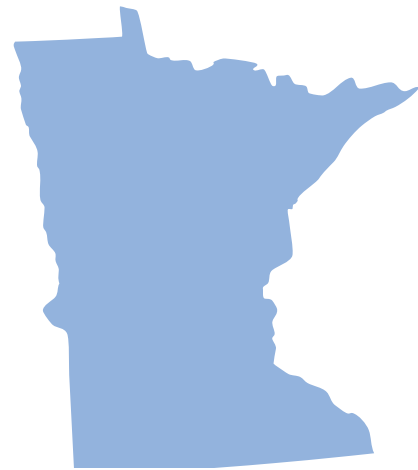


# THE STATE OF MINNESOTA'S MIDDLE CLASS



**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 is up, earnings are down, and hard-won benefits are being lost. The future of the middle class, which has been the backbone of Minnesota's economy for more than half a century, is at risk.

Minnesota's strong and vibrant middle class didn't just happen. It was built brick by brick in the decades after World War II by businesses that hired American workers and by labor—by the hard work of our parents and grandparents and the 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 supported homeownership and made a college education accessible to a new generation. Parents without higher education themselves proudly scrimped and saved to send their kids to college, made possible by affordable tuition at state universities and financial aid.

## THE STATE OF MINNESOTA'S MIDDLE CLASS

- Falling earnings
- Lack of good jobs
- Declining access to benefits
- Higher 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 and is co-published with GROWTH & JUSTICE.*

But all of this is changing and Minnesota's middle class is in jeopardy. Although Minnesota 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. There's also been a rapid decline in the number of employers who provide their workers with health insurance. Rising out-of-pocket costs and skimpy plans mean that a family illness can lead to substantial costs and medical debt. And as employers replace traditional pensions with 401(k)-type plans, middle-class workers can no longer count on a secure retirement.

Several factors threaten the future of Minnesota's middle class. Manufacturing jobs, which tend to be unionized and offer better pay and benefits, took a dive in the early 1990s but made an impressive recovery in the latter part of the decade. Yet since 2000, Minnesota's manufacturing sector has sustained devastating declines. Job growth has predominated in the service sector, where unions are less prevalent, pay is lower, and employers are less likely to offer health and retirement benefits.

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 Minnesota's middle class can be seen most clearly in the economic prospects for the state's young people. Today, the majority of young workers are earning less than their mothers and fathers did a generation ago, with substantial declines among men. Skyrocketing college costs are making it hard for all but the most affluent students to stay in school and graduate. College graduates in Minnesota have some of the highest levels of student debt in the nation, but their earnings have dropped precipitously over the last decade. Young workers are increasingly less likely to have access to health insurance and retirement benefits through their employers, with the most dramatic changes occurring in recent years.

The unraveling of the social contract predated the Great Recession, but the economic crisis hastened its demise. Not only did the state lose over 110,000 jobs because of the Wall Street-caused Great Recession, but the economic effects of those lost jobs reverberated to all corners of the state, particularly the already-strained finances of the state government. We estimate that the jobs lost due to the recession have cost the state over \$425 million annually in lost sales and income tax 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 3,900 teachers or 2,700 nurses.

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.

# EARNINGS<sup>1</sup>

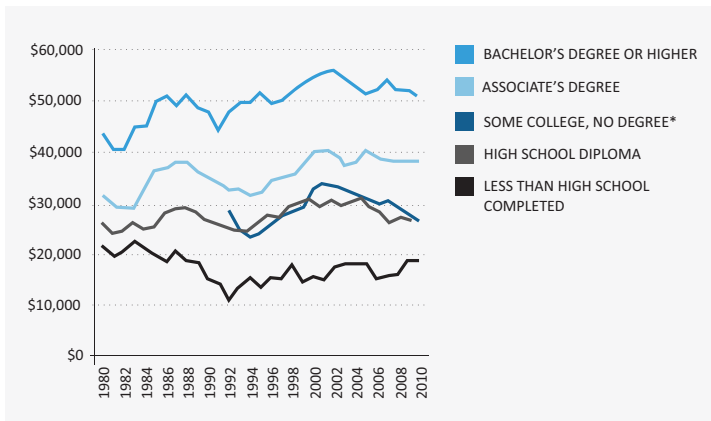
Over the last 30 years, earnings for Minnesota workers (ages 18-64) have ebbed and flowed with changes in the economy and the strength of workers. In an ominous trend, median earnings began to decline well in advance of the Great Recession. They peaked at \$39,312 in 2001 and have fallen 9 percent since to \$35,700, leaving the typical worker at the same earnings level as 1999 (see Figure 1).

