CommonWealth

POLITICS, IDEAS & CIVIC LIFE IN MASSACHUSETTS

The American ~~Dream~~ Scream

With income inequality rising and economic mobility declining, is the vision that once united us turning into a horror story?

A SPECIAL ISSUE

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CommonWealth

EDITOR Bruce Mohl
bmohl@massinc.org | 617.742.6800 ext. 105

EXECUTIVE EDITOR Michael Jonas
mjonas@massinc.org | 617.742.6800 ext. 124

SENIOR ASSOCIATE EDITOR Gabrielle Gurley
ggurley@massinc.org | 617.742.6800 ext. 142

ASSOCIATE EDITOR Paul McMorrow
pmcmorrow@massinc.org | 617.742.6800 ext. 155

SENIOR INVESTIGATIVE REPORTER Jack Sullivan
jsullivan@massinc.org | 617.742.6800 ext. 123

ART DIRECTOR Heather Hartshorn

CONTRIBUTING WRITERS Dave Denison, Colman M. Herman, Dan Kennedy, Laura Pappano, Robert Preer, Phil Primack, B.J. Roche, Pippin Ross, Robert David Sullivan

WASHINGTON CORRESPONDENT Shawn Zeller

EDITORIAL ADVISORS Mickey Edwards, Ed Fouhy, Alex S. Jones, Mary Jo Meisner, Daniel Okrent, Ellen Ruppel Shell, Alan Wolfe

PUBLISHER Gregory Torres
gtorres@massinc.org | 617.742.6800 ext. 103

WEB EDITOR Christina Prignano
cprignano@massinc.org | 617.742.6800 ext. 107

SPONSORSHIP, ADVERTISING & CIRCULATION Caroline Palmer
cpalmer@massinc.org | 617.742.6800 ext. 145

INTERN Mariah Sondergard

> Full contents, as well as online exclusives, are available at www.commonwealthmagazine.org

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ARTICLES

DEPARTMENTS

DISCUSSION

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SCOOPED BY DE TOCQUEVILLE

Your recent article on Gov. Deval Patrick's campaign to reduce executive compensation at the state's quasi-public authorities ("Salary Divide," Summer '11) was fascinating. However, I regret to inform you that you were scooped by Alexis de Tocqueville in 1835. I'm enclosing a copy of Democracy in America, Volume I, Part Two, Chapter Five, which is entitled "On the Instincts of American Democracy in Fixing the Salaries of Officials." The key quote is on page 204. "This is seen very clearly in the United States, where wages seem in a way to decrease as the power of officials is greater." (A footnoted chart compares salaries for similar government jobs in the US and France and finds US salaries are higher than those in France for lower-level jobs but lower for higher-level jobs.)

Stephen Eide
Senior research associate
Worcester Regional Research Bureau

DELAYS IN SERVICE

I could have read your recent article on the SouthCoast Rail Project ("Delays in Service," Summer '11) while driving to work on I-93. Unsafe to read while driving? Not at all, because, as anyone who commutes on 93 (or Routes 24 or 128) knows, each of those highways is like a parking lot during rush hour, partly thanks to the thousands of cars commuting to the Boston area from points south where commuters have no choice other than to drive.

Would the SouthCoast Rail project be expensive? Of course, all needed rail or road investments would be. But we're paying the cost of not building it already and that cost is only going to increase. Traffic on Route 24, Route 128 and Interstate 93 south of Boston, and their local feeder roads, is costing Massachusetts residents—not just from the South Coast, but from places like Needham, Stoughton, Braintree, and even parts of Boston—untold millions directly in gas, time, and car repairs, and, indirectly, from the effects of the resulting air pollution to additional roadway maintenance costs. In addition, every Massachusetts taxpayer pays to support South Coast communities while they wait for the economic benefits of the rail project, through social spending, law enforcement, and lost potential tax revenue.

Your article spent its time answering the easy question: How much would the project cost to build? Instead, your readers would have been better served by learning the answer to the harder question: How much will it cost Massachusetts not to make this and other critical transportation investments for our future?

Rep. Antonio F.D. Cabral
New Bedford

TAKE A SWAN BOAT RIDE

Colman Herman's article, "Swan Boats, Sullivan's Get Sweet Deals from

the City, State" in the summer issue, is a real disappointment. It starts with a specific bias, is shallow, and not well researched. There is nothing inappropriate I can see about the relationship between the Swan Boats and the city.

The Paget family is devoted to its enterprise and its customers. I know Lyn Paget personally and she has a fulltime job in addition to her work with the Swan Boats. The family's commitment is reflected in its philanthropic contributions to the Friends of the Public Garden (I am a member of the Friends board and the Board of the Beacon Hill Civic Association, although these views are my own).

