Dēmos

AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

Northwest Area Foundation

RUNNING *in* PLACE

Where the Middle Class and The Poor Meet

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ABOUT DĒMOS

Dēmos is a public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy.

Our name means "the people." It is the root word of democracy, and it reminds us that in America, the true source of our greatness is the diversity of our people. Our nation's highest challenge is to create a democracy that truly empowers people of all backgrounds, so that we all have a say in setting the policies that shape opportunity and provide for our common future. To help America meet that challenge, Dēmos is working to reduce both political and economic inequality, deploying original research, advocacy, litigation, and strategic communications to create the America the people deserve.

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"Being poor is running in place."

Author John Scalzi wrote this about his own experience of growing up in poverty.[1] Today it is not only poor families but many middle class families who are furiously running in place. Millions are working hard to move forward, or just to make ends meet, and getting nowhere. Anyone who wishes to address poverty and strengthen economic opportunity needs to connect the dots between the needs of the working poor and those of the middle class.

"Many of the same policies that can help the working poor climb into the middle class—investments in education, in the creation of good jobs, and in asset building, for example—can also strengthen middle-class financial security."

Stagnant social mobility, increasing inequality, and the rise of low wage jobs without benefits are affecting both groups. For the working poor, these trends mean that the ability to move forward and upward economically is not only stunted, it is often cut off. For the middle class, these trends mean an ongoing susceptibility to financial shocks like job loss, unexpected medical expenses and predatory mortgages and an inability to adequately prepare for the future.

In this environment, no amount of individual effort, self-improvement, or thrift can guarantee a secure middle-class lifestyle. If current circumstances continue, even those who are able to move from poverty to the middle class on paper (in terms of education, job title, or income level) may never know long-term financial stability.

Public policy has a vital role to play to enable poor Americans to have a chance to move into the middle class and to ensure greater security for those already there. The good news is that these goals are compatible ones. Many of the same policies that can help the working poor climb into the middle class - investments in education, in the creation of good jobs, and in asset building, for example - can also strengthen middle-class financial security.

Since the Johnson era, anti-poverty policy has relied on income programs to see families through tough times, human capital investments to help individuals obtain employable skills, and an equitable, growing economy that offers good jobs to those who obtain those skills.[2] This three-prong approach is still valid, but it needs substantial recommitment and reinvigoration.

The difference between now and the past era is that the threat of economic insecurity is no longer a persistent problem of just the poor. Economic insecurity has become the ongoing condition of far too many U.S. households. In 2010, less than one in three American households (32%) reported having sufficient emergency funds, down from 38% in 2007. In the 2007 Survey of Consumer Finances, 19 percent of working-age households reported having no assets or negative wealth. By 2010 that figure had risen to 33 percent, the highest percentage since 1989, the first year for which consistent data is available.[3]

The widespread and increasing nature of American financial insecurity adds significantly to the urgency for effective policy action. Fortunately it also adds to the ability to find broad support for such policies among American households across the class spectrum.

Public opinion about the causes and consequences of poverty has historically communicated negative stereotypes of the poor and a distrust of government welfare programs. As persistent financial insecurity has become more widespread, these attitudes are starting to shift. In 2008 Gallup found that 69 percent of Americans were dissatisfied with the nation's efforts to deal with poverty. In June 2013 that percentage rose to 80 percent. [4]

At first read this might suggest a growing frustration with governmental antipoverty programs as inefficient and with the poor too reliant on entitlements. But other data suggests an acknowledgment of the hard work and obstacles faced by those living in poverty. In 1994 less than half (49 percent) of Americans believed that most of the poor worked, as opposed to relying on government handouts. Well prior to the current recession that figure had grown to 60 percent. [5]

