Measuring the Middle

Assessing What It Takes to Be Middle Class

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SENIOR FELLOW

A Working Paper

Dēmos A NETWORK FOR IDEAS & ACTION

Demos Board of Trustees

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About Demos and the Economic Opportunity Program

Demos is a nonpartisan public policy research and advocacy organization. Its Economic Opportunity Program works to ensure that all Americans can share in the nation's prosperity and realize their dreams. Our efforts focus on ensuring the future middle class, by offering fresh analysis and bold ideas to strengthen the middle class and provide new opportunities for low-income individuals and young adults to achieve economic security.

About This Working Paper

Measuring the Middle is the second in a series of Demos publications which looks specifically at growing the middle class. *Millions to the Middle*, the first in this series, traces how postwar public policies built today's middle class and offers policy solutions to ensure that opportunity remains part of the fabric of American life. In the coming months, we'll continue to probe these critical areas, publishing a series of reports that examine America's opportunity structure in the wake of demographic change, inequities in access to higher education, and growing inequality.

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Introduction

Politicians court the middle class. Pundits reference it. Sociologists study it. Most people think they belong to it. But we don't really know what *it* is.

What we do know is that the modern American middle class did not just appear. It was built by postwar public policy and a particular set of economic circumstances that favored U.S. labor and products in a growing global market.

In the postwar years, educational attainment rose as the GI Bill and Higher Education Act of 1965 increased college access and affordability. Homeownership expanded as government programs enabled more people to get mortgages, made mortgage interest tax deductible, and promoted suburban housing development. Incomes grew as lawmakers raised the minimum wage to an historic high and as the global dominance of U.S. manufacturing bolstered the economy, ensuring a tight labor market. Federal laws that protected the right to organize led to strong labor unions, which ensured workers a generous share of corporate profits, as well as pensions and health benefits.

These postwar policies and conditions created an infrastructure of opportunity that lifted millions solidly into the middle class. By and large, whites were the greatest beneficiaries of these efforts. It took the Civil Rights Act, anti-discrimination reform in lending and education practices, anti-redlining measures, and affirmative action to increase access to the middle class for the nonwhite population. Today, nonwhites have a larger place in the middle class than ever before. But the benchmarks of being middle class in areas such as educational attainment, homeownership, income, and wealth are still less likely to be found among nonwhites than among whites.

Over the last three decades, America's infrastructure of opportunity has begun to erode for whites and nonwhites alike. The activist policies of the postwar era that built the middle class have given way to more a laissez-faire approach to the economy and dramatic gaps between rich and poor. Global competition has grown fiercer and unions have grown weaker. Many of the good jobs that ensured widespread prosperity in the past are migrating overseas. The cost of basic elements of a middle class life – a home, health insurance, a college education – have soared in recent years, outpacing the growth in incomes.

As a result of these changes, it is becoming increasingly difficult for Americans to enter and remain in the middle class.

But how difficult is it?

Research suggests that economic mobility has declined in recent decades. Family wealth is becoming an ever greater predictor of a child's future station in life — more strongly correlated than anything else with academic attainment, college attendance, and access to future economic opportunity. Yet this head start is more unevenly distributed than in the past – thanks in part to soaring levels of personal debt that have sent many families into the red over the past decade even as overall national wealth has increased. The richest fifth of households now owns ninety-one percent of familial household wealth in America.[1]

The number of hours the average American family works has increased eleven percent since the 1970s. But these extra hours of labor have not produced commensurate increases in financial well-being. Between 1979 and 2000 the incomes of households in the lowest fifth of earners grew by only six percent. In the same time frame, the incomes of households in the top fifth of earners grew by seventy percent. Those of the top one percent of earners grew by 184 percent.[2]

More and more families remain stuck in the same income rut, unable to build wealth and improve their position through hard work and thrift. The ability of the bottom forty percent of earners to move up to the next income quintile has declined steadily. Meanwhile, the ability of the highest earners to move even higher has increased.[3] While the highest earners and wealthiest Americans see ongoing financial windfall, middle income Americans continue to lose ground.

But how much ground have middle income Americans lost?

The questions "*How difficult is it for Americans to enter and remain in the middle class?*" and "*How much ground have middle income Americans lost in recent decades?* are vitally important, but difficult to assess.

These questions are vitally important because the existence of a vibrant middle class is a cornerstone of America's quality of life. These questions are difficult to assess because we lack a concrete definition and consistent measurement of what it means to be middle class.

