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## Middle-Class Squeeze

*Is More Government Aid Needed?*

Thomas J. Billitteri



Getty Images/David McNew

Affordable health care for all Americans is a key element of the budget recently announced by President Barack Obama, along with other policies aimed squarely at helping the middle class. Nearly half of home foreclosures in 2006 were caused, at least partly, by financial issues stemming from a medical problem, according to the advocacy group Families USA. Above, emergency room physician Jason Greenspan cares for a patient in Panorama City, Calif.

From *CQ Researcher*,  
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Cindy Dreeszen, 41, and her husband may have seemed like unlikely visitors to the Interfaith food pantry last month in affluent Morris County, N.J., 25 miles from New York City. Both have steady jobs and a combined income of about \$55,000 a year. But with “the cost of everything going up and up” and a second baby due, the couple was looking for free groceries.

“I didn’t think we’d even be allowed to come here,” Ms. Dreeszen told *The New York Times*. “This is totally something that I never expected to happen, to have to resort to this.”<sup>1</sup>

Countless middle-class Americans are thinking similar thoughts these days as they ponder their suddenly fragile futures.

Millions of families who once enjoyed the American dream of upward mobility and financial security are sliding rapidly down the economic ladder — some into poverty. Many are losing their homes along with their jobs, and telling their children to rethink college.<sup>2</sup> And while today’s economic crisis has made life for middle-class households worse, the problems aren’t new. Pressure on the middle-class has been building for years and is likely to persist long after the current recession — now 14 months old — is over.

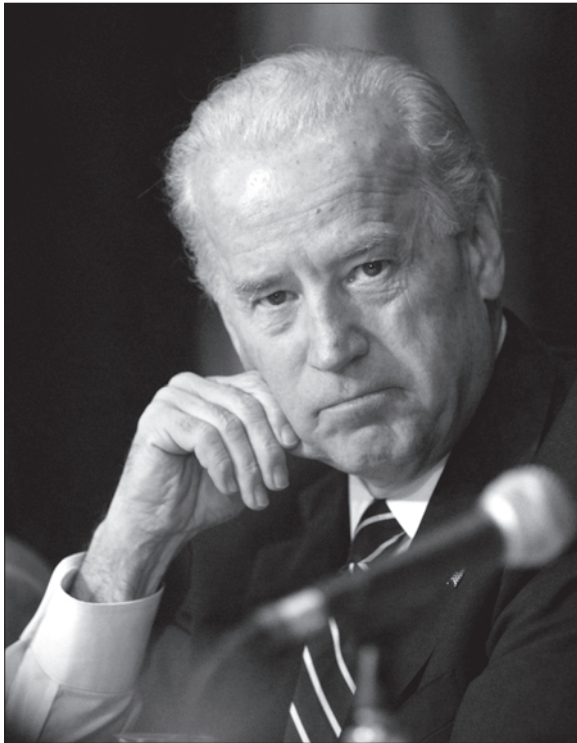
The middle class “is in crisis and decline,” says sociologist Kevin Leicht, director of the Institute for Inequality Studies at the University of Iowa.

“Between wages that have been stagnant [in inflation-adjusted terms] since the middle of the 1970s and government policies that are weighted exclusively in the direction of the wealthy, the only thing that has been holding up most of the American middle class is access to cheap and easy credit.”

No official definition of the “middle class” exists. (See *sidebar*, p. 12.) But most Americans — except perhaps the very richest and poorest — consider themselves in that broad category, a fact not lost on Washington policy makers.

Indeed, President Barack Obama announced a 10-year budget on Feb. 28 that takes direct aim at the challenges facing America’s middle class and the growing concentration of wealth at the top of the income scale.<sup>3</sup> Key elements of the plan include shifting more costs to the wealthiest Americans and overhauling health care to make it more affordable.<sup>4</sup>

In further recognition of the importance of the middle-class, Obama has named Vice President Joseph R. Biden to chair a new White House Task Force on Middle Class Working Families. It will examine everything from access to college and child- and elder-care issues to business development and the role of labor unions in the economy.<sup>5</sup>



Getty Images/William Thomas Cain

Vice President Joseph Biden, chair of the new White House Task Force on Middle Class Working Families, listens to a presentation on creating “green” jobs at the University of Pennsylvania on Feb. 27, 2009. President Obama directed the panel to examine issues such as access to college, business development and the role of labor unions in the economy.

“Talking about the middle class is the closest that American politicians and maybe Americans are willing to go to emphasize the fact that we have growing inequality in this country,” says Jacob Hacker, a political scientist at the University of California, Berkeley, and a leading social-policy expert. “A very small proportion of the population is getting fabulously rich, and the rest of Americans are getting modestly richer or not much richer at all.”

What’s at stake goes far beyond economics and family finances, though, experts say. “A large middle class, especially one that is politically active, tends to be a kind of anchor that keeps your country from swinging back and forth,” says sociologist Teresa Sullivan, provost and executive vice president for academic affairs at the University of Michigan and co-author of *The Fragile Middle Class: Americans in Debt*. What’s more, she says, “there are typical values that middle-class families acquire and pass on to their children,” and those values “tend to be very good for democracy.”

Right now, though, the middle class is under threat.

In a study of middle-class households, Demos, a liberal think tank in New York, estimated that 4 million families lost their financial security between 2000 and 2006, raising the total to 23 million. Driving the increase, Demos said, were declines in financial assets, then-rising housing costs and a growing lack of health insurance.<sup>6</sup>

“In America the middle class has been a lifestyle, a certain way of life,” says Jennifer Wheary, a co-author of the study. “It’s been about being able to have a very moderate existence where you could do things like save for your retirement, put your kids through school, get sick and not worry about getting basic care. And those kinds of things are really imperiled right now.”

In another study, the Pew Research Center found this year that “fewer Americans now than at any time in the past half-century believe they’re moving forward in life.”<sup>7</sup>

Among the findings:

- Nearly two-thirds of Americans said their standard of living was higher than that of their parents at the same age, but more than half said they’d either made no progress in life over the past five years or had fallen backward.
- Median household income rose 41 percent since 1970, but upper-income households outperformed those in the middle tier in both income gains and wealth

accumulation. The median net worth of upper-income families rose 123 percent from 1983 to 2004, compared with 29 percent for middle-income families.

- Almost eight in 10 respondents said it was more difficult now for those in the middle class to maintain their standard of living compared with five years ago. In 1986, 65 percent felt that way.

Lane Kenworthy, a sociology and political science professor at the University of Arizona who studies income inequality and poverty, says “the key thing that’s happened” to the middle class over the past three decades “is slow income growth compared to general economic growth.” Moreover, Kenworthy says a bigger and bigger portion of economic growth has accrued to the wealthiest 1 percent, whether the measure is basic wages or total compensation, which includes the value of employee-sponsored and government benefits.

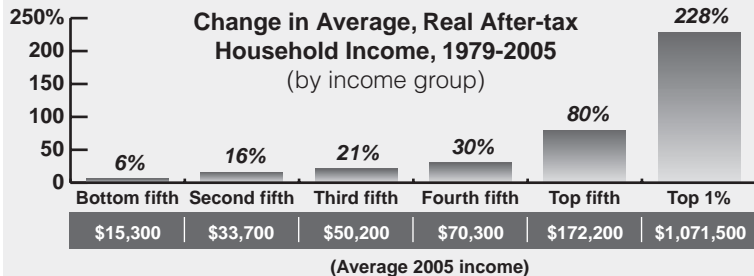
Even the economic boom leading up to today’s recession has proved illusory, new Federal Reserve data show. While median household net worth — assets minus debt — rose nearly 18 percent in the three years ending in late 2007, the increase vanished amid last year’s drastic declines in home and stock prices, according to the Fed’s triennial “Survey of Consumer Finances.” “Adjusting for those declines, Fed officials estimated that the median family was 3.2 percent poorer as of October 2008 than it was at the end of 2004,” *The New York Times* noted.<sup>8</sup>

A hallmark of middle-class insecurity reflects what Hacker calls “the great risk shift” — the notion that government and business have transferred the burden of providing affordable health care, income security and retirement saving onto the shoulders of working Americans, leaving them financially stretched and vulnerable to economic catastrophe.

“Over the last generation, we have witnessed a massive transfer of economic risk from broad structures of

## Income Gap Getting Wider

The gap between the wealthiest Americans and everybody else grew to its widest point since at least 1979.\* The top 1 percent of households received 70 times as much in average after-tax income as the bottom one-fifth and 21 times as much as the middle one-fifth — in both cases the widest gaps on record. From 1979-2005, the top 1 percent saw its income rise 228 percent compared to a rise of only 21 percent for the middle one-fifth of Americans.



