



THE STATE OF MASSACHUSETTS' MIDDLE CLASS

THE AMERICAN DREAM used to mean that if you put in a hard day's work, you could expect good wages, benefits, and a better life for your kids. Today, the kinds of jobs that can provide a solid middle-class life in return for hard work are in short supply—unemployment is up, earnings are flat, and hard-won benefits are being lost. The future of Massachusetts' middle class, which has been the backbone of Massachusetts' economy for more than half a century, is at risk.

Massachusetts' strong and vibrant middle class didn't just happen. It was built brick by brick by the hard work of our parents and grandparents and the strength in numbers that came from the unions that represented them. From the first child labor law in the nation (1843) and the trade unions of the famous Lowell mills, to landmark workers' compensation legislation (1911) and the celebrated Bread and Roses Strike of 1912, to a 2005 union-supported push for one of the highest minimum wages in the country, Massachusetts' unions made sure that as our nation's wealth and productivity grew, so too did the economic prosperity, security, and resiliency of the people who worked hard to create that wealth. For decades, the unions of Bay State workers guaranteed that prosperity was widely shared and that communities flourished—wages increased and more employers provided their workers with health insurance, pensions, and paid time off.

THE STATE OF MASSACHUSETTS' MIDDLE CLASS

- Lack of good jobs
- High yet stagnant earnings
- Near-universal access to health care
- Declining quality of retirement benefits
- High costs to raise a family
- College degree increasingly out of reach
- Diminished economic prospects for young people

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**FUTURE
MIDDLE
CLASS**

This is a briefing paper in Dēmos' "Future Middle Class" series.

The middle class grew more robust through government policies that worked alongside unions to support homeownership and made a college education accessible to a new generation through affordable tuition and financial aid. Public policies also protected labor organizers, invested in public health, nearly eradicated severe old-age poverty, and promoted infrastructure and local businesses. These public investments have cushioned Massachusetts from the worst effects of the recent recession as they were coupled with Massachusetts' heavy investments in education, the tech industry, and a strong healthcare system. In Massachusetts, 43 percent of the workforce holds a bachelor's degree or higher, the highest percentage in the nation and 12 points higher than the nation's average.

However, Massachusetts' middle class is in jeopardy. Although Massachusetts workers have fared favorably overall in terms of wages, benefits and employment levels compared to other states, many workers have seen their earnings stagnate or even decline over the last 30 years. Though overall access to retirement plans at work has stayed relatively level in Massachusetts, as employers replace traditional pensions with 401(k)-type plans, middle-class workers can no longer count on a secure retirement. Manufacturing jobs, which tend to be unionized and offer better pay and benefits, have declined as a proportion of total jobs in Massachusetts. Job growth has predominated in the service sector, where, nationally, unions are less prevalent, pay is lower, and employers are less likely to offer health and retirement benefits. In Massachusetts, however, the quality of service sector jobs is somewhat higher than the nation as a whole; the state's service sector includes a large proportion of high-wage work, including finance and real estate, and has a stronger union presence than many states.

At the same time, it has become more costly to raise a family. Several decades ago, most middle-class mothers were not in the paid labor force. But 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.

The threat to the future of Massachusetts' middle class can be seen most clearly in the economic prospects for the state's young people. Today, except for those with a college degree or more, young workers are earning less than their mothers and fathers did a generation ago. Skyrocketing college costs are making it hard for all but the most affluent students to stay in school and graduate. College graduates in Massachusetts graduate, or leave school, with high levels of student debt.

The unraveling of the social contract predated the Great Recession, but the economic crisis hastened its demise. Not only did the Great Recession cost the Bay State nearly 150,000¹ jobs, but the economic effects of those lost jobs also reverberated to all corners of the state, particularly the already-strained finances of the state government. We estimate that the jobs lost due to the recession have cost the state at least \$440 million annually in lost sales tax and income revenues, on top of other revenue losses from the recession, putting thousands more middle-class jobs at risk. If the state's unemployment rate were at pre-recession levels, those lost hundreds of millions would return to the state government's coffers, and could be used to

help thousands of young people attend college, maintain dozens of state parks, or hire, for example, as many as 4,650 teachers or 3,650 nurses.