Self-identification is a common tool used by sociologists and researchers to assign people to the middle class. But self-identification can be confusingly inclusive. The majority of Americans consider themselves middle class in some way. Polls have found have found that nearly ninety percent of Americans define themselves as middle class or say they ascribe to middle class thinking. In 2002, the General Social Survey found that one out of two Americans described themselves as middle class. This trend remains unchanged since the GSS began in the 1970s.

When researchers try to describe the middle class, they usually employ one of several characteristics. Two common examples are household income within a certain range or income that is two times the poverty level. Occupation, educational attainment, and homeownership are other examples.

The limitation of the traditional approach to assigning individuals to the middle class based on just one characteristic is that each characteristic captures only part of the picture. When we speak of the middle class, what we are really getting at is a way of life. Being middle class connotes a level of financial security and stability. This security and stability means we can support our families, afford the things everyone has, provide our children with a quality education, put them through college, assure intergenerational mobility, be cared for when we're sick, and retire in comfort. Today, ensuring this stability and security has grown more complex and cannot be guaranteed by only one characteristic.

To create a more realistic picture of the middle class, we need to examine the range of factors that contribute to financial stability and economic opportunity. Homeownership, assets, education level, income, and health insurance coverage are all crucial components of the financial security and stability associated with being middle class. If we want to understand the extent to which it is becoming more difficult to enter and remain in the middle class, and to assess the progress that groups are making toward this goal, we need to examine the interaction of these factors.

To achieve this more complete understanding of how the middle class is evolving, who is entering into it, and who is failing out, Demos has begun developing a Middle Class

Security Index. This index seeks to represent the extent to which characteristics crucial to middle class security are present in a given population.

This paper is the first step in a larger endeavor to track and measure America's middle class. In this paper, we outline the characteristics that contribute to middle class access and stability — such as homeownership and education level. To begin assessing the major trends affecting America's middle class, particularly the ability of households to enter into it, we offer a rudimentary Middle Class Security Index.

The trends shown in this paper provide cause for concern. Expansion of the middle class – arguably the great American project – has stalled in recent decades, while historic disparities between whites and nonwhites endure in many areas. And, among those who have reached the middle class, overall security seems to be slipping in several important ways.

This is not how America is supposed to be, or how it needs to be. We conclude this paper with a set of commonsense policy recommendations that Demos has developed to strengthen the middle class.

Measuring the Middle in a Time of Change

Two macro forces make it imperative that we begin to track middle class security more closely. These forces are exerting dramatic pressure on America's self-image as an "opportunity for all" society.

DEMOGRAPHIC CHANGE

Shifting demographics pose challenges to the future of the middle class. The Black and Hispanic populations are two of the fastest growing and most significant portions of the population. Demographically, these Americans should form the backbone of the future middle class – assuming they can count on help to move up the economic ladder through the kind of investments that built the postwar middle class.

Forecasts say that the Black and Hispanic populations will make up nearly forty percent of the population by 2050. By 2050, the white population will grow seven percent. The Black population will grow seventy-one percent, and the Hispanic population will grow 188 percent. These fast growing groups are behind on major indicators of economic well-being. Blacks are thirty-seven percent less likely and Hispanics fifty-nine percent less likely to hold a college degree than whites. For every dollar in income earned by white households, Black households earn 62 cents, and Hispanic households earn 69 cents. For every dollar in wealth owned by white households, Black and Hispanic households hold as little as ten cents.

Meanwhile, baby boomers are aging, creating the largest over-65 population in the nation's history. Between now and 2030, the 65-plus population is projected to grow faster than any other age group.[4] The under-24 population is growing at a rate set to surpass the previous baby boomer highs. Support for retirement is necessary to ensure the continuation of financial security for the older generation. Educational investment is necessary to ensure that the next generation can pursue financial security. These two efforts compete for the same increasingly scarce resources. If we want to invest in the education of our youth and in the support of our retirees, we will need to make well-informed choices. Defining what most impacts American's ability to enter and remain in the middle class will provide us with insight into how to make these choices, as well as take other steps that will ensure a robust and secure middle class in the decades ahead that matches the country's emerging demographics.

