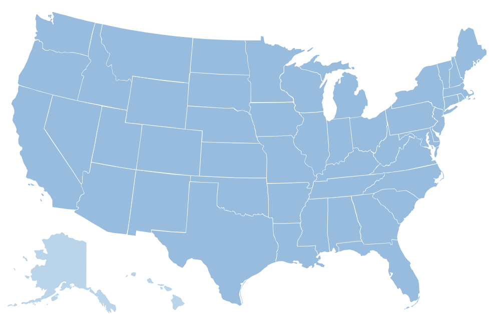
Dēmos

THE GREAT UNRAVELING:
A PORTRAIT OF THE 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. But the kinds of jobs that can provide a solid middle-class life in return for hard work are in short supply—unemployment remains high, earnings are volatile, and hard-won benefits are being lost. For the first time, the majority of Americans believe their children will not be better off than them. The future of the middle class, which has been the backbone of our nation's economy for more than half a century, is at risk.

America's strong and vibrant middle class didn't just happen. It was built brick by brick in the decades after World War II by hard work and workers' strength in numbers that came from the unions that represented them. Unions made sure that as our nation's wealth and productivity grew, so too did the income and benefits of the people who worked hard to create that wealth. For decades, our nation's prosperity was widely shared—wages increased and more employers provided their workers with health insurance, pensions, and paid time off. The middle class was also built by government policies that invested in infrastructure and basic science, supported homeownership and made a college education accessible to a new generation. Parents without higher education themselves saved to send their kids to college, made possible by affordable tuition at state universities and financial aid.

But all of this is changing and the middle class is now threatened. Median income is no higher than it was a decade ago and only workers with at least a bachelor's degree earn more than their counterparts a generation ago. The nation's once vibrant manufacturing sector—the engine that drove the growth of the post-war middle class—has gradually declined over the last three-plus decades. The bulk of recent job growth has been in the service sector, where unions are less prevalent, pay is lower, and benefits are limited or non-existent.



THE STATE OF THE MIDDLE CLASS

- High unemployment
- Declining access to benefits
- Higher costs to raise a family
- College degree increasingly out of reach
- Diminished economic prospects for young people

FUTURE MIDDLE CLASS

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

There's been a dramatic shift in costs for health coverage from employers to employees as well as a rapid decline in the number of employers who even offer health insurance. Rising out-of-pocket costs mean that a family illness can lead to substantial expenses and medical debt. And as employers replace traditional pensions with 401(k)-type plans—again shifting costs and risks to employees—middle-class workers can no longer count on a secure retirement.

The middle class has also been hit by trends outside the labor market as it has become more costly to raise a family. High-quality child care 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 have further strained middle-class family budgets. The growing gap between incomes and expenses fueled skyrocketing family debt in the two decades preceding the Great Recession.

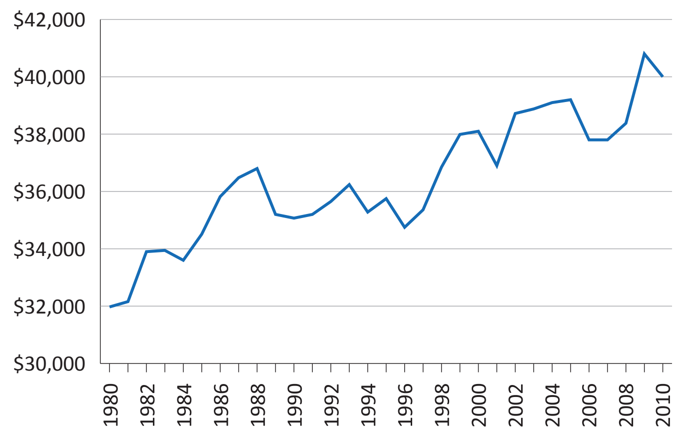
The threat to the future of the middle class can be seen most clearly in the economic prospects for the nation's young people. Overall, young workers today are earning less than their parents did a generation ago, with substantial wage declines among men. Skyrocketing college costs are making it hard for middle-class students to stay in school and graduate. The average student debt for college graduates is well over $20,000 and growing. Close to a third of young workers do not have employer-based health insurance, and most young people will pay for the lion's share of their own future retirement benefits if current trends continue.