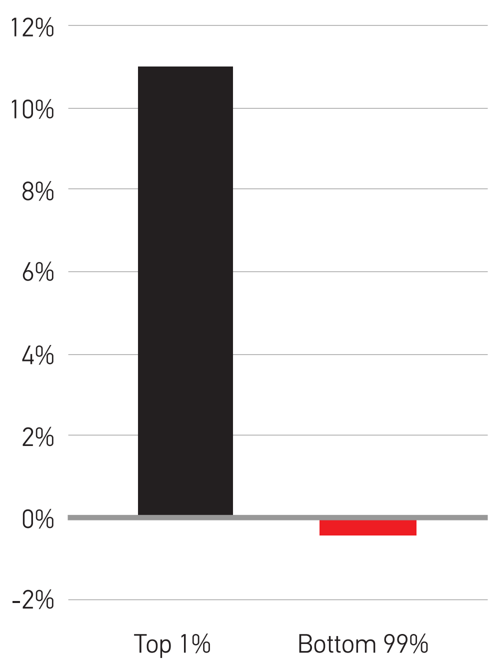
The majority of Americans now believe that the middle class has less opportunity to get ahead than in previous decades (52 percent), less job and financial security (65 percent), and less expendable income after covering basic expenses (60 percent). [6] The majority (54 percent) also now name financial insecurity as the top concern of the middle class. As the majority of Americans experience these concerns it has become easier for a larger group to identify and empathize with the ongoing financial instability that is a daily fact of life for those in poverty.

The Realities of Financial Insecurity: *Stagnant Social Mobility, Increasing Inequality, and the Rise of Low Wage Jobs*

The majority of Americans born into poverty will remain at or near the poverty level throughout adulthood. A recent Pew Study found that 40 percent of Americans born into the lowest income quintile will remain in the bottom 20 percent of all earners for the rest of their lives. Seventy-percent of those from the lowest income quintile will never make it past the bottom 40 percent of earners.[7] At least five recent cross country comparisons have found that the U.S. lags behind other developed nations in its mobility from poverty into the middle class. One study ranked the U.S. eighth among industrialized nations in terms of enabling social mobility and movement out of poverty.[8]

The U.S. gap in social mobility is framed by increasing income inequality. America's economy has been an awesome engine of wealth creation. However the new prosperity has disproportionately gone to the highest paid. According to the Congressional Budget Office, between 1979 and 2007 American households in the top 1 percent of earners saw after-tax income gains of 275 percent. The middle 60 percent of earners saw their incomes grow by just under 40 percent over this same period.[9] This trend has continued in the years following the 2008 recession. Between 2009 and 2011, the average real income per family of the top one percent of earners grew by 11 percent. Meanwhile incomes for the bottom 99 percent of earners shrunk by 0.4%.[10] *(See Figure 1.)*

Figure 1. Growth in real income per family, 2009-2011



SOURCE: The Pew Charitable Trusts, "Economic Mobility and the American Dream: Where Do We Stand in the Wake of the Great Recession?" May 2011

For middle- and low-income earners, hard work is no longer enough to keep up. Many American jobs do not pay enough to cover basic living expenses, much less allow workers to save money and build assets for the future. Today there are more than four jobseekers for every job opening. Many of the jobs for which they are vying are low-wage positions with no benefits and no opportunities for advancement.

Even before the recession, the U.S. labor market was weakened by a decline in union representation, the failure of federal worker protections to keep pace with changing times, and policies and trade agreements that put less-educated American workers into direct competition with their low-wage counterparts abroad. During the downturn, 60 percent of jobs lost nationwide were middle-income positions. Yet most employment growth since the official end of the recession has been in low-wage occupations.[11]

The explosion of low wage work at the expense of good jobs will not change without a concerted effort. The Department of Labor projects that under current conditions, the largest job growth over the coming decade will be in currently low-paying occupations such as home health aides, food service workers, and retail sales.[12]

Even when those from poor families do technically "make it" into the middle class in terms of income, they do not escape the struggle to make ends meet and an ongoing susceptibility to economic instability. In a Pew survey in August 2012, 85 percent of middle-class adults reported it is more difficult for them to maintain their standard of living now than it was a decade ago.[13] That is not surprising given that incomes among middle and low-income households have declined over the last decade. In that time frame, median middle-class wealth (assets minus debt) also shrunk by 28 percent, and the median wealth held by low-income families declined by 45 percent.[14]

Financial planners recommend that families have about 6 months of emergency savings. Three-quarters of Americans do not meet that low bar. These asset-starved families are the same ones who have lost $6.5 trillion in home equity since 2006. More than 50 percent of Americans do not have sufficient income to maintain their current living standards in retirement.

