

What Happened to the American Dream?

A survey from Luxembourg Income Study Database (LIS) has made headlines this week from an [article in the New York Times](#). The topic was on the lagging pace of income growth for the American middle class compared to the rest of the world. The New York Times stresses the point that its countries like Canada, Britain, and the Scandinavian nations that have vastly outpaced the United States in terms of median income growth over the past decade. It goes beyond a comparison of median incomes in the world's western nations as the comparison is on a global basis, and that is why the median income in the United States has stagnated versus strong growth in say Canada or Sweden. Also, are the factors that caused median incomes to stagnate in the United States going to change in the near future?

A plausible short answer is that other western democracies median incomes are simply catching up to the United States as smaller open economies benefited from an aversion of capital from the US in recent years. In terms of an outlook for stagnating middle class incomes, particularly in the United States, the answer is much less clear.

The topic of income inequality between the middle class and the upper one percent is nothing new, but has once again resurfaced, and not coincidentally to the fact that we escaped the most severe recession since the great depression. This then reasons that regardless whichever country one might chose to examine at the moment, the politically popular topic is on the growing disparity between the top 1 or 5 per cent and the middle class. This is because it's a subject that caters to the masses, and should it inspire enough of the electorate, it's a winnable political platform. However, taking advantage of

the crony aspects that misrepresent a capitalist system and the false belief that a left of center government is a solution to this issue is blatantly mistaken and misguided. Furthermore, it's a platform that takes advantage of the vulnerable.

As many economists have argued, it is yet to be known whether there is a direct cure or policy prescription for how the American economy will roar back to life. And ultimately, this is what is of most important to a world economy where the United States leads in the areas of growth by innovation and economic advancement in that country. The fear, which looks more and more realistic every day, is that America has entered a period of secular stagnation, replicating the lost decades in Japan where their economy has flat lined since 1990's. Quite succinctly, it is the threat of getting stuck in this epoch of secular stagnation that will create minimal opportunities for the western world's middle class, irrespective of the stance of the reigning political power.

To quote Winston Churchill, "The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of misery." In a capitalist system there will always be a divide of wealth. The challenge is maintaining a system that instills a competitive environment that's accessible to the majority of the people.

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