

The Declining Middle Class and Other Economic Myths

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Presenting Data Is As Much Art As Science

- World is Complex: hard to develop appropriate metrics and collect necessary information.
- Different theoretical perspectives make people highlight certain data and not others and interpret trends in different ways .
- Different statistical measures: absolute, relative, change, change in pace of change; in terms of making comparisons over time—comparative statics versus longitudinal.
- Many researchers use data to support a political stance.

The Gloom and Doom Tale

- Elizabeth Warren and Amelia Tyagi: “Never before have middle class families worked so hard just to break even.”
- Kusnet, Michel, and Teixeira: “With most people, the intensity, the insecurity, and the arduousness of their economic struggles are woven into the fabric of their lives—and are central to their identity.”
- Kuttner: “At least two-thirds [of Americans] are economically stressed... [Over the past three decades] all of the [productivity] gains went to top 10 percent (most to the top 1 percent)”

Thomas Frank, *What's The Matter With Kansas*

“The country seems more like a panorama of madness and delusion...of sturdy blue-collar patriots reciting the Pledge while they strangle their own life chances; of small farmers proudly voting themselves off the land; of devoted family men carefully seeing to it that their children will never be able to afford college or proper health care; of working-class guys in Midwestern cities cheering as they deliver up a landslide for a candidate whose policies will end their way of life.”

Specific Claims I

- “Life was easier with fewer worries in the fifties and sixties when one income was enough.”
- “With the decline in manufacturing employment over the past 25 years, most new jobs are low-paid service jobs.”
- “With the rise of China and India, service jobs will be lost next.”
- “All of the income gains of the last several decades went to the richest ten percent of the population.”
- “Middle class Americans are working longer just to maintain the same standard of living.”

Specific Claims II

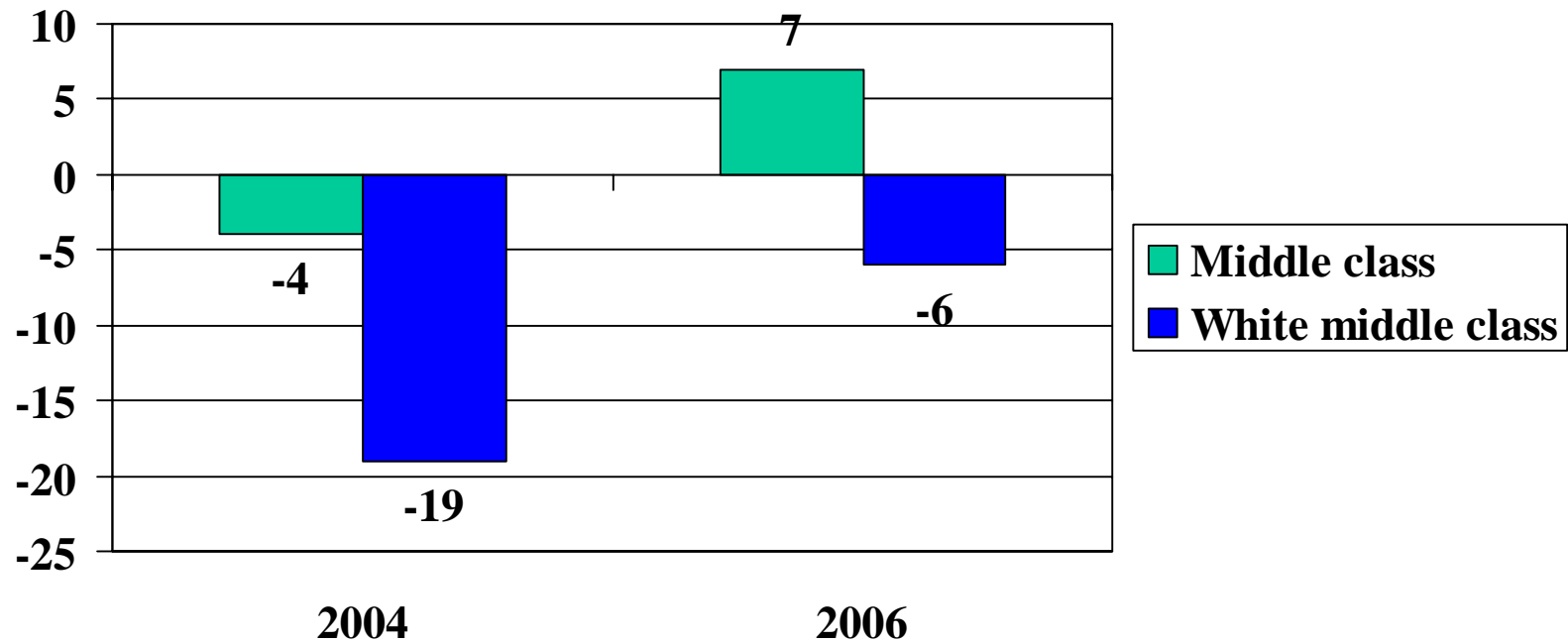
- “The only way that people have kept up is by going deeply into debt.”
- “With the disappearance of company pensions and no personal savings, baby boomers are unprepared for retirement.”
- “Companies are either abandoning their health insurance benefits or shifting most of the costs to their workers.”
- “Because of rising college tuitions, fewer young people from low- to moderate-income families can afford to go to college

Liberal Economic Narrative

- Problem: Not just the poor, but the Middle Class is squeezed too. Inequality and insecurity are up: People in the bottom 50-80 percent of the income ladder are falling behind or working harder to stay in place.
- Cause: Corporations and super rich (CEOs) take all or lion's share of the pie
- Stance: moral indignation—inequality not right
- Solution: people's movement to force change through public bodies.

