



# **Movin' On Up: Reforming America's Social Contract to Provide a Bridge to the Middle Class**

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## Introduction and Summary

Over the past few decades, American workers powered the economy to new heights. Between 1973 and 2006, the size of the economy on a per person basis—real gross domestic product (GDP) per capita—increased by more than 85 percent. Productivity—a measure of the amount that workers produce per hour on average—increased by almost 50 percent.<sup>1</sup> During the decades following World War II, similar increases in economic growth and productivity helped to strengthen and expand the middle class, and reduce the economic distance between Americans in different income classes. By contrast, the gains in growth and productivity since the 1970s have not contributed to greater economic security for all, and inequality has returned to levels not seen since the years before the Great Depression. Recent polls show that the usually optimistic American public has become increasingly concerned about the future of the American middle class.<sup>2</sup>

This research brief summarizes recent research conducted by the Center for Economic and Policy Research on job quality and workers' economic security.<sup>3</sup> To assess job quality, CEPR uses a basic definition that takes into account a job's wage rate and whether it provides health and retirement benefits. Using this definition, we find that about a quarter of all jobs can be classified as “good” ones. Despite tremendous increases in economic growth and productivity, there are no more good jobs today (as a share of all jobs) than there were in 1979.

This paucity of good jobs means that millions of American workers are “missing the middle.” These are workers who, despite their contributions to America's prosperity and economic growth, lack sufficient resources to afford a standard of living that puts them within, or at least within reach of, the middle class. Using a rigorous methodology that improves on other more standard measures of economic security, we find that one in five Americans in working families have income below a minimum middle-class budget standard for the area in which they live. Almost half of these families have income that puts them above the poverty line.

Few workers in the middle-class and above rely solely on wages to maintain their standard of living. Tax preferences underwrite the costs of private social benefits that promote the health and economic security of middle-class families, including employer-based health insurance and retirement plans. These benefits are structured in a way that effectively excludes many workers in low-paid jobs from receiving them. Instead of one system of benefits available to all workers, the United States has two: one for working class families supported by low-wage workers and another for middle- and upper-income families. The former system consists of a patchwork of benefits, typically targeted on the basis of having income and assets below a certain threshold, and often not available to all workers who meet eligibility requirements. Despite their limitations, we find that these benefits, often referred to as public work supports, play an important and largely unheralded role in promoting economic security and opportunity for working families. Nevertheless, substantial numbers of workers in low-paid jobs receive only modest or no help from work support programs.

America's social contract—the set of public and private structures designed to promote economic security and opportunity—must be updated so that more workers can move into the middle class. Updating the social contract will require change in numerous policy areas, three of which we discuss in this paper: strengthening labor market institutions, expanding work supports for families in the middle and working classes, and providing workers, particularly those in low- and moderate-wage jobs, with more opportunities to improve their skills and education throughout their lifetimes.

## The Disconnect Between Economic Growth and Job Quality

To define a "good" job, CEPR uses a simple definition based on three characteristics: pay, health insurance and retirement benefits. According to this definition, a good job is one that meets *all* of the following three criteria:

- it pays at least \$17 per hour (about \$34,000 on an annual basis),
- it offers employer-sponsored health insurance (where the employer pays at least part of the monthly premium),
- it offers an employer-sponsored retirement plan (either a "defined contribution plan" like a 401(k) or a "defined benefit" like a traditional pension).<sup>4</sup>

The pay rate of \$17 per hour (set in inflation-adjusted 2006 dollars) is equal to the median hourly pay for men in 1979. In other words, for a job to be considered good, it must pay, in inflation-adjusted terms, at least as much as the typical male worker earned at the end of the 1970s, and provide health and retirement benefits. CEPR uses the 1979 median wage in order to compare the share of good jobs in 1979 and 2006.

Of course, these are not the only factors that would enter into a complete determination of job quality. Other important determinants of job quality include the amount of paid vacation, paid sick days, paid parental and family leave, whether the employer provides training and sufficient opportunities for advancement, and various other terms and conditions of employment. Unfortunately, available labor-market data do not allow for a consistent analysis over time of any of these important aspects.

Using this definition, CEPR's analysis finds that good jobs are a minority of current jobs, and that bad jobs outnumber good jobs.

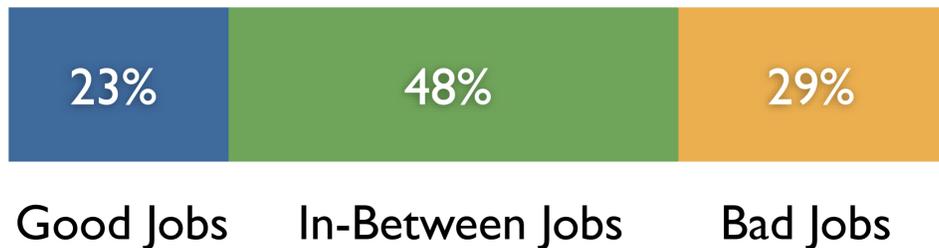
- In 2006, just under one-fourth (23.1 percent) of U.S. jobs were good jobs, offering decent pay, employer-sponsored health insurance, and a retirement plan.
- An even greater share of workers—29 percent—is in jobs that met *none* of the three good-jobs criteria, what we call "bad jobs."

The remaining jobs—about 48 percent—are good in some respects, meaning they meet one or two of the good-jobs criteria, and bad in others.

