



# UNDER ATTACK: TEXAS' MIDDLE CLASS AND THE OPPORTUNITY CRISIS

**THE AMERICAN DREAM** is about working hard in return for decent wages, economic stability, and being able to provide a better life for your kids. But the kinds of jobs that can provide a solid middle-class life in return for hard work are in short supply in Texas. Unemployment is still high, earnings have been stagnant for a decade, and many workers lack health insurance and retirement savings to protect them financially during a serious illness or when they can no longer work.

Texas' middle class didn't just happen. Like much of America in the post-war period, Texas' infrastructure—from its schools to its highways to its public universities—were built and sustained by public policy and public support. In addition, the state's large natural oil resources helped spur job creation throughout the 20th century. Unlike other regions in the nation, unions have not historically played a vital role in propelling Texan workers into the middle class. As a result, the earnings gap between high school and college graduates in Texas is much larger than in some other parts of the country where non-college-educated workers were able to negotiate decent wages, health insurance, and retirement benefits through a union. With few unionized jobs, Texans have relied on higher education—and the public systems and policies that make a college education affordable—to provide economic mobility. Smart investments in public education in the 1980s and 1990s gave rise to a wave of first-generation college students.

## OBSTACLES TO GROWING AND STRENGTHENING TEXAS' MIDDLE CLASS

- Lack of good jobs
- Stagnant earnings
- Inadequate access to employer health and retirement plans
- Higher costs to raise a family
- College degree increasingly out of reach
- Economic mobility at risk for young people

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**FUTURE  
MIDDLE  
CLASS**

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Going forward, Texas faces a number of challenges to building and sustaining a strong middle class. Workers at all levels of education have faced stagnant or declining wages over the last decade. One reason is that job growth has been strongest in the service industry and other sectors where wages are low and employee benefits are limited or non-existent. Across the economy, Texas employers are much less likely than those in many other states to provide their workers with health insurance. Rising out-of-pocket costs and skimpy plans mean that a family illness can lead to substantial costs and medical debt. And as employers replace traditional pensions with 401(k)-type plans, or offer no retirement plan at all, middle-class workers cannot count on a secure retirement.

At the same time, it has become more costly to raise a family. Now that a majority of mothers are employed, families must pay for child care. High-quality care for preschoolers is expensive, yet parents face these costs early in their working years when their earnings are low. Housing is also more expensive relative to household income than it was decades ago. The need for most working parents to have their own vehicle and the high price of gas further strain middle-class family budgets. And because families struggle just to cover everyday expenses, it is hard for them to save and protect themselves in the event of a job loss or other family crisis.

Challenges to the future of Texas' middle class can be seen most clearly in the economic prospects for the state's young people. Today many young workers are earning the same or less than their parents did a generation ago, dashing hopes for economic mobility. Although a four-year college degree improves job prospects and lifetime earnings, skyrocketing college costs, especially since Texas' tuition deregulation in 2003, are making it hard for all but the most affluent students to stay in school and graduate. Texas college graduates have high levels of student debt while their earnings have fallen over the past decade. Young workers are increasingly less likely to have access to health insurance and retirement benefits through their employers, with the most dramatic changes occurring in recent years.

The unraveling of the social compact predated the Great Recession, but the economic crisis hastened its demise. Not only did the state lose 320,000 jobs because of the Great Recession, but the economic effects of those lost jobs reverberated to all corners of the state, particularly the already-strained finances of the state government. We estimate that the jobs lost from the recession have reduced state sales tax revenues by over \$540 million, on top of other revenue losses from the recession, putting thousands more middle-class jobs at risk. To put this in perspective, that lost revenue could have paid the salaries of over 4,700 teachers or nearly 3,900 nurses. Recent budget cuts, in response to the Great Recession, will create much more middle-class job loss.

Now is the time for employers, workers, and policymakers to come together once again to rebuild pathways to the middle class, create good jobs with fair pay and decent benefits, and ensure that prosperity is broadly shared in the next generation.