Despite Being Party of People, Democrats have not done well with White Middle Class

Democratic margins in House elections



Middle Class = Family Incomes \$30,-75,000

Conservative Economic Narrative

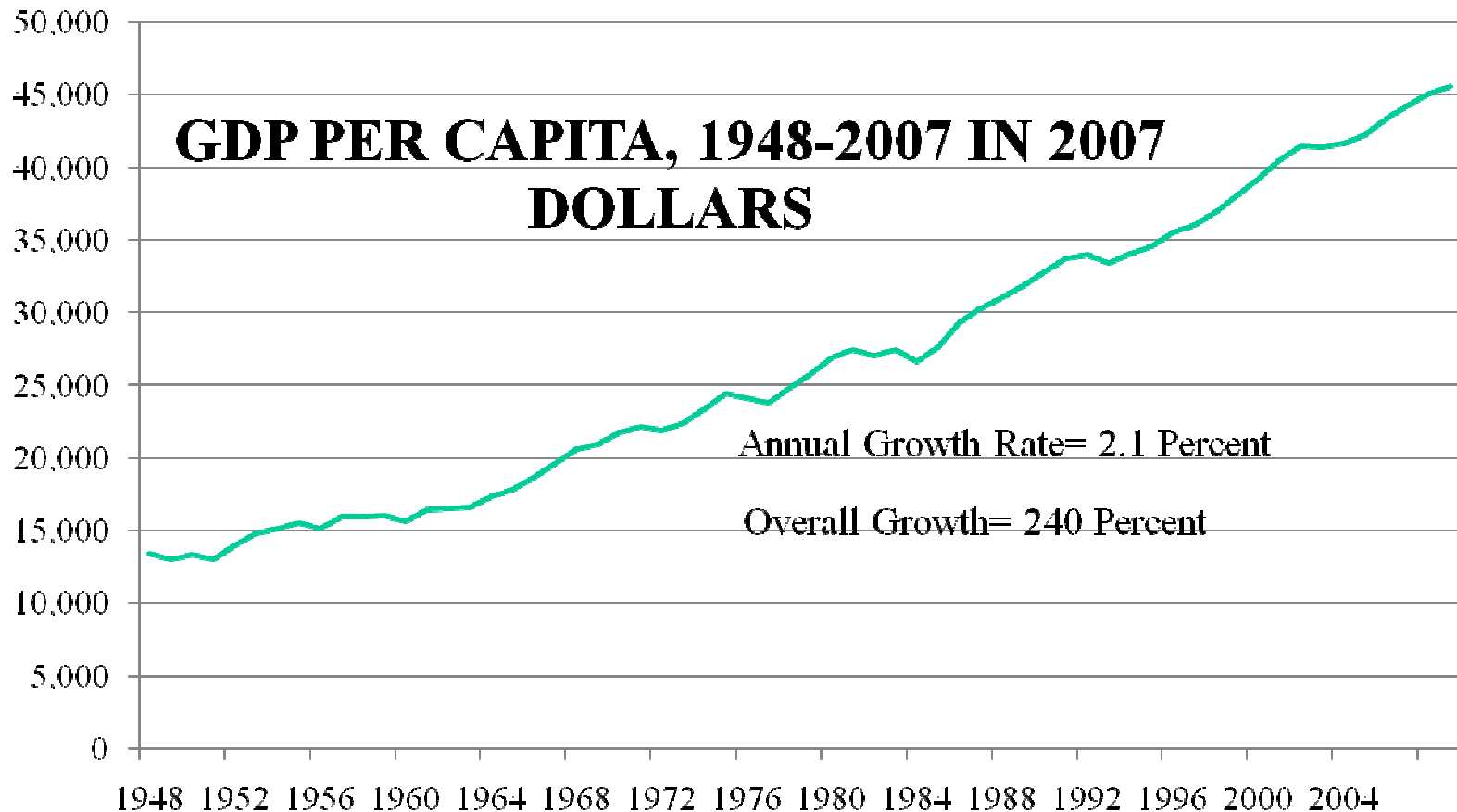
- Few Elements--based on laissez-faire and hence no “natural problems”
- Problem: government intervention
- Moral Stance: individual freedom
- Solution: smaller government, less taxation

Background: Long Run Economic Trends

Economics Boiled Down to Two Questions

- Size of the pie
 - Technology
 - Infrastructure--physical, financial, legal, and cultural
 - Full utilization of Resources
- Distribution of the Pie
 - Between profits and compensation
 - Between workers and nonworking elderly and children
 - Between different types of workers

