

The Politics of Opportunity

The Case for a New Middle Class Economic Message

A Third Way Message Memo by Anne Kim, Director of the Middle Class Project and Jim Kessler, Vice President for Policy

With Bernard Schwartz and Adam Solomon, Third Way Trustees

The Problem: Progressives win on the economy in opinion polls but lose the middle class to conservatives at the ballot box.

The Strategy: Shed the progressive tendency toward pessimism, which turns off middle-class voters. Employ an optimistic message about America's future that echoes the successful progressive tradition of presidents Franklin Roosevelt, Harry Truman, John Kennedy and Bill Clinton. Address the aspirations of the middle class as well as their anxieties. Criticize conservatives for economic policies that damage America's middle class.

The Message: *"A new era of middle-class opportunity."*

Introduction

For at least the past decade, public opinion polls have given progressives consistent and even commanding leads over conservatives on the economy. But it's a different story at the ballot box, where progressives have faced resounding defeats among those with between \$30,000 and \$75,000 in household income—especially white voters. Why have progressives persistently lost to conservatives among the heart of the middle class?

There is no doubt that national security and *What's the Matter with Kansas?* culture issues have been a drag on progressive performance. But from our in-depth analysis of exit polls dating back to 1996, we have determined that national security and culture cannot fully explain progressives' pervasively sub-par performance among the middle class.

Rather, our middle class economic agenda and the messaging associated with it must share the blame for our problems with the middle class.

In our analysis, we discovered several key disconnects between the way progressives view the American economy and the middle class, versus the way the

middle class feels about the nation's economy and their role in it. Americans are optimistic about the nation's future and their own; progressive messaging is not. Americans see our society as a basically fair one, where hard work is rewarded; progressives emphasize obstacles to middle-class success. Progressive messaging centers on economic security and economic justice; the middle class aspires to wealth and doesn't see big business or the wealthy as enemies. And while Americans are anxious about the very real challenges of the global world, progressives downplay the strengths of the American economy, feed into the anxiety that many Americans experience, and fail to inspire conviction that America can continue to lead the world.

Based on this analysis, we believe that progressives should revamp their message and call instead for "*A New Era of Middle-Class Opportunity*."

This message would repair the current disconnects between progressives and middle-class voters while holding true to progressive values. It also challenges progressives to embrace an optimistic view of America's strengths and economic future, and it balances progressive concerns about those not yet in the middle class with the aspirations of those who are already there and want to achieve more.

To do this most successfully, progressives should look back to and build upon the approach taken by President Bill Clinton. As a candidate in 1992, Clinton emphasized the need for Democrats to speak to the needs of the forgotten middle class. He ran on a strong and *positive* economic message aimed directly at middle-class voters, and his campaign persona—"the man from Hope"—embodied the optimism of his personality and his politics. As President, Clinton continued his focus on the middle class with a governing agenda that sought to address the challenges faced by middle-class families. Popular legislation such as the Family and Medical Leave Act are part of that legacy. As a consequence of this concerted emphasis on the middle class, President Clinton's performance with middle-class voters has not been matched since.

In addition to a new message, we offer a series of policy ideas to back this new message, together with a new critique of conservatives.

This memo contains five sections:

- A discussion of why national security and culture issues cannot fully explain pervasively poor performances by progressives among the middle class at the ballot box.
- An examination of five critical areas where progressives and the middle class disagree.
- A new progressive message on the economy—"A New Era of Middle-Class Opportunity"—that we believe will resonate with the middle class.
- An outline and examples of a policy agenda that matches this new message.
- A new critique of conservative economic policies and how they are damaging the middle class.

Section 1: What's the matter with the middle class? It's not just culture and national security.

Republicans consistently win the middle class at the ballot box. In the 2004 election, John Kerry lost by 6-points among voters with household incomes between \$30,000 and \$75,000 (our definition of "the middle class").* Among white voters in this income range—who represent one-third of the voting population and three-fourths of the middle class—Kerry lost by 22-points, and congressional Democrats lost by 19-points. Moreover, the income level at which a white voter was more likely to vote for a Republican over a Democrat in congressional races—the economic tipping point—was only \$23,700 (not that far above the poverty line).ⁱ

Many progressives blame these losses on national security fears in the post 9-11 world and on conservatives' use of hot-button cultural issues to separate voters' economic interests from their moral concerns. The evidence shows that this is only partly true:

- In 2000, when national security was a "B-list" issue, congressional Democrats still lost the middle class by 1-point, and Al Gore lost the middle class by 2-points. Among white middle-class voters, Gore lost by 15-points, and congressional Democrats lost by 14-points.
- In 1996 (after President Clinton had championed and Congress had passed a tough crime bill and welfare reform), congressional Democrats still lost the middle-class vote by 3-points and the white middle-class vote by 12-points. (Clinton himself, however, turned out the best performance among middle-class voters in recent cycles, winning the middle class by 1-point. He has been the only Democratic presidential candidate to do so in 30 years.)
- White middle-class voters are only marginally more socially conservative than voters as a whole. For example, 52% of white middle-class voters are pro-choice or lean pro-choice, versus 57% of all voters who are pro-choice or lean pro-choice.ⁱⁱ
- Most public opinion polls find that the economy is still as important to voters as values. National exit polls found 22% of voters choosing "values" as their top issue in 2004, versus 20% for "economy/jobs."ⁱⁱⁱ

