



THE SHRINKING

MIDDLE

BY CLIFTON LEAF



A JOURNEY INTERRUPTED
American workers are increasingly unlikely to attain the same incomes and living standards that their parents did.

CLASS

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THE VAST MAJORITY OF AMERICANS consider themselves “middle class.” No one can quite agree, though, on what that means.

Richard Reeves, along with colleagues at the Brookings Institution, has cataloged no fewer than a dozen economic formulas that seek to define this elastic cohort largely by what people earn each year: household income between X and Y; personal income that’s within some percentage of the national median; distance from the poverty line; and so on. Combine the lot, and the range of who might be considered middle class is extraordinarily expansive—including anyone from a single, part-time bartender scratching by on \$13,000 a year to a suburban power couple pulling in \$230,000, or 90% of American households in all.

Other economists and social scientists stretch the boundaries of membership in different dimensions, based on degrees of wealth or spending power, professional status or education level, what neighborhood you live in, or even on that very American of conceits, self-determination—which is to say, if you think you’re middle class, you are.

“I sometimes think there are as many definitions of the middle class as there are Americans claiming to be middle class,” says Reeves, a senior fellow at Brookings and director of its Future of the Middle Class Initiative, who quickly throws in one of his favorite noneconomic definitions: “You’re middle class if you have two refrigerators. You have a new one in your kitchen, and you have your old one in the garage or basement, where you keep your beer.”

The U.S. is a middle-class nation—it was founded on middle-class ideals, he continues. And so defining one’s self as middle class is, perhaps counterintuitively, aspirational in some ways. “Americans don’t like the idea of seeing themselves as upper crust, snobs, snooty, aristocrats, upper class, et cetera,” says Reeves, an economist and self-described “recovered Brit” who has written a new book, *Dream Hoarders*, precisely on that rarefied American upper crust. “People also don’t like to think of themselves as poor, or even as working class. To the extent that the U.S. has a class consciousness, it tends to be around the middle class.”

All of which creates a challenge of measurement. If sizing up the middle class is difficult enough, it’s that much harder to say that circumstances within this group have changed. And yet that is precisely what we’ve devoted the 28 pages in this special report



to saying—and showing. Life has gotten harder in recent years for millions of people within the middle class. Put simply: For too many, the American dream has been fading.

Such an assertion may seem to fly in the face of recent economic data and even the long upward slope of history. Between 2013 and 2016, after all, the median income for U.S. families grew 10%, according to the Federal Reserve Board's oft-cited Survey of Consumer Finances. The unemployment rate, meanwhile, is at its lowest level since 1969—the year of the moon landing—as the private sector has generated some 20 million new jobs since 2010. Wages, too, are at last starting to climb after a long stretch of stagnation. All really good signs, no?

And yet for nearly every rah-rah measure in the economy of late, there is an asterisk: a footnote that suggests that a huge and perhaps growing subset of Americans is being left off the dance floor. Consider the most basic: wages. For non-supervisors, average hourly earnings hit nearly \$23 in November—a fact that, according to data from the Pew Research Center, gives today's workers slightly less purchasing power than those in January 1973, once inflation is factored in (\$23.68 in 2018 dollars).

For years, the company CareerBuilder has conducted, via the Harris poll, a large survey of U.S. workers across the business landscape. In 2017, a striking 40% of the nearly 3,500 respondents said they either always or usually live

“paycheck to paycheck”—a level that was up four percentage points from the company's 2013 poll.

Such data is explained in part by recent research by the Federal Reserve Bank of New York, which reveals the \$13.5 trillion IOU that American families have kept locked inside their desk drawers. This past September, aggregate household debt balances jumped for the 17th straight quarter, with the debt now more than \$800 billion higher than it was at its previous peak in 2008. The loan comparison site LendingTree, drawing on data from the Federal Reserve, reports that as a percentage of disposable income, Americans' non-housing-related debt is higher than it has been since measurement began a half-century ago. Collectively speaking, our outstanding consumer debt, says the site, is equivalent to more than 26% of our income.

With interest rates low, that burden is still a pinch for many, rather than a gouging bite—but unlike with our skyrocketing federal debt, this cascading obligation is still achingly personal, with reminders coming in the mail month after month. In December, the personal finance site NerdWallet reported that average revolving credit card balances for households with debt—the “You Owe This Amount” figure that carries over from one billing statement to the next—totaled \$6,929.

Even those without a credit card overhang, or massive student loan debt, find themselves facing a gauntlet of recurring charges each month. The cost of health insurance and medical care have each risen much faster than paychecks have. Over the past decade, out-of-pocket costs to workers from higher insurance deductibles have climbed eight times as much as wages, notes the Kaiser Family Foundation. More than a quarter of adults did without needed medical care in 2017 because they couldn't afford it, says the Fed.

Yes, housing costs nationwide have moderated—but, importantly, not in the places where the jobs are. Want to work for a Silicon Valley startup or a biotech firm in Boston? Six in 10 renters making up to \$75,000 a year will pay upwards of 30% of their income in rent in San Jose; four in 10 will do so in Boston, according to Harvard's Joint Center for Housing Studies (see “The Math of a Vanishing Class” in this issue).

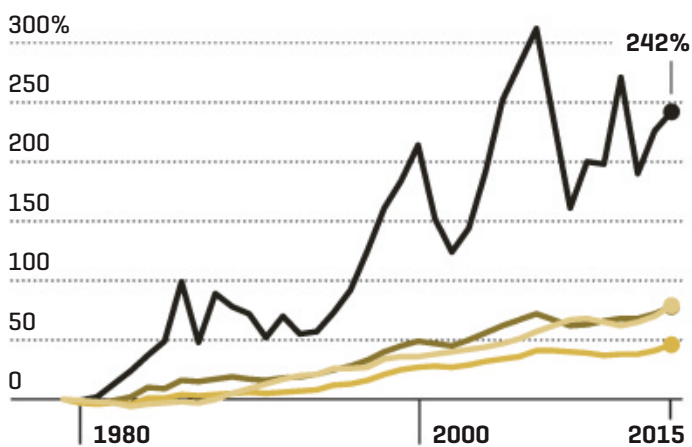
Here—in housing, health care, and the cost of college, too—is where the super-inflation hits hardest for a significant share of the nation today. “And it's quite hard to find three areas of consumption that define the middle class standard of living more than affording a decent home, or being able to send your kids to college or cover health care costs should any of your family fall sick,” says Reeves of Brookings. This tripartite gap, in particular, may well be what has convinced many younger Americans that they won't ever reach one critical milestone in the Great American Journey—living better than their parents did. (Only half of the 15- to 26-year-olds in a recent poll by the Associated Press–NORC Center for Public Affairs Research thought they would.)

Harvard economist Raj Chetty has done some of the most acclaimed work on this historic decline. In 2016, Chetty and col-