The Swan Boats operation brings to the park unmeasured benefits in terms of clean-up, physical improvements, safety, and maintenance of the pond itself. Herman failed to cite these huge benefits to the city, its residents, and visitors accrued from the secondary impacts of the Swan Boats.

I encourage Herman to take a ride

We welcome letters to the editor. Send your comments to editor@massinc.org, or to Editor, *CommonWealth* magazine, 18 Tremont Street, Suite 1120, Boston, MA 02108. Please include a city or town, as well as a daytime phone number. Letters may be edited for clarity and length.

on the Swan Boats and see for himself what the Paget family has and continues to contribute to the Public Garden and the city and avoid easy cheap shots that are beneath *CommonWealth*.

Colin Zick
Boston

DISCLOSURE IS THE KEY

The Swan Boat gig is a good one, but it's been in place for so long that I'm willing to give it some slack. Disclosure, however, would go a long way to make others (and me) happy.

I see this as completely different from proposals to privatize parts of the Boston Common and allow profit-making ventures on this hallowed ground.

The city should encourage people to visit. I recommend making the skating on the Frog Pond free, with charges for skate rentals. As a Boston taxpayer, I'd be willing to foot the bill to get people to visit. And it's a lot less intrusive than a restaurant or a carousel.

John A. Keith
Boston

DEVELOPING MEANINGFUL 'BEANS'

Paul Levy's discussion in "Down the drain" (Summer '11) of the importance of agency managers building a political constituency to support funding for infrastructure needs nicely describes the historical context, but I have seen some successful approaches by agencies to address this issue since I worked for Paul on the Boston Harbor Project 25 years ago.

The first challenge to agencies is to develop some public performance measures that allow for definition of the problem and comparison of your institution to your peer group. Much of government is busily measuring performance, though the challenge is to develop meaningful "beans" to count. Paul himself made remarkable progress on one issue—hospital-based infections during his tenure as a hospital president—and publicly reported performance through his blog.

Developing meaningful performance measures that provide clear management focus is challenging and can often lead to extensive public debate. Witness the disagreements regarding student testing for school and teacher evaluations. Ultimately, though, they lead to important public dialogue about the priorities for public infrastructure provision.

While Paul's blog served as a useful way for him to communicate with his staff and board, it would be useful if these performance measures could become a regular part of reporting. It is easier to track the daily statistics of the Red Sox than it is to measure how the T's performance compares to other systems around the US and whether it's getting better or worse.

Agencies need to include maintenance and repairs in their capital plans

This need provides a tremendous opportunity for a magazine like *CommonWealth* to provide an important assessment of the status of Massachusetts infrastructure. The end page of each issue could track public transit, roads and bridges, public education, water, and wastewater on a rotating basis. Infrastructure varies less rapidly than Red Sox batting averages so an annual look would be sufficient.

The second challenge is to develop future scenarios that allow the public to understand the consequences associated with continuing to ignore their infrastructure. There have been excellent examples of ways to do this around climate change. Al Gore even won an Oscar for it! But unless the public has a good analogy about how a failure to act will affect them in their daily life, it is easy to put off action. The current debate about budget deficits between the president and the Republicans shows wonderful examples of trying to simplify complicated outcomes.

Finally, for many public agencies there is a necessity of incorporating basic infrastructure repair and maintenance into long-term capital plans. Paul's example on Boston Harbor was played out so often around the country that EPA has adopted a strategy of "asset management plans" as a way to make water and wastewater agency boards set aside sufficient capital to sustain their infrastructure over the long-term. Orange County Sanitation District's early work in looking at their needs over 25 to 50 years prompted their board to support significant rate increases to set aside enough capital for the future.

Paul's call for agency managers to do a better job in developing a political constituency for infrastructure needs is an important focus for *CommonWealth*. Fortunately, we have come a long way since the Deer Island Mother's Day catastrophe.

Michael Connor
San Lorenzo, California

American Dream: More than a bumper sticker

In 1996, the first issue of *CommonWealth* magazine featured a cover story on the changing economics of middle-class life in Massachusetts. The story focused on Heritage Road in Billerica, where the residents were doing reasonably well but having some doubts about the promise of the American Dream.

As then-editor Dave Denison reported, the families on Heritage Road were not a discontented lot. Their homes were comfortable, their families intact, and every household contained at least one full-time wage earner. But Denison uncovered anxiety beneath the surface.

"There is a willingness to ask questions about something that has long been understood to be part of the promise of a hardworking middle-class life: upward mobility," Denison reported. "Getting ahead. Is it even possible anymore? Is it more a matter of luck than effort? Has something changed in the American economy that means preventing a slide backward is the best we can hope for?"