Now is the time for citizens, workers, employers, 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.

EARNINGS[1]

Over the last 30 years, median earnings for workers (ages 18-64) have ebbed and flowed with changes in the economy and the strength of workers. The typical full-time American worker earned $40,000 in 2010, which is 25 percent more (after inflation) than their 1980 counterparts (see Figure 1). However, this increase is quite small in the context of the nation's overall growth during the same time period, when per-capita GDP increased 61 percent.[2]

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

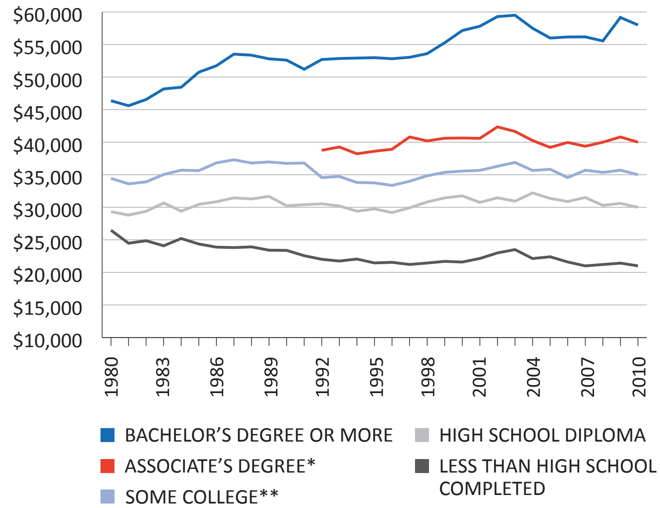


SOURCE: *Dēmos analysis of Current Population Survey data*

EDUCATION

A look at earnings by level of education reveals that over the last 30 years, median earnings were relatively flat or on the decline for most workers—with only significant growth in median earnings among those with bachelor's degrees or higher. Over the last 30 years, workers with at least a bachelor's degree increased their earnings by 25 percent after inflation. But high school graduates experienced only a 2 percent increase in earnings while workers without a high school diploma saw their wages plummet nearly 21 percent. As a result, workers with a bachelor's degree or more earned nearly twice as much as high school graduates in 2010 ($58,000 versus $30,000 respectively). Earnings data for associate degree holders' are available only since 1992, but show no lasting growth during that period (see Figure 2).

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



SOURCE: *Demos analysis of Current Population Survey data.*

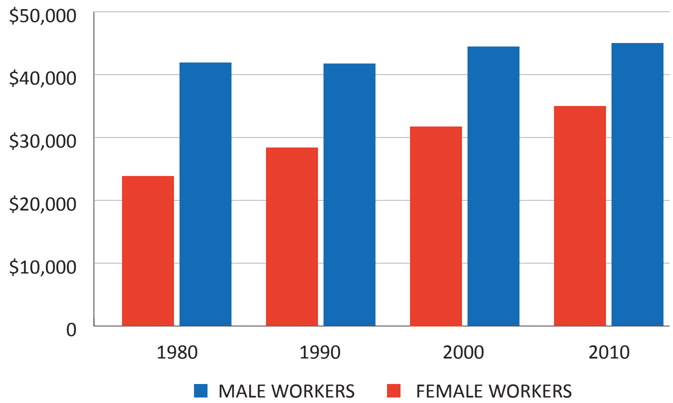
**Data not available for "Associate's Degree" prior to 1992.*

***Due to limitations in the CPS, "Some College" includes both those with Associate's Degrees and some college but no diploma prior to 1992, but only those without degrees afterwards.*

GENDER

Men typically earn more than women: in 2010, median earnings for men were $10,000 higher than those for women ($45,000 versus $35,000). But the gender gap has steadily declined over the last 30 years, in part because men's wages have largely stagnated, rising only 7 percent in the past three decades. In contrast, median earnings for women have risen 47 percent since 1980 (see Figure 3). Nationally, women now earn 78 percent of what men do compared to only 57 percent three decades ago.