CUMULATIVE GROWTH IN INCOME

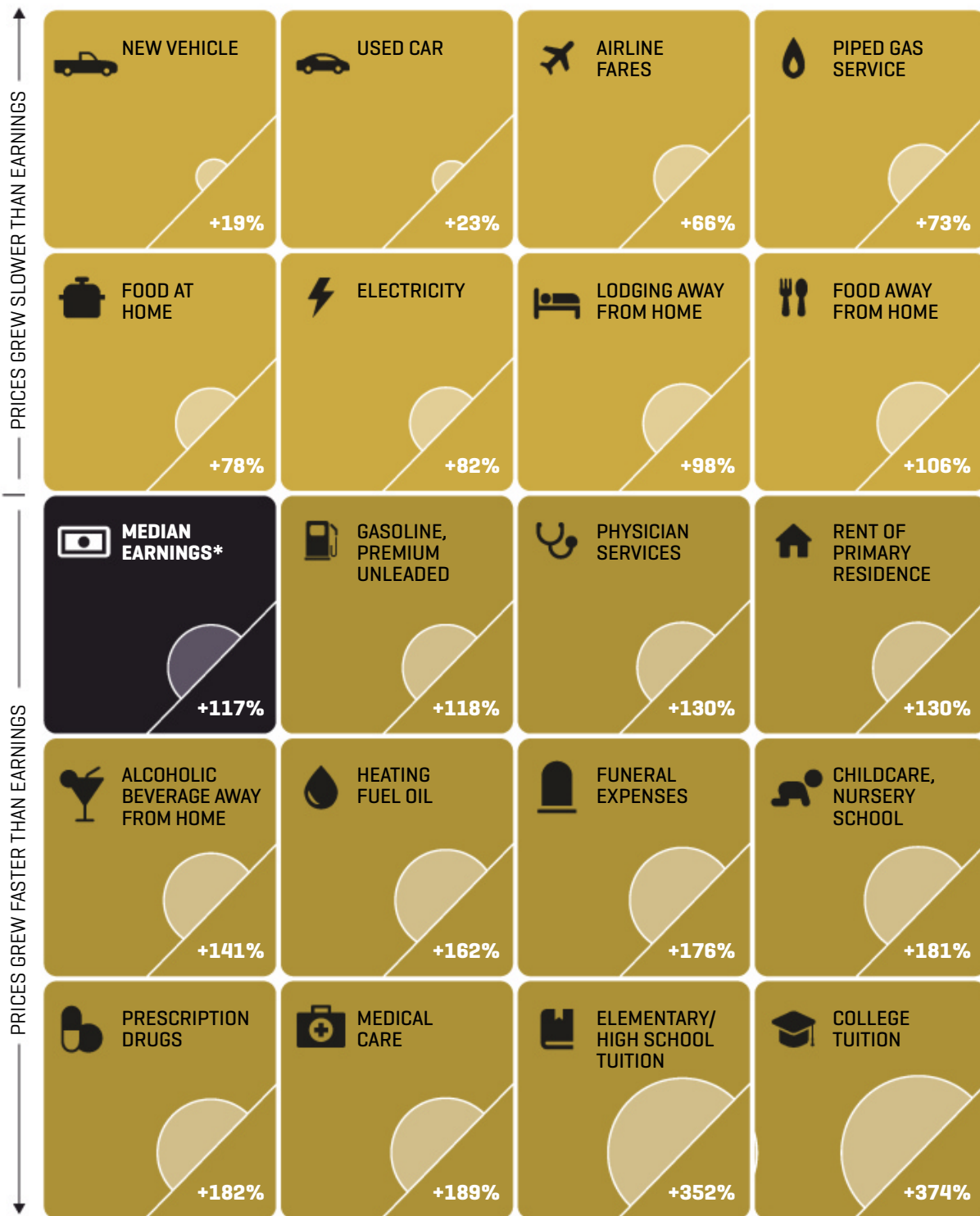
AFTER TRANSFERS AND TAXES

— TOP 1% — MIDDLE THREE QUINTILES
— 81ST-99TH PERCENTILES — LOWEST QUINTILE



SOURCE: CONGRESSIONAL BUDGET OFFICE

GROWTH IN PRICES COMPARED WITH EARNINGS, 1990–2018



* MEDIAN USUAL WEEKLY EARNINGS, AS OF Q3, 2018, FOR FULL-TIME WAGE AND SALARY WORKERS

SOURCE: BUREAU OF LABOR STATISTICS, PRICE CHANGES AS OF NOVEMBER OF EACH YEAR

widening... that the laws of economic gravity no longer seem to apply.

And compounding that is one more nagging concern: that the breakneck speed of technological change now disrupting one industry after another—a revolution of A.I.-infused automation—will uproot the one thing that, according to the folks at Pew, virtually everyone agrees is critical to middle-class membership: a secure job.

Each previous era's industrial revolution has, of course, raised the same fears. Reeves thinks "a good starting position is to be skeptical about the claim that this time is different." But the two things worth asking about the current revolution, he says, are: "One, will it be differently quick this time? And two, will it be differently different?"

It's question No. 1 that makes him a little nervous: Yeah, sure, with every grand sweep of automation, business models change and new positions get created, and there's a transitional time in between them. "So surely the economy will adjust and new jobs will be created," he says, "but will those people who are displaced be the ones to get those jobs? And will they get them fast enough?"

You're not talking about 20, 30, 40, 50 years of transition between approach A and approach B. You're talking about two, three years. What it means is people need to reskill, retool at a pace that has never before been witnessed in human history."

The closest thing to it, says Reeves, would be like a mobilization during war. So be it: Many Americans feel like they're already in one.

leagues showed that fewer than half of those born in the 1980s earned more than their parents had at the same age, adjusting for inflation. By contrast, of those born in 1940, more than 90% had accomplished the feat. "We can see that there has been a collapse of intergenerational mobility," says Claudia Goldin, a leading economic historian and labor economist at Harvard.

It's all part of the feeling, for millions of Americans, of falling behind—a feeling made all the more frustrating by the sense that the gap between the middle class and the superrich keeps



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THE CURRENT STATE OF AFFAIRS

STORIES FROM PEOPLE CHASING THE AMERICAN DREAM

TRAILER PARK LIVING IN TECHTOPIA

BY MICHAL LEV-RAM

WHEN UMBELINA Martinez's family first came to the United States decades ago, from Michoacan, Mexico, they settled in a three-bedroom house in Redwood City, Calif. It wasn't all theirs; 25 people lived on the property, sharing a single bathroom. Martinez's

family of eight squeezed into one bedroom. "My mom and dad had to step over us kids to get to the door," she recalls.

Today, the 46-year-old single mother of three has much more spacious accommodations: a 200-square-foot mobile home in a trailer park in Palo Alto, the heart of the technology industry and one of the most expensive cities in the country. She has lived there 13 years.

"Who wouldn't wish to live in Palo Alto?" she asks, seated in her kitchen, which doubles as a living room, dining room, and storage space.

Its thin walls are painted pale green, and there is a black refrigerator set against one wall, topped with a TV monitor. (The small quarters call for some creative design.) Kiwis and oranges rest on a tiny table pushed so close to the door that it almost touches.

Most of Martinez's neighbors live in two- or three-room trailers with their families. Many keep pets. Their homes come in an array of colors, and some feature tiny gardens blooming with flowers and hot peppers.

If Palo Alto, with its many Silicon Valley billionaires, seems like an unlikely location for trailer living, that's because it is. The Buena Vista Mobile Home Park, tucked behind a Valero gas station on one of the city's busiest streets, is home to just over 100 trailers and about 400 residents, including Martinez and her kids; her mother, sister, and brother; and his family. (Her mother lives with her; her sister and brother have separate mobile homes.) The residents of the park are mostly working-class immigrants who hold jobs in nearby restaurants, hair salons, and construction sites. They pay around \$1,400 a month for rent and utilities in an area where the median home price is \$3.2 million.

"For my family and →



GIMME SHELTER
Umbelina Martinez
in the kitchen of her
home at the Buena
Vista Mobile Home
Park in Palo Alto,
one of the priciest
cities in the
U.S. to live in.





TECHTOPIA [CONT.]

→ me, it would be impossible to live anywhere else in Palo Alto,” says Martinez, who works as a banquet server at the nearby Four Seasons Hotel.

Buena Vista started out as a road-stop general store and motel in the 1920s. Over the years, it grew into one of the last sources of low-income housing in Palo Alto. In 2012 its then owners informed the residents of the mobile home park that they wanted to sell the property to an apartment complex developer. The plan included some restitution for residents, who would be evicted.

“I didn’t want the money,” says Don Roberto Munoz, one of Martinez’s neighbors. “I wanted my daughters to stay in the schools here.”

Martinez and others echoed the sentiment. So they banded together, aided by supporters from Palo Alto. In 2017 the Santa Clara County Housing Authority purchased the property for \$40 million, allowing tenants to stay put.

Martinez’s sister Maria now serves as the president of Buena Vista’s residents association. “It is important to show that there isn’t just one way of thinking,” Maria says. Just a few miles west of her one-room trailer, the founder of Sun Microsystems is selling his four-story mansion. The price? \$96.8 million.



INCOME GROWTH FOR MIDDLE CLASS BETWEEN 1979 AND 2015, SLOWER THAN UPPER MIDDLE CLASS (78%) AND POOR (79%)

BROOKINGS INSTITUTION



HOUSEHOLDS IN 25 ADVANCED ECONOMIES WITH FLAT OR FALLING INCOMES DURING 2005 TO 2014

MCKINSEY & COMPANY



A fight to preserve his public pension

Louisville teacher Matthew Kaufmann, 39, stands his ground.

AS TOLD TO RICHARD MORGAN

● I DO FINE—for now. I’m a high school English teacher. I have a condo, a girlfriend, and \$70,000 a year. We glamp. But sitting in comfort isn’t comfortable if you’re doing it only because standing up marks you as an enemy. In 2018, I stood up.

The governor of Kentucky rushed a bad pension reform bill through the leg-



ADKINS: COURTESY OF NICOLE ADKINS

islature in a day. In April, teachers from all 120 counties called in sick to protest in Frankfort. Every public school district was closed. The governor's response was to say that because of us not doing our jobs that day, kids were getting molested and using drugs for the first time. He called us thugs. He said we weren't sophisticated enough to understand our own pension plan. They all think of us as babysitters, but I don't know any babysitters who are required by law

to do professional development every year or who need multiple master's degrees. I have to do my job while I defend my profession. It's exhausting.

Used to be we could retire in 25 years. Now it's 27. They move the goalposts. I don't mind failing as long as I'm failing forward, but this is sabotage. We used to be a country of opportunity. Now we're a country of hope. Hope is the tax they're always raising.

People in the margins are being pushed off the page.

If you're not vigilant, you get taken advantage of. We have to be alchemists, turning nothing into something, forcing a system built to fight us into something that somehow works. It's not democracy; it's oligarchy.

I see a lot of politicians in this country thinking the point of power is to see how they can use laws to make money. Citizens exist only as donors or lobbyists. The powers that be define America by control, not freedom. I question

often that I'm even a person to them.

It's not a poverty you feel in your bank. You feel it in your mirror. There's wealth that's not monetary. It's in community, culture, knowledge, experience, and engagement. As long as we measure a person or our nation by the stock market, we will always be poorer than we realize.

VIEW



NICOLE ADKINS

Executive Director
& Founder
God's Grace Mobile
Food Pantry
Dayton

In our area, a lot of the jobs that were coming in are going out. The pay rate is not as high as it used to be. Many of our factories have been outsourced to other locations. Businesses that closed have left families searching for jobs. The jobs they do find are giving lower amounts than before. People have to figure out if they are going to pay their monthly bills or buy food for their families.

A lot of people don't realize that many of the homeless have jobs. The more you work, the more you get punished for trying to better yourself. We see families that were getting food stamps suddenly get a raise that puts them over that margin. They now have no choice but to come to a pantry to get food for their families.