And while some may look to the burgeoning Hispanic vote as a source of strength for Democrats, rapidly rising Hispanic incomes have meant declining Democratic margins. Between 1996 and 2004, Hispanic voter incomes increased at twice the rate of white and black voter incomes, while Democratic margins among Hispanic voters shrank from 50-points in 1996 to 24-points in 2000 to 12-points in 2004.^{iv}

Can Democrats win elections without winning the middle class? Not likely. Middle-class voters are 45% of the voting population, and white middle-class voters are 33%

* The median household income of a voter in 2004 was \$54,348.

of the electorate. Kerry would have had to win 59% of the non-middle-class vote just to break even after his 22-point deficit with the white middle class.

Conclusion: Even under the best of circumstances—when national security has receded as an issue and Democrats are neutralizing culture issues—the self-described “party of the middle class” has lost the middle class. Progressives dismiss at their peril the likelihood that they are failing to reach, compel and excite middle-class Americans on economic issues.

Section 2: Building the case for a new middle class economic message: Five degrees of separation between progressive leaders and the middle class.

We have identified five specific areas of separation between progressive messaging and average Americans that should be addressed in rethinking the progressive economic message:

Disconnect #1: Pessimism vs. Optimism

“What does it mean in America today when Dave McCune, a steelworker I met in Canton, Ohio, saw his job sent overseas and the equipment in his factory literally unbolted, crated up, and shipped thousands of miles away along with that job?...”

— John Kerry, 2004

These lines from John Kerry’s convention speech are indicative of current progressive rhetoric and messaging on the economy. The implication of the job and factory going overseas is that of America’s decline as the world’s economic power. The worker in this narrative is a passive victim of circumstances, with little control over his destiny. The overall tone is pessimistic.

We have scores of other examples from progressive leaders and organizations sounding similar messages—messages of an American Dream fading, poverty increasing, wages falling, jobs disappearing, schools crumbling, China rising, and the like.

But this is not how most Americans feel—like President Clinton, they do indeed believe in “a place called Hope.” Despite vacillating views about the state of our economy at a given point in time, Americans are consistently optimistic about their own personal circumstances:^v

- 78% of Americans say they are doing “fairly well” financially, including 56% of households with annual incomes of less than \$20,000.^{vi}
- Three months after 9/11, 80% of Americans expressed optimism for the year ahead.^{vii} Two months after gas prices hit \$3 per gallon, 73% of Americans were optimistic about their family’s finances.^{viii}
- 80% of Americans think it is “still possible to start out poor in this country, work hard, and become rich.”^{ix}
- Only 22% of Americans say they don’t expect to “earn enough money in the future to lead the kind of life you want.”^x

In addition to being out of sync with voters, pessimism is a losing political strategy. Our research into the literature of political psychology found that pessimism implies passivity and helplessness, not leadership and vision.^{xi} A landmark study of optimism in politics by two University of Pennsylvania researchers concluded that in 18 out of 22 presidential elections from 1900 to 1984, the more optimistic candidate won.^{xii}

According to this research, a pessimistic message sends the wrong signals about progressives' ability to cope with the challenges they see. And Republicans certainly see Democratic pessimism as a vulnerability; accusations of pessimism are now a standard theme of the Republican critique.¹

Conclusion: Progressive economic messaging is pessimistic, while Americans are optimistic about the nation's future and their own.

Disconnect #2: Economic Decline vs. Economic Strength

"...Wages are falling, health care costs are rising, and our great middle class is shrinking. People are working weekends; they're working two jobs, three jobs, and they're still not getting ahead."

— John Kerry, 2004

Beyond messaging, progressives seem to believe that America's economic future actually *is* in decline. Not only is this political poison for the optimistic middle class, this prognosis is not shared by most mainstream economists in the business world.

Over the last six years, the American economy dealt with the bursting of the tech bubble, devastating terrorist attacks on our financial hub, an expensive war, perhaps the greatest natural disaster ever on American soil, rising oil prices, and an incompetent president—and our economy is still moving forward.

Let's be clear—no one can deny that there are serious and legitimate concerns about our economy. The nation's federal budget deficit is at a record high, as is America's trade deficit with the world. Manufacturing jobs have declined, and the gap between the wealthy and the middle class is increasing.

These are not trifling problems that should be glossed over by progressives. But for every piece of bad news, there is also good news about the economic health and future of America:

- Nearly 70% of Americans own a home.^{xiii}
- Americans are living longer and healthier.
- Over the last 20 years inflation has been lower, recessions shallower and less frequent, and expansions longer than in the previous 50 years. From 1900 to 1980, recessions occurred on average once every four years, but since 1980, recessions have occurred on average once every nine years.^{xiv}
- Welfare rolls continue to decline.^{xv}
- Unemployment has been and remains extremely low, while productivity has climbed steadily.

¹ See, for example, the following statement from a 2006 press release by House Speaker J. Dennis Hastert: "This economy is like a heavyweight boxing champ: strong, sturdy and still swinging. After fighting through a recession, terrorist attacks, and a devastating hurricane season, it's too bad that the economy still has to contend with Democratic naysayers who want to talk it down."