ECONOMIC CHANGE

Lower wages, fewer benefits, and less stable employment all threaten the ability of families to enter and remain in the middle class. There is debate about the overall impact of offshore manufacturing and the migration of American jobs overseas. One school of thought suggests that the migration of jobs spawns cost efficiencies that bring new resources to American industry and creates new opportunities for American workers to retrain and be better suited for a future, information-oriented economy. Another school of thought is that the migration of jobs destroys the livelihood of company towns and leaves an irreversible void. Offshoring may result in better bottom lines and future opportunities, but rarely in the towns where factories have closed and for the generations who have lost jobs.

As companies go global and price pressures rise, the employment conditions that allowed previous generations of workers to be middle class, to have long term jobs and to be able to support a family with a high school education or solid work experience, have nearly faded. The trend of global competition for U.S. jobs is not limited to manufacturing. It is becoming increasingly common for Americans calling tech support, making airline reservation, and doing business with large retail banks – to name just a few industries – to speak with well trained workers located in places such as India and the Caribbean.

In the past, unions helped to ensure that work paid, that jobs provided a consistent measure of economic security, decent benefits, and stability. The ability of unions to play this role has been under attack in recent decades. One out of three workers was unionized in the 1950s. Today that figure is around one in ten. When it comes to the salaries and benefits that contribute to being middle class, a less unionized working America is much less well off. Total compensation for non-unionized workers is twenty-eight percent lower than for unionized workers. Non-unionized workers are also significantly less likely than unionized workers to have health insurance and pensions.

With the weakening of unions and an ongoing compromise of workers' right to organize, employees are left with little bargaining power. As job competition has increased, both blue and white collar workers have had to lower their expectations for wages, benefits, and job stability. The result is a tighter squeeze on the U.S. labor market and a less secure middle class. Measuring the middle class is a way to understand how tightly American workers are being squeezed and to illustrate how less secure we are as a result.

Markers of Middle Class Security

Before we present our first version of a Middle Class Security Index, we discuss key areas that influence middle class stability. Some of these have traditionally been considered criteria for being part of the middle class. Others have not been considered criteria in any formal sense, but are nonetheless important aspects of middle class financial stability.

INCOME

Income is one of the most common criteria for assigning American households to the middle class. One approach is to break households into income quintiles, or fifths, and to call quintiles two to four or three and four "middle income." This measurement does not tell us anything about the percentage of Americans who are middle class. If we say that quintiles two, three, and four are middle income, then sixty percent of households are middle class. If we say that quintiles three and four (or two and three, for that matter) are middle income, then forty percent of households are middle class.

Where the quintile approach is useful is in comparing income growth, particularly among various populations. Looking at the second and third quintiles of Black and Hispanic earners, middle class incomes have grown steadily over the past 30 years. For Black households in the second and third quintiles, incomes have grown twenty-five percent. For Hispanic households in the same quintiles, incomes have grown twelve percent. In comparison, incomes for white households in the second and third quintiles grew fifteen percent.

Another way to use income level as a criterion for being middle class is to pick an income range and look at the percentage of the population falling into that range. If we assume that having a household income in the $35,000-$74,999 range is middle income, then thirty-three percent of Americans are middle class. However, using an income range can be misleading when it comes to assessing the health of the middle class.

Twenty-eight percent of white households have incomes ranging between $35,000 and $74,999. For Hispanic households, this figure is thirty-four percent, and for Black households it stands at thirty percent. The lower percentage of white households in this moderate income range does not show that white households have lower incomes or are financially weaker than Black or Hispanic households. In fact, it suggests that white households are more likely to be above this income range (which is in fact the case).[5]

Income ranges are perhaps most useful in comparing growth of the middle class among groups over time. In 1967, about twenty percent of Black households had a yearly income between $35,000-$74,999 (in 2001 dollars). That figure grew to thirty percent, its current level, by 2001. In 1972, the first year for which data is available, thirty-one percent of Hispanic households were in the $35,000-$74,999 range (again, in 2001 dollars). By 1982, that figure had slipped to thirty percent, slightly below current levels.[6]

HOMEOWNERSHIP

Most of us associate homeownership with being middle class. Judging by this characteristic alone, most white Americans and many nonwhites are doing reasonably well. But the role of homeownership in supporting middle class security may be waning.