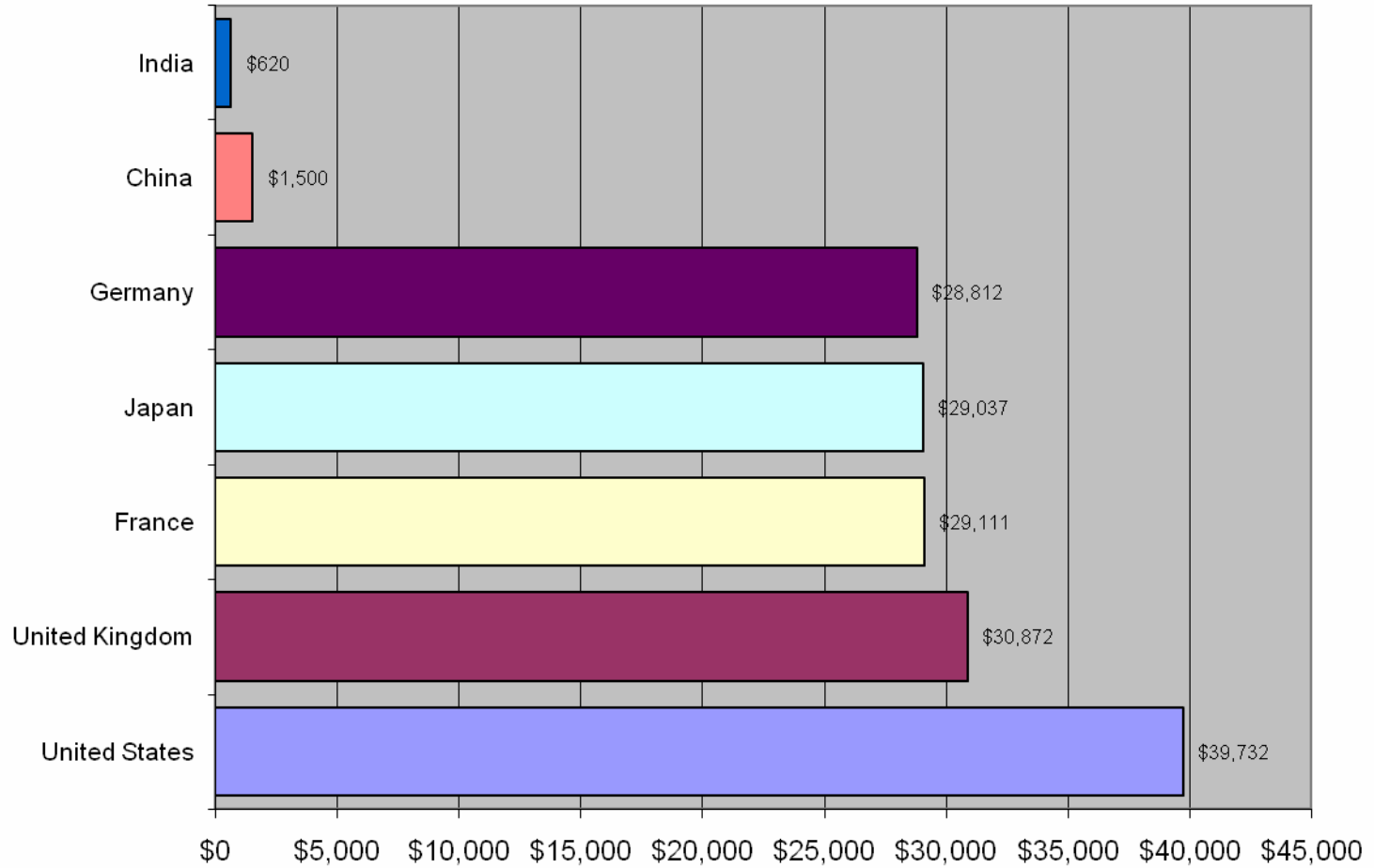
Steady Overall Economic Growth



Source: Bureau of Economic Analysis, US Dept. of Commerce

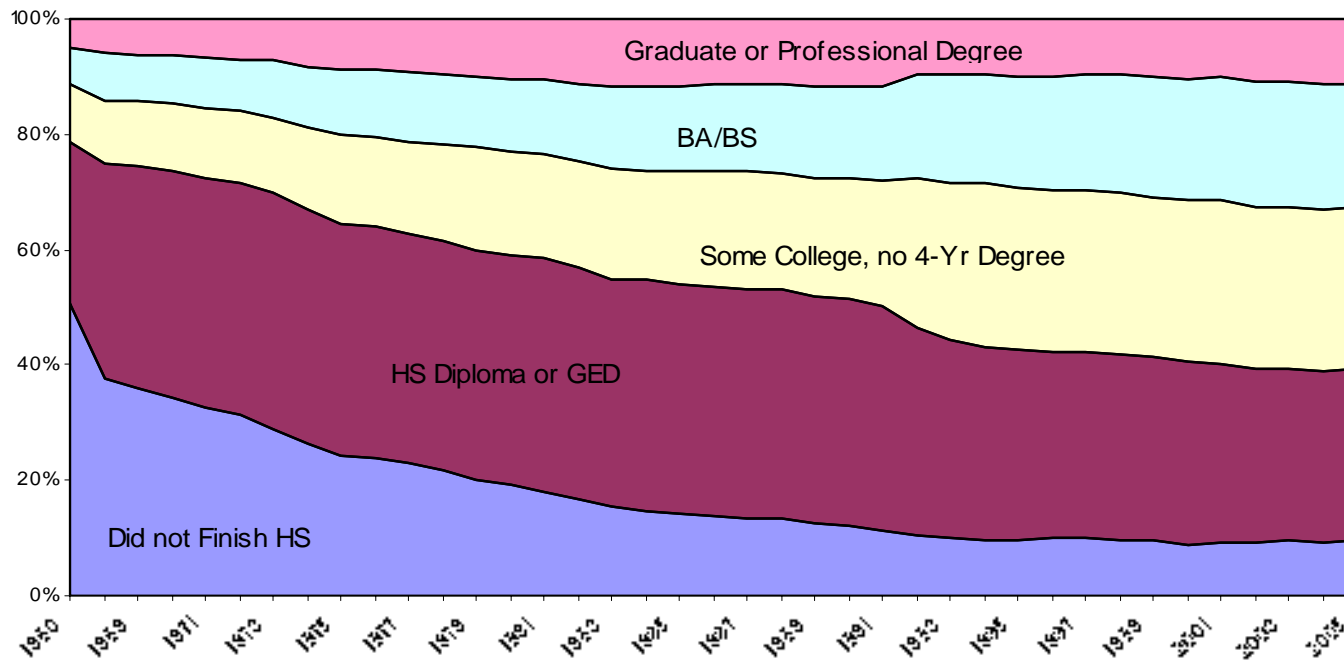
GDP per capita (2004)

U.S. Dollars, Purchasing Power Parity



Broad Expansion of Educational Attainment

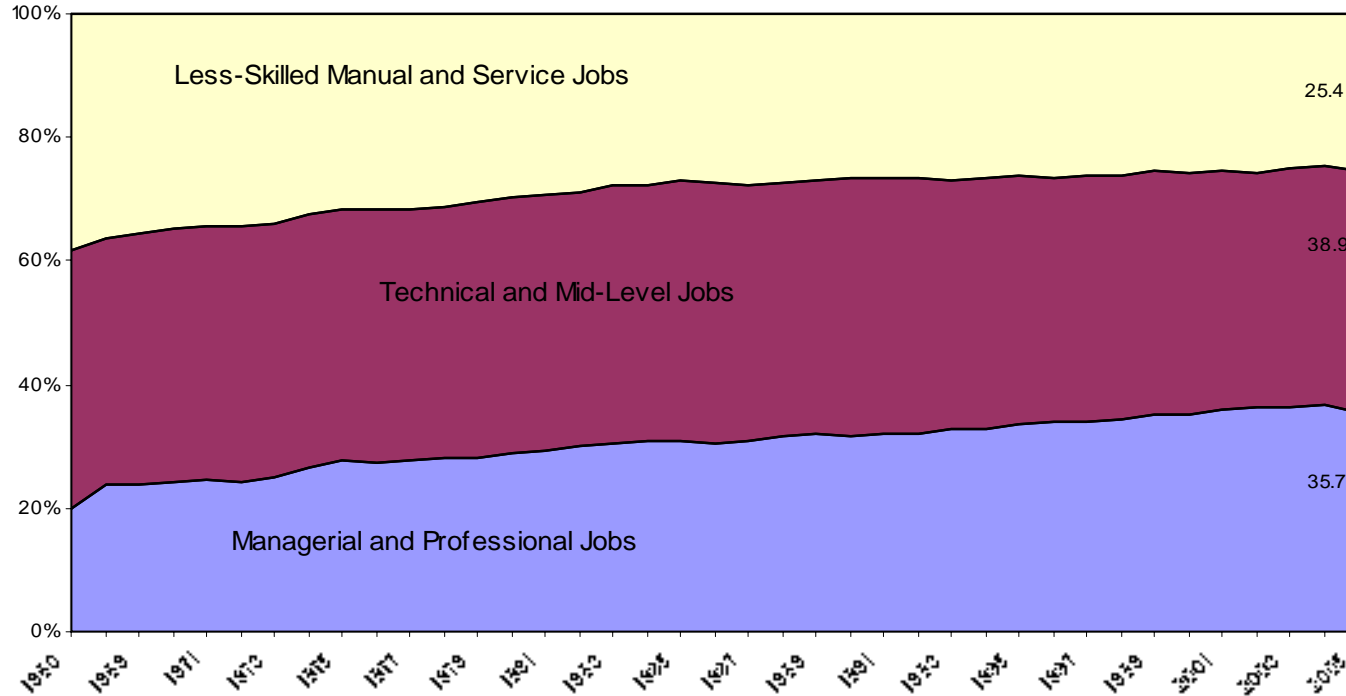
Educational Attainment,
Prime-Age Workers, 1960-2005