FIGURE 3. MEDIAN EARNINGS OF MALE AND FEMALE WORKERS IN THE U.S., 1980–2010 (2010 DOLLARS)



SOURCE: *Demos analysis of Current Population Survey data*

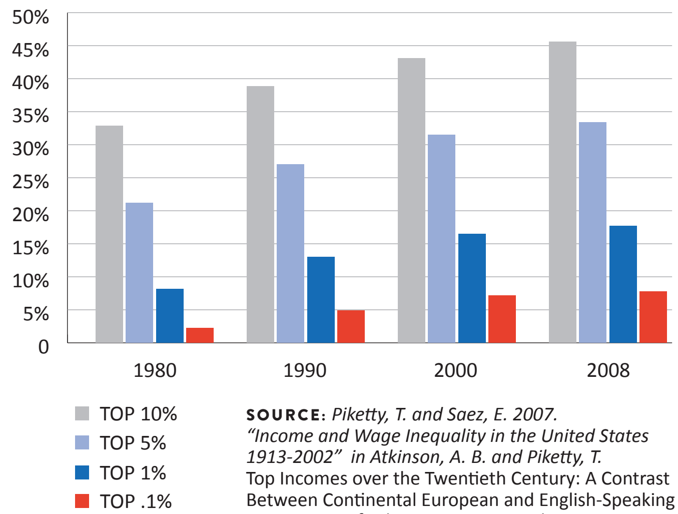
RACE & ETHNICITY

Median earnings for African-American and Latino workers have been consistently lower than those for white and Asian-American workers. In 2010, the typical African-American worker earned roughly $32,000, or 74 percent of the earnings of the typical white worker, which were $43,000. At $28,000, median earnings for Latinos were 65 percent of those for whites. The typical Asian-American worker earned $45,000 in 2010, slightly above the median for whites. All racial and ethnic groups experienced double-digit earnings growth over the last 30 years except Latinos whose earnings have been nearly flat.[3]

RISING INCOME INEQUALITY

Since 1980, income inequality in the U.S. has widened considerably as income has become increasingly concentrated at the very top. In 2008, the top 10 percent of earners took nearly half (46 percent) of total national income, up from a third (33 percent) three decades earlier. Income concentration has grown most intensely among the richest of the rich: the top one tenth of one percent increased their share of national income from 2.2 percent to 7.8 percent between 1980 and 2008 (see Figure 4). In contrast, during the previous 30 years, 1950 to 1980, that same group's share of total income stayed fairly steady and varied only between 1.9 percent and 3.5 percent.

FIGURE 4. INCOME SHARE HELD BY TOP EARNERS IN THE U.S., 1980-2008



SOURCE: *Piketty, T. and Saez, E. 2007. "Income and Wage Inequality in the United States 1913-2002" in Atkinson, A. B. and Piketty, T.* Top Incomes over the Twentieth Century: A Contrast Between Continental European and English-Speaking Countries*, Oxford University Press, chapter 5. Series updated by the authors. Data available at http://g-mond.parisschoolofeconomics.eu/topincomes/.*