It is instructive to put these figures in the context of broader economic trends over the last few decades. As noted in the introduction, both the size of the economy per person and the amount that workers produce per hour have continued to increase steadily over the last few decades. These increases have been driven in large part by increases in workers' skills and their use of technology. Education levels have increased across the board. Between 1979 and 2006, the share of Americans with a high school diploma increased by more than a quarter and the share with education beyond high school increased by 42 percent.

# Only 1 in 4 Jobs are Good Ones

Only about one in four jobs in 2006 were “good” jobs. Good jobs pay at least \$17 per hour and come with both employer-provided health insurance where the employer pays at least some of the premium and an employer-sponsored retirement plan or pension. A “bad” job has none of these characteristics. Most jobs are “in-between” jobs or jobs with a mix of good or bad characteristics.



Source: Analysis of March Current Population Survey by John Schmitt, CEPR.

By 2006, 86 percent of Americans age 25 or older had completed high school and more than half had attended one or more years of college. Thirty years ago, computers were almost non-existent in the workplace, now most workers use them on the job. And computer use isn't limited to highly educated workers. In fact, most workers using computers at work do not have a college degree.<sup>5</sup>

Given all of these positive trends, it seems reasonable to expect a concomitant increase in the share of good jobs. Yet, the share of such jobs supported by the economy has remained flat since 1979. Moreover, after controlling for improvements in the “human capital” of the U.S. workforce — American workers today are, on average, older and much better educated than they were at the end of the 1970s—the economy now produces 25 to 30 percent “fewer” good jobs than it did 25 years ago.<sup>6</sup>

## Working, But Missing from the Middle Class

Traditional analyses of Americans’ living standards and economic security suffer from two major limitations: 1) they do not take into account the actual costs of goods and services or the variations in these costs depending on where one lives; 2) they do not take into account the impact of taxes and non-cash benefits, such as food stamps and housing assistance on living standards. Such analyses obscure how public policy choices—decisions to alter tax rates, and expand or contract benefits—directly impact living standards. The methodology CEPR uses to estimate the number of workers who live below a minimum middle-class standard of living addresses these limitations.

There is no standard definition of the middle class.<sup>7</sup> For our research we adopt a minimal definition of the middle class that equates it with basic income and health security. Under this definition, a middle-class standard of living means having sufficient income to afford housing, health care, and other necessities that enable one to live at a decent and basic level, a level that is above mere subsistence, but modest compared to that of families securely in the middle class. More specifically, a bare minimum middle-class standard of living involves:

- Having sufficient income to afford a healthy diet, housing that isn't substandard, and other essential living expenses;
- Having health insurance to ensure that care is available when needed and that the illness of a family member doesn't plunge the family into greater economic insecurity;
- Owning a car and using it to get to work and for other necessary trips;
- Being able to purchase clothing, household supplies, school supplies, personal care, reading materials and other miscellaneous necessities;
- Paying payroll and income taxes; and
- For families with children, access to affordable, quality child care.<sup>8</sup>

Almost one out of every five Americans in working families is "missing the middle"—that is, is living below the minimum middle-class living standard for the area in which they live.

CEPR uses the basic family budgets developed by the Economic Policy Institute (EPI) to determine the costs of these items. These budgets—which we refer to as minimum middle-class living standards—reflect the actual costs of goods and services at market prices in over 400 localities and areas in the United States. EPI has budgets for six family types: families with one or two parents with up to three children under the age of 13.<sup>9</sup> Using the same methodology and sources as the EPI budgets, CEPR also calculated budgets for households of one or two adults and no children. These eight types of families account for about 71 percent of all working families. These budgets are generally consistent with the income levels most Americans say are needed for a family to be considered middle class. By these calculations, the threshold for a minimum middle-class living standard for a two-parent, two-child family varies from about \$31,000 (rural Nebraska) to almost \$65,000 (Boston, Massachusetts), and the median threshold is about \$40,000. By comparison, in a recent poll conducted by the Kaiser Family Foundation, only 21 percent of those polled considered a family of four making \$30,000 to be middle class. When asked about a family of four making \$40,000, an additional 21 percent (42 percent total) said the family would be middle class; at \$50,000, 60 percent of those polled said the family would be middle class.<sup>10</sup>

At least 48 million people in working families lack even a toehold in the middle class after taking costs of working, health care, and housing into account.

To determine how many Americans in working families live below a minimum middle-class living standard, CEPR calculates their income from all sources, including earnings from work and the value of Food Stamps, Temporary Assistance for Needy Families (TANF) income supplements, and the Earned

Income Tax Credit, if they receive any of these benefits. If a family reports receiving child care assistance, housing assistance, or Medicaid/SCHIP, we adjust the minimum middle-class living standard by replacing the market prices for child care, housing, or medical care with the amounts that family reports actually paying for those items.<sup>11</sup>

Using this methodology, we find that almost one out of every five Americans in working families, or 41 million people, is "missing the middle"—that is, is living below the minimum middle-class living standard for the area in which they live.<sup>12</sup> The typical family who is missing the middle would need to see their income—from all sources, including the value of work supports—increase by almost \$10,000 annually to secure a toehold in the middle class.