About one in three American adults say that if they lost their job they would not be able to pay their housing (mortgage or rent payment) for even a month. About one in four Americans say they have no emergency savings at all and would have to borrow from family and friends if faced with an emergency car repair, medical bill, or job loss.[15]

The negative impact of stagnant social mobility, increasing inequality, and the rise of low wage jobs without benefits on the economic opportunity and security of poor and middle class families is undeniable, but it is not impossible to reverse. Whether we are talking about making new investments or reprioritizing existing ones, our goal needs to be restoring access to stable economic opportunity for everyone who works hard.

This goal is attainable. Prioritizing human development and education can give Americans the best chance to realize their potential and improve their future prospects. Creating public jobs to address near-term unemployment and developing quality long-term jobs with strong career ladders and high labor standards can help reinvigorate the value and benefits of working hard. Developing savings programs and fairer lending practices will allow families to build greater financial assets.

Americans want and need bold policy focused on economic opportunity leading to financial stability for everyone who works hard. Without this, the majority of Americans will continue to feel as though they are running in place. *(See figure 2.)*

A Policy Agenda for Supporting Economic Opportunity and Long-Term Security

The importance of working hard, first in school and then at a job, is built into the fabric of our society. American values are based on the assumption that hard work leads to economic opportunity and that economic opportunity leads to financial stability. Today there is a huge disconnect between these values and the day-to-day experiences of millions of American families.

We are not a society who expects automatic benefits and a carefree economic road without hard work and thrift. Ninety-one percent of Americans believe that hard work, ambition

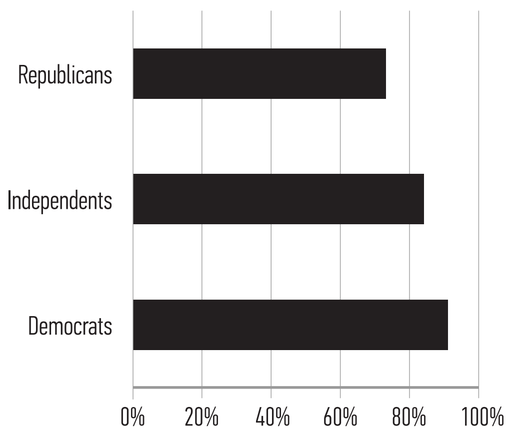
Figure 2. Aligning the Interest of the Poor and the Middle Class

CONDITION	EXAMPLE OF IMPACT ON POOR FAMILIES	EXAMPLE OF IMPACT ON MIDDLE CLASS FAMILIES	SOLUTIONS
Stagnant social mobility, increasing inequality, and the rise of low wage jobs	Inability to move forward and upward economically	Inability to move forward and upward economically	• Broad support for policies that support economic mobility and long-term financial security for American households across the class spectrum.
Lack of affordable, quality educational options from preschool through college	For preschool: Forced to juggle less than optimal childcare arrangements or miss time at work, risking job loss. For college: higher tuition prices and lack of adquate financial aid means more part-time college attendance, longer work hours while in school, greater student loan debt, and less likelihood of degree completion.	For preschool: Higher percent of salaries devoted to child-care and less time spent with children as parents struggle to cover costs. For college: Higher credit card and loan debt for parents and students alike as families struggle to pay college costs.	• Invest in early childhood edu-cation. • Create Family Leave Insurance. • Develop Zero-16 Contract for Education, designed to invest in human development from early childhood through college.
Growth of low-wage jobs and replacement of middle-income jobs with low-wage, poor quality positions.	• Only option for work is low-wage positions without benefits. • Dearth of job opportunities enabling movement into middle class.	• Inability to find equivalent work if laid off from a middle class job.	• Grow middle-income manufacturing jobs. • Offer job training and career lad-ders to boost economic mobility. • Ensure all American jobs meet basic standards of decent employment. • Strengthen the rights of working people to organize
• Inequality in income and asset buildig oppor-tunities prior to Great Recession. • Devastating loss of wealth, particularly retirement income and home equity, in Recession.	• Low-income families with assets lost 45% of median net wealth. • Opportunities to build assets for first time, or to rebuild lost wealth, lacking	• Loss of a "generation's worth of wealth" in recession. • Median middle income families lost 28% of wealth. • Factors such as ongoing home foreclosures and lack of jobs for laid off middle class workers mean ongoing difficulty to rebuild safety net and assets for the future.	• Create voluntary pensions pro-gram with guaranteed minimum rate of return. • Allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt. • Ensure that the lending industry provides credit to individuals on fair and responsible terms. • Create a 21st century Home Owners Loan Corporation (HOLC). • Address discriminatory mortgage lending practices.

