

What's Hurting the Middle Class

The myth of overspending obscures the real problem

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►► On April 20, 2005, George W. Bush signed into law a bankruptcy bill that had been pending in Congress for eight years. The bill was written by credit-industry lobbyists, shopped to their friends in Congress, and supported by tens of millions of dollars in lobbying and campaign contributions. It might be dismissed as just one more piece of highly focused special-interest legislation except for the damaging vision of middle-class America that it reinforced: irresponsible people consumed by appetites for goods they don't need, who think little of cost, and who would rather file for bankruptcy than repay their lawful debts. More than just a giveaway to the credit-card companies, the bill was a moral judgment against the bankrupt.

As American families have sunk deeper into debt, they have endured relentless criticism from economists and sociologists, lobbyists and politicians, and the popular media. The accusations are sharp, the assertions are confident and unambiguous, and the tone of condemnation is unmistakable.

The economist Robert Frank claims that America's new "luxury fever" forces middle-class families "to finance their consumption increases largely by reduced savings and increased debt." The documentary filmmaker John de Graaf, the Duke economics professor Thomas Naylor, and the former EPA analyst David Wann write in *Affluenza: The All-Consuming Epidemic (2001)*, "It's as if we Americans, despite our intentions, suffer from some kind of Willpower Deficiency Syndrome." The economist Juliet Schor, a frequently cited documenter of consumer irresponsibility, writes that American families are buying "designer clothes, a microwave, restaurant meals, home and automobile air conditioning, and, of course, Michael Jordan's ubiquitous athletic shoes, about which children and adults both display near-obsession."

Senator Orrin Hatch (R-UT) has said that millions of Americans are bankrupt or near-bankrupt because "they run up huge bills and then expect society to pay for them." He is joined by the federal judge Edith Jones—long rumored to be a potential Bush appointee to the Supreme Court—who has written (with the law professor Todd J. Zywicki) that "bankruptcy is increasingly seen as a big 'game,' with the losers being those who live within their means, while the bankrupts pursue more interesting and carefree lives."

The press sounds the same notes. *Newsweek* ran a cover story in 2001 about Americans drowning in debt. The reason for families' distress? "Frivolous shopping is part of the problem: many debtors blame their woes squarely on Tommy, Ralph, Gucci, and Prada." *Money* magazine, in 1990, focused on the

home: “A generation or so ago . . . a basic, 800-square-foot, \$8,000 Levittown box with a carport was heaven. . . . By the 1980s, the dream had gone yupscale. Home had become a 6,000-square-foot contemporary on three acres or a gutted and rehabbed townhouse in a gentrified ghetto.”

And what have Americans gotten for all their spending? Schor writes that as the brand-name competition among neighbors has intensified, “support for public goods, and for paying taxes, has eroded”—“public goods” that include “education, social services, public safety, recreation, and culture.” De Graaf, Naylor, and Wann sum it up in their definition of “affluenza”: “a painful, contagious, socially transmitted condition of overload, debt, anxiety, and waste resulting from the dogged pursuit of more.” Americans’ profligate spending has dug them into a hole from which they may never climb out. Or so say the critics.

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The over-consumption story gets a big boost from current economic data. First, families have more money to spend. The typical two-income family today earns nearly 75 percent more than their one-income parents earned a generation ago.

Family income rose not because men are, on average, making more money (they are not) but because millions of mothers decided to enter the work force. Over the course of a few decades, the change has been revolutionary. As recently as 1976 a married mother was more than twice as likely to stay home with her children as to work full-time; by 2000 she was half as likely. Today mothers are going back to work much sooner after their children are born. A mother with a three-month-old infant in 2001 was more likely to be working outside the home than a woman with a five-year-old child in the 1960s. And in 1965 only 21 percent of working women were back at their jobs within six months of giving birth to their first child. Today that figure is higher than 70 percent.

Compared with the families of the early 1970s, today’s have more to spend, and the data suggest they have done just that—spent it. Even as family incomes have risen dramatically over the past generation, the family savings have fallen.

But families are not just spending more of what they earn, they are also spending what they have not earned. A generation ago, the typical family owed about five percent of its annual income in consumer debt—non-mortgage debt such as car loans and credit cards. Today such debts add up to more than a third of total annual income.

