Middle Class Prosperity Project:
Survey of Leading Economic Experts
February 24, 2015

This week, Rep. Elijah Cummings and Senator Elizabeth Warren launched the Middle Class Prosperity Project to focus attention on challenges facing the middle class and to identify policy changes to help the middle class grow and thrive.

As part of this Project, the Democratic staff of the House Committee on Oversight and Government Reform conducted an informal survey of 12 leading economists (including two Nobel laureates), financial industry experts, and professors from top national universities.

These experts reported that middle class wages have been stagnating even as worker productivity has increased to historic levels. They stated that this disparity is increasing even though American corporations are thriving. Many also highlighted that the costs of basic middle class necessities have risen, and middle class Americans have been forced to work harder and sink deeper into debt to make ends meet. They concluded that trends over the past several decades have put at risk the significant gains made by the middle class after World War II and the Great Depression. They also warned that our economy, which is directly linked to the success of the middle class, could suffer as a result.

The experts who participated in this survey are:

- Robert Solow, Nobel Laureate, Professor Emeritus, Massachusetts Institute of Technology
- Joseph E. Stiglitz, Nobel Laureate, University Professor, Columbia University
- Dean Baker, Co-Director, Center for Economic and Policy Research
- Beth Ann Bovino, U.S. Chief Economist, Standard & Poor's Rating Services
- Jodi Beggs, Lecturer, Economics Department, Northeastern University
- Jared Bernstein, Senior Fellow, Center on Budget and Policy Priorities
- James Bradford DeLong, Professor of Economics, University of California, Berkeley
- Steven Fazzari, Bert A. and Jeanette L. Lynch Distinguished Professor of Economics, Washington University in St. Louis
- Jeffrey Frankel, Professor, Harvard Kennedy School, Harvard University
- Gerald D. Jaynes, Professor of Economics and African American Studies, Yale University
- Robert B. Reich, Chancellor's Professor, University of California, Berkeley
- Mark Thoma, Professor, University of Oregon

This white paper provides an overview of the findings from survey responses.

1. Wages Have Been Stagnating, Lagging Far Behind Worker Productivity

The economists surveyed were unanimous in their assessment that the wages of middle class workers have been stagnating over the last two decades, and many added that middle class wages have not kept pace with the increases in worker productivity

Dr. Solow wrote:

> The basic fact is that compensation (wages + benefits) has not kept up with increased productivity, except at the very top bracket. This deficiency started at least 30 years ago, perhaps more, and is still continuing.

He added:

> We know, however, that corporations are paying out a smaller fraction of their revenue in compensation to ordinary employees (by a couple of percent) whereas the proportion going to profit and to executive compensation has been increasing.

Dr. Stiglitz reported: "Inflation-adjusted median income has stagnated—lower now, in fact, than it was in 1989."

Dr. Bernstein stated: "Workers compensation as share of national income is near 60 year lows."

Dr. Frankel observed: "The share of executive compensation out of total corporate earnings or national income has gone up." He added: "The share of worker wages, out of total corporate earnings or national income, has gone down." He also noted: "Median family income is still 8 per cent below its pre-recession level and even further below its 2000 peak."

Dr. Baker concluded that the stagnation of wage income is the "main story" of the middle class. He stated: "Wages account for the overwhelming majority of middle class income."

Dr. Fazzari noted:

> One of the old "stylized facts" of economic growth over time used to be that the so-called functional distribution of income didn't change very much, that is, the profit share and wage share were relatively constant over the long run. But that regularity has broken down for the US in recent years. We now see a fall in the wage share and rise in the profit share.

2. Corporations are Thriving

The experts surveyed reported that corporations have recovered well after the Great Recession and are now making record profits.

Dr. Jaynes wrote: “With the obvious exception of recessions, Profits have been on an upward trend since the mid-1980s culminating in record profits during recent years.”

Dr. Solow stated: “corporate profits have recovered very well.”

Dr. Bernstein noted: “corporate profits as a share of national income are at or near historical highs with data back to the 1930s.”

3. Costs of Basic Middle Class Necessities Have Increased

Most experts surveyed reported that the costs of housing, child care, or health care have increased more quickly than income or inflation, or were consuming a greater share of family budgets. To cover these expenses while wages remain flat, middle class workers are working more hours, and the number of families in which both partners work outside the home has increased.

Dr. Bovino wrote:

> Although inflation has been rather modest, with core inflation trailing the Federal Reserve’s target rate, key household expenses, such as healthcare and education, have risen sharply. Higher prices cut into household purchasing power, and with wages stagnation, middle income households have been squeezed.

Dr. Baker stated:

> Child care costs have risen sharply both because of rising costs and also because the traditional one-earner couple would have much less need for childcare. Netted out work related expenses, many families have benefitted little from a second income.

Dr. Reich noted: “In the 1950s, housing was typically 25% of income; now, it’s 40 to 50%.” He added: “In the 1990s and early 2000s, as working hours became less predictable, child care became more urgent and more difficult.” He concluded:

> In effect, the middle class used three coping mechanisms to maintain their expected living standards despite flat wages: first, wives and mothers went into paid work (big surge was between 1978 and 1994), then everyone worked longer hours (starting in mid-1990s), and households used their homes as collateral to take out loans and refinanced their homes (starting in late 1990s).

4. Middle Class Households Have Taken on More Debt

Most of the experts surveyed reported that household debt has increased over the past several decades, although some reduction in debt has occurred more recently.

