

BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

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

UNLV, Brookings Scholar Lecture

February 8th, 2017

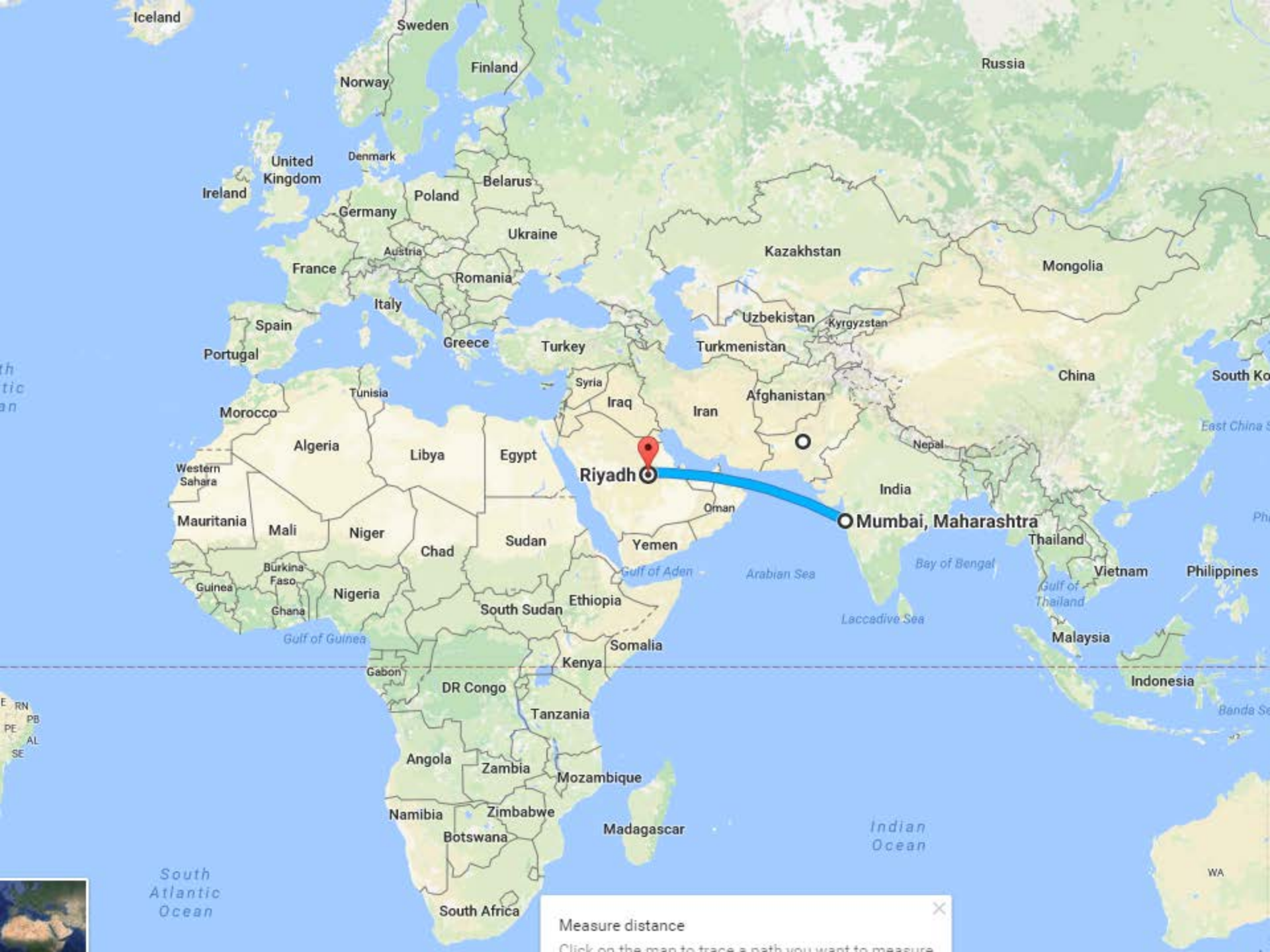
Richard V. Reeves

Senior Fellow, Economic Studies

The Brookings Institution





















REP. NANCY PELOSI

D-California





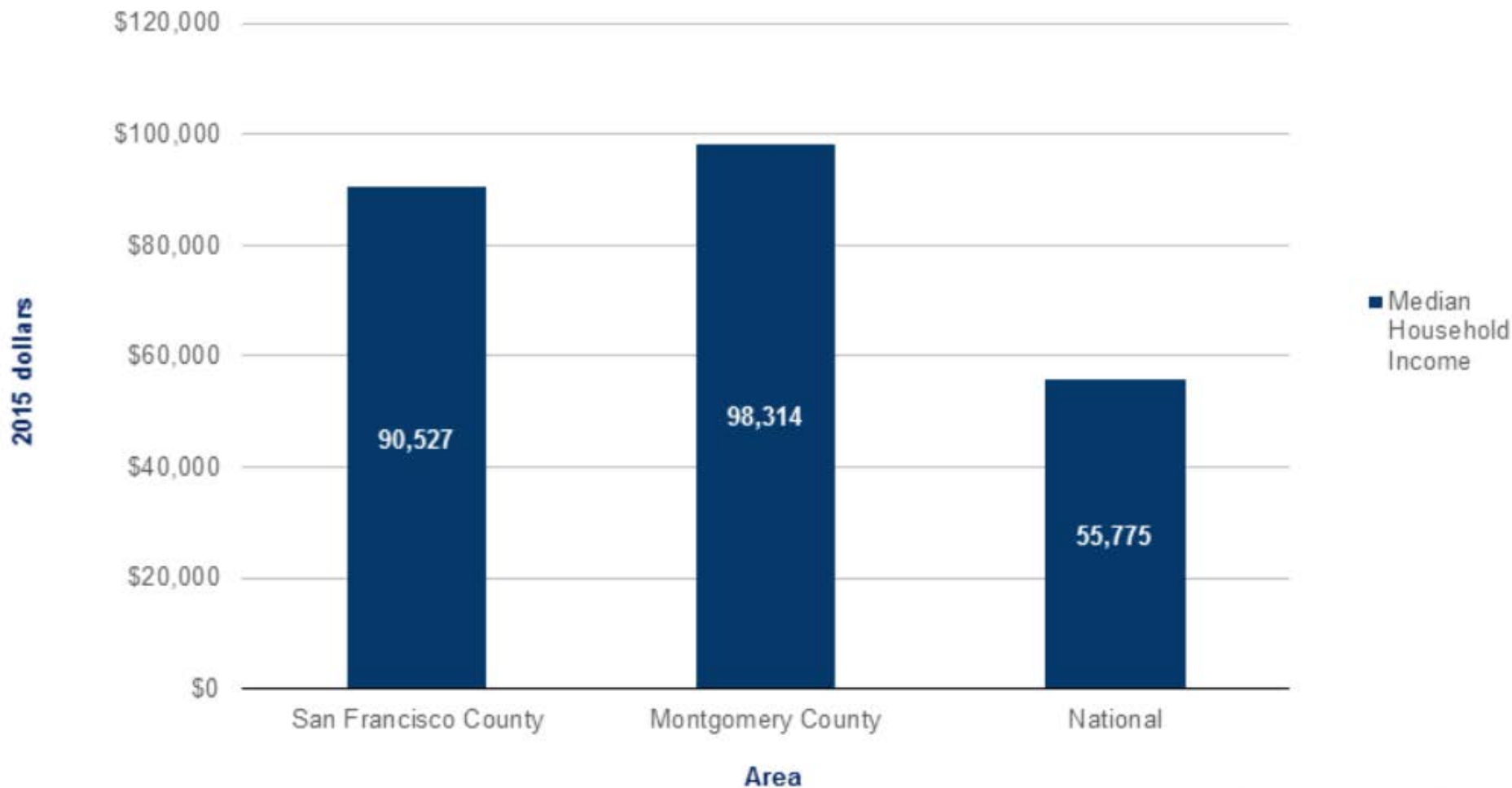


White House: Plan to end 529 tax benefits
'was a distraction'



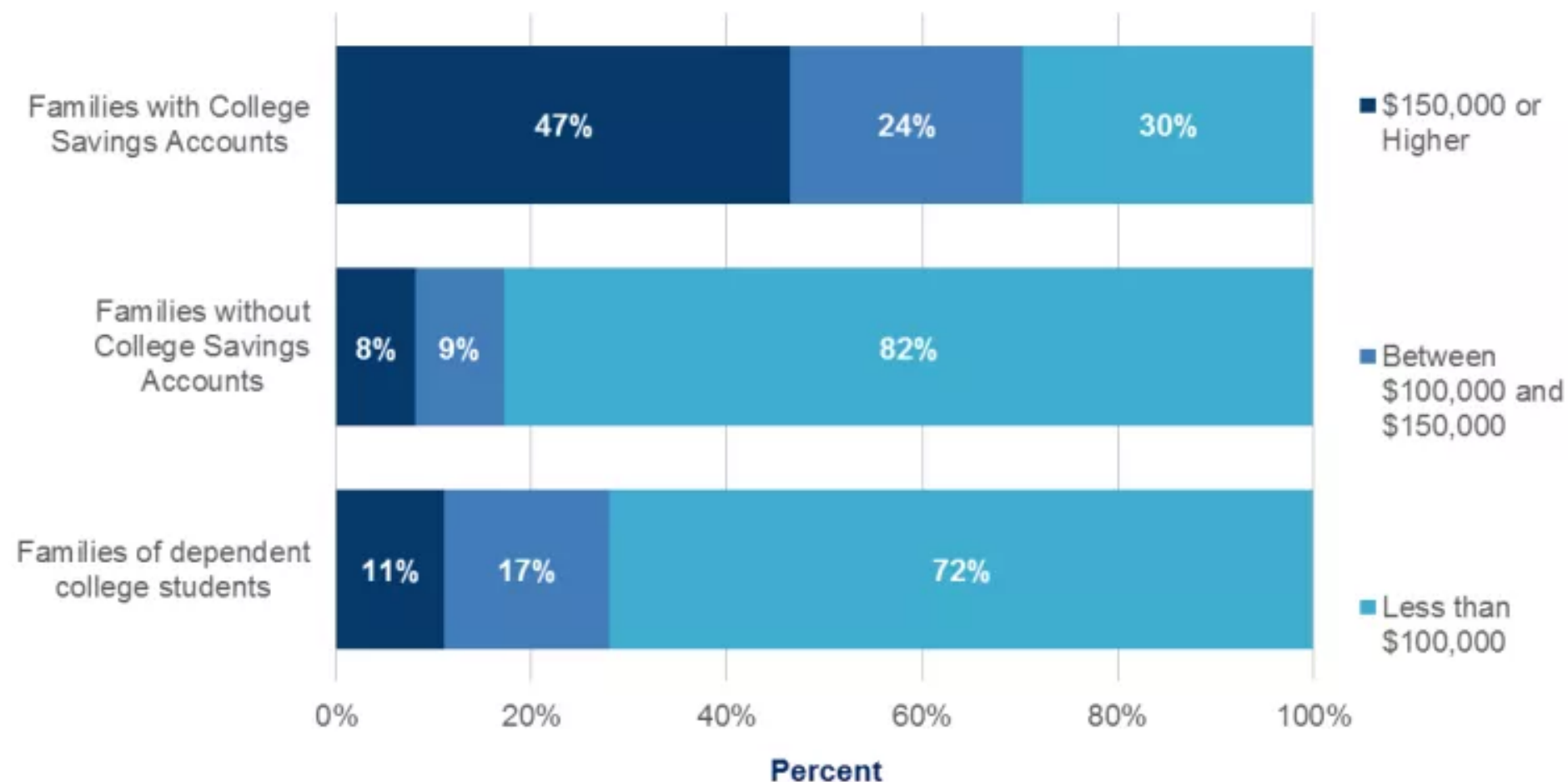
 **Play Video 2:03**

Pelosi/Van Hollen: Affluent, liberal districts



Source: US Census Bureau Small Area Income and Poverty Estimates. San Francisco County roughly approximates CA-12 while Montgomery County roughly approximates MD-8.

