



A Strong Middle Class Is Key to Getting Our Economy Moving

Focusing on the 99 Percent Is Good Economic Policy

By [Michael Ettlinger](#)

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President Barack Obama's speech today on income inequality and the middle class did, if anything, understate the importance of a strong middle class to our American economy.

In fact, the most immediate and pressing economic problem for the United States is the economic challenges facing the middle class. Falling incomes, underwater homes worth less than the mortgages on them, and lost jobs are not—let's be clear—just a problem for the well-being of middle-class families but an anchor on the economy as a whole, threatening those across the income spectrum from poor to rich.

Economists and business leaders alike point to the lack of demand in the economy as the central challenge. And where does demand come from? Mostly from the spending money of middle-class consumers. And where does the spending money of middle-class consumers come from? From middle-class incomes. And what's happening to middle-class incomes? They're on the downturn—raises are few and far between, new workers are getting lower salaries than those of the workers they are replacing in the workforce, and the unemployed, of course, just have their paltry unemployment insurance (if they qualify).

All this would be bad enough, but the middle class is also stuck under an enormous burden of debt. This debt is largely a consequence of the housing bubble. Many middle-class homebuyers bought houses that are now worth far less than what they paid, relying on the real estate industry and the lenders who, by virtue of their willingness to lend, assured the homebuyers that the prices were right. Many of the lenders have since been bailed out by the federal government as the financial industry was deemed too big to fail.

Problem is, the middle class is also too big to fail and yet has been allowed to if not exactly "fail," then certainly languish under a debt level that prevents them from spending. As a group, their diminished income is going to pay for overpriced homes they've already bought. This does not spur demand.

These homeowners are also stuck in “underwater” homes. That means fewer moves to bigger homes and less home construction. A big source of demand in our country used to be not just the home purchasing and construction itself, but all those appliances, furniture, and tchotchkes people put in their homes.

A dearth of demand isn’t the only economic problem the country faces, however. We need more investment as well. But the lack of demand is at the root of our investment woes. It is the middle-class consumer that creates the incentive to conceive, manufacture, and sell what the economy produces. It is the middle-class consumer that creates the business opportunities that spur investment.

The problem for our economy created by a weakened middle class is not just a weakened capacity to consume. The middle class is the heartbeat of the economy in other ways. For one, the middle class is the nation’s indispensable workforce. It was, in fact, the rise in *middle-class* worker productivity that has generated much of our nation’s wealth.

Entrepreneurship and invention are also rooted in the middle class. A life devoid of deprivation allows the middle class the time and flexibility to become educated; to think, ponder, and explore—to invent and innovate. Those in the middle class can afford a modicum of risk: leaving the safe job to start a new business after accumulating the startup assets. The fortunes represented in the Forbes 400 list of the richest Americans began with a middle-class risk, a middle-class invention, a middle-class investment. Bill Gates, Thomas Edison, and the Wright brothers all came from middle-class families.

A strong middle class is also key to our national stability. There is, of course, our social stability. But economic stability also depends on a large portion of Americans with stable finances and regular jobs. One part of the story of the Great Recession is how the weakening of equality led to financial market instability. In an overly simplified broad version of the story, those with the money had to lend it to the middle class in order for the middle class to buy the things those with the money wanted to sell them. This was necessary only because middle-class incomes were lagging behind while the incomes of the wealthy were skyrocketing.

So when it comes to the discussion of who the “job creators” are, the top 1 percent or everyone else, what’s the answer? As Nick Hanauer, one of our nation’s leading entrepreneurs and investors, said in *Bloomberg Businessweek*, “The conventional wisdom that the rich and businesses are our nation’s ‘job creators’ is ... false. [O]nly consumers can set in motion a virtuous cycle that allows companies to survive and thrive and business owners to hire. An ordinary middle-class consumer is far more of a job creator than I ever have been or ever will be.”

The challenges facing the middle class, and the problem of rising income inequality more generally, are not just problems that *result* from how the economic pie is divided

but are also *causes* of too slow an expansion of that pie. This is why the middle class should be the focus of our economic policy, not just social policy.

This idea isn't a particularly new one. Consider the Homestead Act of 1862, which gave land to small farmers rather than large landowners or speculators. There were no auctions whereby the land might have gone to wealthy empire builders putting it to profit by leasing to sharecroppers, hiring an American peasant class to farm it or hoarding it for later sale. Or look at the generation of Americans who benefitted from the GI Bill of 1944 and, empowered by their education, built the postwar economy to create the most prosperous nation in the history of the world. Similarly, Social Security, Medicare, and incentives for employers to provide health coverage for their employees gave the middle class the security that made much else possible.

So what do we do in the 21st century? The first thing is to defend what we have. Attacks on Social Security, Medicare, Medicaid, and unemployment insurance will not only hurt their beneficiaries but will also undermine the vital security of the middle class—keeping people from taking the risks any economy needs to grow. For the same reason, defending the Affordable Care Act so we can ease the health care cost burden on families is critical.

We also need to once again put our efforts into moving people from poverty into the middle class. And we need to address the rising cost of fossil fuels and deal with the very real consequences of a lack of affordable, quality child care. In addition, unions, which were formally a powerful force for improving middle-class life, need to be resurrected by the adoption of fair labor laws that give Americans who want a union to have one.

Right now, though, addressing the crisis in housing and reducing middle-class taxes as our economy struggles to recover are the most critical steps.

President Obama called for some of these steps in his speech today and has offered specific policy proposals in the past. The Center for American Progress also has proposals that could be acted on immediately as well as a website full of longer-term ideas. But leaving aside the details of the policies and which ones are the highest priority, one thing is clear. The focus should be on the real job creators: the 99 percent.

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