Chapter 8

Conclusion
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Working hard to get ahead has always been part of the American Dream. But the reality for millions of Americans is that in spite of working hard, they are still falling behind. Not only did real median incomes decline between 2000 and 2012, but even married couples with two children—a type of family that tends to have higher incomes—saw their median income stagnate over this period. This happened during a time when costs for key components of middle-class security for this family rose by more than $10,000.¹

The costs of child care, health care, and higher education have all risen by double digits in real terms in recent years.² Add the rising costs for housing, and you can see why retirement savings are worryingly low. The latest estimates show that half of all American households are in danger of having insufficient savings for retirement.³

The middle-class squeeze also shows that much of the problem facing the U.S. economy is one of demand, and this is largely a function of kitchen-table economics. As America’s middle class is stretched thin just covering the basics, it should come as no surprise that consumer demand is still weak more than five years after the end of the Great Recession.⁴ And since consumer spending drives 70 percent of the U.S. economy,⁵ it is no wonder that businesses are sitting on record profits as cash stores rather than investing in new factories and workers.⁶ Simply put, there is real concern about whether there will be enough consumer demand to justify new investment.

The middle-class squeeze is part of the new economics of inequality, and this new normal has worrying consequences for the U.S. economy as a whole. In August 2014, ratings giant Standard & Poor’s warned that “the current level of income inequality in the U.S. is dampening G.D.P. growth.”⁷ Standard & Poor’s concluded that:

The challenge now is to find a path toward more sustainable growth, an essential part of which, in our view, is pulling more Americans out of poverty and bolstering the purchasing power of the middle class.⁸
This idea is not new. But as the data in this report show, the timing for millions of American households—and for the U.S. economy overall—is urgent.

To reverse the middle-class squeeze—alleviating the pressure on middle-class families and enabling more households to make it into the middle class in the first place—policymakers must first focus on jobs. It is not enough for the unemployment rate to fall; we also need to be sure that Americans are not dropping out of the labor force and that the U.S. economy is creating jobs with middle-class incomes.

The jobs piece of the middle-class-squeeze puzzle has many facets, but many of the policy prescriptions required are straightforward: boosting demand through public investments, ensuring basic workplace protections that encourage higher workforce participation, and enacting sensible policies that promote shared capitalism by ensuring that more workers will do well when their companies do well.

But as we know, even if incomes rise, that alone is not enough to alleviate the middle-class squeeze. Addressing rising health care costs must be a part of the solution to address the squeeze if American workers are going to stop seeing their compensation eroded by health care expenses. There are numerous practical policies that can build on the initial success of the Affordable Care Act in cost containment and help ensure that costs are not increasingly transferred to employees.

Additionally, we need to ensure that every family has high-quality early childhood options; this two-generational investment will pay dividends both for current workers struggling to stay in the workforce—parents—and for our next generation of workers—their children. That same commitment to investment needs to continue through higher education, matching public support with reform so that students are able to get the skills and training they need to match their talents and ambitions.

Housing and retirement make up the remaining two big-ticket costs squeezing the middle class—and they are very much related. Millions of American households are counting on their homes not just for basic shelter but also for a key part of their retirement savings. The federal government must continue to enact reforms that support a healthier and more equitable housing market. For those who are unable to buy homes, creation of a more affordable rental market will help them meet a basic need and will make it more likely that they can save enough to become homeowners.
Our retirement system needs both long-term and short-term fixes. In addition to offering all American workers hybrid plans that incorporate features from both defined-benefit and defined-contribution plans, policymakers can do more now to protect workers’ savings through basic fee disclosures that could save typical American workers up to $100,000 in excess fees and allow them to retire three years sooner than they would be able to under higher-fee plans.

For too long, conventional wisdom has said that much of the political process is broken and that we therefore will have to wait for a different year—or a different Congress—to enact change. But America’s middle class cannot wait any longer.

If we are going to alleviate the middle-class squeeze, we have to act now.
Endnotes


2 Ibid.


8 Ibid.