and quality education are the most important factors in whether a person succeeds economically.[16]

Yet Americans also expect government policy to play a role in their well-being. More than four out of five Americans want the government to either provide opportunities for the poor and middle class to improve their economic situations or to prevent them from falling behind. This expectation is present across party lines, with 91 percent of Democrats, 84 percent of independents, and 73 percent of Republicans in agreement.[17] *(See figure 3.)*

Figure 3. Americans Who Want the Government to Provide Opportunities for Poor & Middle Class to Improve or Stabilize their Economic Situations, 2012



SOURCE: The Pew Charitable Trusts, "Economic Mobility and the American Dream: Where Do We Stand in the Wake of the Great Recession?" May 2011

In the past, when low-income and impoverished families were experiencing hardship while the middle class thrived, it was in many ways easier to ignore or underfund the policies needed to support educational and economic opportunity for all Americans. If there is any upside to the economic collapse of 2008, it is that it has brought the needs of poor and of middle class families closer together. The need to invest in human capital and education, to support job creation and career development, and to help Americans build assets has never been more apparent.

These are long-term solutions, but they all require immediate action. The policy ideas below are not exhaustive of every area where intervention is needed. Rather, they are an outline of several traditionally under-resourced areas where more work can be done. These policy suggestions are covered in greater detail in other Dēmos publications, including Millions to the Middle: 14 Big Ideas to Build a Strong and Diverse Middle Class.[18]

"Today both low- and middle-income families face economic hardship in providing their children with quality childcare and a solid educational foundation from preschool through college."

We can make great strides if we get on the same page about a simple sentiment: it's not economic opportunity for the poor versus economic opportunity for the middle class—it's about agreeing that we really want economic opportunity for all.

Human Development and Education

Education is the primary means of improving one's economic prospects. It is also one of the primary factors governing a nation's economic success. Developing human capital is a combination of caregiving, nurturing and pedagogical effort from birth through adulthood. Today both low- and middle-income families face economic hardship in providing their children with quality childcare and a solid educational foundation from preschool through college.

Childcare fees for two children (an infant and a 4 year-old) in a childcare center now exceed annual median rent payments in every state in the U.S. The national average for center-based childcare is $8,900 for full-time care for an infant and $7,150 for full-time care for a preschooler.

While well-off families can afford quality childcare and education, low-income and middle-class families often cannot. Instead they may end up with lower-quality care or lose jobs as they juggle unstable childcare situations.

The federal Head Start program, aimed at families in poverty, reaches only about half of three- and four-year-olds from poor families. The program also seldom provides the full-day care that parents trying to work their way into the middle class often need. Federal block grants that subsidize childcare are inadequate, as are tax credits that aim to offset the cost burden for low- and middle-income families.[19]

The difficulties American families face in paying for education begin in early childhood, but they continue all the way through to college. As a result low- and middle-income students and their families now pay—or borrow—a lot more for a college degree.