The shift in spending patterns has taken a terrible toll on American families. Today there are five times as many families filing for bankruptcy as there were in the early 1980s. Home foreclosures have more than tripled in less than 25 years. Nearly half of families with credit cards report that they cannot afford to pay more than their minimum monthly payments. One in every three families with an income above \$35,000 reports owing medical bills they cannot pay.

This financial distress hits the middle class hard. It is middle-class homeowners who lose their houses to foreclosure—people who once saved enough money for a down payment, who showed that they had steady enough incomes to make monthly payments, and who survived the most rigorous credit screen imposed in consumer financial markets. It is the people in the middle—not the richest or the poorest—who accumulate the most debt on their credit cards. It is these same people who seek relief in the bankruptcy courts.

These data compose a deeply disturbing picture. Tens of millions of American families—middle-class people with decent educations and respectable occupations—are living on the edge of a financial cliff. Some will hang on, and others will plunge over.

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If families are making more money than ever and are still in financial trouble, surely the critics are right: Americans are overspending, then overborrowing, and then avoiding the consequences by declaring bankruptcy. But the data tell a different story.

For more than a century, the federal government has been collecting information on household spending. It is possible, for example, to find out how much Americans have spent annually on distilled spirits since the 1850s. Here our focus is on changes in spending over a single generation, sorted by spending categories and family size—adjusted for inflation, but not for the increase in family income. If the problem is that today's families are blowing their paychecks on designer clothes and restaurant meals, then the data should show that more is being spent on these frivolous items than ever before.

Start with clothing. The stories of Americans overspending on clothing are familiar: the malls are overflowing, every teenage foot is clad by Adidas or Nike, and designer shops thrive selling nothing but underwear or sunglasses. Even clothing for little children now carries hip brand names, with babies sporting “Gap” and “YSL” on their T-shirts and sleepers.

And yet, when all is added up—including the Tommy sweatshirts and the Ray-Ban sunglasses—a family of four spends, on average, 21 percent *less* on clothing today than in the early 1970s, according to our analysis of data from the Bureau of Labor Statistics.

How can this be? What the finger-waggers have forgotten are the things families no longer spend money on. There's no more rushing off to Stride Rite every three months to buy two new pairs of sensible leather shoes per child (one for church and one for the week), plus a pair of sneakers for play. Today's toddlers often own nothing but a pair of five-dollar tennis shoes from Wal-Mart. Suits, ties, and pantyhose have been replaced by cotton trousers and knit tops, as “business casual” has swept the nation. New fabrics, new technology, and cheap labor have

lowered prices. Discounters like Marshall's and Target have popped up across the country, replacing the department stores of a generation ago. The differences add up. In 1973 a family of four would spend, on average, nearly \$750 more a year on clothing than such a family would today.

If Americans are not overspending on clothes, the problem must be food. Designer brands have also hit the grocery shelves, with far more prepared foods, high-end ice creams, and exotic juices. Families even buy bottled water, which would have shocked their grandparents. Besides, who cooks at home anymore? With Mom and Dad both tied up at work, Americans are eating out (or ordering in) more than ever before.

Here the over-consumption camp has it right, but only to a point. The family of four, on average, spends more at restaurants than it used to, but it also spends less at the grocery store—a lot less. Families are saving big bucks by skipping the T-bone steaks, buying their cereal in bulk at Costco, and opting for generic paper towels and canned vegetables. Those savings more than compensate for all that restaurant eating—so much so that today's family of four is actually spending 22 percent less on food overall than its counterpart of a generation ago.

Outfitting the home? The authors of *Affluenza* rail against appliances “that were deemed luxuries as recently as 1970, but are now found in well over half of U.S. homes, and thought of by a majority of Americans as necessities: dishwashers, clothes dryers, central heating and air conditioning, color and cable TV.” These gadgets may have captured a new place in Americans' hearts, but they aren't taking much from our wallets. Manufacturing costs are down, and durability is up. When the microwave oven, dishwasher, and clothes dryer are considered together with the refrigerator, washing machine, and stove, families are actually spending 44 percent *less* on major appliances today than they were a generation ago. Furniture may now be leather and super-sized, but its cost has shrunk—by 30 percent in a single generation.

What about cars? At first glance it would seem that the family car might just shatter the case against the over-consumption story. Cars now come jam-packed with features that no one had even dreamed of a generation ago. And cars cost more than ever. In the words of a Toyota salesman quoted in *Affluenza*, “People's expectations are much higher. They want amenities—power steering, power brakes as standard, premium sound systems.” At last, a big-ticket item that proves that Americans are indeed indulging in extravagances they can ill afford.