In response to a question about whether middle class debt levels have increased relative to income, Dr. Fazzari wrote: "Dramatically, from the early 1980s through 2007. Also, much of the modest improvement since 2007 is due to default, not the ability to pay down debt."

Dr. Stiglitz stated:

> Before the financial crisis of 2007 and the Great Recession it spawned, a majority of Americans were spending more than 100% of their income. There has been some deleveraging since then, but this startling figure shows that the only thing buoying middle class consumption in recent decades has been ballooning debt.

Dr. Jaynes noted: "Total U.S. household debt, when measured as a share of disposable income, has fallen from a peak of 135% in late 2007 to 108% through September 2014."

Experts also noted that household savings have been "declining" and "inadequate," and have been at "historic" lows.

Dr. Stiglitz observed:

> After dipping below 0% in recent decades, savings rates for the bottom 90% of the income distribution have edged slightly upward in the wake of the Great Recession. However, they are still extremely low.

Dr. Solow stated:

> Personal savings rates fell to historic lows in the years before the financial crisis, and have generally risen irregularly since then, but are still low compared with earlier history.

Dr. Reich noted: "Two-thirds of American families live paycheck to paycheck."

5. Lack of Bargaining Power is a Key Factor in Wage Stagnation

The experts surveyed noted that many factors have contributed to the weakening position of labor in the corporate market and the increasing dominance of the idea that corporations exist solely to generate profits for shareholders and executives receiving compensation based on the performance of company stock.

Dr. Fazzari cited three key factors accounting for current trends in the middle class:

> 1) Globalization that leads to greater competition for labor, 2) Deterioration of institutions to support labor bargaining power (including unionization and the minimum wage), 3) An economy that operates most of the time below full employment, keeping wages down.

Dr. Solow observed:

> The concept of some sort of sharing of productivity gains gave way to a casualization of the employment relation. The disappearance of collective bargaining is only one aspect of this, as much symbol as cause.

He also noted:

> [T]he broad shift in business attitudes and public tolerance, as well as the decay of collective bargaining, may have allowed corporations generally to absorb a larger fraction of ... rents than was the case in the years before 1980.

Dr. Bernstein cited the following factors as contributing to the current economic position of the middle class: "the absence of full employment, persistent trade deficits, weak worker bargaining power, and under-regulated financialization."

Dr. Stiglitz cited several factors, including: "A political system that has been captured by the interests [of] 1 percent, making the reform of any of these problems extremely difficult."

Dr. Reich cited the following factors as contributing to current trends in the distribution of corporate profits:

> (a) Increasing pressure from Wall Street to show higher share prices, (b) increasing 'performance-based' executive compensation, (c) sharp decline in percentage of private-sector workers belonging to trade unions.

Dr. Baker cited several factors, including: "Policies designed to weaken the power of unions and make it more difficult for workers to organize."

Dr. Jaynes cited:

> Tax policies, and especially generous treatment of capital gains related income to supposedly enhance middle class prospects through trickle-down policies that have not worked.

6. Post-War Middle Class Gains Are Now at Risk

In the decades after the Great Depression and World War II, wages increased in tandem with worker productivity. As a result, middle class families made great strides, buying their own homes, sending their children to college, and saving for retirement. Many of the experts surveyed reported that these gains—hallmarks of the American middle class—are now at risk.

Dr. Fazzari explained:

> Traditionally a "middle class" life implies secure economic circumstances that supports a normal lifestyle. In the minds of most Americans that includes food and shelter obviously, but it also includes a decent education for the kids ... high-

> quality medical care, probably enough discretionary income to take a modest vacation and afford some leisure-time activities, etc. It's not at all clear that this quality of economic life is within reach of a median income family in much of the country. That is even more obvious if families strive to reach this standard with two working parents, which adds the costs of child care, outside food preparation, probably a second car, and other items to the baseline budget. As the trends toward inequality continue, this kind of "middle class" economic life will become accessible to a smaller and smaller share of the American population.

Dr. Reich wrote: "40% of children born in [the] bottom quintile will be there their entire lives."

Dr. Bovino wrote:

> If current trends persist, S&P believes the resulting continued increase in income inequality would continue to erode the middle class and, in our view, act as a drag on the overall economy.

She also observed: "With the cost of college climbing higher, middle-income households are unable to invest in their children, or are saddled with a large student debt burden, if they do." She concluded: "income imbalances tend to dampen social mobility and produce a less-educated workforce that can't compete in a changing global economy."

7. The Success of U.S. Economy is Directly Linked to the Success of the Middle Class

The experts surveyed stated that the middle class has historically been a significant source of consumer demand for U.S. goods and services, and they concluded that the decreasing strength of the middle class is now hurting businesses and the overall economy.

Dr. Fazzari wrote:

> Ironically, policies that weaken labor (union busting, pro-globalization etc.) may hurt business profits as well. The problem is that it will be difficult for business to see this effect in any direct way. The problem is an example of a "fallacy of composition:" if a single business pays lower wages that business will earn higher profits. But if wages fall generally, leading to lower middle-class incomes, business sales will be weaker and profits lower.

Dr. Jaynes observed:

> [T]he middle class forms the numerical and cultural backbone of our economic and political institutions. As the slow recovery from the Great Recession demonstrates, a middle class with stagnant incomes puts severe downward pressure on Macroeconomic demand for goods and services. Consumption demand underpinned by millions of middle class households with adequate disposable income is an essential key to our prosperity.

Dr. Bovino stated: “Our review of the data, as well as a wealth of research on this matter leads us to conclude that the current level of income inequality in the U.S. is dampening GDP growth.”