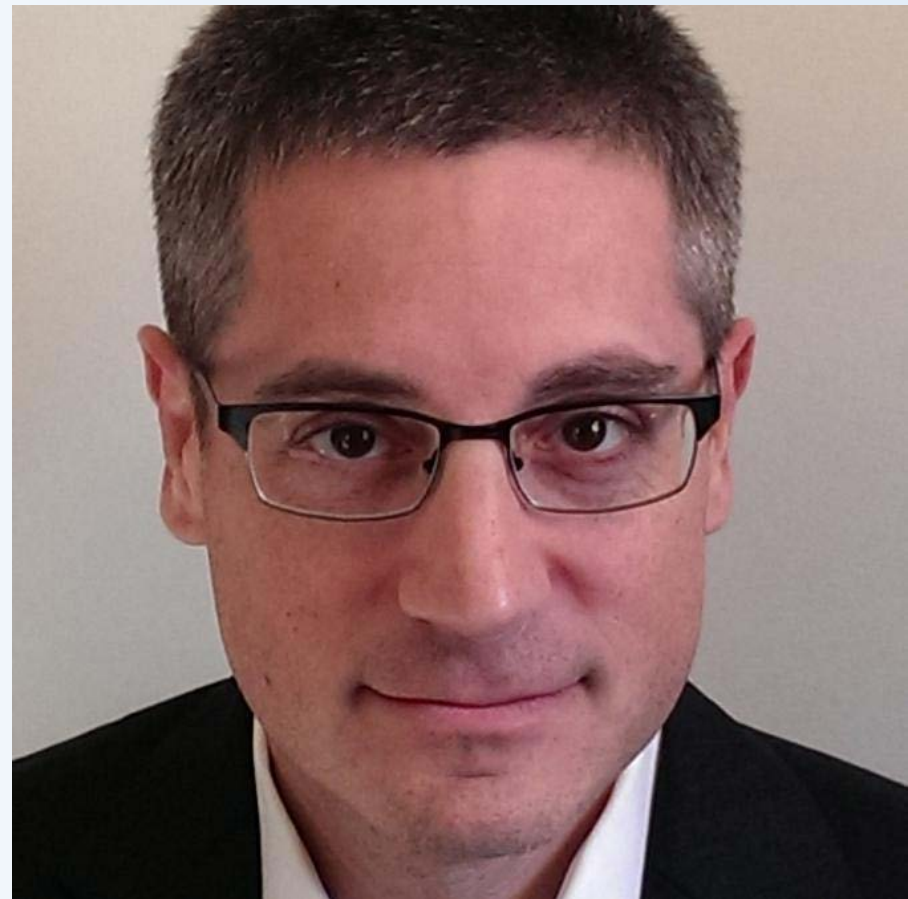
Income distribution of families with and without College Savings Accounts, 2010



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

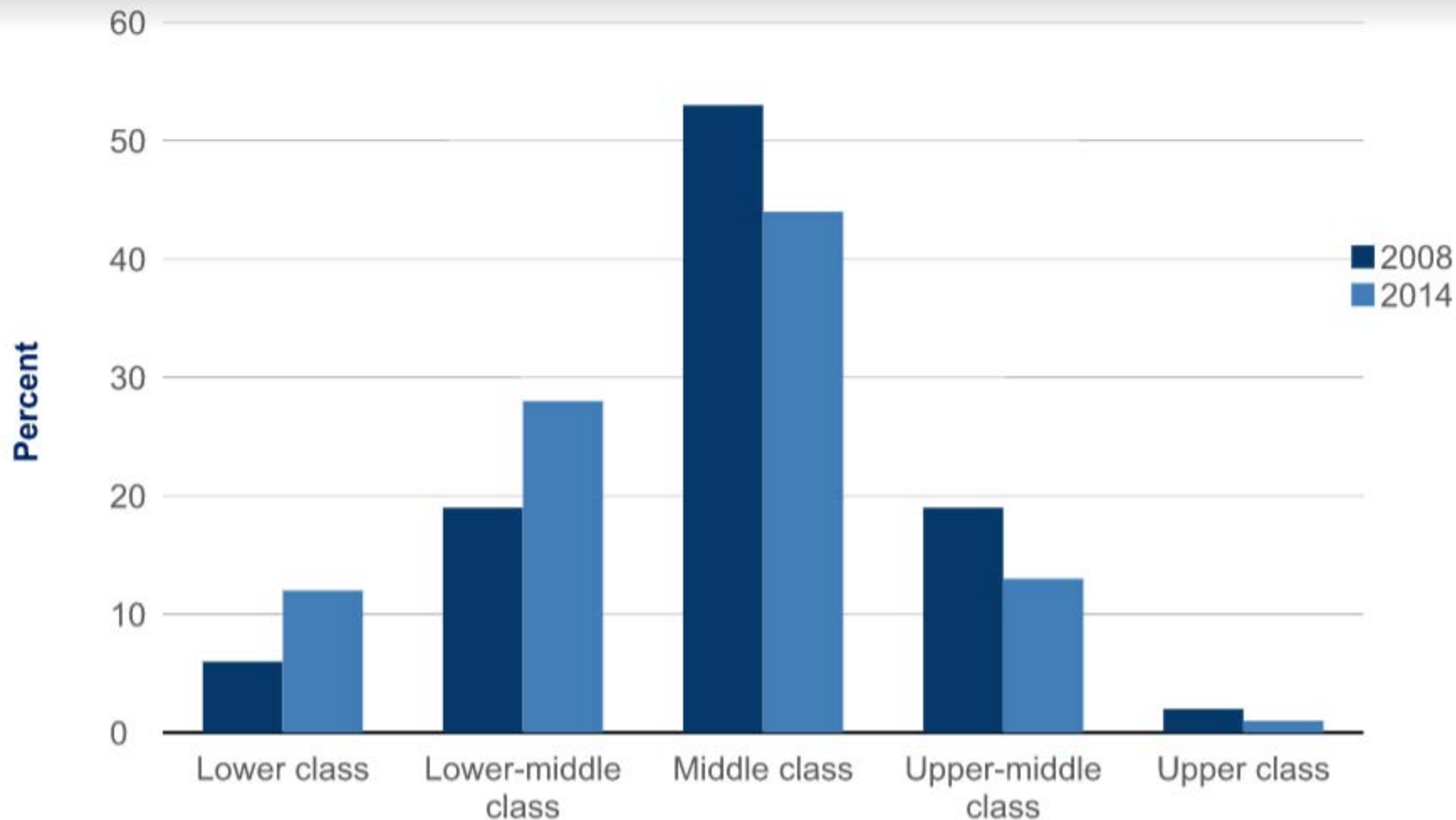
DREAM HOARDERS

HOW THE AMERICAN
UPPER MIDDLE CLASS

IS LEAVING EVERYONE
ELSE IN THE DUST,

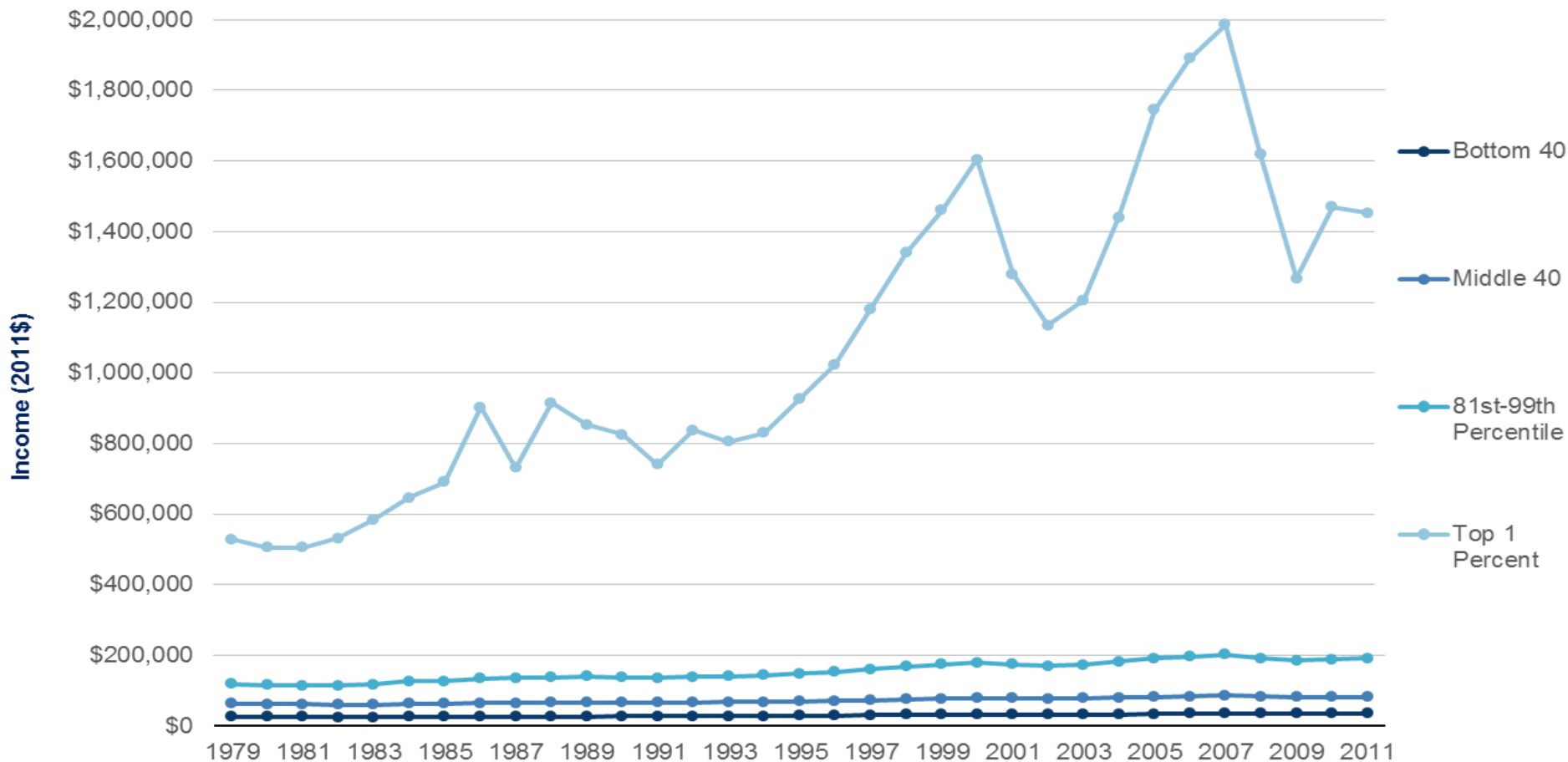
WHY THAT IS A PROBLEM,
AND WHAT TO DO ABOUT IT

What class are you?



We are the 99%!! Or not....