- 49% of Americans in the middle income quintile and 29% of Americans in the second-lowest quintile own stock.^{xvi}
- No nation rivals ours in sheer economic might. The nation's 2005 GDP, about \$12.5 trillion, was nearly triple the GDP of Japan, six and a half times the GDP of China and nearly 17 times the GDP of India.^{xvii}
- American companies dominate the global market. In 2003, 25 of the world's 100 top non-financial transnational corporations were American, according to data collected by the United Nations.^{xviii}
- The United States still leads the world in innovation investment. In 2002, the United States invested 6.6% of its GDP in "knowledge"—research and development, higher education and software—compared to 5.0% in Japan and 3.8% in the European Union, according to the Organization for Economic Cooperation and Development.^{xix}
- American students spend an average of 13.8 years in formal education—more than any other industrialized nation in the world except Norway.^{xx}

And beyond these specific measures of strength, there is every reason to believe that no nation is better poised to reap the rewards of the global economy than America—provided strong and responsible leadership by government. No other nation boasts the advantages conferred by the strength of America's political and social institutions or the flexibility of its economy. America has a 230-year head start on democracy over China. America enjoys a free enterprise system supported by strong and transparent capital markets, legal protections for intellectual property and a democracy that is unrivalled in the world for the freedoms it provides its people.

This is not meant to imply that all is well in America. But it is critical to separate the strength of the overall economy from the real challenges—the "squeeze"—faced by the middle class. Wages and net wealth for all but the top tier of Americans have stagnated or even retreated during the Bush years. The cost of college tuition—essential in a knowledge economy—has increased faster than the rate of inflation for 26 consecutive years. Health insurance costs have routinely increased by double digit rates. Employers squeezed by rising costs are shedding traditional pension plans and cutting back on health benefits—the social contract workers have counted on for decades is eroding. Many workers face the triple burdens of more risk, more debt and less security.

But instead of conflating the state of the middle class with the state of the overall economy and predicting doom for both, *progressives should be seeking ways to better tie the fortunes of the middle class to the nation's economic strengths*. In fact, by downplaying the strengths of the American economy, Democrats are robbing themselves of the very solution to the problems they identify. As President Clinton once said, "There is nothing wrong with America that cannot be cured by what is right with America."^{xxi}

It is in the American nature to believe that America—the country that withstood the Great Depression, defeated the Nazis, stared down the Soviets, sent a man to the moon, and invented the internet—will prevail in an economic battle against China, Japan, and India and that the American standard of living can only get better. If progressives believe otherwise, they will be wrong on substance as well as wrong on the politics.

Conclusion: Progressive messaging implies a nation in decline, despite many signs of America's strengths.

Disconnect #3: Economic Security vs. Individual Opportunity

"So often, powerful forces and powerful interests stand in your way, and the odds seem stacked against you—even as you do what's right for you and your family."

— Al Gore, 2000

Progressives rarely talk of individual aspirations of greatness or success; they mostly talk to where people are economically or where they are afraid to fall, not to where they aspire to go. And as the quote above shows, progressive messaging centers on economic insecurity and the obstacles that middle-class families face.

Over the last 25 years, however, Americans' attitudes about employment security and employment ambition have changed—even as progressive messaging has not:

- **Despite anxieties about off-shoring and job losses due to globalization, the vast majority of working Americans still feel their own jobs are secure.** In 2005, only 13% were worried that their hours will be cut back, 14% were worried that their wages will be reduced, and 12% feared that their employer will move company jobs overseas.^{xxii} Many more Americans say they are worried about being burglarized (24.6%)^{xxiii}, having their car stolen or broken into (41.7%)^{xxiv}, or about their weight (48.4%).^{xxv}
- **People today are at least as concerned with opportunity.** In a series of polls conducted over several decades for *Fortune* magazine, roughly half of Americans surveyed in the 1940s, 1950s and 1960s said they would choose a low income job that they were certain of keeping over a higher income job that they had a 50-50 chance of losing. Starting in the 1980s, however, only one-quarter of Americans said they wanted the low income, high security job. Even during the 1990s recession, only 28% of voters chose certainty over risk.^{xxvi} Likewise, another series of polls between 1973 and 1994 found that between 47% and 52% of Americans said that a "feeling of accomplishment" was what they most preferred in a job; only 5% to 9% said "no danger of being fired."^{xxvii}
- **Most people generally believe that hard work is rewarded and credit their own hard work (or lack thereof) for their current station in life.** Polls in recent years show that nine out of ten Americans credit their "own efforts and

abilities” for their financial success,^{xxviii} and 88% of Americans are “very satisfied” or “somewhat satisfied” with “the opportunities you have had to succeed in life.”^{xxix} And among those who say they don’t feel successful, only 20% blame “things other people have done to me.”

Moreover, only 11% of Americans say it is essential to come from a wealthy family to get ahead in America, and only 16% say it is essential to know the right people.^{xxx} Rather, 46% of Americans instead say that “hard work” is an essential factor for getting ahead in life, and 39% say a “good education.”^{xxxi}

Economic security must and should be addressed, but progressives should not ignore the equal, if not greater, desire that Americans have for expanded economic opportunity.

