

Raising wages and rebuilding wealth: A roadmap for middle-class economic security ^[1]

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Introduction

The American middle class is finally seeing economic gains after more than a decade of declining economic security. Yet millions of Americans are still feeling the effects of a painful economic period.

Middle-class wages and incomes grew rapidly during the 1990s, but that growth came to an end around 2001. Seven years of stagnant middle-class income growth were followed by the financial crisis of 2008 and the Great Recession, which ravaged middle-class jobs and savings. And in recent years, ill-advised austerity policies have slowed the recovery of jobs and wages while income inequality has reached new heights. Add to this the growing costs of child care, health care, higher education, and housing, and families are feeling squeezed. On top of that, saving for retirement has become a monumental challenge, since far too many middle-class families are barely able to get by.

The precarious state of middle-class finances emerges clearly in the trends for household wealth: The average middle-class household's net worth—the difference between the savings it owns and the debt it owes—fell an astonishing 49 percent, or \$82,500, between 2001 and the aftermath of the financial crisis in 2010. Not only has this left families more exposed to the ordinary ups and downs of the economy and regular life, but it has also placed the basic tenets of middle-class life—such as paying for college and retiring comfortably—frustratingly and increasingly out of reach.

But there are signs of hope. The unemployment rate has fallen from a high of 10 percent in October 2009 to 4.9 percent in July 2016. Real median household income in 2016 has recovered to its 2000 levels. And real wage growth—the heretofore missing element of the recovery—made its first appearance in the recovery last year. And middle-class wealth too has begun to recover, growing \$14,000, or 16 percent, between 2010 and 2013.

Nevertheless, public policy can and must deliver better results for the middle class and those who seek to enter it. Despite largely stagnant middle-class household incomes, real gross domestic product, or GDP, per capita grew 16 percent and the share of income going to the top 10 percent rose between 2000 and 2016. Middle-class wealth remains \$68,000 below its 2001 level. This is unacceptable and demonstrates the need for policies that will help all Americans share in the fruits of economic growth.

Much progress has been made in the past eight years. A stimulus bill helped prevent another Great Depression, a health care reform bill expanded health insurance coverage to millions of Americans, and far-reaching Wall Street reform significantly improved financial stability and consumer financial protection. Unfortunately, additional measures that would support job creation, raise middle-class wages, and rebuild wealth have been repeatedly blocked. No wonder many Americans feel that the system is rigged against them.

In January 2017, the next president and the U.S. Congress will have the opportunity to generate policies that grow and support the middle class. A policy agenda that raises wages and reduces the burdens of major expenses would help families rebuild their wealth and afford the pillars that make up a secure, middle-class life. This report provides a roadmap for doing just that.

At the same time, an economic agenda that helps the middle class would simultaneously give a boost to low-income families trying to enter it. Raising wages by returning the economy to full employment and restoring worker bargaining power are two of the most effective ways to increase economic mobility. Indeed, recent Center for American Progress research shows that children of fathers without a college education who grow up in union households earn 28 percent more as adults than children of fathers without a college education who do not. Similarly, reducing the price of key human-capital investments such as child care and higher education would make it easier for low-income families—and their children—to enter the middle class.

The course of the past 15 years demonstrates that addressing genuine problems is never easy. And while Americans have made progress, much more remains to be done. In this report, we* outline the squeeze that middle-class families have been feeling and summarize the policy prescriptions to relieve it. We provide analyses of the causes behind—and solutions to—these middle-class challenges.

Child care recommendations

- Enact the High-Quality Child Care Tax Credit. This new tax credit would put quality, affordable child care within reach for working families. It would provide low-income and middle-class families with up to \$14,000 per child, with eligibility limited to families earning up to four times the poverty level, or \$97,000 for a family of four.
- Create a federal-state partnership to provide universal preschool. Congress should authorize a universal preschool program to prepare 3- and 4-year-old children for school.³² The federal government should partner with states and share the cost of expanding preschool to low- and middle-income children.

Region: United States ^[4]

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