

THE BROOKINGS INSTITUTION PODCAST
Intersections
The changing identity of America's middle class
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PITA: Welcome to the latest episode of Intersections. I am your host, Adrianna Pita. Today our episode is going to take a look at One Slice of Who is the American Middle Class. With us to do that are Richard Reeves and Camille Busette, two of our scholars who are looking at a piece that particularly breaks down the racial demographics of the middle class in America, where we are today, and what the middle class is likely to look like in the future. Richard is the co-director of our Center on Children and Families and Camille is the Director of our Initiative on Race, Prosperity, and Inclusion. Welcome to the both of you, nice to have you back.

BUSETTE: Thank you, nice to be here.

REEVES: Thank you.

PITA: Let's start by specifying what you are talking about when we talk about the middle class. It is usually used in sort of a generally amorphous term; you know it when you see. Most people consider themselves part of the middle class, at least half of all respondents in any kind of survey about it. But, when economists talk about the middle class, they usually have a pretty specific idea. Can you start with that question, numerically speaking, who is the middle class?

REEVES: I hope we will come back and have an episode just on that, Adrianna. As a new American, my working theory is that there are as many definitions of the middle class as there are Americans who define themselves as middle class. There are thousands of different ways in which people define it. It is even true within the academic community, and it is certainly true within the community of economists who use different measures. Economists will tend to use an income measure and the paper we are going to talk about for the purposes of our argument here, Camille and I have used an income threshold. There are probably strong arguments for using education, for using wealth. There would be many who would argue that it is a more of a culture question or a question of occupational status. I have certainly come to believe, partly because of the results of Camille's work, that there is a quite racialized category in the US as well and we

can't really think about class categories without thinking about race in the US too. But, for the purpose of the analysis that Camille has done in this paper, and looking at the racial pluralism of middle class we have used a kind of economist kind of definition which is to the 20th to the 60th percentile. In other words, if we kind of break the population up into five equally-sized slices by income, here we are looking at the second and the third slices. We have looked at people who have an (inaudible) prime working age between 25 and 54. What that means we are looking at households with household incomes of between \$30,000 and \$85,000 or \$86,000. Very crudely put, those are people who are just above the Federal poverty line, by-in-large, not all of them and reaching up to just beyond the median. That is certainly quite a long way from prosperity. For the purpose of this analysis, anyway, we have defined that group as the middle class, others might say that is not the middle class, you should define differently. It is not that the working class, etc. Let the debate commence and go ad infinitum.

PITA: I feel pretty reliably the New York Times at least once a year publishes some article about somebody talking about how hard it is to raise a family in Manhattan on only \$150,000 or \$200,000 a year.

REEVES: You got it. Everyone has a different middle when it comes to the middle class.

PITA: Camille, do you want to talk a little bit about some of these other factors that Richard was mentioning. How are some of the other measures?

BUSETTE: Sure, I think it makes sense to start with income because a lot of analysis, particularly when Americans are asked are they are middle class, typically you are talking about income measures. I think that is a good starting point. But, there is an interesting debate about whether or not income is the right measure. Is it a mindset? Is it your ability to accumulate wealth and hold that? Is it education as Richard has mentioned? I think all of those mean that it is an interesting question to delve into. I am really very happy that Richard has started

to work on this because we are going to get some interesting clarity around the definitional issues which I think will lead us to some maybe some perplexing policy questions as well. I think it is good to start noodling in this area.

REEVES: And then the intersect when you think about income and wealth and race for example. If you take someone who is median income, in the middle of the income distribution and they are White, they have way more wealth than someone who is in the middle of income distribution if they are Black. There is fragility potentially to that kind of position. Wealth might protect your income position or buffer you against shock and so on.

PITA: Right. What you actually showed in your previous work as well. So when we are looking at the racial demographics of the middle class, what are we looking at now and how has that changed in recent years?

REEVES: What we find is that if you go back to 1980, roughly four in five of the middle class as we have defined the quintiles two and three were non-Hispanic Whites. That has now dropped to just over half at 55%. If we just age the population through over the next 25 years or so, then what we will see we will end up with non-Hispanic Whites being in the minority in those two quintiles. We will end up with a racially plural middle class. We don't use the term majority-minority for reasons that we talk about in the paper. We don't like that term. Again, I think that is something Camille has been very strong on because if you don't have a majority anymore, it doesn't make sense to use the phrase majority. The point simply is that the middle class extended as White is only just so and won't be so for very much longer. So we are going to have a predominantly Hispanic, Black, and Asian middle class before very long.