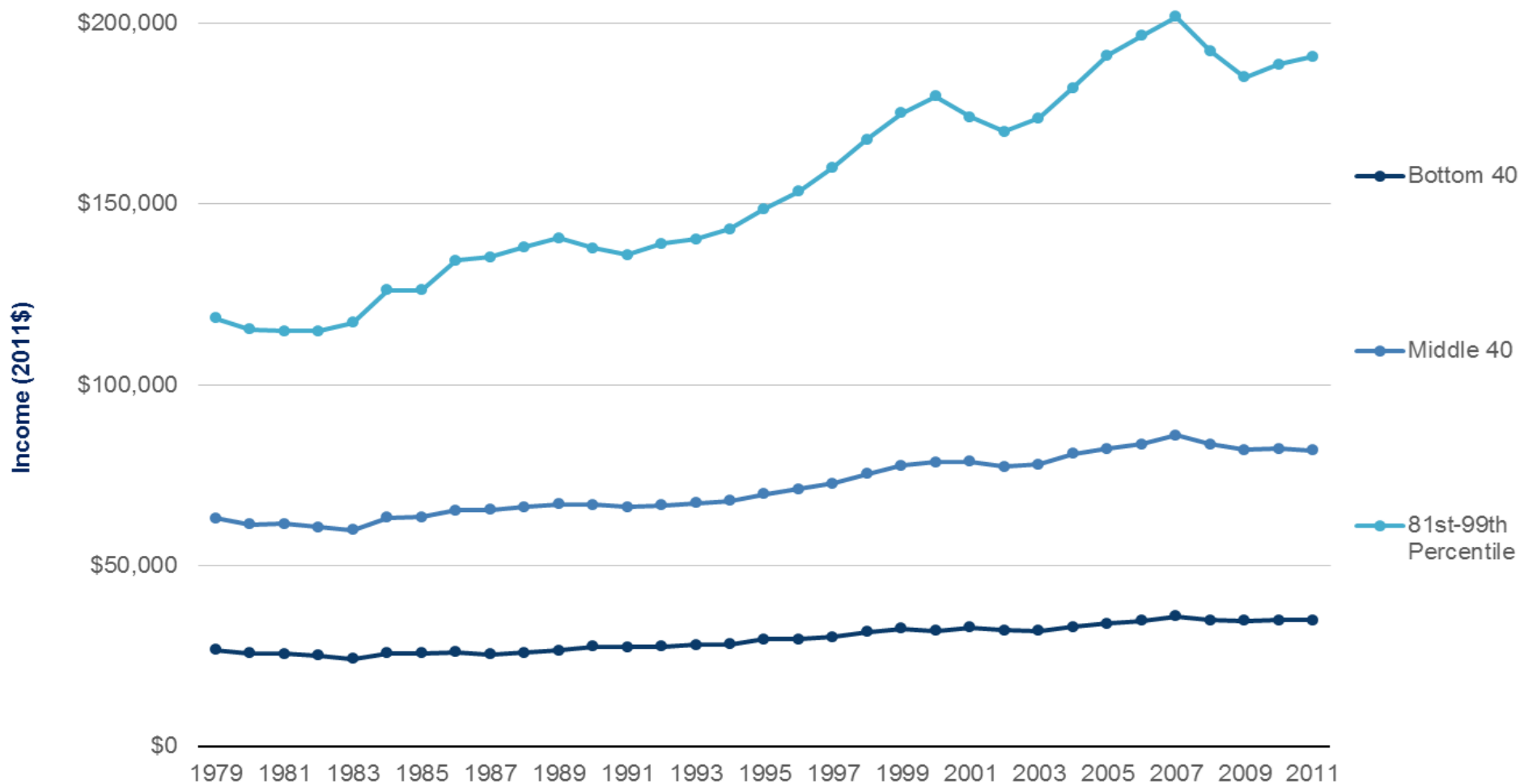
Average real household income, 1979-2013



Source: CBO
Note: Income is pre-tax.

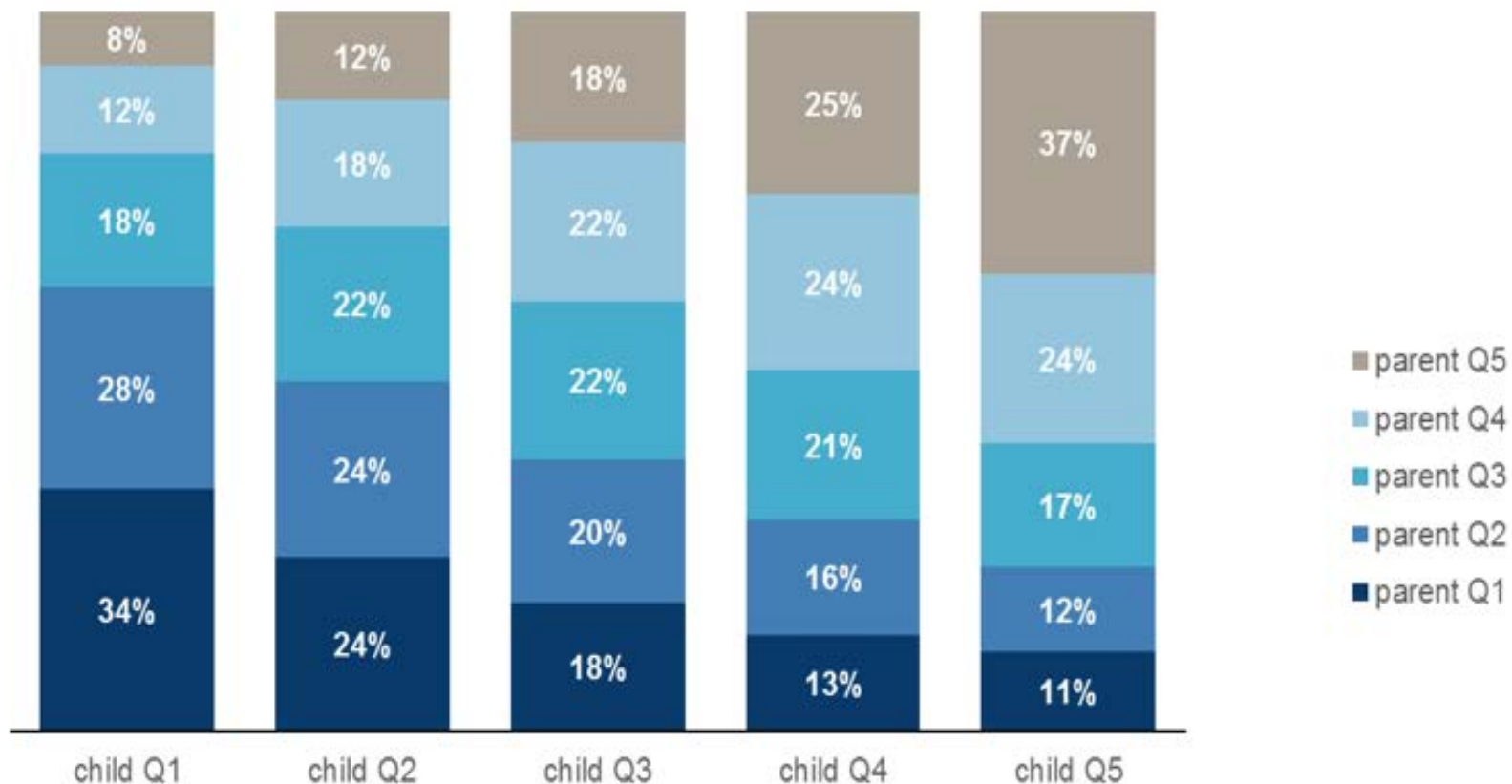
Not just the 1%....

Average real household income, 1979-2013



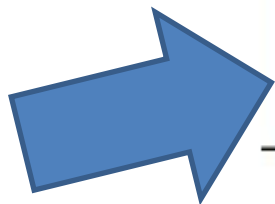
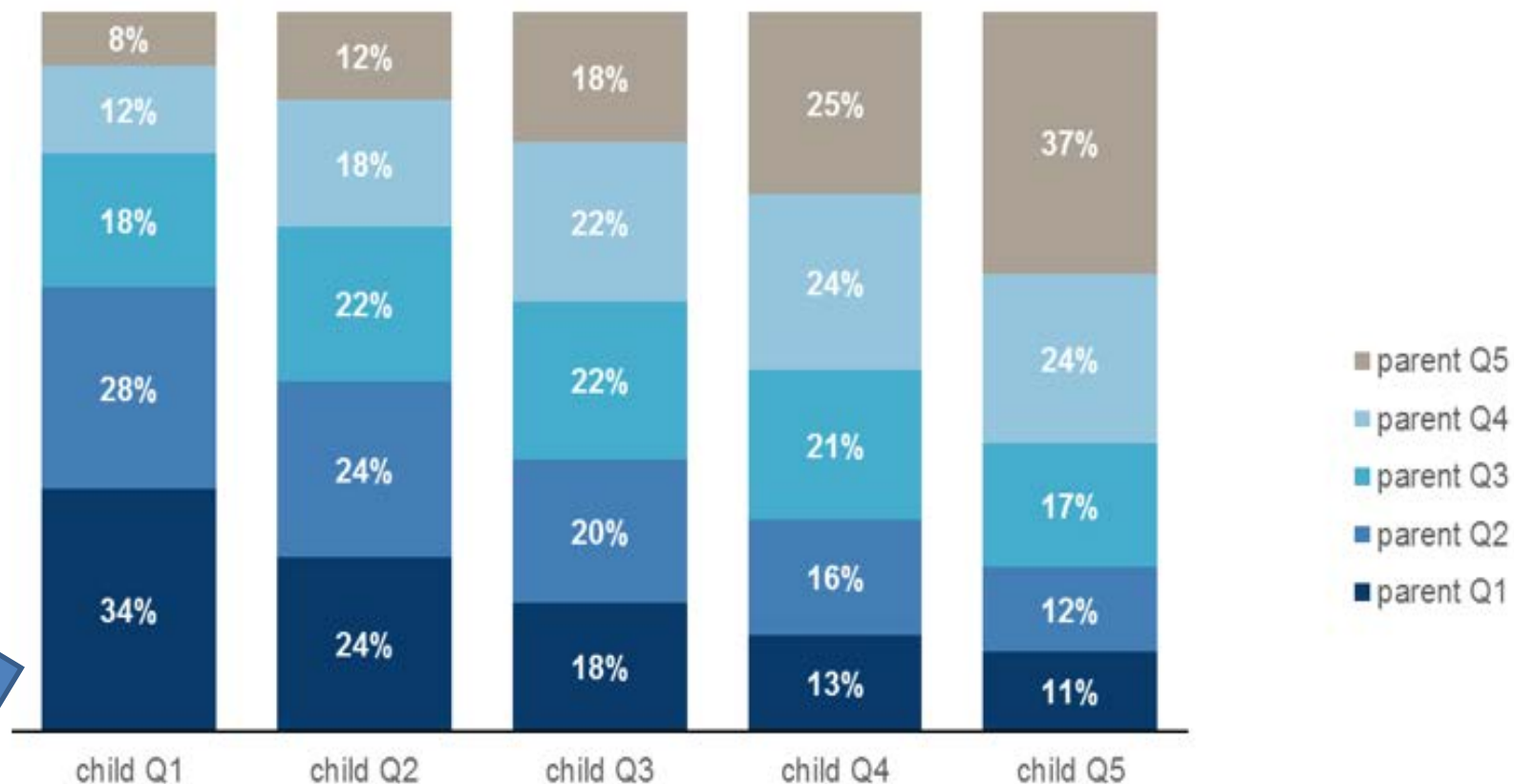
Sticky ends: relative mobility

