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The question of what it takes to be "middle class" in America is reviewed in this issue of Focus. *One thing it surely takes is wealth accumulation. Middle class families of all types, including single-parent families, aspire to homeownership, a car, college education for their children, and health and retirement security. Public policy can help with many of these needs, through avenues such as health care and college education subsidies. However, the majority of these aspirations remain the responsibility of the family, which must build its own financial security.*

The first four articles in this issue of Focus highlight many of the elements needed to attain financial security. First, families must avoid debt, especially unsecured credit card and other consumer debt that can add to the depths of poverty. Second, they need to accumulate and maintain an adequate level of precautionary savings to avoid the downside of unforeseeable circumstances, such as car repairs or other unexpected expenses. Finally, many poor persons need more financial savvy to manage their assets and debts and to take advantage of potential asset-building subsides like the Earned Income Tax Credit.

If we can give people the tools they need to accumulate wealth, the middle class will grow as people leave poverty and move up the income and financial well-being ladder. IRP is becoming more involved with these efforts in affiliation with the new University of Wisconsin Center for Financial Security (www.cfs.wisc.edu/) and its 5-year cooperative agreement with the Social Security Administration Financial Literacy Research Consortium. In conjunction with IRP, the Center is focused on financial choices and outcomes for vulnerable populations—including people in poverty and with disabilities. We hope the research developed through this partnership will spawn a new generation of policy and programmatic approaches that use information, advice, and other mechanisms to help families build financial assets over the life course.

—Timothy M. Smeeding, IRP Director

Middle class in America

Most Americans consider themselves middle class, but what does that mean? In a report prepared for the Vice President's Middle Class Task Force, the Economics and Statistics Administration of the U.S. Department of Commerce identified middle class aspirations and calculated hypothetical budgets for families at different income levels to illustrate how these aspirations might be achieved. The analysis looks at two types of families at different income levels: two-parent, two-child families; and one-parent, two-child families.

The literature on the middle class indicates that income levels alone do not define the middle class. Rather, members of the middle class tend to be defined more by their values, expectations, and aspirations. Thus, the report authors assumed that middle class families have certain common aspirations: homeownership, a car, college education for their children, health and retirement security, and occasional family vacations.

The hypothetical budgets presented show: (1) how families at a wide range of incomes may be able to attain a middle class lifestyle; (2) the variation in what different families at different income levels might buy to achieve their goals, and (3) how constrained some of these choices are, and the difficulties that could prevent families at all income levels from achieving a middle class lifestyle.

The Conclusions

The report authors found that a middle class lifestyle is possible even for relatively lower-income families, under the right circumstances. Lower-income families will face many more trade-offs and saving will be much harder for them. Single-parent families face particular difficulties in reaching these goals because of their lower income levels. Single-parent families at or below the poverty line were not analyzed as their income levels cannot sustain the middle class lifestyle as defined by the report authors. Although these budgets show that the middle class is reachable for any of the types of families analyzed, it is also clear that only a few unplanned expenses could put this goal out of reach.

Planning and saving are critical elements in attaining a middle class lifestyle for most families. Even those families that can afford a middle class lifestyle must make sacrifices, and may be one unexpected event away from disaster. In order to provide stability for American families, the report authors conclude that our nation needs a healthy economy, a responsible private sector that offers decent jobs with health care and pension plans, and an effective public sector that provides high quality schools for all children. When these goals are met, more families will be able to achieve their middle class dreams.

http://www.irp.wisc.edu/publications/focus/pdfs/foc271a.pdf

The complete text of all *Focus* articles in this issue is available on the IRP Web site http://www.irp.wisc.edu

Consumer debt and poverty measurement

Steven Pressman and Robert H. Scott III

Total consumer debt in the United States (excluding home mortgages and home equity loans) is currently around $2.6 trillion, or $11,000 per adult. Consumer debt has been rising much faster than median household income, pushing debt-to-income ratios to record levels and causing many Americans serious financial hardship.

