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# Making Our Middle Class Stronger

35 Policies to Revitalize America's Middle Class

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# Introduction and summary

The American middle class is in trouble. Incomes are stagnant or falling, while the costs of life's necessities continue to rise, and the risks of falling behind grow. The weakness of our middle class is a problem not just for those who are struggling but also for all Americans because a strong middle class is essential for a vibrant democracy and a healthy economy—and for our conception of what America is all about.

This report describes 35 policies developed by the Center for American Progress that would strengthen our middle class by helping address the challenges Americans face in achieving and maintaining a middle-class standard of living. This report does not tackle every issue of concern to the middle class or address every problem in our economy. Rather, it focuses on the central pocketbook issues facing the middle class: the financial squeeze Americans face because they are caught in a vice between stagnant incomes and weak job prospects on one hand and rising costs and growing risks of paying for middle class basics such as health care, retirement, housing, and a college education for their children on the other.

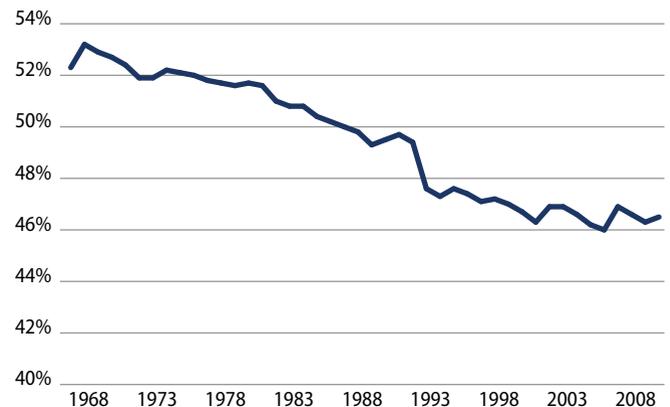
The 35 policies detailed in the main pages of this report are the kinds of bold, aggressive action that Americans have been waiting for (see summary table starting on next page) such as lower college education costs, workplace standards that match the needs of 21st-century dual-income families, the creation of more well-paying middle-class jobs, and reliable and sustainable retirement income security.

Why is action needed? Most Americans see the answer to that question every day. But what they see is also reflected in numbers.

FIGURE 1

**Share of nation's income going to the middle class has been declining for decades**

Share of income going to the middle 60 percent of population



Sources: US Census Bureau, "Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households"

More than 12 million people are unemployed, and the unemployment rate has been higher than 8 percent for three years, the longest sustained period of high unemployment since the Great Depression.<sup>1</sup>

Even for those with jobs, the economy has, for the most part, failed to deliver. Income for the typical household has stagnated over the past few decades and has actually fallen over the past 10 years: Median income for working-age households—meaning half of the population makes more and half makes less—fell by 1.9 percent during the supposedly good economic recovery of 2001 to 2007 and fell by another 4.6 percent during the Great Recession of 2007–2009.<sup>2</sup>

As a result of stagnant incomes for the middle class and rising incomes for the rich, the share of the total national income earned by the middle 60 percent of households has been on the decline for decades. Today it is near its lowest level since the government began keeping track of the statistic in 1967.<sup>3</sup>

At the same time that incomes have stagnated, costs and risks for middle-class families have increased dramatically. According to the Senate Committee on Health,

## A summary of our 35 policies to strengthen our middle class

### Lower the costs of college

The key to lowering college costs for middle-class families is to change the way colleges do business while also making it easier for families to finance education. We can help make colleges more efficient by creating incentives for colleges to keep costs down, by providing better information to middle-class families to inform their college choices, by fostering cost-based competition between schools, and by encouraging colleges to give credit for online courses and other nontraditional, less-expensive ways of learning. The costs for families of financing higher education can be kept under control by letting the repayment of loans vary depending on how much the graduate is earning and by providing lower-cost loans for attending schools that keep their costs down. Here's how:

- Ensure that college is affordable to students and parents by creating an incentive for colleges that limit their net price to 15 percent of a family's income

