

## Who or what is the middle class?

Economic data can't fully explain why so many feel financially squeezed

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When politicians, economists, academics and journalists try to assess the current economic status of the "American middle class," the debate often begins with a question that some concede is all but impossible to answer: Who, exactly, is middle class in America today?

One way to find out is to ask Jerry Orzechowicz, a salesman in the hospitality industry, who lives in Merrillville, Ind., population 30,000, tucked in the northwest corner of the state, about 35 miles outside Chicago.

"I'm about as middle class as you can get," he said.

Orzechowicz and his wife, who also works, earn a combined annual income of between \$70,000 and \$90,000 and have two kids, one of whom is still in college. They own their own home, four cars and four TVs — including a high-definition widescreen model with surround sound.

Orzechowicz says just about anyone living on \$50,000 a year can enjoy a middle-class existence in his neighborhood, which is why he says he's puzzled when he hears that it's getting harder to maintain that lifestyle in America.

"You can have a house and pay the bills and put food on the table and save a little and take a little vacation once a year," he said. "To me, that's maybe lower end of the middle class, but it's better than 98 percent of the people in the world."

### Despite income of \$100,000, 'We are squeezed tight'

But many Americans who consider themselves middle class told msnbc.com they do feel financially squeezed. One of them is Kathy McClain, a wife and mother of three teenagers in Westbrook, Maine.

McClain and her husband have a combined income of \$100,000 a year, which leaves about \$80,000 after paying income and property taxes. They have no credit card debt, don't take expensive vacations, and she drives a 9-year-old car. Tuition for their oldest child, now at the state university, costs another \$16,000. The family makes too much for her to qualify for work-study.

"I can tell you quite honestly that we are squeezed tight," she said in a recent e-mail. "We live paycheck to paycheck. Yet, by all standards, we are doing well."

The varied experiences of Americans who consider themselves middle class aren't really surprising. As economic and social forces buffet families chasing the American Dream, there's disagreement among the experts who crunch the numbers about how just well or poorly this group is faring — or even who they are.

There is near-universal agreement that the gap in wealth between the richest American and the poorest is widening to levels not seen in nearly a century. But that doesn't tell you much about how those in the middle are faring.

Data aside, being "middle class" in America today appears to be mostly a state of mind. And there are very real sources of anxiety for those who aspire to a comfortable middle-class life in America.

### Congress to the rescue?

With the campaign season gearing up, there's a great deal of talk about the need for government to take a greater interest in this key demographic group. In theory, that's where the bulk of American voters are. So earlier this year, Congress asked its research service to come up with a definition of middle class.

The researchers started by looking at income levels. Based on 2005 Census Bureau reports, some 40 percent of the nearly 115 million households in the U.S. earned less than \$36,000 a year. That represented just 12 percent of all income. The 40 percent on the next rung up the economic ladder took in between \$36,000 and \$91,705 — or about 37.6 percent of all income. The top 20 percent, who made \$91,705 or more, collected half of all income.

But those numbers don't adequately reflect the state of mind of those who consider themselves middle class. Surveys have shown that, while people consider \$40,000 a year to be the low end of what it takes to buy a middle-class life, some people who make as much as \$200,000 a year still consider themselves middle class, the researchers said.

In the end, they wrote, "There is no consensus definition of 'middle class'; neither is there an official government definition. What constitutes the middle class is relative, subjective and not easily defined."

For one thing, the report noted, there's little agreement on how many households above or below the midpoint should be included in the standard definition of the middle class.

### **Neighbor's paycheck as important as your own?**

But it turns out that the size of your neighbor's paycheck may be as important as your own in determining how you view your place on the economic ladder. You may feel comfortably middle class — with two cars in the driveway and a big screen TV — until the guy across the street pulls up in his third car to install a second widescreen TV. (The researchers call this the "relative income hypothesis.")

"Being well above the bottom is a source of satisfaction," the CBO report concludes. "But when those at the upper end of the distribution fare better than (you) do, it is a source of consternation."

And with the upper end of that distribution rising further and faster than in the past, it's easier for those in the middle to feel like they're falling behind.

Another reason for middle class "consternation" is that income tells only part of the story: the cost of maintaining a middle-class lifestyle depends heavily on where you live. A family in Wichita, Kansas, where the median price for an existing home is about \$110,000, has a much better shot at a comfortable middle-class life than a family in San Francisco where — housing slump or no housing slump — the median home price is \$846,800.