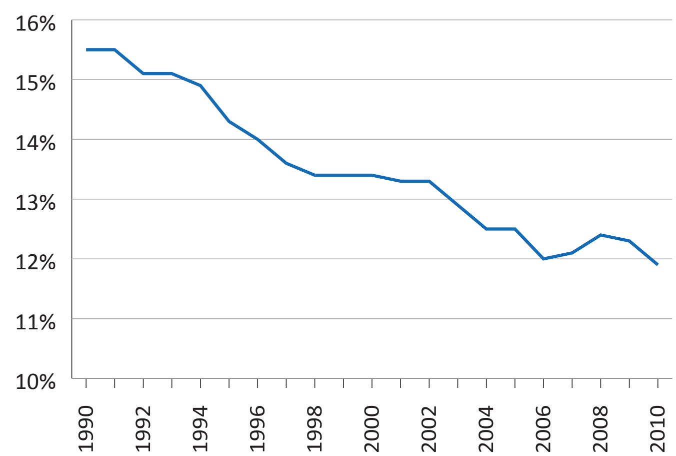
JOBS AND BENEFITS

Access to well-paying jobs with good health and retirement benefits is the cornerstone of a middle-class life. Unions play an important role in helping workers negotiate fair pay and better benefits. All workers, not just union members, benefit from union gains. But only a fraction of U.S. workers are union members. Over time, workers—especially non-union workers—have been forced to absorb an ever-increasing portion of previously-shared costs and risks for health and retirement benefits.

UNION MEMBERSHIP

Compared to other countries, union participation in the U.S. has historically been low. Unionization in the U.S. has steadily eroded since its peak in the 1950s, when it reached nearly 30 percent.[4] Nationally, only 11.9 percent of workers participated in a union last year (see Figure 5)—36 percent of public-sector workers (7.6 million) and 7 percent of private-sector workers (7.1 million).[5]

FIGURE 5. UNION MEMBERS AS A PERCENT OF ALL WORKERS IN THE U.S., 1990-2010



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

Research demonstrates the key role unions play in raising wages and benefits, particularly for low-income workers. National data for 2003-07 show that unionization raises the wages of the typical low-wage worker (one in the 10th percentile of earnings) by 21 percent, compared to 14 percent for a worker earning median wages and 6 percent for the typical high-wage worker (one in the 90th percentile). Overall, unionization raised the average worker's wage by 12 percent.[6]

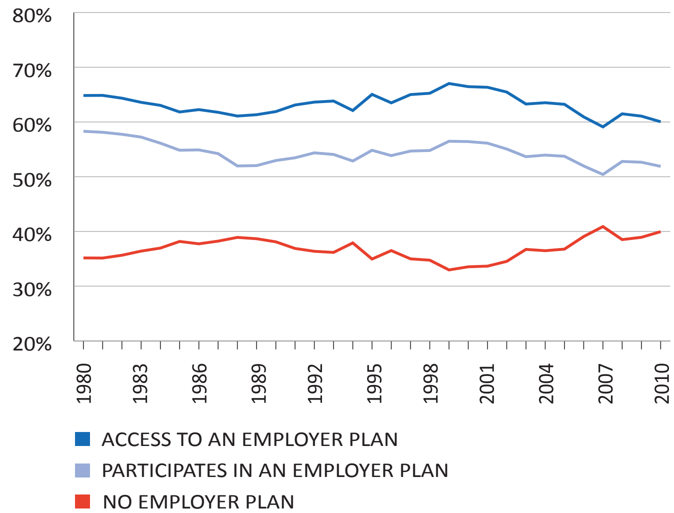
HEALTH INSURANCE

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.[7] The proportion of full-time U.S. workers lacking health insurance is 15 percent, and access to employer-sponsored health insurance is declining: in 2010, nearly a quarter (24 percent) of full-time U.S. workers were not offered health coverage by their employer. Even as the economy boomed in the late 1990s, only 82 percent of workers had access to employer-sponsored health insurance.[8] But employer-sponsored plans are not sufficient to protect workers: cost shifting to employees has decreased disposable income. Workers' contributions for family health insurance coverage increased almost 150 percent between 2000 and 2010 to close to $4,000. Over half of employees pay more than 25 percent of the total cost of their insurance premiums.[9]

RETIREMENT BENEFITS

Several factors threaten the ability of U.S. workers to look forward to a secure retirement. In a rate that has changed little over the past 30 years, only 60 percent of the nation's full-time workers currently have access to a retirement plan at work. Even at the economy's peak in 1999, the rate was only 67 percent.[10] But employer-sponsored retirement 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 all employer-sponsored retirement plans are now 401(k)s or similar individual retirement plans.[11] Over 8 percent of U.S. workers don't participate in their employer-sponsored plan either because they can't afford to contribute or fail to opt in (see Figure 6).