While Massachusetts workers are indeed strained, the impact of the Great Recession could have been much worse. Massachusetts' large proportion of college graduates along with smart public policies—including the 2006 health care legislation, a high minimum wage and a somewhat more balanced approach to fiscal issues than other states—have softened the blow of the recession for workers and families. However, great risks continue to lie ahead for Massachusetts workers—the effects of both the slow recovery and several years of state budget cuts will continue be felt for years to come.

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 for the next generation.

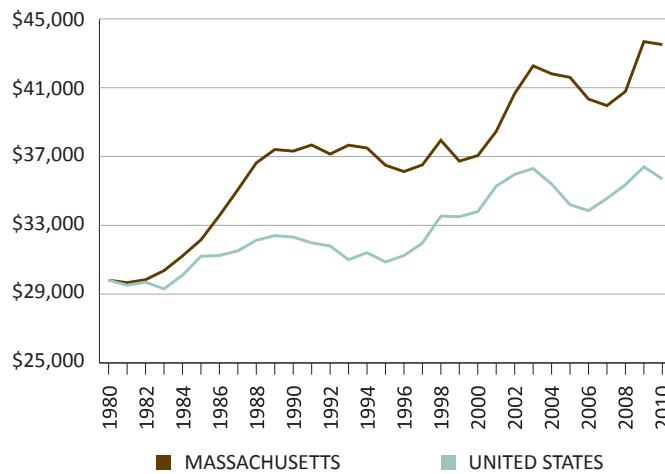
EARNINGS²

Widespread decent earnings are paramount to the existence of the middle class. The typical Massachusetts worker earns more money per year than the typical U.S. worker. In Massachusetts, median earnings were \$43,509 in 2010—22 percent higher than the U.S. median of \$35,700. Over the last 30 years, earnings for Massachusetts’ workers (ages 18-64) have risen faster than median earnings for the U.S. as a whole.

EDUCATION

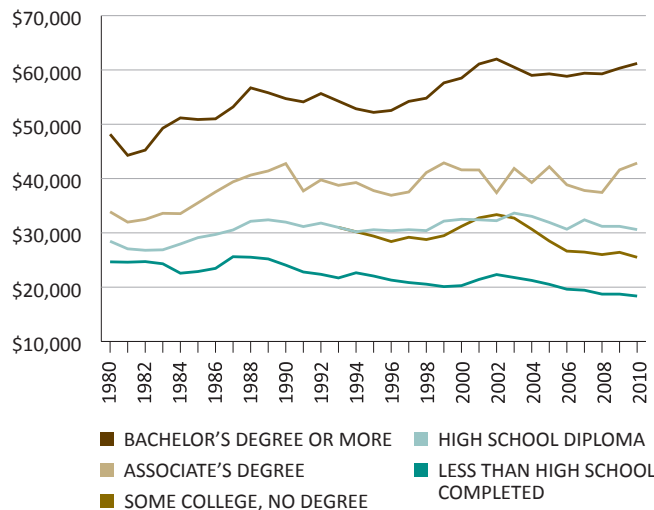
In Massachusetts, perhaps even more so than the rest of the nation, a college degree is one of the surest paths to a middle-class income. Massachusetts workers with at least a bachelor’s degree earn double what those with only a high school diploma earn (\$61,200 versus \$30,600 in 2010). Workers of all education levels besides the lowest saw increases in earnings throughout the 1980s, but, except for the most highly-educated workers, they have seen their wages stagnate or decline since (see Figure 2). Overall, workers with college degrees have seen their wages rise the most: wages of workers with bachelor’s degrees have increased by 38 percent, but just 1.2 percent a year. Wages of workers of all education levels, however, have not kept pace with the nation’s growth: per-capita GDP grew 61 percent over those same three decades.³ As it does in the rest of the country, not completing an education has borne an increasingly high price, as workers who failed to complete high school have seen their wages drop by 26 percent over the past generation, and now earn less than 2/3 of the earnings for those with a high school diploma.