Conclusion: Progressive messaging focuses almost exclusively on economic security; Americans care as much or more about economic opportunity.

Disconnect #4: Most progressive economic ideas don’t benefit the middle class

Many of the signature ideas and policies that progressives propose and champion for the middle class promote economic security, not opportunity. Providing training for displaced workers, extending unemployment insurance, bankruptcy protection and universal health care fall into that category. *But security without opportunity is insufficient in attracting middle-class Americans.*

To the extent that progressive policy ideas do speak to opportunity, they are principally targeted at those not yet in the middle class (although they are spoken of as middle-class initiatives). Raising the minimum wage, expanding the EITC, increasing Pell Grants, making the child care tax credit refundable and fully funding Head Start are worthy progressive initiatives, but they have virtually no impact on the middle class.

- The average family income for Pell grant recipients in 2003-2004 was \$19,460.^{xxxii}
- Head Start is specifically targeted at children living in poverty or whose families are eligible for public assistance.
- The maximum income for EITC eligibility last year was \$37,263 for a married family of four. The benefit for this couple was \$1.^{xxxiii}
- Only 2.7% of the entire workforce earned the minimum wage last year, and half of those were under the age of 25.^{xxxiv} In 1980, approximately 15% of Americans earned the minimum wage.^{xxxv}
- Even providing health care for the uninsured directly affects only 15.7% of the general population and still fewer of the middle class.^{xxxvi}

The few progressive initiatives that directly speak to middle-class opportunity—such as college tuition tax deductibility—are given far less prominence than those that benefit the poor.

Conclusion: Many signature progressive economic priorities don't speak to the middle class, but to those aspiring to join it. Other initiatives speak to economic security, not opportunity. Security without opportunity is insufficient to attract middle-class Americans.

Disconnect #5: An off-target critique of conservatives

The current progressive critique of conservative economic policies tends to center on either hostility to corporate America, whether it is Kerry's "Benedict Arnold CEO's" or the current animus against "big drug companies,"^{xxxvii} or on opposition to "tax cuts for the wealthy" (a web search on www.house.gov turned up 559 hits for that phrase).

Putting aside whether these messages are substantively correct, are they convincing to average Americans? If the measure is support for progressives at the ballot box, the answer is no. Here is a possible reason: Americans don't see big business or the wealthy as the enemy.

- When asked to identify the biggest threat to America's future, 61% chose "big government," compared to 27% who chose big business.^{xxxviii}
- Large corporations (with 500 or more employees) employed nearly 58 million Americans in 2001—or slightly more than half of the entire American workforce.^{xxxix}
- Opinion polls find that between 85%—90% of working Americans say they love, like or are at least pretty satisfied with their jobs.^{xl} 85% of working Americans have a strong sense of loyalty to their company, and 67% feel their company has a strong sense of loyalty to them.^{xli}

Americans also aspire to wealth and admire the wealthy. In 2005, about 14% of Americans identified themselves as "upper-middle-class,"^{xlii} compared to 8% who identified themselves as such in 1955.^{xliii} Only 9% of Americans last year identified themselves as "lower class."^{xliv}

Conclusion: Progressives focus too much on those who benefit from the economy (business, wealthy people), instead of on the failures of conservative economic policies.

Summary: Middle-class voters are rejecting the progressive economic message because of its:

1. pessimism;
2. implicit belief that America's economy is in decline;
3. emphasis on economic security over individual opportunity;
4. lack of policy ideas that would significantly and directly improve the lives of the middle class (rather than those aspiring to join it); and
5. off-target attacks on the beneficiaries of conservative policies instead of conservatives themselves.

Section 3: Defining a new progressive economic message targeted to the middle class.

We believe that a compelling middle class economic message should repair each of the specific areas of disconnect outlined in the sections above. To resonate with the middle class, the message should:

- Be optimistic about America but critical of conservative political leadership;
- Recognize challenges but emphasize America's strengths and demonstrate confidence in the future;
- Balance its emphasis on the themes of economic security, economic justice, fairness, and wealth redistribution with a new emphasis that speaks directly to the aspirations of the middle class;
- Offer ideas that directly benefit the middle class; and
- Provide a direct critique of conservative economic policies that highlights conservative failures to benefit the middle class.

While the future of our nation, or any nation, is always uncertain, progressives must show confidence in America's future if we follow the right path. A message that focuses on our nation's weaknesses is far less compelling than a message that focuses on its strengths.

The Message: *"A new era of middle-class opportunity."*

"A new era" is implicitly critical of the old regime and speaks to the new times we live in. "Middle class" explicitly defines our target voter. "Opportunity" refers to three goals:

- Keeping the economy strong to create new middle-class jobs;
- Promoting the individual economic aspirations of middle-class Americans; and
- Managing the risks of economic insecurity, so individuals have the freedom to pursue opportunity.

We believe this message is well-suited to a fast-paced global world marked by aggressive competition, rapid changes in technology, greater participation in mechanisms for creating wealth (i.e. the stock market), and the shifting of more risk for such necessities as health care and pensions from employers to individuals. This message can help progressive candidates directly address middle-class anxieties about globalization and answer the question of what government, voters, their children and our nation will need to do to succeed and *win* in the global economy—not just get by.