This estimate excludes two general family types—families with more than three children, and families with children over age 12—that account for about 30 percent of all individuals in working families. Families with more than three children are more likely than smaller families to have incomes that fall below a minimum middle-class standard of living, while families with children over age 12 are probably somewhat less likely than families with only younger children to have incomes that fall below a minimum middle-class standard of living.<sup>13</sup> If we assume the share of families “missing the middle” is the same among these two family types excluded from our original analysis as it is among the other family types for which we have data, then at least 48 million people in working families lack even a toehold in the middle class after taking costs of working, health care, and housing into account.

Our data likely provide a conservative estimate of the number and share of Americans in working families who are missing the middle. The minimum middle-class living standards we use do not include various additional costs that are widely recognized to be part of a middle-class standard of living, such as saving for post-secondary education (for one's self or other family members), contributing to a retirement account, entertainment, and gifts and travel for holidays.<sup>14</sup>

## The Role Public Policy Plays in Supporting and Expanding the Middle Class

Few workers in the middle and upper classes rely solely on wages to maintain their standard of living. Tax preferences underwrite the costs of employer-based health insurance and retirement plans, and the mortgage interest deduction subsidizes homeownership. Other preferences and subsidies reduce the cost of employee parking expenses, life insurance, and various other expenses.

Workers who have yet to move into the middle class typically pay little in income taxes, but substantial amounts toward other taxes. Public supports provided directly to these workers—sometimes referred to as “work supports”—serve much the same function as tax preferences for the middle and upper classes. Because these benefits play such an important role in helping workers move into the middle class, we examine the effects that six of these benefits—the Earned Income Tax Credit, food stamps, child care assistance, Medicaid and the State Children's Health Insurance Program, rental housing assistance, and Temporary Assistance income supplements—have on the living standards of working families.

We find that public work supports play a substantial role in promoting the economic security of working families.

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- Among working families who are missing the middle, work supports close about a quarter of the distance—in dollar terms—between their incomes and a minimum middle-class living standard. Before work supports, the typical working family who is missing the middle falls \$1,045 below a minimum middle class living standard. After taking work supports into account, they fall \$774 dollars below the standard.
- Among families who are missing the middle before taking work supports into account, work supports lift about 10 percent of them up to or above a minimum middle-class living standard.

## What Makes CEPR's Approach to Understanding Basic Economic Security Unique?

Several factors differentiate our approach from other more traditional analyses of economic security:

- We use minimum middle-class living standards (commonly referred to as basic family budgets) rather than the federal poverty line or some other similarly arbitrary threshold to determine the resources needed for a decent standard of living;
- We take into account the value of "public work supports"—including in-kind supports such as Medicaid and child care assistance—when calculating whether workers and any family members they support are economically secure;
- Our analysis includes workers with *and without* children.

Why don't public work supports provide more of a bridge to the middle class? To some extent, they weren't initially designed with that specific goal in mind. Some work supports, including Temporary Assistance, Food Stamps, and Medicaid, provide only limited or even no help to working families, particularly if they have more than a minimal level of assets, or their incomes are above the federal poverty line. Such limitations reduce the extent to which work supports boost the living standards of working families who are missing the middle.

As currently measured, the poverty line is an essentially arbitrary measure with little relationship to the actual costs of living at a basic level for working families. In fact, among working families living below the minimum middle-class living standard, we find that about 42 percent have incomes above the official federal poverty line.

While other programs, including rental housing assistance and child care assistance, have less restrictive limits on income and assets, benefits in these programs are effectively rationed because they are not funded at a level that would allow them to provide benefits to all eligible workers.

A final problem common to all of the public work supports involves burdensome and complex processes that workers often need to go through to obtain benefits.

Research conducted by CEPR on nine states and the District of Columbia quantifies the extent to which these restrictions and limitations reduce the ability of public work supports to help working families obtain a toehold in the middle class. In these states, we calculated the number of people in working families living below the minimum middle class living standard who were: 1) *ineligible* for each of the public work support programs; and 2) *eligible* for each of the public work support programs, but *not receiving* benefits.

Across the nine states and DC, some 21 percent of individuals in working families were ineligible for *all* six public work supports. Ineligibility by program varied from a low of 45 percent for the EITC to a high of almost 90 percent for Temporary Assistance income supplements. Housing assistance and child care assistance also have eligibility restrictions that exclude more than two-thirds of those individuals who are missing the middle. A similar pattern is seen in the share of individuals who are eligible but not receiving benefits: the EITC has the highest rates of receipt by eligible persons, while housing assistance, child care assistance, and Temporary Assistance have the lowest rates of receipt by eligible persons.

## A New Social Contract to Expand the Middle Class

The American social contract, the set of public and private structures designed to promote economic security and opportunity, has evolved over time.<sup>15</sup> In the post-WWII era, the contract helped to broaden the American middle class, and worked to ensure that increases in economic growth and workers' productivity led to increases in wages and benefits across the board. Imperfect as this contract was,<sup>16</sup> it helped bring about a more inclusive economy in which the lowest paid workers gained more than the highest paid ones.