Fifteen years later, *CommonWealth* is asking the same questions. And in this special issue on the American Dream, the answers are troubling. In the wake of the Great Recession, the American Dream is in deep trouble, the middle class is being squeezed, and the nation's politicians seem hopelessly gridlocked. As our cover says, the American Dream has become the American Scream.

I started this project somewhat reluctantly. I thought the subject was too broad, too amorphous. At one of our early planning sessions, no one could agree on what the American Dream was. But as I read, researched, and talked with people about this issue—and then watched as protesters took to the streets in New York, Boston, and elsewhere—I came to see that the American Dream is far more than a bumper sticker.

David Ellwood, dean of the John F. Kennedy School of Government at Harvard University, summed up the American Dream's importance. "If you have that belief, that your hard effort will pay off for you and your kids, that's a reason to work hard, a reason to invest, a reason to believe in your country. It's even a reason to believe in your government," he says. "But when you don't believe that way, when you feel like somebody else is getting rich but you're not, and your escalator is hardly going up at all and maybe even going down, that's a very different feeling. I think we're in danger of losing that genuine feeling that you can be anybody and anything."

Our coverage this issue analyzes the American Dream from a variety of angles.

Our coverage in this issue analyzes the American Dream from a variety of angles. MassINC's Ben Forman and Caroline Koch develop a Middle-Class Index that can be used to gauge how Massachusetts residents are faring and how their experiences compare to middle-class citizens of other states. The magazine also features articles on income inequality, the growing education gender gap, the housing paradox in Massachusetts, the precariousness of retirement, and three immigrants who live in Framingham. We talk to think tank scholars who are putting aside their political differences to find common ground around the American Dream and review a new book on the declining middle class.

All in all, it's not a pretty picture, and Boston College professor Alan Wolfe pulls no punches in his devastating critique of Washington. "As far as politics is concerned, there is no longer an American Dream because we no longer dream and because we cannot agree on what it means to be an American," he says.

Bruce Mohl

BRUCE MOHL

97.4

Massachusetts's score on MassINC's middle-class index shows only a slight drop since the start of the decade, but some of the data are ominous

BY BEN FORMAN AND CAROLINE KOCH

THE BAY STATE economy expanded by more than 10 percent last decade—8 percent growth on a per capita basis after accounting for inflation. It's not the Massachusetts Miracle, but given that we were nearing the peak of the tech boom in 2000, and in 2010 we were barely emerging from an even bigger bust, these aren't horrendous growth figures.

The problem is they don't say anything about how well the state's residents fared. Production is the standard measure for economic performance, yet trying to figure out how changes in output affect the well-being of individuals is like guessing where the Red Sox will finish in the American League East based only on their number of runs scored.

Fans can draw from a heap of indicators to debate the play of individual players and teams. Unfortunately, there's nothing like the *Baseball Almanac* when it comes to economic life in Massachusetts. The only true estimate of well-being is the federal poverty rate, which tells us if families earn just enough money to scrape by, large regional variations in the cost of living notwithstanding.

Without meaningful statistics, it's difficult to measure how economic change affects families. Equally important, it's hard to judge the accomplishments of our elected leaders and the economic policies they advocate. Lack of standard, commonly reported metrics explains much of the futility in the current dialogue around the state of the middle class.

We must have a more productive debate if we're going to make the tough decisions needed to get our economic policies in order at both the state and federal level. Indicators that record and illuminate how our choices translate into wins and losses for the middle class should be at the center of this discourse.

MassINC has been combing through available data to come up with just such a meaningful set of measures. While this effort is still a work in progress, the Middle-Class Index we've developed begins to provide a fuller picture of how Massachusetts residents are faring, and how their experiences differ from those of middle-class citizens in other states.

To get a feel for this index, it's important first to understand its construction. Surveys suggest about 60 percent of Americans consider themselves to be middle class. We use this ratio, assembling data for residents in the state's middle three income quintiles. For families, this range spans from about \$32,000 to a little more than \$141,000 in total income annually from all sources.

In looking at how residents are managing on these earnings, we wanted to see whether they were achieving the American Dream, which survey research helps define as, first and foremost, financial security. Other pillars include a comfortable retirement; good health and access to quality and affordable health care services to maintain it; homeownership; strong families; and educational opportunity.

Building an index is partly about what measures you include, but equally important is how you combine them. Since the 26 indicators that make up our index all come in different units, we look at how each has moved in percentage terms since the beginning of the last decade. We give more weight to indicators that are fairly stable over time, so that a small but significant movement in a key indicator, such as the homeownership rate, which has risen slowly, isn't overshadowed completely by large fluctuations in a measure like student debt, which has grown dramatically.