PITA: Is that primarily just about the millennial generation? They are the largest, the most multi-racial, compared to the generation prior to them aging up. Is that really the driving factor there?

REEVES: It is the only factor in our analysis. We simply age the

population up. We assume their relation between race and income remains the same going forward which is a pessimistic assumption. If that changes then that would change our results too. We simply age the population into that prime-age worker based on race in order to get these findings.

PITA: Can I ask you a little bit about what effect the Great Recession had on these numbers. We know that hit the middle class particularly hard. Did that delay the entry of the more multiracial millennial generation particular into the middle class? Did it affect different people differently? Can you talk about that?

BUSETTE: Sure. Well given that the analysis is just aging the population according to current, sort of racial demographics, I would say it did not have an impact on that dynamic. But, the Great Recession had a huge impact in terms of inequality and also a racial impact. It really impacted the racial wealth gap tremendously. The statistics on that basically are that while Whites certainly felt the impact of the Great Recession and lost jobs, employment, wealth, and everything, it also hit communities of color extremely hard. When you look at the statistics, you will see that the bounce back was actually delayed for communities of color. For example, Black and Latino men were still having a downward trend in labor participation in 2011 and 2012. And, it only started to come back up in 2013-2014.

REEVES: It was not an equal opportunity recession in that sense. It did these racial effects. The quintiles two and three will only ever contain 40% of the population. This is really a story about how that is changing, racially, those two quintiles. I think it is noteworthy, I think Camille is inferring here, that just as the middle class as we define it is becoming less predominantly White, is becoming more racially plural, we are seeing that class really suffering. Economically what you are saying is that there are concerns about the stagnating incomes for this group of Americans. We are also concerned about the stagnating incomes or very slowly rising incomes for a group that is becoming increasingly racially plural.

BUSETTE: Exactly, in addition to that the incredible wealth gap that has also been maintained from before the Great Recession, through the Great Recession, and even now.

PITA: I wanted to ask some more about that question because homeownership is often one of those first real status markers of entry into the middle class. It is also one of those base elements of wealth that give you something that you can pass on to your future generations, and can be a buffer against the shocks of economic downturns as long as that isn't part of the economic crash as it was in the Great Recession. Can you talk a little bit about these racial inequities around that question of wealth and homeownership and what that has been contributing to the differences in the middle class?

BUSETTE: Sure, I think it is very well known that up through the 1970s and even in practice through the 1980s that residential redlining was the rule of the land all over the US. What that did is it made it clear that Blacks and Hispanics could only have access to low-quality housing that was not going to appreciate tremendously and was typically segregated into communities that were very high proportionately Black or Hispanic. Over time what that means is that Blacks and Hispanics were unable to accrue the kind of wealth that White families could because White families could buy into high-quality neighborhoods that would appreciate. I think it is pretty clear that the history of homeownership in the US is one that has led in great part to the kind of racial wealth gap that you see now. In addition to that, the fact that Blacks and Hispanics were cut out of the high-quality home market also meant that it was very difficult for them to accrue the kind of savings and other kinds of investments that usually you can get by leveraging the value of your home. It had a compound effect in a sense.

PITA: I wanted to get back to also some of this that we have talked about the cultural questions of the middle class and talking about what it takes to attain middle class. Richard, you started to talk a little about education issues.

There are things like health indicators. When you split populations across income level even if you are looking at people of the same income level, between \$60,000 and \$80,000 a year, or something like that, amongst racial demographics you see differences in health outcomes, attainment of marriage, different education attainment statuses. Does it take more for someone who is Black or Latino to get into the middle class, either by their own self-definition or more numerically speaking?

REEVES: What you are touching on there is the way all of its different variables cut across each other and the multi-dimensional nature of class status in the United States. You do have to think about income and education. You have to think about housing, which Camille has just spoken about. Something like family structure matters. For example, for the simple economist reason that if you have two adults, then you have two potential earners. What you see are very different household formations patterns by race. In particular, many more of the Black families who are in the middle-income quintile are likely to be there, a lot of the single mothers by comparison to White. Again, speaking to this kind of fragility point of this sort of risk sharing point, one thing by having two earners or two potential earners you are kind of sharing risks. That makes it harder to accumulate wealth for the reasons that Camille has already mentioned. So, actually what we think about what it means to be the middle class we have to think about all those different hard variables if you like, wealth, education, etc. I saw a report last week from (inaudible) that defined the working class as everybody without a BA, everyone without a four-year degree. So you could be earning \$500,000 a year, but they still count as working class. You see other categorizations which only use wealth. You have to have a certain amount of wealth. You have to choose the ground you start on because then you can look at how all the other things are influencing it. If we take income as a starting point and we look at race. We can then say what are the differences for that income group by race, and by these other