—As told to
Carson Kessler

KNOCK THE HUSTLE
Larrilou Carumba walks the picket line in front of the San Francisco Marriott Marquis. A new union contract includes a wage increase.



**UNITED STATES
OF DIVISIONS:
A GLOSSARY**

MIDDLE CLASS

The class to which most Americans think they belong, this group lost its status as the U.S. economic majority in 2015. The term was first used in the 18th century to describe people who were neither nobles nor peasants.

AMERICAN DREAM

Though this specific term was popularized by historian James Truslow Adams in 1931, the concept of opportunity (often through meritocracy) in the New World predates the founding of the United States itself.



○ COURTESY OF UNITE HERE; CHRISTENSEN: COURTESY OF JANELLE CHRISTENSEN

JUGGLING SERVICE JOBS IN THE SAN FRANCISCO BAY AREA

BY JONATHAN VANIAN

● **FOR MORE THAN SIX YEARS**, Larrilou Carumba has been tirelessly cleaning rooms at the luxurious San Francisco Marriott Marquis hotel, which hosts thousands of executives each year who congregate to the Bay Area's lavish tech conferences. Carumba, a single mother and an immigrant from the Philippines, works full-time. She also has several side hustles. Still, she barely has enough money to provide for her children, who get meals from their school's free lunch programs.

In addition to her housekeeping, Carumba has been working at a laundromat, where she's paid under the table. She recently began delivering meals for DoorDash too. The extra cash helps pay bills for her family of four, who all sleep in the same cramped bedroom of her sister's home in San Leandro, outside of Oakland. Her sibling took her in after Carumba's family was evicted from their one-bedroom apartment. The landlord renovated the place, then increased the rent—an all-too-common practice in one of the world's most expensive places to live.

During her most difficult times, Carumba says, she was working 70 hours a week. A typical day: Clean hotel rooms for hours, sleep after work from exhaustion, reawaken to work at the laundromat. Her children often woke her so she wouldn't miss her night job. "I felt burned out with my life because all I do is work, work, work," she says. "I cannot see my kids. I don't have a life anymore. I cannot take care of myself." The only quality time she would have with her children was when they would accompany her on her DoorDash deliveries.

There is hope. As a union leader, Carumba recently helped score a new contract for Marriott hotel workers that includes a wage increase. Soon, she says, she may finally quit one of her after-work jobs.



JANELLE CHRISTENSEN

Executive Director
The Family Support
& Treatment
Center
Drem, Utah

There is stigma around assistance programs. Many of the [child and parent counseling] programs we offer are subsidized by government grants, private foundations, things like that. We get asked a lot: "Are people gaming the system?" It doesn't happen very often.

Most of the time, it's hard for these families to ask for help. Parents feel like they're failures because they are unable to take care of their family because of their lack of connections or resources.

It shouldn't be an us-vs.-them mentality. It shouldn't be a handout, but a hand up. As a society we can do a better job of supporting people so they don't feel like they have to choose between a job or kids.

—As told to C.K.

WORKING POOR

According to the U.S. Bureau of Labor Statistics, this population—which totaled 8.6 million Americans in 2015—works at least half the year but makes less than poverty-level income.

SAFETY NET

Designed to prevent individuals from falling into hardship, the American safety net consists of support from employers (i.e., benefits) and the government (including Social Security, Medicare, and food stamps). —Erika Fry



VIEW

**BEAU G. HEYEN**President and CEO
NourishKC
Kansas City, Mo.

We put the poor in a box, we put the rich in a box, and then we want a middle box because we're nervous to commit to which one we belong. We want to pretend that the middle class exists.

Poverty is when you don't have enough. Maybe we need to talk about more than just low wages. We're doing a disservice to those we're trying to help when we label which programs are for people in poverty. For our flagship program, the Kansas City Community Kitchen, we serve breakfast and lunch five days a week for free. It's designed for anyone who doesn't know where their next meal is going to be. We are all one moment away from food insecurity. We as a community have to look at what we can do to lift people up. We just have to be willing.

—As told to C.K.

STRUGGLING AT THE SUPERSTORE

AS TOLD TO **CARSON KESSLER**

● **MY NAME IS** Dio Gourley. I'm a 19-year-old trans man of the he/him variety who lives and works in coastal Mississippi as a door greeter at Walmart.

I work between 23 and 35 hours a week at \$11 an hour. I can't have a second job because of how unpredictable my schedule is. If I request certain days off, I'd lose hours. Walmart is the best-paying job in town in the poorest state. If we went on strike, they wouldn't bat an eye at firing us. We can't organize without risking getting fired.

I get to work with a ride from my great-aunt. If I have time to meal prep, I can eat for two weeks on \$60 or less. If I have money and don't bring something from home, I eat at Waffle House right across from us. I try to tip more than 15%, but that's not much when you only have triple hash browns and a coffee. Some of them need it more than I do. We're all in this together.

My mom stays up until 11 p.m. to bring me home, even though she gets up for work at 5:30 a.m. When I was a kid, before Hurricane Katrina, my dad worked offshore, and my mom painted houses. We were living with my grandmother and great-aunt for four years. After that, we lived in a trailer. Dad ended up dying of alcohol withdrawal—he didn't realize

he had pneumonia. Government checks kept us afloat while Mom was between jobs. And by afloat, I mean picking and choosing which bill gets paid that month.

I now live with my mom again, after a brief stint with a boyfriend and a roommate. Honestly, we weren't making it. Money is part of why I returned home. Both of my siblings have moved back at various points. It saved them money on babysitting, but to be completely honest, I didn't eat to make sure my nephews could. Mom was the same way. A meal of grits and some cheap junk food every day and lots of sweet tea to keep the blood sugar up high enough to get things done.

We put our bills in a bag and draw one or two at random when the money's tight. My plan isn't to move out; it's to build a cabin on the lot next to us for Mom to live in, so we can take care of each other for as long as she's still here. Less rent and mortgage that way.

If there is an "American dream," it's really a nightmare. Two jobs to keep up, three to get ahead. Everyone around me keeps getting poorer. I've got friends who haven't been able to catch up on bills enough to save \$400 to go visit family, while the people working us to death are buying third and fourth yachts. How is that a dream?

22

NUMBER OF TIMES FEDERAL MINIMUM WAGE HAS BEEN RAISED SINCE IT WAS ESTABLISHED IN 1938.

IT'S CURRENTLY \$7.25, SET IN 2009

1968

PEAK YEAR FOR REAL VALUE OF FEDERAL MINIMUM WAGE, AT ALMOST \$20,000 ANNUALLY IN CURRENT DOLLARS. TODAY'S IS ABOUT \$15,000

OXFAM AMERICA



Work/life balance? Not a chance

Caregiver Mary Lou Angel's top customer is her 92-year-old mother, Lois.

FAMILY AFFAIR
Lois Carbajal (left) in her Fresno home with her daughter Mary Lou Angel.

● I HAD my own business: Mary Lou's Hair Salon. With three employees! It was a dream. It was hard, but I'd say, Okay, so it's a hard day or a hard week—but one day I'll retire and take that cruise. I had to retire early, at 62, to take care of my mother. Those first three years were hard because I waited until 65 to collect Social Security. And, really, it just stayed hard. No cruise now. No cruise ever. Not

anymore. Best we did awhile back was a day trip to Morro Bay. It was pretty, but it wasn't much time.

My mother is 92 years old. She worked in the fields, picking tomatoes or cotton. She's illiterate. She never thought she'd make it much past 60 or 70. Now here she is, 92, in denial about needing a hearing aid. She's diabetic and about \$300 of her monthly \$928 goes to medicine. I get \$11 an hour

through Medicaid for being her caregiver—about \$400 every two weeks, after taxes and dues—but we're trying to get it to \$15.

Every other day, I come over to her apartment. We each live alone, but we get to be alone together, if that makes sense. I'll cook for her and feed her and bathe her. Maybe we watch an old John Wayne cowboy movie together. A few months ago, she had a minor stroke. I thought she might die. I realized how much my life has jumped ahead. I'm 72 but I feel kinda 90 now.

I'm very thankful for the 99¢ store. And I go to a church

where God welcomes you as you are. I don't buy new clothes anymore. Best I'll do, splurge-wise, is buy makeup for my mom. Pink lipstick. I don't know what kind of pink—there are lots of fancy pinks at real stores, but when it's from the 99¢ store, it's just plain old pink. We'll put that on and feel 50 again. That's enough. Not that we have choice about it, but it's enough in the heart. It's not about what you have. It's what you bring.

—As told to R.M.