Between 1990 and 2010 tuition and fees at public four-year universities more than doubled, rising by 112 percent after adjusting for inflation. Meanwhile the inflation-adjusted price of two-year colleges climbed by 71 percent. From 1990 to 2010 state funding for public higher education fell 26 percent per full-time equivalent student, a major driver of rapidly rising tuition rates. As state support has declined, institutions have balanced the funding equation by charging students more.

In many cases, the tuition increases of the past 20 years have occurred alongside expansion in state-sponsored financial aid programs. Between 1990 and 2010, the aggregate investment in state grant and loan programs more than tripled, rising from $3.5 billion to $10.8 billion. However an increasing percentage of that aid is taking the form of merit-based aid that is awarded without regard for students' financial situations.[20] In 1980, 39 percent of federal financial aid to undergraduates was in the form of loans, and 55 percent was awarded in grants. By 2008, this had shifted to 64 percent of the funds awarded as loans and only 26 percent as grants. Moreover, today's maximum Pell Grant covers just over a third of the costs of attending a public 4-year university, down from over two-thirds in 1980.[21]

In 2009, the average in-state tuition at public four-year colleges across the nation was 17 percent of U.S. median income. For families in the lowest income quintile, that figure was 60 percent.[22] As college tuition has increased and cut more deeply into families' every day living expenses, students from low- and middle-income households have not only taken on increasing student loan debt, they have turned to credit cards to finance their education. In a 2012 survey of low- and middle-income households with credit card debt, 60 percent of families with a child in college reported that their child's educational expenses contributed to the family's current credit card debt. Seventy-one percent of indebted households who had incurred college expenses for themselves or their spouse in the three years prior to the survey reported that those expenses contributed to their current credit card debt.[23]

We propose a Zero-16 Contract for Education designed to invest in human development from birth though early childhood, high school and postsecondary job training or college; this is in contrast to the current K-12 system. The goal of the Zero-16 contract is to provide Americans across the income spectrum with a strong foundation to advance themselves through self-improvement and hard work. Success in high school and beyond is built on a foundation of learning acquired in the earliest years of life. As a result, a growing number of states and school districts are embracing the importance of an integrated Zero-16 model of education.

Providing the next generation with a good start in life begins with parents' ability to spend time with their children, especially with newborn or newly adopted youngsters. Yet over the past decades, public policy and workplace practices have not kept up with parents' and caregivers' increasing labor force participation.

Unlike 169 other countries in the world, federal policy in the U.S. does not guarantee any form of paid leave to new parents. The deficiency deeply impacts Americans trying to work their way into the middle class. Faced with the need to cope with a family illness or the arrival of child, many low-wage workers have no choice other than to quit or take time off, an unavoidable option that in many cases brings the real threat of job loss.

The birth of a child is a significant risk factor for low- and moderate-income families falling into poverty. To provide children and their families with basic support as they cope with life-changing events, the Zero-16 Contract for Education establishes a national system of paid family leave based on successful programs already operating in California and New Jersey.

Ensuring that children begin school ready to learn is the next task of the Zero-16 framework. This incorporates the role of both preschool and high quality childcare for young

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children into the educational continuum. Decades of research indicate that quality early education improves academic outcomes for children later in life, and that children from low-income families – who otherwise begin school already behind their more advantaged peers in vocabulary and cognitive skills – see the greatest benefits.

Most low- and moderate-income families struggle to afford stimulating childcare and good preschools, and existing public programs do not meet their needs. The Zero-16 Contract for Education enables children from modest backgrounds to begin kindergarten with a foundation for later academic and workforce success.

If America is to fully recognize the promise of education for strengthening and expanding the nation's middle class, we must make a substantial effort to expand quality schooling through elementary, middle and high school. We acknowledge the widespread, thoughtful work being done by many other organizations on K-12 funding and quality, but do not discuss policies for this realm in this paper, focusing instead on a longtime area of focus for Dēmos: higher education.

Access to higher education is also an essential component to building pathways to the middle class. While young people are entering college at higher rates than ever before, wide disparities in access and completion remain. The enrollment gap between low-income families and high-income families is as high as it was three decades ago. In addition, college tuition has tripled since 1980, rising faster than both inflation and family income.