Chetty et al. 2014b mobility matrix



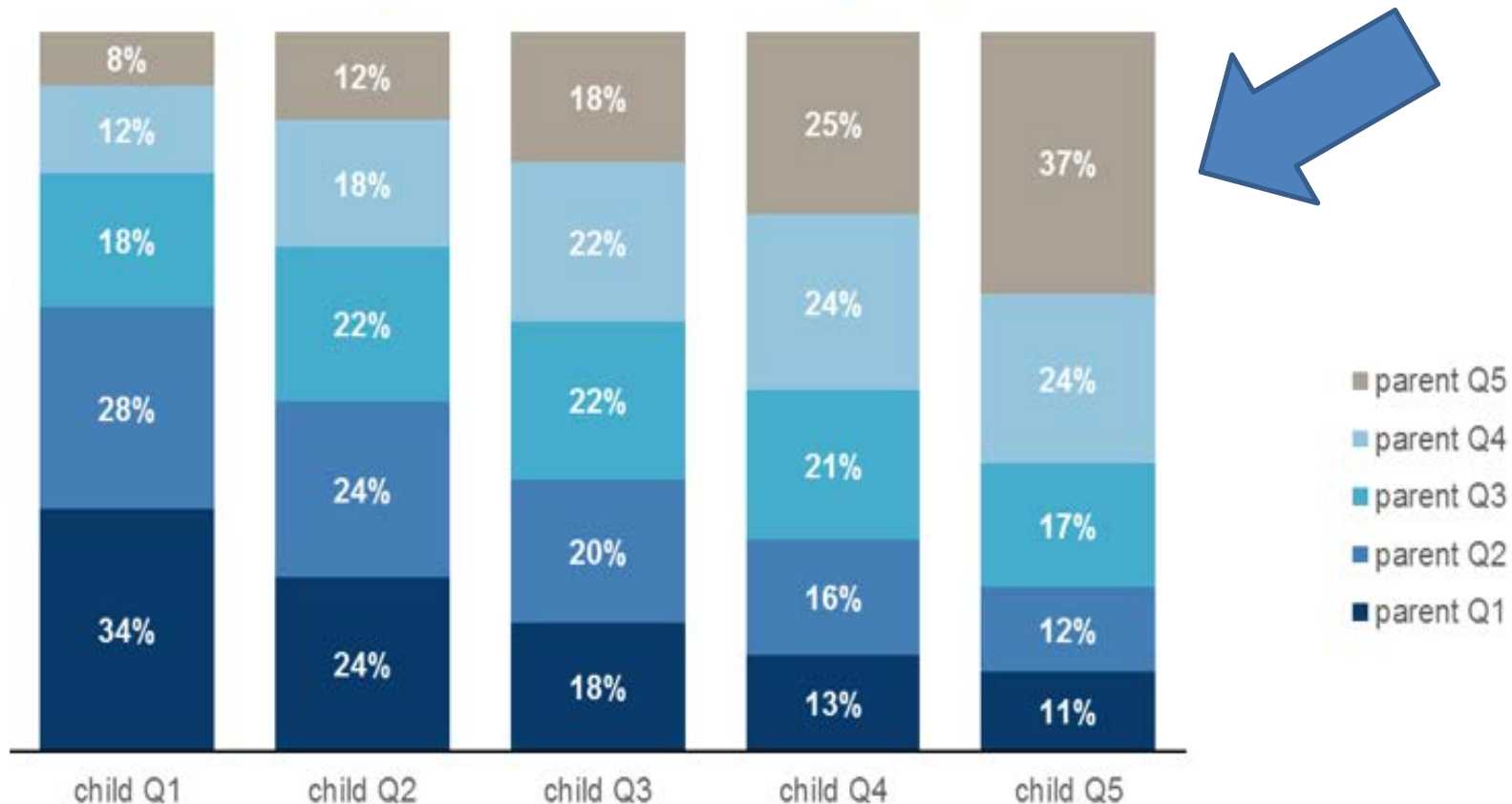
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Chetty et al. 2014b mobility matrix





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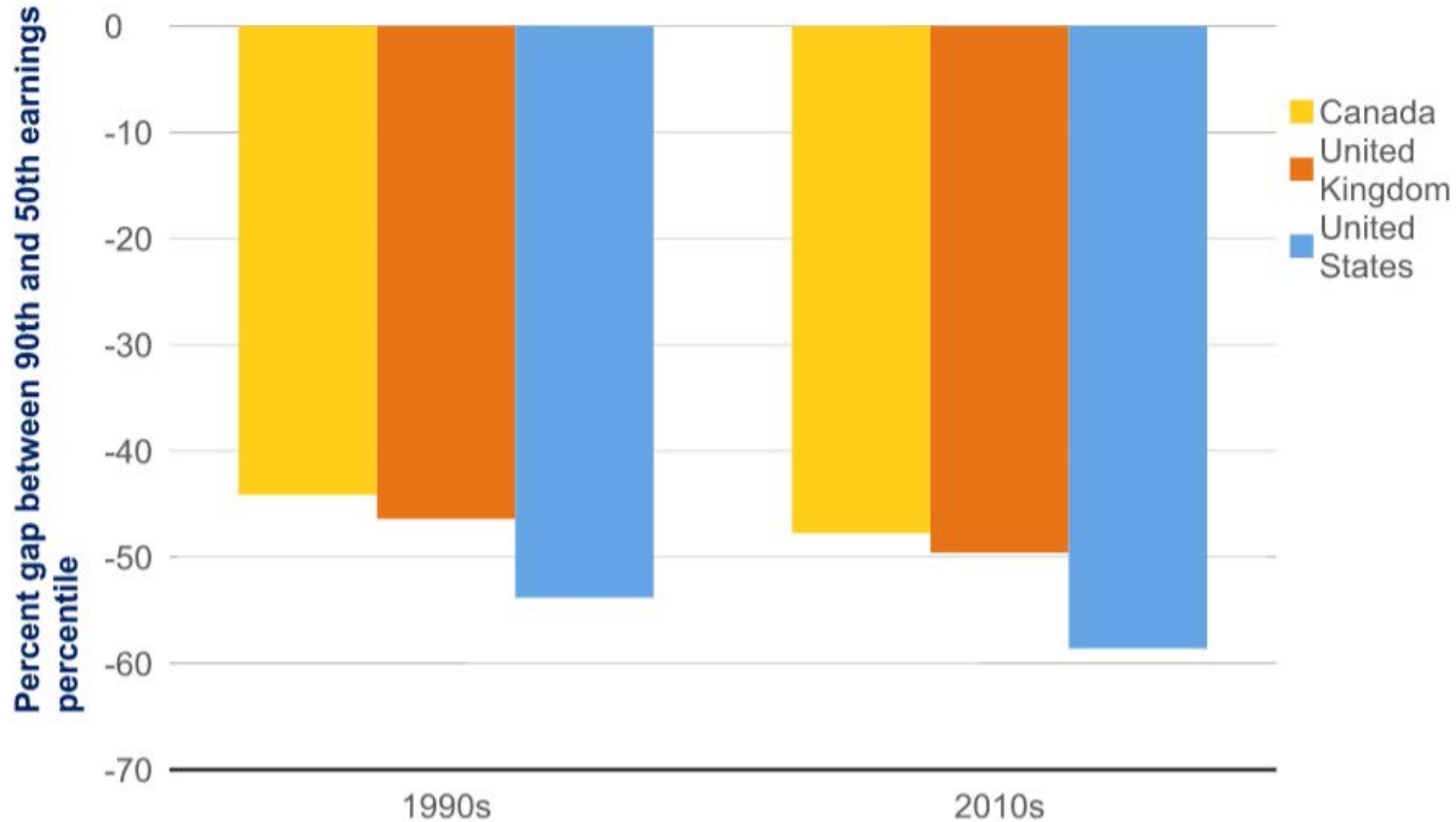
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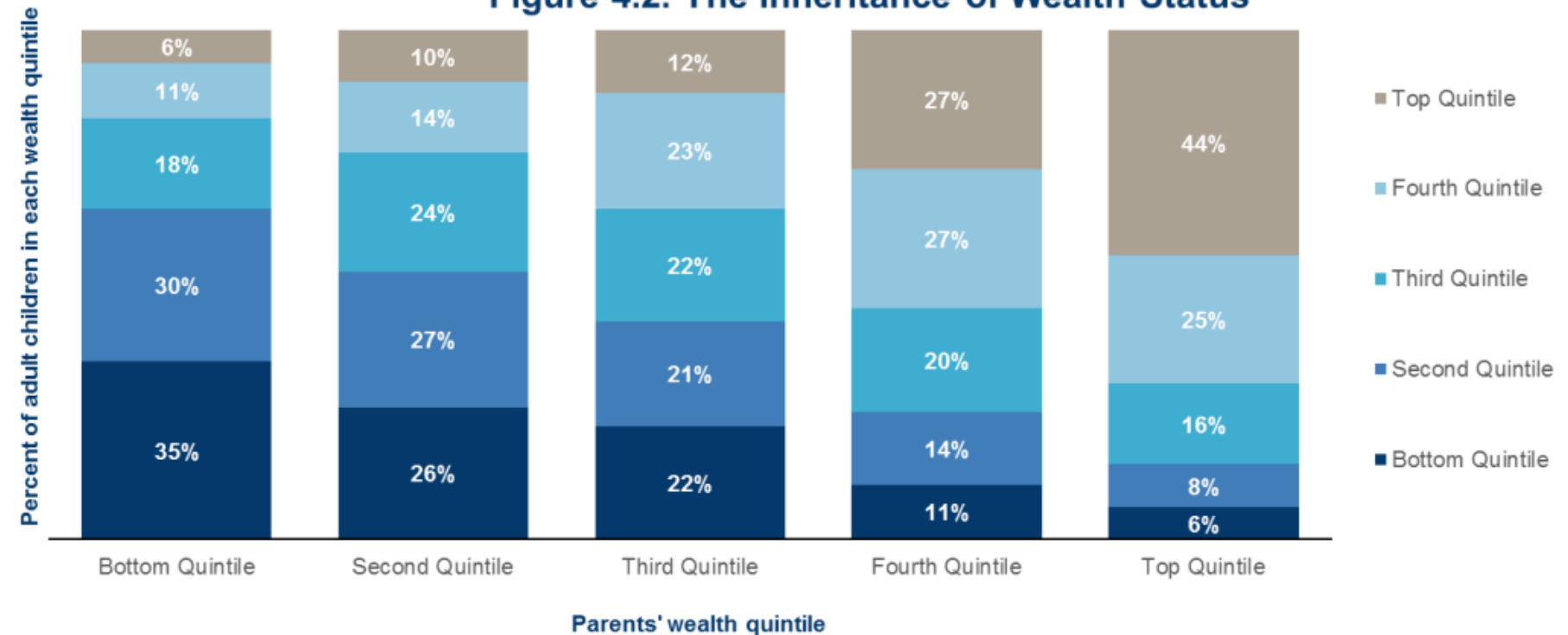
WHY THAT IS A PROBLEM,
AND WHAT TO DO ABOUT IT

Further to fall in U.S.A.



Wealth status across generations

Figure 4.2. The Inheritance of Wealth Status



Source: [Pfeffer, Fabian T.](#), and Alexandra Achen Killewald. 2015. "How Rigid is the Wealth Structure and Why? Inter- and Multigenerational Associations in Family Wealth." PSC Research Report No. 15-845. September 2015.
 a. Net worth quintiles within ages 45-64 (N=1,975); quintile cutpoints in 2013 dollars.

A market meritocracy?

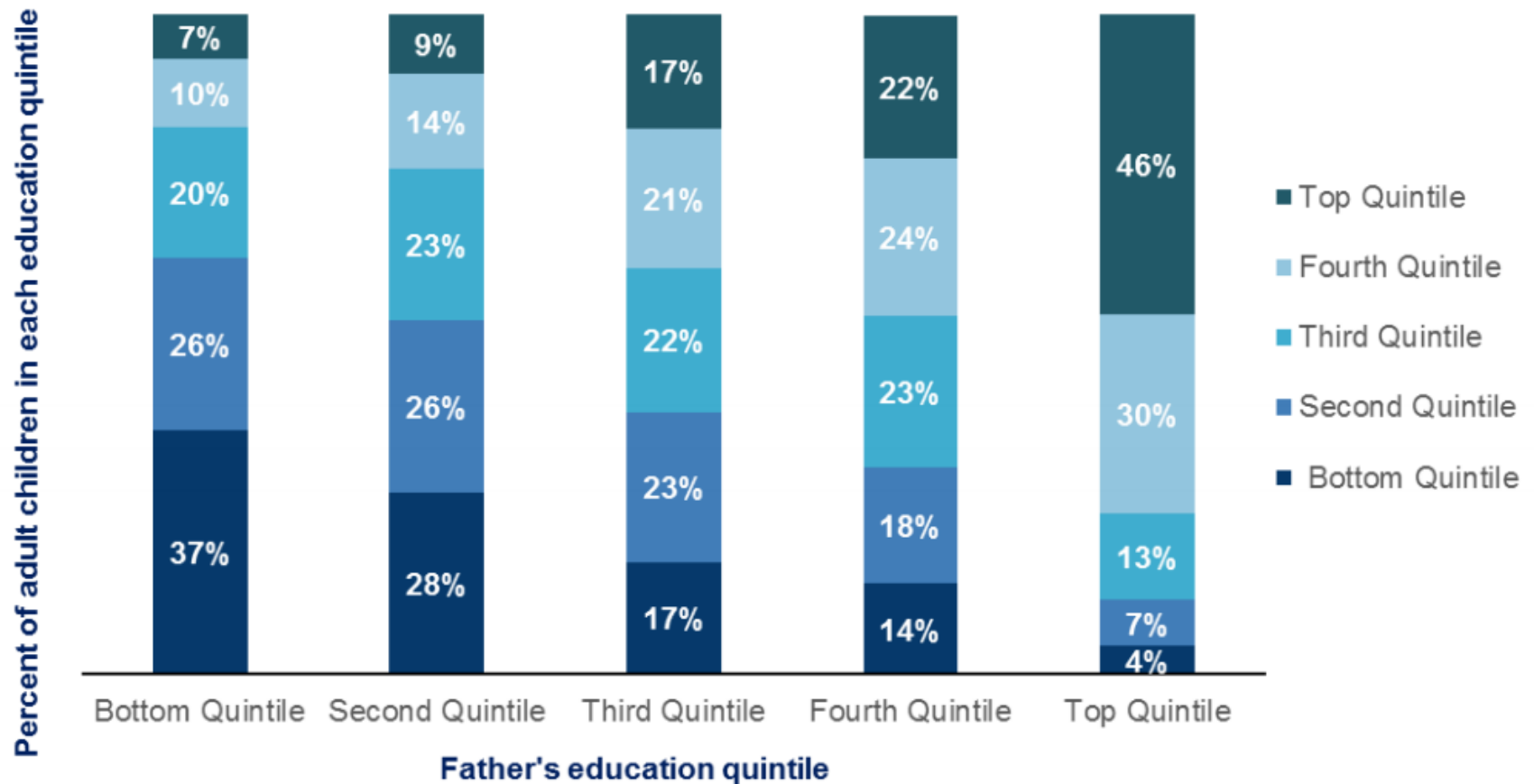
- Upper middle class status is “sticky” across generations
- This is true for income, wealth, etc.
- Why?
- Reason 1: Education and skills
- Reason 2: Opportunity hoarding