## EDUCATION

In Minnesota as elsewhere, a college degree is the surest path to a middle-class income. Minnesota workers with at least a bachelor's degree earn almost twice as much as those with only a high school diploma (\$51,000 versus \$27,540 in 2010). The state

also tracks national trends in the widening earnings gap between education levels. Workers with college degrees are the only ones to see rising wages over the past three decades, as the earnings of workers with no college degree have stayed flat or even fallen.

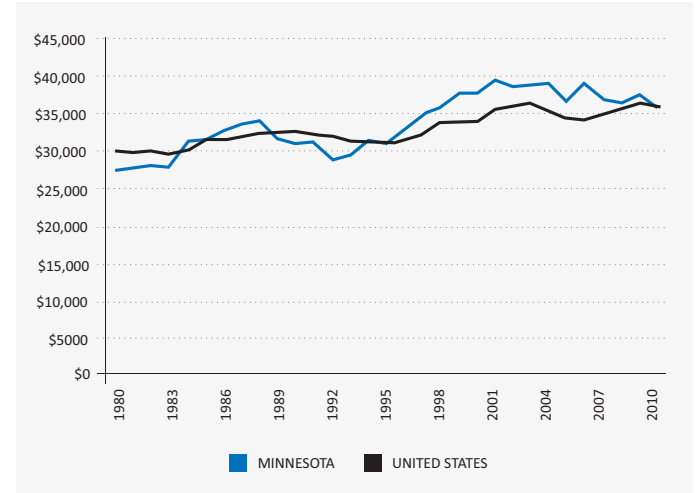
**FIGURE 2. MEDIAN ANNUAL EARNINGS OF MINNESOTA WORKERS BY EDUCATION, 1980-2010 (2011 DOLLARS)**



SOURCE: Dēmos analysis of Current Population Survey data using 3-year averages

\*Data unavailable prior to 1991

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



SOURCE: Dēmos analysis of Current Population Survey data

also tracks national trends in the widening earnings gap between education levels. Workers with college degrees are the only ones to see rising wages over the past three decades, as the earnings of workers with no college degree have stayed flat or even fallen. However, some of these gains were reversed in the past 10 years, as all workers except those without a high school diploma experienced a steady decline in earnings (see Figure 2).

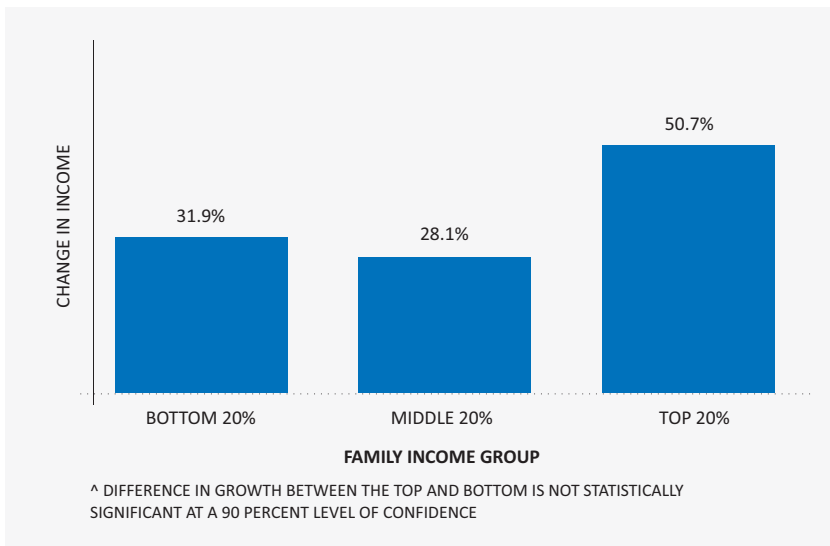
**GENDER**

Although men typically earn more than women in Minnesota, the gender gap has narrowed considerably over the last 30 years. Median earnings for men were roughly \$13,000 higher than those for women in 2010 (\$43,860 versus \$30,600). But men’s median earnings have declined by 12.8 percent since 2001, while women’s have remained more stable with a 2.9 percent loss.