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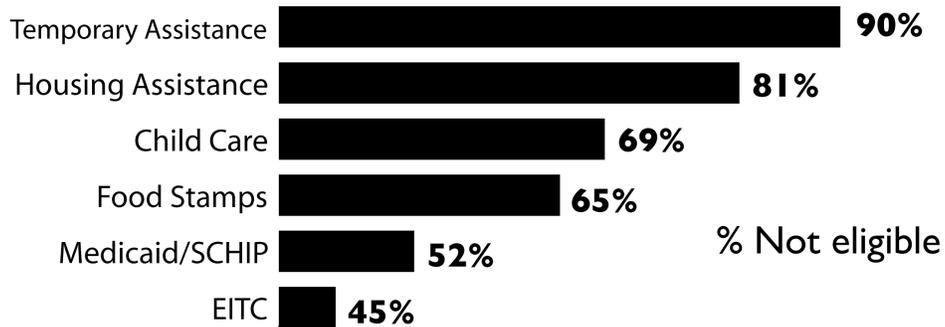
Since the mid-1970s, many of the key components of that social contract have eroded or otherwise failed to keep pace with economic change. As a result, we've seen a reversal of this broadly shared prosperity. Updating America's social contract will require change in various areas. In this paper we review three general areas: strengthening labor market institutions, expanding work supports for families in the middle and working classes, and providing workers, particularly those in low- and moderate-wage jobs, with more opportunities to improve their skills and education throughout their lifetimes.

### Restoring Labor Market Institutions

As Lawrence Mishel, Jared Bernstein, and various co-authors of the biennial *State of Working America* have demonstrated since at least the mid-1990s, there is a marked difference between the recent decades of rising inequality in the United States and the immediate post-World War II period of mass upward mobility, a period when institutional concerns were at the forefront.<sup>17</sup> Labor-market institutions that once promoted shared prosperity have diminished in strength. Restoring the strength of these institutions, and updating them for the 21<sup>st</sup> century, is essential part of any strategy to expand the middle class.

## Missing the Middle But Not Eligible for Public Work Supports

In nine states and the District of Columbia, more than half of all people in working families living below a basic minimum middle-class living standard are ineligible for five of the six major public work supports.



Source: Albelda and Boushey (2007). States are Illinois, Iowa, Massachusetts, Minnesota, New York, North Carolina, Ohio, Texas, and Washington.

### 1. *Reforming and Enforcing Wage and Hour Standards*

Necessary labor market reforms include enforcing and enhancing existing labor standards such as the minimum wage and other wage and hour standards. Although Congress raised the minimum wage in 2007—it will eventually reach \$7.25 an hour in July 2009—it remains, in inflation-adjusted terms, low relative to the past, and low relative to the median wage. To maintain the value of the wage, and ensure that no workers fall too far behind the middle, Congress should aim at increasing the minimum over time to at least half of the male median wage. In 2006, the male median wage was about \$17 an hour. Thus, a minimum wage tied to half of the male median would have equaled about \$8.50 an hour in 2006.

Almost one-in-five union organizers or activists can expect to be fired as a result of their activities in a union authorization campaign.

Along similar lines, economist Robert Pollin proposes a federal variant of the living wage standards that have been adapted in many localities. Pollin suggests setting minimum in 2011 at \$9.00, a level he describes as “roughly the low-end living wage standard in communities throughout the country today.”<sup>18</sup> He would tie further increases to inflation and average labor productivity. If inflation and productivity rise at the same rate as they have for the last decade, this would entail an increase of about 10 to 12 percent in the minimum every two years. By 2013, this would mean a minimum of about \$10.

In addition to reforms of existing wage and hour minimums, the enforcement of these laws needs to be enhanced.<sup>19</sup> As Annette Bernhardt and Siobhán McGrath of the Brennan Center for Economic Justice have documented, the resources available at the national level to enforce existing wage and hour laws have generally declined, despite substantial increases in the number of workers covered by such laws.<sup>20</sup>

### 2. *Ensuring that Workers are Able to Exercise their Right to Collectively Bargain with Employers*

Another essential element is the strengthening and encouraging of collective bargaining through greater unionization. In a recent paper, CEPR examined the impact of unionization on the pay and benefits of workers in low-paid occupations.<sup>21</sup> The data suggest that even after controlling for differences between union and nonunion workers, union representation substantially improves the pay and benefits offered in what are otherwise low-paying occupations. On average, in the 15 important low-wage occupations analyzed, unionization raised workers' wages by just over 16 percent—about \$1.75 per hour—compared to similar, but nonunion, workers. The union impact on health-insurance and pension coverage in low-wage jobs was even bigger. Union workers in low-wage occupations were 25 percentage points more likely to have employer-provided health insurance, as well as 25 percentage points more likely to have an employer-provided pension.

Unions overall saw a small increase in membership in 2007; however, this is the only year that unionization has risen as a share of total employment in the past quarter of a century.<sup>22</sup> Union membership rates have declined almost continuously, with occasional pauses, from 20.1 percent in 1983 to 12.1 percent this year. This low level of unionization stands in stark contrast to workers' desire for unionization. According to polls of non-managerial workers, about one-half want to be but are not union members.<sup>23</sup>

Evidence suggests the decline in unionization is due in large part to aggressive and often illegal employer behavior that has undermined the ability of U.S. workers to create unions at their work places. While the National Labor Relations Act (NLRA) makes it illegal for employers to fire workers involved in union-organizing campaigns, the penalties associated with discriminatory

discharges are small. As a result, employers have a powerful anti-union strategy: fire one or more prominent pro-union employees—typically workers involved in organizing the union—with the hope of disrupting the internal workings of the union's campaign, while intimidating the rest of the potential bargaining unit in advance of a vote on whether to unionize.