\* Data go back only to 1979.

Source: Arloc Sherman, “Income Inequality Hits Record Levels, New CBO Data Show,” Center on Budget and Policy Priorities, December 2007

insurance, including those sponsored by the corporate sector as well as by government, onto the fragile balance sheets of American families,” Hacker wrote. “This transformation . . . is the defining feature of the contemporary American economy — as important as the shift from agriculture to industry a century ago.”<sup>9</sup>

The challenge of solving the problems facing the American middle class will confront policy makers for years to come. Some experts say the key is growth in good jobs — those with good pay, good benefits and good, secure futures. Others argue that solving the nation’s health-care crisis is the paramount issue.

One thing is certain, experts say: Leaving the fate of the American middle class to chance is not an option.

“We’re believers in hard work, and we’re increasingly in a situation where the difference between whether or not a middle-class family prospers comes down to luck, says Amelia Warren Tyagi, co-author of *The Two-Income Trap: Why Middle-Class Mothers and Fathers Are Going Broke*. “And that’s an idea that makes us really uncomfortable.”

Here are some of the questions that policy makers and average Americans are asking about the middle class:

### Is a stable middle class a thing of the past?

First lady Michelle Obama remembers what some call the good old days of middle-class security.

"I am always amazed," she told a gathering, "at how different things are now for working women and families than when I was growing up. . . . When I was growing up, my father — as you know, a blue-collar worker — was able to go to work and earn enough money to support a family of four, while my mom stayed home with me and my brother. But today, living with one income, like we did, just doesn't cut it. People can't do it — particularly if it's a shift-worker's salary like my father's."<sup>10</sup>

Brookings Institution researchers noted in 2007 that two-thirds of American adults had higher family incomes than their parents did in the late 1960s and early '70s, but a third were worse off. Moreover, they pointed out, the intergenerational gains largely stemmed from dual paychecks in families.<sup>11</sup>

"Men's earnings have grown little, if at all," while those of women "have risen along with their greater involvement in the work world," they said. "So, yes, today's families are better off than their own parents were. . . . But they are also working more and struggling

with the greater time pressures of juggling work and family responsibilities."<sup>12</sup>

At the same time, many economists say the earnings of middle-class working families have not kept pace with gains by the wealthy. They point to Congressional Budget Office data showing that from 1979 through 2005, the average after-tax income of the top 1 percent rose 228 percent, compared with 21 percent for the middle fifth of the population. For the poorest fifth, the increase during the 25-year period was just 6 percent.<sup>13</sup>

Emmanuel Saez, an economist at the University of California, Berkeley, concluded last year that those in the top 1 percent of income distribution captured roughly half of the overall economic growth from 1993 to 2006, and almost three-fourths of income growth in the 2002-2006 period.<sup>14</sup>

"It's the very top of the economic ladder that's pulled away from the rest," Berkeley political scientist Hacker says. "Depending on which source you look at, it's the top 1 percent, or the top one-half of 1 percent, or the top one-tenth of 1 percent that's really received the lion's share of the gain in our economy overall. . . . It would be one thing if we saw middle-class Americans hold onto or even expand their wealth and economic security. But they're more in debt and less secure than they were 20 years ago."

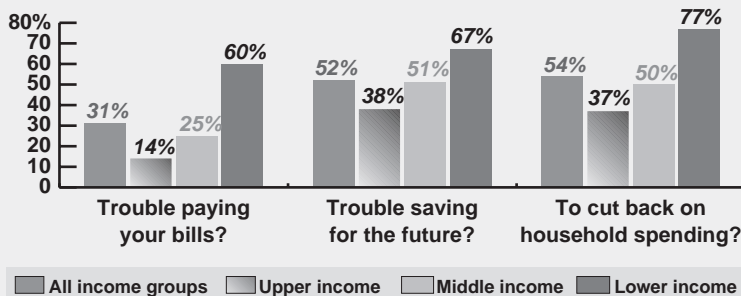
The reasons the middle class is running in place or falling behind can be elusive, though. Kenworthy of the University of Arizona cites a litany of factors — technological changes in the workplace, globalization of trade and the outsourcing of jobs overseas, declining influence of labor unions, slow growth in the proportion of workers with at least a high-school diploma and a stagnant minimum wage — that have helped dampen the economic progress of the middle class. But, he says, social scientists and economists don't have a "good handle on which matter most."<sup>15</sup>

John Schmitt, senior economist at the Center for Economic and Policy Research, a liberal think tank, disputes the notion that technology and globalization are immutable forces

### Belt-Tightening Is in Middle Class' Future

A quarter of middle-class Americans expect to have trouble paying their bills this year, and half expect to reduce household spending and have trouble saving for the future.

*In the following year, will you have . . .*



Source: "Inside the Middle Class: Bad Times Hit the Good Life," Pew Research Center, April 2008

that have, in themselves, hurt the middle class. “We’ve had technological growth at a rapid pace in the United States from the early 1800s,” he says, and after World War II the country saw “massive technological innovation,” including the introduction of computers.

Those “were huge, potentially disruptive innovations, but we had a social structure that had a lot of protections and guarantees for workers,” including “a decent minimum wage, significant union representation” and a strong regulatory framework.

“The real story is that we’ve made a lot of decisions about economic policy that have had the effect of shifting the playing field toward employers and away from workers at a whole lot of levels,” Schmitt says.

As that shift occurred, job security has suffered, many economists say.

In a recent study, Schmitt found that the share of “good jobs” — those paying at least \$17 per hour and offering health insurance and a pension — declined 2.3 percentage points in the 2000-2006 business cycle, far more than in comparable periods in the 1980s and ’90s. A “sharp deterioration” in employer-provided health plans was a “driving force” in the decline of good jobs, which was most pronounced among male workers, he found.<sup>16</sup>

Meanwhile, career employment — employment with a single employer from middle age to retirement — is no longer the norm, according to researchers at Boston College. Only half of full-time workers ages 58 to 62 are still with the same employer for whom they worked at age 50, they found.<sup>17</sup>

And manufacturing — long a bedrock of middle-class lifestyles — has shrunk from about a third of non-farm employment to only 10 percent since 1950.<sup>18</sup>

Still, interpretations of income and other economic data can vary widely among economists, depending on their political viewpoint. While not diminishing the severe pressures many in the middle class are feeling right now, some conservative economists have a more optimistic view of the jobs issue and long-term middle-class gains in general.

In a study last year, James Sherk, Bradley Fellow in Labor Policy at the Heritage Foundation, challenged the notions “that the era of good jobs is slipping away” and that workers’ benefits are disappearing.<sup>19</sup>

“Throughout the economy, jobs paying high wages in fields requiring more education are more available today

than they were a generation ago, while low-wage, low-skill jobs are decreasing,” he wrote. And, he added, “employer-provided health insurance and pensions are as available now as they were in the mid-1990s. Worker pension plans have improved significantly, with most employers shifting to defined-contribution pensions that provide workers with more money for retirement and do not penalize them for switching jobs.”

In an interview, Sherk said that while many middle-class families are struggling today, over the long term they have not, on average, fallen behind overall growth in the economy. Average earnings have risen in step with productivity, he said.

But others are not sanguine about the status of the middle class, long-term or otherwise.

“For quite some time, we’ve had a sizable minority of the middle class under enormous strain and on the verge of crisis, and since the recent meltdown the proportion of middle-class families in crisis increased exponentially,” says Tyagi, who co-authored *The Two-Income Trap* with her mother, Harvard law Professor Elizabeth Warren, chair of a congressional panel overseeing last fall’s \$700 billion financial bailout. “Many families teetering on the uncomfortable edge have been pushed over.”

### **Is overconsumption at the root of the middle class’ problems?**

In a recent article about the collapse of the Florida real estate market, *New Yorker* writer George Packer quotes a woman in Cape Coral who, with her husband, had built a home on modest incomes, borrowed against its value, spent some of the money on vacations and cruises, and then faced foreclosure after her husband was laid off.

“I’m not saying what we did was perfect,” the woman said. “We spent our money and didn’t save it. But we had it, and we didn’t see that this was going to happen.”<sup>20</sup>

Such vignettes are commonplace these days as the economy plummets and home foreclosures soar. So, too, is the view that many middle-class consumers brought trouble to their own doorsteps by overconsuming and failing to save.

Thomas H. Naylor, a professor emeritus of economics at Duke University and co-author of *Affluenza: The All-Consuming Epidemic*, says the vulnerability of the



### Being Middle Class Takes More Income

The minimum income needed for a three-person household to be considered in the middle class was about 40 percent higher in 2006 than in 1969.