**RISING INCOME INEQUALITY**

On the eve of the Great Recession, the richest 20 percent of Minnesota families had average incomes 2.3 times as large as the middle 20 percent of families and 6 times as large as the poorest 20 percent of families. The very richest families—top 5 percent—had average incomes that were 10 times as large as the poorest 20 percent.<sup>2</sup> The gap between the rich and everybody else has grown over time (see Figure 3).

**FIGURE 3. INCOME GROWTH OF MINNESOTA FAMILIES, BY QUINTILE, 1986–2006**



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

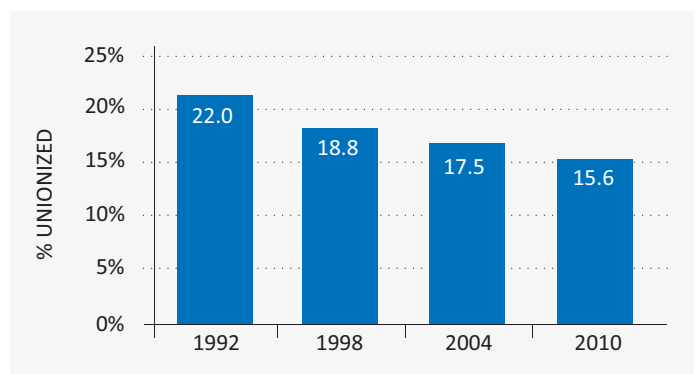
## JOBS AND BENEFITS

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.

### UNION MEMBERSHIP

Minnesota has historically had high union participation rates compared with the rest of the nation. Nonetheless, only a fraction of Minnesota workers are currently union members—15.6 percent of all private and public sector workers in 2010—and the percentage has steadily declined (see Figure 4). Nationally, 11.9 percent of workers participated in unions last year—36 percent of public-sector workers (7.6 million) and 7 percent of private-sector workers (7.1 million).<sup>3</sup>

**FIGURE 4.** UNION MEMBERS AS A PERCENT OF MINNESOTA WORKERS



SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

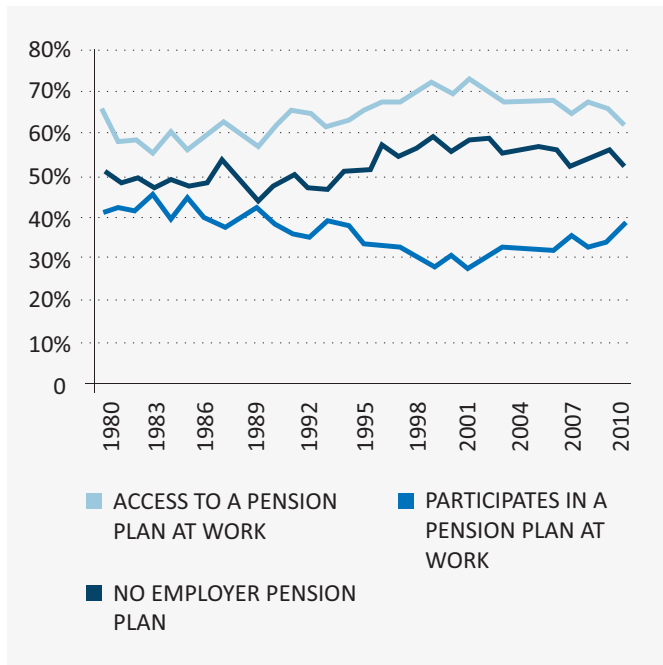
### HEALTH INSURANCE

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. Minnesota workers have had relatively high rates of access to employer-sponsored health insurance, contributing to high levels of coverage: in 2010, 9 percent of Minnesota workers lacked health insurance compared to nearly 17 percent nationally. But employer-sponsored health coverage has declined substantially over the last decade. The proportion of Minnesota workers who lack access to health insurance through an employer increased from 14 percent in 2000 to nearly 23 percent in 2010.<sup>4</sup>

### RETIREMENT BENEFITS

Several factors threaten the ability of Minnesota workers to look forward to a secure retirement. Only 61 percent of the state's workers currently have access to a retirement plan at work, similar to the late 1980s and early 1990s. Although access to employer-sponsored retirement plans peaked in 2001 at 71 percent,<sup>5</sup> 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. Nationally, roughly 63 percent of employer-sponsored retirement

**FIGURE 5. MINNESOTA WORKERS' ACCESS TO AND PARTICIPATION IN EMPLOYER-SPONSORED RETIREMENT PLANS, 1980-2010**



SOURCE: Dēmos analysis of Current Population Survey data

plans are now 401(k)s or something similar.<sup>6</sup> In Minnesota, nearly 10 percent of workers don't participate in their employer-sponsored plan either because they can't afford to contribute or fail to opt in (see Figure 5).