Research conducted by CEPR in 2007 found a steep rise in the 2000s relative to the last half of the 1990s in illegal firings of pro-union workers.<sup>24</sup> Our estimates suggest that almost one-in-five union organizers or activists can expect to be fired as a result of their activities in a union authorization campaign. Even after we adjust for the increase in organizing campaigns not built around NLRB-elections, our calculations suggest that about one-in-seven union organizers and activists are illegally fired while trying to organize unions at their place of work.

In the absence of government standards, almost one in four Americans have no paid vacation and no paid holidays.

These problems could be avoided by reforming the union certification process in a way that reduces the opportunities that anti-union employers have to intimidate pro-union workers. Under the current process, even if 100 percent of employees have formally requested union representation, employers can refuse to recognize a union and require a separate vote by employees on unionization. This separate vote usually takes place a month or two after employees have requested union representation, which allows time for employers to engage in coercive anti-union campaigns. If at least 50 percent of employees authorize union representation, employers should be required to automatically recognize unions, without being able to unilaterally force workers to go through the additional step of a separate election process. In addition, penalties for illegal acts by employers during organizing campaigns should be enforced and enhanced, and employers should be required to bargain for a first union contract in good faith.

### *3. Developing New Labor Standards to Promote Work-Life Balance*

In addition to strengthening existing labor standards, new basic labor standards, including minimum guarantees of paid sick days, paid family and medical leave, and paid vacation time are needed to ensure that low-and moderately-paid workers have at least a minimum level of access to these essential benefits. The United States is the only advanced economy in the world that does not guarantee its workers basic benefits in these areas. European countries establish legal rights to at least 20 days of paid vacation per year, and most of the world's rich countries offer between five and 13 paid holidays per year.<sup>25</sup>

In the absence of government standards, almost one in four Americans have no paid vacation and no paid holidays. According to government survey data, the average worker in the private sector in the United States receives only about nine days of paid vacation and about six paid holidays per year: less than the minimum legal standard set in the rest of world's rich economies excluding Japan (which guarantees only 10 paid vacation days and requires no paid holidays). Moreover, the paid vacation and paid holidays that employers do make available are distributed unequally. According to the same government survey data, lower-wage workers are less likely to have any paid vacation (69 percent) than higher-wage workers are (88 percent).

## **Providing Universal Health Insurance and Harmonizing the Publicly Financed Structures that Help Workers Make Ends Meet**

To improve the set of work supports and benefits available to all workers, we need to rethink the existing system of publicly financed benefits that help workers maintain and improve their living

standards. One major limitation of the current system is that many individuals living below a minimum middle-class living standard receive little help either from public work supports or the more extensive set of private social benefits, including tax preferences for employer-provided health care and retirement plans that benefit those already in the middle- and upper-classes.

Child care subsidies provide a good illustration of this disconnect. Nearly 70 percent of children living below the minimum middle-class living standards have parents who are ineligible for public child care assistance. The other major program to assist families with the costs of child care, the child and dependent care tax credit, helps very few of these families. According to the Urban-Brookings Tax Policy Center, only 4 percent of the subsidies provided through the child and dependent care tax credit go to families with incomes in the bottom 40 percent of the income distribution. Moreover, the vast majority of benefits, more than 7 out of every 10 dollars in tax subsidies for child care go to families in the top 40 percent.

Some work supports, in particular health insurance and child care, would be more effective if they were structured as universal benefits, modeled on Social Security or Medicare. A universal system of work supports would relieve employers of having to provide benefits, while ensuring that workers have access to necessary supports. Moving toward universal benefits would also reduce the need for costly and intrusive bureaucracies to determine whether workers meet income, asset, and other eligibility tests. Although a complete discussion of the reforms along these lines is beyond the scope of this paper, below we briefly review two proposals that would move toward more universal systems of benefits for working- and middle-class families.<sup>26</sup>

#### *1. Universalizing the Earned Income Tax Credit and Related Tax Credits and Deductions: A Universal Unified Child Credit*

The federal government provides various tax benefits for families with children, including the EITC, the Child Tax Credit, the dependent exemption, the Child and Dependent Care Credit, and the deduction of expenses for child care for workers in firms with flexible spending or “cafeteria plans.” When considered together, these benefits actually increase income inequality because the value of the benefits they provide generally increases with income.

In a 2000 policy paper, Robert Cherry and Max Sawicky proposed converting the current dependent exemption into a credit and combining it with the EITC and the Child Tax Credit.<sup>27</sup> The resulting Universal Child Credit would be available to all workers with children. Unlike the EITC, the credit would not phase out to zero; instead it would provide a minimum benefit (\$1,270 per child at the time when Sawicky and Cherry wrote the paper) roughly equal to the value of the dependent exemption and the Child Tax Credit for taxpayers in the 28<sup>0</sup>% tax bracket.

The Universal Child Credit has a number of benefits over the existing structure of tax credits and preferences for families with children. Most notably, it would boost the tax benefits available to working families with incomes below the median. As a result, it would reduce income inequality. The Universal Child Credit has a number of benefits over the existing structure of tax credits and preferences for families with children. Most notably, it would boost the tax benefits available to working families with incomes below the median. As a result, it would reduce income inequality. The credit would also reduce the implicit marginal tax rates faced by workers in low-paid jobs, and provide more equal benefits to children living at different income levels.