The authors contend that because income used to pay interest on debt reduces funds available to buy goods and services, federal poverty measures should be adjusted to include this interest. Poverty lines are intended to represent the amount of cash income needed to survive during the year. When the current U.S. poverty thresholds were developed, most poor and middle class households did not have access to credit; that is no longer the case. While debt has short-term benefits, allowing households to purchase needed items, it also has long-term costs. Money used to pay interest on past debt is not available to use for current purchases. Many households may have income levels that put them above their poverty threshold, yet because interest payments on their consumer debt prevent them from being able to afford basic necessities, they are effectively "debt poor."

The Conclusions

To adjust official poverty estimates in order to take into account interest payments on consumer debt, the authors used data compiled by the Federal Reserve Board. Types of consumer debt included are motor vehicle loans, education loans, installment loans, credit cards, and other debt. Home mortgages and home equity loans are excluded. Eight different family sizes, from single to married with three children, were included in the analysis. Including the debt poor, the authors calculate a 13.4 percent poverty rate for 2006, compared to the official reported rate of 12.3 percent. Thus, they estimate that in 2006 there were over 4 million Americans who were not officially classified as poor, yet who did not have sufficient income to purchase the goods and services necessary for survival because of interest payments on their consumer debt.

The authors find that the proportion of the U.S. population that is debt poor has increased from about half a percentage point in the 1980s to more than one percentage point in 2006. They attribute this trend to several factors. First, wages for many American workers have been stagnating or falling, and many households have tried to make up the shortfall through increased borrowing. Second, the importance of consumption levels relative to other households has increased as income inequality has grown. Finally, as the price of higher education has increased, people are graduating with more debt, and are thus more likely to borrow more in order to cover expenses once they begin working. With the ongoing economic crisis, the authors expect the number of debt-poor Americans to continue to rise.

http://www.irp.wisc.edu/publications/focus/pdfs/foc271b.pdf

Effects of mandatory financial education on low-income clients

J. Michael Collins

Financial education is required for financially distressed consumers such as those facing bankruptcy or foreclosure, as well as for consumers faced with impending financial decisions. Financial education and counseling can be provided in the workplace, in schools, by community groups, and as part of public programs. There has been relatively little research done on the effects of financial education on credit behavior. This article summarizes a randomized study using a highly targeted mandatory financial education curriculum for very low-income clients enrolled in a housing voucher program.

The study was done using a program that allows low-income families who receive housing subsidies to earn additional income. One of the program requirements is completion of a financial education course. The course is delivered over five sessions and covers a range of topics including credit, savings, and budgeting. Clients required to take the course were randomly assigned to either a treatment group or a control group. Clients in both groups had little savings and poor credit ratings at the beginning of the study.

The Conclusions

The financial education program was designed to help clients access basic banking services, learn budgeting skills, boost savings, and repair credit problems. The author concludes that this study shows that financial literacy education is indeed related to improved financial behavior among the program's very low-income clients. The primary evidence of this behavior change is an increase in savings account balances (an average additional $362 for those in the treatment group) as well as a modest decrease in the percentage of clients with poor credit ratings. Clients' self-reported knowledge gains were also higher for those in the treatment group.

The author concludes that besides showing that mandating financial education can have positive effects on savings and credit outcomes among very low-income individuals, the study also suggests that mandatory financial education programs may lead to improvements in savings levels and credit quality that are more valuable than the costs of service delivery. Finally, the study indicates that the content of financial literacy efforts should focus more on examining attitudes toward spending, saving, incurring debt, and taking financial risks.

It may also be possible to complement financial education with longer term financial "coaching" services, to help clients implement the skills and knowledge they gain, and also to provide a way to monitor progress. Peer groups would be another possible support structure to help people put their newfound knowledge and skills into action.

http://www.irp.wisc.edu/publications/focus/pdfs/foc271c.pdf

Supporting saving by low- and moderate-income families

Peter Tufano and Daniel Schneider

Reasons for saving range from the concrete, such as education or retirement, to the abstract, such as unforeseeable circumstances or future dreams. Personal savings rates in the United States are at historic lows, and large portions of the population have insufficient financial assets to survive at the poverty level for three months. Lack of savings may make it more difficult for families to respond to emergencies, invest in education, and retire comfortably.