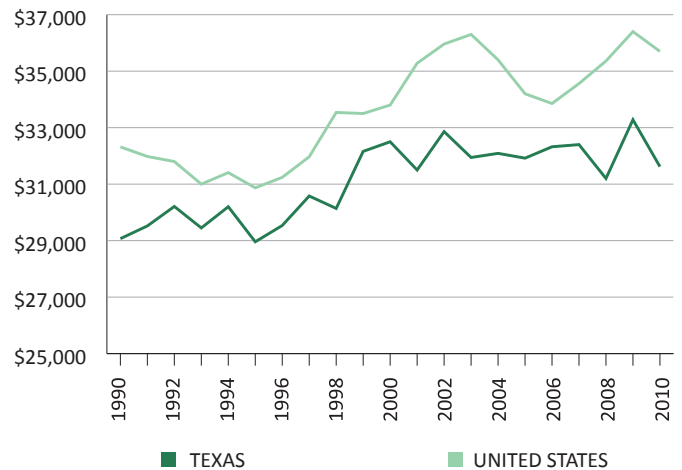
# EARNINGS<sup>1</sup>

Over the last 20 years, earnings for Texas workers (ages 18-64) have grown modestly. After increasing in the late 1990s during the economic boom, real median earnings have remained relatively flat. Despite the Great Recession, Texas median earnings peaked in 2009 at \$33,280, although last year they fell to \$31,620, roughly where they were a decade ago. Key to strengthening Texas' middle class will be overcoming this wage stagnation. Earnings in Texas are consistently lower than they are nationally. Texas median earnings were 89 percent of the national level in 2010 (see Figure 1).

## EDUCATION

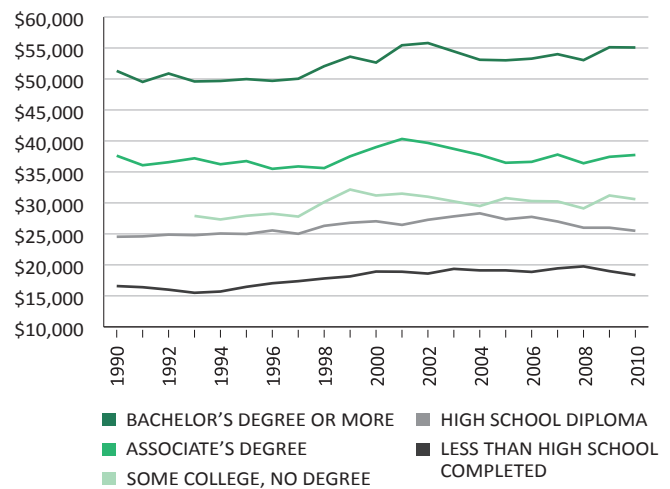
In Texas as elsewhere, a college degree is the surest path to a middle-class income. Texas workers with a bachelor's or graduate degree earn more than twice as much as those with only a high school diploma (\$55,080 versus \$25,500 in 2010). Texas workers of all education levels experienced earnings gains in the late 1990s but all except those with a four-year college degree had lower earnings in 2010 than 2000. Bachelor's degree-holders ended the decade at the same earnings level they attained in 2003. Workers with an associate's degree lost ground throughout the decade, whereas high school graduates had an uptick in earnings only to see them fall since 2004 (see Figure 2).

**FIGURE 1. MEDIAN ANNUAL EARNINGS OF WORKERS IN TEXAS AND THE U.S., 1990-2010 (2011 DOLLARS)**



SOURCE: Dēmos analysis of Current Population Survey data

**FIGURE 2. MEDIAN ANNUAL EARNINGS OF TEXAS WORKERS BY EDUCATION, 1990-2010 (2011 DOLLARS)**



SOURCE: Demos analysis of Current Population Survey data using 3-year averages. Data not available for "Some College, No Degree" prior to 1993.