Source: Current Population Surveys and PUMS 60

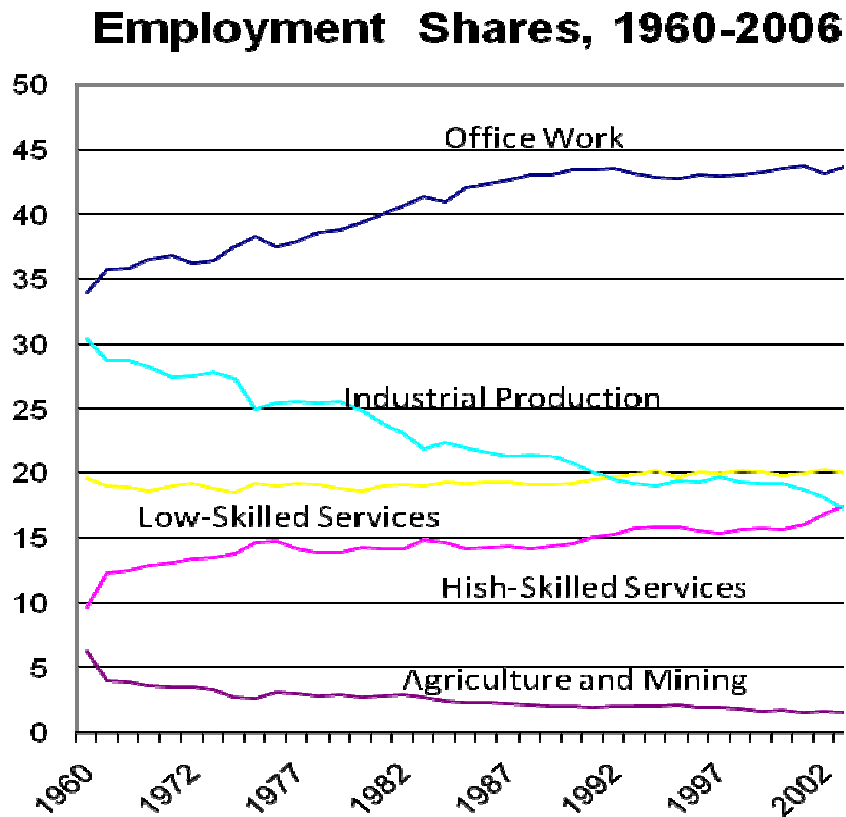
Better Jobs

More High-Skilled, Less Low-Skilled Jobs, Prime-Age Workers 1960-2005



Source: Current Population Surveys and PUMS 60

How the Economy has Changed: Rise of the Office Sector

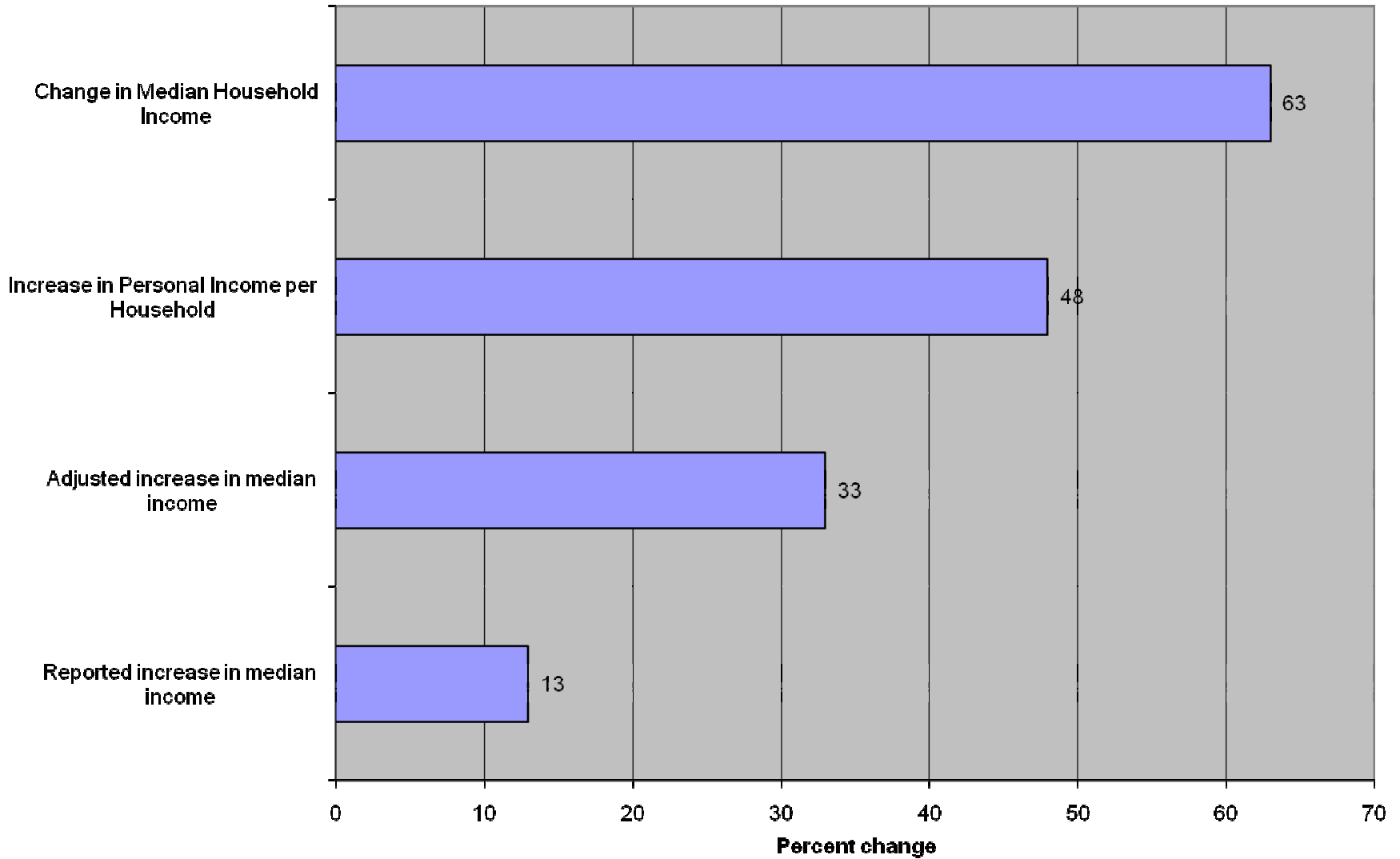


Changing Living Standards