It speaks to middle-class aspirations of success and financial independence. Finally, it lends itself to a policy framework that has as its goals the creation of economic opportunity and mobility for the middle class through American economic strength and global leadership.

Section 4: New progressive ideas that support the message, “A New Era of Middle-Class Opportunity.”

We envision the message, “*A New Era of Middle-Class Opportunity*,” supporting a new generation of policy ideas that follow President Clinton’s lead of such signature middle-class initiatives as the Family and Medical Leave Act, COPS and tax cuts for the middle class.

Future Third Way reports will flesh out these policy agendas in detail, but we offer here some preliminary examples of the types of ideas that this message will support.

1. Keeping the American economy strong

We believe progressives should offer a set of policies designed to keep our economy strong and to bolster the creation of new middle-class American jobs. This agenda must be centered on maintaining the engines of American job growth—that is, our nation’s current technological, institutional, and innovation dominance. Moreover, this agenda must be cast as a means of sustaining our economic superiority—not as rescue measures for a nation “falling behind.”

Some sample policy ideas for keeping the American economy strong:

- **Get the nation’s fiscal house in order** by controlling entitlement spending, reining in budget deficits, and holding the federal government to the same standards of efficiency and competitiveness that are demanded of the nation’s companies and workers.
- **Invest in infrastructure to create the jobs of the future** by increasing government investment in research and pure science, wiring the nation for advanced information technology, and creating an agenda for how America can lead the globe in alternative energy development and export.
- **Help businesses keep jobs in America** by containing health care costs, lifting some of the burden of retirement security off of business and punishing countries that use unfair trade tactics that harm American companies and American jobs.
- **Make American workers the best-educated in the world** by increasing access to life-long education, maintaining the best college and graduate institutions in the world and improving our public schools.
- **Protect American innovation—a critical engine of American job growth—from international theft, counterfeiting and piracy** with aggressive international enforcement and patent reform.
- **Open new global markets for American-made goods and services** by lowering artificial trade barriers that discriminate against American products and negotiating aggressive trade agreements that will enable American companies to reach the 95% of the world’s consumers who live outside our borders.

- **Create a tax and regulatory environment that promotes job growth** by reforming and simplifying the tax code.

2. Promoting middle-class aspiration

In developing an agenda focused on aspiration, we asked the following question: “What does it take to become economically successful in America?” To find an answer, we looked at the characteristics and attributes of the top income quintile in America (\$100,000 + in household income) to see what traits, if any, can be emulated and encouraged through public policy for the benefit of the middle class.

We found that the wealthy top fifth of Americans are mostly college educated (60% compared to 25% for the nation as a whole), married (94%), and have two working incomes in the family (81% are households with two or more earners). While they do have investment income, their yearly wealth is overwhelmingly achieved through work—not investments. They are owners of the economy—owning homes and stocks.

We suggest a policy agenda that:

- gives young Americans the opportunity to enter the middle class,
- middle-aged Americans the ability to move beyond the middle class, and
- the elderly the wherewithal to retire in comfort and economic security.

It is designed to help more Americans graduate from college and earn advanced degrees, encourage marriage, promote savings, investment, and ownership, and help Americans pursue educational and career opportunities that will increase their earning power and build wealth.

Some sample policy ideas for promoting middle-class aspiration:

- **Creating opportunity for young Americans:**

Education. Make college the goal of all young Americans by expanding college tuition and graduate tuition tax deductibility for middle-class parents, sweetening GI education benefits, containing college tuition costs, holding colleges accountable for graduation rates, expanding Pell Grants to higher incomes, increasing education standards in elementary and secondary schools, creating national service scholarships for students who commit to government service in exchange for college tuition, and encouraging parents and children to aspire to college.

- **Helping adults build wealth and raise families:**

Education. Encourage middle-class career ladders by expanding opportunities for adults to enter or return to college or earn an advanced degree, creating incentives for companies to provide all of their workers with opportunities to learn new skills for job advancement, and providing short-term federal “career advancement” loans to mid-career students and entrepreneurs.

Family. Help dual-career households balance work and family by creating incentives to promote telecommuting and flextime, creating national standards and “report cards” on child care quality, doubling the tax break for middle-class child care expenses, encouraging companies to provide paid maternity and paternity leave and developing transportation policies that cut commute time.

Jobs. Create opportunity for rural Americans by making a national commitment to universal broadband access.

- **A comfortable retirement:**

Savings. Help seniors build a comfortable nest egg with new incentives for savings and investment. Shore up the Social Security Trust Fund.

3. Helping individuals manage risk so they can pursue their aspirations

Much of the social contract that served American workers so well during the 20th century is slowly eroding. Since World War II, employers have been the principal providers of health care, guaranteed lifetime pensions, and stable long-term employment for the middle class. But this is changing as health care costs steadily rise, life expectancies increase, and deregulation, technological change, globalization and fierce international competition have led companies to boost productivity and rein in compensation costs. Today, fewer companies provide health insurance, many ask employees to pay a greater share for coverage, traditional pensions are becoming extinct, and long term, lifetime employment with a single employer is now an anomaly. This has led to a tectonic shift in risk from employer to employee that must be the center of new public policies that modernize the social contract.