FIGURE 1. MEDIAN ANNUAL EARNINGS OF WORKERS IN MASSACHUSETTS AND THE U.S., 1980-2010 (2011 DOLLARS)



SOURCE: Dēmos analysis of Current Population Survey data using 2-year averages

FIGURE 2. MEDIAN ANNUAL EARNINGS OF MASSACHUSETTS WORKERS BY EDUCATION, 1980-2010 (2011 DOLLARS)



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

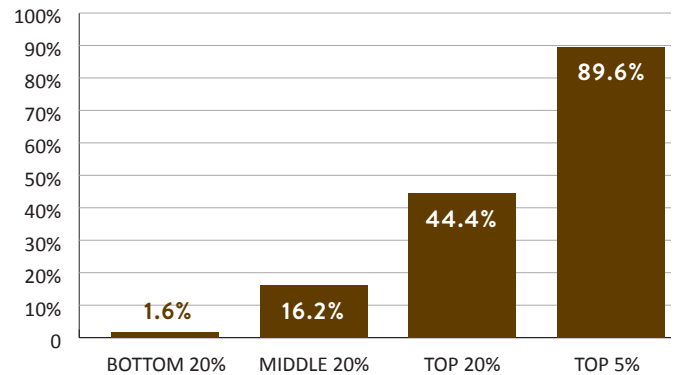
GENDER

Men typically earn more than women in Massachusetts. However, the gender gap has narrowed over the last 30 years as women's incomes have grown faster than men's. In 1980 median earnings for women were 51 percent below the median earnings of men (\$19,728 vs. \$40,650). In 2010, the median earnings for women were 38 percent below the median earnings of men (\$32,640 vs. \$52,530).

RISING INCOME INEQUALITY

On the eve of the Great Recession, the richest 20 percent of Massachusetts families had average incomes 2.6 times as large as the middle 20 percent of families and 8.2 times as large as the poorest 20 percent of families. The very richest families—top 5 percent—had average incomes that were 15.1 times as large as the poorest 20 percent.⁴ The gap between the rich and everybody else has grown over time with the top 20 percent of Bay State families experiencing a 44.4 percent rise in income between the late 1980s and mid-2000s, and the top 5 percent seeing an 89.5 percent rise, compared to a 16.2 percent increase for the middle quintile of families (see Figure 3). These numbers made the Bay State the fourth most unequal state in the nation, due in part to a two-tiered workforce of the more- and less-educated and a large financial sector.

FIGURE 3. INCOME GROWTH OF MASSACHUSETTS FAMILIES BY INCOME QUINTILE, LATE 1980s TO MID-2000s



SOURCE: Center on Budget and Policy Priorities and Economic Policy Institute, *Pulling Apart: A State By State Analysis of Income Trends, 2004-2006*.

JOBS AND BENEFITS

Widespread access to well-paying jobs with good health and retirement benefits is a second cornerstone of the middle class. Unions have consistently taken a leadership role in securing better pay and benefits and generating enduring prosperity for the Bay State. As union strength has weakened, workers' benefits have been replaced by a shifting of shared costs, burdens, and risks onto workers' shoulders alone. While Massachusetts' high-tech, high-education workforce has shielded it from the widespread part-time, unstable, poverty-wage work that has become the norm in other states, these conditions are becoming more common with the growth of Massachusetts' service sector.

UNION MEMBERSHIP

Massachusetts has historically had high union participation rates compared with the rest of the nation. Nonetheless, only a fraction of Massachusetts workers are currently union members—14.5 percent of all private and public sector workers in 2010—and the percentage has steadily declined, with the exception of a brief surge in 2008/2009 (see Figure 4).