Did All of the Income Gains Since 1979 go to the Richest Decile?

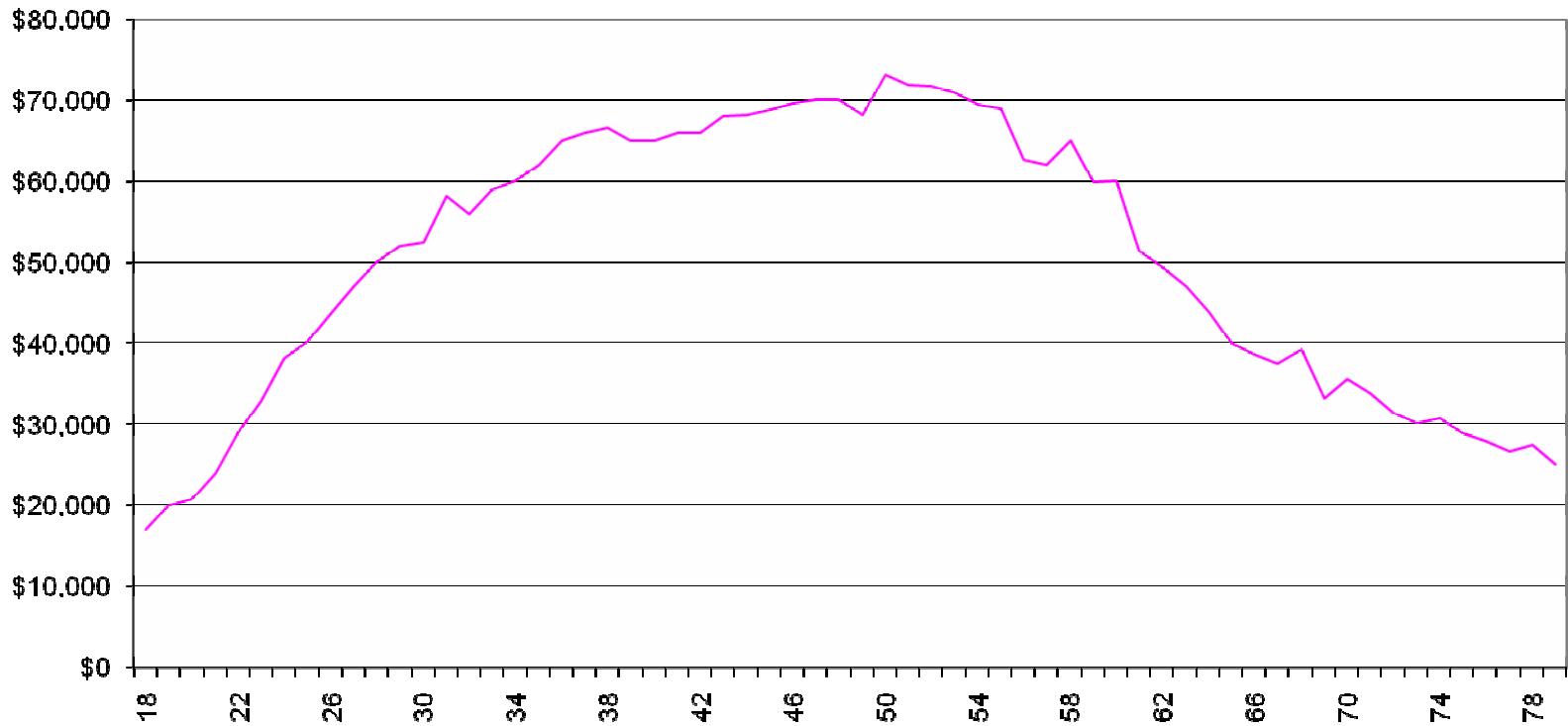
- Since GDP per capita is up 66%, this growth would represent 40% of all income.
- If the top 10 percent started with 30 percent of all income, then their share with all of the growth going to them would be 60 percent of all income.
- The top quintile would have over 75 percent of all income.