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Educational status across generations

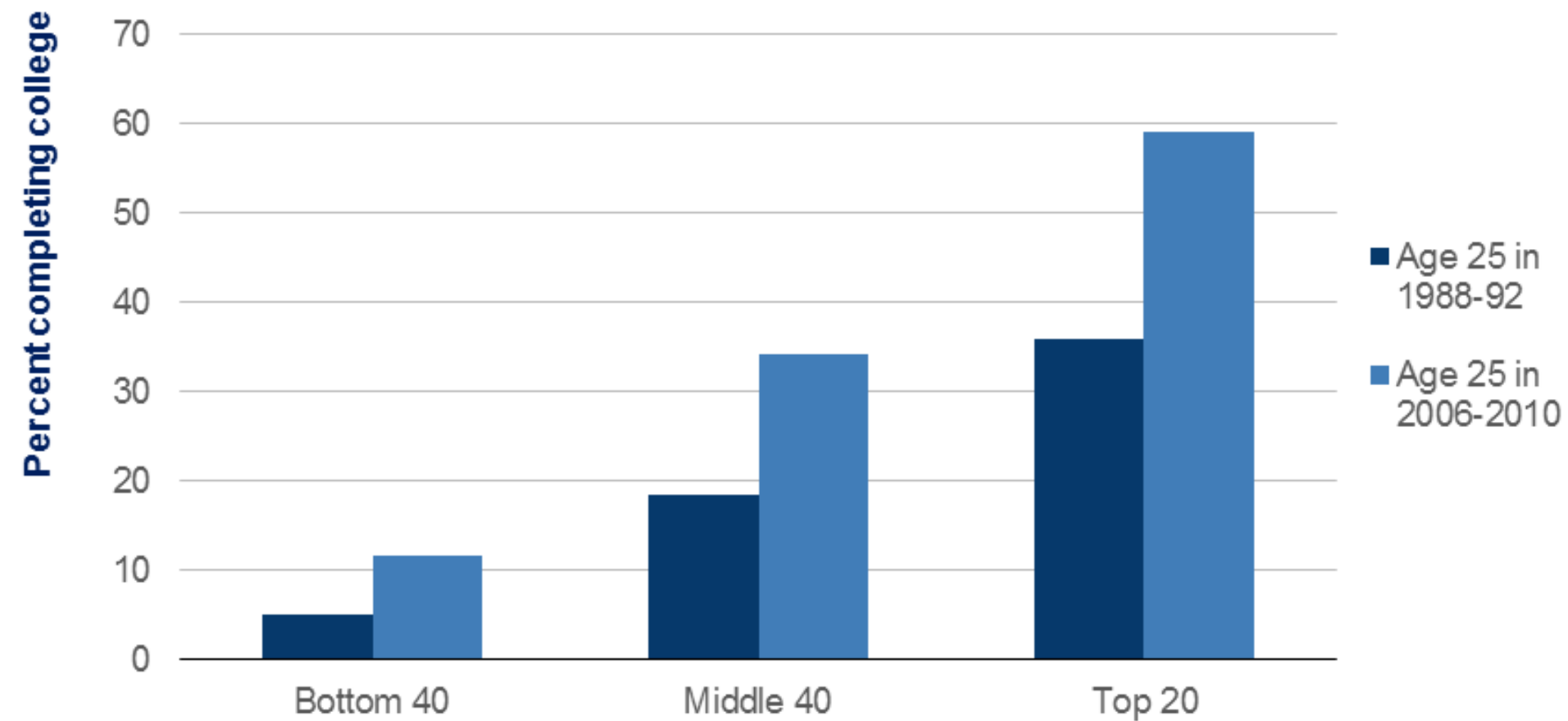
Figure 4.3. The Inheritance of Educational Status



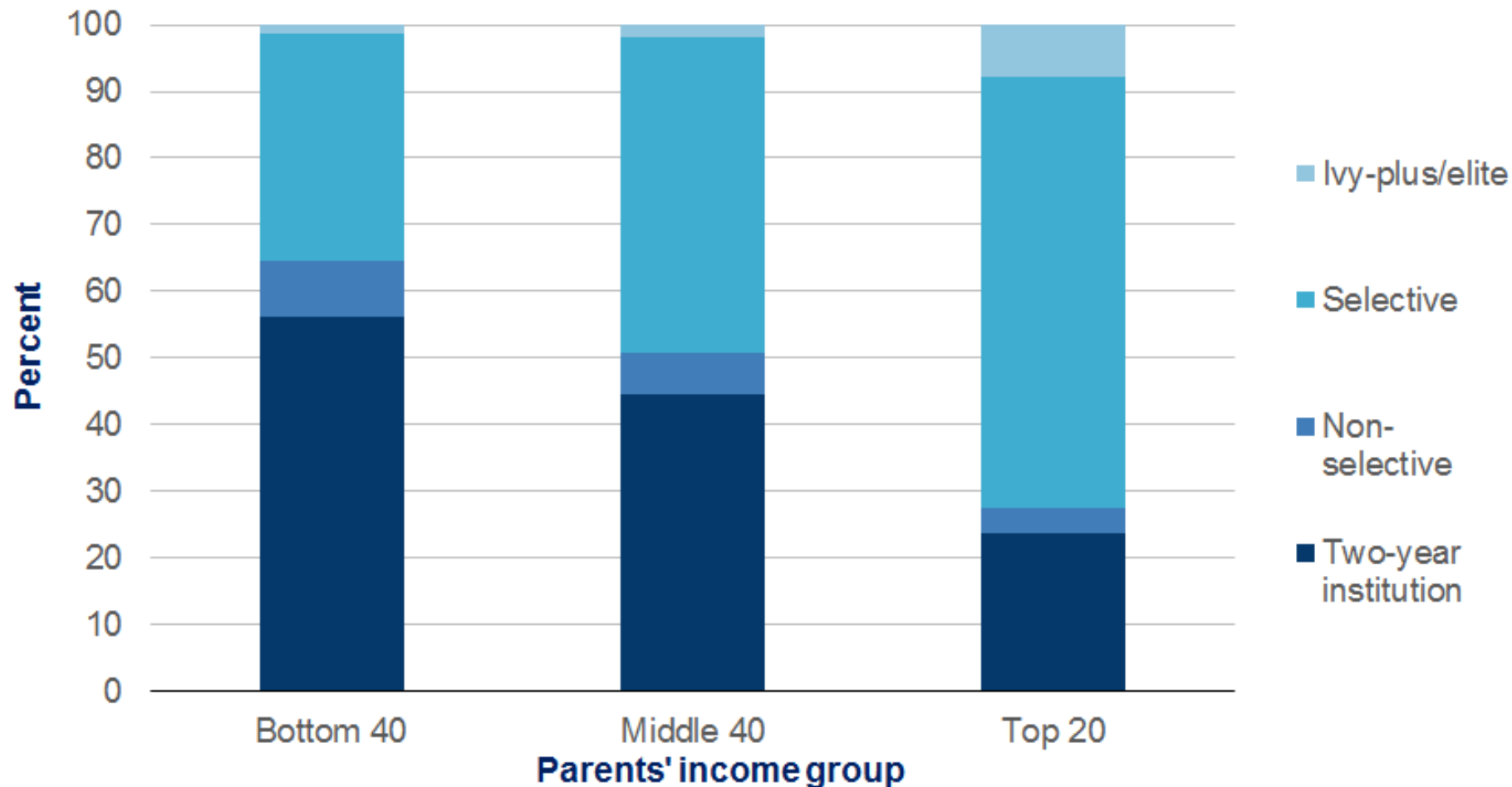
Source: Author's tabulations of PSID data.

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

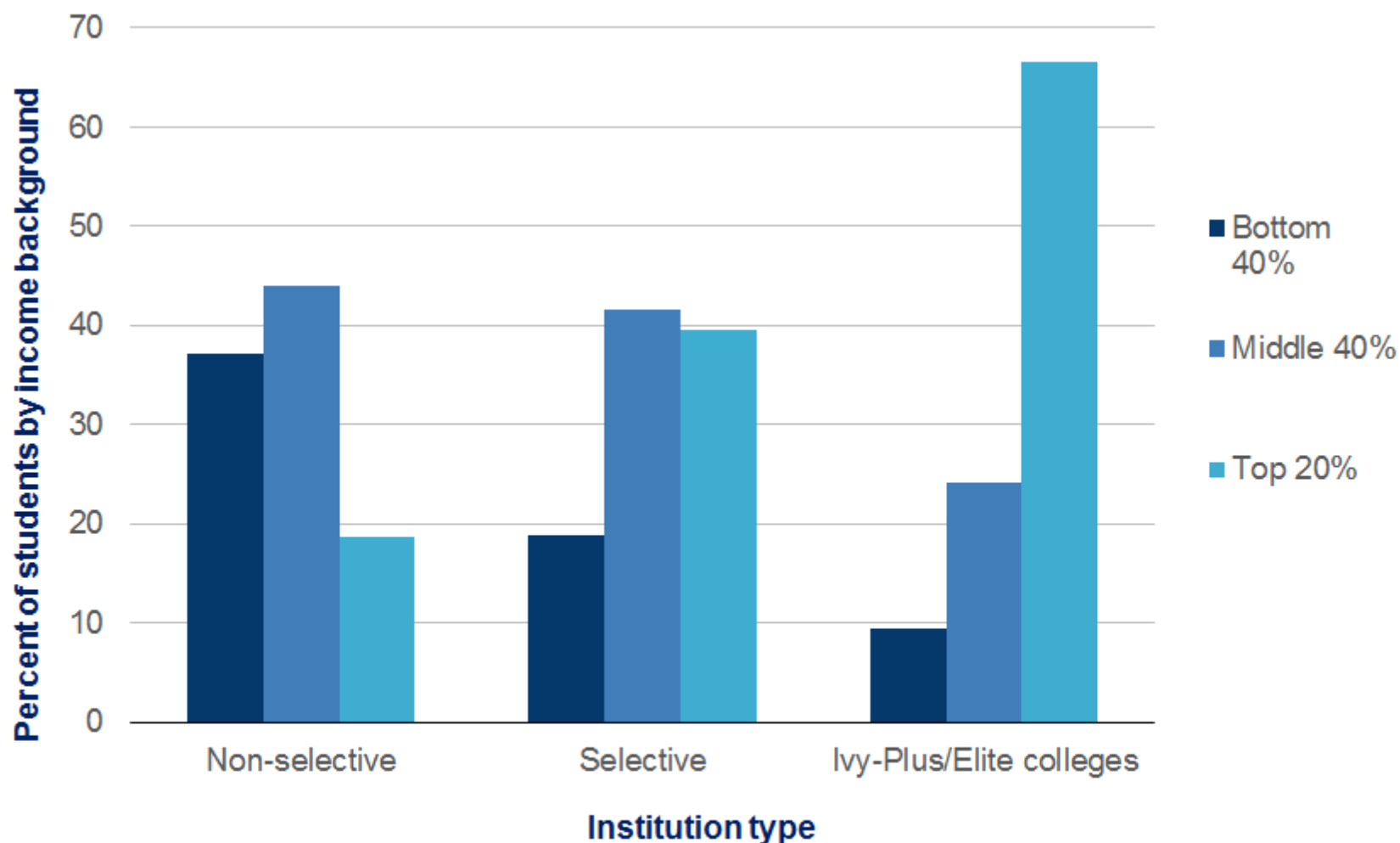


Which college? Depends on your class (social class, that is)