#### Economic Definition of Middle-class Household of Three (in constant January 2008 dollars)

Year	Income
1969	\$31,755 to \$63,509
1979	\$37,356 to \$74,712
1989	\$41,386 to \$82,771
1999	\$45,920 to \$91,841
2006	\$44,620 to \$89,241

Source: "Inside the Middle Class: Bad Times Hit the Good Life," Pew Research Center, April 2008

middle class has been "enhanced by [its] behavior." He blames both consumer excess and the influence of advertising and media.

"On the one hand, consumers have done it to themselves. They've made choices to spend the money," Naylor says. "On the other hand, they've had lots of encouragement and stimulation from corporate America. The big guns are aimed at them, and it's very difficult to resist the temptation."

Pointing to the Federal Reserve's recent "Survey of Consumer Finances," Nobel laureate and *New York Times* economic columnist Paul Krugman wrote that the fact that "the net worth of the average American household, adjusted for inflation, is lower now than it was in 2001" should, at one level, "come as no surprise."

"For most of the last decade America was a nation of borrowers and spenders, not savers. The personal savings rate dropped from 9 percent in the 1980s to 5 percent in the 1990s, to just 0.6 percent from 2005 to 2007, and

household debt grew much faster than personal income. Why should we have expected net worth to go up?"

But, Krugman went on to say, until recently Americans thought they were getting wealthier, basing their belief on statements saying their homes and stock portfolios were appreciating faster than the growth of their debts.<sup>21</sup>

In fact, many economists say the picture of consumer behavior and household savings is far more complex than simple theories of overconsumption suggest.

President Obama weighed in at a press conference in early February, saying, "I don't think it's accurate to say that consumer spending got us into this mess." But he added that "our savings rate has declined, and this economy has been driven by consumer spending for a very long time. And that's not going to be sustainable."

Schmitt, of the Center for Economic and Policy Research, contends that what has hurt the middle class the most are steep cost increases of necessities, not spending on luxuries. "There's a lot of argument about overconsumption, but my argument is that consumption of basic necessities is not subject to big price savings," he says. "Housing, education, health care — those are much more expensive than they used to be. That's where people are feeling the pinch."

Housing prices doubled between the mid-1990s and 2007.<sup>22</sup> Average tuition, fees and room-and-board charges at private four-year institutions have more than doubled since 1978-79, to \$34,132.<sup>23</sup> And growth in national health expenditures has outpaced gross national product (GNP) growth every year at least since the late 1990s.<sup>24</sup>

One study found that among adults earning \$40,000 to \$60,000, the proportion of adults spending 10 percent or more of their income on health care doubled between 2001 and 2007, from 18 percent to 36 percent.<sup>25</sup>

"Health care is the epicenter of economic security in the United States today," says Hacker, the University of California political scientist. "It's not the only thing impinging on families finances, but it's one of the areas where the need is greatest."

Economist Robert H. Frank, author of *Falling Behind: How Rising Inequality Harms the Middle Class*, argues that as the wealthiest Americans have acquired bigger and more expensive houses and luxury possessions, their

behavior has raised the bar for middle-class consumers, leading them to spend more and more of their incomes on bigger houses and upscale goods.

While some of the spending may be frivolous, he says, many consumers have felt compelled to keep up with rising economic and cultural standards — and often for practical reasons: Bigger, more expensive homes typically are in neighborhoods with the best schools, and upscale clothing has become the norm for those who want to dress for success.

“There are people you could say have brought this on themselves,” Frank says of the troubles middle-class families are now facing. “If you’ve charged a bunch of credit cards to the max [for things] that aren’t really essential, is that your fault? You bet. But most of it I don’t think is. You need a decent suit to go for a job interview. You can buy the cheap suit, but you won’t get the call-back. You can break the rules at any turn, but there’s a price for that.”

In their book on two-income middle-class families, Tyagi and Warren attacked the “rock-solid” myth that “middle-class families are rushing headlong into financial ruin because they are squandering too much money on Red Lobster, Gucci and trips to the Bahamas.”<sup>26</sup>

In fact, they wrote, after studying consumer bankruptcy data and other sources, “Today, after an average two-income family makes its house payments, car payments, insurance payments and child-care payments, they have less money left over, even though they have a second, full-time earner in the workplace,” than an average single-earner family did in the early 1970s.<sup>27</sup>

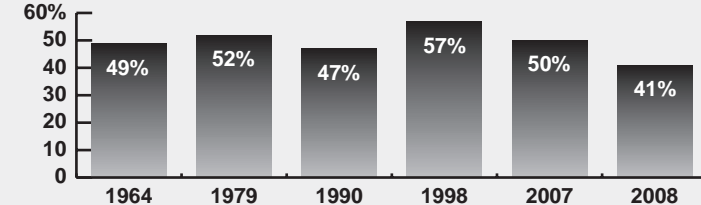
One-paycheck households headed by women are among the most vulnerable. In an analysis of 2004 Federal Reserve Board data, the Consumer Federation of America found that the 31 million women who head households had median household income of \$22,592, compared with \$43,130 for all households. And women on their own had a median net worth of less than \$33,000 compared with about \$93,000 for all households.<sup>28</sup>

## Fewer Americans Say They Are Better Off

The percentage of Americans who said they were better off in 2008 than they were five years earlier dropped to 41 percent in 2008, the lowest confidence level since 1964.

*Are you better off now than you were five years ago?*

(percentage saying yes)



Source: “Inside the Middle Class: Bad Times Hit the Good Life,” Pew Research Center, April 2008

## Are aggressive new government programs needed to bolster the middle class?

Last year, former Republican Rep. Ernest Istook of Oklahoma criticized then-presidential candidates Hillary Clinton and Obama for arguing that “America is a place where the middle class is repressed” by rising income inequality, stagnating wages, soaring medical and college costs and other woes.

“For both candidates,” wrote Istook, a Heritage Foundation fellow, “the answer to all these problems is a rush of new government programs.” He pointed to Heritage Foundation studies arguing that wage-growth data have been understated and that the poor are doing better than they were 14 years earlier.

“Convincing Americans that they need government to do all these things,” he wrote, “hinges on convincing them that they are victims in need of rescue. . . . It’s not enough for America’s left to show sympathy for victims of real tragedies like 9/11 or Katrina. Now they must elevate every challenge into a crisis, provoking a sense of desperation that more and bigger government is the answer.”<sup>29</sup>

Yet that is not how many policy advocates view the question of government help for the middle class. The pressures weighing on working families — heightened by the current economic crisis — are so great, they argue, that bold government action is needed to keep working Americans from further economic harm.

“We talk about the big financial institutions as too big to fail,” says University of California political scientist Hacker. “But most Americans have until recently been apparently viewed as too small to save.”

Without policy changes, including ones that make education and health care more affordable and help people build assets, “instability is going to stay,” argues Wheary of Demos.

Yet, while the needs of the middle class are a favorite rhetorical device for politicians, they often disagree about the best way to advance those interests. This year’s \$787 billion stimulus package, which emerged from a cauldron of partisan bickering, is a case in point.

President Obama, speaking to employees of Caterpillar Inc. in February, said the stimulus plan is “about giving people a way to make a living, support their families and live out their dreams. Americans aren’t looking for a handout. They just want to work.”<sup>30</sup> But Rep. John A. Boehner of Ohio, a key Republican opponent of the president’s recovery plan, said it “will do little to create jobs, and will do more harm than good to middle-class families and our economy.”<sup>31</sup>

An overhaul of health-care policy is a key priority for many policy experts. Families USA, an advocacy group supporting affordable health care, pointed to research showing that nearly half of home foreclosures in 2006 were caused, at least partly, by financial issues growing out of a medical problem.<sup>32</sup>

Also key, many liberal policy analysts say, is solving what they see as a growing pension crisis, made more perilous for middle-class workers by the Wall Street crash. (See *sidebar, p. 14*.) Rep. George Miller, D-Calif., chairman of the House Education and Labor Committee, says private retirement-savings vehicles like 401(k) plans “have become little more than a high-stakes crap shoot. If you didn’t take your retirement savings out of the market before the crash, you are likely to take years to recoup your losses, if at all.”<sup>33</sup>

And crucial to the future of the middle class, many experts say, are sound policies for job creation and retention.

“The major policy change we need is to decide that good steady jobs with good wages are a family value,” says Leicht of the University of Iowa. “It’s good jobs at good wages that last — that’s the Rosetta Stone.”

Leicht says “our entire system of consumption is built around the idea that you accumulate a lot of debts when you’re young, then you get a steady job and your income steadily rises and you gradually pay off your debt as you age.” But nowadays, he says, the average job lasts only four to five years. “If you’re constantly starting over, you never get out of the hole.”