The Universal Child Credit would not address one major limitation of the Earned Income Tax Credit: its exclusion of workers under age 25 who do not have children, and the minimal benefit it provides to childless workers age 25 and over. A top priority in this regard should be modifying restrictive rules that make many young workers and workers without children in their homes ineligible for the EITC. For these workers, the maximum EITC in 2008 is only \$438 compared to almost \$3,000 for a lone parent with one child. Moreover, for childless workers the EITC starts “phasing out” (reducing from its maximum amount) at just over \$7,000 for a childless worker compared to almost \$16,000 for a lone parent with one child.

Tax reform legislation recently proposed by House Ways and Means Chairman Charlie Rangel would double the value of the maximum credit for childless workers and increase the point at which it starts to phase out to around \$11,000. The Rangel proposal is a good first step toward improving the EITC for childless workers, but it would still leave some childless workers who are missing the middle ineligible for the benefit, particularly those living in high-cost cities and regions. Under the Rangel proposal, workers with earnings over almost \$17,000 would remain ineligible for the EITC, an amount that falls more than \$3,000 below the minimum-middle class living standard for a childless worker who lives in an moderately priced area in the United States.<sup>28</sup>

### **Reforming America's Regressive Welfare State**

Conventional wisdom has it that compared to other wealthy democracies, particularly those in Europe, the United States has a relatively minimum welfare state. According to this wisdom, other than universal programs for the elderly (Social Security and Medicare) and temporarily unemployed (Unemployment Insurance), the U.S. welfare state is modest in size and helps only very needy families.

This understanding is mistaken. The United States actually has a substantial welfare state, one differentiated not by size, but by the extent to which it provides regressive benefits through tax preferences and employer-sponsored, government-subsidized benefits. The cost of these tax preferences and subsidies is quite substantial. In 2006, the cost to the federal government of subsidizing employer-based health insurance totaled \$124 billion. By comparison, in the same year, the federal government spent less than half as much (just under \$60 billion) on Medicaid and SCHIP for non-disabled children and adults in working-age families. Similarly, the cost to the federal government of subsidizing home ownership through the mortgage interest deduction totaled almost \$69 billion in 2006. By comparison, the federal government spent less than \$3 billion on mortgage subsidies and home-repair assistance for low-income homeowners, and about \$25 billion on rental housing assistance and public housing.

These tax preferences disproportionately boost the living standards of high-income households. For example, according to an analysis by the Urban-Brookings Tax Policy Center, some 81.5 percent of the benefits of the mortgage interest deduction go to households in the top fifth of the income distribution.\*

\* Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle, How Much Does the Federal Government Spend to Promote Economic Mobility and For Whom?, Economic Mobility Project, February 2007, [http://www.economicmobility.org/assets/pdfs/EMP\\_Mobility\\_Budget.pdf](http://www.economicmobility.org/assets/pdfs/EMP_Mobility_Budget.pdf).

## *2. Providing Universal or Near-Universal Child Care Assistance*

In 1971, President Richard Nixon vetoed legislation that would have established a nearly universal child care subsidy system. Families with incomes under roughly 44 percent of median income would have received free child care; those with incomes between 44 percent and 74 percent of median income would have received care on a sliding scale basis.<sup>29</sup> A more rational system of child care assistance would emulate this approach of providing assistance on a sliding scale basis.<sup>30</sup>

An example of this approach is the proposal by economists Suzanne Helburn and Barbara Bergmann to create an income-based system that would provide free child care assistance to families with incomes below the federal poverty line.<sup>31</sup> Families above the poverty line would receive subsidies that ensure they pay no more than 20 percent of their income above the poverty line toward child care. All families who were eligible for assistance would receive it.

## **Provide Workers with Greater Access to Postsecondary Education and Training**

In the early years of the twentieth century, the high school movement brought universal public secondary education to the United States long before it was adopted by most other Western nations.<sup>32</sup> As a result, by 1940 the United States had the most educated workforce in the world. After World War II, the Servicemen's Readjustment Act of 1944—commonly known as the GI Bill of Rights—and the Higher Education Act of 1965 contributed to steep increases in the share of workers with vocational credentials or a college degree.

Post-secondary education and training are no guarantee of obtaining one of the limited numbers of good jobs that are available. But they do improve the odds of obtaining a good job and are an important part of an overall strategy to ensure that we have an economy that works for all. Increasing access to four-year colleges and to graduate schools are an essential part of this strategy, but not the only part. Not all good jobs require a college degree; many “middle-skill” jobs, for example, require more than a high school diploma, but less than a four-year degree. In general, multiple paths toward obtaining postsecondary education or training should be available to adults throughout their working lives. At a minimum, every worker should have access to at least two years of postsecondary education or training at whatever pace and point makes sense during his or her working lifetime.<sup>33</sup>

## **Conclusion**

Millions of American workers are "missing the middle." Despite their contributions to America's prosperity and economic growth, these workers lack sufficient resources to afford a standard of living that puts them within reach of the middle class. America's social contract needs to be updated to ensure the economy works for all Americans. Key elements of such a reform include strengthening basic labor market standards and institutions, expanding workers' access to postsecondary education and training, and reforming the system of public and private social benefits for workers. Work supports such as the EITC, Medicaid, child care assistance, and housing assistance are only a modest part of a larger system of public and private social benefits for working families. Instead of focusing solely on means-tested programs and families with very low incomes, social policy reformers should work to improve the system as a whole by making it more progressive and seamless for working- and middle-class families.