We're interested in knowing how families have fared since 2000, a time when the state's economy was roaring, so we set our benchmark figure for the Middle-Class Index at 100 for that year. Using our 26 indicators, today's Middle-Class Index is 97.4. While this is just a slight drop from the benchmark 100 figure at the beginning of the last decade, dramatically divergent trends in the four subindexes we use suggest that conditions are, in fact, significantly more challenging today for the state's middle-income residents.

The middle class is holding on to many pillars of the American Dream. The **Achieving the Dream** subindex, which tracks whether traditional middle-class attributes are within reach for middle-income families, actually climbed to 105.2. The **Working Conditions** subindex is virtually unchanged, indicating residents aren't laboring harder to attain their standard of living, at least compared with the beginning of the decade. Despite a large increase in income inequality and very low scores relative to the nation, Massachusetts made some progress over the last decade on our **Equal Opportunity** subindex, mostly by increasing the homeownership rate for non-white residents.

But our numbers reveal a precipitous decline in the nine measures that form the final subindex, **Financial Security**. Since they relate to overall wealth and income—the bedrock upon which middle-class status is built—these measures should be thought of as leading indicators. They show weak income growth and increasing volatility in earnings in a time of rising costs in education, health care, and housing. Savings rates are falling and personal bankruptcies are rising. Middle-class residents in Massachusetts are clinging to the American Dream, but these data confirm what many have observed: Their grasp is increasingly tenuous.

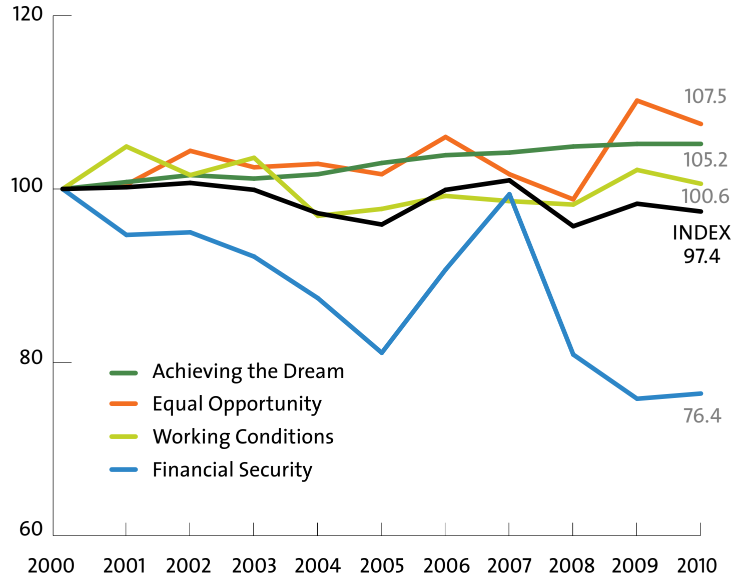
Often, the patterns that emerge when you look at a large set of numbers make little sense. But in this case, the indicators fit together like pieces of a puzzle. They tell a neat story about the state's middle class during a difficult decade. Economic forces pushed hard against family income, slowing growth to a crawl. Government policy pushed back with efforts to expand access to health care and higher education, and make housing more affordable. Here's our telling of this story through the middle-class index data.

MIDDLE-CLASS INDEX

	MA 2010	PERCENT CHANGE, 2000-2010 (-100 / 0 / 100%)	MA AS % OF US AVERAGE, 2010 (0 / 100% / 200%)	TREND	STATE RANK 2010
Financial Security Subindex					
Median Family Income	$77,242			▲	4
Median Household Income	$59,600			—	6
Income Volatility Index	66			▼	33
Personal Bankruptcies per 100,000 Residents	3.5			▼	19
Middle-Income Households without Interest Income	37%			▼	8
Middle-Income Households without Dividend Income	74%			—	13
Middle-Income Households Housing Cost Burden	22%			▼	40
Health Care Cost Burden	4.5%			▼	4
Student Debt	$21,521			▼	35
Working Conditions Subindex					
Union Membership	14.5%			▲	16
Middle-Income Households with Multiple Jobs	5.1%			▲	19
Middle-Income Full-Time Workers, Mean Weekly Hours	43			—	2
Travel Time to Work (minutes)	27			—	46
Employment Rate	92%			▼	23
Achieving the Dream Subindex					
Middle-Income Households Homeownership Rate	69%			▲	35
Residents with Health Coverage	96%			▲	1
Middle-Income Households Retirement Plan Participation	58%			▲	10
K-12 Student Teacher Ratio	14:1			▲	16
College Going Rate	75%			▲	2
College Completion Rate, Four-Year Degree	69%			▲	1
Middle-Income Residents Marriage Rate, Age 35-44	66%			—	26
Equal Opportunity Subindex					
90/10 Household Income Inequality Percentile Ratio	13.7			▼	49
Nonwhite Median Household Income	$39,000			▲	16
Foriegn-Born Median Household Income	$47,897			—	16
Nonwhite Homeownership Rate	37%			▲	48
College Completion Rate, Two-Year Degree	20%			▲	40