Leicht wants to see a 25 percent break on corporate taxes for businesses that create “high-quality jobs” — ones lasting at least five years and paying at least 30 percent above the median income of a family of four, which in 2007 was \$75,675, according to the U.S. Census Bureau.

Kenworthy, the University of Arizona sociologist, advocates temporary “wage insurance” that would “prop up your earnings for a little while if you lost your job and took a new one that paid considerably less.”

Not counting the current economic crisis, Kenworthy says, “there really isn’t a problem in the United States with long-term unemployment. Most people are able to get a job within six months.” Even so, he adds, such jobs often come “at a lower salary.”

## BACKGROUND

### Evolving Concept

During the 2008 presidential campaign, the Rev. Rick Warren, pastor of giant Saddleback Church in Lake Forest, Calif., asked Democrat Obama and Republican John McCain to define “rich.”

Obama said that “if you are making \$150,000 a year or less as a family, then you’re middle class, or you may be poor. But \$150 [thousand] down you’re basically middle class.” He added, though, that “obviously, it depends on [the] region and where you’re living.” McCain answered the question another way, saying — perhaps with tongue in cheek — that as a definition of rich, “if you’re just talking about income, how about \$5 million?”<sup>34</sup>

Besides helping to open a window on the candidates’ views and personalities, the exchange underscored how highly subjective social and economic class can be.

That’s nothing new. For centuries, the concept of a “middle class” has been evolving.



“The middle class first came into existence in early modern Europe as a new social class for which the economic basis was financial rather than feudal — the system in which the nobility owned land and others (serfs, peons) worked it,” according to Andrew Hoberek, an associate professor of English at the University of Missouri, Columbia, and author of *The Twilight of the Middle Class: Post World War II American Fiction and White-Collar Work*.<sup>35</sup>

In the United States, the term “middle class” didn’t start showing up until the 1830s or 1840s, says Jennifer L. Goloboy, an independent scholar.<sup>36</sup> But years earlier, she says, a segment of the population began to embrace values that would come to define the American middle class, including diligence, frugality, self-restraint and optimism.

“The early republic was such an aspirational time, and it was disproportionately young,” Goloboy says. “These young people came to the cities hoping for the best, and they clung to ideas of how they would make it. That’s sort of the root of middle-class values. They believed that if they held to these values they were middle class, even if they were not necessarily successful yet.”

As the American economy matured in the 20th century, industrialization both nurtured and threatened the nation’s budding middle class. Pioneering automaker Henry Ford helped nurture it by paying high wages and encouraging mass consumption of his cars. But the gap between rich and poor remained wide, and industrialization made life precarious for the working class when jobs disappeared.

“The paramount evil in the workingman’s life is irregularity of employment,” Supreme Court Justice Louis D. Brandeis wrote in 1911.<sup>37</sup> Historian David Kennedy noted that Brandeis’ view “was echoed in Robert and Helen Merrell Lynd’s classic study *Middletown* a decade later, when they cited ‘irregularity of employment’ as the major factor that defined the difference between the life trajectories of the working class and the middle class.”<sup>38</sup>

During the Great Depression of the 1930s, unemployment soared to 25 percent, and many Americans fell from middle-class stability into destitution. But from the ashes of the Depression came President Franklin D. Roosevelt’s New Deal program, which *New York Times* columnist Krugman says created the modern middle class.<sup>39</sup>

“Income inequality declined drastically from the late 1930s to the mid-1940s, with the rich losing ground while working Americans saw unprecedented gains,” he wrote.<sup>40</sup>



Getty Images/Spencer Platt



Getty Images/Justin Sullivan

### Consumerism at Its Finest

Some economists say the higher cost of necessities like health care, rather than spending on luxury items like big-screen TVs or new cars, has hit consumers hardest. Moreover, Americans’ personal savings rate from 2005 to 2007 was just 0.6 percent — down from 9 percent in the 1980s — with household debt growing faster than personal income.

The New Deal “made America a middle-class society,” Krugman wrote this year in *Rolling Stone* magazine. “Under FDR, America went through what labor historians call the Great Compression, a dramatic rise in wages for ordinary workers that greatly reduced income inequality. Before the Great Compression, America was a society of

rich and poor; afterward it was a society in which most people, rightly, considered themselves middle class.”<sup>41</sup>

After World War II, the U.S. economy blossomed, aided by the GI Bill, which helped millions of former service members buy homes and get college educations. In 1946, construction began on Levittown, one of a series of massive housing developments that became national models of middle-class suburbia.

The postwar boom helped spawn the contemporary notion of the American Dream — a home, a car or two (or three), a good job, paid vacation and a comfortable suburban lifestyle. By 1960, median family income was 30 percent higher in purchasing power than a decade earlier, and more than 60 percent of homes were owner-occupied, compared with 44 percent just before World War II.<sup>42</sup>

### Downward Slide

But many economists say the good times began to wane in the 1970s, and for a variety of reasons that can be difficult to untangle. The shift away from manufacturing toward a service economy helped erode middle-class security, as did the increasingly competitive nature of globalization, many economists say. Some also cite the declining power of unions. In 1979, 27 percent of employed wage-and-salary workers in the United States were covered by a collective bargaining agreement, but that figure has steadily declined over the years. It stood at less than 14 percent in 2008.<sup>43</sup>

In remarks tied to formation of his middle-class task force, Obama said, “I do not view the labor movement as part of the problem; to me it’s part of the solution. We need to level the playing field for workers and the unions that represent their interest, because we know that you cannot have a strong middle class without a strong labor movement.”<sup>44</sup>

Hacker, the University of California political scientist, says that “employers at one time were encouraged by unions, the federal tax code and their own competitive instincts to provide very strong guaranteed benefits to many of their workers in the form of defined-benefit pension plans [and] good health insurance coverage.”

But, he says, “over the last generation the work force has changed, and the competitive environment in which employers have operated changed in ways that have made it much less attractive for many employers to provide such

benefits. There used to be a kind of implicit long-term contract in many workplaces, enforced in part by unions, that is no longer there. So it’s much more of a free-agent economic culture, which means that it’s good for some workers but imposes a lot more risk on all of them.”

Many conservatives disagree, though, on the role of unions in helping the middle class. “Numerous studies have shown that unions are not the answer to increasing prosperity for American workers or the economy,” the U.S. Chamber of Commerce stated in a paper on the issue. It added: “Organized labor’s claims that unionization is a ticket to the middle class cannot be squared with data showing that increased unionization decreases competitiveness and leads to slower job growth.”<sup>45</sup>

Besides the issue of union influence, critics often cite Reagan-era economic policies, which included cuts in tax rates for those in upper-income brackets, as contributing to inequality and hurting the middle class.

The criticism is not universal. George Viksnins, a professor emeritus of economics at Georgetown University, argues that so-called Reaganomics was a plus for the middle class. “Perhaps the most significant positive aspect of the Reaganomics program of lower taxes and regulatory reforms is the tremendous increase in employment,” he wrote.<sup>46</sup> In an interview, he said that “lowering marginal tax rates held out a lot of hope for young members of the middle class that they might get to keep some of the income” they earned “and didn’t need to work quite as hard in sheltering it.”

But others see the Reagan years differently. “Yes, there was a boom in the mid-1980s, as the economy recovered from a severe recession,” Krugman, the Nobel economist and *Times* columnist, wrote. “But while the rich got much richer, there was little sustained economic improvement for most Americans. By the late 1980s, middle-class incomes were barely higher than they had been a decade before — and the poverty rate had actually risen.”<sup>47</sup>

The University of Iowa’s Leicht is highly critical of another legacy of the 1980s: deregulation of the banking industry, which he says set the stage for a massive increase in easy credit. The explosion in consumer lending that began in the 1980s helped millions of working Americans buy homes and cars, Leicht acknowledges, but he says the credit binge has come back to haunt the middle class now as home-foreclosure rates and personal bankruptcies soar.

## C H R O N O L O G Y

**1800-1929** *Industrial age shifts employment from farm to factory, setting stage for rise of middle class.*

**October 1929** Stock market crash marks end of a speculative bubble on Wall Street.

**1930-1970** *Great Depression sends unemployment soaring, President Roosevelt crafts New Deal social and economic legislation and postwar boom spurs growth of middle class.*

**1933** Unemployment rate reaches 25 percent; Congress passes flood of New Deal legislation.

**1935** President Franklin D. Roosevelt signs Social Security Act into law.

**1939** Food Stamp program starts.

**1944** Roosevelt signs Servicemen's Readjustment Act, or GI Bill, into law; by 1952, the law backed nearly 2.4 million home loans for World War II veterans, and by 1956 nearly 8 million vets had participated in education or training programs.