We believe that progressives should recast their current emphasis on economic security to emphasize the economic freedom necessary to pursue opportunity. “Freedom,” in our view, is a modern version of President Franklin Delano Roosevelt’s “essential human freedom” of “freedom from want.”^{xiv} It is the freedom to pursue prosperity without the impediment of undue economic risk.

The first goal of this particular agenda is to confront the changing social bargain between companies and their employees.

The second goal of this agenda is to recast traditional progressive policy initiatives through the prism of creating opportunity by advancing economic freedom. To borrow Thomas Friedman’s phrase, what progressives should seek to provide should be as much a “trampoline” as a safety net.^{xvi}

Some sample policy ideas that help individuals manage undue risk:

- **Provide all Americans with affordable health insurance.** Genuine competition-based health care reform can lower cost, improves quality and provide universal access to low-cost health insurance.

- **Create a trampoline back into the workforce for workers who lose their jobs.** Traditional safety net programs should be recast and expanded as an “opportunity net” to provide workers with more and better opportunities for extended education, low-cost access to health care insurance for workers in transition and mechanisms for matching private sector needs with worker skills. The unemployment insurance system and the trade adjustment assistance program should be reformed and expanded.
- **Guarantee Americans a secure retirement.** American workers can no longer count on their employers for a guaranteed income in retirement, and public policy must provide alternative mechanisms to replace the old pension system. Possible options include matched savings accounts, automatic IRAs or 401(k)’s, or seeded savings accounts that are opened at birth or with the first job. By freezing the estate tax at current levels (instead of phasing it out), enough money can be saved to provide ample “worth at birth” accounts to every American newborn without increasing the deficit. And Social Security must be made solvent in the long-term.

Section 5: Redefining the conservative critique—how conservative economic policies hurt the middle class.

Conservatives know what to say to attract the middle class, but they don't know what to do to help the middle class. A successful critique is one that best articulates the view that conservative economic policies are hurting the middle class. Currently, progressives attack tax cuts for the wealthy and conservative support of corporate interests. Judging by the votes of the middle class, we know this message has not worked.

Rather than attacking the *beneficiaries* of conservative economic policies, progressives should be attacking conservative principles and the policies conservatives espouse. For example, conservatives believe that the engine of the economy is the wealthy, not the middle class, so they chose to eliminate all taxation on multi-million dollar inheritances instead of providing college tuition tax breaks to ordinary people. Conservatives believe that government is evil ("make it small enough to drown in a bathtub."), so they hire incompetent people to run critical agencies like FEMA. They believe that America does best when people are left to fend for themselves, so they sit idly while global market forces erode standard worker benefits like health care and pensions and shift basic risks from the employer and government to the individual.

In later Third Way publications, we will lay out a full critique making the case that conservative economic policies are undermining the American middle class.

In the interim, we provide some preliminary examples of how progressives can begin to fashion an effective attack:

The Critique: *"Conservative economic policies are damaging to America's middle class."*

Critique #1: Conservative policies will not keep America's economy strong

Even in today's competitive global economy, conservatives believe there is no meaningful role for government to help business expand jobs and opportunity at home. They have no plan to keep America on top, because they believe the best plan is to do nothing. And the old conservative view—that government should live within its means—is as antiquated as the buggy whip.

They've done nothing to preserve American jobs by cracking down on foreign competitors who break international trade laws. They've done nothing to tear down unfair trade barriers to American exports. They've done nothing to contain historic deficit spending and trade deficits. And although our economy is vitally dependent on

innovation, they've done nothing to stop the piracy of American intellectual property by China and other countries.

There is a reason that under George Bush's watch the budget deficit has ballooned. It is the cost of a conservative ideology that believes doing nothing is always better than doing something.

Conservative economic policies threaten to weaken America's economy.

- **Record budget deficits:**

President Bush has unnecessarily squandered the record budget surpluses he inherited when he came into office. Our nation now faces record levels of debt—most of which are owned by foreign competitors.

- **No investments in infrastructure:**

President Bush has failed to make a national commitment to universal broadband. The United States now ranks only 12th in the world in internet infrastructure penetration.

- **No strategy for keeping American jobs at home:**

President Bush's top aides have encouraged the outsourcing of American jobs without recognizing the threat to the middle class or creating a strategy for keeping American workers and American companies competitive.

- **Incompetence:**

President Bush has appointed incompetent people to head key government positions because he doesn't believe government should play a role in helping the economy.

- **No effort to protect American innovation and intellectual property:**

President Bush allows Chinese pirates to steal \$25 billion in American intellectual property every year—a direct hit to American jobs.

- **No effort to open new markets for American goods and create more jobs at home:**

President Bush has done next to nothing to help American companies reach the 95% of the world's consumers who live outside our borders. Instead he has squandered time and resources pursuing minor trade deals with tiny countries (Lesotho, Namibia, Ecuador) that have scant potential for creating new American jobs.