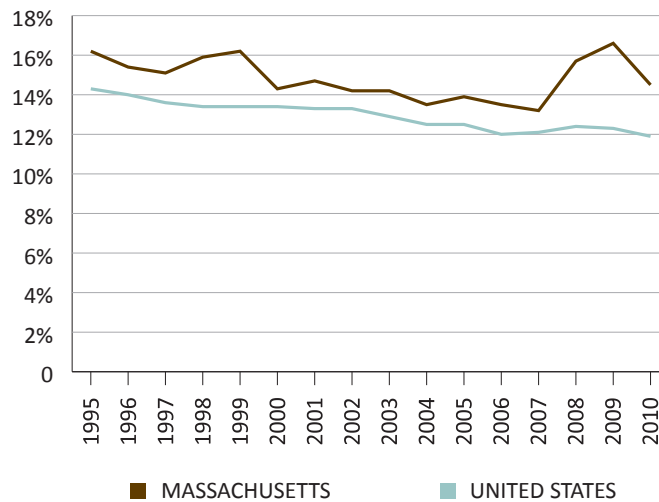
HEALTH INSURANCE

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.⁵

Due to the state's landmark health insurance

legislation, designed to provide universal coverage, which passed in 2006, Massachusetts today has the lowest proportion of uninsured residents of any state in the country. As of 2010, just 4 percent of Massachusetts workers lacked health insurance compared to nearly 17 percent nationally.⁶ Due to the strong employer provisions in the bill, employer-provided coverage has risen as well since the law's enactment.

FIGURE 4. UNION MEMBERS AS A PERCENT OF ALL WORKERS IN MASSACHUSETTS AND THE U.S.

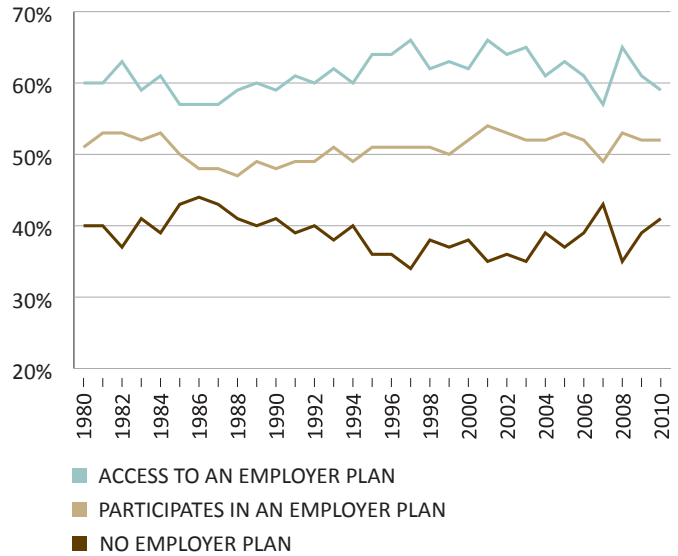


SOURCE: Bureau of Labor Statistics, U.S. Department of Labor.
Includes both public and private sector workers.

RETIREMENT BENEFITS

Several factors threaten the ability of Massachusetts workers to look forward to a secure retirement. Only 59 percent of the state’s workers currently have access to a retirement plan at work, similar to the late 1980s and early 1990s (see Figure 5). Although access to employer-sponsored retirement plans peaked in 1997 at 66 percent,⁷ 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, which eat away at returns. Nationally, roughly 63 percent of employer-sponsored retirement plans are now 401(k)s or similar individual retirement plans.⁸ In Massachusetts, nearly 8 percent of workers don’t participate in their employer-sponsored plan, either because they can’t afford to contribute or fail to opt in.