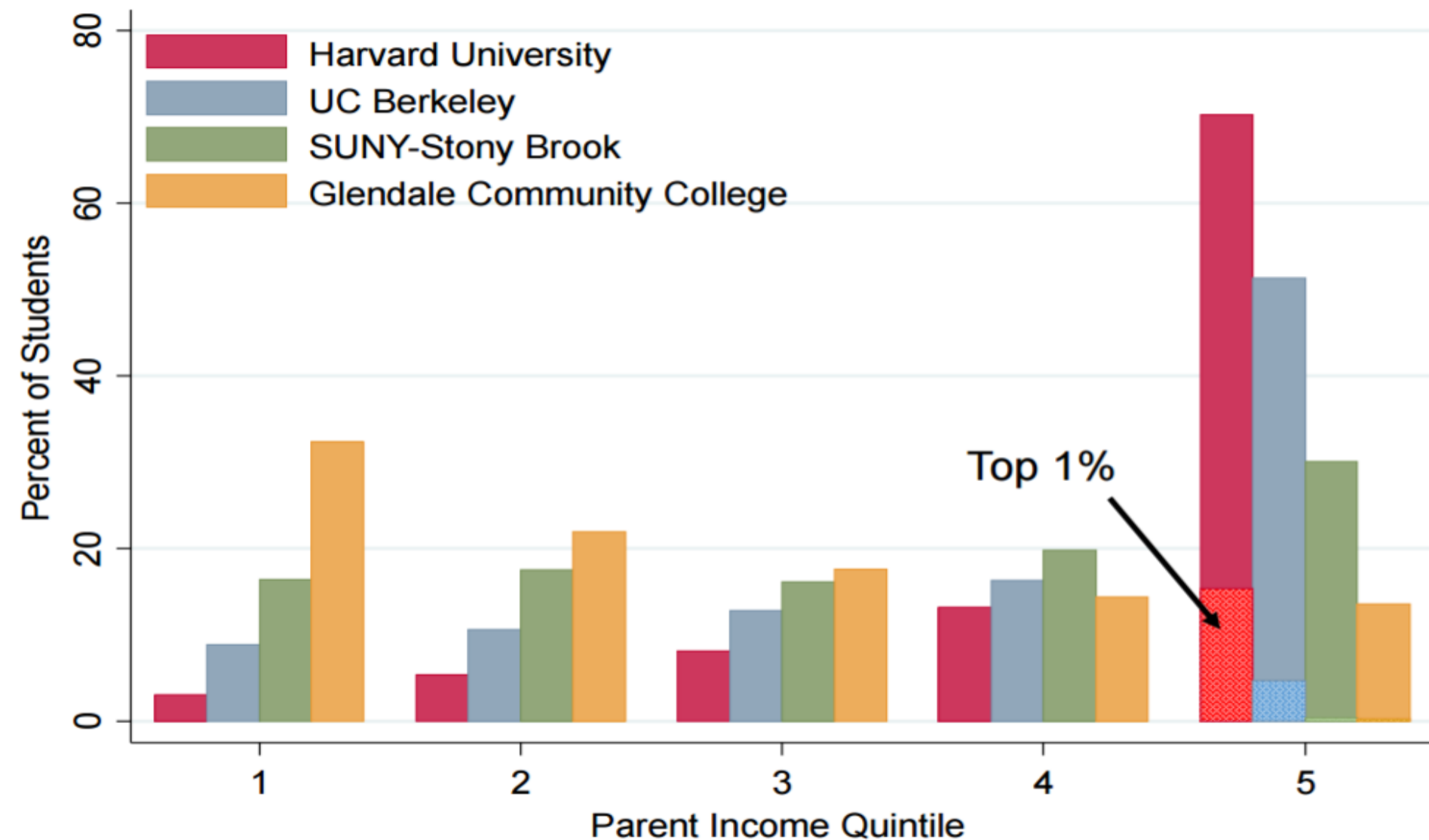
Source: Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan. Online Table 4. "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility." The Equal Opportunity Project, 2017. College attendance at age 18-21 (i.e. 2010 to 2013) measured for the 1991 birth cohort.

An upper middle class monopoly?



Source: Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan. Online Table 4. "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility." The Equal Opportunity Project, 2017. College attendance at age 18-21 (i.e. 2010 to 2013) measured for the 1991 birth cohort.

Class divide in college classes



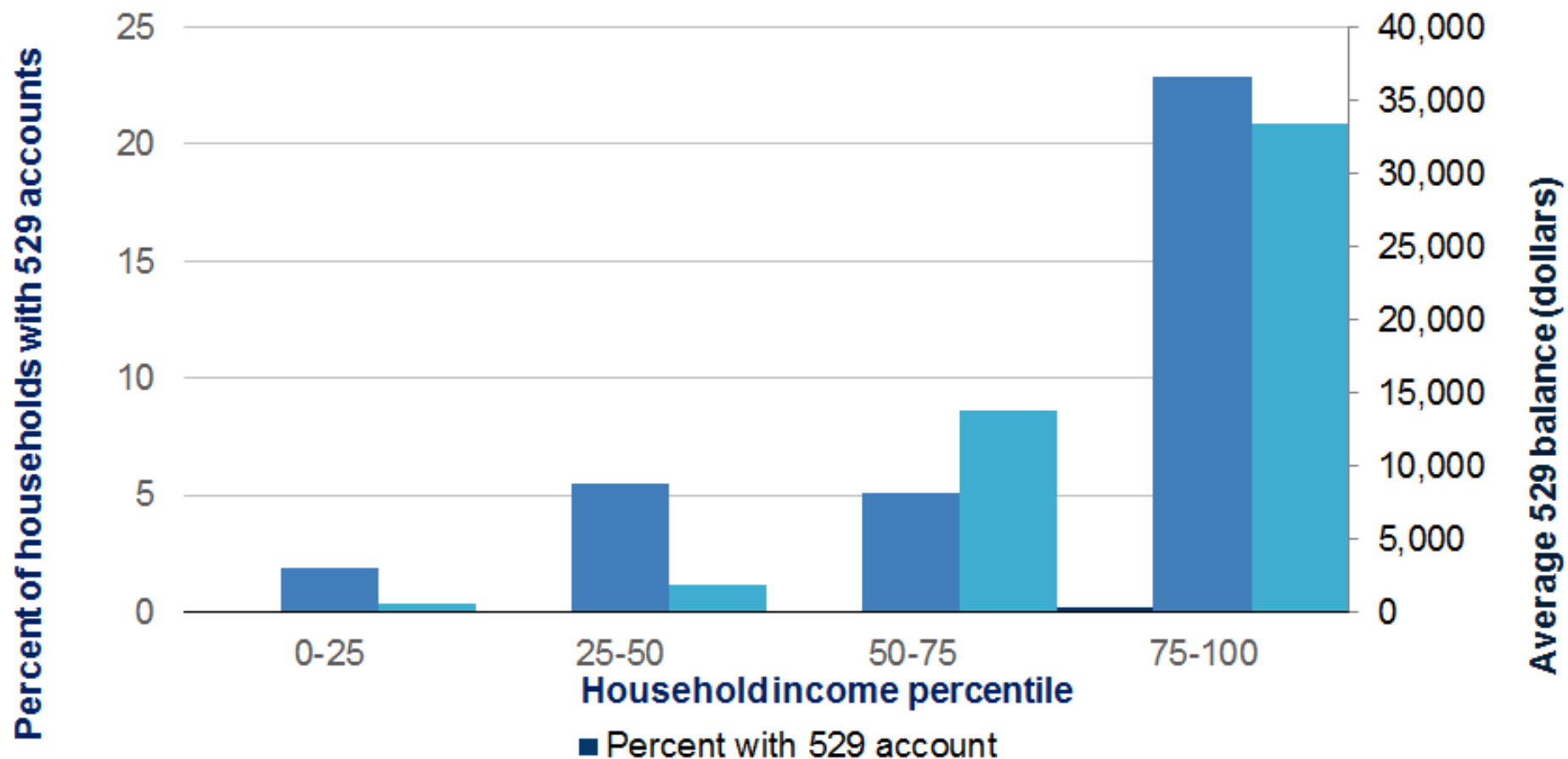


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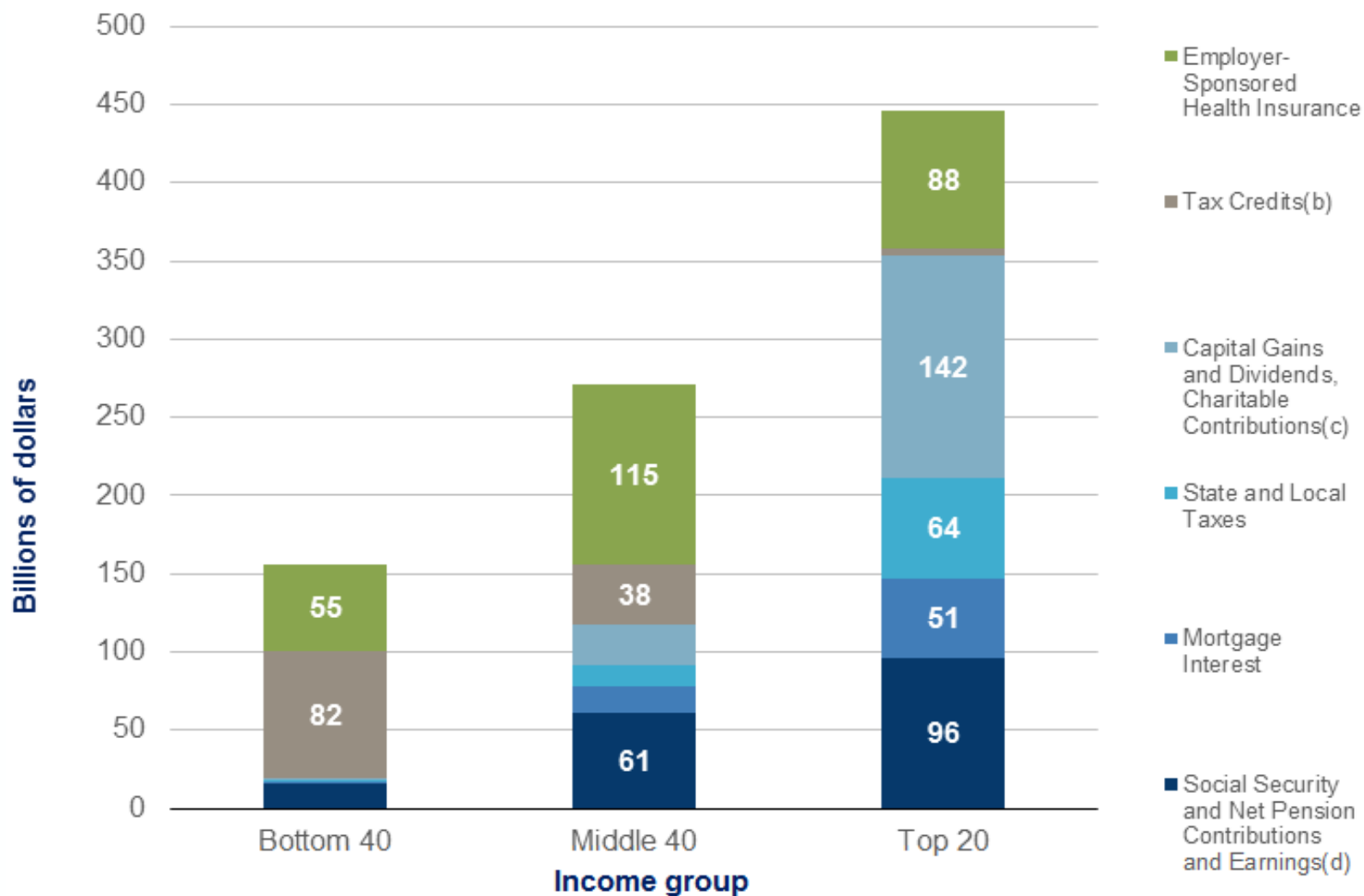
 **Play Video 2:03**

Now, back to those 529s...