A new car today costs, on average, more than \$22,000, compared with less than \$16,000 in the late 1970s. The critics might point a triumphant finger, but they would be overlooking an important fact. Cars also last longer than they used to. In the late 1970s, the average age of a car on the road was just five and a half years. Now the average age is more than eight years. Today's families pay more for their new car than their parents did, but they hold onto it longer too. In fact, when we analyzed unpublished data from the Bureau of Labor Statistics, we

found that the average amount a family of four spends *per car* (including insurance, maintenance and so forth) is 20 percent *less* than it was a generation ago. For all the griping about those overpriced SUVs, there is little evidence that sunroofs and power windows are sending families to the poorhouse.

The over-consumption camp might still argue that families could have saved by buying cheaper cars. After all, a family doesn't *need* a new SUV with a CD player, at least not in the same way that it needs decent day care or a home in a safe neighborhood. But we pause here to offer a bit of sympathy for the much-maligned buyer of the family car. The car industry's song has changed pitch over the past generation. Glance at an advertisement from any maker of family cars, and there you'll see the new message: safety for sale. The following testimonial is featured on Volvo's Web site: "The driver of the truck lost control of his vehicle and hit me and my wife, who was five months pregnant. . . . There was much talk that 'the Volvo had saved our lives' and I'm convinced it did." Sure, maybe families could do without the twelve-speaker sound systems, but we wouldn't ask them to do without the automatic brake systems, the crash-resistant steel frames, or the dual airbags that they can get only on newer cars.

Safety standards have changed, with a real effect on the family pocketbook—and this is particularly tough for families with more than two kids. Jane Stewart, a stay-at-home mom interviewed by a parenting magazine, described the consequences of having three children under the age of five. According to many experts, the Stewarts should harness those three kids in the back seat—not just with a seat belt, but into a bulky car seat or "booster seat" designed especially for children—until they are at least *eight years old*. Stewart explained, "We have a Grand Cherokee and three car seats in the back. When the baby needs [the next-size car seat], we don't think all three will fit. Then it will be time for a Suburban or a minivan." A generation ago, the Stewarts could have fit their kids into the back seat of any sedan on the market, with room left over for the family dog. Today, even a Jeep Grand Cherokee—a car that weighs 4,000 pounds—is not big enough. The critics may be right that families don't need all those gizmos in their cars, but they should pause to remember that when transporting children, safety and space have become intertwined.

By and large, families have spent prudently on their cars, or at least as prudently as they did a generation ago. And the money they are spending is paying off: the rate of child auto fatalities has declined steadily since the mid-1970s, thanks at least in part to safer cars and better car seats. For all the criticism hurled at car manufacturers (and car buyers), it is important to note that families drive stronger, safer, more durable cars than they used to.

This is not to say that middle-class families never waste money. A generation ago no one had cable, big-screen televisions were reserved for the very rich, and DVD and TiVo didn't exist. So how much more do families spend today on "home entertainment," premium channels included? They spend 23 percent more—an extra \$170 annually. Computers add another \$300 to the annual family budget.

But even that increase looks a little different in the context of other spending. The extra money spent on cable, electronics, and computers is more than offset by families' savings on major appliances and household furnishings.

In fact, when all the numbers are added up, an increase in one category of spending is generally offset by a decrease in another. On average, a family today spends more on airline travel than it did a generation ago, but less on dry cleaning. More on telephone services, but less on tobacco. More on pets, but less on carpets. All in all, there seems to be about as much frivolous spending today as there was a generation ago.

Whether families are spending more than they should according to some moral notion—consuming too much of the world's resources or buying things they could easily live without—is not the issue at hand. These data give us no clue about the *right* amount of spending. But they give us powerful evidence that excessive consumption is not why families are going broke. There is no evidence of any “epidemic” of overspending—certainly nothing that could explain a 255 percent increase in the foreclosure rate, a 430 percent increase in the bankruptcy rolls, and a 570 percent increase in credit-card debt. A growing number of families are in terrible financial trouble, but despite the accusations, their frivolity is not to blame.

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If middle-class families have more money and aren't spending themselves into oblivion for the sake of designer water and DVDs, how did they get into so much financial trouble?