THE MATH OF A VANISHING CLASS

GRAPHICS BY NICOLAS RAPP TEXT BY MATT HEIMER

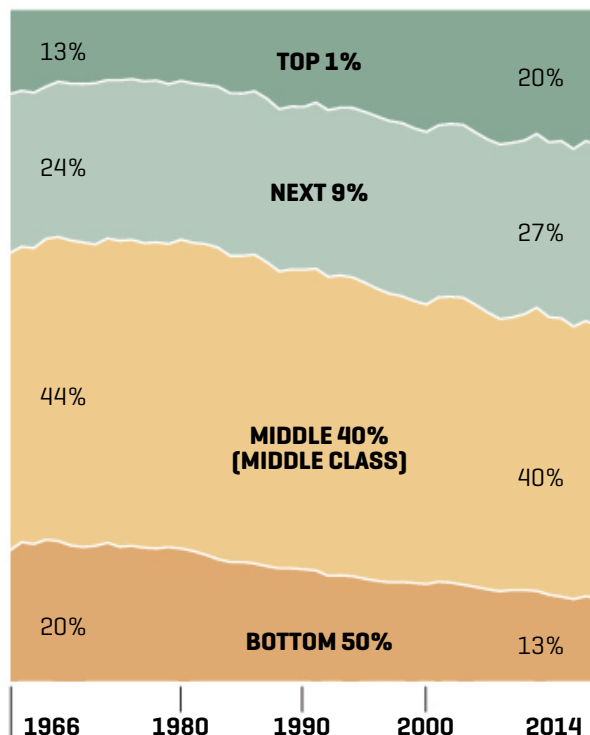
THE AMERICAN MIDDLE-CLASS IDEAL was forged in the decades after World War II, when economic growth and wage increases climbed in lockstep for nearly 30 years. That pairing dissolved abruptly in the 1970s. Between 1973 and 2017, according to the Economic Policy Institute, the productivity of the economy grew 77%—but average compensation rose only 12.4%, adjusted for inflation.

This divergence coincided with a shift in economic gravity, away from manufacturing and toward services and “knowledge industries.” That shift weakened the labor unions that had helped rank-and-file workers in many professions claim a bigger share of the bounty. Just as important were tax reforms that favored investment and real estate earnings over wage income. (See chart, below left.) The upshot: an economic order in which the capital-owning class enjoys great advantages—and the costs of admission to and exclusion from that class grow ever higher.

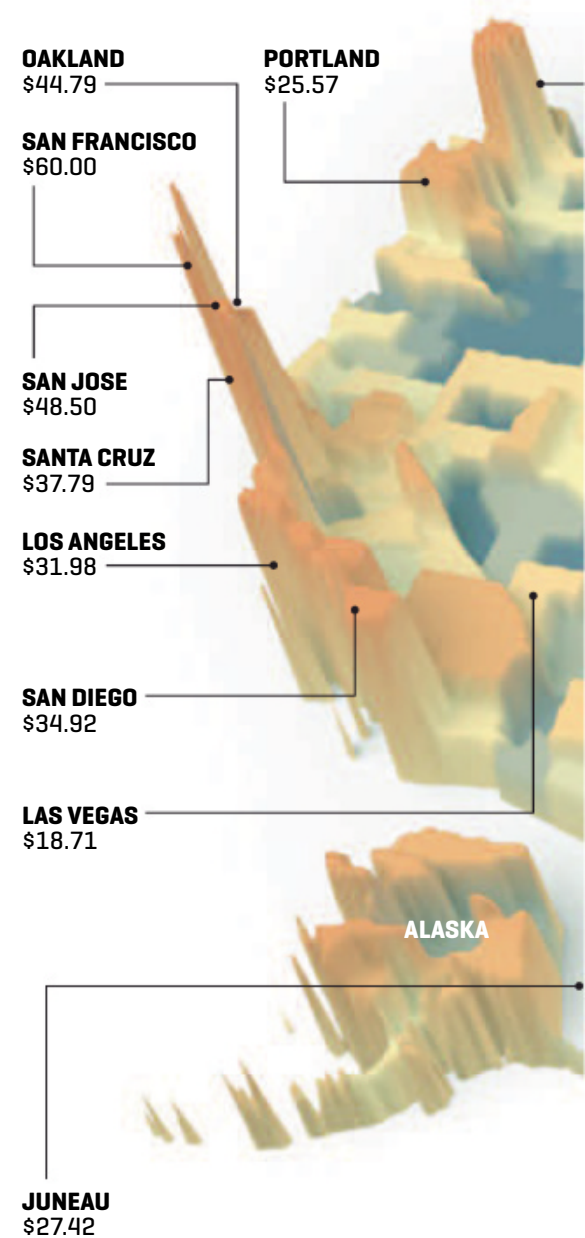
TO THE VICTORS GO THE SPOILS

Tax breaks for investors and property owners have helped concentrate wealth among the top 10%. The growing impact of higher education on earnings has had a similar effect. Since 1995, average income for graduate degree holders has risen 28%; for those with only a high-school diploma, that figure is 5%.

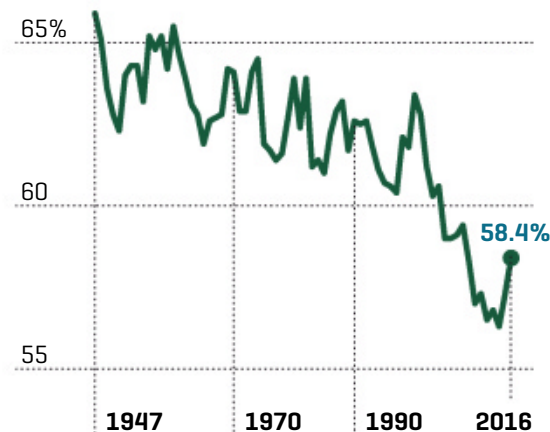
DISTRIBUTION OF U.S. NATIONAL INCOME (PRETAX)



THE TIGHTENING SQUEEZE OF CITY LIVING



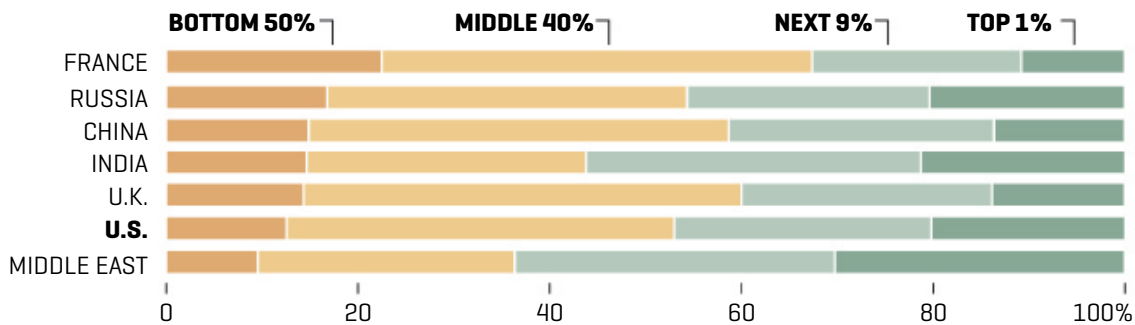
LABOR'S SHARE OF OUTPUT (NONFARM)



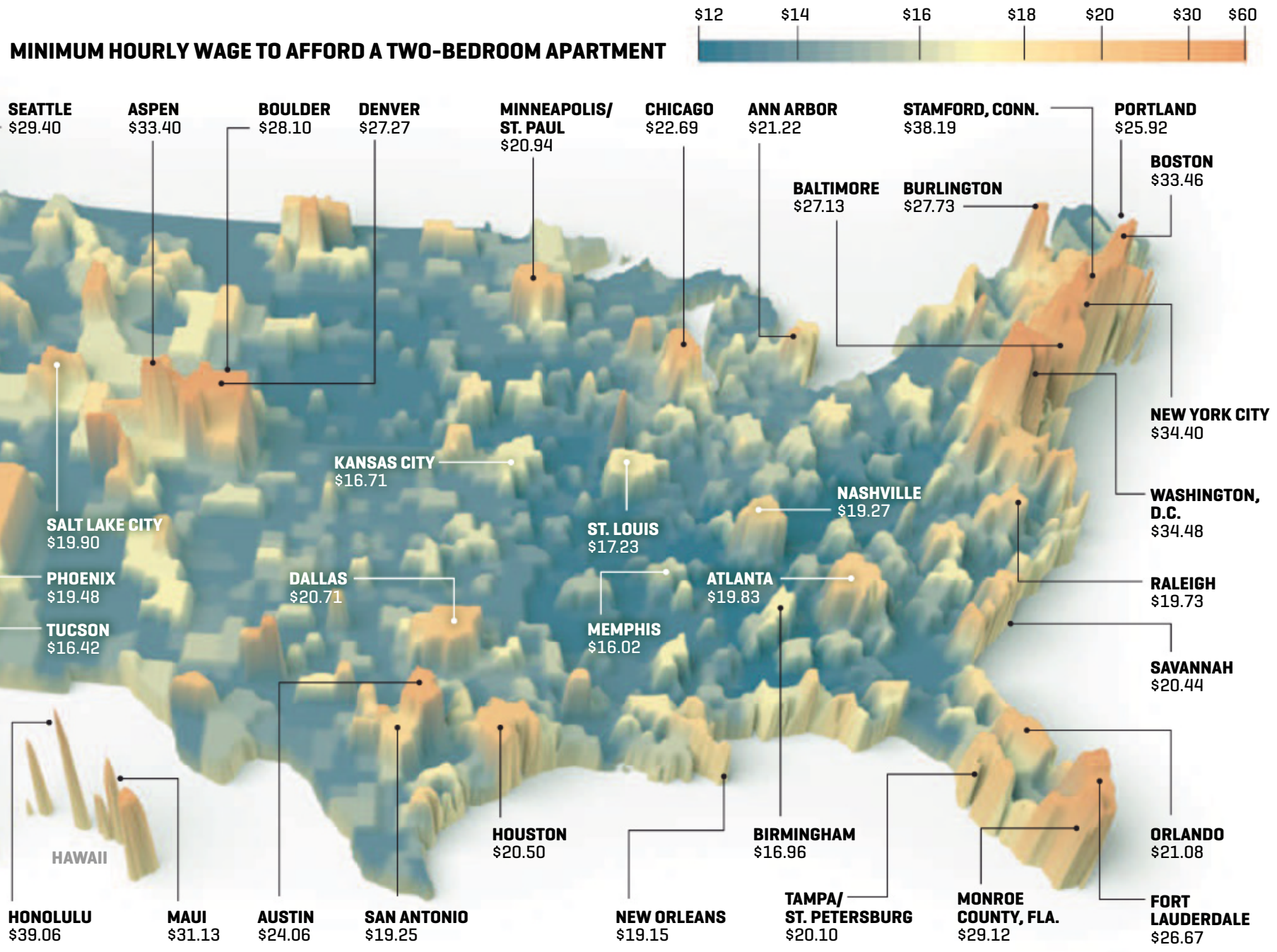
IN AWKWARD GLOBAL COMPANY

The bottom 90% of U.S. earners take home a smaller share of income than do their counterparts in most industrial economies—including in far less free societies like China's.