**1946** Construction starts on New York's Levittown, one of three low-cost post-World War II residential communities that would come to define middle-class suburbia.

**1960** Median family income is 30 percent higher in purchasing power than a decade earlier, and more than 60 percent of homes are owner-occupied, compared with 44 percent just before World War II.

**1970-1995** *Oil shocks, inflation, foreign competition, and other changes mark tougher era for middle-class Americans.*

**1979** U.S. manufacturing employment peaks at 21.4 million workers.

**1981** President Ronald Reagan fires 11,000 striking members of the Professional Air Traffic Controllers Organization, helping to weaken the power of organized labor; Reagan persuades Congress to pass largest tax cuts in U.S. history.

**1981-82** Severe recession rocks U.S. economy, sending the unemployment rate to 10.8 percent, the highest since the Great Depression.

**Oct. 19, 1987** Dow Jones Industrial Average loses 23 percent of its value.

**1996-Present** *Home ownership peaks, and consumer spending soars, but good times end as home values plummet, financial institutions collapse and nation sinks into recession.*

**1996** Congress ends 60-year welfare entitlement program, imposing work requirements and putting time limits on cash benefits.

**1997** Federal minimum wage raised to \$5.15 an hour.

**2000** Federal poverty rate falls to 11.3 percent, lowest since 1974.

**2001-2006** Housing prices in many cities double, and home-equity loans help lead to soaring consumer spending.

**2004** Home-ownership rate peaks at 69 percent.

**2008** Federal minimum wage rises to \$6.55 an hour; it is set to increase to \$7.25 effective July 24, 2009. . . . U.S. seizes Fannie Mae and Freddie Mac, Lehman Brothers files for bankruptcy and Washington Mutual collapses in biggest bank failure in history. . . . President George W. Bush signs \$700 billion financial rescue bill but recession deepens.

**2009** President Barack Obama announces budget seeking to aid middle class and forms Middle Class Task Force headed by Vice President Joseph Biden; first meeting focuses on "green jobs." . . . Federal unemployment rate rises to 7.6 percent in January (12.6 percent for African-Americans and 9.7 for Hispanics). . . . Labor Department says employers took 2,227 "mass layoff actions" in January, resulting in nearly 238,000 job cuts; from December 2007 through January 2009, mass layoff events totaled more than 25,700. . . . Claims for unemployment benefits exceed 5 million for first time in history. . . . Home foreclosures are reported on 274,399 U.S. properties in January, up 18 percent from January 2008.

# What Does 'Middle Class' Really Mean?

*Does the definition include income? Number of cars in the garage?*

At his first White House press conference, President Barack Obama promised tax relief for “working and middle-class families.” But what, exactly, does it mean to be in the “middle class”?

No official definition exists. Politicians, journalists and pundits freely use the term, often without attaching a precise meaning to it. And in opinion polls, most Americans — uncomfortable defining themselves as “rich” or “poor” — place themselves in the category of the middle class, even if their incomes reflect the outer limits of wealth or poverty.

In a report last year, the Pew Research Center noted that the term “middle class” is both “universally familiar” and “devilishly difficult to pin down.”

“It is both a social and economic construct, and because these domains don’t always align, its borders are fuzzy,” Pew said. “Is a \$30,000-a-year resident in brain surgery lower class? Is a \$100,000-a-year plumber upper middle class?”

In a national survey of more than 2,400 American adults, Pew asked people to define themselves. It found that 53 percent said they were middle class. But, Pew said, “behind the reassuring simplicity of this number lies a nest of anomalies.”

For example, it said, 41 percent of adults with annual household incomes of \$100,000 or more said they were middle class, as did 46 percent of those with household incomes below \$40,000. And of those in between, roughly a third said they were not middle class.

“If being middle income isn’t the sole determinant of being middle class, what else is?” Pew added. “Wealth? Debt? Homeownership? Consumption? Marital status? Age? Race and ethnicity? Education? Occupation? Values?”<sup>1</sup>

Christian Weller, an associate professor of public policy at the University of Massachusetts, Boston, and a fellow at the liberal Center for American Progress, says that often, people count the number of cars in a garage or the square footage of a house to judge another person’s economic standing. But, he says, “that’s not really how people perceive and define middle class. . . . One part of middle class is an aspirational definition: ‘I’ll be able to send my kids to college, I’ll be able to create a better future for my children, and do I have a secure lifestyle right now?’

“That goes beyond just simply having a good job,” he says. “That means, do you have health insurance coverage, do you have enough savings, do you own your own home, do you

have retirement savings?” And, Weller adds, “By all those measures middle-class security has been eroding substantially.”

Many economists look at the concept of a middle class through the lens of household-income data gathered by the federal government. Median household income was \$50,233 in 2007, the latest year for which data are available.<sup>2</sup> That was the midpoint in the distribution, with half of households having more income and half less.<sup>3</sup>

The government also separates household income into five “quintiles,” from lowest to highest. Some might consider “middle class” to mean only the third quintile — the one in the very middle — with incomes between \$39,101 and \$62,000. But many economists consider that view to be too cramped. Some count the third and fourth quintiles, with an upper limit of \$100,000 in household income in 2007. Among the broadest definitions of middle class is one encompassing the three income quintiles in the middle, from \$20,292 to \$100,000.

Of course, using household income to measure the middle class has its own problems. For example, a family might seem solidly middle class based on its income, but parents may be toiling at two jobs each to raise their income level into the middle tier of the distribution tables. They might make good incomes but lack health insurance, putting them and their children at risk of a catastrophic financial collapse. Or they may live in a high-cost region of the country, where a supposed middle-class income of around \$50,000 or \$60,000 a year simply can’t cover the bills.

One thing is certain, say those who have studied the American middle class: Its survival is crucial to the nation’s future.

“It is the heart of the country, it’s the heart of our democracy, it’s the heart of our economy, it’s the heart of our population,” says Amelia Warren Tyagi, co-author of *The Two-Income Trap: Why Middle-Class Mothers and Fathers Are Going Broke*. “So while it may not be easy to define with precision, it’s extremely important.”

<sup>1</sup> Paul Taylor, et al., “Inside the Middle Class: Bad Times Hit the Good Life,” Pew Research Center, April 9, 2008, p. 3, <http://pewsocialtrends.org/assets/pdf/MC-Middle-class-report.pdf>.

<sup>2</sup> U.S. Department of Commerce, Bureau of the Census, “Historical Income Tables — Households,” [www.census.gov/hhes/www/income/histinc/h05.html](http://www.census.gov/hhes/www/income/histinc/h05.html).

<sup>3</sup> In 2007, the United States had about 116,783,000 households.

"Starting in about the mid-1980s, we decided as a nation, through a number of mechanisms, that being loaned money was a perfect substitute for being paid it as long as you could buy things that represented middle-class status like houses and cars," Leicht says.

### Impact of Globalization

Like the impact of so-called supply-side Reaganomics, the effects of globalization and trade policy are often hotly debated. While some argue they have, on balance, helped the U.S. economy, others say they have undermined middle-class security. (See *"At Issue,"* p. 17.)

In his 2006 book *War on the Middle Class*, CNN anchor Lou Dobbs wrote "[i]n their free-trade fervor, Republicans and Democrats alike, most economists, certainly corporate leaders, and business columnists assure us that the loss of millions of jobs to other countries is the inevitable result of a modern global economy. The result, they promise us, will be a higher standard of living for everyone in America — and especially for the rest of the planet."

But Dobbs went on to say that millions of U.S. manufacturing jobs already had vanished and that many more jobs — including millions of white-collar service positions — were expected to do so in coming years, with the information-technology industry leading the way. "The free-trade-at-any-price enthusiasts once promised us that all those millions of people who lost their positions in manufacturing would find even better ones in the tech industry. But today no one is saying which industry will be the source of replacement for those jobs lost to outsourcing."<sup>48</sup>

C. Fred Bergsten, director of the Peterson Institute for International Economics, appearing on the PBS show "The NewsHour with Jim Lehrer," said studies by his organization have shown that the U.S. economy is \$1 trillion a year richer as a result of globalization during the past 50 years.

Nonetheless, Bergsten said "there are losers... costs... [and] downsides" to globalization and that the United States "has done a very poor job" in dealing with

### Middle Class Enjoys Some of 'Life's Goodies'

More than two-thirds of middle-class Americans enjoy at least three of "life's goodies," such as high-speed Internet and more than one vehicle, according to the Pew Research Center. But half as many middle class as wealthy Americans have vacation homes, household help and children in private school.