Many hardworking students are priced out of pursuing and completing higher education – a fundamental component to upward mobility and opportunity in American society. And those who do enroll are leaving college with unprecedented levels of debt, often without a degree in hand. In 2010 the nation's total outstanding student loan debt outpaced its credit card debt for the first time, and student indebtedness is likely to continue growing quickly in the absence of bold policy reforms like those included in the Zero-16 Contract for Education.

The Zero-16 Contract of Education is designed to ensure that all young Americans have the best chance to realize their potential and that anyone who wishes to improve their future prospects – and invest in their own children – has the ability to do so. It includes the following components:

- The American Family Trust – Enable working people to care for a new child or a loved one in need without losing their paychecks – or their jobs – through a family leave insurance system.
- Early Care and Education Plan – Invest in affordable, high-quality child care and early education to ensure all American children a strong start in life and enable them to begin school ready to learn.

- The Contract for College – Reinvent the federal financial aid system to double the percentage of college qualified students from low-and moderate-income families who enroll and complete college degrees.

The Zero-16 Contract for Education responds to one of the deepest middle-class aspirations – the dream of a better life for one's children. At the same time, it provides young people with the opportunity to improve their own lives and invest in their own futures by working hard in school and garnering rewards for doing so. Finally, by expanding access to quality early childhood care and education and a two- or four-year college or technical degree, the Zero-16 Contract for Education upgrades the nation's future workforce, builds the economy, and expands access to the middle class.

Job Creation and Career Development

To realize the core American value that hard work should be rewarded, we need more jobs capable of lifting a family out of poverty and more jobs that ensure a long and stable tenure in the middle class. Under current conditions, there is no guarantee that the market alone will provide sufficient new jobs in either number or quality to ensure a pathway upwards for those in poverty or stability for those who have already made their way into the middle class.

Today there are more than four jobseekers for every single job opening. On the nation's current economic trajectory we will endure another five years of high unemployment before finally returning to pre-recession employment levels. It will take forceful public intervention to provide employment for out-of-work Americans.

If current trends continue and we do not act to raise the standard of our nation's jobs, many of the jobs of America's future will be low-wage, dead-end positions. The proliferation of low-wage positions began in the decades before the Great Recession, fueled by factors such as the falling value of the minimum wage, the decline of union representation, and the failure of federal worker protections to keep pace with a changing labor market, as well as a model of globalization that put less-educated American workers into direct competition with their low-wage counterparts abroad.

> "Today the millions of middle class families who are struggling to start over and rebuild their assets have something directly in common with the working poor who are struggling to build assets for the first time."

The recession merely widened the already growing earnings shortfall. During the downturn, 60 percent of jobs lost nationwide were middle-income positions, yet most employment growth since the official end of the recession has been in low-wage occupations.[24] This imbalanced trend has roots beyond the recession. Between the first quarter of 2001 and the first quarter of 2012, employment in lower-wage occupations grew by 8.7 percent. Meanwhile employment in middle-income occupations fell by 7.3 percent.[25]

The availability of fewer middle-income jobs means that those working their way up from poverty have few employment options to move into the middle class. It also means that those previously earning middle-income wages are less likely to find similar paying positions if they lose their current jobs.

This unites the interests of poor and middle class families around employment issues. The majority of Americans support government policy action on addressing unemployment, and particularly on strengthening American manufacturing as a way to improve jobs. Public polling data show that 71 percent of voters support putting unemployed people back to work at government-funded public service jobs.[26] Seventy-five percent of Americans —including a majority of republicans, democrats, and independents—support increasing federal government spending for job training and education.[27] Nine out of 10 (86 percent) of voters say they favor "a national manufacturing strategy to make sure that economic, tax, labor and trade policies…work together to help support manufacturing in the United States."[28]

Ensuring that hard work offers an opportunity for Americans to enter and remain in the middle class is a two-part challenge: America must create more jobs. We also must ensure that more of the jobs we are creating are middle-class positions.