DISTRIBUTION OF NATIONAL INCOME (PRETAX)



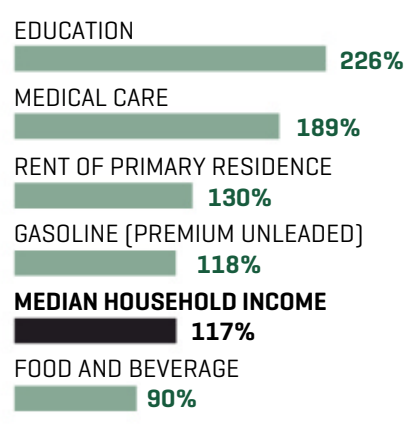
The information revolution has increased the concentration of jobs in certain U.S. cities, especially in a few hotly competitive coastal metro areas. That dynamic has driven housing costs beyond what many middle-class earners can afford, making it harder for them to save for home ownership or other financial goals. (The median U.S. hourly wage was \$27.35 in November; it's lower in most of the Midwest and South.)



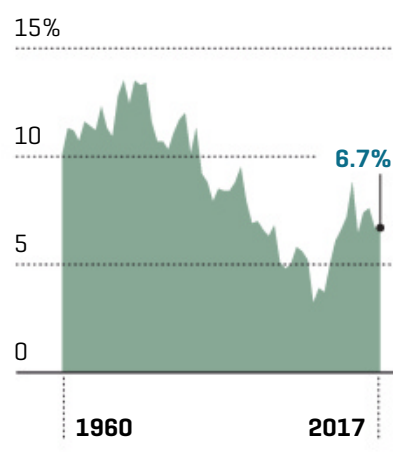
PURCHASING POWER AND SAVINGS WANE

Incomes haven't risen as fast as rent, medical costs, or tuition—three of the biggest burdens for U.S. households. As a result, savings rates have declined, leaving middle-class earners more vulnerable to being bankrupted by an emergency or a job loss—and less able to put away money for retirement or for future generations.

GROWTH IN PRICES, 1990–2018 (CURRENT \$, U.S. CITIES)

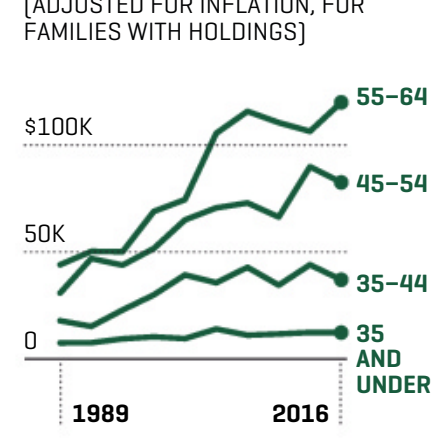


U.S. PERSONAL SAVINGS RATE



MEDIAN VALUE OF RETIREMENT ACCOUNTS BY AGE

(ADJUSTED FOR INFLATION, FOR FAMILIES WITH HOLDINGS)





2

HOW WE GOT HERE AND WHY

DISSECTING THE FORCES BEHIND THE GROWING INCOME GAP



Our neighborhoods are failing us. Dying business corridors hurt the middle class.

THE SOUTH Shore neighborhood boasts a lakeside park with commanding views of Chicago's skyline. It's only a 25-minute commute by train from the downtown Loop. It features stately brick homes that sell for \$500,000 and up, magnets for professors and doctors.

What South Shore doesn't have, however, is a supermarket. It hasn't had one since 2013, when grocery giant Safeway shuttered its Dominick's subsidiary and closed all its stores. More than five years later, the hulking storefront at Jeffery Plaza that neighbors still call "the Dominick's" remains vacant. For

many residents, its emptiness is a dual affront: It's a symbol of the hollowing-out of the local middle class and an obstacle to working people struggling to get ahead.

"This has always been a 'first house' neighborhood," says Carlo Rotella, a Boston College professor and South

Shore native whose history of the area, *The World Is Always Coming to an End*, will be published in April. Its orderly brick bungalows were financial cornerstones for thousands of middle-income families—including those of Oracle cofounder Larry Ellison and Michelle Obama. But Rotella estimates that

3,000 South Shore residents lost factory jobs in the 1960s and 1970s. And the Great Recession hammered the area's teachers, managers, and service workers, leaving many upside-down on their mortgages.

As families left town or slipped down the economic ladder, household income in South Shore dropped; it's now about 40% below the national average. That helps explain why Jeffery Plaza is the only one of 11 former Dominick's in



GOING SOUTH
In Chicago's South Shore neighborhood, residents have to travel 2.9 miles on average for groceries.

Chicago that hasn't been acquired and reopened by another grocery chain. Not coincidentally, South Shore residents travel an average of 2.9 miles to buy groceries, a greater distance than residents of any other Chicago neighborhood, according to research by the JPMorgan Chase Institute.

That's a modest inconvenience for upper-income professionals. But it's been "the biggest disruption to our middle-class and

working families," says Val Free of the Neighborhood Network Alliance, a community development group. A six-mile roundtrip can be a prohibitive time suck for hourly-wage earners, especially if they're juggling childcare or depending on public transit. So more households shop at local bodegas,

whose higher prices eat into lean budgets.

A city commission approved a \$10 million tax subsidy to bring a retailer here, but a deal remains elusive. To local activists, getting a grocer is an existential necessity. To nurture the middle class, Free says, "you need strong business corridors."

—Matt Heimer

THE GIG ECONOMY SQUEEZES WORKERS

BY JEFF JOHN ROBERTS

● FOR MILLIONS of Americans, work brings income but none of the secondary benefits—such as health insurance, paid holidays, or retirement contributions—associated with employment. Though many folks who forgo benefits do so by choice for the autonomy and flexibility (and some are able to plan for retirement independently), a recent McKinsey survey of 162 million non-payroll workers in the U.S. and Europe classified 23 million as "reluctants," who would prefer to be in the regular workforce (26 million more were characterized as "financially strapped").

App-based gig employers like Uber and TaskRabbit have helped drive the ratio of payroll workers to contract or freelance workers from 8.3 to one in 1997 to six to one today. This arrangement often overlaps with hardship. A 2018 study of California gig-economy workers conducted by the Public Religion Research Institute found that →



GIG ECONOMY (CONT.)

→ 48% struggled with poverty. It also found that gig workers reported higher rates of abusive labor practices and racial discrimination than those who worked as employees.

There is also anecdotal evidence the gig economy is taking a punishing toll on workers. In New York City, eight cabbies have committed suicide in 2018 alone—spurring some to highlight the fact that Uber and Lyft have driven down wages.

As the gig economy has expanded, so, too, have initiatives to improve the labor conditions that go with it. Most notably, there are calls for a “portable benefits” regime that would oblige companies like Uber to make mandatory contributions to a health or 401(k) pool that would follow workers across different gig jobs. There is support for such a regime in Congress, notably a bipartisan bill from Senators Mark Warner (D-Va.) and Todd Young (R-Ind.), but the initiative is currently stalled. According to the Brookings Institution, the best hope for workers is now with state and city governments, including a Washington State proposal that would require companies that rely on workers taxed under 1099 status to make contributions to nonprofit “benefit providers.” Still, there’s a long way to go before these “gigs” equate to jobs.

BECAUSE BEING STRAPPED IS EXHAUSTING

BY LISA MARIE SEGARRA

● LINDA TIRADO caused a firestorm in 2013 after a blog post detailing her experience trying to make ends meet went viral—and some conservative critics accused her of not being poor enough. It led to the publication of her book, *Hand to Mouth: Living in Bootstrap America*, which details the contradictions that many Americans bouncing back and forth between technically “poor” and barely middle class are facing: You can go to private school and end up not making enough to live on. You can be married to a veteran and not be able to afford dental care. You can work 16 hours a day and struggle to keep the lights on. We asked Tirado what three things she wishes people better understood about this increasingly common existence:

LOW-WAGE WORK IS CHRONICALLY STRESSFUL:

“People can very easily imagine having to stand 20 hours in a row one day. But they can’t imagine what it’s like to be on day 14 of that, or then to get a one-day break and go back to another 16 days. The cumulative impact is that you’re more and more exhausted as time goes on.”