FIGURE 6. U.S. WORKERS' ACCESS TO AND PARTICIPATION IN EMPLOYER-SPONSORED RETIREMENT PLANS, 1980-2010



SOURCE: *Dēmos analysis of Current Population Survey data*

UNEMPLOYMENT

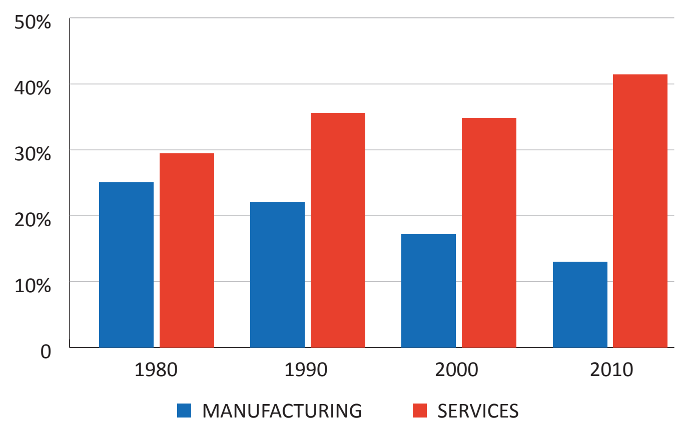
Although the U.S. has experienced multiple recessions since 1980, none saw unemployment increase so rapidly nor recover so slowly as the Great Recession. During the double-dip recession of the early 1980s, the unemployment rate peaked at 10.8 percent in November 1982. Although higher than the 10.1 percent peak of the recent recession, unemployment had fallen to 8.5 percent a year after the official end of the 1980s recession, and by November 1984, two years after the crisis' end, unemployment stood at 7.2 percent. The recessions of the early 1990s and early 2000s were mild by comparison with far less severe job losses. In the months leading up to the Great Recession, unemployment was relatively low at 4.4 percent in May 2007. But the jobless rate began to rapidly ascend in early 2008 and it had more than doubled when it peaked at 10.1 percent in October 2009 (several months after the official end of the recession). A year later, it had fallen only to 9.7 percent and in July 2011, it was still stands over 9 percent.[12] Further, 45 percent of the unemployed have been out of work for six months or more. Extensions of unemployment insurance benefits for the long-term unemployed are currently set to expire at the end of 2011.

The Great Recession, as previous recessions, has hit minorities and workers with the least education particularly hard. The unemployment rates for African-Americans more than doubled from its pre-recession low of 7.7 percent in August 2007 to a peak of 16.4 percent in January of 2010, and has fallen only slightly since, remaining at 15.9 percent as of July 2011. The unemployment rate for Latinos followed a similar pattern, rising from 5.5 percent in August 2007 to a high of 13.2 percent in November 2010 before falling to its current July 2011 level of 11.3 percent. The unemployment rate for white Americans, in contrast, rose from 4.2 percent in August 2007 to 9.4 percent in October 2009, and now stands at 8.1 percent. By education, the unemployment rate for workers 25 and older with less than a high school diploma, 15 percent, was nearly four times than those with a bachelor's degree or higher, who had a 4.3 percent unemployment rate as of July 2011. The unemployment rate of workers with a high school but no diploma is halfway between the two at 9.3 percent.[13]

WHERE THE JOBS ARE

The past 30 years have brought significant changes to the nation's job market. One change that has had a dramatic impact on the economic fortunes of workers is the relative size of the manufacturing and service sectors. Jobs in these two sectors have accounted for more than half (roughly 54 percent) of all employment since 1980, but the sectors have experienced diverging trends. Manufacturing employment declined from 25 percent in 1980 to 11 percent in 2010, while service employment increased from 29 percent to 43 percent (see Figure 7). Manufacturing jobs are far more likely than service jobs to be unionized, pay decent wages, and offer middle-class benefits.