FIGURE 5. MASSACHUSETTS WORKERS’ ACCESS TO AND PARTICIPATION IN EMPLOYER-SPONSORED RETIREMENT PLANS, 1980-2010



SOURCE: Dēmos analysis of Current Population Survey data.

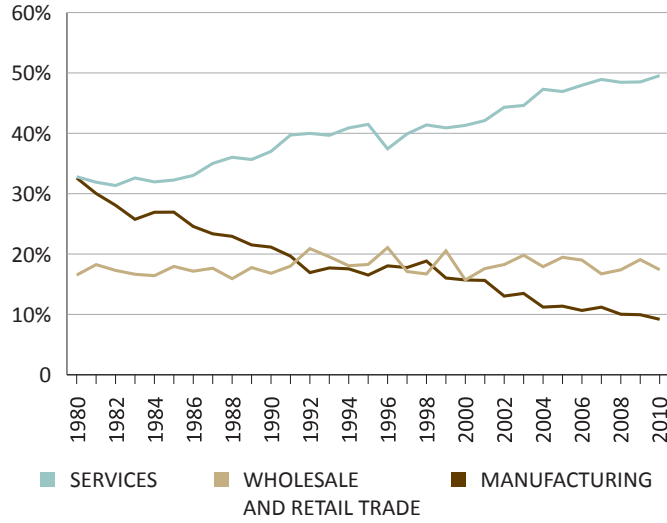
UNEMPLOYMENT

Massachusetts’ job market is still recovering from the effects of the Great Recession. The state’s annual unemployment rate fell to 8.5 percent for 2010, lower than the nation as a whole but still a higher rate than the state has seen since the recession of the early 90s. One large reason that Massachusetts workers have been cushioned from the worst effects of the Great Recession is their high levels of education: 43 percent of workers Massachusetts hold a bachelor’s degree, the highest percentage in the nation and 12 percent above the national average. Here, as elsewhere, the recession was still catastrophic, costing the state nearly 150,000 jobs.

WHERE THE JOBS ARE

The past 30 years have brought significant changes to Massachusetts' job market. Manufacturing and service jobs have accounted for at least half of all employment during that time. But these two sectors have experienced diverging trends. Manufacturing employment declined from about 33 percent in 1980 to less than 10 percent in 2010, while service employment increased from 33 percent to 50 percent (see Figure 6). Manufacturing jobs are more likely than service jobs to be unionized, pay decent wages, and offer middle-class benefits, though, as previously mentioned, service sector employment in Massachusetts is often higher-wage than in other states.

FIGURE 6. SELECT INDUSTRIES AS A PERCENTAGE OF TOTAL EMPLOYMENT IN MASSACHUSETTS, 1980-2010



SOURCE: Dēmos analysis of Current Population Survey data.

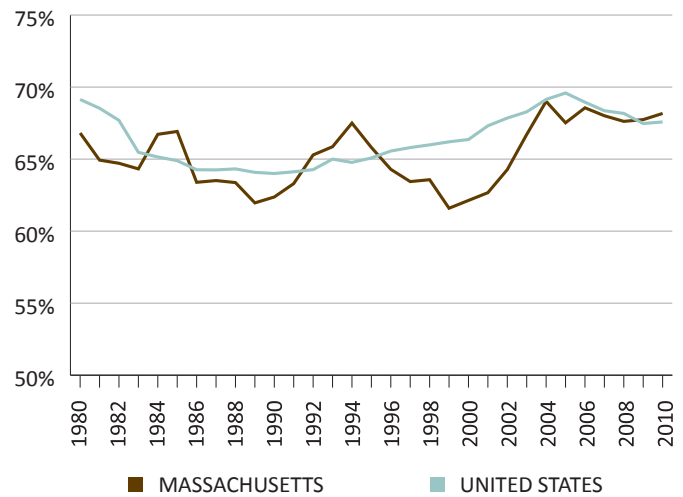
RAISING A FAMILY

Healthy, happy, and rooted families are currently one of our economy's most undervalued resources and a key element of the middle class. Bay Staters 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 for many. Stark economic inequality has meant that even with two parents in the labor force, working families struggle to meet the high costs of housing and child care, let alone save for a rainy day or invest in the future. As Massachusetts erodes the benefits, stability, and quality of second-tier jobs, it erodes the building blocks of healthy homes, families, and communities.