Critique #2: Conservative economic policies fail to realize middle-class aspirations

In contrast to conservatives, who believe that the wealthy are the engine of the economy, we believe the engine of the economy is the middle class. Conservatives believe that if the wealthiest in America do better, success will trickle down to ordinary people. Thus, the centerpiece of their economic plan was eliminating inheritance taxes

for enormous estates, slashing the top tax rate for the highest wage earners, and reducing investment income taxation.

We believe that middle-class prosperity creates a “virtuous economic cycle” of increased consumer spending, increased corporate capital expenditure and increased corporate and personal investment in education. And that is why the conservative plan has failed the middle class. Under President Bush, the very wealthy have prospered while middle-class Americans have run in place.

The record federal surpluses that President Bush inherited should have been invested in new infrastructure, innovation, technology and research to help create new industries and the next generation of middle-class jobs. He should have invested in tax breaks to make college and graduate school more affordable to families.

In his nomination acceptance speech in 2000, then-candidate Bush declared his belief that “prosperity was a test of vision.”^{xlvii} He has failed his own test.

The economic policies of President Bush and his allies have failed to create new opportunities for middle-class Americans.

- **No help with rising college costs:**

President Bush has made college less affordable for middle-class families by proposing cuts in federal student loan funding.

- **Tax cuts that don’t benefit the middle class:**

President Bush wasted the nation’s surpluses on tax cuts tilted toward the most affluent instead of college tuition tax cuts or investments in new technologies that will create American jobs.

- **No effort to promote middle-class prosperity:**

Under Bush’s watch, income has stagnated for all but the select few.

Critique #3: Conservatives’ sink-or-swim philosophy places too much risk onto the backs of the middle class

Conservatives believe that individuals do best when government does less. That is why conservatives have tried to eliminate the Department of Education and the EPA. That is why they believe that Social Security should be privatized. Theirs is a philosophy that tells people to sink or swim on their own. They believe that freedom means freedom *from* government even when people need help. But conservatives also use “freedom” as an excuse for government abandonment of its citizens. True freedom is how we have defined it elsewhere in this message memo—as the freedom to pursue opportunity without undue fears of economic insecurity. The conservative approach in fact leads to *less* freedom, and for many, could even lead to the prison of poverty and insecurity.

The conservative sink-or-swim philosophy is out of sync with today’s world. Middle-class Americans in particular face significantly more risk as companies shed their historical obligations to provide retirement security and health insurance. And

because wage growth for the middle class has not matched the pace of rising costs of living, more families are exposed to higher levels of debt.

President Bush and the conservative Congress add risk and insecurity to individual Americans.

- **Fewer opportunities and higher debt burdens for the young:**

As college tuition costs continue to rise far faster than inflation, President Bush has cut college tuition aid. The average debt burden for student borrowers is now more than \$19,000.

- **New elements of risk for adults and families:**

President Bush relies on health savings accounts as a stand-alone strategy for health care reform. HSAs shift more costs to individuals without improving quality or lowering prices.

- **Uncertainty in retirement:**

President Bush proposes to privatize Social Security, which would cut benefits, bankrupt the system and abandon millions of seniors to the risk of financial ruin in retirement.

Conclusion

Progressives have an historic chance to seize the political and substantive opportunities presented by the ongoing transformation of the global economy and lay out a positive vision for how the middle class can prosper in the 21st century. With a compelling, positive message, progressives can lay out a strong agenda for continued economic growth and job creation while recapturing the allegiance of the middle class.

Progressives must rethink their current economic message, which fails to speak to the aspirations of the middle class and provides no clear path for how to create new middle-class opportunity. Future Third Way reports will provide detailed policy prescriptions to flesh out the agenda we provide in outline here and also provide a detailed critique of the conservative worldview.

We hope that this memo will provide progressives with an initial roadmap to a new message and strategy that will reach and compel middle-class voters.

For each of these sections, Third Way can provide additional information and analysis.

Please feel free to go to our website www.third-way.com and click on The Middle Class Project—or contact Anne Kim (akim@third-way.com) at 202-775-3768 x219.

Third Way is a strategy center for progressives whose philosophy builds on the ideological legacy of the modern Third Way movement founded by President Clinton and Prime Minister Tony Blair. We develop policy and communications products to help Senators, House members and other progressive leaders connect more effectively with moderate voters.