Prior to World War II, homeownership in the U.S. was around forty-four percent overall, forty-six percent among whites and only twenty-four percent among nonwhites.[7] Homeownership grew considerably in the postwar years and has continued to increase in the last decade. Nearly seven out of ten Americans overall now own their homes. Homeownership is seventy-four percent among whites, forty-nine percent among Blacks, and forty-eight percent among Hispanics.[8]

While a traditional sign of being middle class, homeownership in today's market is becoming increasingly perilous as a route to financial stability. American households cashed out a record $458 billion worth of home equity between 2001 and 2004 and actually own less of their homes today than they have at any point in the last thirty years.

The median price of an existing single-family home increased twenty-nine percent between the end of 2002 and May 2005.[9] On the surface many homeowners seem to have benefited from today's record level increases in real estate prices. But this record-setting market is also filled with growing concern about inflated property values and the prospect that a fall in home prices could financially ruin many Americans. Higher prices also mean potential home buyers take on greater risk, stretching financially to afford homes and leaving little margin for weathering financial setbacks, like the loss of a job.

The percent of buyers taking on adjustable-rate mortgages has tripled since 2003. Sixty-three percent of all mortgages originated in the second half of 2004 were for adjustable-rate and interest-only loans.[10] If interest-rates go up and housing prices stagnate or fall – both likely scenarios according to many economists – buyers who have taken on risk will see their financial foundations shaken.

House prices have increased dramatically relative to incomes. The number of metropolitan areas where median house price is four times median household income has more than tripled since 1999. The number of areas where the median house price is five or even six times median household income has also grown sharply.[11] Families with children are particularly hard hit by increasing housing prices. Homeownership among working families with children is actually ten percent lower now than it was in 1970s. This decline has also hit moderate income, and two-income families, two groups whose footing in the middle class we would expect to be much stronger.[12]

COLLEGE EDUCATION

As the difference in earnings between high school and college graduates hits record levels, a college degree is becoming a minimum requirement for the middle class. Over the course of a lifetime, a graduate of a two-year college earns about $275,000 more than someone with only a high school diploma. Someone with a degree from a four-year college earns nearly double. A four-year degree translates to around a $1,000,000 more in lifetime earnings.[13]

Greater earning potential means greater likelihood one will be able to own, save, and invest - in short, to pursue middle class security. The correlation between education level, income and ownership will undoubtedly continue in the future.

In the past, a worker with a high school diploma, solid work experience, and stable employment could support a family and know middle class security. Because of changes in the labor market, this is rarely the case today. It is difficult to imagine that workers holding only high school diplomas will be able to support families and know security within twenty years.

Today about a quarter of the overall population holds a four-year college degree. Twenty-eight percent of the white population holds a four-year college degree. In comparison, only seventeen percent of the Black population and eleven percent of the Hispanic population hold a four-year degree.[14]

As a college education becomes increasingly essential to being middle class, pursuing that education is becoming less affordable for many Americans. The cost of tuition and fees at an average four-year state college grew fifty-six percent between the '83-'84 and '03-'04 school years – using inflation-adjusted dollars. Tuition and fees are up another eleven percent this year. Average student loan indebtedness increased sixty-six percent between 1997 and 2003.

Federal aid has not kept up with the rising college costs or applications. As a result, gaps in enrollment by income and race are the same or larger than they were three decades ago. Students from lower income families remain significantly less likely than higher income students to enroll in and finish four-year college degree programs. The gaps in college enrollment between whites and Blacks and between whites and Hispanics have actually risen since 1972.[15]

ASSETS

Financial security is greatly influenced by the reserves a family has available to get through hard times. However, level of assets, or wealth, has not traditionally been employed as a criterion for being middle class. Our view is that it should be – at least in a more comprehensive measure that defines being middle class as being financially stable.

Given the rising cost of college, today's uncertain labor market, and threats to the traditional pillars of retirement security, assets are a crucial component of middle class stability. In groundbreaking work on disparities in white and Black opportunity, Thomas Shapiro talks about the transformative power of assets, particularly in transmitting financial stability and security across generations.[16] This transformative power gives current generations an important safety net and future generations a head start.