## Endnotes

1 This is the gain in “usable productivity.” Economists commonly use non-farm business productivity—which increased by 83 percent over the same time period—when comparing productivity and living standards. However, usable productivity is the more appropriate measure for reasons detailed in Dean Baker, *The Productivity to Paycheck Gap: What the Data Show*, Center for Economic and Policy Research (CEPR), April 2007, and Dean Baker, “Usable Productivity’ Growth in the United States: An International Comparison, 1980-2005”, CEPR, June 2007. Regardless of the measure used, productivity growth far outpaced wage growth during this period.

2 In a 2007 poll conducted by CBS News, 59% of those polled said that life for middle class Americans has gotten worse in the last 10 years. <http://www.cbsnews.com/stories/2007/04/15/opinion/polls/main2684929.shtml>.

3 This paper draws on research from the following CEPR reports: John Schmitt, “The Good, the Bad, and the Ugly: Job Quality in the United States over the Three Most Recent Business Cycles”, November 2007; Randy Albelda, Heather Boushey, Elizabeth Chimienti, Rebecca Ray, and Ben Zipperer, “Bridging the Gaps: A Picture of How Work Supports Work in Ten States”, with The Center for Social Policy (CSP) at University of Massachusetts Boston, October 2007; Rebecca Ray and John Schmitt, “No-Vacation Nation”, May 2007; John Schmitt, Margy Waller, Shawn Fremstad, and Ben Zipperer, “Unions and Upward Mobility for Low-Wage Workers”, August 2007; John Schmitt, “How Good is the Economy at Creating Good Jobs?”, October 2005.

4 For an in-depth discussion of these criteria and how they are measured, see John Schmitt, “The Good, the Bad, and the Ugly: Job Quality in the United States over the Three Most Recent Business Cycles”, CEPR, November 2007.

5 Bureau of Labor Statistics, “Employed Persons who Used a Computer or the Internet at Work by Selected Characteristics”, October 2003, Available online at: <http://www.bls.gov/news.release/ciuaw.t01.htm>.

6 John Schmitt, “How Good is the Economy at Creating Good Jobs?”, CEPR, October 2005; and John Schmitt. “The Decline of Good Jobs”, *Challenge*, Vol. 51, No. 1 (January-February 2008), pp. 5-25.

7 For a discussion of the meaning of middle class in political contexts, see Lori Robinson, “Is there a Standard Definition of the Middle Class?”, Annenberg Political Fact Check, Available online at: [http://www.factcheck.org/askfactcheck/is\\_there\\_a\\_standard\\_accepted\\_definition\\_of.html](http://www.factcheck.org/askfactcheck/is_there_a_standard_accepted_definition_of.html).

8 This definition of what it means to be middle class is minimal in part because it doesn’t take into account asset holdings or education levels. Moreover, the resources necessary for a middle-class standard of living arguably varies depending on one’s age. Most people would probably agree that for someone in their 50s or early 60s, a middle-class standard of living would entail having some retirement savings and substantial home equity. For someone in their 30s or older, most would probably agree that a middle-class standard of living includes owning a home (or having the income necessary to obtain a mortgage to purchase a home). For someone in their mid-20s, middle-class status may depend more on the quality of their job in terms of wages, benefits, and potential for upward mobility.

9 EPI’s basic family budgets are available online at [http://www.epinet.org/content.cfm/datazone\\_fambud\\_budget](http://www.epinet.org/content.cfm/datazone_fambud_budget).

10 NPR/Kaiser Family Foundation /Harvard School of Public Health, “Public Views on SCHIP Reauthorization”, October 2007, Available online at: <http://www.kff.org/kaiserpolls/upload/7702.pdf>.

11 Because research suggests that survey respondents who receive food stamps or Temporary Assistance typically underestimate the value of the benefits they receive, we adjust the amounts to reflect more accurate data on the value of benefits received.

12 “Bridging the Gaps: A Picture of How Supports Work in Ten States”, CEPR and CSP at University of Massachusetts-Boston, October 2007.

13 In most respects, families with children over 12 are likely to be similar to those with younger children. The biggest difference is that the parents of older children will, on average, be somewhat older and therefore likely to have, on average, higher earnings from work. Parents of older children are also more likely to be employed than parents of much younger children.

14 For an excellent analysis of the economic security of families in the middle class, see Jennifer Wheary, Thomas M. Shapiro, and Tamara Draut, “By a Thread: The New Experience of America’s Middle Class,” Demos and The Institute on Assets and Social Policy at Brandeis University, October 2007.

15 For more on that evolution, see Mark Schmitt, “The American Social Contract: From Drift to Mastery,” New America Foundation, November 2007, Available online at: [http://www.newamerica.net/publications/policy/american\\_social\\_contract\\_drift\\_mastery](http://www.newamerica.net/publications/policy/american_social_contract_drift_mastery).

16 For example, as Ira Katznelson has shown, many African Americans were excluded from various protections and benefits of the New Deal and the GI Bill. Ira Katznelson, *When Affirmative Action was White: An Untold History of Racial Inequality in America* (W.W. Norton, 2006), see also: Ira Katznelson, “New Deal, Raw Deal: How Aid Became Affirmative Action for Whites”, *Washington Post*, September 27, 2005, page A23, Available online at: <http://www.washingtonpost.com/wp-dyn/content/article/2005/09/27/AR2005092700484.html>.

17 More recently, MIT economists Frank Levy and Peter Temin have made similar arguments. See Frank Levy and Peter Temin, “Inequality and Institutions in 20th Century America”, NBER Working Paper #W13106, May 2007.