IT’S EXPENSIVE: “If you’re buying a roll of toilet paper for 99¢, you’re paying an insanely inflated price. But upfront, you only have to pay 99¢. Now if you’ve got \$50 and you can go to Target and get a multipack, you’re buying it at 19¢ a roll. And that same economy of scale applies to everything else.”

IT DEFIES LABELS: “There’s this genteel poor that we’re seeing more and more of. This middle-class poor where they don’t have \$400 in the bank for emergencies. But they do have access to \$50,000 on a credit card, so they’re keeping up appearances, and they wouldn’t think of themselves as poor.”

6.6X

WEALTH GAP BETWEEN AMERICA’S UPPER-INCOME AND MIDDLE-INCOME FAMILIES IN 2013, THE HIGHEST LEVEL ON RECORD

PEW RESEARCH CENTER

43%

AMERICAN HOUSEHOLDS IN 2016 THAT COULDN’T AFFORD BASICS LIKE HOUSING, FOOD, CHILDCARE, OR HEALTH CARE

UNITED WAY ALICE PROJECT

BLAME PRIVATE EQUITY

BY RICHARD MORGAN

● SINCE 2008, PRIVATE equity has quintupled to \$5 trillion. As with the opioid crisis, America is addicted to its quick fix of financial painkiller—despite the pain it also causes. “Their superpower is obscurity,” says Diane Standaert of the Center for Responsible Lending. Apartments, colleges, hospitals, prisons—it’s often “private equity behind the curtain,” borrowing heavily to buy companies, then wringing cash from holdings to repay the loans and pay dividends to investors. That can leave workers last in line. Toys “R” Us, Claire’s, Radio Shack, and Sears were all gutted by private equity this year. Indeed, labor leaders made headlines for securing a \$20 million severance fund for Toys “R” Us’s 30,000-plus workers, but that was out of \$75 million owed. “It’s not a condemnation of profit,” says Standaert. “It’s a condemnation of the basic business practice.” Adds Jim Baker of the Private Equity Stakeholder Project: “These are people’s lives reduced to lines in ledgers.”

VIEW



TIM CHEN

CEO and Cofounder,
NerdWallet

For the 40% of Americans who don't have the cash reserves to cover a \$400 emergency expense, payday and other high-cost loans may be the only options when they face an unexpected cost. But these loans quickly drain pocketbooks, as interest rates balloon into the triple digits.

Fortunately, the Office of the Comptroller of the Currency has proposed a solution: national banks and federal savings associations could offer short-term, small-dollar installment loans. These loans, for \$300 to \$5,000, are now a \$90 billion market. If banks follow the OCC's advice, consumers could have new options with trustworthy lenders that enable them to pay their bills, build credit, and return to the road of financial solvency.

CHEN: COURTESY OF NERDWALLET



Luxuries? They aren't on the menu

Memphis cook Bobby Hagebusch, 43, rises at 5 a.m. for work—and eats alone.

I'M A PREP COOK ON BEALE STREET. Been doing it eight years. At \$13.50 an hour. I didn't want to ask for more than that. I'm not greedy. Every day three alarms wake me up at 5 a.m., and I ride my bicycle five miles to work. I make sauces, soups, pastas, salad dressings, six desserts—an important job but low on the totem pole. I bring home \$1,400 a month after taxes, but \$650 goes straight to rent, even though I have a roommate. Money is so awful. What luxuries do you choose? My luxuries are my friends. No dates, though. They'd have to be okay with a beer and a shared app. And who is okay with that? —AS TOLD TO **R.M.**



Looking for opportunity, finding little *Walter Ware, 40, relocated for a better life—and found it just didn't add up.*

I STARTED IN RESIDENTIAL TRASH in 1998, riding on the back of garbage trucks in eastern Michigan when I was 22. Eventually, I went to get my commercial certification and started driving. Last fall I moved with my girlfriend to Georgia. With five kids in the house, we thought our money would go further. I transferred to a driver position serving affluent communities like Alpharetta. But the pay was less than two-thirds what I had been making. I bring home \$188 a day. We're struggling. It takes three of my checks for us to meet the rent. This was like setting me back 20 years. —AS TOLD TO **GRACE DONNELLY**

VIEW



RASHIDA TLAIB

Democratic
Congresswoman-
elect for Michigan's
13th Congressional
District

The rate at which leaders roll over and beg corporations to set up shop is alarming. Just four years after Detroit's bankruptcy, we've had two billionaires and one megacorporation ask for millions of dollars in public money for private developments.

So more working-class communities are creating community-benefits movements requiring corporations that want public handouts to enter into legally binding agreements demanding sustainable resources for host communities. From capitalizing housing trust funds, which allow low-income people to fix up and stay in homes, to creating job training programs in schools, these economic stimuli will give families the opportunity to thrive.

TLAIB: CAROLYN KASTER—AP/REX/SHUTTERSTOCK



BLUE-COLLAR WOES ...

BY EMMA HINCHLIFFE

SINCE THE RECESSION of 2008, blue-collar work has been booming. One problem: These workers are still mostly men. Men hold three-quarters of the 15.4 million U.S. manufacturing jobs, leading to what economists refer to as “occupational segregation.” Meanwhile, women are overrepresented in other “middle-skill” industries that don’t require a degree (such as health care and eldercare) and that provide less security and fewer opportunities for full-time work. The Institute for Women’s Policy Research reports that in 2016, women represented 83% of workers in middle-skill jobs paying less than \$30,000 a year—but only 36% of workers in occupations requiring similar levels of training and paying at least \$35,000 a year. Experts say societal bias plays a part in this type of job segregation, but a study from the National Partnership for Women and Families also reported that 74% of low-income (non-welfare) women said childcare was a barrier to employment—one factor among many leading women toward part-time, lower-security work.

... HEALTH CARE WORRIES ...

BY SY MUKHERJEE

43.3 MILLION. That is the number of working Americans living in families that struggled to pay medical bills in 2017, according to the Centers for Disease Control. And while that figure is actually an improvement over many previous years, it still means that some 16% of U.S. residents under the age of 65 had trouble paying their medical bills—including more than 12% of people classified as “not poor” by the government.

Consider: Employer-sponsored private health plans—which covered 56% of Americans younger than 65 in 2017—saw average premiums rise 5.5% for family plans last year, while out-of-pocket deductibles now siphon off 4.8% of all workers’ median income.

That last bit might be the most revealing when it comes to the health care crunch. Premiums, deductibles, and medical costs generally have been rising, but income hasn’t kept pace for the middle class. With Obamacare under fresh attack in the courts, experts don’t see downward pressure on costs for individual consumers anytime soon. The bottom line? Even if you’re lucky enough to be covered by an employer plan, you’re still feeling the squeeze.

... AND DEBT BURDENS

BY DAN REILLY

THE STUDENT DEBT crisis may soon force another generation to subsist on ramen: parents. Given the elimination of caps for federal Parent PLUS loans, rising college tuition, and changes in the tax code, typical parent borrower liability rose from \$6,200 in 1990 to \$38,800 in 2014. For 3.4 million Americans, PLUS loans can fund the dream of higher education, but if the parent or student can’t repay, they can cascade into a nightmare of accruing interest, ruined credit, and depleted emergency funds. PLUS borrowers can be approved even if they have existing debt, and payment plans are eligible to be capped monthly at 20% of the parents’ discretionary income—so that can mean more money, for now, and a bigger burden later. Another minus: Under Trump administration changes, if your child withdraws, the loan will be forgiven, but the balance is taxed as income. Sadly, parent loan repayment tends to be the worst at shady, for-profit institutions, which often overpromise and underdeliver when it comes to giving kids degrees that pay off in the real world.

VIEW



JOSH HOXIE

Director, Project on Opportunity and Taxation, Institute for Policy Studies

Even black and Latino families who have achieved the traditional markers of middle-class life—a good-paying job and a college degree—still lag far behind their white counterparts in terms of wealth. Changing our priorities around tax incentives, as well as investments in bold new programs like Children’s Savings Accounts (CSAs) and a federal jobs guarantee, could reverse the decades-long rise in the racial wealth divide. Had Congress instituted a robust universal CSA program in 1979—seeding small savings and investment accounts for all children, which could mature—the white-Latino wealth gap would have disappeared by now, and the white-black gap would have dropped by 82%.



3

HOW WE CAN FIX IT

COMPELLING IDEAS FOR NARROWING THE ECONOMIC DIVIDE

RAISE WAGES (OR SHOULD WE?)

BY PHIL WAHBA

● **IF THE BIG PROBLEM** with low-wage jobs is that they don't pay enough to live on, the answer seems obvious: Mandate wage raises. Many local governments such as Chicago and Oakland and Seattle have done just that—in Amazon's hometown, the minimum wage

will rise to \$15 by 2021, well above the federal minimum wage of \$7.25 an hour. Some corporations, grappling with a shortage of employees, are following suit: In October, Amazon said it would raise its minimum hourly wage to \$15 nationwide. At Walmart, it's \$11, the result of three hikes since 2015 for its 1.3 million U.S. workers. Target has pledged to lift starting wages to \$15 by 2020.