## RACE AND ETHNICITY

As in the rest of the country, median earnings for African-American and Latino workers are lower in Texas than those for white workers. In 2010, the typical African-American worker earned \$30,600 in Texas, or 75 percent of the earnings of the typical white worker, which were \$40,800. At \$24,480, median earnings for Latinos were 60 percent of those for whites. This cannot be ignored in a state where 38 percent of the population is Latino.

## GENDER

Men still typically earn more than women in Texas, but the gap has narrowed considerably. In 2010, median earnings for Texas men were \$8,400 higher than those for women (\$35,700 versus \$27,300 when both part- and full-time workers are included). Over the last two decades, men's wages have stagnated while median earnings for women have risen by 23 percent, narrowing the gender gap (see Figure 3). Texas women now earn 77 percent of what men do.

**FIGURE 3. MEDIAN EARNINGS OF MALE AND FEMALE WORKERS IN TEXAS, 1990 AND 2010 (2011 DOLLARS)**



**SOURCE:** *Dēmos* analysis of Current Population Survey data. Includes both part- and full-time workers.

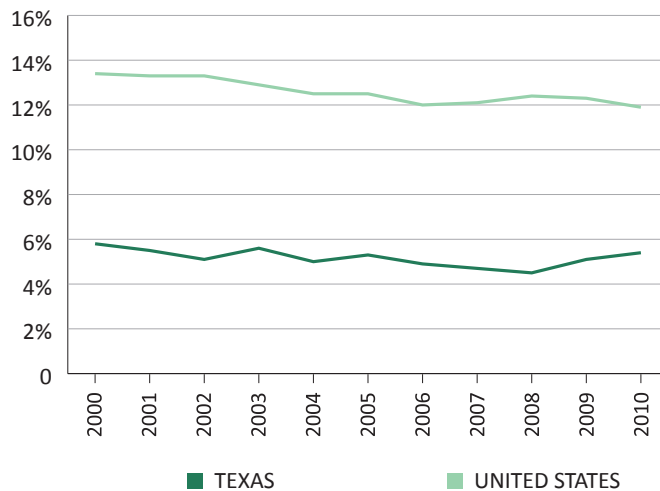
## JOBS AND BENEFITS

Widespread access to well-paying jobs with good health and retirement benefits is the cornerstone of a middle-class life. Unions have consistently advocated for public policy that promotes a stronger economy for all, bargaining for better wages and benefits, but few workers in Texas are union members. The lack of representation may contribute to the state's lower median earnings and reduced rates of health coverage compared to the nation as a whole.

### UNION MEMBERSHIP

Texas has historically had very low union participation rates compared with the rest of the nation. Only 5.4 percent of Texas workers were union members in 2010, a figure that has changed very little over the past decade (see Figure 4). Nationally 11.9 percent of workers participated in unions last year—36 percent of public-sector workers (7.6 million) and 7 percent of private-sector workers (7.1 million).<sup>2</sup>

**FIGURE 4.** UNION MEMBERS AS A PERCENT OF ALL WORKERS IN TEXAS AND THE U.S., 2000-2010



SOURCE: Bureau of Labor Statistics, U.S. Department of Labor. Includes both public- and private-sector workers.

### HEALTH INSURANCE

High out-of-pocket medical expenses are one of the primary causes of bankruptcy among the middle class, underscoring the importance of health insurance coverage.<sup>3</sup> But 27 percent of Texas workers lack health insurance compared to 17 percent nationally. The ranks of the uninsured have grown steadily as access to employer-sponsored health insurance has declined. The proportion of Texas workers whose employers do not provide coverage increased substantially over the last decade, from 27 percent in 2000 to 34 percent in 2010.<sup>4</sup>

