

A Success Agenda for the Middle Class



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The middle class is a paradox. On the one hand, they are unfailingly optimistic. They believe that their success or failure is due mainly to measures within their control.

On the other hand, they are anxious and have been for a long time. For some, this anxiety is rooted in the immediacy of the economic downturn—the loss of a job or health insurance. But for most, this anxiety is rooted in the fear that they will not achieve the success that they imagined for themselves and their children. This fear is real, just as real as the economic anxieties of those struggling to stay afloat.

As progressives, we are experts at diagnosing and addressing people's economic security problems. But we are not nearly as proficient at understanding and clearing the hurdles that people face to achieve economic success. This paper is about economic success, because even in harsh economic times, the essence of the American dream is about getting ahead and doing better than previous generations.

Success and security are the two pillars of the American dream. For decades, progressive leaders have looked after those who have had an economic reversal of fortune and sought to provide economic security. But as we claw our way out of this recession, we need to also meet the middle class where they live and offer them the help they need to resume a path to success.

What is Middle Class?

In some polls, nearly nine out of ten people define themselves as middle class. It is because, in America, middle class is considered an exalted term. It embodies American values like self-reliance, hard work, integrity, family, and success.

But for governors and policymakers a definition this large is meaningless. Economic policies that are relevant to someone earning \$30,000 have nothing in common with those that are relevant to someone earning \$300,000. Therefore, in this paper, we define the middle class by both income and age.

The median household income in America last year settled in at about \$49,000. But even this is not the best yardstick for the middle class. This figure includes households headed by 19-year olds and 79-year olds, and we don't have a jobs policy for either.

To be most useful for governors, we look at households headed by people of working age—between 25 and 60 years old—because nearly all middle class economic policies are aimed at people who work or want to work, who are raising a family, sending kids to college, paying for child care, or starting a business.

Among the working age population, the median household income is north of \$60,000; if married, about \$72,000, and if both spouses had at least some earnings during the year, median income weighed in around \$82,000.¹ This is not Paris Hilton living by any stretch of the imagination, but it's the difference between struggling to get by and struggling to get ahead.

The Donut Hole

The practical definition of the middle class uncovers an opportunity for progressive leaders: filling the donut hole.

The heart of the middle class resides in a vast public policy vacuum—a donut hole—in which most direct government support is absent. It is easiest to see this vacuum on the federal level. Those earning between \$40,000 and \$100,000 are too wealthy to qualify for signature progressive programs like EITC, Pell Grants, Head Start, minimum wage, and SCHIP. They are not nearly wealthy enough to benefit from conservative trickle down policies like capital gains and the estate tax.

What this means is that the middle class has a hard time seeing how government makes an appreciable positive impact on their lives. They can see where government helps if they have a reversal of fortune—the loss of a job or health insurance—but they don't see how government helps them to succeed.

This is critical because over the past several decades, the rules for middle class success have slowly but fundamentally changed. For example, in the past, a person's retirement was planned out for them by their employer through a defined-benefit plan based on salary and years worked. Now, people are responsible for managing their own retirement. The decisions people make by the time they are 30—about whether, how much, and where to invest in a 401(k)—could have a dramatic impact on their quality of life at age 80. As these rules for success have changed, government has largely been slow to keep up.

What is Success?

The middle class are not delusional. They don't define success in terms of indoor swimming pools, private jets, and luxurious vacation homes. They define success on attainable and aspirational terms: owning a home, saving for a comfortable retirement, sending children to college, having stable health coverage, starting a business, taking a regular vacation, and advancing in their careers.

They are keenly attuned to the current economy, but even in the darkest economic environment, they are preternaturally optimistic. For example, in each of the last twelve months, more Americans have said that they expect their household finances to improve over the next year rather than to worsen. ²

The recession has brought economic hardship to nearly everyone in the middle class. 9.3 million jobs have been lost. ³ Nearly \$6 trillion in home equity has been lost in the past five years. ⁴ \$2.7 trillion had been shed in retirement account assets when the stock market bottomed out in the first

quarter of 2009.⁵ Still, most middle-class Americans see these setbacks as the exception rather than the rule for their lives. More than half of people surveyed reported that they had a better standard of living than their parents. By a 62–10% margin, parents expect their children to have a better standard of living than they do.⁶ Normalcy for them is to return to the struggle to succeed rather than the struggle to get by.

This paper seeks a return to this normalcy for the middle class by filling the donut hole with policy ideas and narrative that address the new rules to success. We offer the first agenda designed to help those in the middle make it further up the ladder. We do so not simply because we want to help the middle class have better lives, although that is certainly our hope. It is because the middle class are the engine of America's economy and when they succeed, individual states and the country as a whole do better.

What follows is a success agenda for the middle class that governors can tailor to their states broken out in the ensuing areas:

- Getting to and through college
- Learn more to earn more
- Preparing for a successful retirement
- Enjoying career and family
- Starting and owning a small business
- Buying and owning a home
- Saving energy in the home and small business

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END NOTES

- 1.** Median income calculations were made by economic Dr. Stephen Rose using Census data. They are for a family of three.
- 2.** American Research Group, Inc., Monthly survey on national economy, January 2009 to January 2010, survey of 1,100 adults, available at <http://americanresearchgroup.com/economy/>.
- 3.** Bureau of Labor Statistics, "Employment Situation Update—January 2010," February 5, 2010, available at <http://www.bls.gov/news.release/empsit.nro.htm>.
- 4.** Joint Center for Housing Studies at Harvard University, "The State of the Nation's Housing, 2009," available at <http://www.jchs.harvard.edu/publications/markets/son2009/son2009.pdf>.
- 5.** Barbara Butrica, "Retirement Account Balances, Updated January 2010," Urban Institute, available at <http://www.urban.org/publications/411976.html>.
- 6.** 2009 Pew Economic Mobility Project Survey, available at <http://www.economicmobility.org/poll2009/>.