FIGURE 7. EMPLOYMENT IN MANUFACTURING AND SERVICES AS A PERCENT OF THE LABOR FORCE, 1980-2010



SOURCE: *Dēmos analysis of Current Population Survey data*

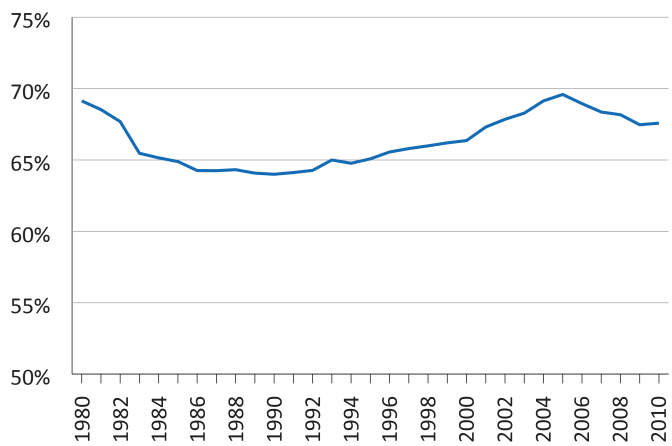
RAISING A FAMILY

Americans 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

In the 1980s, homeownership among American workers declined five percentage points, from 69 percent to 64 percent, before trending upward again in the 1990s. Just before the housing bubble burst, the homeownership rate among workers hit nearly 70 percent in 2005 before tumbling a couple of percentage points (see Figure 8).

FIGURE 8. HOME OWNERSHIP AMONG U.S. WORKERS, 1980-2010



SOURCE: *Dēmos analysis of Current Population Survey data*

National statistics mask, however, the fact that some states, localities, and neighborhoods were much harder hit than others by the wave of foreclosures that followed the subprime meltdown. During the first three years of the foreclosure crisis, from January 2007 through the end of 2009, African-American and Latino homeowners were disproportionately represented among the estimated 2.5 million foreclosures that had been completed: an estimated 8 percent of African-American and Latino borrowers lost their homes to foreclosure compared to 4.5 percent of whites. And these figures don't include foreclosures in 2010 and beyond.[14] Overall Americans are devoting a larger share of income to housing costs: in 2008, nearly two in five U.S. homeowners (38 percent) spent 30 percent or more of their income on housing.[15]

CHILD CARE

Child care can be one of the largest expenses families face. In 18 states, center-based child care fees for two children (an infant and a 4-year-old) exceed housing costs. And since 2000, the cost of child care has increased twice as fast as the median income of families with children.[16] The cost of care varies dramatically from state to state. For example, the average annual cost of full-time center-based care for a 4-year-old ranges from a low of $3,900 in Mississippi to a high of $12,200 in Massachusetts; center-based care for an infant ranges from $4,650 in Mississippi to $16,500 in Massachusetts (see Figure 9). The national average annual cost for center-based care is $8,900 for an infant and $7,150 for a 4-year-old. A family with two children (an infant and a 4-year-old) in center-based care priced at this national average would pay $16,050 annually for child care, which amounts to 22 percent of family income for a two-earner couple earning median wages or 52 percent of income for a single-mother earning the median wage for women.

FIGURE 9. AVERAGE ANNUAL PRICE OF FULL-TIME CHILD CARE AMONG THE STATES, 2011

	CHILD CARE CENTER	FAMILY CHILD CARE HOME
Infant, full-time	$4,650 – $16,500 *(Mississippi) (Massachusetts)*	$3,850 – $12,100 *(Mississippi) (Massachusetts)*
4 year old, full-time	$3,900 – $12,200 *(Mississippi) (Massachusetts)*	$3,600 – $11,300 *(Mississippi) (Massachusetts)*

SOURCE: *National Association of Child Care Resource and Referral Agencies, "Most Recent Child Care Data by State."*