variables? Then we can see who has wealth and who hasn't got wealth. What it means is not the same to be Black and middle class, using that definition, as to be White and middle class. It speaks about, and Camille has been really influencing me on this, that the very way that Americans use class is intrinsically racialized. I think if you say the working class or middle class most people are unthinkingly attaching the prefix, White. Sometimes say then they say the White working class. There was a big debate about that. But, I think whether they explicitly or inexplicitly or otherwise is kind of White. If you close your eyes when I say a middle-class American who do you picture; a working-class American who do you picture? Now try a poor American who do you picture? It seems almost if to me that class is a category that is based partly on the very exclusion of Americans of color. Although due to the Black middle class (inaudible) it is almost like class is White. I think although these categories of kind of thinking about how you apply class to race really need to be thought through very, very carefully indeed. I think it has been used as an exclusionary mechanism and an exclusionary definition along racial lines as much as anything else. That really something that we both I think will be working on. I think more about class and Camilla thinks about race and it turns out you have to think about both together.

BUSETTE: What I think is kind of interesting about that is because the term middle class implies White middle class, White Americans. I think it has also been very useful politically in that respect. I think you get a kind of consensus around helping the middle class largely because the reference point is really White middle class. I think what has been interesting as the middle class shifts in its demographic composition is whether or not you still get that kind of political consensus about whether it makes sense to help the middle class or not. I would be interested in your thoughts on that.

REEVES: One of the reasons politicians will say privately of course that they don't want to use the language of poverty is because they know that gets

racially coded almost immediately. If you say this is a program to help the poor, a lot of White Americans think oh you mean to help Black Americans. That has an impact on the way they react to that policy. They retreat to the safe ground of the middle class. Find me a politician who isn't in favor of a stronger middle class, and I will find you a politician with a short tenure span. Ninety percent of Americans and all White Americans see themselves that way. I do think that is quite interesting. It is something that we struggled with this kind of paper as well as how you frame it. Because clearly there is a political value in some way in order to play some of those tunes which are around if you say middle class that means for all Americans. It is an exclusive message in the sense of including middle income and working class White Americans. You don't scare the horses too much. On the other, it is just a fact that we are seeing this increased racial pluralism of these income groups too. I think that it is interesting to see how that plays out. I role as researchers and analysts is to say this is what happening and think about how the politics play out. I think the days in which politicians could just say middle class and assume what people heard White are numbered. I don't know how long they will last.

PITA: I agree. I agree with that. But --

REEVES: If you accelerate the process by which that decoupling takes place, you could argue that our piece will do a little bit of that decoupling. For what it is worth, my view is that we do need to decouple. I don't know what you think.

BUSETTE: I think we do and I think it is already actually in the public domain being decoupled but in a different way. When the results of the 2016 election were known, I think obviously there was a lot of interest in okay who voted for Donald Trump. In the subsequent analysis, it became clear that you had a lot of White voters who really felt that as though they had dropped from the middle class. I think just knowing that there is a segment of the formerly White middle class that no longer thinks of themselves as middle class, I think is already

shredding the idea that the middle class is White. I think that already is undermining the conflation of the term middle class with the White middle class. I think it is an interesting political dynamic there as well.

REEVES: That is probably a group that thinks whether the middle class should be White, in a way. Maybe there is a tolerance of racial diversity so as long as that racial diversity remains at the poor end of the income distribution. The idea of the racially plural middle class that we project in our paper will undoubtedly be threatening to some people, and I certainly think that it threatens the central element of American identity, which is of the White middle class. What kind of American do you have when it is not a White middle class anymore and how do you feel about that. It could become quite an important political test.

PITA: I am curious when you are thinking people's conception of whether they are in the middle class and it is so often an aspirational thing. There is this White population that is no longer a part of the middle class, or at least they are at weaker in the middle class than they were before. But, they haven't exactly switched to starting to support policies that support the poor because they still conceptually think of themselves as the middle class because they are White. When does that switch start to happen -- no we are going to have to start to think about poverty now and not just listen for the politicians saying middle class and think it is us.