TREND: ▲= getting better, ▼= getting worse, — = stable STATE RANK: 1 = best

MASSINC MIDDLE-CLASS INDEX AND SUBINDEXES, 2000-2010



OVER THE LAST decade, the median family's income grew only by about 6 percent. These earning gains were more than offset by increased costs. And income has become more and more unstable. Our figures show income volatility in Massachusetts increasing by nearly a third since the early 1990s, rising at about the same pace as volatility nationally. Volatility is not merely a symptom of recession. In Massachusetts it actually peaked in 2006, while the economy was still growing at a decent clip.

For those who experience an unanticipated decline in earnings, the only option may be to draw down on savings or tap a 401(k) account, especially since the lifelines that middle-class families often relied on in the past—credit cards and home equity loans—are less accessible. Ideally, we'd be preparing for an era of greater uncertainty by increasing our savings, but exactly the opposite has occurred. In 1993, only 22 percent of the state's middle-class households had no interest income. Today, 37 percent of households report having no income from interest.

Homes are the only financial asset middle-class families gained during the last decade. After declining slightly in the 1990s, homeownership rates for middle-income families rose in the 2000s to 70 percent at the end of the decade. But families borrowed heavily to become homeowners, many taking second mortgages to cover their down payment, and extending the terms out as far as 30 years. For the average middle-income household in Massachusetts, both renters and homeowners, housing costs as a share of income grew from less than 14 percent in 1990 to 22 percent in 2010.

Increasing housing costs have been accompanied by rising health care costs. In 2000, the average employee contribution for a family health care policy amounted to 2.6 percent of median family income in Massachusetts. In 2010, health premiums absorbed 4.5 percent of family income. And this increase doesn't include the cost of deductibles and prescription drugs, which can be substantial, especially for families who have members with chronic conditions that require ongoing treatment.

The rising cost of living will inevitably impact the number of middle-class families that are able to achieve the American Dream in Massachusetts, but so far we've managed to forestall such a trend. The number of families with health insurance has risen dramatically over the last two decades, due in large part to the state's 2006 health care reform law and significant public subsidy. Access to higher education has also grown steadily. Only 58 percent of high school graduates went on to college in the early-1990s. Now more than three-quarters continue their schooling uninterrupted. The share of bachelor's degree candidates who complete their studies has also ticked up slightly over the last decade. Nearly 70 percent of students earn a degree within six years.

But these figures have a significant time lag. The most recent 2009 college completion rate covers students who began in the fall of 2003. The economic challenges families faced later in the decade may have a dramatic effect on college access, particularly given the run-up in costs. Tuition, room and board, and fees at the state's public universities have more than doubled since the early 1990s.

Increasing housing costs have been accompanied by rising health care costs.

With families making greater financial sacrifices to get kids through school, saving for retirement has become more difficult. Over the last two decades, only about half of full-time middle-class workers have participated in employer-sponsored retirement plans. Given the uncertain long-term outlook for Social Security, this forebodes challenging times ahead for many middle-class residents.

The statistics compiled in our index also tell an important story about how Massachusetts families compare to their middle-income counterparts in other states. Nationally, the middle-class index fell to 94.2.

Both the nation and Massachusetts saw a precipitous decline in the Financial Security subindex. We did a little bit better on the Financial Security subindex because Massachusetts households and families saw slight income growth during a decade when median earnings fell nationally. The components of this subindex look very different for the state versus the country. While we often hear that Massachusetts has some of the highest health care costs in the US, Bay State employees shoulder a relatively smaller share of those costs than do workers nationally, and families in Massachusetts earn more. So as a percentage of the state's median family income, the employee contribution for a family health insurance policy is among the lowest in the nation. But this health care cost advantage is more than offset by our housing cost disadvantage. Middle-class families in Massachusetts have some of the highest housing cost burdens in the nation.

Massachusetts did better on the overall index largely due to growth in the Equal Opportunity subindex that measures the extent to which all groups have a fair shake at the American Dream. But this superior performance is no cause for celebration. On many of these indicators, we rank among the worst in absolute terms. In 2010, the Commonwealth finished second only to New York on income inequality; only New York and Rhode Island have lower nonwhite homeownership rates; and only about 10 states have lower associate degree completion rates, an indicator we use as a measure of family economic mobility.

These statistics that track the health and vitality of the middle class give a fuller picture of how residents are faring, and provide good benchmarks to monitor as economic change continues to shape the lives of Bay State families. But this set of figures is far from complete. There are no reliable figures at the state level to understand what families have for assets, which means we don't really know how much families have stashed away to weather an economic downturn, and it's impossible to say if residents in different age groups are on track to make retirement savings milestones.

