

# Opportunity 2004

BRIEFING MEMO

## Growing and Protecting the Middle Class

**To:** Policymakers and Advocates

**From:** Economic Opportunity Program, Dēmos

**Re:** *New Ideas for Reviving the American Dream*

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Many citizens are anxious not just about the security of their jobs and adequacy of their incomes, but also about related issues: high levels of credit card debt, healthcare and childcare costs, and the affordability of homes and college tuition. These day-to-day worries are increasingly accompanied by a deeper anxiety — that the middle class way of life in America is endangered; that it is harder for many Americans to get into the middle class, and harder for those in the middle class to stay there and feel truly secure.

This is not how America is supposed to be.

The current economic struggles in the country underscore these points. American families are paying an average of \$1,207 more annually for public college tuition and \$2,630 more in health insurance premiums than in 2000. Meanwhile, the country has lost 1.9 million private sector jobs, median family incomes are down, and personal bankruptcy filings are up 33 percent. This is not the way life in America is supposed to be.

The universal aspiration to middle class prosperity is a signature of American society. It has made the United States the most hopeful and dynamic country on earth. The 2004 election presents an opportunity to recapture that sense of hope, and to put forth a bold, optimistic vision for growing and protecting the middle class.

This memo outlines a framework for talking about growing the middle class, as well as major new policy proposals for achieving this goal, each of which is designed to win support from a broad majority of Americans. The policy briefs that follow outline these policies in greater depth. The policies were developed by the Dēmos Economic Opportunity Program, with help from some of the nation's leading experts on economic opportunity issues.

## THE MESSAGE: REVIVING THE AMERICAN DREAM

New times require fresh ways to think and talk about how to improve American life. This is especially true when it comes to the economy, which has changed radically in recent decades. Based upon extensive public opinion research and consultation with pollsters and communications experts, we recommend talking about growing the middle class in the following way:

*A thriving middle class has long served as the backbone of our economy and our democracy. Yet, with the economy rapidly restructuring, too many families are in lower-paying jobs, with few or no benefits. Rather than moving up to the middle class, many are barely keeping their heads above water and going into debt in the process. They increasingly work harder to make ends meet and provide the basic necessities to their families. It isn't supposed to be like this. It should be possible for all hard-working Americans to have the hallmarks of a middle class life, such as their own home, access to preventative health care, the ability to send their children to college, and a retirement nest egg as a result of a lifetime of work. Policymakers need to focus on strengthening and growing the middle class. We did this after World War II. We can do it again. A strong middle class is what makes America America.*

## COMMON SENSE VALUES

Despite the polarized political debate about the economy, most Americans share a set of common sense values concerning economic opportunity. The policies we propose to grow the middle class are rooted in values which have been widely shared since the founding of the Republic. They include:

- √ **Work Should Be Rewarded.** Few virtues are respected more by Americans than the willingness to work hard for what one wants. Yet today, millions of Americans who work full-time and even overtime find that they cannot cover their basic living expenses or afford to make key investments in their future. *We must take steps to ensure that anyone who works full-time will be rewarded with a minimally decent standard of living — one that reflects the true cost of living in different parts of the United States.*
- √ **Self-improvement Should Be Possible.** The United States has historically been a nation of self-improvers, where those who make the effort to invest in their own future — especially through education — garner rewards for doing so. Yet today, a great many Americans do not have the opportunity for self-improvement through higher education and, instead, often find themselves stuck in dead-end jobs. *We must take steps to ensure that anyone who wishes to invest in their future through college or vocational training will not be stopped by financial barriers.*
- √ **Thrift and Planning Should Be Encouraged.** Sacrificing and saving today for a brighter future tomorrow — for example, by stretching to buy a home — has

long been another key ingredient in the American formula for middle class success. Yet today, too many Americans are moving in the opposite direction — struggling with few assets and accumulating high burdens of personal debt. *We must create a society where all Americans have the ability to put away savings for the future and where everyone has chance to own a home.*

- √ **We Are All in This Together.** Again and again, Americans have come together to tackle economic challenges and improve national life. Now, we must do so again. *Public policy has a vital role to play in recreating the conditions whereby motivated individuals can secure middle class success for themselves and their family.*

## **POLICIES TO GROW THE MIDDLE CLASS**

The United States has made huge steps forward in the past in expanding the middle class. In the three decades following World War II, tens of millions of households moved securely into middle class prosperity. Never before, in any country in history, had the standard of living been improved so quickly for so many people. This didn't "just happen." Public policy played a key role in the rise of America's new middle class during the postwar years. Over the next decade, 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 a 21st century economy where most of the good jobs require at least some college. Yet as college 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 to 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, and that will remain true in the decades ahead. Today, however, between 25 and 40 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 and 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 and create other new incentives that would double the rate of homeownership for low-income working families within the next five 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 the basic economic needs of themselves or their family. The earnings gap has been worsening in recent years and, 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 — and is phased in over a ten-year period. The plan has two components:

- ✓ 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 family, 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.

### **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, indexed 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.

## **CONCLUSION: AFFORDING A STRONGER MIDDLE CLASS**

Helping millions of Americans to reach the middle class does not come cheap and will require rearranging national priorities. The investments we propose are not out of line with investments made during the great period of middle class expansion in the early postwar period. In the long run, these earlier investments more than paid for themselves by helping to fuel decades of dynamic economic growth. In addition, the cost of the bold new initiatives we propose for expanding the middle class are small compared to the tax cuts enacted by the Bush Administration, which will total nearly \$3 trillion by 2010. We advocate the rollback of selected portions of these tax cuts to help fund middle class expansion. We also advocate reallocating some of the tax expenditures that now subsidize homeownership and home improvement for wealthy Americans who do not need the government's help to be financially secure.

Ultimately we see no real alternative to dramatic action if the United States wishes to retain its signature strength as a nation — as a land of middle class opportunity. Absent a renewed commitment to this ideal, new economic frustrations and social tensions could deeply compromise the American way of life.

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