This article describes a range of approaches to encourage low-and moderate-income families to save. These range from solutions that force families to save, to those that seek to make consumers enthusiastic about saving. Some saving solutions require massive government intervention, some require small changes in existing regulation, and still others are completely market oriented. Some require large subsidies, while other might be profitable on their own.

The authors use a broad definition of saving: the deferral of consumption today in order to enable the use of funds later. Both long-term and short-term saving are seen as valuable.

The Conclusions

The authors suggest that it is necessary to acknowledge the breadth of families' savings goals as well as the range of available savings mechanisms, rather than focusing on one type of saving (such as retirement or education), or one type of program (such as a tax credit or a default scheme). Some solutions are best suited to government action, others to the private sector, and some to social groups or nongovernmental organizations. The authors are hopeful that effective public-private partnerships can increase saving for low-income families, but also realize that this alliance may last only as long as the required level of governmental involvement and investment remains moderate. While the federal government has shown interest in encouraging saving, government action alone is not enough.

The authors note several criteria to take into account in evaluating the effectiveness of savings innovations, including making sure that an increase in saving from one product does not just reduce saving elsewhere, considering whether long- or short-term savings vehicles are desired, and assessing saving in the context of other financial decisions such as credit management. They also note that research should consider how savings initiatives affect overall family well-being.

The authors conclude that policymakers need research to provide guidance about how much and what type of saving is optimal for families. While some such research has been done on long-horizon retirement savings, similar attention should now be paid to the full range of saving options, particularly emergency saving. In doing so, researchers must be sensitive to the needs of low- and moderate-income families, whose concerns about short-term emergencies are just as legitimate as their needs to plan for far-off retirement.

http://www.irp.wisc.edu/publications/focus/pdfs/foc271d.pdf

Alfred Kahn, who died in 2009 at the age of 90, built a distinguished career in child welfare and social policy at the Columbia University School of Social Work.

The legacy of Alfred Kahn: Comparative social policy and child well-being

Jane Waldfogel

Alfred Kahn's greatest of many contributions during his long and distinguished career was his pioneering work in comparative social policy. Along with his colleague Sheila Kamerman, he focused mostly on comparative and international work, particularly on the important role of income transfer and other social welfare policies in reducing child poverty and improving outcomes for children, and on documenting the poor cross-national ranking of the United States in that area. Kahn was convinced that one can only understand one's own country in a larger context—at the very least in the context of developments in other advanced industrialized countries.

In this article, the author reviews some of Kahn's comparative work as well as some of the comparative work that he inspired. The big questions that come up in the cross-national studies that Kahn and Kamerman pioneered are: (1) How does the well-being of children vary across countries, and are these differences related to differences in social policies?; (2) What explains the policy variation?; and (3) Would children in the United States be better off if we adopted policies more like those in other nations?

The Conclusions

A major thread through much of Kahn's work was the assertion that child and family well-being in the United States could be advanced by enacting social policies more like those found in other nations. The author uses evidence from Britain's war on poverty to argue that the significant progress that Britain has made over the past decade in reducing child poverty contains policy lessons for the United States. Particularly, such progress is possible, and it is not necessary to identify all the details of the policy in advance. The British strategy of promoting work and making work pay, while also raising benefits for non-working families and investing in children, could also provide lessons for the United States.

The author concludes that as recently as a few decades ago, Americans did not see what we could or should learn from other countries. Social policy is now becoming more global. Alfred Kahn and Sheila Kamerman played a major role in convincing Americans that they could—and should—learn from policies of other advanced industrialized nations. In the last piece Kahn wrote, it is clear that the group of nations from which the United States can learn includes not just Western countries, Eastern Europe, and Asia, but newly industrialized and developing countries as well. The other change Kahn stressed in his final piece was the shift that occurred in social policy, away from a narrow focus on child-saving to a broader focus on child well-being. The author notes Kahn's sense of optimism and deep concern for children, and hopes it will inspire the next generation of comparative social policy scholars.

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