

The Middle-Class Squeeze: Falling Wealth, Rising Costs

By Bruce Watson, October 27, 2011

It's no secret that many middle-class families are in a financial bind, caught between rising costs and falling incomes. But according to recent reports by the Department of Agriculture and the Congressional Budget Office, the middle-class squeeze is not a recent development, and isn't likely to disappear anytime soon.

On Tuesday, the CBO released an analysis of America's distribution of wealth over the last three decades. Their findings were shocking: Among the top 1% of households, income grew by an amazing 275% over the last 30 years. In the same period, the middle 60% of households saw their incomes increase by less than 40%.



Corbis

But rising pay only tells half the story: As the rich have gotten richer, they have also gobbled up a bigger portion of the overall income pie. In 1979, half of all income went to the top 20% of households. By 2007, the top 20% was pulling in 60% of all income, while everyone else lost ground.

The Other Side of the Squeeze

While the middle class' slice of the income pie has gotten thinner, the price of real-life pie has shot up. According to the Department of Agriculture, food prices have increased by 4.7% since September 2010 and are on track to go up by another 4.5% over the next year. For certain products, the rise has been even sharper: Eggs and oils, for example, have gone up by more than 11%, while dairy products and beef have increased by more than 10%.

When prices go up, it's common to blame businesses and investors, but the recent cost inflation has been marked by a stagnation -- or even a drop -- in profits. Nicole Wolfgang, director of finance and product development at financial information company Sageworks notes that the impact on grocery stores has been negative: "Our data shows that grocery stores over the past twelve months have seen a slight decline in profits: They've gone down by 0.85%."

Similarly, Wolfgang points out, profits at full-service restaurants and food wholesalers have remained largely stable. The FDA notes, in fact, that the 1.3% rise in restaurant prices is the lowest annual increase in more than 50 years.

Competing for Food ... and Jobs

Ultimately, the fall in middle-class wealth and the rise in food prices may share a root cause: globalization. One effect of offshoring has been a drop in domestic wages, as American workers have increasingly found themselves competing with labor in cheaper overseas markets. As Don Peck recently noted in *The Atlantic*, this process has accelerated: "The recession, meanwhile, has restrained wage growth and enabled faster

restructuring and offshoring, leaving many corporations with lower production costs and higher profits -- and their executives with higher pay." Thus, as business leaders have paid workers less, they've been able to pay themselves more.

On the other end of the spectrum, as overseas workers have made more money, they have spent more of it on food, driving up prices, a point that the Department of Agriculture acknowledged, noting that "cost pressures on wholesale and retail food prices due to ... strengthening global food demand, have pushed inflation projections upward for 2011." In other words, food prices -- and, in all likelihood, income inequality -- are going to keep growing for the foreseeable future.

For the full article featuring Sageworks' private company data, please visit [Daily Finance – The Middle-Class Squeeze: Falling Wealth, Rising Costs.](#)