- Save tuition costs for students by awarding them college credit for proven knowledge and skills—whether acquired through traditional or nonconventional means
- Universal college “nutrition” labels to provide students and their families with key information about colleges such as costs, debt loads, and likely job prospects
- Promote the use of free or low-cost textbooks that are already in use by many colleges
- Automatically connect student loan repayments to post-college pay levels for new college graduates

### Reduce costs and barriers to job training

Job training programs are critically important for making sure American workers have skills that employers value. Unfortunately, high costs and other barriers have restricted access to these programs for many Americans, especially those with less education who could

Education, Labor and Pensions, between 1970 and 2009 the costs of gas went up by 18 percent, health care by 50 percent, college by 80 percent, and housing by 97 percent, net of overall inflation.<sup>4</sup> The percentage of Americans who lost ground economically by either experiencing a major loss in income or incurring large out-of-pocket medical expenses has rapidly increased over the past two decades, rising to 20 percent in 2010, the last year complete data are available, from 14 percent in 1986, according to research by Yale political scientist Jacob Hacker.<sup>5</sup> Not surprisingly, Americans haven't been able to put enough away for retirement, and the risk of falling behind in retirement increased significantly—the percentage of working-age households that are at risk of being unable to maintain their preretirement standard of living in retirement rose to 51 percent in 2009 from 32 percent in 1983, according to the Center for Retirement Research at Boston College.<sup>6</sup>

Finally, it is becoming harder for Americans to join the middle class. According to research by Bhashkar Mazumder of the Federal Reserve Bank of Chicago, the likelihood that a child born poor will rise into the middle class has declined significantly over recent decades.<sup>7</sup> As a result, the United States has less economic mobility than other developed economies.<sup>8</sup>

benefit the most. To ensure that Americans who want to upgrade their skills are able to do so, we propose making it easier to take time off for training, increasing the flexibility and availability of training funding, and dramatically ramping up apprenticeship programs that create career ladders. Specifically, we recommend:

- Increasing mid-career training by providing workers the right to request time off from work for training
- Encouraging adult workers to enroll in career training by creating a flexible Pell Grant for these workers
- Enrolling 1 million more workers into apprenticeship programs in high-growth and emerging industries by partnering with the private sector and increasing funding for existing programs

### Raise workplace standards

To help boost incomes, workplace standards need to be strengthened

and updated to give workers a solid wage floor to negotiate from and tools to help capture a reasonable share of the economic gains they help produce. To help workers do well when companies do well, we need to increase the use of broad-based incentive pay, allow workers to join unions, make the government a better consumer, and start to link worker compensation to CEO compensation. To raise the wage floor, we need to increase the minimum wage to the level it was in the 1960s before its value was allowed to erode and to crack down on workplace fraud that denies workers the wages and benefits they are owed. Our proposals include:

- Helping ensure workers do well when companies do well by promoting employee ownership and broad-based profit sharing through a grant program and an office of inclusive capitalism

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The weakened state of the middle class hurts all of us by stifling our country's economic growth and undermining our democracy.<sup>9</sup>

A strong middle class is a prerequisite for robust entrepreneurship and innovation—a source of trust that makes business transactions more efficient and a source of sustainable demand that encourages businesses to invest. A strong middle class also promotes efficient delivery of government services, greater political participation, and forward-looking public investments in education and infrastructure.<sup>10</sup>

The issues addressed in this report are central to the strength of the middle class. With such high levels of unemployment, millions of people are falling out of the middle class, and wages are being forced further downward. Yet this report goes well beyond immediate job-creation policies because long before the Great Recession started, the middle class was significantly weakened by the problems of stagnant wages, rising costs and risks, and declining mobility. Long after unemployment returns to more normal levels, the middle class will still face these same basic problems unless we take the kinds of actions recommended in this report.