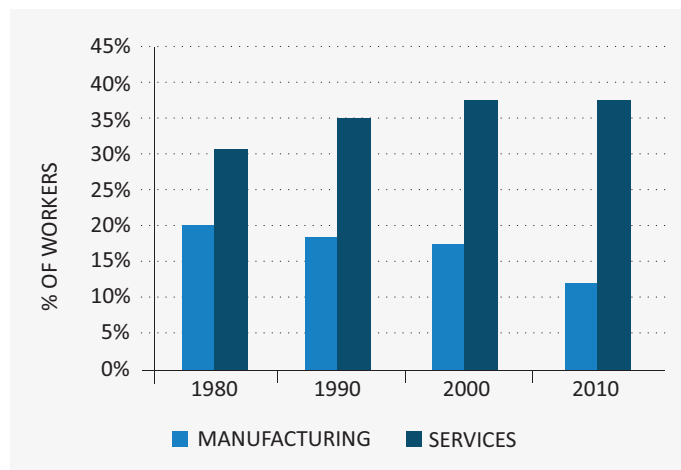
**UNEMPLOYMENT**

Minnesota's job market is still recovering from the effects of the Great Recession. The state's annual unemployment rate reached 8.1 percent for 2009. Unemployment came down to 6.5 percent in April 2011, but some of the decline reflects people giving up their job search or retiring early. Although unemployment has been less severe in Minnesota than other parts of the country, the state had not experienced such high levels of unemployment since the recession of the early 1980s.<sup>7</sup>

**WHERE THE JOBS ARE**

The past 30 years have brought significant changes to Minnesota's job market. Manufacturing and service jobs have accounted for at least half of all employment during that time—between 51 and 60 percent. But these two sectors have experienced diverging trends. Manufacturing employment declined from about 21 percent in 1980 to just under 14 percent in 2010, while service employment increased from 31 percent to 44 percent (see Figure 6). Manufacturing jobs are far more likely than service jobs to be unionized, pay decent wages, and offer middle-class benefits.

**FIGURE 6. MINNESOTA EMPLOYMENT IN MANUFACTURING AND SERVICES**



SOURCE: Dēmos analysis of Current Population Survey data

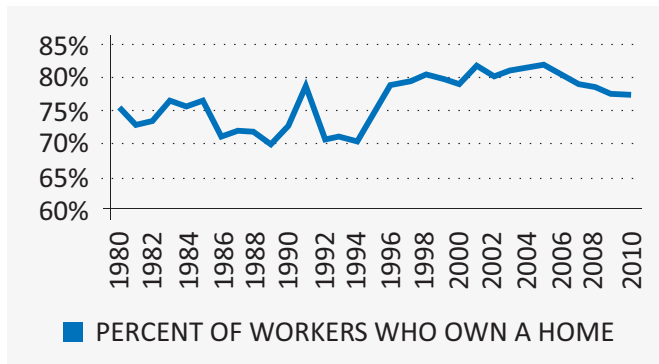
# RAISING A FAMILY

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.

## HOME OWNERSHIP

After some amount of volatility in the 1980s and early 1990s, homeownership among Minnesota workers increased fairly steadily from 1994, when the rate was 70 percent, until 2005 when it reached nearly 82 percent (see Figure 7). Although it has since dropped to 77 percent,<sup>8</sup> homeownership in Minnesota remains relatively high nationally. But Minnesotans are devoting a larger share of income to housing costs: in 2008, a third (34 percent) of Minnesota homeowners spent more than 30 percent of their incomes on housing.<sup>9</sup>

**FIGURE 7.** HOME OWNERSHIP AMONG MINNESOTA WORKERS, 1980-2010



SOURCE: Dēmos analysis of Current Population Survey data

## CHILD CARE

Child care can be one of the largest expenses families face, in some cases equaling or exceeding housing costs. On average, full-time care in a family child care home in Minnesota costs \$7,365 a year for an infant and \$6,616 for a four-year-old; center-based care costs even more (see Figure 8). Center-based care for two preschoolers averages nearly \$22,800 a year or 32 percent of family income for a couple earning median wages.