But is it helping workers? The answer is... complicated. A number of new studies, released last fall, show a decidedly mixed picture. In Califor-

nia, a team from UCLA studied the restaurant industry and found that when the minimum wage was gradually bumped up to \$8 in 2008, earnings rose more than 10% at fast-food chains, but employment fell by about 12%. Another move, this time up to \$10.50 in 2017, lifted earnings 20%, but employment fell another 10%. And a group of University of Washington researchers found earlier this year that the net effect of a two-part minimum-wage increase in Seattle was fewer hours, effectively meaning that low-wage workers brought home \$125 less per month, with the hit to their pocketbook much more pronounced on the second increase. By contrast, a UC-Berkeley study looking at seven U.S. cities that had implemented higher minimum wages found a benefit to wages, with little effect on employment levels.

There's little question that as wages rise, companies are redoubling efforts to automate. Target, CVS, and Kohl's are deploying more self-checkout machines, while Walmart is reportedly testing floor-cleaning robots. This holiday season, Walmart is also bucking convention by not hiring more seasonal workers. Further analysis is required, but for workers, higher wages may be a double-edged sword.

FIND OUT WHETHER UNIVERSAL INCOME WORKS

BY RICHARD MORGAN

● **AMEYA PAWAR**, a puckish 38-year-old second-term Democratic city councilman in Chicago, has a master's degree in threat and response management and is channeling that expertise unusually: He's running for city treasurer in hopes of mending the poverty crisis the old-fashioned way—with wads of no-strings-attached cash. He aims to pilot a universal basic income program by giving 1,000 needy families \$500 a month.

Pawar, who says he spends 80% of his \$108,000 salary on a combination of childcare and paying off his more than \$200,000 of student debt, is following in decades-old Republican footsteps.

"Thanks to Republicans' Alaska Permanent Fund, we already have universal basic income in this country and have had it since 1977," he says. The fund, which is now around \$65 billion, pays annual oil revenue dividends [typically around \$1,000] to every Alaska resident as an incentive to live there. Pawar wants to set up something similar with Chicago's →

VIEW



TIM SCOTT

Republican
Senator,
South Carolina

Growing up, my single mother—my rock and biggest supporter—worked 16-hour days as a nurse’s assistant to keep a roof over our heads. I failed four classes in high school and almost didn’t graduate. So when people talk about the “working poor” in America, I have a first-hand account. We need to make sure that folks who grew up in poverty like I did have open doors. My Opportunity Zones legislation aims to help economically underdeveloped communities realize their full potential. Investors and philanthropists who fund projects in these areas can defer capital gains taxes, allowing for job creation and economic growth.

—As told to
Jake Meth



Bright lights, big bills in New York City

Her nine-to-five medical billing job doesn’t pay enough, so mom of two Kamik Chin drives for Uber.

BY DAY I’M DEALING WITH crying kids and irate parents, and by night I’m dealing with drunks and crazy people. Each year we get a raise, but for the past two years, we haven’t. My kids are getting bigger. My bills are more. And my income [about \$42,500] is staying the same. Now when my kids are home with me on the weekends, it’s during the day, and I’m sleeping because I’ve worked all night. And by the time I wake up, it’s time to feed them, bathe them, and then take them back to their dad’s. I love my job, but I want to find something where I can work a straight nine-to-five and be okay. —AS TOLD TO **ARIC JENKINS**



UNIVERSAL INCOME [CONT.]

→ freshwater supply from Lake Michigan, which the city currently sells to suburbs. “The moral sickness in American politics is the idea that some people are more deserving of help than others. I want to break the narrative of deserving and undeserving. We all deserve to share America’s promise.”

Y Combinator, which funds startups, has its own universal basic income experiment, which it plans to launch this summer with the University of Michigan after several delays. Critics argue a well-worn refrain that more research is needed. Pawar agrees—with a catch. “The research can’t ask, ‘Will people cheat?’ or ‘Will people lie?’” he says. Instead, he asks, “‘Can we strengthen familial networks? Can we build more social flexibility? Does money help?’ We haven’t done anything big since the Great Society in the ‘60s. We’re stuck worrying about cures or preventions.”

If elected treasurer, Pawar plans to work with the likes of incoming Rep. Alexandria Ocasio-Cortez for guidance on investment (and divestment). He also wants to persuade treasury counterparts in Cleveland, Detroit, and Milwaukee to join his UBI experiment and serve as a national model. Surprisingly, he says, some of his biggest supporters are the wealthy and privileged. “They know their wealth is based on the system working,” he says. “For too many of us, it’s not.”

TIE POLITICIAN PAY TO VOTER INCOME

● **BILL DE BLASIO**, the mayor of New York City, campaigned as a fighter against income inequality back in 2013. But once in office, he gave himself a 15% raise, to \$258,750. The ostensibly liberal City Council followed suit with their own 32% raise, to \$148,500. The council’s \$36,000 raise alone is more than the average individual income citywide. Fast-forward to last year, when the enriched mayor and council courted Amazon (owned by Jeff Bezos, the richest man in the world) with \$3 billion in subsidies.

On the flip side are lowly state legislators. In 44 states, they are paid far less than the median household income for their state. (In New Hampshire, they’re paid just \$100 a year.) It means only the wealthy can afford such posts. Then they trickle up into higher office. A 2014 analysis by Peverill Squire, a political science professor at the University of Missouri who has studied American →



The future of Coal Country

The long road back for a one-industry town.

PHOTOGRAPHS BY **BRUNO SILVA**For the full video, visit [Fortune.com](https://www.fortune.com).



● **WHEN SCOTT SHOUBE** was growing up in Hazard, Ky., the playgrounds and streets were teeming with people, and the town had country clubs and golf courses.

But now his hometown, a burg of 5,000 people some 120 miles southeast of Lexington in the heart of Kentucky's Coal Country, is a shadow of itself. "Today, there's no downtown business," says Shoupe, a fourth-generation coal miner who now works at the local economic development agency, Mountain Association for Community Economic Development

(MACED). "The homes are falling down because they've been vacant for so long," he says. "There are no jobs here."

Perry County, home to Hazard, now has about 29,000 people, down from 50,000 in the early 1950s. And some 27.4% of the population lives below the poverty line, far more than the national average. Peter Hille, president of the MACED, says 2012 was a tipping point, when many coal-mining jobs in Eastern Kentucky evaporated as natural gas prices fell below those of coal. Employment in the sector fell by half

"almost overnight," he says. Unemployment in the broader region has stood at about 10% for years. These days, the top employers include a group of regional hospitals, a rehab center, a UPS sorting facility, and a call center. For Shoupe, a wage of \$16 to \$20 an hour now qualifies as good money—"but it's still not like making coal-mining money," he says, when he earned almost twice that.

The town faces an uphill battle in diversifying its economy. But residents are trying.

Hazard entrepreneur Joey McKenney founded Appalachian

Apparel Co. in 2017, designing and making products himself. He recently opened a store in downtown Hazard, hoping to be the spark that revitalizes a once-vibrant city center.

McKenney says he's been told that he wouldn't be successful because the coal industry is fading. His response? "There are people here who refuse to give up." —P.W.

HAZARD PAY Residents of this Kentucky town seek a post-coal revival. Among them are former miner turned nonprofit worker Scott Shoupe [center row, left] and entrepreneur Joey McKenney [bottom row, center].

VIEW



CHUCK ROBBINS
CEO, Cisco

Those who are completely destitute and those who work full-time still need the same thing: housing they can afford. Our country is facing a nationwide affordable housing crisis. There is not a single state, county, or metropolitan area in the country where a person with a full-time minimum-wage job can afford a modest two-bedroom apartment. We recognize that there is an affordable housing crisis in Silicon Valley, and that housing is desperately needed for both low- and moderate-income families as well as the homeless. Our five-year, \$50 million commitment to Destination: Home complements public funds made available through Santa Clara County's Measure A to build more supportive housing units, faster.

—As told to J.V.

POLITICIAN PAY (CONT.)

→ legislator pay back to 1619, determined that the best way to align elected officials' interests with the public's is to tie state legislators' salaries to the state's median household income. In 2018, he found median nationwide income for state legislators was \$32,611, despite a national median household income of \$59,039.

"Voters think they save money by keeping salaries low. But it actually guarantees they'll be ruled by the rich, who tend to legislate by lining their own pockets and ignoring or even hurting those who have less," says Squire. If pay were changed, he argues, it would make state and citywide legislative roles more viable for average citizens, who would be more empathetic to people like themselves.

In Congress, 40% of which is populated by millionaires, incoming Rep. Alexandria Ocasio-Cortez has vowed to "walk the walk" by becoming one of four congressional liberals to pay interns \$15 an hour. She's taking the lead from Republicans; a 2017 study by Pay Our Interns found 51% of Senate Republicans paid interns vs. 31% of Senate Democrats. Another fair-pay bastion? Alabama. In 2015, it became the first (and only) state to tie state legislators' salaries to median household income. —R.M.

TAKE A PAGE FROM DENMARK'S PLAYBOOK

BY **CLAIRE ZILLMAN**

● **REWIND TO** the 2015 U.S. presidential debates, and you may recall Denmark's unexpected moment in the spotlight, when Democratic candidate Bernie Sanders extolled the nation's "accomplishments" for "working people." Rival Hillary Clinton, shot back: "We are not Denmark."

No, but with the fourth-worst poverty rate in the Organization for Economic Cooperation and Development, it may be worth looking at what Denmark, with the lowest rate of poverty among wealthy nations, is doing. While it's obvious that a high-tax, high-benefit "comprehensive welfare state" is excellent at eradicating true poverty, what's interesting about Denmark is that spending is not reserved for just the poorest. "The middle class also benefits," says Michael Förster, an OECD senior policy analyst. Indeed, Denmark directs more social spending toward working-age people than any other OECD country.