The answer begins with the most expensive and most important thing most Americans will ever buy: a home. Homes define the lives of the children who grow up within them. A home's location determines whether there will be computers in the classrooms, sidewalks to ride bikes on, and a safe front yard to play in. And a home will consume more of the family's income than any other purchase—more than food, more than cars, more than health insurance, more than child care. (Because the overwhelming majority of middle-class families are homeowners, this discussion focuses on the costs of owning rather than of renting.)

Everyone knows that people spend a lot more on homes than they used to. But what is easy to forget is that today's prices are not the product of some clear demographic force. Quite the opposite: in the late 1980s, several commentators predicted the spectacular collapse of the housing market. They reasoned that because the baby boomers were about to become empty nesters, pressure on the housing market would soon abate, and prices would reverse their 40-year upward trend and drop during the 1990s and 2000s by anywhere from ten to 47 percent.

The over-consumption die-hards are clearing their throats, eager to interrupt to explain that American families are spending more on their houses because they are shallow and materialistic. Where did so many people get this impression? Perhaps from the much-ballyhooed fact that the average size of a new home has increased by nearly 40 percent over the past generation (although it is still less than 2,200 square feet). But this statistic tells us only that real-estate developers have decided that building McMansions for the rich is more profitable than building Levittowns.

In fact, the size and amenities of the average middle-class family home have increased only modestly. The median owner-occupied home grew from 5.7 rooms in 1975 to 6.1 rooms in the late 1990s—an increase of less than half of a room in more than two decades. What was this half a room used for? Was it an “exercise room,” a “media room,” or any of the other exotic uses of space that critics have so widely mocked? Nope. The data show that most often that extra room was a second bathroom or a third bedroom.

The wealthy may be living in spacious new digs, but middle-class families are not. The proportion of families living in older homes has increased by nearly 50 percent over the past generation, leaving a growing number of homeowners grappling with deteriorating roofs, peeling paint, and old wiring. Today, nearly six out of ten families own a home that is more than 25 years old, and nearly a quarter own a home that is more than 50 years old.

Even as middle-class living conditions have improved only modestly, the burden of paying for a home has increased dramatically. Over a generation, the average number of rooms in a home increased by seven percent as average mortgage expenses increased by *69 percent*—at a time when other family expenses were falling. The impact of rising mortgage costs has been huge. The proportion of families who are “house-poor”—that is, who spend more than 35 percent of their incomes on housing—has quadrupled in a single generation. Today it often takes two working people to support a mortgage. A police officer or elementary-school teacher earning an average salary could not afford to pay the mortgage of a median-priced home in two thirds of the nation’s metropolitan areas.

Why such a staggering increase in the cost of housing? That is a long, separate discussion, but one point is worth underlining here: when a family buys a house, it buys much more than shelter from the rain. It also buys a public-school system. Everyone has heard news stories about kids who can’t read, classrooms without textbooks, and drug dealers and gang violence in school corridors. Failing schools impose an enormous cost on the children who are forced to attend them, but they also impose an enormous cost on those who don’t.

Talk with an average middle-class parent in any major metropolitan area, and she’ll describe the time, money, and effort she devoted to finding a slot in a decent school. In some cases, the story will be about mastering the system. In others, it will be about leaving the public-school system altogether and opting, as

middle-class parents have increasingly done, for private, parochial, or home schooling. But private schools and strategic maneuvering will only help a minority of families. For most middle-class parents, ensuring that their children get a decent education means buying a home in the small subset of well-reputed school districts.

A 2000 study conducted in Fresno, California, (population 400,000) found that, for similar homes, school quality was *the single most important determinant of neighborhood prices*—more important than racial composition, commute distance, crime rate, or proximity to a hazardous-waste site. A 1999 study conducted in suburban Boston showed that two homes less than half a mile apart and similar in nearly every aspect would command significantly different prices if they were in different elementary-school zones. Schools that scored just five percent higher than other local schools on fourth-grade math and reading tests added a premium of nearly \$4,000 to nearby homes.

