anonymous financial "investors." Despite the efforts of good people such as economists Joseph Stiglitz, Jean-Paul Fitoussi, and Amartya Sen, who try their level best to convince world leaders that states should be gauged not only on the basis of their macro-economic and financial performance, but also according to their social

[21] It is noteworthy that not only have corporations learned to decamp for greener non-state pastures; according to the media, states themselves, such as the United States administration, reportedly hold detainees from the various theaters of war in which they are involved, including Iraq and Afghanistan, at secret sites around the globe, including Eastern Europe, where they interrogate prisoners unhampered by the constraints of habeas corpus which apply to detainees within United States borders.

performance, the world's leading indices are still financial: the size of the budget deficit, the size of the national debt, the international credit rating, and so on. If the condition of the middle class is of any interest, it is to socially concerned NGOs in each individual country. Since each and every state is measured in the multinational arena, all states will continue to mobilize their aggregate collective resources, first and foremost those of the middle class, and place them at the service of their multinational corporations, certainly the financial ones, which – according to current political wisdom – are "too big to fail." Today's large financial corporations are the counterparts of the national armies and industrial infrastructure of the years that followed the second world war: the armies had to be protected against collapse and the industrial infrastructure had to be protected from violent destruction.

In the meanwhile, the financial bias of corporate activity continues to divert funds that might be used for investment in the real economy and thus in job creation to financial speculation that contributes little if anything to economic development that benefits the entire population and particularly the middle class. Capital is invested in capital, not in people.

In the meanwhile, the global middle class, as opposed to the western middle class, is likely to continue to grow, as long as China, India and their like continue to expand their economic activities. However, they will all find it extremely difficult during the foreseeable future to provide the kind of wages and services enjoyed by the western middle class. The most telling illustration of this is the fact that, in the absence of a social security system worthy of the name, Chinese workers are on average depositing 25% of their wages in the bank, a practice that deprives them of a higher standard of living, limits local consumption, and perpetuates China's status as an economy dependent on overseas exports.

The social protests that engulfed Israel in the summer of 2011 held up the banner of complaints of the urban middle class: the outrageously high cost of housing and of childcare in Israel's large urban centers. The Israeli protests blended into the wave of protests that engulfed various parts of the west, from Greece, whose middle class is in danger in the wake of the fiscal tightening imposed by the European Union, through Spain, where half of the younger generation are out of work, to the USA, where the protest rightly targeted Wall Street, the heart of the global financial world. From the point of view developed in this paper, the American protestors would appear to have been the closest to the crux of the matter: the financial bias that grew out of the globalization of large-scale corporate activity. For their part, the Israeli protesters focused on the more diffuse demand for social justice; interestingly enough, they put up their tents at the eastern end of the fashionable Rothschild boulevard, while Israel's financial center, which grew by leaps and bounds over the last two decades, is located at the other end.

The Middle Class is not the be all and end all

In the meanwhile, we should point out that the nub of this paper, the western middle class, is far from representative of the entire population. In all western countries, but especially the USA, there is a broad swath of people with a standard of living far below that of the middle class. Their low income means that they cannot get a mortgage nor can they save any significant sum in a pension fund. In Israel, we are referring, at the very least, to that one quarter of wage-earners whose salaries are defined by the OECD as “low” – no more than two-thirds of the median salary. The belief that galvanized many of the post-second world war social movements was that these people should be lifted up into the ranks of the middle class, either through higher wages, or through the upgrading of education. The current retreat of the Western middle-class carries with it a note of despair regarding those hopes. This will undoubtedly hold true as long as the control of collective capital is in the unyielding grip of an infinitesimal handful.