18 Robert Pollin, “Making the Federal Minimum Wage a Living Wage”, *New Labor Forum*, 16(2): 103–107, Spring 2007, Available online at:

[http://www.peri.umass.edu/fileadmin/pdf/other\\_publication\\_types/Pollin\\_May\\_2007\\_NLF\\_Column--Making\\_Federal\\_Min\\_Wage\\_a\\_Living\\_Wage.pdf](http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/Pollin_May_2007_NLF_Column--Making_Federal_Min_Wage_a_Living_Wage.pdf).

<sup>19</sup> For more on potential reforms, see “Holding the Wage Floor, Enforcement of Wage and Hour Standards for Low-wage Workers in an Era of Government Inaction and Employer Unaccountability”, National Employment Law Project, October 2006.

<sup>20</sup> Annette Bernhardt and Siobhán McGrath, “Trends in Wage and Hour Enforcement by the U.S. Department of Labor, 1975-2004,” Brennan Center for Economic Justice, September 2005.

<sup>21</sup> John Schmitt, Margy Waller, Shawn Fremstad, and Ben Zipperer, “Unions and Upward Mobility for Low-Wage Workers”, CEPR and Inclusion, August 2007.

<sup>22</sup> Ben Zipperer and John Schmitt, “Union Rates Increase in 2007”, CEPR, January 2008, Available online at:

<http://www.cepr.net/content/view/full/1441/220/>. The increase was not statistically significant, but the slight uptick was a significant departure from the trend toward declining unionization rates.

<sup>23</sup> See Richard B. Freeman, “Do Workers Still Want Unions? More than Ever”, Economic Policy Institute, Briefing Paper #182, February 2007, Available online at: <http://www.sharedprosperity.org/bp182/bp182.pdf>.

<sup>24</sup> John Schmitt and Ben Zipperer, “Dropping the Ax: Illegal Firings During Union Election Campaigns”, CEPR, January 2007, Available online at: [http://www.cepr.net/documents/publications/unions\\_2007\\_01.pdf](http://www.cepr.net/documents/publications/unions_2007_01.pdf).

<sup>25</sup> See Rebecca Ray and John Schmitt, “No-Vacation Nation”, CEPR, September 2007, Available online at:

[http://www.cepr.net/documents/publications/NoVacationNation\\_asofSeptember07.pdf](http://www.cepr.net/documents/publications/NoVacationNation_asofSeptember07.pdf).

<sup>26</sup> For an excellent and comprehensive discussion of reforms to a range of public work supports, see Nancy Cauthen, “Improving Work Supports: Closing the Financial Gap for Low-Wage Workers and Their Families”, Economic Policy Institute, Briefing Paper #198, October 2007, Available online at: <http://www.sharedprosperity.org/bp198.html>.

<sup>27</sup> Robert Cherry and Max Sawicky, “Giving Tax Credit Where Credit is Due: A ‘Universal Unified Child Credit’ that Expands the EITC and Cuts Taxes for Working Families”, Economic Policy Institute, Briefing Paper #91, April 2000, Available online at: <http://www.epinet.org/content.cfm/sfc>.

<sup>28</sup> For example, the minimum middle-class living standard for a childless worker living Lansing, Michigan is \$20,400. Half of all areas in the United States have higher living expenses than Lansing and half have lower expenses.

<sup>29</sup> Abby Cohen, “A Brief History of Federal Financing for Child Care in the United States”, *Future of Children*, Vol. 6, No. 2: 26 (1996), Available online at: [http://www.futureofchildren.org/usr\\_doc/vol6no2ART2.pdf](http://www.futureofchildren.org/usr_doc/vol6no2ART2.pdf).

<sup>30</sup> As an alternative, subsidies could be tied to a percentage of child care expenses. For example, Michael Graetz and Jerry Mashaw have proposed that the federal government pay 30 to 50 percent of each family’s child care costs. They note that such a proposal would be revenue neutral since the government currently finances about 30 percent of child care costs. Although potentially easier to administer, such an approach, however, would be less progressive than an income-based approach. Michael Graetz and Jerry Mashaw, *True Security: Rethinking American Social Insurance*, Yale University Press, 1999.

<sup>31</sup> Suzanne Helburn and Barbara Bergmann, *America’s Child Care Problem: The Way Out*. New York: Palgrave, St. Martin’s Press, 2002. For more on the Helburn/Bergmann plan and related plans, see Nancy Cauthen, “Improving Work Supports: Closing the Financial Gap for Low-Wage Workers and their Families”, Economic Policy Institute, Briefing Paper #198, October 2007, Available online at: <http://www.sharedprosperity.org/bp198.html>.

<sup>32</sup> See Claudia Goldin, “The Human Capital Century and American Leadership: Virtues of the Past”, *Journal of Economic History*, Vol. 61: 263 (2001).

<sup>33</sup> See Shawn Fremstad and Andy Van Kluenen, “Redefining Public Education for the 21st Century: Toward a Federal Guarantee of Education and Training for America’s Workers”, *Journal of Poverty Law and Policy*, May-June 2006, Available online at: <http://www.workforcealliance.org/atf/cf/%7B93353952-1DF1-473A-B105-7713F4529EBB%7D/CH%20Review%20-%20Redefining%20Public%20Ed%20-%20May-June%202006.pdf>.