



# The Middle Class and Economic Growth

A Project of the Center for American Progress

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Over the past 236 years, the United States has risen from a backward band of peripheral colonies to the greatest economic force in the history of the world. Why? Has it been because an elite handful of wealthy Americans made brilliant investments? Or has it been because hundreds of millions of Americans have worked hard, improved themselves, started businesses, invented new things, built communities, and constructed an economy that provides for the many and not just the few?

The Center for American Progress's Middle Class and Economic Growth project examines these two divergent views of how the economy works: one that embraces the supply-side, trickle-down dogma that has dominated policymaking for the past 35 years, and the other, which instead of attributing the success of our country to a scant few at the top, ascribes the nation's economic success to the role of the tens of millions of engines of growth who are the American middle class. The project does this through:

- Economic analysis from CAP and outside economists
- An event series featuring prominent economists, business leaders, journalists, and policymakers
- Multimedia presentations of the issues and the evidence
- Policy proposals to address the challenges faced by middle-class Americans

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## Our philosophy

The fundamental thesis of this project is that the middle class is the heartbeat of the American economy. The middle class is the indispensable workforce and the all-important consumer. The great American entrepreneurs and inventors who have been vital to our national success have come from the middle class. It is the education and skills of the middle class that have driven the rise in productivity that has underpinned our prosperity. And it is a stable middle class that has kept America free of the turmoil of much of the rest of the world and has made vital investments in education, roads, and other economically important infrastructure. The ascendancy of America to being the richest

nation in the history of the planet is fundamentally a middle-class achievement. For our country to succeed going forward, we need to get back to the fundamental truth that our success hinges on the strength of the middle class.

The proof of this can be found in:

- The clear failure of supply-side economics as an economic strategy<sup>1</sup>
- A growing economic literature as documented in our paper, “The American Middle Class, Income Inequality, and the Strength of Our Economy,”<sup>2</sup> that shows how a strong middle class is vital, and how excessive income inequality is harmful to our national economic success
- A look back at our nation’s economic history

The reason the middle class is so important isn’t complicated:

- Businesses need middle-class customers. If you ask business owners what motivates them to make investments and create jobs, they’ll tell you its customers. From where do the majority of customers come? The middle class.
- The economy depends on the skills of the middle class. If you look to what has been at the root of economic growth over time, it has been growth in worker productivity and the inventiveness of our people. Who among us has had the flexibility to postpone jumping directly into the workforce after a minimum level of education and instead avail themselves of the opportunity to enhance skills by pursuing higher education? The children of those securely in the middle class.
- Innovators, inventors, and entrepreneurs come from the middle class. Why is this so? Unlike those with lower incomes—who, by necessity, are consumed with issues of day-to-day survival—middle-class individuals have the time and capacity to come up with innovative new business ideas, to invest in them, and to develop and foster them. Moreover, scary though it may be, middle-class Americans can afford to take the risk of leaving a job to start a business. If you look at the fortunes of the Forbes 400, they were mostly started with a risk, an invention, or an investment by someone from the middle class.
- The middle class creates stability and investment in the economy. It’s also the middle class that has the biggest stake in seeing the U.S. economy succeed. The rich are largely immune from the success or failure of any particular country’s economy—the question for them is the extent of their wealth, not whether they are going to be able to live lives of comfort or whether they can afford to send their children to college. The rest of us, however, are very dependent on the success of our country’s economy. This doesn’t mean that there aren’t wealthy individuals who care deeply about the nation’s economic well-being, but middle-class voters are those who form the backbone of support for public investments in education, infrastructure, and the other building blocks of a strong economy.

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## Our goal

The purpose of the CAP Middle Class and Economic Growth project is to provide a better understanding of the crucial relationship between a strong middle class and the nation's economic health. A strong and vibrant middle class isn't just good for the middle class. It's good for the poor, for whom joining the middle class is an aspiration. Just as important, a strong middle class is good for the wealthy, who reap the greatest benefits when the overall economy is healthy.

We hope that this project will establish a far better economic policy paradigm than the failed one that has dominated for too long—an approach that believes showering the rich with largess is what's best for the economic well-being of America. Instead, we seek to develop a more real, more believable, and more persuasive narrative of how 300 million Americans are far more important to the American economy than a few very wealthy individuals at the top, and that it is the large and dynamic middle class that should be the focus of our economic policymaking.

*Michael Ettlinger is the Vice President for Economic Policy at the Center for American Progress.*

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## Endnotes

1 Michael Ettlinger and John S. Irons, "Take a Walk on the Supply Side: Tax Cuts on Profits, Savings, and the Wealthy Fail to Spur Economic Growth" (Washington: Center for American Progress, 2008), available at [http://www.americanprogress.org/issues/2008/09/supply\\_side.html](http://www.americanprogress.org/issues/2008/09/supply_side.html).

2 Heather Boushey and Adam Hersh, "The American Middle Class, Income Inequality, and the Strength of Our Economy: New Evidence in Economics" (Washington: Center for American Progress, 2012), available at [http://www.americanprogress.org/issues/2012/05/middle\\_class\\_economy.html](http://www.americanprogress.org/issues/2012/05/middle_class_economy.html).