Our Working Conditions subindex suffers because we don't know enough about how families spend their time, and how these allocations are changing. The American Time Use Survey provides good detail nationally, but for Massachusetts we don't know how much paid vacation middle-class families get. From the data we do have, it seems as if middle-income workers haven't lengthened their work week considerably, but how much time is spent in the evening at home answering work-related emails and performing other tasks not accounted for in these figures?

While there are probably many other useful ways to measure how the middle class is faring, we have had a hard time finding good models. After months of searching, we found no state with an index tracking the well-being of middle-class families. Even for the nation, middle-class indexes are scarce. The few that exist focus narrowly on financial security. In this data-driven age, it's remarkable that more effort hasn't been made to do this. The White House's Task Force on the Middle Class, established in 2009 and headed by Vice President Joe Biden, could take on this important work. The nation's Federal Reserve banks are also well-positioned to compile these indicators. More so than federal agencies, their regional focus means they often provide state-level data.

Our effort to craft a Middle Class Index is certainly an imperfect endeavor, but we believe it's important to have a yardstick with which to take stock of where families stand in their pursuit of the American Dream. We encourage anyone who sees an opportunity to improve or build upon on our approach to visit our website and download the data. You can add your own measures and reweight ours according to your own reckoning of the relative importance of these variables to the health and vitality of the state's middle class. Please share with us what you find. CW

Ben Forman is the research director at MassINC and Caroline Koch is a MassINC research assistant.

A way out of gridlock

A group of think tank scholars from across the political spectrum are finding common ground on the American Dream BY SHAWN ZELLER

WITH UNEMPLOYMENT TOO high, economic growth too low, and the gap between the rich and poor widening, the American Dream is hurting. Adding to the gloom is the polarization in Washington, where even a simple task like raising the country's debt ceiling nearly led to economic cataclysm this summer.

Yet the dream lives on for many Americans. Polling earlier this year indicates nearly 7 out of 10 Americans believe they have achieved or will achieve the American Dream. This bedrock devotion to the American Dream presents policymakers in Washington with a way out of political gridlock, says the Pew Charitable Trust, which launched its Economic Mobility Project four years ago.

Pew assembled a group of Washington think tank scholars from across the political spectrum and asked them to lay out the facts on economic mobility and propose any necessary policy solutions. The project was the brainchild of Pew's board, which still includes several descendants of Sun Oil Company founder Joseph N. Pew. "They were very aware of and cognizant of discussions around income inequality, but it's a divisive topic," says Erin Currier, the project's manager. "So the question was: How could the organization begin thinking about the American Dream in a non-politically polarizing way? They settled on the frame of economic mobility."

Given the personalities and ideologies involved, the think tank scholars have come to a striking degree of agreement. Policymakers in Washington who are serious about overcoming the polarization between the parties might want to give the project's results a look.

Ray Bashara, a senior fellow at the New America Foundation and one of the project's principals, says the key was framing the discussion properly. Talk about inequality of wealth, he says, and conservatives and liberals retreat to their respective corners. But orient the discussion around economic mobility and the American Dream and suddenly both sides are willing to talk.

"No one had to fight over the term 'American Dream.' If we'd talked about poverty or inequality, we wouldn't have gotten far," says Bashara. "But talking about economic mobility and the American Dream brought a lot of people together."

The Pew team began publishing research in early 2008 on the state of class mobility in the United States and has more recently bored down to examine specific problems, such as the mobility gap separating blacks and whites, the economic problems facing the children of single-parent families, and the damage wreaked by the recent recession.

According to Pew's research, the American Dream is not a myth, but it's not nearly as vibrant as it should be. One of the more sobering findings: When comparing one generation's incomes to the next, the United States is less economically mobile than many European countries, including Denmark, Norway, Finland, Sweden, Germany, and France. It is also less economically mobile than Canada.

Much has been made, of course, about the growing gap between rich and poor. The richest 1 percent of Americans now control a quarter of the nation's annual income and more than a third of all wealth. Those numbers have been growing of late. But the Pew scholars downplay that trend, arguing that greater class stratification might be tolerable if it were also true that the American economy was improving the standard of living for all of its citizens and providing opportunities

ILLUSTRATION BY ALISON SEIFFER

for the poor to become rich or at least to gain a measure of economic security and comfort.

But a slowdown in economic growth over the last 40 years means that the American Dream vision of upward mobility is in doubt. Indeed, Pew's research found that while family incomes have risen because more women are working, men in their thirties—typically entering their peak earning years—are making about $5,000 less on average than their fathers did in their thirties, after adjusting for inflation.

The situation is far worse for blacks and women. Black children of the middle and upper middle class are likely to earn less than their parents, while girls born poor are 50 percent more likely than men to remain so as adults, according to Pew's research.