Source: U.S. Department of the Treasury, "An Analysis of Section 529 College Savings and Prepaid Tuition Plans," September 9, 2009, Table 7.

Thanks, Uncle Sam!



Source: The Distribution of Major Tax Expenditures in the Individual Income Tax System. May, 2013. Congressional Budget Office.

A market meritocracy?

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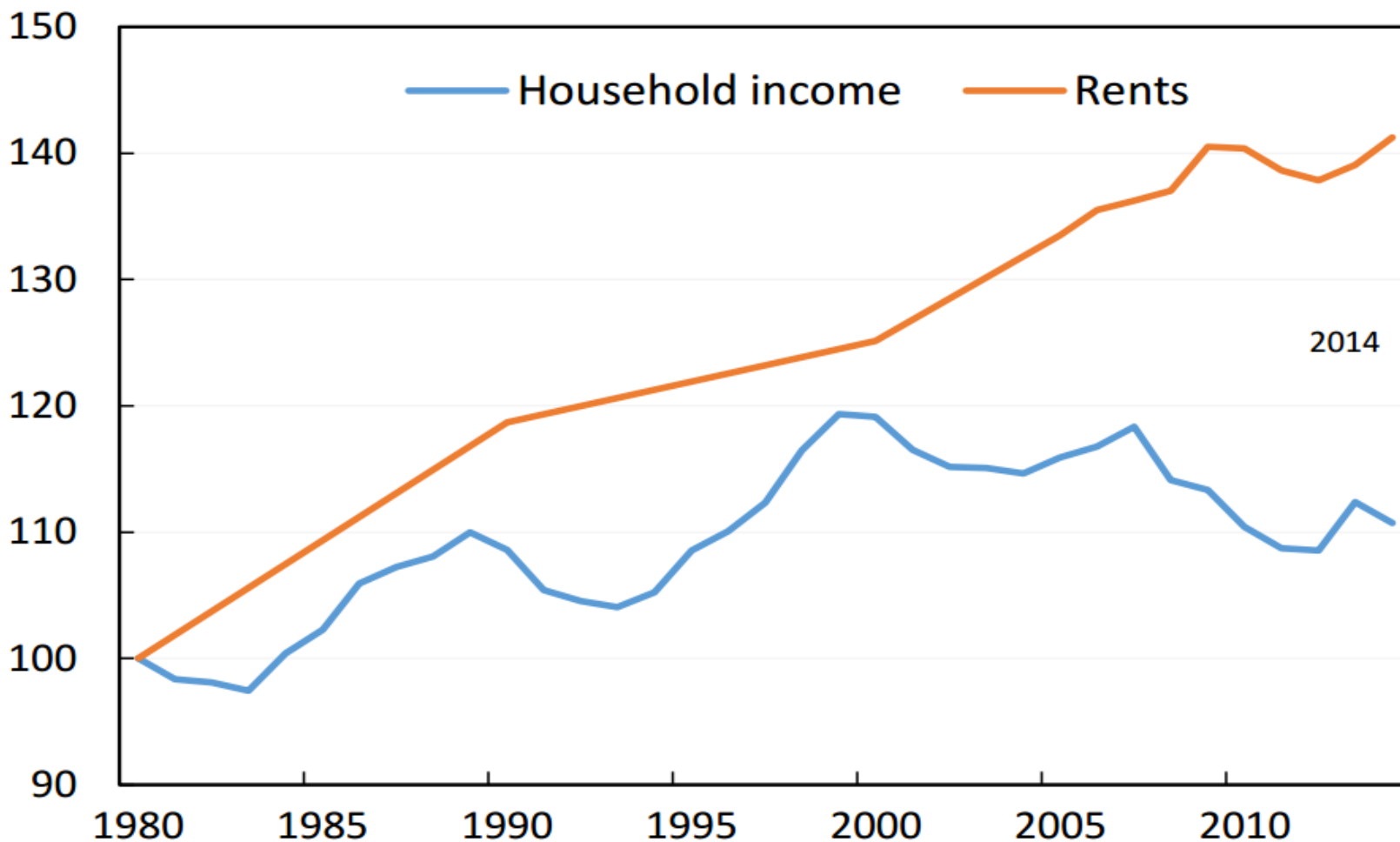
Opportunity Hoarding: A Guide

- Exclusionary zoning
- Legacy admissions
- Internship opportunities

The rent is too darned high

Median rents vs. median household income, 1980-2014

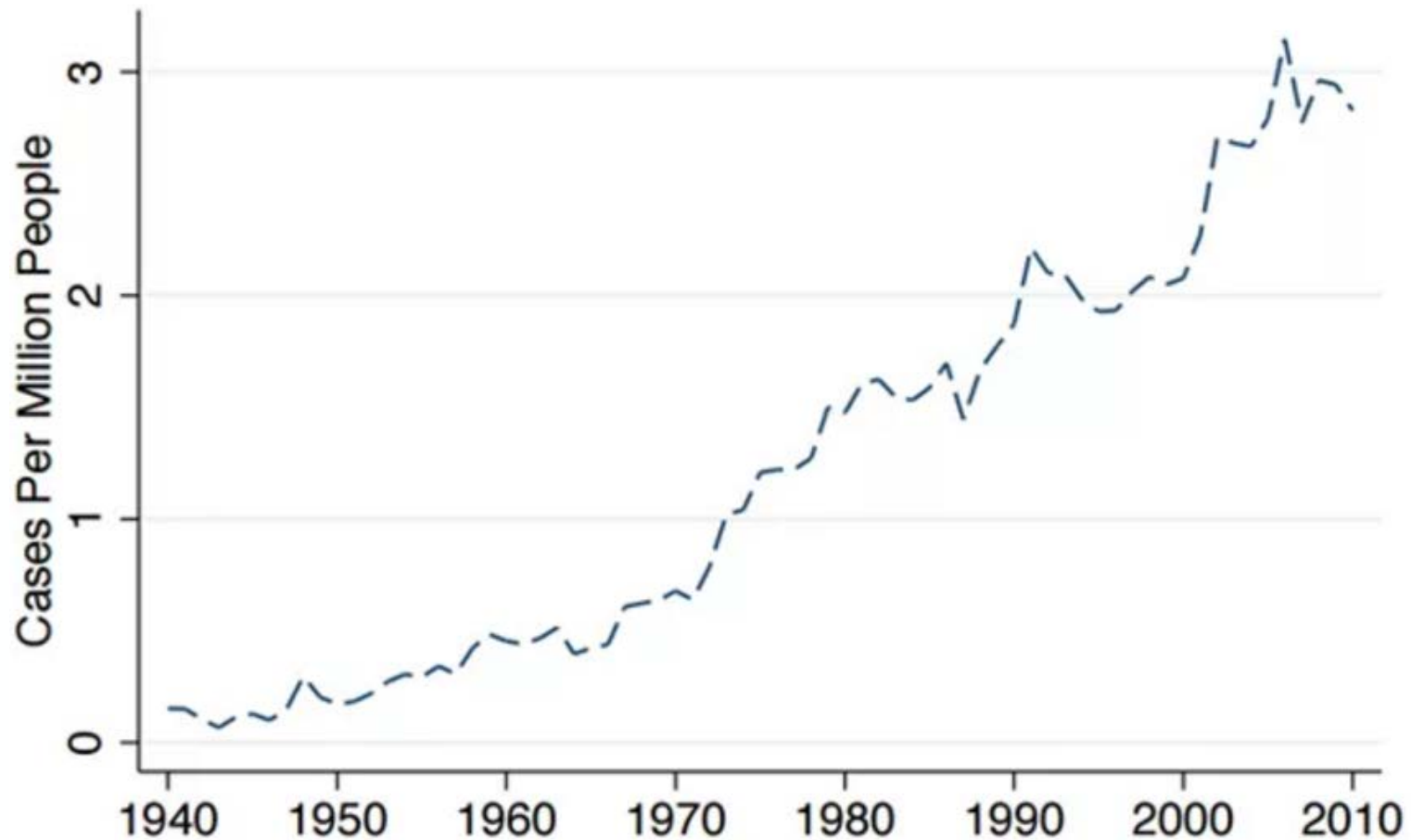
Indexed: 1980= 100



Source: Census Bureau; BLS; Haver; CEA calculations

Maybe because of this?

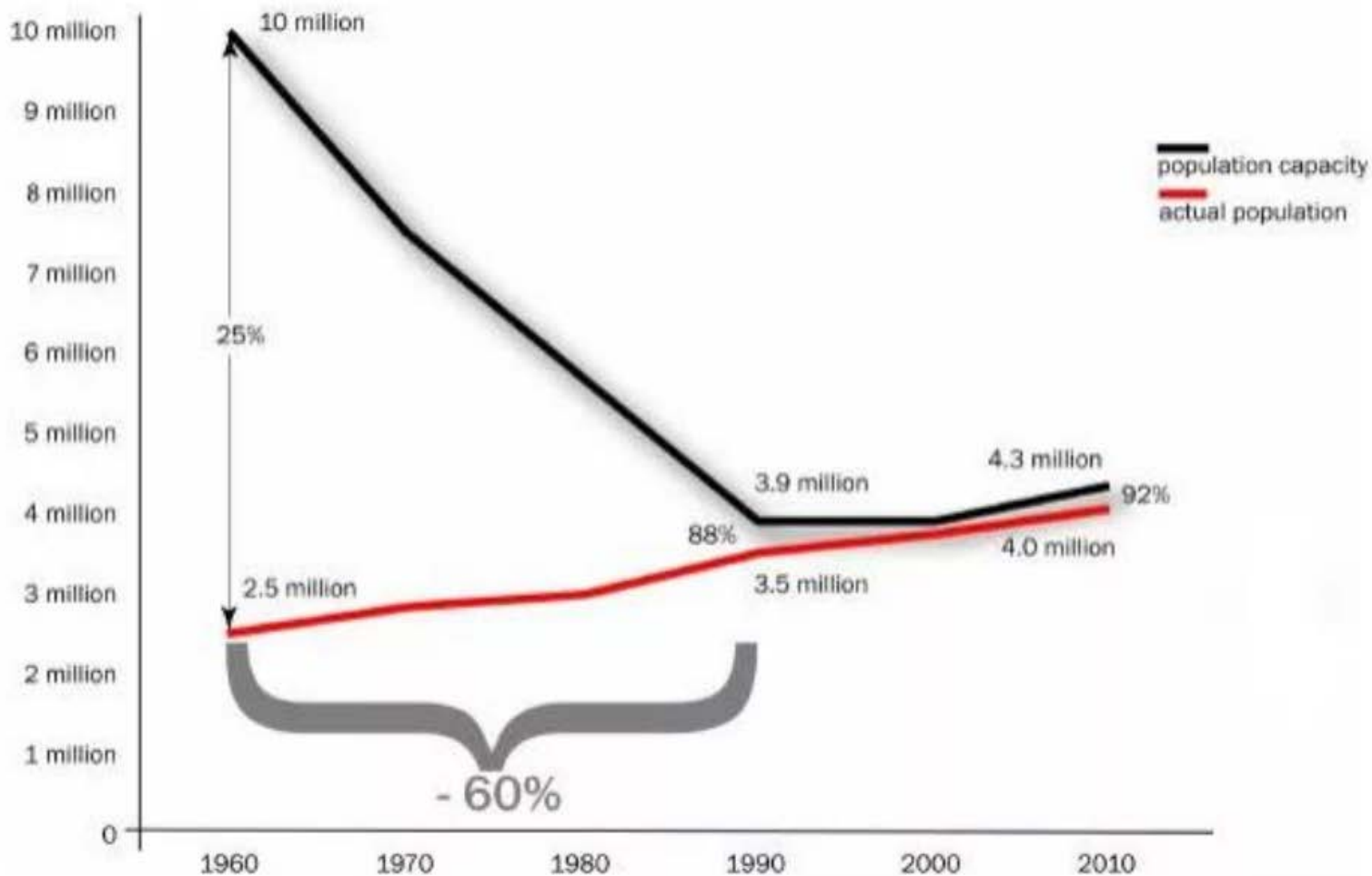
The growing regulation of land use



Source: Peter Ganong and Daniel Shoag, "Why has regional income convergence declined?"
Hutchins Center Working Paper 21, July 2016, Figure eight.