*Percentage of Americans who have. . .*

Item	All incomes	Upper income	Middle income	Lower income
Cable or satellite service	70%	80%	71%	62%
Two or more cars	70	83	72	57
High-speed Internet	66	80	67	50
High-definition or flat screen TV	42	59	42	28
Young child in private school	15	31	14	6
Paid household help	16	36	13	7
A vacation home	10	19	9	4

*Source:* "Inside the Middle Class: Bad Times Hit the Good Life," Pew Research Center, April 2008

those problems. "You lose your health care when you lose your job. Unemployment insurance is miserably inadequate. Trade-adjustment assistance works, but it doesn't even cover [service] workers who get outsourced, and it's inadequate."

But Thea Lee, policy director and chief international economist at the AFL-CIO, who also appeared on the PBS program, was more critical of globalization than Bergsten. "We've had the wrong kind of globalization," she said. "It's been a corporate-dominated globalization, which has not really served working people here or our trading partners very well. . . . We've seen this long-term, decades-long stagnation of wages and growth of wage inequality in the United States even as we've been in a period of tremendous economic growth, productivity growth, technological improvements and increase in globalization."<sup>49</sup>

However one may interpret the economic history of recent decades, few observers would disagree that the middle class is now caught in the greatest economic downdraft in generations.

"We've really had an erosion of economic security and economic opportunity," and it occurred "very rapidly" after 2001, says Christian Weller, an associate professor of public policy at the University of Massachusetts,



# Economic Meltdown Batters Retirement Plans

*Reform proposals call for limiting risk to workers.*

**T**he economy may look bleak for millions of middle-class Americans, but for those in or near retirement, it's downright scary.

Experts say the steep downturns in stock and real estate values, along with soaring layoffs among older workers, have left millions worrying that they won't have enough income to see them through their golden years. And the crash has underscored what critics see as the weaknesses of 401(k) accounts — tax-advantaged plans that require employees to assume the primary responsibility for building and managing their retirement nest eggs.

"The collapse of the housing bubble, coupled with the plunge in the stock market, has exposed the gross inadequacy of our system of retirement income," Dean Baker, co-director of the Center for Economic and Policy Research, a liberal think tank in Washington, told a House committee in February.<sup>1</sup>

At the same hearing, Alicia H. Munnell, director of the Center for Retirement Research at Boston College, said the center's National Retirement Risk Index, which projects the share of households that will not be able to maintain their living standard in retirement, jumped from 31 percent in 1983 to 44 percent in 2006 and rises to 61 percent when health-care expenses are factored in.

Munnell said that in the two years following the stock market's peak on Oct. 9, 2007, the market value of assets in 401(k) retirement plans and Individual Retirement Accounts fell roughly 30 percent. For people ages 55 to 64, she said, median holdings in 401(k) plans went from a modest \$60,000 or so in 2007 to \$42,000 at the end of 2008.<sup>2</sup>

Critics have long warned of serious faults in the nation's private system of retirement savings. The number of so-called defined-benefit plans, which provide for guaranteed

pensions, has been shrinking, while defined-contribution plans like 401(k)s have risen from supplemental savings vehicles in the early 1980s to what they are now: the main or sole retirement plan for most American workers covered by an employer-sponsored retirement plan.<sup>3</sup>

Jacob S. Hacker, a political scientist at the University of California in Berkeley, said the historical "three-legged stool" of retirement security — Social Security, private pensions and personal savings — is now precarious.

"The central issue for retirement security is . . . the risk," he told a congressional hearing last fall. "Retirement wealth has not only failed to rise for millions of families; it has also grown more risky, as the nation has shifted more of the responsibility for retirement planning from employers and government onto workers and their families."<sup>4</sup>

Several proposals have surfaced for revamping the retirement system, some bolder than others.

Teresa Ghilarducci, a professor at the New School for Social Research in New York, wants Congress to establish "Guaranteed Retirement Accounts," in which all workers not enrolled in an equivalent or better defined-benefit pension plan would participate. A contribution equal to 5 percent of each worker's earnings would go into an account each year, with the cost shared equally between worker and employer. A \$600 federal tax credit would offset employees' contributions.

Money in the accounts would be managed by the federal government and earn a guaranteed 3 percent rate of return, adjusted for inflation. When a worker retired, the account would convert to an annuity that provides income until death, though a small portion could be taken in a lump sum at retirement. Those who died before retirement could leave only half their accounts to heirs; those who died after retiring could leave half the final balance minus benefits received.<sup>5</sup>

Boston, and a fellow at the liberal Center for American Progress.

After a "five-year window" of employment and wage growth during the late 1990s, Weller says, pressure on the middle class began accelerating in 2001. "There are different explanations, but one is . . . that after the 2001 recession [corporate] profits recovered much faster than

in previous recessions, to much higher levels, and corporations were unchecked. They could engage in outsourcing and all these other techniques to boost their short-term profits, but obviously to the detriment of employees. I think what we ended up with was very slow employment growth, flat or declining wages and declining benefit coverage."

The plan has drawn criticism. Paul Schott Stevens, president and CEO of the Investment Company Institute, which represents the mutual-fund industry, called it “a non-starter.”<sup>6</sup> Jan Jacobson, senior counsel for retirement policy at the American Benefits Council, said, “We believe the current employer-sponsored system is a good one that should be built on.”<sup>7</sup>

But Ghilarducci told the AARP Bulletin Today that “people just want a guaranteed return for their retirement. The essential feature of my proposal is that people and employers would be relieved of being tied to the financial market.”<sup>8</sup>

Hacker advocates an approach called “universal 401(k)” plans. The plans would be available to all workers, regardless of whether their employer offered a traditional retirement plan. All benefits would remain in the same account throughout a worker’s life, and money could be withdrawn before retirement only at a steep penalty, as is the case with today’s 401(k) plans. The plans would be shielded against excessive investments in company stock, and the default investment option would be a low-cost index fund that has a mix of stocks and bonds. Over time, the mix would change automatically to limit risk as a worker aged.

At age 65, government would turn a worker’s account into a lifetime annuity that guarantees a flow of retirement income, unless the worker explicitly requested otherwise and showed he or she had enough assets to withstand market turmoil.

Employers would be encouraged to match workers’ contributions to the plans, and government could give special tax breaks to companies offering better matches for lower-paid workers.<sup>9</sup>



teresaghilarducci.org

Teresa Ghilarducci, a professor at the New School for Social Research, says Congress should establish “Guaranteed Retirement Accounts” for workers not enrolled in similar pension plans.

Says Hacker, “We have to move toward a system in which there is a second tier of pension plans that is private but which provides key protections that were once provided by defined-benefit pension plans.”

<sup>1</sup> “Strengthening Worker Retirement Security,” testimony before House Committee on Education and Labor, Feb. 24, 2009, <http://edlabor.house.gov/documents/111/pdf/testimony/20090224DeanBakertestimony.pdf>.

<sup>2</sup> “The Financial Crisis and Restoring Retirement Security,” testimony before House Committee on Education and Labor, Feb. 24, 2009, <http://edlabor.house.gov/documents/111/pdf/testimony/20090224AliciaMunnellTestimony.pdf>.

<sup>3</sup> Ibid. For background, see Alan Greenblatt, “Pension Crisis,” *CQ Researcher*, Feb. 17, 2006, pp. 145-168, and Alan Greenblatt, “Aging Baby Boomers,” *CQ Researcher*, Oct. 19, 2007, pp. 865-888.

<sup>4</sup> “The Impact of the Financial Crisis on Workers’ Retirement Security,” testimony before House Committee on Education and Labor field hearing, San Francisco, Oct. 22, 2008.

<sup>5</sup> For a detailed explanation, see, Teresa Ghilarducci, “Guaranteed Retirement Accounts: Toward retirement income security,” Economic Policy Institute, Briefing Paper No. 204, Nov. 20, 2007, [www.sharedprosperity.org/bp204/bp204.pdf](http://www.sharedprosperity.org/bp204/bp204.pdf).

<sup>6</sup> Stevens and Jacobson are quoted in Doug Halonen, “401(k) plans could be facing total revamp,” *Financial Week*, Oct. 29, 2008.

<sup>7</sup> Ibid.

<sup>8</sup> Quoted in Carole Fleck, “401(k) Plans: Too Risky for Retirement Security?” *AARP Bulletin Today*, Dec. 17, 2008, [http://bulletin.aarp.org/yourmoney/retirement/articles/401\\_k\\_plans\\_too\\_risky\\_for\\_retirement\\_security\\_.html](http://bulletin.aarp.org/yourmoney/retirement/articles/401_k_plans_too_risky_for_retirement_security_.html).

<sup>9</sup> See Jacob S. Hacker, *The Great Risk Shift* (2006), pp. 185-187. See also Testimony before House Committee on Education and Labor, Oct. 22, 2008, op. cit.

And overlaid on all of that, Weller says, was the unprecedented boom in housing.