Such statistics have taken a toll on the American psyche. Earlier this year, Pew found Americans are worried about their finances. Less than a third say their financial situation is "excellent" or "good," down 23 percentage points from when the Great Recession began in 2007, according to Pew's poll. And for the first time in years, less than half of Americans believe their children will enjoy a higher standard of living than they do.

Yet it's Americans' consistent devotion to the possibility of the American Dream that separates the United States from much of the developed world, says Stuart Butler, one of the Pew project's principal researchers and the director of the conservative Heritage Foundation's Center for Policy Innovation.

"If you ask people anywhere in the world, 'where would you go if you want to succeed in life,' they'd say the United States," Butler says. "Are they all wrong, or is there something wrong with the way we measure economic mobility?"

Butler rejects the notion that the sky is falling, but at the same time he's joined with his left-leaning colleagues on the Pew project to endorse some fundamental changes in the way the government spends what Pew calls the "mobility budget."

That budget is about $750 billion—equivalent to one of every $5 that the government spends—and includes everything from tax breaks to encourage home ownership to welfare payments to single mothers. All of the scholars agreed that the funds are skewed in the direction of those who need it least.

Consider the many federal subsidies that benefit mostly more affluent Americans: tax breaks for contributions to 401(k) plans and for employer-provided health insurance; the mortgage interest tax deduction for homeowners; and the limits on capital gains tax for home sellers. Pew found that 72 percent of the mobility budget fell into these categories, which benefit mostly the middle and upper classes. By contrast, programs to help the poor, such as welfare, job training, and grants for university students, made up the remainder.

"You look at what we do to encourage mobility and it all goes to the wrong people," says Butler.

And Butler isn't the only one willing to cross ideological boundaries. Liberals on the Pew team agreed not to include cherished income support programs in the mobility budget—such as Social Security and Medicare—on the grounds that the proceeds flow almost exclusively to senior citizens, whose prospects for economic mobility are low. Nearly a third of the federal budget now goes to Social Security and Medicare alone and those two entitlements are slated to grow rapidly now that Baby Boomers are retiring.

Support for mobility is going to the wrong people

"An opportunity society is not one that spends most of its public resources on the elderly," says Isabel V. Sawhill, a left-leaning scholar at the Brookings Institution who was one of Pew's original researchers. "It's a society that spends more of its public resources on children and younger families."

Don't try telling that to some activist groups in Washington. Last summer, amidst the debate over raising the debt ceiling, left-leaning groups condemned President Obama for considering cuts to Social Security—the president had offered to reduce the rate at which benefit checks grow—and to Medicare. There, the president was willing to raise the eligibility age from 65 to 67. One group, The Campaign for America's Future, held what it called an "American Dream rally" to protest the proposed cuts.

Conservative activists were just as big defenders of the status quo, refusing to back a deal Obama offered to scrap tax breaks for the wealthy in order to simplify the tax code and lower income tax rates. It was an indication of what stands in the way of some of the proposals by the Pew scholars on how the government should spend and collect taxes.

In a list of more than 25 ideas that Pew released in November 2009, the scholars suggested reorienting the mobility budget to help Americans improve their human, financial, and social capital in dramatic ways. Human capital, the Pew team says, covers everything from prenatal care to higher education. Under social capital, the scholars argue that government should take greater responsibility for ensuring families stay together. As for financial capital, the Pew group says that government should make it easier for lower income people to build nest eggs, with a solid bank account being a prerequisite for upward mobility.

In their proposals, goals of both the left and right are represented, as well as some ideas that will make their activist colleagues shudder.

To improve human capital, for example, Pew recommend both boosting funding for Head Start, the government's pre-kindergarten program for the poor, and continuing to experiment with school voucher programs.

To improve social capital, Pew suggests eliminating requirements in the welfare program that discourage couples from marrying, as well as new funding for an advertising campaign on the importance of marriage to economic mobility.

To help the poor build up financial capital, Pew makes one of its most far-reaching suggestions: the creation of government-subsidized savings accounts for every newborn. The government would provide tax breaks and matching funds to encourage parents to put money into the accounts and the money would be invested in a structured savings plan like the retirement program for federal employees, the Thrift Savings Plan.

Sound far-fetched? Six years ago, a bipartisan group of senators, including Democrat Charles Schumer of New York and Republican Tea Party favorite Jim DeMint of South Carolina, introduced legislation to create such an entitlement.

The Pew scholars say they're hopeful only because Americans believe so strongly in the idea of the American Dream. If some changes in the way government spends its money are sold as a way to bolster it, conservatives and liberals might be willing to sacrifice some of their sacred cows.