Consider University City, the West Philadelphia neighborhood surrounding the University of Pennsylvania. In an effort to improve the area, the university committed funds for a new elementary school. The results? At the time of the announcement, in 1998, the median home value in the area was less than \$60,000. Five years later, according to *The Philadelphia Inquirer*, “homes within the boundaries go for about \$200,000, even if they need to be totally renovated.” The neighborhood is otherwise pretty much the same: the same commute to work, the same distance from the freeways, the same old houses. And yet, in five years families are willing to pay more than *triple* the price for a home, just so they can send their kids to a better public elementary school.

This phenomenon is not new, but the pressure has intensified considerably. In the early 1970s, not only did most Americans believe that the public schools were functioning reasonably well, but a sizable majority of adults thought that public education had actually *improved* since they were kids. Today, only a small minority of Americans share this optimistic view. The majority believes that schools have gotten significantly worse. Fully half of all Americans are dissatisfied with America’s public-education system, a deep concern shared by black and white parents alike.

Choosing the right school is not only a matter of finding the best teachers but also the safest environment. No community can protect itself completely from school violence, but the statistics show that poorer districts are more likely to encounter it than wealthier districts. According to one study, the incidence of serious violent crime—such as robbery, rape, or attack with a weapon—is more than three times higher in schools with very poor students than in those with predominantly middle- and upper-income students. Often, the crime rate is higher in a city than in its suburbs. For example, a person is *ten times* more likely to be murdered in Center City Philadelphia than in its suburbs and 12 times more likely to be murdered in central Baltimore than in its suburbs. The overall odds may remain low, but the comparison is chilling.

Perhaps the strongest evidence that parents' concern for their children's welfare has driven their spending is the relative changes in housing prices for parents and non-parents. The federal government has not reported the data for the full 30-year period we have been examining, but looking at the period from 1984 to 2001 we see that housing prices for families with at least one minor child at home grew at a rate three times that of other families.

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Apart from high mortgages, three other major types of expenses are worth singling out as new burdens for the middle class. We have considered one of them already: the higher cost of cars. Yes, the per-car cost has dropped, but with Mom joining the work force and families living farther than ever from city centers, the second car has become essential for many. The family on average now spends an additional \$4,000 every year to buy, lease, and maintain all its cars.

The rising cost of health care has also taken a bite out of the family budget, even for healthy families. In one generation, the average out-of-pocket cost of employer-subsidized health insurance has jumped by about 90 percent. And a growing number of families are offered no employer-subsidized health insurance at all; they must either buy health insurance on the open market or forgo it altogether. In recent years, the number of middle-class families with no health insurance has grown precipitously.

One last inescapable expense is taxes. With two people in the work force and a higher income, today's median-earning family pays more in taxes. Indeed, here's where the adjusted-for-inflation comparison of families across generations paints a misleading picture. Families making less back in the early 1970s were paying less in taxes; today, inflation has also pushed them into a higher income bracket, and they are paying more in sales taxes, property taxes, Medicare, and a host of other taxes. The total tax burden for today's two-income family is about 38 percent larger than that of their one-income counterparts of a generation ago.

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The over-consumption story dominates every discussion of the financial condition of America's families, but when all the changes in family spending over the past generation are added up, a very different picture emerges. Families are spending less on luxuries and more on the basics of being middle-class. Even with two people in the work force, today's families trail those of a generation ago in the struggle to make ends meet—to pay for their homes, health insurance, transportation, and child care.

But the new family budget is notable for another reason: it is far more deeply leveraged. A generation ago, the one-income family committed about 54 percent of its pay to the basics—housing, health insurance, transportation, and taxes. That is, the one-income family spent about half its income to make the “nut”—the

basic expenses that must be paid even if someone gets sick or loses a job. Today, these basic expenses, including child care so that both parents can work, consume 75 percent of the family's combined income. With 75 percent of income earmarked for fixed expenses, today's family has no margin for error. There is no way to cut back if one person's working hours are cut or if the other gets laid off. There is no room in the budget if someone needs to take a few months off to care for Grandma, or if someone hurts his back and can't work. The modern American family is walking on a high wire without a net; they pray there won't be any wind. If all goes well, they will make it across safely: their children will grow up and finish college, and they will move on to retirement. But if anything—anything at all—goes wrong, they are in big, big trouble.