While the need for assets grows in importance, alarming trends are surfacing regarding debt. Between 1989 and 2001, credit card debt of the average American family rose fifty-three percent. Debt among middle class families rose seventy-five percent. About two out of three middle income families report carrying credit card debt.[17]

The increase of credit card debt is correlated with a change in Americans' financial outlook. Between January and May 2005, the percentage of Americans rating their own financial situation as good has dropped from fifty-one percent to forty-four percent. One in four Americans now say they owe more in debt than they can afford.[18] Nearly seven out of ten middle income Americans report living paycheck to paycheck some or all of the time.[19]

Level of assets remains an area of extreme disparity between white and nonwhite households. This disparity is another threat to the ability of nonwhites to have a secure foothold in the middle class. The median wealth of Hispanic households in the U.S. in 2003 was $11,450. For Black households, it was $19,010. For white households it was $86,100.[20] For Hispanics, this translates to 13 cents in wealth for every dollar in wealth held by white households. For Black households, this translates to 22 cents. Research released in 2004 shows that Black and Hispanic households have as little as ten cents for every dollar in wealth owned by white households.[21]

Even whites and nonwhites of equal education and income levels show remarkably different levels of wealth. In fact, "the net worth of Black and Hispanic *college* graduates is similar to the net worth of white *high school* graduates, and the net worth of Black and Hispanic high school graduates is similar to the net worth of white high school dropouts."[22]

HEALTH INSURANCE

Unexpected illness can drive uninsured families into financial ruin. The need to pay medical expenses is a growing reason why middle class families are taking on unprecedented levels of credit card debt. Nearly half of the families who filed for bankruptcy in 2001 did so because of health related expenses. Most of those filing for medical bankruptcy and of those suffering from financial hardship due to medical expenses were middle class.[23]

That a middle class worker has health insurance seems almost a given. But it is actually becoming less the case. The number of middle class families turning to public health insurance due to a loss of private coverage or the inability to pay high premiums is growing.[24] Between eight and ten million Americans lost their employment-based health insurance coverage in the last three years alone.[25] More than 20 million working adults currently lack health insurance.[26] According to the 2004 Current Population Survey, sixty percent of Americans still have health insurance through their employers. But this is down from sixty-four percent in 2000.

An Initial Middle Class Security Index

The opportunity to enter into the middle class and to know the financial well-being and stability we associate with it is one of America's signature strengths. If this opportunity is in fact declining, one of the country's defining qualities is disappearing or changing dramatically. We have little hope of preventing this disappearance or dramatic change if we do not understand what is causing it and how it is playing out.

Demos is developing a Middle Class Security Index as a tool to identify not only who is middle class, but how securely or insecurely that status is held. The Index will help us represent the obstacles and pillars necessary to ensuring a healthy middle class. It will also be a tool to understand and communicate what influences both entry into and slippage out of the middle class.

Demos' initial version of a Middle Class Security Index is presented below. In this version, we examine how homeownership, assets, education level, income, and health insurance coverage can be used to represent middle class status and security. Work in the upcoming months will refine the initial index.

Limitations of the Initial Index and Future Work Needed

Measuring the middle class is essential, but complex. Through this paper, we hope to start a dialogue about the most appropriate and useful ways to develop and employ a Middle Class Security Index. There are many questions that need to be answered in this development.

An index should differentiate between those who face difficulties in entering into the middle class, those who are in the middle class but at risk to fall out, and those whose status is more permanent and less influenced by unforeseen economic events.

We must seek the best representation of factors that influence middle class security. Those employed in the sample measurement presented in this paper may not be the most influential factors or the most consistently tracked in available data sets. For example, if we determine retirement security or ability to pay for children's college education to be important factors in middle class stability, what should be measured to capture them?

Key questions in devising a more sophisticated measurement of the middle class include, *How much income is needed to be middle-class? How much in assets? What level of educational attainment?*

Similarly, there are important questions about whether to select ranges or set upper bound limits on variables such as income or asset accumulation. For example, in the sample Middle Class Security Index, we use a household income of $35,000 or above as an indicator of middle class stability. We could also have chosen an income range, and imposed a cut-off point at $75,000 or perhaps as high as $100,000, for example. But incorporating such cut-off points would artificially lower the percentage of individuals making a solid salary. This could inadvertently give the false impression that fewer individuals were earning middle class incomes. The limitation of not employing an upper limit, however, is that it could also falsely give the impression that American security is stronger than it is.

We have given each criterion in our sample index equal weighting. However, a final index must weight the impact of criteria on financial security. This is to avoid the possibility of having a less meaningful set of "all or nothing" categories. Weighting will help ensure that the overall measure does not oversimplify the contribution of each criterion or create too stringent of a measure. If we require an individual to have all of the criteria, then the number of Americans being defined as middle class and secure could be small or too unrealistic to be useful.