THE FUTURE MIDDLE CLASS: A LOOK AT YOUNG PEOPLE

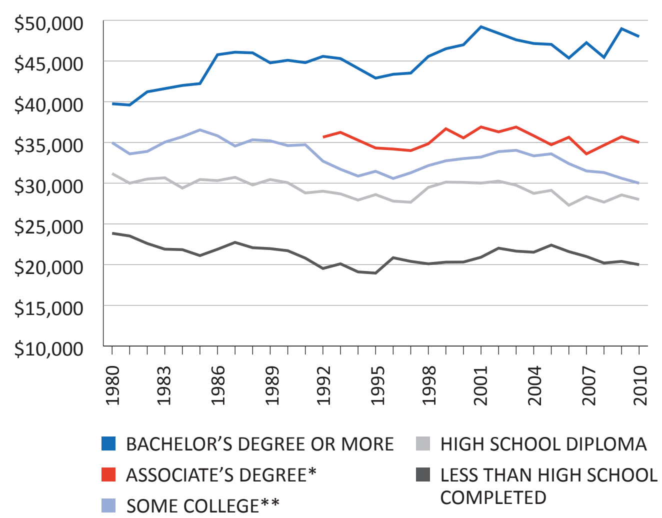
The trends facing young Americans seeking to build and maintain a middle-class life are worrisome. Over the last generation, wages have stagnated or declined for all young workers except for those with a bachelor's or graduate degree. While a college degree provides higher earnings and greater protection against unemployment, college tuition costs have soared and students are accumulating greater amounts of debt.

LABOR MARKET

In the course of one generation, young workers have lost considerable ground. In 2010, the only education level with higher typical earnings than in 1980 were young workers with a bachelor's degree or higher. Real median earnings (after inflation) for young college graduates with at least a four-year degree rose 21 percent over the last 30 years, although after a series of gains and losses, young college grads in 2010 just 4 percent more than they did in 1987, and 3 percent less than they did a decade ago. Earnings for young workers with only a high school diploma and those who did not finish high school declined 10 percent and 16 percent respectively since 1980. Young workers with some college but less than a bachelor's degree lost ground as well (see Figure 10).

The earnings gap between young men and young women in the workforce has historically been narrower, and has narrowed faster, than that of the entire workforce, though it too has not closed entirely. Young female workers ages 25 to 34 earned 65 percent of what young men did in 1980, but by 2006 their earnings were 91 percent of young men's, the gap has since risen slightly to 87 percent today. The narrowing of the gender gap between young people's earnings was entirely due to the rise in young women's wages as they entered the workforce in greater numbers; their earnings rose by 27 percent over the past three decades, while young men's actually decreased by over 4 percent over the same period.

FIGURE 10. MEDIAN ANNUAL EARNINGS OF U.S. WORKERS AGES 25-34 BY EDUCATION, 1980-2010 (2010 DOLLARS)



SOURCE: *Source: Dēmos analysis of Current Population Survey data.*

**Data not available for "Associate's Degree" prior to 1992.*

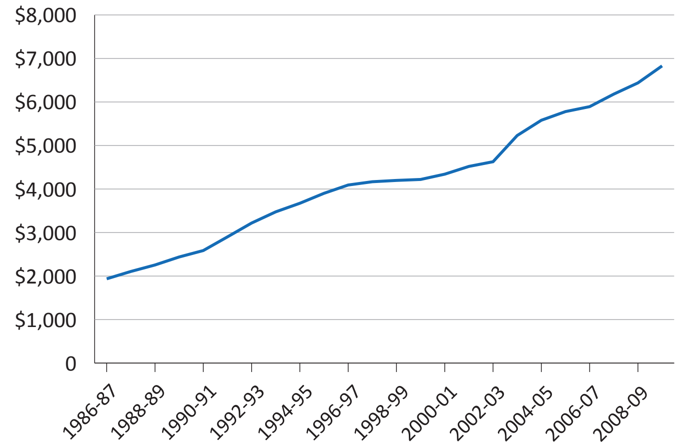
***Due to limitations in the CPS, "Some College" includes both those with Associate's Degrees and some college but no diploma prior to 1992, but only those without degrees afterwards.*