Even before the housing bubble burst, though, the middle class was on shaky ground, as Weller noted in an article early last year. In 2004, fewer than a third of families had accumulated enough wealth to equal three months of income, he found. And that was counting all

financial assets, including retirement savings, minus debt.<sup>50</sup>

“For quite some time,” says *Two-Income Trap* co-author Tyagi, “we’ve had a sizable minority of the middle class under enormous strain and on the verge of crisis, and since the recent meltdown the proportion of middle-class families in crisis increased exponentially.”

“Many families teetering on the uncomfortable edge have been pushed over. I really see the [home] foreclosure crisis as front and center in this. We can’t overestimate how important home ownership is to the middle class is, and what a crisis losing a home is.”

## CURRENT SITUATION

### Narrowing the Gap

Joel Kotkin, a presidential fellow at Chapman University in Orange, Calif., and author of *The City: A Global History*, wrote recently that “over the coming decades, class will likely constitute the major dividing line in our society — and the greatest threat to America’s historic aspirations.”<sup>51</sup>

With the gap between rich and poor growing and even a college degree no assurance of upward mobility, Kotkin wrote, President Obama’s “greatest challenge . . . will be to change this trajectory for Americans under 30, who supported him by two to one. The promise that ‘anyone’ can reach the highest levels of society is the basis of both our historic optimism and the stability of our political system. Yet even before the recession, growing income inequality was undermining Americans’ optimism about the future.”

Obama’s legislative agenda, along with his middle-class task force, aims to narrow the class gap. But the deep recession, along with a partisan divide on Capitol Hill, could make some of his key goals difficult and costly to reach.

In announcing his budget, Obama did not hesitate to draw class distinctions between “the wealthiest few” and the “middle class” made up of “responsible men and women who are working harder than ever, worrying about their jobs and struggling to raise their families.” He acknowledged that his political opponents are “gearing up for a fight” against his budget plan, which includes tax cuts for all but the richest Americans, universally available health-care coverage and other policies aimed squarely at the middle class. Yet, he said, “The system we have now might work for the powerful and well-connected interests that have run Washington for far too long, but I don’t. I work for the American people.”<sup>52</sup>

Republicans also are invoking middle-class concerns in expressing their opposition to Obama’s budget. Delivering the GOP response to Obama’s weekly address, Sen. Richard Burr, R-N.C., said the budget would require

the typical American family to pay \$52,000 in interest alone over the next decade.<sup>53</sup>

“Like a family that finds itself choking under the weight of credit-card balances and finance charges,” said Burr, “the federal government is quickly obligating the American people to a similar fate.

The stimulus package signed by the president in February includes payroll-tax breaks for low- and moderate-income households and an expanded tax credit for higher-education expenses. But costly overhauls of health and retirement policies remain on the table.

Douglas W. Elmendorf, director of the Congressional Budget Office, told a Senate budget panel in February that without changes in health-insurance policy, an estimated 54 million people under age 65 will lack medical insurance by 2019, compared with 45 million this year. The projection “largely reflects the expectation that health-care costs and health-insurance premiums will continue to rise faster than people’s income.”<sup>54</sup>

Meanwhile, the abrupt collapse of the global financial markets has decimated middle-class retirement accounts. Between June 30 and September 30 of 2008, retirement assets fell 5.9 percent, from \$16.9 trillion to \$15.9 trillion, according to the latest tally by the Investment Company Institute, which represents the mutual-fund industry.<sup>55</sup>

In announcing his middle-class task force, Obama said his administration would be “absolutely committed to the future of America’s middle class and working families. They will be front and center every day in our work in the White House.”<sup>56</sup>

The group includes the secretaries of Labor, Health and Human Services, Education and Commerce, plus the heads of the National Economic Council, Office of Management and Budget, Domestic Policy Council and Council of Economic Advisors.<sup>57</sup>

According to the White House, the task force will aim to:

- Expand opportunities for education and lifelong training;
- Improve work and family balance;
- Restore labor standards, including workplace safety;
- Help to protect middle-class and working-family incomes; and
- Protect retirement security.

## A T I S S U E

## Has U.S. trade and globalization policy hurt the middle class?

**YES****Thea Lee**  
*Policy Director, AFL-CIO*Written for *CQ Researcher*, March 2, 2009

The middle class is not a single entity — nor is trade and globalization policy. The clothes we wear, the food we eat, the air we breathe, the jobs we have, the places we choose to live — all are affected by trade and globalization policy, but in many different ways.

I would argue, nonetheless, that U.S. trade and globalization policy has failed the middle class in numerous ways. It has eroded living standards for a large majority of American workers, undermined our social, environmental, consumer safety and public health protections, exacerbated our unsustainable international indebtedness, weakened our national security and compromised our ability to innovate and prosper in the future.

Most significant, especially during this global downturn, the negative impact of globalization on American wages should be a top concern — both for policy makers and for business. Economists may disagree about the magnitude of the effect, but few would dispute that globalization has contributed to the decades-long stagnation of real wages for American workers.

The Economic Policy Institute's L. Josh Bivens finds that the costs of globalization to a full-time median-wage earner in 2006 totaled approximately \$1,400, and about \$2,500 for a two-earner household. It only makes intuitive sense that if the point of globalization is to increase U.S. access to vast pools of less-skilled, less-protected labor, wages at home will be reduced — particularly for those workers without a college degree. And this impact will only grow in future years, as trade in services expands. We won't be able to rebuild our real economy and the middle class if we can't figure out how to use trade, tax, currency and national investment policies to reward efficient production at home — not send it offshore.

That is not to say, however, that trade and globalization in themselves are inherently pernicious. U.S. globalization policies in recent decades prioritized the interests of mobile, multinational corporations over domestic manufacturers, workers, farmers and communities. At the same time, they undermined prospects for equitable, sustainable and democratic development in our trading partners.

If we are going to move forward together in the future, we need to acknowledge that our current policies have not always delivered on their potential or their promise — particularly for middle-class workers. If new trade and globalization initiatives are to gain any political momentum, we will need deep reform in current policies.

**NO****C. Fred Bergsten**  
*Director, Peterson Institute for International Economics*Written for *CQ Researcher*, March 2, 2009

The backlash in the United States against globalization is understandable but misplaced. Despite widespread and legitimate concerns about worsening income distribution, wage stagnation and job insecurity, all serious economics studies show that globalization is only a modest cause of these problems. In the aggregate, globalization is a major plus for the U.S. economy and especially for the middle class.

An in-depth study by our nonpartisan institute demonstrates that the U.S. economy is \$1 trillion per year richer as a result of global trade integration over the last half-century, or almost \$10,000 per household. These gains accrue from cheaper imports, more high-paying export jobs and faster productivity growth. The American economy could gain another \$500 billion annually if we could lift the remaining barriers to the international flow of goods and services.

Of course, any dynamic economic change, like technology advances and better corporate management, affects some people adversely. The negative impact of globalization totals about \$50 billion a year due to job displacement and long-term income reductions. This is not an insignificant number, but the benefit-to-cost ratio from globalization is still a healthy 20-to-1.

The United States could not stop globalization even if it wanted to. But it must expand the social safety net for those displaced while making sure that our workers and firms can compete in a globalized world.

The Obama administration and the new Congress have already begun to shore up these safety nets through the fiscal stimulus package. Unemployment insurance has been substantially liberalized. Sweeping reform of the health care system has begun. Most important, Trade Adjustment Assistance has been dramatically expanded to cover all trade-impacted workers and communities.

We must also remember that globalization has lifted billions of the poorest citizens out of poverty. No country has ever achieved sustained modernization without integrating into the world economy, with China and India only the latest examples. The flip side is that products and services from these countries greatly improve the purchasing power and an array of consumer choices for the American middle class.

Fears of globalization have expanded during the current worldwide downturn. But strong export performance kept our economy growing through most of last year, and global cooperation is now necessary to ignite the needed recovery.



Getty Images/Ethan Miller

Soaring home foreclosures and job losses are battering middle class families. Home prices doubled between the mid-1990s and 2007, prompting many families to borrow against the higher values and take out cash for vacations and other expenditures. When values began plummeting, families with job losses and limited or no savings found themselves underwater.

The group's first meeting, on Feb. 27, focused on so-called green jobs.