### RETIREMENT SAVINGS

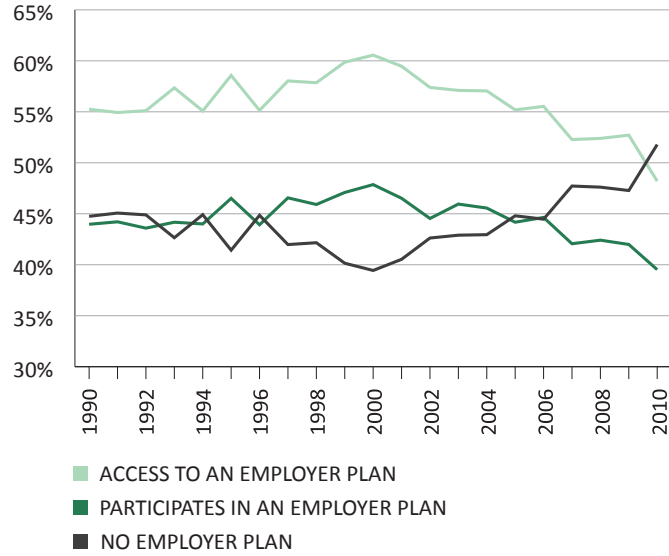
Several factors threaten the ability of Texas workers to look forward to a secure retirement. Fewer than half (48 percent) of the state's workers have access to a retirement plan at work, a figure that has plummeted since reaching a high of 61 percent in 2000.<sup>5</sup> But even for workers whose employers do provide retirement benefits, such plans have gradually shifted from pensions—whose costs and financial risks are borne almost

exclusively by employers—to 401(k)-type plans that rely on worker contributions and expose individuals to the vagaries of the stock market and high fees that eat away at returns. Nationally, roughly 63 percent of all employer-sponsored retirement plans are now 401(k)s or similar individual plans.<sup>6</sup> Nearly 9 percent of Texas workers don't participate in their employer-sponsored plan either because they can't afford to contribute or fail to opt in (see Figure 5).

**UNEMPLOYMENT**

Since the early 1990s, the unemployment rate in Texas has followed the same general pattern as unemployment nationally. Although Texas' official unemployment rate was slightly higher than the national rate during most of that period, it did not hit the national high of 10.1 percent during the Great Recession. Texas' unemployment rate peaked at 8.3 percent at the end of 2010, after the official end of the recession, and stood at 8.0 percent as of May 2011.<sup>7</sup>

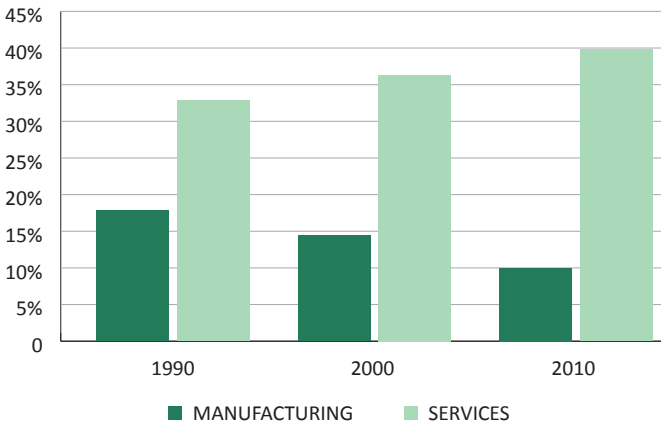
**FIGURE 5. TEXAS WORKERS' ACCESS TO AND PARTICIPATION IN EMPLOYER-SPONSORED RETIREMENT PLANS, 1990-2010**



SOURCE: Dēmos analysis of Current Population Survey data

**WHERE THE JOBS ARE**

**FIGURE 6. TEXAS EMPLOYMENT IN MANUFACTURING AND SERVICES AS A PERCENT OF THE LABOR FORCE**



SOURCE: Dēmos analysis of Current Population Survey data

The past 20 years have brought significant changes to Texas' job market. Manufacturing and service jobs have accounted for roughly half of all employment during that time, but these two sectors have experienced diverging trends. Manufacturing employment declined from 18 percent in 1990 to 10 percent in 2010, while service employment increased from 33 percent to 40 percent (see Figure 6). Manufacturing jobs are more likely than service jobs to be unionized, pay decent wages, and offer middle-class benefits.