Endnotes

- ⁱ Third Way, "Unrequited Love: Middle-class Voters Reject Democrats at the Ballot Box," June, 2005.
- ⁱⁱ Based on an analysis of 2004 exit polls.
- ⁱⁱⁱ Third Way, *The Politics of Pessimism: Is the Democratic Economic Message Tone-Deaf?*, May 2006.
- ^{iv} *Ibid.*
- ^v Third Way, *The Politics of Pessimism*.
- ^{vi} Roper Poll, "Americans Talk About Personal Finances" May 2004, 1,014 respondents
- ^{vii} Gallup Poll, "Terrorism Reaction Poll" Sept. 21-22, 2001, 1,008 respondents.
- ^{viii} ABC News/Washington Post, "Outlook for 2006 is Positive, But Wide Partisan Gap Remains" Dec. 31, 2005.
- ^{ix} New York Times Poll, Class Project, March 3-14, 2005, 1,764 respondents.
- ^x Pew Research Center for People and the Press, "Economic Concerns Fueled by Many Woes," May 11-15, 2005, 1502 respondents.
- ^{xi} Third Way, *The Politics of Pessimism*.
- ^{xii} Zullow, Harold M. and Seligman, Martin E.P., "Pessimistic Rumination Predicts Defeat of Presidential Candidates, 1900 to 1984," *Psychological Inquiry*, 1990, Vol. 1, No. 1, 52-61.
- ^{xiii} US Census, Housing Vacancy Survey Historical Tables.
- ^{xiv} Remarks by Governor Ben S. Bernanke at the Meetings of the Eastern Economic Association, Washington, DC, February 20, 2004.
- ^{xv} http://www.acf.dhhs.gov/programs/ofa/caseload/2005/TANF_Caseload_Report_011806.htm.
- ^{xvi} Bucks, et al.
- ^{xvii} International Monetary Fund, *World Economic Outlook Database*, 2005.
- ^{xviii} United Nations Conference on Trade and Development
- ^{xix} OECD Science, Technology and Industry Scoreboard 2005-Towards a Knowledge-based Economy.
- ^{xx} OECD, Education at a Glance 2005.
- ^{xxi} President William J. Clinton, Inaugural Address, January 20th, 1993, 1993 Public Papers of the Presidents of the United States, Books I and II, government printing office, available at: <http://frwebgate2.access.gpo.gov/cgi-bin/waisgate.cgi?WAIISdocID=615303310089+4+0+0&WAIISaction=retrieve>
- ^{xxii} Gallup Organization, Work and Work Place, August 8-11, 2005, 1001 respondents.
- ^{xxiii} Gallup Organization, Gallup Poll Social Series: Crime, October 13-16, 2005, 1012 respondents.
- ^{xxiv} *Ibid.*
- ^{xxv} Gallup Organization, Gallup Poll Social Series: Consumption Habits, July 7-10, 2005, 1006 respondents.
- ^{xxvi} American Enterprise Institute, "The State of the American Worker 2005: Attitudes About Work, Chores and Leisure in America, August 30, 2005, available at <http://www.aei.org/publicopinion17>.
- ^{xxvii} *Ibid.* The only exceptional year was in the recession year of 1982, when 43% said they wanted a feeling of accomplishment, and 10% said job security was most important.
- ^{xxviii} National Public Radio/Kaiser/Kennedy School Poll, Poverty in America, January 4-February 27, 2001, 1952 respondents
- ^{xxix} Gallup Organization, Minority Rights and Relations/Black-White Social Audit, June 6-26, 2005, 2264 respondents.
- ^{xxx} New York Times Poll, Class Project, March 3-14, 2005, 1,764 respondents.
- ^{xxxi} *Ibid.*
- ^{xxxii} Office of Postsecondary Education, U.S. Department of Education, "2003-2004 Federal Pell Grant Program End-of-Year Report," available at www.ed.gov.
- ^{xxxiii} Internal Revenue Service, Publication 596 (2005), Earned Income Credit (EIC).
- ^{xxxiv} U.S. Department of Labor, Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers: 2004."
- ^{xxxv} Smith, Ralph E. and Vavrichek, Bruce, "The minimum wage: its relation to incomes and poverty," Bureau of Labor Statistics.
- ^{xxxvi} U.S. Census Bureau, "Income, Poverty and Health Insurance Coverage in the United States: 2004."

^{xxxvii} Pelosi: The Majority's Medical Malpractice Bill Is a Windfall for Big Drug Companies, July 28, 2005, <http://www.house.gov/pelosi/press/releases/July05/medmal.html>

^{xxxviii} Gallup Organization, Gallup Poll Social Series: Lifestyle, December 5-8, 2005, 1013 respondents.

^{xxxix} U.S. Census Bureau, Statistics about Business Size, available at <http://www.census.gov/epcd/www/smallbus.html#EmpSize>.

^{xi} Gallup Organization, Gallup Poll Social Series: Work and Education, August 8-11, 2005, 1001 respondents. Roper Center for Public Opinion Research, citing a survey by Metlife Foundation, Civic Ventures. This survey found that 91% of people are "very satisfied" or "somewhat satisfied" with their work or career. Only 3% are "not at all satisfied." See also Roper Center for Public Opinion Research, citing a survey by Pew Research Center: 84% of those surveyed were very satisfied or somewhat satisfied with work, and only 5% were very dissatisfied.

^{xii} Roper Center for Public Opinion Research, citing Gallup Organization survey, August 9-11, 2004, 1017 respondents.

^{xiii} Gallup Organization, Gallup Poll Social Series-Economy and Personal Finance, April 4-7, 2005, 1010 respondents.

^{xiiii} Gallup Organization, Gallup Poll #548, June 3-8, 1995, 1462 respondents.

^{xlv} Gallup Organization, Gallup Poll Social Series-Economy and Personal Finance, April 4-7, 2005, 1010 respondents.

^{xlv} Franklin Delano Roosevelt, "The Four Freedoms," speech delivered January 6, 1941.

^{xlvi} Thomas L. Friedman, *The Lexus and the Olive Tree*, Anchor Books, 2000.

^{xlvii} Governor George W. Bush Acceptance Speech, Republican National Convention, August 3, 2000.