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

	CHILD CARE CENTER	FAMILY CHILD CARE HOME
Infant, full-time	\$12,893	\$7,365
4 year old, full time	\$9,885	\$6,616

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

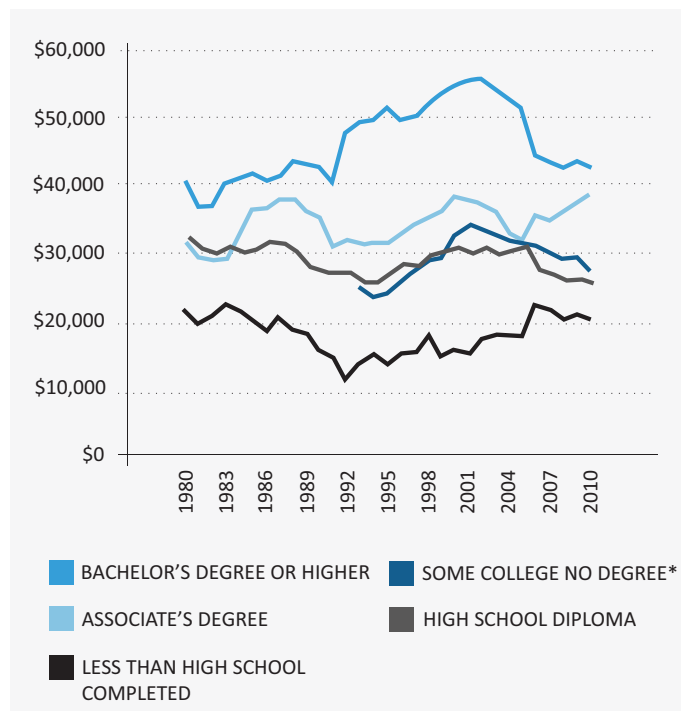
## THE FUTURE MIDDLE CLASS: A LOOK AT YOUNG PEOPLE

The trends facing young Minnesotans seeking to build and maintain a middle-class life are worrisome. On the one hand, the returns from a four-year college degree are evident in the form of higher earnings and protection against unemployment. Yet 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 \$42,840 in Minnesota—68 percent higher than the earnings of a typical high school graduate in the same age range (\$25,500). However, earnings for college graduates peaked in Minnesota in 2002 and have plummeted since, declining 23 percent and nearly erasing all their gains over the previous twenty years. Associate's degree-holders were the only group of young workers to substantially increase their earnings over the last generation, gaining 22 percent in median earnings over the past three decades. They, too, are the only group who has not lost ground in recent years. Young workers with only a high school diploma have taken the biggest hit to their earning power, as they saw their median wages decline by 22 percent over the same period. Young people with the least education—those who did not finish high school—saw surprising gains since the middle of the 1990s, climbing back to 1980 level in 2006 before falling back in the past five years (see Figure 9).

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



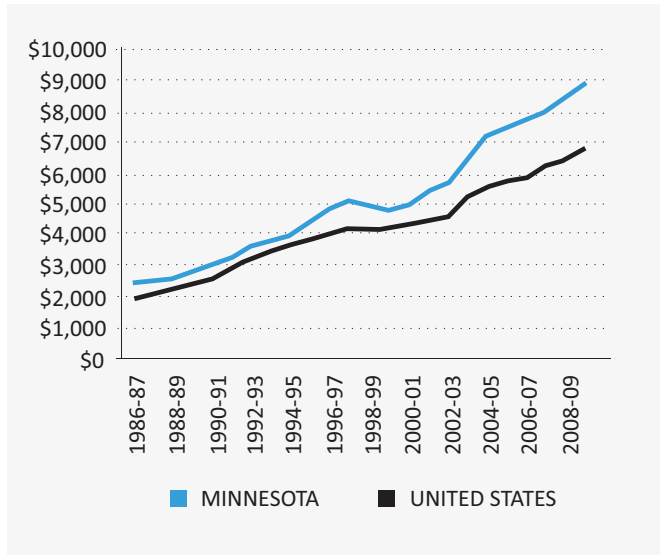
SOURCE: Dēmos analysis of Current Population Survey data

\*Data unavailable prior to 1991

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.<sup>10</sup>



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



SOURCE: Digest of Education Statistics

**COLLEGE TUITION**

At \$8,902 for 2009-10, in-state tuition at Minnesota’s colleges and universities is about 30 percent higher than the national average.<sup>11</sup> Tuition costs have increased steadily in Minnesota over the past 20 years—316 percent in total—with the exception of a couple of years in the late 1990s (see Figure 10). Note that these figures do not include room and board.