HOMEOWNERSHIP

Homeownership among Massachusetts workers has risen only slightly since 1980, when 66.8 percent of workers owned their home; in 2010, the homeownership rate in the state had edged up to 68.0 percent (see Figure 7). The state's homeownership rate has generally hovered near that of the rest of the country, except for a brief period in the late 90s. But Bay Staters are devoting a larger share of income to housing costs: in 2008, 41.5 percent of Massachusetts homeowners spent more than 30 percent of their income on housing, a higher share than the country as a whole, and one that's risen rapidly from the 24.5 percent of homeowners who spend at least 30 percent of their incomes on housing in 2000.⁹

FIGURE 7. HOMEOWNERSHIP AMONG MASSACHUSETTS AND U.S. WORKERS, 1980-2010



SOURCE: Dēmos analysis of Current Population Survey data using 2-year averages

CHILD CARE

Child care can be one of the largest expenses families face, in some cases equaling or exceeding housing costs, particularly in Massachusetts, the most expensive state in the country for child care. On average, full-time care in a

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

	CHILD CARE CENTER	FAMILY CHILD CARE HOME
Infant, full-time	\$18,773	\$11,940
4 year old, full-time	\$13,158	\$11,475

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

family child care home in Massachusetts costs \$11,940 a year for an infant and \$11,475 for a four-year-old; center-based care costs considerably more (see Figure 8). For a family with two children (an infant and a preschooler), center-based care averages \$31,931 a year or 39 percent of family income for a couple earning median wages.

THE FUTURE MIDDLE CLASS: A LOOK AT YOUNG PEOPLE

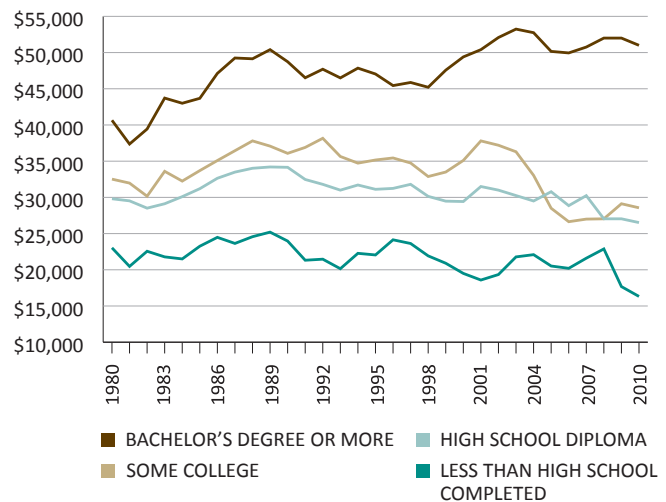
Ensuring the young make a seamless transition to adulthood is another core element of the middle class and utterly necessary to its reproduction and continuation. Through no fault of their own, young Bay Staters dropped from the educational pipeline find this transition increasingly difficult due to low-wage nonunion jobs in a growing service sector, a lack of full-time work, high job turnover, and few job ladders. In addition, 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 at least a bachelor's degree were \$51,000 in Massachusetts—92 percent higher than the earnings of a typical high school graduate in the same age range (\$25,500). However, earnings for recent college graduates peaked in Massachusetts in 2003, and have since declined by 5 percent. College graduates were the only group of young workers to increase their earnings over the last generation, gaining 31 percent in median earnings between 1980 and 2003. Young workers of other education levels have seen their wages stagnate and even fall over the past generation (see Figure 9). Though declining wages have eroded young workers' buying power, the more alarming trend is how they're falling further behind the population as a whole. For example, young workers with a bachelor's degree used to earn 93 percent of the median wages of all workers with a bachelor's degree as recently as 1987; in 2010, that ratio has dropped to 83 percent. Young workers of other education levels have fallen further behind their peers as well. This trend bodes ill for the future of Massachusetts' middle class, because it predicts that a new generation of Bay State workers will be unable to match the earning power of their parents.