The expenses laid out here are averages, and plenty of families manage to pay less. But the low-cost alternatives are few and often risky. Consider child care. Government statistics show that the average amount a family of four spends on after-school care is lower than the \$4,350 cited above. The number reported here is calculated from the reports of families who pay for their child care, but the government includes children who have a grandmother or an older sibling who watches them for free. This is a great way for those lucky families to save some money, but it is not an option for most families. For them, lower cost means lower quality of care—an unlicensed neighbor who parks several children in front of her television or an overcrowded center with barely passable facilities. And the cost of child care is rising—by 19 percent from 2000 to 2003 alone.

There are other ways families could save money. They could live without health insurance and pray for the best (as do millions). Or they could give up the house and move into an apartment in a marginal neighborhood. There are always options, but for families with children, these options signal that their middle-class lives are slipping away.

If all goes well, many families will squeak by. They will even get a breather when their children are old enough to be left alone after school. But when the first child heads off to college, the family's budget will be squeezed harder than ever as they search for the money to cover room, board, and tuition at the local state university. If they are lucky, they will have set something aside during the intervening years, and they will find a way to put their kids through college. And when they hit their mid-to-late 50s, these couples may begin to think about putting something away for their retirement—30 years later than a financial planner would recommend.

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Why does the over-consumption myth persist? Why does a story of misbehavior and irresponsibility win out over a story of hard-working people who get caught up in job losses, medical debts, and family breakups? Why is there no acknowledgement that financial misfortune is often a matter of bad luck, and that

the long lines at the bankruptcy courts and the high rates of credit-card default have little to do with irresponsible spending?

One explanation is political. High-interest credit-card issuers and sub-prime-mortgage lenders operate only because a careful combination of deregulation and protective regulation permits creditors to charge fees and interest rates that would have landed them in jail less than 25 years ago. If millions of Americans believed that families were losing their homes because of deceptive marketing and oppressive contract terms, there would be a public outcry to change the regulations that favor banks over consumers. But as long as Americans believe that the only people in financial trouble are the spendthrifts, there is no reason to restrict the lenders. Everyone is getting just what he deserves.

Here is how the political maneuvering over the bankruptcy laws has unfolded. For many families with extremely high unpaid debts, their only remedy is personal bankruptcy. When families declare bankruptcy, federal law requires that their credit-card issuers and payday lenders cease collection, and the debts will most likely be discharged. The credit industry drafted a long series of amendments to the bankruptcy laws, amendments that make it more expensive to file, exclude more families from protections, and scale back relief.

The bill received widespread support in Congress, carefully couched in tones of moral condemnation. Senator Hatch, for example, insisted that individuals must “take personal responsibility for their debts.” Hatch probably wasn’t thinking of the medical debts that pile up when someone gets sick and has no health insurance. He wasn’t thinking of the money it takes to pay for food, clothes, or electricity when someone loses his job. When Hatch talks about people who “run up huge bills and then expect society to pay for them,” he is speaking the language of the over-consumption myth.

Senator Hatch may be motivated by a desire to help his strong financial supporters in the consumer-credit industry, but his reasons may also be ideological. The idea that families are in financial trouble because they spend irresponsibly is deeply intertwined with the politics of personal responsibility. This ideology is seductive, and has even moved conservatives who generally believe in restricting government powers to embrace changes to the bankruptcy laws that expand government intervention to help private lenders. By occupying bankruptcy courts with a debtor-by-debtor analysis of earning and spending, these politicians hope to issue a warning to other families not to spend wastefully.

The advancement of an ideology can also be bought from less sympathetic politicians through campaign contributions, as an analysis by the Princeton political scientists Steven Nunez and Howard Rosenthal has shown. In examining a credit-industry-supported amendment to the bankruptcy laws, Nunez and Rosenthal argue that support for the bankruptcy bill among Republicans was largely a matter of ideology. Among Democrats, they conclude that there was a significant correlation between votes and campaign contributions. (Nunez and

Rosenthal also recognize that the issue of middle-class bankruptcy maps only approximately onto liberal and conservative ideology, and that therefore the public acceptance of the over-consumption myth could have powerful effects: “If public opinion tilts toward a view that it is necessary to discipline a minority of profligate, strategic debtors, then the industry bill should attract broad support.”)

The credit industry has good reason to spend money to influence changes in bankruptcy law. Over the past decade, investor profits on credit-card debt have outstripped every other form of lending—even after all the bad debt and bankruptcy losses are taken into account. A multi-billion-dollar wealth transfer has, in fact, taken place, but not the one the credit-card industry claims. Families that have lost jobs, families that have no health insurance, and families that have split apart through divorce or death have paid billions to credit-card companies and their investors. And it is worth noting that across the United States, half of all families have not one dollar of savings put aside for their retirements, and 73 percent have not one dollar in the stock market. Paying dearly for consumer credit has not created a wealth transfer within the middle class, but rather a transfer from working families to upper-income families.