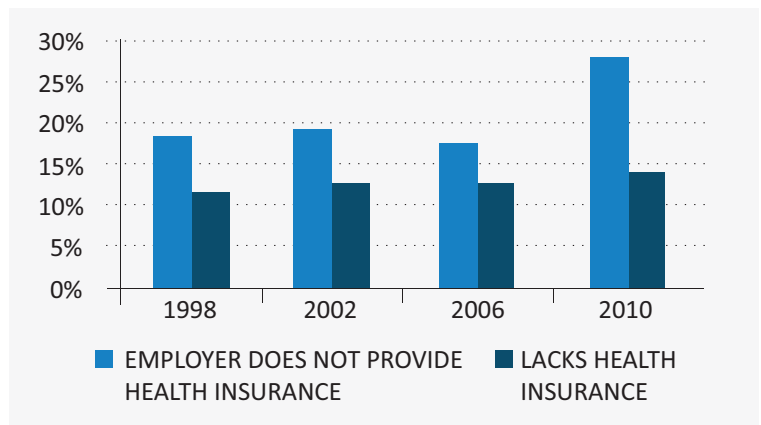
**STUDENT DEBT**

More than two-thirds (71 percent) of college graduates in Minnesota entered the labor force with student debt in 2009, and their average debt—\$27,467—was the 6th highest in the nation.<sup>12</sup> Both the percent of college graduates with debt and the amount have risen rapidly in Minnesota and elsewhere. And growing numbers of students are accumulating debt without completing a degree, putting them on a shaky path to the future.

**HEALTH AND RETIREMENT BENEFITS**

Although young workers ages 25-34 are no more likely to lack health insurance coverage than other workers in Minnesota (13 percent are currently uninsured), a full 28 percent lack access to health insurance through their employer—a figure that has grown dramatically in recent years (see Figure 11). In 1980, young workers ages 25-34 were more likely to have access to a retirement plan at work than all workers regardless of age, but now the opposite is true. Only 58 percent of Minnesota’s young workers have access to an employer-sponsored retirement plan and even fewer (47 percent) actually participate.<sup>13</sup> And most of these plans are 401(k)-type plans rather than traditional pensions.

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



SOURCE: Dēmos analysis of Current Population Survey data

# CONCLUSION

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**THE AMERICAN DREAM** came to life in Minnesota in the form of a strong and vibrant middle class that sustained the state's 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. Nationally, the top 1 percent of earners now takes home more than the entire middle class combined, while most workers are living from paycheck to paycheck. 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). Note that sample sizes are too small to report earnings data by race for Minnesota.
2. 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>
3. Economic News Release, Bureau of Labor Statistics, U.S. Department of Labor, January 21, 2011. <http://www.bls.gov/news.release/union2.nr0.htm>
4. Dēmos analysis of the Current Population Survey (CPS).
5. Dēmos analysis of the Current Population Survey (CPS).
6. 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.
7. Bureau of Labor Statistics, U.S. Department of Labor.
8. Dēmos analysis of the Current Population Survey (CPS).
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."
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](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.

## ABOUT GROWTH & JUSTICE

Growth & Justice is a policy research and advocacy organization and a leading progressive voice in Minnesota on economic issues. Since 2002, Growth & Justice has been a non-partisan advocate for smart public investments that advance business growth and expand prosperity for all Minnesotans, with a focus on education achievement and attainment, transportation and infrastructure development, and budget sufficiency and tax fairness.

## CONTACT

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### **DĚMOS**

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

### **DĚMOS MEDIA**

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



### **GROWTH & JUSTICE**

2324 University Ave. West, Suite 120A  
Saint Paul, MN 55114  
[www.growthandjustice.org](http://www.growthandjustice.org)