Weighting will also help us capture gradations of security. Part of what pushes us to study the middle class is that individuals today are more likely than ever to be middle class on paper, but be on the brink of financial disaster in practice. Particularly when we consider young families, it is more common than ever for one or both parents to have college degrees and earn $40,000 a year, for example, but to be in debt and unable to afford a home, save, or have health insurance. A Middle Class Security Index will bring attention to such situations.

We also have to look more closely at whether lack of homeownership among higher income individuals is by choice, rather than financial limitations. Especially given the dynamics of today's housing market, we should also consider what level of home equity captures financial security.

Particularly among older generations of workers, it is still possible for highly trained workers with high school diplomas to earn middle incomes. With each succeeding generation, this is becoming significantly less the case. But, if we factor in workers' age, we may want to consider a certain education level, *or* a certain level of income as sufficing to meet a criterion we define as "income security and earning potential."

It also is worth considering whether an index should focus on a specific age range to capture those whose earnings and resources are at prime levels. If we do determine that focusing on an age range is appropriate, what should that are range be?

Other population characteristics may need to be considered as well. An index will be useful in looking at the opportunity and security of the fastest growing populations in the country. With immigration, and particularly its impact on the Hispanic population, a measure may want to factor in characteristics such as foreign vs. native born and length of time in the country.

Household size and marital status may be other population characteristics worth taking into account. An index should not overlook the possibility that one of the only ways to achieve the level of income and assets required for middle class security may be to live in a multiple-income household.

It is also important to find a data set that provides historical perspective, insight into as many indicators as possible, and the opportunity for consistent updates going forward. A Middle Class Security Index will only be useful if it can be a tracking tool over time.

Sample Measure

The initial calculations below are for Middle Class Security Indices for 2000 and 1984. These initial indices use data from the Census Bureau's *Current Population Surveys* and *Surveys of Income and Program Participation*. We have attempted to minimize the number of data sources involved in this initial measure, thus the limitation in the years covered.

Our initial security index is a numerical score derived from summing the percentages of each population which exhibits the characteristics we see as crucial to middle class stability. A population enjoying a consistent degree of economic opportunity and financial stability across each category would have a perfect score of six. The difference between the scores below and six represents how far each group is from achieving full economic opportunity and financial stability.

Middle Class Security in 2000

	Total Pop	*White*	*Black*	*Hispanic*
Homeownership	0.67	0.71	0.47	0.48
Households Owning Interest Bearing Accts	0.65	0.69	0.42	0.45
Households With Positive Net Worth	0.85	0.87	0.71	0.72
Households With Members Holding Four-Year College Degree	0.26	0.26	0.17	0.11
Household Income ($35K or above) in 2000 dollars	0.58	0.61	0.43	0.48
Health Insurance (Persons)	0.74	0.77	0.59	0.48
2000 Middle Class Security Index	**3.8**	**3.9**	**2.8**	**2.7**

The Middle Class Security Index for the overall U.S. population in 2000 was 3.8 out of a possible six. The white population received a 3.9. The Black population received a substantially lower 2.8, and the Hispanic population a lower still 2.7. None of these indices indicate sure footing for any group in terms of economic stability. The indices for each group also represent dramatic disparities between white and nonwhites.

The index can also be used to capture movement toward the middle class over time. Comparing 2000 to 1984, we see that the population overall has seen a modest .1 gain in middle class security. The white and Black populations have seen similar .1 modest gains. The Hispanic population actually saw a decrease of .1 between 1984 and 2000.

Middle Class Security in 1984

	Total Pop	*White*	*Black*	*Hispanic*
Homeownership	0.64	0.67	0.44	0.40
Households Owning Interest Bearing Accts	0.72	0.75	0.44	0.51
Households With Positive Net Worth	0.89	0.92	0.70	0.76
Households With Members Holding Four-Year College Degree	0.19	0.20	0.10	0.08
Household Income ($35K or above) – in 2000 dollars	0.52	0.54	0.31	0.40
*Health Insurance (Persons)**	0.75	0.75	0.70	0.64
1984 Middle Class Security Score	**3.7**	**3.8**	**2.7**	**2.8**

* Based on 1987 data due to report availability.