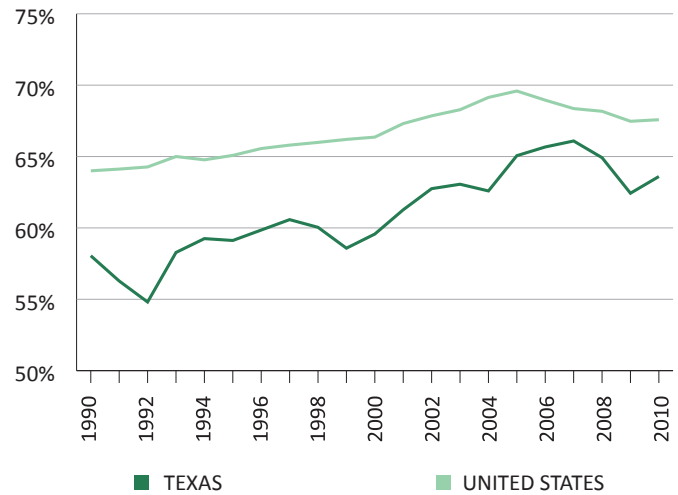
# RAISING A FAMILY

Texans pride themselves on being able to pass on a better life to their children, but over the last generation, this dream has become increasingly out of reach. Even with two parents in the labor force, families struggle to meet the high costs of housing and child care, let alone save for a rainy day or invest in the future.

## HOMEOWNERSHIP

Homeownership among Texas workers has increased considerably over the last 20 years, even as the growth in homeownership has slowed nationally. However, even after the recent gains, the state's homeownership rate still lags behind the nation's. After reaching a peak of 66 percent in 2007, the Texas homeownership rate has declined a few percentage points since (see Figure 7). Texans are devoting a larger share of income to housing costs: in 2008, nearly a third of Texas homeowners (31 percent) spent 30 percent or more of their income on housing.<sup>8</sup>

**FIGURE 7. HOMEOWNERSHIP AMONG WORKERS IN TEXAS AND THE U.S., 1990-2010**



SOURCE: Dēmos analysis of Current Population Survey data

## CHILD CARE

Child care can be one of the largest expenses families face, in some cases equaling or exceeding housing costs. On average, full-time care in a child care center in Texas costs \$7,647 a year for an infant and \$6,454 for a four-year-old. For a family with two children (an infant and a preschooler), the total cost of full-time center care averages \$14,101 annually or 22 percent of family income for a couple earning median wages. Care in a family child care home costs somewhat less (see Figure 8).

**FIGURE 8. AVERAGE ANNUAL PRICE OF FULL-TIME CHILD CARE IN TEXAS**

	CHILD CARE CENTER	FAMILY CHILD CARE HOME
Infant, full-time	\$7,647	\$5,970
4 year old, full-time	\$6,454	\$7,661

SOURCE: National Association of Child Care Resource and Referral Agencies, "2011 Child Care in the State of Texas."

# THE FUTURE MIDDLE CLASS: A LOOK AT YOUNG PEOPLE

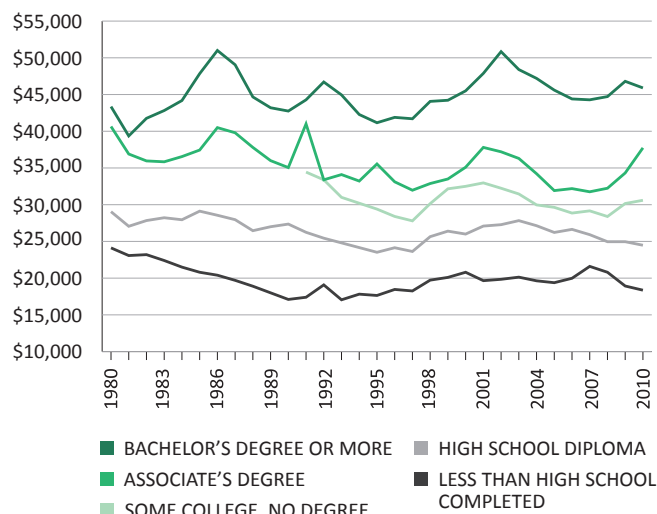
The trends facing young Texans seeking to build and maintain a middle-class life are worrisome. Over the last generation, wages have been stagnant or declined for all young workers in Texas except for those with a bachelor's or graduate degree. Yet the share of the state's labor force holding at least a bachelor's degree is expected to decline from a quarter of the workforce today to 17 percent by 2040.<sup>9</sup> And while a college degree provides higher earnings and greater protection against unemployment, college tuition costs have soared and students are accumulating greater amounts of debt.