- Limiting the tax deductibility of executive pay to the 25 times the national median annual earnings
- Requiring companies that offer their CEOs “golden parachutes” in their contracts to also offer strong severance packages to their other employees in the event of layoffs
- Encouraging the federal government to do business with companies that provide middle-class jobs by reforming government contracting policies
- Reforming our international corporate tax system to end the overseas outsourcing bias and promote investment in the United States
- Raising the minimum wage to \$10 and linking it to half of the average wage to ensure that hard work pays a decent wage
- Ensuring workers get the pay and benefits they are owed by preventing employers from misclassifying employees as independent contractors and by making more workers eligible for overtime pay
- Allowing workers to join unions if they want

### Reduce the costs of getting sick or losing a job

Middle-class families have a high risk of falling deeply behind if they get sick or lose a job. Indeed, 62 percent of all personal bankruptcies were due to health care costs in 2007.<sup>18</sup> Efforts to ensure workers have quality, affordable health care, access to paid sick days, and a strong unemployment insurance system are the keys to minimizing unnecessary economic risks for middle-class families. This means we need to:

- Ensure middle-class Americans have access to quality, affordable health care by fully implementing Obamacare and pursuing additional measures to reduce the price of health care and insurance premiums such as competitive bidding, bundling payments, and reducing administrative expenses
- Pass legislation allowing workers to earn paid sick days so that workers don't lose their jobs or incomes if they get sick or have to care for a sick child

Indeed, for the past decade that Gallup has been asking Americans about their biggest financial concern, those in the middle class have consistently said they are most worried about not earning enough money, the high cost of living—especially paying for health care, housing, and college—and risks such as maintaining a decent standard of living in retirement and losing their job.<sup>11</sup> Sadly, Americans have also been telling pollsters for the past several years—even before the start of the Great Recession—that they think their children will be worse off than they are.<sup>12</sup>

Recommendations cover a wide range of issues, including higher education, job training, workplace standards, retirement, health care, housing, gas prices, child care, and infrastructure.

Most of the policies in this report have multiple benefits and address more than just one aspect of the challenges facing the middle class—including high unemployment, stagnating incomes, rising costs, increased risks, and declining mobility. Our policies to reduce the costs of college, for example, do far more than just lower expenses for middle-class families. They also reduce the risk students will emerge from college saddled with excessive debt levels and help more people gain

- Improve the unemployment insurance system so it is financially strong and provides a reasonable wage replacement to those who have lost their jobs through no fault of their own and who continue to seek employment without success

### Make it possible for workers to also be caregivers for children and elderly parents

With 71 percent of all women who have children working,<sup>19</sup> two-earner families the norm, and half of older Americans receiving care from their children or children-in-law,<sup>20</sup> modern middle-class families bear large costs to care for young children and provide services for elderly parents. Unfortunately, current policies have not fully adapted to the times. To help modern families deal with the high costs of care, we propose providing paid family and medical leave to all workers, just as all other industrialized countries do, as well as significantly expanding access to preschool and increasing the child and dependent care tax credit. Doing so would:

- Ensure that middle-class families' economic security is not threatened when they welcome a new baby or need time away from work to care for an aging parent, by providing paid family and medical leave insurance to workers
- Reduce expenses for middle-class families by significantly expanding access to high-quality, public preschool programs for 3-year-old and 4-year-old children
- Help middle-class families dealing with the high cost of child care and caring for aging parents by expanding and reforming the child and dependent care tax credit

### Boost retirement security

Our private retirement system is failing. Half of all workers don't have a retirement plan at work, and many of those who do are not on track to save enough for retirement—in large part because most plans have

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the income benefits of higher education. Similarly, our retirement proposal would reduce the cost of saving for retirement, as well as provide greater income security during retirement. Expanding access to preschool for 3-year-olds and 4-year-olds will reduce costs for child care, boost children's education and later-life experiences, and create teaching jobs.

