Dream Hoarders: The Dangerous Separation of the American Upper Middle Class

UNLV, Brookings Scholar Lecture

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The Brookings Institution
White House: Plan to end 529 tax benefits 'was a distraction'
Pelosi/Van Hollen: Affluent, liberal districts

2015 dollars

<table>
<thead>
<tr>
<th>Area</th>
<th>Median Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco County</td>
<td>90,527</td>
</tr>
<tr>
<td>Montgomery County</td>
<td>98,314</td>
</tr>
<tr>
<td>National</td>
<td>55,775</td>
</tr>
</tbody>
</table>

Source: US Census Bureau Small Area Income and Poverty Estimates. San Francisco County roughly approximates CA-12 while Montgomery County roughly approximates MD-8.
Income distribution of families with and without College Savings Accounts, 2010

- Families with College Savings Accounts:
  - $150,000 or Higher: 47%
  - Between $100,000 and $150,000: 24%
  - Less than $100,000: 30%

- Families without College Savings Accounts:
  - $150,000 or Higher: 8%
  - Between $100,000 and $150,000: 9%
  - Less than $100,000: 82%

- Families of dependent college students:
  - $150,000 or Higher: 11%
  - Between $100,000 and $150,000: 17%
  - Less than $100,000: 72%

Source: United States Government Accountability Office (GAO), Higher Education: A Small Percentage of Families Save in 529 Plans, GAO-13-64, 2012, Figure 4; NCES, National Postsecondary Student Aid Study, 2012; PowerStats calculations by authors.
“This proposal was targeted at what may be the single most dangerous constituency to anger: the upper middle class - wealthy enough to have influence, and numerous enough to be a significant voting bloc.”
Paul Waldman, Washington Post
RICHARD V. REEVES

DREAM HOARDERS

HOW THE AMERICAN UPPER MIDDLE CLASS IS LEAVING EVERYONE ELSE IN THE DUST, WHY THAT IS A PROBLEM, AND WHAT TO DO ABOUT IT
What class are you?
We are the 99%!! Or not....

Average real household income, 1979-2013

Source: CBO
Note: Income is pre-tax.
Not just the 1%....

Average real household income, 1979-2013
Sticky ends: relative mobility

Chetty et al. 2014b mobility matrix

Source: Chetty et al. “Where is the Land of Opportunity?”
Sticky ends: relative mobility

Chetty et al. 2014b mobility matrix

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Further to fall in U.S.A.
Wealth status across generations

Figure 4.2. The Inheritance of Wealth Status

<table>
<thead>
<tr>
<th>Parents' wealth quintile</th>
<th>Percent of adult children in each wealth quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Quintile</td>
<td>44%</td>
</tr>
<tr>
<td>Fourth Quintile</td>
<td>25%</td>
</tr>
<tr>
<td>Third Quintile</td>
<td>16%</td>
</tr>
<tr>
<td>Second Quintile</td>
<td>8%</td>
</tr>
<tr>
<td>Bottom Quintile</td>
<td>6%</td>
</tr>
</tbody>
</table>


a. Net worth quintiles within ages 45-64 (N=1,975); quintile cutpoints in 2013 dollars.
A market meritocracy?

- Upper middle class status is “sticky” across generations
- This is true for income, wealth, etc.
- Why?
- Reason 1: Education and skills
- Reason 2: Opportunity hoarding
A market meritocracy?

• Upper middle class status is “sticky” across generations
• This is true for income, wealth, etc.
• Why?
• Reason 1: Education and skills
• Reason 2: Opportunity hoarding
Educational status across generations

Figure 4.3. The Inheritance of Educational Status

Source: Author’s tabulations of PSID data.

a. For more elaboration on methodology see "The Inheritance of Education". Available at https://www.brookings.edu/blog/social-mobility-memos/2014/10/27/the-inheritance-of-education/.
Upper middle class = BA
Which college? Depends on your class (social class, that is)

An upper middle class monopoly?

Class divide in college classes

- Harvard University
- UC Berkeley
- SUNY-Stony Brook
- Glendale Community College

Top 1%
White House: Plan to end 529 tax benefits 'was a distraction'
Now, back to those 529s...

Thanks, Uncle Sam!

A market meritocracy?

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Opportunity Hoarding: A Guide

- Exclusionary zoning
- Legacy admissions
- Internship opportunities
The rent is too darned high

Median rents vs. median household income, 1980-2014

Indexed: 1980 = 100

Source: Census Bureau; BLS; Haver; CEA calculations
Maybe because of this?

The growing regulation of land use

Source: Peter Ganong and Daniel Shaoq, "Why has regional income convergence declined?" Hutchins Center Working Paper 21, July 2016, Figure eight.
Hey, what happened to all that space?

Los Angeles – Zoned Residential Capacity Over Time

Source: Morrow (2016)
Legacies: “A slight tip”?

<table>
<thead>
<tr>
<th>Institution</th>
<th>Legacy Admission Rate</th>
<th>General Admission Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgetown</td>
<td>17%</td>
<td>36%</td>
</tr>
<tr>
<td>Stanford</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>Yale</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Princeton</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>Harvard</td>
<td>30%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Legacy vs. General Admission Rates
Dream Hoarders: So What?

- Reduce unintended pregnancies & births
- Invest in home visiting
- Pay K-12 teachers in tough schools more
- Shift $ from 4-year to community colleges
- End legacy admissions
- Open up internships & work experience
- Curb exclusionary zoning
Make the rich pay! Oh, wait....
“The moral indignation of the age [the Progressive Era] was by no means directed entirely against others. It was in a great and critical measure directed inward. Contemporaries who spoke of the movement as an affair of the conscience were not mistaken.”

Richard Hofstadter
RICHARD V. REEVES

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