Different Ways of Tracking Household Incomes, Gains 1979 to 2005

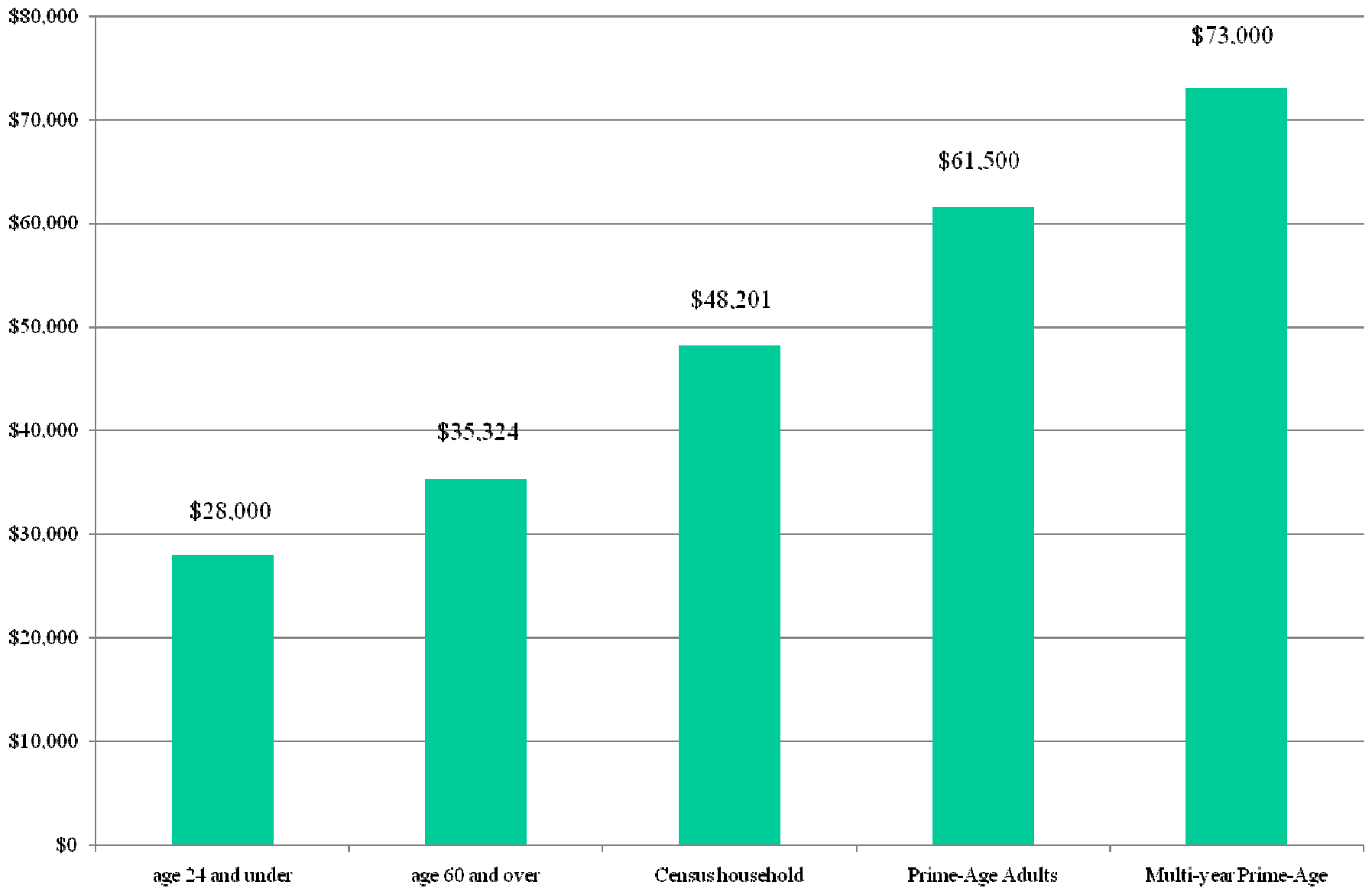


Permanent Income and Life Cycle Effect

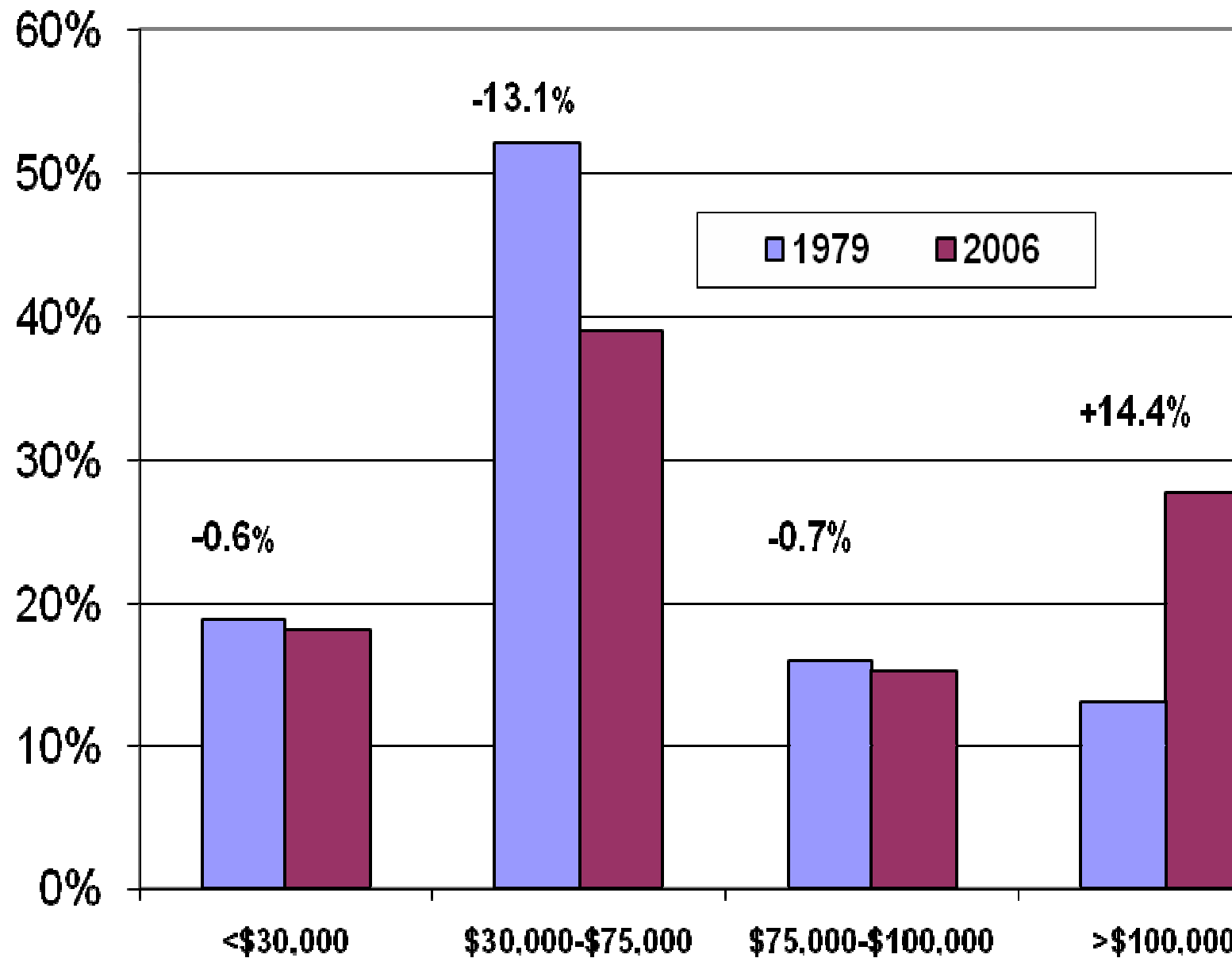
Median Household Incomes by Age, 2006



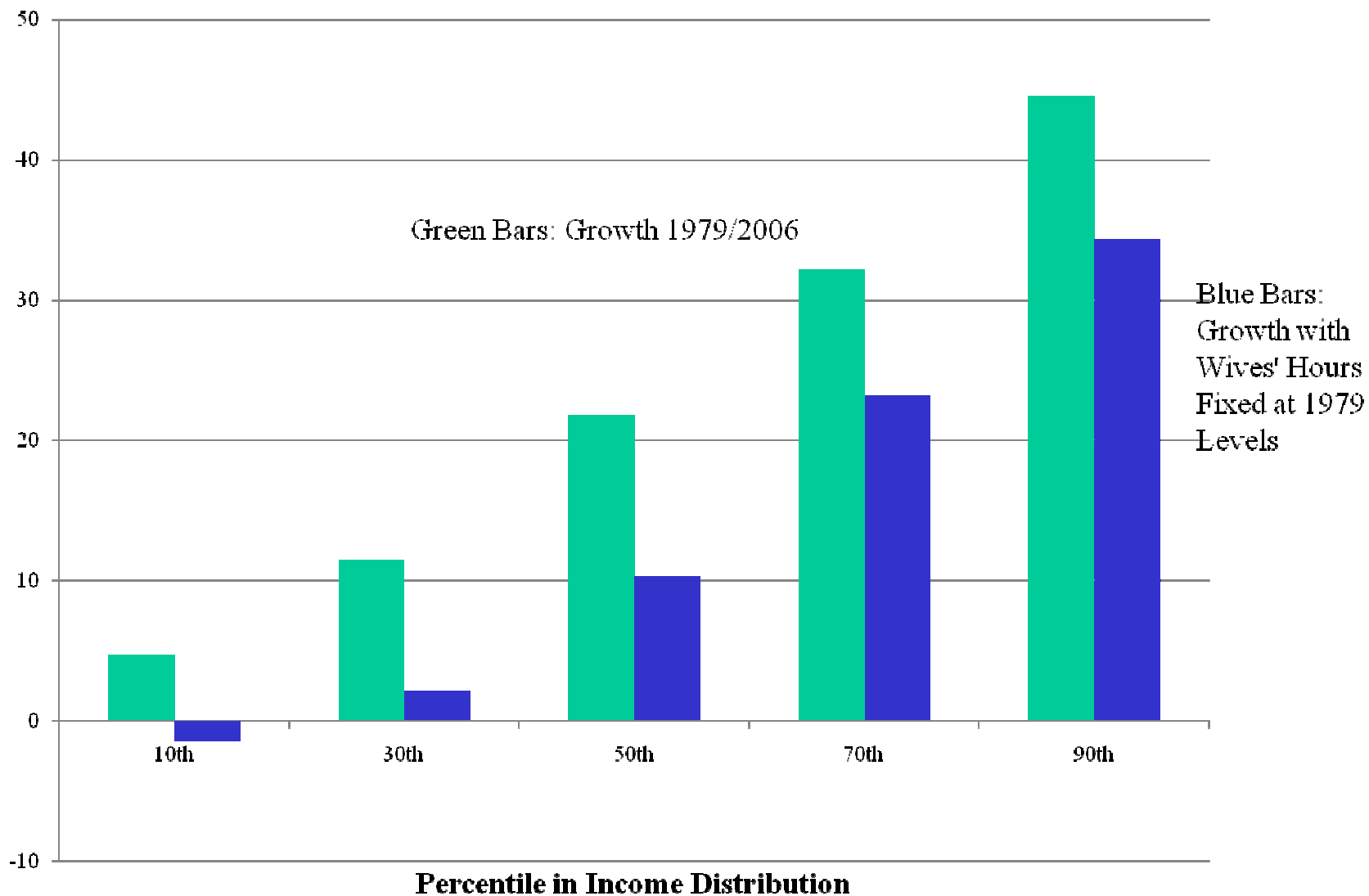
Confusion about Median Income



Shrinking Middle-Class; Growing Affluence

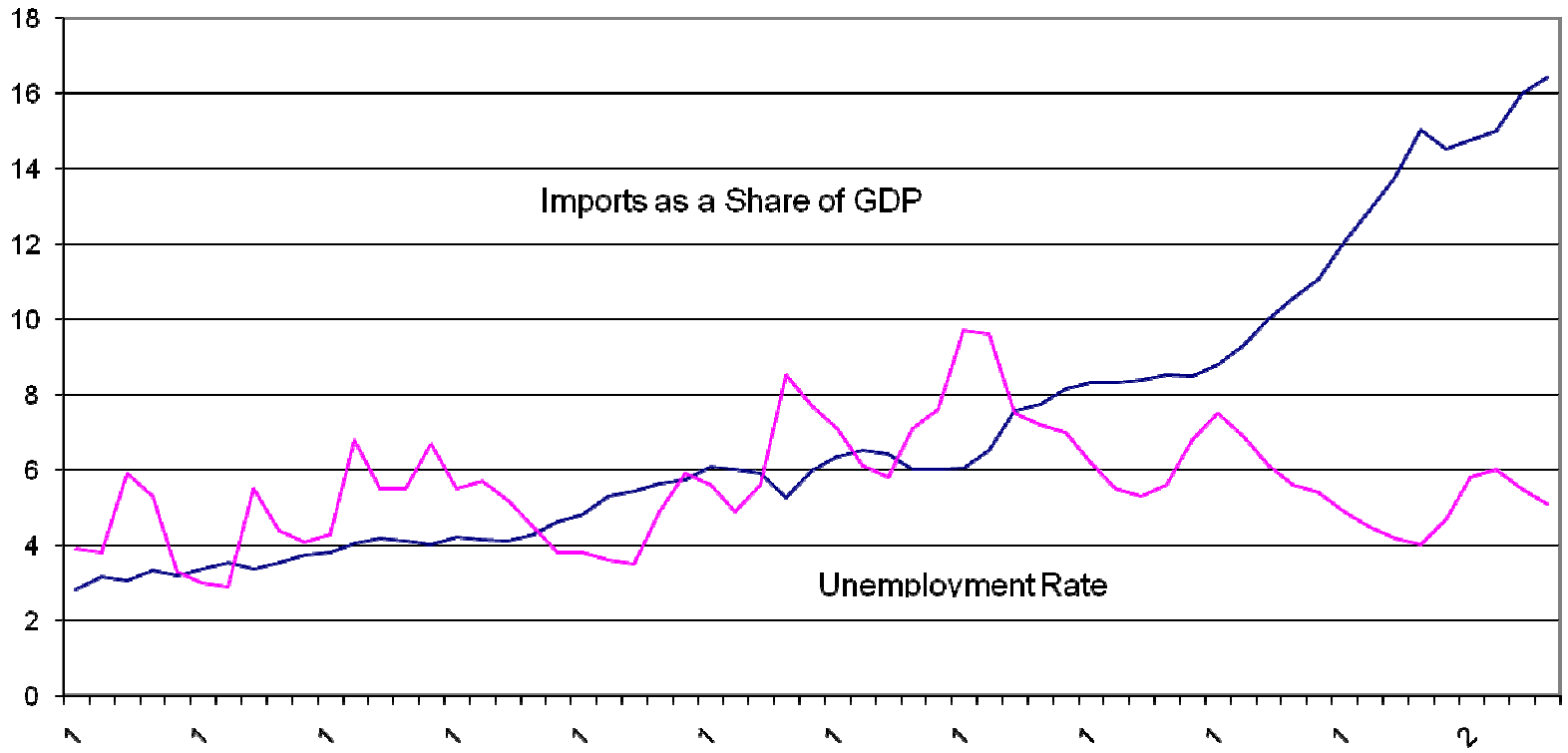


Incomes of Husband-Wife Couples, 1979 to 2006



Have Rising Imports Led to Job Losses?

Growth in Imports Versus Yearly Unemployment Rate



Change in Male Employment

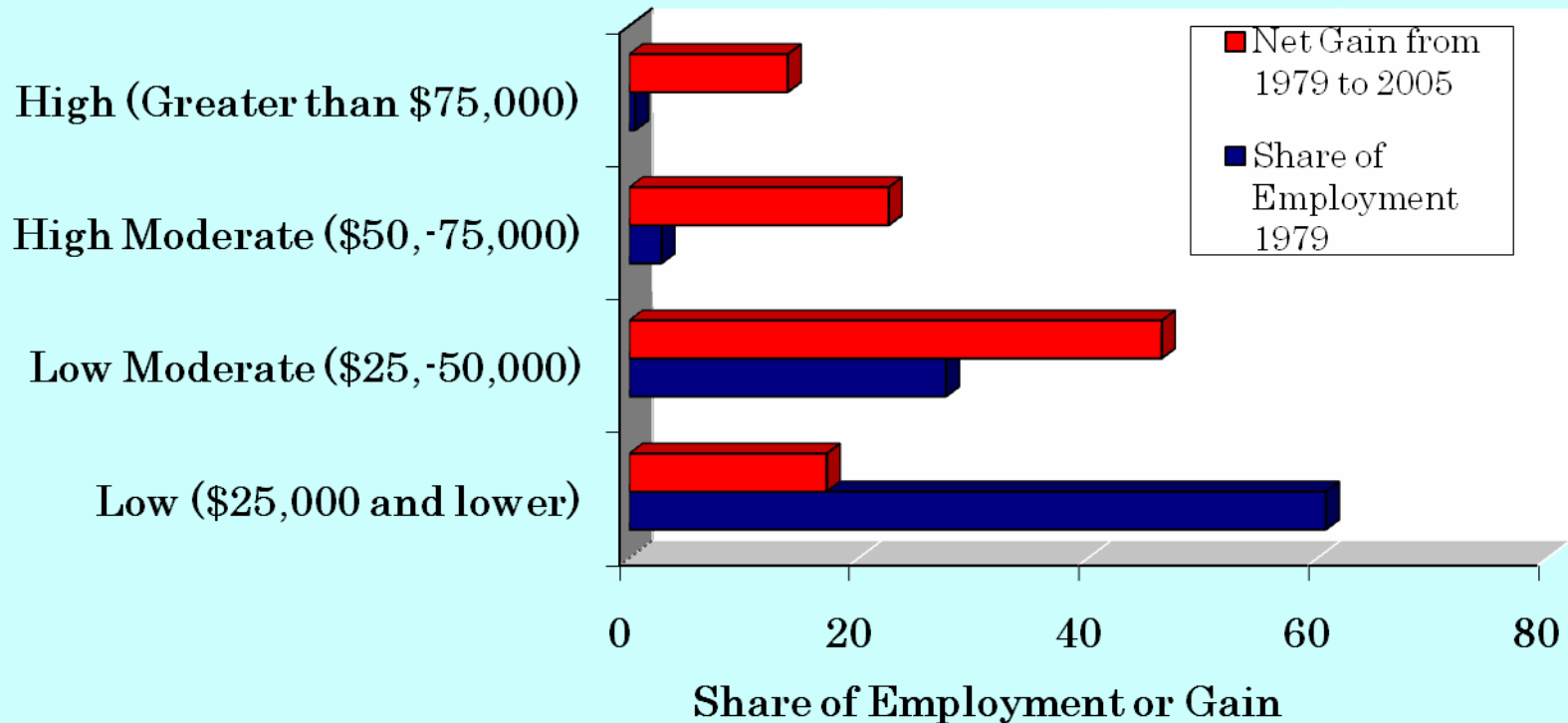
Evolution of Male Jobs, 1979 to 2005



Source: March Current Population Surveys, 1980 and 2006. Earnings from 1980 are adjusted to 2005 dollars using the CPI-U-RS. Prime-age workers (25-62) were used to avoid the demographic differences associated with the baby boomer cohort that was entering the labor force in large numbers in 1979. If the prime-age restriction were not used, the increase in the share of male workers in the

Change in Female Employment

Evolution of Female Jobs, 1979 to 2005



Are Americans Drowning in Debt?

- 54% of Households have no credit card debt; median debt of those with debt--\$2,100
- 24% of Households have no debt of any kind.
- Savings rate of those under 65 is flat over last 20 years (Center for Retirement Research).
- More workers benefit from move from DB to DC (Poterba et al).
- Median Wealth of 55-64 year olds was \$248,000 in 2004, up 35% from 1989.

Conclusion

- To say that the middle class is not vanishing or declining is not to say that we have no problems.
- The top quarter have seen their incomes rise sharply while the bottom quarter has stagnated.
- Many people are dislocated by change, and our health insurance system is stretched.
- Families have trouble managing work, child care, and need to save for their retirement and their children's college education.