A first step is to directly create jobs for the temporarily unemployed by hiring them to produce goods and services for the public benefit while we recover from the Great Recession. This must occur in tandem with the development of a jobs investment plan to provide a foundation for sustained private sector growth and productivity through improvements in physical infrastructure, investment in clean energy, and the creation of state level public banks.

Once these measures are in place, other strategies must be employed. These include:

- Leveling the Playing Field for American Manufacturing – Support the growth of middle-income manufacturing jobs by ending tax breaks that encourage offshoring, strengthening Buy American provisions, and improving the safety net for workers impacted by trade.
- Focusing on Career Opportunity – Offer job training and career ladders to boost economic mobility.
- Raising Work Standards – Ensure that all American jobs meet basic standards of decent employment by raising the minimum wage, guaranteeing paid sick days to working people, and ensuring that worker protections are effective and are applied to everyone.
- Strengthening the Rights of

Working People to Organize –Rebuild labor rights so that Americans can band together to negotiate pay and benefits that enable them to enter the middle class.

Together these policies lay the groundwork for jobs to be created and sustained, for the worst jobs to be improved, and for working people to move up to better positions and to have the opportunity to raise the quality of their existing employment through unionization and collective bargaining. These policies represent a package of reforms to bring us closer to the reality of the American Dream in which hard work is rewarded with economic success. Moreover, these policies reflect strategies that have worked in the past to build our nation's middle class and are strongly favored by the American people.

The Impact of The Housing Market Collapse on the Racial Wealth Gap

A study published by the Alliance for a Just Society shows the devastating impact of the housing market collapse on communities of color. In 2012, three years after the supposed end of the recession, Americans lost $192.6 billion in wealth due to home foreclosures. This impact was felt most deeply in communities of color, groups who already experience a wide gap in overall wealth compared to their white counterparts.

In 1995, whites held $7 in wealth for every dollar held by African Americans. By 2004 that had grown to $11. By 2009 it had skyrocketed to $19. In 1995 and 2004, whites held $7 in wealth for every dollar held by Latinos. By 2009 whites held $15 in wealth for every dollar held by Latinos.

Wealth lost through home foreclosures has exacerbated this divide. In 2012 ZIP codes where the majority of the population is composed of people of color saw 17 foreclosures per thousand households with an average of $2,200 in lost wealth per household. Majority white communities saw only 10 foreclosures per thousand households with an average wealth loss of $1,300.

The current foreclosure crisis is rooted in racial disparate lending practices. In the buildup of the housing bubble, communities of color were disproportionately targeted by lenders for higher cost, subprime mortgages. Even among high-income borrowers, African American and Latino borrowers were three times more likely than whites to pay higher prices for mortgages. Before the recession, 35% of subprime loans were issued to borrowers who qualified for prime loans. Even when controlling for credit scores and income, African Americans were 80% more likely and Latinos were 70% more likely than whites to receive subprime mortgages.[29]

Helping Americans (Re) Build Assets

Financial assets are one of the most essential, if not the most important, ingredients of economic security. A lack of assets not only makes it harder for many families to move into the middle class, it makes it nearly impossible for those in the middle class to enjoy financial stability. A family's lack of assets also affects the financial stability of future generations.

This is because assets have what has been called a "transformative power" in transmitting financial stability and security across generations. This transformative power gives current generations an important safety net and future generations a head start. A family with assets is better able to support children through college, to help them make a down payment on a house, to invest, and to weather unpredictable economic circumstances, such as job loss or illness. In addition, some studies suggest that asset ownership leads people to develop attitudes that are commonly associated with being middle class, such as participating more in civic life and expecting that one's children will go on to college.

One of the most devastating outcomes of the Great Recession was the loss of assets for many middle-class families. American families lost a generation's worth of wealth in the recession. The median American family lost 39 percent of its net worth, erasing any wealth gains since 1992.[30] Today the millions of middle class families who are struggling to start over have something directly in common with the working poor who are struggling to build assets for the first time.