### **The link between housing costs and schools**

As the biggest single line in the typical household budget, the cost of housing has played another important role in the financial squeeze reported by many families in the middle. One of the key aspirations of middle-class families is to provide their children with the good education they'll need to maintain — or exceed — their standard of living when they enter the work force. With local schools funded largely through property taxes, living in a nice neighborhood has come to mean more than having a nice house, according to Robert Frank, a Cornell economist and author of "Falling Behind: How Rising Inequality Harms the Middle Class."

"You can say, 'Well, I don't care about having a big house, I'd rather live within my budget and feel secure financially,'" he said. "If I go that route, my kids go to schools where they've got metal detectors, and they don't do well in school."

The financial security of middle-class Americans has also been strained by the rising cost of higher education, which has risen faster than overall inflation for much of the past decade.

Health care costs also have outstripped inflation; the cost of a catastrophic illness can quickly knock a middle-class household into another, better-defined economic category: poverty. And while many middle-class Americans a generation ago relied on their employers to fund their retirement, that burden has now shifted heavily to the wage-earners themselves.

### **The paradox behind the data**

Despite these added burdens, there's a paradox that doesn't show up in the numbers. Though middle-class life in America isn't what it used to be, in many ways it's much better.

Health care may be more expensive, but modern medicine can do much more: Americans are living longer and healthier lives. Our houses, on average, are bigger (over 2,300 square feet, up 40 percent since 1980) with more cars in the driveway. Those cars are safer, last longer and are loaded with technology and features once available exclusively to the wealthiest buyers of luxury cars — from antilock brakes to GPS navigation systems.

Modern conveniences that were unimaginable a generation ago, from wireless phones to the Internet to hundreds of channels of home entertainment, are available to most Americans. The modern global supply chain brings a cornucopia of basic, affordable products — from year-round fruit shipped from both hemispheres to cheap textiles made in low-wage, developing countries.

"A middle class person today lives better than the wealthiest individual who lived 100 years ago," said Mark Zandi, chief economist with Moody's Economy.com.

Americans also have more to spend. Census data show that the median income has risen steadily, with temporary setbacks, over the past 60 years as "the real reward for an hour of work has more than tripled," according to a February speech by Federal Reserve Chairman Ben Bernanke. In 1947, median family income, in 2004 dollars, stood at just \$22,500, according to the Census. By 1973, that figure had doubled, and continued to rise to \$57,500 by the year 2000.

### **Upward march of income stalls**

Those advances began to stall at the turn of the millennium, for reasons that are the subject of much speculation

among economists. There's some evidence that the decline may be caused by the lingering effects of the 2001 recession. Every major recession since World War II has been followed by a drop in median income from which it has taken between three and seven years to recover. But others suggest the lull in income growth could be the result of a more fundamental shift in the economy.

One trend that is all but universally accepted is the widening wealth disparity between those at the very top and bottom. Even as incomes in the middle have gone up, the gap between richest and poorest has gotten wider — both in America and around the world. That means that those at every level see more wealth flowing to people in income groups above them. And that could help explain why, even as everyone's standard of living is going up, many of those in the middle feel like they're falling behind.

Though middle class status may be largely a state of mind for many Americans, some have clearly lost ground due to specific, harsh economic circumstances that have sent them falling abruptly down the ladder. The decline of unionized labor in the past several decades has given employers more flexibility to increase productivity and adapt to rapid technological change and increased competition. But it has also devastated those workers who have been displaced from high-wage jobs and don't have the skills they need to find a new one with comparable pay and benefits.

Now globalization poses a similar threat to the financial security of American workers whose jobs are "outsourced" to lower-wage, developing countries. Much of the credit for the current strength in the global economy goes to the elimination of trade barriers and the increased interdependence of producing and consuming countries. But if the economic benefits of that global growth flow only to a smaller and smaller group at the top, the backlash from those left behind could threaten the continued expansion of global trade, according to Zandi.

"Globalization is a fabulous thing. It raises everyone's standard of living — it's a net benefit to the global economy," he said. "But there are losers. And if we don't take care of the losers — if we don't allow their standard of living to remain within some striking distance of the winners — then they could very well short-circuit the entire process."

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