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; it was 22.5 percent nationally in 2010 compared to 9.3 percent among young workers with a four-year college degree.[17]

COLLEGE TUITION

Over the past 20 years or so, average in-state tuition (including fees) at colleges and universities across the nation has increased every year, rising a total of 254 percent. For 2009-10, annual in-state tuition averaged $6,829 (see Figure 11). (Note that these figures do not include room and board.) Much of the cost increase is due to the gradual but steady erosion of state funding for their own institutions, leaving students and families to pick up a much larger share of the tab.

FIGURE 11. ANNUAL IN-STATE COLLEGE TUITION IN THE U.S. (2010 DOLLARS)

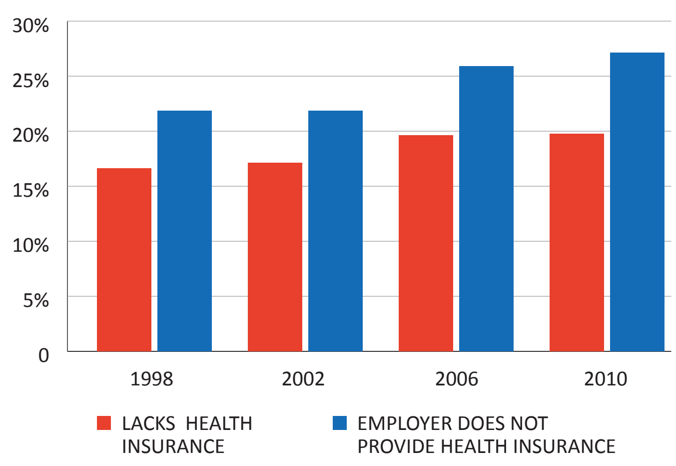


SOURCE: *Digest of Education Statistics. Figures include required fees.*

STUDENT DEBT

Two thirds (67 percent) of college graduates in the U.S. entered the labor force with student debt in 2009, and their average debt was $24,000. Both the percentage of graduates with debt as well as the amount they owe have increased in recent years.[18] And rising numbers of students are accumulating debt without completing a degree, putting them on a shaky path to the future.

FIGURE 12. HEALTH INSURANCE ACCESS AMONG U.S. WORKERS AGED 25-34, 1998-2010



SOURCE: *Dēmos analysis of Current Population Survey data*

HEALTH AND RETIREMENT BENEFITS

Nationally, young full-time workers ages 25-34 are more likely than other workers to lack health insurance—20 percent are currently uninsured compared to 15 percent of all workers. Over a quarter (27 percent) of young workers lack access to health insurance through their employer, a figure that has grown substantially over the last decade (see Figure 12). Just over half (56 percent) of young workers have access to an employer-sponsored retirement plan, the vast majority of which are risky, expensive 401(k)-type plans rather than traditional pensions. Nearly 11 percent of workers ages 25-34 have access to a retirement plan at work but do not participate.[19]

CONCLUSION

THE AMERICAN DREAM came to life in the form of a strong post-war middle class that sustained the national economy for decades. But 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 workers are no longer getting their fair share. It doesn't have to be this way. Just as the post-war middle class was built, it is possible to rebuild it and strengthen it for the next generation. That will require the strength of workers coming together to reclaim the American Dream and demanding that our elected officials work for workers.

ENDNOTES

1. All earnings data cited in this brief are from Dēmos analysis of the Current Population Survey (CPS).
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17. 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
18. The Project on Student Debt, "Student Debt and the Class of 2009," October 2010. http://projectonstudentdebt.org/files/pub/classof2009.pdf
19. Dēmos analysis of the Current Population Survey (CPS).

ABOUT DĒMOS

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.

CONTACT

Dēmos

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

DĒMOS MEDIA
Tim Rusch,
Communications Director
trusch@dēmos.org
(212)-389-1407