BUSETTE: I think that is an excellent point. I think it is like the jilted middle class. They definitely don't see themselves as disadvantaged or poor. What I do think is interesting about that is I think governors and local politicians are probably going to come to those conclusions sooner than the people themselves because they are the ones who are on the front lines of helping people get employment, and dealing with health care, dealing with the opioid crisis, etch. Their definition necessarily has to evolve with the populations they are trying to serve.

REEVES: I think that is right. When we think about policies that will help the middle class, as we define it, or otherwise, then as we see the impact that will have. Particularly in terms of the people of color, in terms of the racial composition of beneficiaries, then it is only so long that we can continue the façade – these are for White people because they are for middle-class people. Not for much longer they're not. At some point we just have to face that is clearly going to be a painful transition and you have seen significant reversals in the last couple of years. You can see what in the hands of a skillful populous can be done with those kinds of racial resentments and that sense of being jilted or overtaken. None the less in the long run being comfortable with the idea of a racially plural American middle class is going to be absolutely necessary and for policies not only to accept that but to

BUSETTE: To adjust --

REEVES: But we are clearly not yet there for what everything you just said Camille, we know that I think it is inescapable. Recalibrating our sense of class so that class is no longer seen as White, is the goal.

BUSETTE: Absolutely.

PITA: I wanted to ask you a little bit more about the policy changes going forward. In some of the work that Homi Kharas here at Brookings and plenty of other people who look at the emergence of the middle class, whether you are looking at it in developing countries or historically in Organization for Economic Co-operation and Development (OECD) industrialized nations. There is always that policy shift of as the middle class is first starting to emerge they still support a lot of the policies that help the working class because they see themselves as just coming out of that, so they are happy to bring along redistributionary policies along with them. But, once the middle class gets much more firmly established both economically and politically speaking, and this is sort of getting into your dream hoarders work, Richard, then they look at more productive policies. They are

focused less on those poverty-focused policies. Given that we are going to see this shift in the middle class bringing in a new group of people who are not previously part of that window, do you think that bespeaks seeing that big sea change? Is like a new emerging middle class in the US in a country that previously had a more established middle class?

REEVES: I think one of the things we have to recognize is that the middle class broadly as defined as we do here in many of the more advanced economies has actually had a pretty rough time of it in the last couple of decades. The middle class in other countries, most developing countries, have actually seen the biggest income growth. You are seeing the middle class in Asia and particularly growing income growth very rapidly across the board globally partly because of the free trade policies that we have seen, but very, very low-income growth for this group, middle class in Western countries. Of course, they are still very much richer than in other countries. But considering where they think they might ought to be, and the people who are above them are that is what I think is playing out in Brexit and in another kind of populous movements is that kind of sense of being left behind by the middle class. Then I think the kind of question we will want next, and I think we are then into the labor market and what happens in terms of human capital formation and work. It is quite clear that the rewards of the labor market for that group have been much lower. If you are looking at why is it that sort of group in the middle have not done as well. They are helped in part by transfer policies, but they are really reliant on the labor market, really reliant on wages. The stagnation of wages in the middle, a huge rise in wage earnings and equality combined with household composition so that the people who have two decent earners are really pulling away and those that have one at most really falling behind. I think then you are into improving the labor market, and I know that some of Camille's work on technology and the impact of technology on the labor market will be important there, but we also have to think about straightforward transfer

policies. One policy is the earned income tax credit. If you want to find a group who will benefit from the earned income tax credit, it is these two quintiles in our paper which will do so well. Some of the more radical proposals out from people like Congressman Ro Khanna is to have a trillion dollar pay raise. You could argue that the trillion dollars that went to the corporate tax cut could have gone to working Americans. Those sorts of topping up of wages are a necessary stat, Whether or not, in the long run, it will be enough and how we think about how the labor market is working, but, right now, this is a really big work story.

BUSETTE: I would agree with that, and I think it is also important to situate how people will feel about redistributive policies in the context in the US which is one where there is an increasing inequality gap. Where people start to recognize that, then I do think you get a kind of politics where people are trying to hold on to what they have and try to expand that slightly. They are afraid of being vulnerable and falling into a lower economic status. I think as Richard has pointed out, labor is really the key. Job opportunity and job quality, etc., particularly in the context where we have a lot of global competition from China and India, etc., I think it will be the story. Ultimately, we are going to see people trying to hoard, in the sense of your prior work, trying to hoard those kinds of opportunities because of the huge inequality gap in the context that we have here.