Even policies that may not seem to obviously address more than one problem facing our middle class often do. Reducing health care costs not only helps families cut down on expenses but also can boost worker income because the high cost of health care has caused many firms to divert money away from wage increases and toward health benefits.<sup>13</sup> Policies that can directly boost incomes such as inclusive capitalism, which rewards workers when firms do well, are also associated with greater job stability and fewer layoffs during economic downturns, providing a buffer against risks.<sup>14</sup> Reforming unemployment insurance will not only help prevent families from falling out of the middle class but will also boost spending and create jobs.<sup>15</sup> And rehabilitating foreclosed properties as rental homes can help create jobs, as well as lower rental costs in certain markets.

high fees and are inefficient. To ensure that everyone has more and better options to save for retirement, we recommend creating a new kind of retirement plan that is more efficient and more secure than basic 401(k) plans. We would also open to the public the 401(k) plan for federal employees. Our plan:

- Creates a new collective, defined-contribution plan to cut the costs of saving for retirement in half, compared to a traditional 401(k), while providing greater security
- Opens up the Thrift Savings Plan, the 401(k) for federal employees, to the public so that everyone has the option of saving in a 401(k) plan with very low fees and smart investment options

### Stabilize the costs of housing

Rapidly rising housing prices followed by the bursting of the housing bubble and the subsequent wave of foreclosures deeply harmed our middle class. Home ownership is a key source of middle-class wealth, but the median value of primary residences fell by 18.9 percent from

2007 to 2010<sup>21</sup>—dramatically reducing the wealth of the middle class, leaving millions owing far more than their homes are worth, and trapping people in bad financial situations that threaten to further deteriorate the housing market. We must help re-establish home ownership as a ladder to building middle-class wealth rather than an anchor that holds families back. This requires several steps to stabilize the housing market, including establishing a large-scale refinancing initiative, rehabilitating and renting out government-owned foreclosed homes, responsibly winding down the two mortgage finance giants—Fannie Mae and Freddie Mac—now under government conservatorship, and implementing mortgage principal reductions through “shared appreciation.” Specifically, we call for:

- Establishing a large-scale refinancing initiative to help creditworthy homeowners with little or negative home equity take advantage of today's historically low interest rates
- Stabilizing hard-hit communities and expanding affordable housing by rehabilitating and renting out government-owned foreclosed homes

Each individual policy in this report would be a big help to the middle class—creating a significant number of jobs, boosting incomes for a large percentage of the population, meaningfully cutting costs for middle-class necessities, and considerably lowering the risks of falling behind—and would go a long way toward rebuilding the ladder of opportunity. Together, our 35 policies approach the scale necessary to start rectifying the income, cost, and risk problems faced by Americans. Our policies will help:

- Ensure middle-class families pay only 15 percent of their income to send their children to college
- Reduce the cost of saving for retirement by nearly half, compared to a typical 401(k) plan
- Lower mortgage payments for millions of families by an average of \$2,600 a year
- Restore 500,000 teaching jobs
- Create more than 2 million jobs rebuilding and upgrading our infrastructure
- Guarantee workers access to paid sick days and maternity leave
- Increase access to higher education and job training

- Ensuring a liquid, stable, and affordable U.S. mortgage market by responsibly winding down Fannie Mae and Freddie Mac, both of which are now under government conservatorship
- Providing deeply underwater homeowners a fighting chance of staying in their homes through mortgage principal reductions with “shared appreciation”

### Reduce energy and transportation costs

Middle-class families have been hard hit by rising yet extremely volatile prices for gasoline and home energy. The solution to prevent family budgets from being strained by prices that go way up, then down, and then back up again is to help families reduce energy use, give people more and better alternative transportation and energy choices, and reduce commodity speculation that contributes to energy price volatility. We can achieve this by:

- Helping middle-class families reduce their energy costs by making their homes more efficient through a nationwide HomeStar program

- Fighting rising gas prices by helping consumers spend less on gas, by placing limits on oil speculation, and by instating a revised cash-for clunkers program, as well as increasing investments in alternative fuels and public transportation
- Reducing the cost and volatility of home energy prices through residential clean energy standards

