





CHAPTER 8

# Conclusion

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The American middle class has had a rough 15 years—wage stagnation was followed by a global financial crisis that triggered a dramatic decline in middle-class wealth. Meanwhile, the costs of critical services have continued to grow. While jobs, wages, and wealth have all begun to recover, the middle class is still feeling squeezed. Americans are frustrated and feel the system is rigged against them.

But it does not have to be this way. After all, the rapid growth in real wages during the 1990s came after 20 years of wage stagnation. And the middle classes in countries such as Australia and Sweden have experienced robust market income growth over the past 15 years despite experiencing the same trends of globalization and automation that are often blamed for stagnant middle-class incomes in this country.

The power of public policy to deliver results for the middle class—and for those who seek to enter it—makes the actions of our elected officials that much more important. When the president and Congress can act together to rebuild middle-class wealth and raise incomes, progress can be achieved. Following the worst financial crisis and recession since the Great Depression, the federal government responded by investing in infrastructure, growing clean energy, and helping avoid another depression. The Affordable Care Act of 2010 provided relief for millions of American families and businesses, boosted consumer protections, and made health care a right for all. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 put in place critical reforms that were needed to restore stability to the financial system and protect consumers.

Sadly, in recent years, budget cuts and attacks on government have hurt the recovery. Fortunately, the president has used executive action to enact sound policies that make it easier for Americans to save for retirement, lower their student debt burdens, obtain paid sick leave, and earn overtime pay. The economy has also been helped by the steady hand of the independent leaders at the Federal Reserve, since monetary policy has done a great deal to counteract frequently unwise fiscal policies.

The country will elect a new president and Congress this November, which will create a window for policy change. Our leaders will need to focus on raising wages and boosting incomes. Full employment and tight labor markets can deliver robust wage growth, as we learned in the 1990s. But it is up to policymakers to help us get and stay there. New investment in infrastructure, a boost in long-term business investment, and progressive monetary policy will help generate the high-wage, high-pressure economy that working Americans deserve. Policies that prevent financial crises and help the country prepare for potential recessions—such as reforming unemployment insurance—will support the resilient economic growth that working Americans need.

We must also close the gap between wage growth and economic growth for middle-class workers. Restoring workers' bargaining power by enabling unions to bargain by sector; rebuilding labor standards, for example by raising the minimum wage; and expanding profit-sharing should help reconnect most workers' wages with productivity growth. Strong competition policy also has an important role to play in promoting productivity and ensuring it translates into shared prosperity. At the same time, policymakers must take steps to speed up productivity growth. Much of the recent slowdown is a result of a lack of aggregate demand combined with low wages. But enacting family-friendly policies, making investments in worker training, and eliminating barriers to formal employment would all help to raise productivity.

Rebuilding middle-class security will also require reducing the cost of many critical services, whose price has escalated rapidly over the past 15 years.

Child care, for example, has become a de facto requirement for two-income and single-earner families but is unaffordable for many of them. A High-Quality Child Care Tax Credit—as well as a federal-state partnership to provide universal preschool—would raise labor force participation today, boost human capital tomorrow, and provide relief to millions of working families. Higher education has never been more important for entering the middle class, and its price has never been higher. Reshaping the federal financial aid system to make it simpler and more generous would help millions of Americans afford college.

The growth in the cost of health care, which usually increases faster than overall inflation, has slowed down in the past few years, thanks in part to the Affordable Care Act. However, employers have not been sharing cost savings with their employees in the form of higher wages, lower premiums, or more generous plans.

In fact, employers are increasingly shifting the cost of health care to their employees. Policymakers must address this cost shifting by increasing the transparency of employers' health costs and, in some cases, requiring employers to share savings with their employees. And consumers need protection from excessively high drug prices, which can be accomplished by increasing price transparency, requiring drugmakers to invest in research, reducing out-of-pocket prescription drug costs, and categorizing drugs by their comparative effectiveness to inform and empower price negotiations.

The cost of owning a home—part of the American dream—is out of reach for millions of Americans, at the same time that the cost of renting one is skyrocketing. Policymakers need to increase access to mortgage credit by, for example, expanding low down-payment lending; helping prospective borrowers save for a down payment; and modifying fees that make mortgages more expensive for middle-class borrowers with suitable credit. At the same time, policymakers need to help communities still recovering from the housing crisis by prioritizing home retention and supporting key housing programs that can help mitigate the rental affordability crisis facing communities across the country.

A stable, comfortable retirement is supposed to be the capstone of a middle-class life, but it is not a reality for millions of Americans: The collapse of middle-class wealth directly reflects the lack of middle-class retirement readiness. Policymakers should expand and modernize Social Security benefits; create a National Savings Plan based on the Thrift Savings Plan; develop collective defined contribution plans to help workers better manage risk; and fully implement the Department of Labor's conflict of interest rule.

In the past few years, the middle class has begun to feel the benefits of our economic recovery. Much remains to be done, however, to restore middle-class economic security after the wage stagnation of the 2000s and the wealth devastation of the financial crisis and Great Recession. This report gives a roadmap for policies to do just that. Adopting policies that will raise wages and rebuild wealth can begin to restore the middle class' faith in their future and ensure that a middle-class life is attainable for every American who seeks it.