REEVES: All of that is right. If you think about what happens in preparation for work if you just look at where do the children of the middle class, as we define them here, get their post-secondary education. It is in two places – community colleges and slightly less selective four-year publics. I would like to see more of them going up to the more elite institutions, but it is a brute fact that is where this group are going to for their education. Let's look at where the Federal dollar and the state dollar is going in terms of which institutions of post-secondary education is supported. If we are most worried about the preparation of the children now of the middle class for the future, then where are the serious

investments in our community-college system and our public four-year system compared to some of the tax breaks that we might be giving to some of the more elite institutions. The concerns about students debt while legitimate are really only affecting a particular portion of the population. I think again what you will see is we need more of a focus on what kinds of policies do this group actually need, that is why we agree with you that local level money is more important. I think Rahm Emanuel understands this better than most people in Congress.

BUSETTE: I agree with that. I think not only do we need investment in these two-year institutions and then the state level of four-year institutions, but we also need to have a cultural shift which says it is okay and it is actually fine, and you have an equally good education if you go through one of these institutions. I think right now there is certainly a stigma attached to community colleges particularly for real blue-chip employers. We also need to work, and one of the things I am doing in my initiative is really trying to work on that whole social discourse around what makes a really valuable employee and how can we get that person to be flexible, skilled, and agile in a way that will be validated and accepted by high-end employers. I think that is also a transition that also has to happen.

REEVES: Interesting.

PITA: Lastly, can I ask you a little bit about these questions of policies for the national-level politicians. At the end of your piece, you talk a little bit about this identity battle that has been happening with the Democratic Party. There has been the question of what should we be focusing on what usually referred to as identity politics. Are the most important things the Democratic should be talking about are racial justice, women's reproductive rights, or LGBTQ rights. Or, should they be strictly focusing on an economic message, rising tides raises all boats, and then deal with the other issues when they get into office and can govern around the edges? Talk a little bit about that debate within the Democratic Party and what your research is pointing out.

BUSETTE: I do think that the Democratic Party should be focused on employment, labor, and inequality more generally and less so on identity politics. The reason I say that is that I think ultimately because of the work that we have done, you will bring in identity politics if you focus on these more generalized economic issues but you will do it in a way that I think doesn't really rent the political character of the US.

REEVES: I think that is one of the main messages of this paper is that it is potentially a false choice between thinking about what can we do to help American's of color; and, what can we do for the middle class when the middle class is predominantly comprised of American's of color, as it soon will be. I think that kind of pulling apart of these really hard economic material and educational questions and the more cultural questions of identity will start to dissolve. Because after all, what most Americans of every color want are economic opportunity, good education, a chance to do a good job, and get their kids a good education and get a good job. Some of these divisions I think are without meaning to, perhaps, undermining some of the (inaudible) shed aims of the Americans are captured by some of these issues around hard economics and by class. So if we can have a more plural definition of class then maybe that will help us get past this false plurality that I think is distorting some of the debate on the left right now.

PITA: Where do you see this research going forward. What is sort of your next step where you are taking this? You both have ongoing projects in this sphere.

REEVES: I think the effort to delineate the American middle class, arbitrary that will always be. Thinking about what is going on economically, socially, and educationally with the American middle class is significant not only for the political economy of the US but actually for the political economy of the world more generally. What we are seeing a kind of reaction from a group, the middle class, who are right to feel as if they are not seeing their standard of living

economically improve as fast as everybody else. They are right to feel that. The question is what happens as a result of that feeling. I think that kind of middle-class resentment is actually now potentially undermining some of the institutions both nationally and internationally that have led to such historic growth more generally. Understanding quite deeply what we mean by class, who considers themselves middle class, what is really going on there, with a view to improving the outcomes for that group in the future is probably one of the most important questions that we face as a nation but also as I would say as a community of nations. Because unless their resentment is somehow abated over time, I think we could see even a worsening in the nature of our politics with policy consequences that will not be trivial either in terms of the redistribution within the nation or the institutions that have delivered such high growth to developing nations.

BUSETTE: I would agree with that. I would also add to that, and Richard knows that I have a real interest in narrative and social discourse around these issues. I do want to illuminate a little bit more some of the discussion we had today which is around the latent kind of racial character of some of this discourse. I am hoping to work on that as well.

PITA: Fantastic. For our listeners, they can find your research on Brookings.edu. They can follow the Intersections and the rest of the Brookings Podcast Network on Twitter@Policypodcast. Thank you both so much for being with us today and explaining your latest piece.

BUSETTE: Thank you. This has been fun.

REEVES: Thank you.

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