In the past, home equity and savings provided a buffer against hard times and decreased household economic stability. Yet in recent decades, financial deregulation and the aggressive marketing of toxic loans have preyed on Americans' aspirations to build assets, fueling an unsustainable housing bubble that began to deflate in 2006. The bubble and the economic crash that followed decimated the wealth of American families, causing millions of homeowners to lose their single largest asset to foreclosure and tens of millions of others to see their homes' value drop dramatically. The crash hit those who had carefully saved and invested in their homes as well as speculators who gambled on a rising real estate market.

Overall the nation has lost more than $6.5 trillion in home equity since the housing market peaked in 2006.[31] While the recession is officially over, housing foreclosures continued to destroy wealth on a large scale in 2012. In 2012, Americans lost $192.6 billion in housing wealth due to foreclosures. That is equivalent to an average of $1,700 per household.[32] Communities of color have been particularly and disproportionately hard hit, exacerbating the long-standing racial wealth gap. (See sidebar on "The Impact of The Housing Market Collapse on the Racial Wealth Gap.")

The recession has also decimated the value of retirement savings as the stock market plummeted, destabilizing hopes for a secure retirement. Not having enough money for retirement has become Americans' biggest financial worry.[33]

The dramatic and long-lasting rise in unemployment and underemployment has contributed to Americans' difficulty paying back their debts. Household debt-to-income levels were at a record high when the recession hit. As the recession came into force Americans had increasingly turned to borrowing – from credit card debt to loans against the value of their homes – to make ends meet and to try to get ahead.

The average credit card debt among low- and middle-incomes households was $7,145 in 2012. Forty percent of these households reported using credit cards to pay for basic living expenses such as rent or mortgage bills, groceries, utilities, or insurance, in the past year because they did not have enough money in their checking or savings accounts. Unemployment and medical bills were among the leading contributors to credit card debt.[34]

When new credit abruptly became less available as a result of the financial crisis, old debts were harder to pay off. To make matters still worse, the deregulation of consumer lending meant that many loans included deceptive and predatory terms. Americans were aggressively sold on high interest credit cards with hidden fees, abusive payday loans, misleadingly marketed adjustable rate mortgages, and high-interest subprime loans (even for homebuyers who could have qualified for a better rate). The combination of declining assets and unmanageable debts turned into a perfect storm for the U.S. economy, miring the nation in a prolonged economic downturn.

To help American families build or rebuild the assets key to middle-class security, provide a means out of debt for those who are hopelessly burdened, and ensure that future lending is fair and transparent, we propose policies which include:

American Retirement Accounts – Create voluntary annuitized pensions with a guaranteed minimum rate of return to increase Americans' retirement security.

Fairness in Bankruptcy Act – Allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt.

Borrower Security Act – Ensure the nation's lending industry provides credit to individuals on fair and responsible terms by creating a floating federal usury limit and capping loan penalty fees. Together, these proposals give those seeking entry to the middle class an opportunity to accumulate savings and build security without becoming trapped by ruinous debt.

Create a 21st century Home Owners Loan Corporation (HOLC) that would restore the direct relationship between debtor and lender that has been lost through the use of collateralized debt obligations and other complex financial instruments. A modern HOLC would be able to interact closely with borrowers and provide for the refinancing of their mortgages on a cooperative, case-by-case basis.

Address discriminatory mortgage lending practices by developing clear guidelines about what constitutes a predatory loan, regularly auditing the loan portfolios of financial firms against these criteria, creating more comprehensive scrutiny of fairness in lending, and requiring mortgage lenders to be fully transparent and disclose to applicants the range of products for which they are eligible based on credit score qualification.

Conclusion

In the aftermath of decades of increasing income inequality and of 2008 economic recession, the challenges and hardships facing lower-income and middle class Americans have grown more severe. These challenges make it harder to move from poverty into the middle class, and to experience middle class financial stability. Today's dire circumstances can serve as a rallying point to unite the needs of poor and middle class families and renew our commitment to policies that support widespread economic health.

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