Politics and ideology help to sell the over-consumption myth, but perhaps it also survives because it is comforting. The families who fall into financial ruin are ordinary. Their circumstances are ordinary: job loss, medical problems, and family breakups are cited in nearly 90 percent of bankruptcies. Perhaps the over-consumption myth is a prayer. It nourishes the idea that families who have lost their financial footing are different from us. If we can believe that those in serious trouble are morally suspect, it is easier to glance away from the dangers of everyday life. Those of us who clip grocery coupons, who would never buy \$200 sneakers, and who always buy in bulk are surely protected from the sudden jolt that sends people reeling out of the middle class. Thus we avoid that terrifying moment of connection with a person caught in a financial disaster, that frightening realization: there but for the grace of God go I.

The over-consumption myth may be little more than a fairy tale, but it has the power to maroon families—both emotionally and financially—just when they most need support. And it has the power to distract attention from people’s real vulnerabilities. Changes are needed to increase the safety of the middle class; even modest ones could make a big difference. But change requires a consensus that something is wrong. So long as Americans can be persuaded that families in financial trouble have only themselves to blame, there will be no demand to change anything. If we are to get on with the difficult business of protecting middle-class families, the over-consumption myth must be laid to rest for good.

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As we set aside the over-consumption myth, we need a meaningful agenda for change. Describing that agenda would require volumes, but its basic ideas are

simple. They pinpoint where middle-class families are vulnerable and how the government can best help them.

Credit. Each year millions of families are trapped by credit-card issuers and mortgage lenders that market deceptive products and use unscrupulous billing practices. America needs to develop product-safety standards for credit cards and mortgages, just as we have for all other consumer products. No one can sell a toaster in the United States that has a one in 11 chance of burning down someone's home; likewise, a mortgage that has a one in 11 chance of putting someone in foreclosure should be banned. Credit products should be clear, honest, and not loaded with tricks and traps.

Schools. A failing public-school system affects more than the poor children who are trapped in it. It also puts enormous pressure on middle-class families to buy property in the right school districts, thus pushing up housing prices. Improving the quality of public education would diminish the financial pressure on middle-class families.

Preschool and college. A generation ago, we all paid taxes to support the 12 years of education we thought every child needed to be solidly middle-class. Today parents are on the hook for two years of preschool and four years of college—and they pay this out of their own pockets. Those six additional years of tuition payments are not extras; they have become part of the minimum standard of education for middle-class work. It is time to expand public education to cover the basics.

Health and disability insurance. Decent health insurance is rapidly becoming a luxury that median-earning families cannot afford. Faux insurance and no insurance are leaving millions of families one diagnosis away from financial meltdown. It is time to get serious about making health insurance affordable. And health insurance alone is not enough. National short-term disability insurance—to cover illnesses and accidents—needs to be on the agenda as well.

Savings. Creditors have spent billions of dollars to advertise the attractiveness of debt. America needs a few rules that promote family savings: checkoffs so that tax refunds can go straight into retirement accounts, easier payroll deductions, and tax incentives for all savings. It would also help if the chairman of the Federal Reserve promoted saving rather than pumping up home-equity borrowing, putting the interests of families—not the profits of banks—first.

Retirement. People must not be abandoned when they can no longer work. When a company promises an employee a pension, the government has a responsibility to make sure the company is setting enough aside to meet this obligation. Social security must remain secure, but programs to encourage saving and to buttress employer-sponsored pensions are also necessary to ensure the long-term security of the middle class.

This year another million and a half families will file for bankruptcy, and mortgage foreclosures are already hitting record numbers across the country. When George W. Bush signed the bankruptcy bill into law earlier this year, he made clear his vision that whatever troubles face American families, it is their own fault, and his plan is to punish them. America's middle class deserves better.



Elizabeth Warren is the Leo Gottlieb Professor of Law at Harvard Law School. Warren and Tyagi's article is adapted from their book *The Two-Income Trap: Why Middle-Class Parents are Going Broke* with the permission of Basic Books, a member of the Perseus Books Group.

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