What does that look like exactly? All told, 98% of households with children 15 and under in Denmark receive financial assistance. And that's just the beginning. Other benefits that fall to the middle class include free college tuition and health care, job-training, as well as a robust system of subsidized childcare. Students over 18 who live on their own receive a monthly subsidy of around \$933 [even those living with their parents receive \$145]. Danish corporations utilize a model known as "Flexicurity"—when layoffs are necessary, a system of training and job assistance kicks in. Denmark's system, then, is more like a safety harness: The goal is to prevent people from falling into poverty in the first place. In that sense, we're certainly not Denmark, but perhaps it's time to reconsider whether our "safety net" approach is enough.

POVERTY LEVEL IN SELECTED OECD COUNTRIES

COUNTRY	POVERTY LEVEL (%)
DENMARK	5.5% OF THE POPULATION
FRANCE	8.1
NETHERLANDS	8.3
GERMANY	10.1
U.K.	11.1
CANADA	14.2
MEXICO	16.7
U.S.	17.8
BRAZIL	20
SOUTH AFRICA	26.6

NOTE: MOST RECENT NUMBERS AVAILABLE, COLLECTED BETWEEN 2013 AND 2016; SOURCE: OECD



THE LIBERAL TAKE

Pramila Jayapal thinks we all need to do better by workers.

SYSTEM FAILURE
U.S. Rep. Pramila Jayapal (D-Wash.) wants to even the playing field.

● **TOO MANY PUNDITS** and economists want to join the White House in saying that our economy is strong because unemployment is down and GDP is growing. But the 8.9 million Americans who work full-time and still live in poverty certainly don't think the economy is booming. Neither do the 40% of Americans who struggle to meet a basic need, such as buying food or covering rent, or the 62% who don't even have \$1,000 in their savings account for an emergency.

The fact is, GDP growth means nothing when 90% of it goes to the top 1%, as is true today. And while unemployment is low, wage growth has been stubbornly slow and not keeping pace with inflation. It's past time that we acknowledge a simple truth: an economy in which workers don't benefit from the profits they help produce isn't strong—it's broken.

Congress needs to take action to restore

the power imbalance between workers and employers. First, Congress should pass the Raise the Wage bill and immediately lift wages for 41 million workers. The bill would raise the minimum wage to \$15 an hour and index it to growth in the median wage. Because of government inaction, the real value of the minimum wage has steadily eroded for decades and is now 25% lower than it was at its inflation-adjusted peak in 1968. Poverty rates for African-Americans and Hispanics in particular would be almost 20% lower if the minimum wage had kept up with inflation.

Second, Congress can restore the broken link between corporate profits and wages by putting a stop to the growing practice of corporate executives handing their profits to shareholders rather than to workers. Before the Securities and Exchange Commission made it easier for companies to buy back their stock in 1982, S&P 500 companies spent only about 2% of their profits on buybacks. Last year, those same companies spent 59% of their profits on buybacks. Congress should pass the Reward Work bill, which could result in billions of dollars in increased wages by putting a stop to open-market stock buybacks and ensure that workers have a seat at the table to fight for their fair share of the value they create.

The American people are demanding this as well. This past election brought a historic wave of the most diverse candidates from red and blue districts across the country, sent to fight for the people. They don't want a handout. They just want us to even the playing field and give them a fair shot. Democrats control only one legislative body, but this is the moment for us to put forward a bold vision and stand up to the biggest corporate interests that stand in the way of ensuring that we all move forward—together.

TURN THE PAGE to read U.S. Senator from Florida Marco Rubio's take on these issues.

**THE CONSERVATIVE TAKE****Marco Rubio** believes business can do better—but so can government.

DREAM DEFERRED
Senator Rubio (R-Fla.) says his own parents' rise would not be possible today.

FOR TOO LONG, Washington and New York have presented American workers with a false choice: economic growth for the few *with* redistribution, or economic growth for the few *without* redistribution. Neither framework results in an economy in which regular Americans can provide for a family with their own labor. They deserve a different option.

My parents came to this country as immigrants and built lives worthy of the American dream. But since I was born in the 1970s, the share of men between ages 25 and 34 earning less than \$30,000 a year has almost doubled. Like my father, most of these men do not have an education beyond the equivalent of a high school degree. My mother worked most of her life as a maid, a profession with a median annual income of less than \$23,000.

The solution cannot be simply to get

a degree or retrain every time a job is outsourced or eliminated. Workers are not machines that can be broken down, upgraded, reassembled, and shipped across the country to the next area of high demand. They are moms and dads who pay rent, with kids who have friends in their schools and on sports teams, and grandparents or family nearby. Building a life is as much about stability as it is about pay.

The solution also cannot be a new round of government checks designed to buy off the financial security of the working poor. Work is about creating value. There's a connection between the dirty shirt or aching feet at the end of the day and the paycheck that fulfills a deeply human need for purpose.

The kind of stability that comes from a good job is only truly possible when Americans work for productive businesses that grow, innovate, and invest. Part of what our country lacks is a consensus on how to create more of these stable and high-paying jobs. While the work of developing one is just beginning, some general goals are clear: more corporate investment in products and R&D over financial engineering; a more balanced system of international trade that makes the U.S. the unquestioned home of next-generation technologies; and a more pro-family system of social insurance. While not all of these require government solutions, some policies I have proposed will help. Expanding the immediate deduction for capital expenses from the 2017 tax law, pursuing a strategy to compete directly with the Made in China 2025 industrial plan, and passing national paid parental leave and an expanded child tax credit are all projects that I will continue to dedicate my time to.

There is no economic future for American workers without productive businesses. It should be the work of politicians and businesses alike to build an economy that boldly creates the American products and jobs of the 21st century.

ASK AN ECONOMIST: HOW CAN WE SAVE THE AMERICAN DREAM?

BY ERIKA FRY



JAMES ZILIAK
Professor of Economics, University of Kentucky

● **FOCUS ON CHILDCARE**, says Ziliak. Its price has skyrocketed, outpaced only by the cost of higher education in recent years—out-of-pocket childcare consumes, on average, 16% and up to 25% of incomes—and it’s a major reason behind the nation’s declining labor participation rates, says Ziliak. He proposes overhauling the childcare tax credit, limiting eligibility to families with incomes below \$70,000, and making the credit refundable and more generous. [The idea got attention from the Obama administration and a handful of senators but never made it out of committee.]



JEFFREY SACHS
Professor of Sustainable Development, Columbia University

● **HEALTH CARE MUST BE A PRIORITY**, says Sachs. We could emulate Canada or Australia by adopting a single-payer system. Sachs also recommends empowering workers to organize, providing better school-to-work transition programs [e.g., Germany’s apprenticeship model], and overhauling the economics of higher education so they don’t constrain the choices of future workers. He advocates a 21st-century land grant program that would slash the cost of education. Also on his list: a wealth tax and a serious infrastructure program that would equip the labor force with new skills and jobs.



ESTHER DUFLO,
Professor of Economics, MIT

● **FOLLOW THE DATA**. Duflo has shaken up the economics world with a radical premise: Aid programs should be tested and evaluated with the same rigor as prescription drugs, through randomized controlled trials. She thinks we could see big gains by taking small steps to stop the poor from falling through the existing safety net. Many schoolchildren missed out on free lunch programs until the Bush and Obama administrations simplified the sign-up process, she explains. The same could be done for food stamps and disability benefits, which are often overly complicated to access.

ADDRESS THIS GULF BEFORE IT KEEPS GROWING

BY LISA MARIE SEGARRA

● **SHE WROTE** the book on working poverty—literally. Barbara Ehrenreich’s *Nickel and Dimed: On (Not) Getting By in America* gave many middle- and upper-middle-class Americans their first raw glimpse of what it’s like to survive on the wages of a waitress, sales clerk, maid, or other low-paying job in various states.

Since the book’s publication in 2001, a lot has changed, including how Ehrenreich tells the stories of those in poverty. As a journalist in the ’80s and ’90s, she felt like a respected part of the middle class, making a comfortable living to support her family. That’s changed. “At a certain point around 2009, I realized that I could keep doing this only because I had savings from the royalties of the book *Nickel and Dimed*, and I thought, ‘Okay, that’s wonderful. I can do this.’ Then I said, ‘Wait a minute: What am I saying? You have to be rich

to write about poverty? That’s sick.’”

Indeed, in the past two decades, she’s seen the stress and uncertainty that dogged hourly workers 20 years ago spread. Things got worse, both for the so-called middle class but also for lots of other people working in lower-wage jobs, she says. “One of the strikingly bad developments is the rise of ‘just-in-time employment,’ where you just wait and get a call from your boss to come in. So you don’t know from one day to the next what you’re going to be earning.”

Though she cites some improvements here and there (more access to health care, movements to raise the minimum wage), she’s worried—both by street protests in countries like France and by the increase in anger toward immigrants all over. As she puts it, people don’t always act rationally when they “see their own life chances diminishing.”

More and more, she says, the economic choices of the few have left a huge swath of Americans living with a “tremendous amount of anxiety.” And it’s not just maids and hourly workers, she warns. It’s contract workers, shift workers, teachers, Uber drivers, small-business owners, the middle class. It might even be you. ■