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 abysmally high at 22.5 percent nationally in 2010 compared to 9.3 percent among young workers with a four-year college degree.¹⁰ Due in large part to their high education levels, the unemployment rate for young workers aged 25 to 34 in Massachusetts, at 7.9 percent, is lower than the nation as a whole, but still approaching historic highs for the state.

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

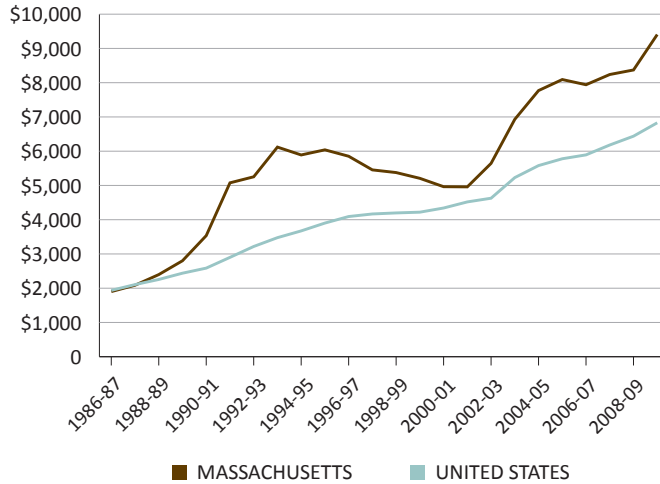


SOURCE: Dēmos analysis of Current Population Survey data using 3-year averages. Data for workers with "Some College" could not be broken down by degree status due to sample size.

COLLEGE TUITION AND FEES

At \$9,405 for 2009-10, in-state tuition and fees at Massachusetts' colleges and universities is about 38 percent higher than the national average.¹¹ Tuition costs have increased in Massachusetts over the past 20 years—236 percent in total—with the exception of the latter half of the 1990s (see Figure 10). Note that these figures do not include room and board.

FIGURE 10. ANNUAL IN-STATE COLLEGE TUITION IN MASSACHUSETTS AND THE U.S.



SOURCE: Digest of Education Statistics.

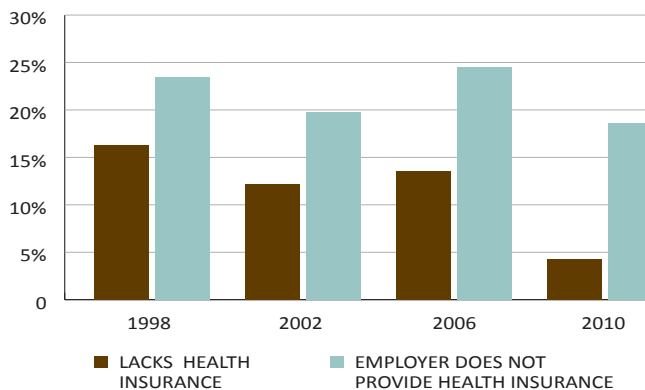
STUDENT DEBT

Sixty-three percent of college graduates in Massachusetts entered the labor force with student debt in 2009, and their average debt—\$24,484—was the 15th highest in the nation.¹² Both the percentage of college graduates with debt and the amount have risen in Massachusetts and elsewhere; Bay State college seniors now carry on average 38 percent more debt than they did in 2005.