Jared Bernstein, Vice President Biden's chief economist and a task force member, told *The Christian Science Monitor* that the group "has a different target" than the recently enacted \$787 billion economic-stimulus plan, which includes huge government outlays with a goal of creating millions of jobs. "It's less about job quantity than job quality," Bernstein told the *Monitor* in an e-mail. "Its goal is to make sure that once the economy begins to expand again, middle-class families will reap their fair share of the growth, something that hasn't happened in recent years."<sup>58</sup>

Biden expressed a similar sentiment in an op-ed piece in *USA Today*. "Once this economy starts growing again, we need to make sure the benefits of that growth reach the people responsible for it. We can't stand by and watch as that narrow sliver of the top of the income scale wins a bigger piece of the pie — while everyone else gets a smaller and smaller slice," he wrote.<sup>59</sup>

In late January, as he pushed Congress to pass the stimulus plan, Obama said that not only would the task force focus on the middle class but that "we're not forgetting the poor. They are going to be front and center because they, too, share our American Dream."

## Cash-Strapped States

Cash-strapped state governments are on the front lines of dealing with the swelling ranks of the nation's poor. States are struggling to handle a rising number of Americans in need of welfare assistance as the economy weakens — some of them middle-class households pushed over the financial edge by job losses and home foreclosures.

Despite the economic collapse, 18 states reduced their welfare rolls last year, and the number of people nationally receiving cash assistance was at or near the lowest point in more than four decades, a *New York Times* analysis of state data found.<sup>60</sup>

Michigan, with one of the nation's highest unemployment rates, reduced its welfare rolls 13 percent, and Rhode Island cut its by 17 percent, the *Times* said.

"Of the 12 states where joblessness grew most rapidly," the *Times* said, "eight reduced or kept constant the number of people receiving Temporary Assistance for Needy Families, the main cash welfare program for families with children. Nationally, for the 12 months ending October 2008, the rolls inched up a fraction of 1 percent."

While the recession has devastated households across the demographic spectrum, it has been especially hard on minorities. The overall unemployment rate in January stood at 7.6 percent, but it was 12.6 percent for African-Americans and 9.7 percent for Hispanics. The rate for whites was 6.9 percent. What's more, unemployment among minorities has been rising faster than for whites.<sup>61</sup>

The crash of the auto industry, among the most spectacular aspects of the past year's economic crisis, has devastated African-Americans.

About 118,000 African-Americans worked in the auto industry in November 2008, down from 137,000 in December 2007, the start of the recession, according to researchers at the Economic Policy Institute, a liberal think tank.<sup>62</sup>

"One of the engines of the black middle class has been the auto sector," Schmitt, told *USA Today* in January. In the late 1970s, "one of every 50 African-Americans in the U.S. was working in the auto sector. These jobs were the best jobs. Particularly for African-Americans who had migrated from the South, these were the culmination of a long, upward trajectory of economic mobility."<sup>63</sup>



For those living in high-cost urban areas — whether black, Hispanic or white — the strain of maintaining a middle-class standard of living is especially acute. According to 2008 survey data by the Pew research organization, more than a fourth of those who defined themselves as middle class who lived in high-cost areas said they had just enough money for basic expenses, or not even that much, compared with 16 percent living in low-cost metropolitan areas.<sup>64</sup>

In New York City, the nation's biggest urban area, people earning the median area income in the third quarter of 2008 could afford only about 11 percent of the homes in the metro area — the lowest proportion in the country — according to the Center for an Urban Future, a Manhattan think tank. To be in the middle class in Manhattan, according to the center's analysis, a person would need to make \$123,322 a year, compared with \$72,772 in Boston, \$63,421 in Chicago and \$50,000 in Houston.<sup>65</sup>

"New York has long been a city that has groomed a middle class, but that's a more arduous job today," said Jonathan Bowles, the center's director and a co-author of the report. "There's a tremendous amount of positives about the city, yet so many middle-class families seem to be stretched to their limits."<sup>66</sup>

## OUTLOOK

### Silver Lining?

No cloud is darker over the middle class than the deepening recession. "Everything points to this being at least three years of a weak economy," Nobel economist Krugman told a conference in February sponsored by several liberal groups.<sup>67</sup>

The economic crisis, he said, is "out of control," and "there's no reason to think there's any spontaneous mechanism for recovery. . . . My deep concern is not simply that it will be a very deep slide but that it will become entrenched."

Still, Krugman said, "If there's any silver lining to [the crisis], it's reopening the debate about the role of public policy in the economy."

Many liberals argue that policy changes in such areas as health-care coverage and higher-education benefits

offer avenues for lifting middle-class families out of the economic mire and that getting medical costs under control is a key to the nation's long-term fiscal health. But many conservatives oppose more government spending. Advancing major reforms amid partisan bickering and a budget deficit inflated by bailouts, recession and war will be difficult.

University of Arizona political scientist Kenworthy says focusing policy changes on people living below the poverty level could be "easier to sell politically" and would still benefit those in higher income brackets.

"For example, think about the minimum wage," he says. Raising it "has an effect further up the wage distribution. The same with the earned-income tax credit," a refundable credit for low and moderate working people and families. "If it's made more generous, it has effects a bit further up. The same with health care."

As Washington grapples with potential policy changes, the plunging economy is forcing many middle-class consumers to live within their means. Many see that as a good thing.

"I certainly think some of the entitlements we have come to expect, like two homes, a brand-new car every couple of years, college education for all the kids, a yacht or two, expensive vacations — some of this will need to be reoriented," says Georgetown University's Viksnins. "Some reallocation of people's priorities is really necessary."

Yet, long-term optimism hasn't vanished amid the current economic gloom. "We will rebuild, we will recover and the United States of America will emerge stronger than before," Obama declared in an address on Feb. 24 to a joint session of Congress.

Viksnins says he is "utterly hopeful" about the future of the middle class.

And Sherk, the Heritage Foundation labor-policy fellow, says that "as long as your skills are valuable, you're going to find a job that pays you roughly at your productivity."

"For people in jobs disappearing from the economy, it's going to mean a substantial downward adjustment in standard of living," Sherk says. But "those in the middle class who have some college education, or have gone to a community college or have skills, broadly speaking, most will wind up on their feet again."

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The report includes a "Middle Class Security Index" that portrays how well middle-class families are faring in the categories of financial assets, education, income and health care.

## For More Information

**Brookings Institution**, 1775 Massachusetts Ave., N.W., Washington, DC 20036; (202) 797-6000; [www.brookings.edu](http://www.brookings.edu). Independent research and policy institute conducting research in economics, governance, foreign policy and development.

**Center on Budget and Policy Priorities**, 820 First St., N.E., Suite 510, Washington, DC 20002; (202) 408-1080; [www.cbpp.org](http://www.cbpp.org). Studies fiscal policies and public programs affecting low- and moderate-income families and individuals.

**Center for Economic and Policy Research**, 1611 Connecticut Ave., N.W., Suite 400, Washington, DC 20009; (202) 293-5380; [www.cepr.net](http://www.cepr.net). Works to better inform citizens on the economic and social choices they make.

**Center for Retirement Research**, Boston College, 140 Commonwealth Ave., Chestnut Hill, MA 02467; (617) 552-1762; [www.crr.bc.edu](http://www.crr.bc.edu). Researches and provides the public and private sectors with information to better understand the issues facing an aging population.

**Center for an Urban Future**, 120 Wall St., 20th Floor, New York, NY, 10005; (212) 479-3341; [www.nycfuture.org](http://www.nycfuture.org). Dedicated to improving New York City by targeting problems facing low-income and working-class neighborhoods.

**Consumer Federation of America**, 1620 I St., N.W., Suite 200, Washington, DC 20006; (202) 387-6121;

[www.consumerfed.org](http://www.consumerfed.org). Advocacy and research organization promoting pro-consumer policies before Congress and other levels of government.

**Dēmos**, 220 Fifth Ave., 5th Floor, New York, NY 10001; (212) 633-1405; [www.demos.org](http://www.demos.org). Liberal think tank pursuing an equitable economy with shared prosperity and opportunity.

**Heritage Foundation**, 214 Massachusetts Ave., N.E., Washington, DC 20002; (202) 546-4400; [www.heritage.org](http://www.heritage.org). Formulates and promotes public policies based on a conservative agenda.

**Middle Class Task Force**, 1600 Pennsylvania Ave., N.W., Washington, DC 20500; (202) 456-1414; [www.whitehouse.gov/strongmiddleclass](http://www.whitehouse.gov/strongmiddleclass). Presidential task force headed by Vice President Joseph R. Biden working to raise the living standards of middle-class families.

**Pew Research Center**, 1615 L St., N.W., Suite 700, Washington, DC 20036; (202) 419-4300; [www.pewresearch.org](http://www.pewresearch.org). Provides nonpartisan research and information on issues, attitudes and trends shaping the United States.

**U.S. Chamber of Commerce**, 1615 H St., N.W., Washington, DC 20062; (202) 659-6000; [www.uschamber.com](http://www.uschamber.com). Business federation lobbying for free enterprise before all branches of government.