### Create middle-class jobs

The private sector has now created jobs for the past 28 straight months, but we are not creating enough jobs to return our economy to full employment anytime soon. Spurring the kind of job creation the economy needs will take bold actions that boost demand—as many of the policies in this report do—as well as more direct interventions to jumpstart hiring. Direct interventions to create jobs should rebuild our crumbling infrastructure, put teachers back in classrooms, and incentivize work sharing to save jobs and provide

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- Ensure that workers receive the overtime pay and benefits they deserve
- Help non-college-graduates gain credentials that boost pay by as much as \$225,000 more than comparable job seekers during their lifetimes
- Save middle-class consumers thousands of dollars annually on health care and limit the risk that illness will send them to the poorhouse
- Reduce the cost to parents of quality preschool

Certainly there are a number of other policies that would also be of great help to the middle class—notably the Restore America Act introduced by Sen. Tom Harkin (D-IA) and Rep. Rosa DeLauro (D-CT), as well as dozens of other ideas on the Center for American Progress website and elsewhere.<sup>16</sup>

But our 35 policies, if enacted, would make a meaningful difference in the lives of all Americans. The pages that follow describe these 35 policies. Many of the policies are new; many have not been previously discussed by the Center for American Progress; and most are not yet part of the dominant political conversation. But all of them should be.

the flexibility that employers and employees both are seeking. We propose that the federal government:

- Enable public schools to rehire all the teachers that have been laid off because of the Great Recession and its aftermath, putting 500,000 teachers back in the classroom
- Make needed investments in highways, energy, transit, rail, water, and other infrastructure to create more than 2 million jobs per year
- Help save existing jobs and create new ones in the private sector by promoting work sharing through tax incentives and revamping the unemployment system

ensure that the middle class is at the top of the agenda and a key part of the day-to-day discussions of policymakers. We suggest:

- Requiring a “middle-class impact statement” for major pieces of legislation so that a bill’s effect on the middle class is part of the debate
- Creating a bipartisan commission on the middle class and requiring a vote on its recommendations so that the middle class receives the same level of attention we place on the federal budget deficit

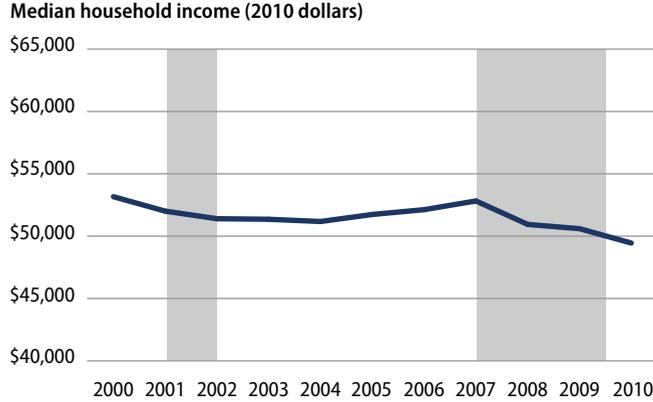
### Focus policymakers on the middle class

Helping rebuild our middle class needs to be a central focus for policymakers. Yet the state of the middle class has not always received the attention it deserves. We propose several institutional reforms to

In order to succinctly present such a large number of recommendations, we only briefly describe the core concepts of the 35 policies. In the near future we will release individual briefs describing the major new policies in greater detail. We provide cost estimates, where available, for those policies with a significant budgetary impact but do not specifically describe how to pay for them—their costs are consistent with previous plans we have released to achieve long-term fiscal balance by investing now in growth- and prosperity-generating policies, while working to lower our nation’s federal budget deficits over time.<sup>17</sup> This set of middle-class policy proposals is of vital importance to the future our country and should be a top priority for policymakers.

**FIGURE 2**  
**Median household income has declined over past decade**

Had stagnated for previous twenty years



Source: Economic Policy Institute analysis of US Census Bureau Data, shaded bars indicate recession.

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The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

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