HEALTH AND RETIREMENT BENEFITS

Although, thanks to the 2006 landmark health insurance legislation, young workers ages 25-34 are just as likely to have health insurance coverage as other workers in Massachusetts (only 4 percent are currently uninsured), 19 percent lack access to health insurance through their employer (see Figure 11). Only 60 percent of Massachusetts' young workers have access to an employer-sponsored retirement plan and even fewer (46 percent) actually participate.¹³ And the vast majority of these plans are inadequate 401(k)-type plans rather than traditional pensions.

FIGURE 11. HEALTH INSURANCE ACCESS AMONG MASSACHUSETTS WORKERS AGED 25-34



SOURCE: Dēmos analysis of Current Population Survey data

CONCLUSION

THE AMERICAN DREAM came to life in Massachusetts in the form of a strong and vibrant middle class that sustained the state's economy for decades. But as the state's manufacturing sector has greatly diminished over the past generation, obtaining a higher education quickly became one of the most common route to the middle class in the Bay State. And many of the state's workers have taken that route: Massachusetts has the most highly educated workforce of any state in the nation, and over the past ten years median wages have generally continued to climb while those of most others have stagnated or declined. But Massachusetts' shift to a knowledge economy has resulted in an increasingly large income gap between the state's educated workers and everyone else: Massachusetts now has the 4th highest income inequality in the nation.

Just as the post-war middle class was built, it is possible to rebuild it and strengthen it for the next generation. Workers, unions, families, and citizens plan to do just that. With one of the strongest union histories in the nation, the Great Recession has only strengthened Bay State workers' firm commitment to investing in our greatest values. State political leaders have listened to the needs of Bay State workers and have enacted policies that have softened the blow of the Great Recession. As the recession drags on and pre-existing inequalities persist and deepen, it is critical for workers and elected officials to come together to reclaim the American Dream and build an economy with widely shared prosperity and a thriving middle class.

ENDNOTES

1. The estimate measures the gap between the peak and trough employment levels in Massachusetts (February 2008 and November 2009), adjusted for population growth.
2. All earnings data cited in this brief are from Dēmos analysis of the Current Population Survey (CPS) and are adjusted for inflation. Unless otherwise specified, the population the graphs are describing are working adults aged 18-64.
3. The World Bank, World Development Indicators, "GDP per capita (constant 2000 US\$)," <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD?page=5>
4. Center on Budget and Policy Priorities and Economic Policy Institute, Pulling Apart: A State By State Analysis of Income Trends, April 2008. <http://www.cbpp.org/files/4-9-08sfp-fact-mn.pdf>
5. David Himmelstein, Deborah Thorne, Elizabeth Warren and Steffie Woolhandler. "Medical Bankruptcy in the United States, 2007: Results of a National Study," American Journal of Medicine, 2007. http://www.washingtonpost.com/wp-srv/politics/documents/american_journal_of_medicine_09.pdf
6. Dēmos analysis of the Current Population Survey (CPS).
7. Dēmos analysis of the Current Population Survey (CPS).
8. Alicia H. Munnell, Francesca Golub-Sass, and Dan Muldoon, "An Update on 401(k) Plans: Insights from the 2007 SCF," Center for Retirement Research, 2009.
9. Data compiled by the U.S. Census Bureau from the 2008 American Community Survey, "Table 991. Owner-Occupied Housing Units—Value and Costs by State: 2008" and the 2000 U.S. Census, "No. 955. Specified Owner-Occupied Housing Units—Value and Costs by State: 2000."
10. Heidi Shierholz and Kathryn Anne Edwards, The Class of 2011: Young Workers Face a Dire Labor Market Without a Safety Net, Economic Policy Institute, April 2011. http://epi.3cdn.net/c7d6ec52122ea9c188_rbm6bc14a.pdf
11. Digest of Education Statistics, "Average undergraduate tuition and fees and room and board rates paid by full-time-equivalent students in degree-granting institutions by control of institution and by state."
12. The Project on Student Debt, Student Debt and the Class of 2009, October 2010. <http://projectonstudentdebt.org/files/pub/classof2009.pdf>
13. 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.

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