## LABOR MARKET

In 2010, median earnings for workers ages 25-34 with a bachelor's degree or higher were \$45,900 in Texas—88 percent higher than earnings for a typical high school graduate in the same age range (\$24,480). Real median earnings for young college graduates with a four-year degree fell in the late 1980s and early 1990s. After recovering in the late 1990s, they peaked at \$51,000 in 2002 but have fallen since. Real earnings for young workers with an associate's degree were also volatile over the last 30 years and were lower in 2010 than 1980, although they have risen in recent years. Young workers with a high school diploma and those who did not graduate high school experienced a slight overall decline in earnings during the period; over the last decade, their earnings were stagnant (see Figure 9).

In 2010, the national unemployment rate for workers under age 25 and not enrolled in school was 18.4 percent—nearly double the overall U.S. unemployment rate of 9.6 percent. Unemployment among young high school graduates is alarmingly high; it was 22.5 percent nationally in 2010 compared to 9.3 percent among young workers with a four-year college degree.<sup>10</sup> In Texas, 25-34 year olds face an 8.4 percent unemployment rate, lower than the rates of their peers in other states, but still quite high.

**FIGURE 9. MEDIAN EARNINGS OF TEXAS WORKERS AGES 25-34 BY EDUCATION, 1980-2010 (2011 DOLLARS)**



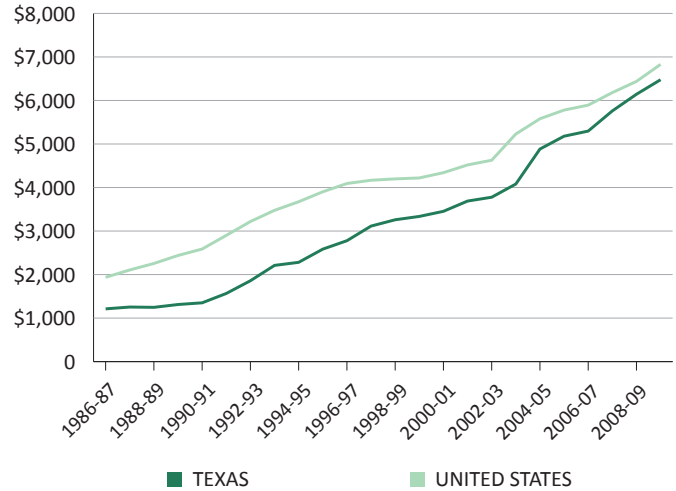
**SOURCE:** Dēmos analysis of Current Population Survey data. Data not available for "Some College, No Degree" prior to 1991.



**COLLEGE TUITION**

At \$6,477 for 2009-10, average in-state tuition (including fees) at Texas colleges and universities is fast approaching the national average of \$6,829.<sup>11</sup> Tuition costs have more than quadrupled in Texas over the past 20 years with the most rapid growth occurring since tuition was deregulated in 2003 (see Figure 10). Note that these figures do not include room and board.<sup>12</sup>

**FIGURE 10. ANNUAL IN-STATE COLLEGE TUITION IN TEXAS AND THE U.S. (2011 DOLLARS)**



SOURCE: Digest of Education Statistics. Figures include required fees.