What influenced this movement (or lack thereof)? Each group has seen marked improvement in income, homeownership, and education level over the last two decades. Blacks have seen additional slight improvement in net worth. However, these gains have been offset by losses in ownership of interest-bearing accounts and health insurance coverage. Declines in positive net worth for whites, Hispanics, and the total population overall have also contributed to instability and slow growth in the middle class as represented in our index. During the time frame examined, immigration has meant that the median age of the Hispanic population has decreased, meaning that this population has grown younger than the Black and white populations. Age and immigration status have likely contributed to a declining index for Hispanics.

Policies to Grow the Middle Class

A review of the data and our preliminary Middle Class Security Index expose threats to the future of the middle class. Debt is increasing. Jobs providing health insurance coverage are declining. The ability for homeownership to generate wealth seems to be waning. A college education is becoming more essential, but less affordable. Important aspects of middle class stability seem to be in decline. Dramatic disparities still exist between nonwhites and whites on major indicators of opportunity. These disparities are a great challenge as population change continues and nonwhites transition to becoming the majority of Americans.

While these circumstances raise formidable challenges, our nation has a history of successfully supporting and expanding the middle class. Public policy played a key role in the rise of America's middle class in the postwar years. Four policies can help us replicate this success in a new century:

1. Expanding Access to Higher Education

Education is a key to middle class security in an economy where most of the good jobs require at least some college. Yet as tuition has soared, rising faster than both inflation and family income, more students can't afford college. In the 2001-02 school year, over 400,000 *college-qualified* high school graduates from low- and moderate-income families did not enroll in a four-year college, and 168,000 did not enroll in any college at all. These statistics translate into frustrated dreams today and a weaker middle class tomorrow. America needs bold new efforts to increase access to higher education, particularly 4-year institutions.

- We propose a dramatic expansion of investments that will give millions of young people a shot at middle class success by doubling the percentage of college-qualified students from low- and moderate-income families who enroll and complete degrees at 4-year colleges.

2. Boosting Homeownership and Savings

Homeownership and savings have historically been pivotal to securing a place in the middle class. That will remain true in the decades ahead. Today, however, between twenty-five percent and forty percent of US households have little or no wealth. While homeownership rates are at an historic high point, nearly a third of Americans still don't own their own home. Many who do have virtually no equity in their homes. We propose several steps to renew this core pillar of the American dream:

- Make the mortgage interest deduction refundable for families making under $50,000 and create other new incentives that would double the rate of homeownership for low-income working families within the next five years.

- Within ten years, provide each newborn child with an asset account endowed with $6,000 at birth — money that will ensure that everyone has a better chance of becoming a middle class asset-holder earlier in life.

3. Closing the Gap Between Wages and the Cost of Living

As many as a third of working Americans are not earning enough money to meet basic economic needs for themselves or their family. The earnings gap has been worsening in recent years. With more good jobs going overseas, the situation is likely to get worse. Our plan to solve this problem builds on two existing policies with bipartisan support, the minimum wage and the Earned Income Tax Credit. We also advocate legislation that strengthens the rights of workers to form unions.

- Eliminate poverty among full-time workers by 2010 by raising the minimum wage and indexing it to inflation.

- Replace the Earned Income Tax Credit with a more generous Working Families Tax Credit to assure by 2015 that most full-time workers earn enough to provide a minimally decent life for themselves and their families, as measured by the true cost of living where they reside.

- Create a Federal Office of Living Standards to assess the income needs of households in different parts of the U.S. and set guidelines for policymakers.

- Pass the Employee Free Choice Act (S. 842 and H.R. 1696), which requires employers to recognize a union when a majority of workers have signed cards authorizing union representation. The act also provides for arbitration and mediation of first-contract disputes and enacts stronger penalties for violations of the law that occur when workers seek to unionize.

4. REDUCING PERSONAL DEBT

Americans are struggling with record levels of personal debt. Heavy credit card debt and other high-interest loans stand as obstacles to joining the middle class — or threaten to destroy the security of those already in the middle class. While high debt levels are symptoms of an economy where many workers don't earn enough to make ends meet, this problem is greatly exacerbated by the unfair and often deceptive policies of major lenders, particularly credit card companies. We propose short-term and long-term remedies to help reduce debt burdens.

- Restore controls on the interest rates that lenders can charge. Index these rates to the prime rate to ensure flexibility and industry profitability while protecting consumers from usury. Prohibit excessive late fees and penalties.

- Expand matched savings accounts, such as Individual Development Accounts, to help working families weather a reduction of income and plan for the future.

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