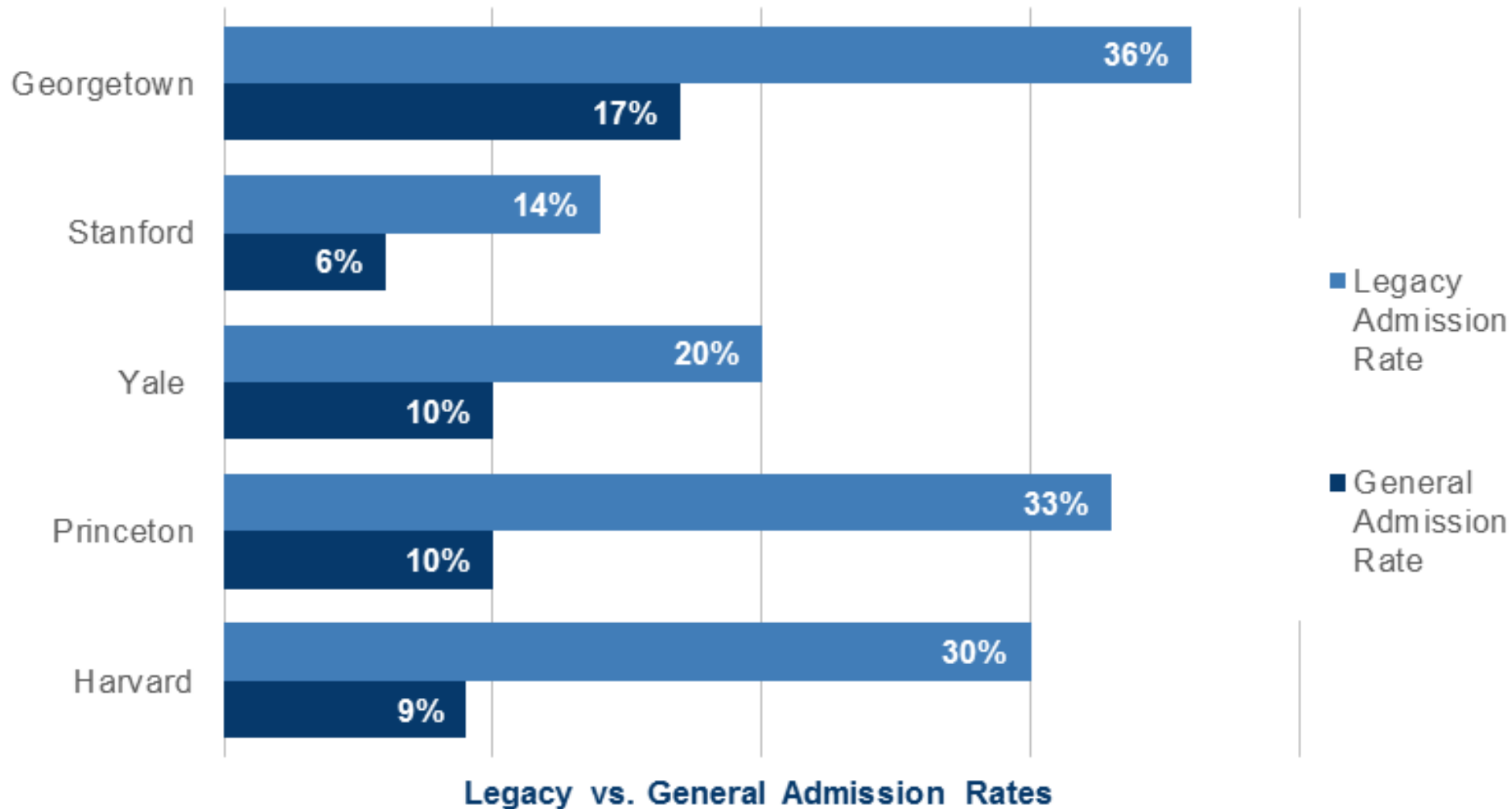
Hey, what happened to all that space?

Los Angeles – Zoned Residential Capacity Over Time



Source: Morrow (2016)

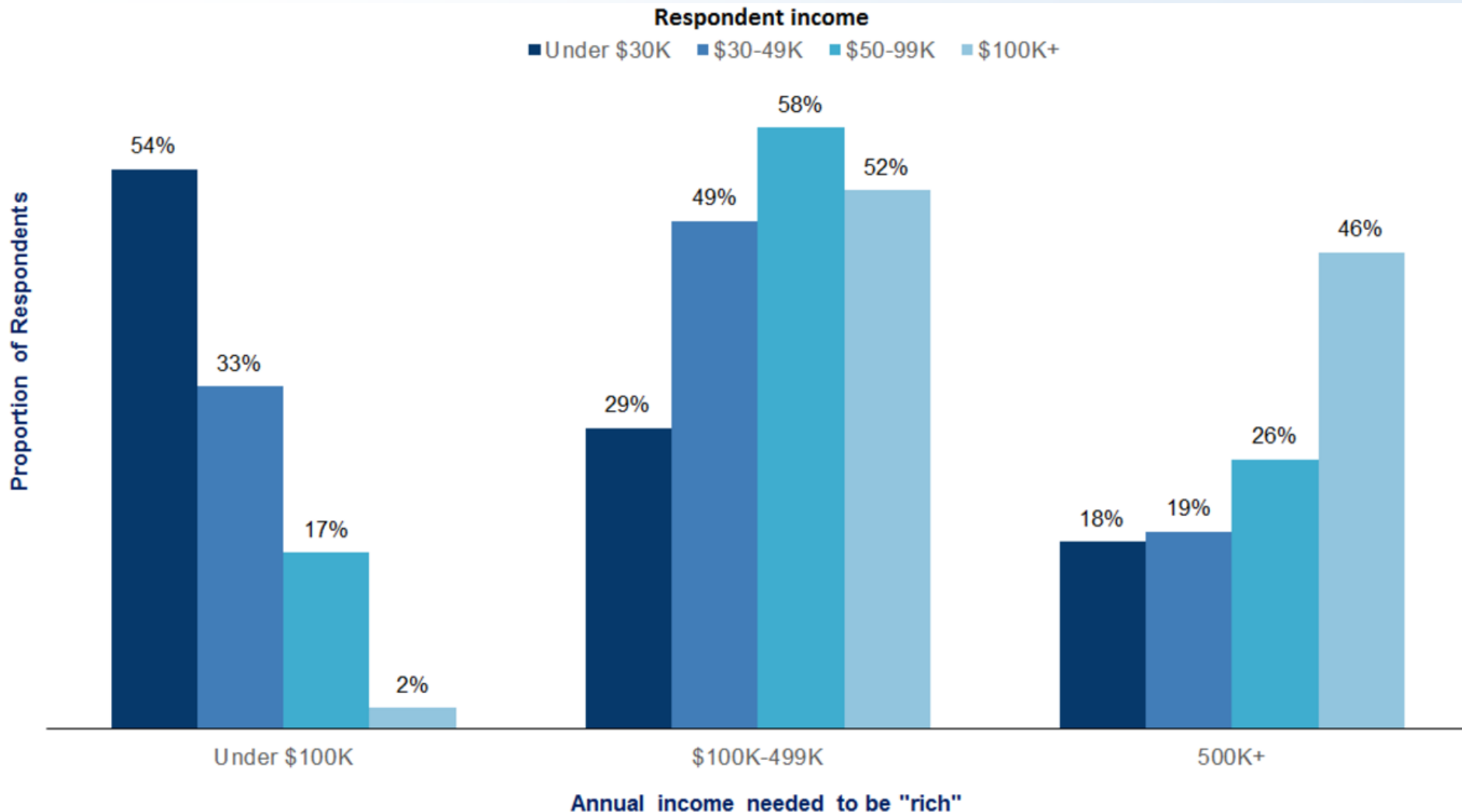
Legacies: "A slight tip"?



Dream Hoarders: So What?

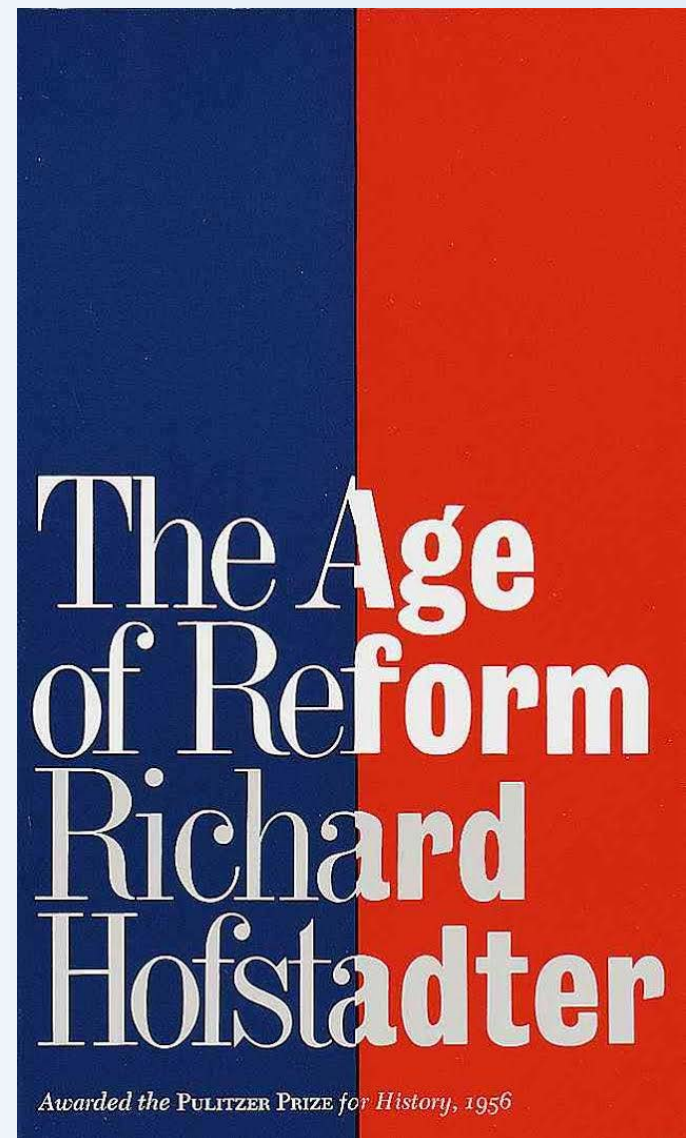
- Reduce unintended pregnancies & births
- Invest in home visiting
- Pay K-12 teachers in tough schools more
- Shift \$ from 4-year to community colleges
- End legacy admissions
- Open up internships & work experience
- Curb exclusionary zoning

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





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 @richardvreeves

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