**STUDENT DEBT**

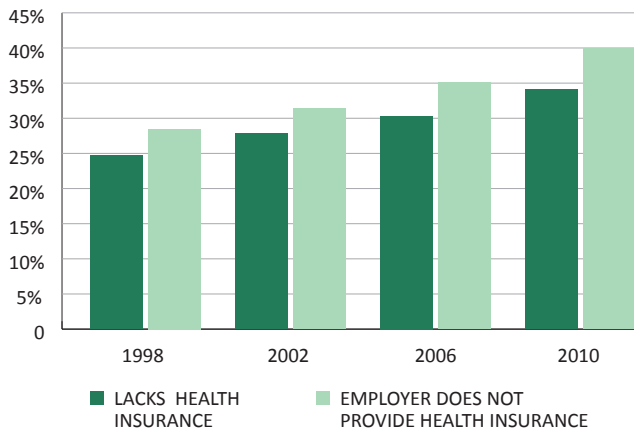
Nearly 3 out of 5 (58 percent) college graduates in Texas entered the labor force with student debt in 2009, and their average debt was \$20,015.<sup>13</sup> In contrast to national trends, the percent of Texas college graduates with debt has held relatively steady in recent years although the amount of debt that students hold continues to grow. Moreover, increasing numbers of students are accumulating debt without completing a degree, putting them on a shaky path to economic security and prosperity.

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**HEALTH AND RETIREMENT BENEFITS**

Young workers ages 25-34 are more likely than other workers to lack health insurance coverage in Texas—

**FIGURE 11. HEALTH INSURANCE ACCESS AMONG TEXAS WORKERS AGES 25-34**



SOURCE: Dēmos analysis of Current Population Survey data

a third (34 percent) are currently uninsured. Two out of five (40 percent) of young workers lack access to health insurance through their employer—a proportion that has climbed steadily over the last decade (see Figure 11). Fewer than half (45 percent) of young workers have access to employer-sponsored retirement plans, and most of these plans are risky and expensive 401(k)-type plans rather than traditional pensions. About 10 percent of workers ages 25-34 have access to a retirement plan at work but do not participate.<sup>14</sup>

# CONCLUSION

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**UPWARD ECONOMIC MOBILITY**, the heart of the American Dream, is at risk in Texas. For the first time in generations, more people are falling out of the middle class than joining its ranks. The economy is still productive, but the gains are accruing primarily to the top and too many hard-working Texans are neither getting by nor getting ahead. Nationally, the top 1 percent of earners now takes home more than the entire middle class combined, while most workers are living paycheck to paycheck. It doesn't have to be this way. Just as the post-war middle class was built by smart public policy, it is possible to rebuild it and strengthen it for the next generation. That will require the strength of workers and business coming together to reclaim the American Dream and demanding that our elected officials work for all Texans.

## ENDNOTES

1. All earnings data cited in this brief are from Dēmos analysis of the Current Population Survey (CPS).
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14. Dēmos analysis of the Current Population Survey (CPS).

## ABOUT DĚMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000.

In 2010, Dēmos entered into a publishing partnership with *The American Prospect*, one of the nation's premier magazines focussing on policy analysis, investigative journalism and forward-looking solutions for the nation's greatest challenges.

## ABOUT THE CENTER FOR PUBLIC POLICY PRIORITIES

The Center for Public Policy Priorities is a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans. We pursue our mission through independent research, policy analysis and development, public education, advocacy, coalition building, and technical assistance. We pursue this mission to achieve a BETTER TEXAS™.

## CONTACT

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**Dēmos**

**DĒMOS**

220 Fifth Avenue, 5th Floor  
New York, New York 10001  
Phone: (212) 633-1405  
Fax: (212) 633-2015  
info@demos.org

**DĒMOS MEDIA**

Tim Rusch,  
Communications Director  
trusch@demos.org  
(212)-389-1407



**THE CENTER FOR PUBLIC POLICY PRIORITIES**

900 Lydia Street  
Austin TX 78702  
www.cppp.org