Some proposals make activist colleagues shudder

"I think that behind closed doors politicians understand some compromises are going to have to be made," says Richard Burkhauser, a principal on Pew's team and a visiting scholar at the right-leaning American Enterprise Institute. "One of the advantages we had because we're not running for office is that we could acknowledge the tradeoffs." CW

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A have and have-not world

Is it fair that 1 percent of the state's population pockets 22 percent of its income?

BY BRUCE MOHL | ILLUSTRATION BY SHOUT

CAROL MEYROWITZ STARTED her climb up the corporate ladder at Framingham-based TJX Corp. in 1983. Today, nearly 30 years later, she runs a $22 billion retailing giant whose off-price strategy seems to work well in good—and bad —economic times. Over the last three years, despite the Great Recession, the company's sales have risen 10 percent, its earnings have jumped nearly 50 percent, and its stock price has nearly tripled.

Meyrowitz's pay has kept pace. Her total compensation package of salary, cash incentives, stock awards, and retirement benefits was $8.5 million in fiscal 2009. It doubled to $17 million in 2010 and rose another 35 percent to $23 million in fiscal 2011, making her the highest-paid CEO at a publicly traded corporation in Massachusetts.

Altagracia Ortiz started at TJX eight years ago. The 47-year-old Providence resident, who is originally from the Dominican Republic, commuted to Fall River to work at a warehouse distribution center owned by a TJX chain called

Protesters at Occupy Boston

A.J. Wright. Ortiz says her initial salary was $6 an hour and by her eighth year she was making $10.55 an hour. That's about $22,000 on an annual basis, or a third of what Meyrowitz's compensation package nets her in a single day.

The enormous income gap between Meyrowitz and Ortiz grew even larger just before Christmas last year. Meyrowitz decided to close the A.J. Wright chain to better focus the company's resources on its faster-growing retail outlets—TJ Maxx, Marshalls, and Home Goods. The TJX board would later cite this "important decision" as one reason for giving Meyrowitz a $6 million raise.

The shutdown forced the layoff of 4,400 A.J. Wright employees, including Ortiz and 800 other workers at the warehouse in Fall River. Ortiz's situation went from bad to worse when she wasn't able to find a new job, her husband lost his job, and, without any income, the couple lost their home. Ortiz says her plight isn't unique. "They destroyed everybody's life at A.J. Wright," she says.

Meyrowitz and Ortiz bookend the income inequality story, real-life examples of the gap between rich and poor that keeps widening in the United States—and particularly in Massachusetts. Researchers are struggling to pinpoint the precise causes of income inequality and determine what, if anything, should be done about it. To some extent, inequality seems like it would be a natural byproduct of a capitalist society, with the pursuit of higher pay a tenet of the American Dream. But a growing body of research is raising alarms about long-term inequality. A recent study done by the International Monetary Fund suggests inequality may actually retard a country's long-term economic growth by precipitating economic and political instability. "A rising tide lifts all boats, and our analysis indicates that helping raise the smallest boats may help keep the tide rising for all craft, big and small," the report says.

While economists debate the harm of income inequality, there's no dispute about its existence. It has become so accepted that Procter & Gamble, the world's largest maker of consumer products, incorporates income inequality into its marketing plans. P&G used to target its soaps and detergents at a vast middle class, but now the company believes the middle class is shrinking so it is starting to market separate products to the high and low ends of the income spectrum.

This have and have-not economy is beginning to influence the nation's political debate. Democrats in Washington are tentatively starting to frame issues in terms of rich and poor, a tactic Republicans deride as class warfare. And protests unfolded this fall in New York, Boston, San Francisco, and other cities by activists who feel it's unfair that 1 percent of the nation's population controls so much of its income.

"We are the 99 percent," says one website developed by the protesters. "We are getting kicked out of our homes. We are forced to choose between groceries and rent. We are denied quality medical care. We are suffering from environmental pollution. We are working long hours for little pay and no rights, if we're working at all. We are getting nothing while the other 1 percent is getting everything. We are the 99 percent."

WHAT THE NUMBERS SAY

The richest 1 percent of the nation's population takes an 18 percent slice of its income pie, a figure that rises to more than 20 percent when capital gains are included. Those figures are nearing levels not seen since the late 1920s, just prior to the Great Depression. Between the Depression and now, the top 1 percent's share drifted downward in the 1930s and 1940s and then plummeted during the broad-based economic prosperity following World War II. It hit a low point in 1973 when it fell to 8 percent, before starting to rise in the 1980s. Over the last 30 years, the rich steadily became richer, while the rest of the population failed to keep pace.

> An IMF study says inequality may retard economic growth

The trend toward inequality is even more pronounced in Massachusetts. Tax return data compiled by the state Department of Revenue indicate the wealthiest 1 percent of filers nearly doubled their share of the income pie in just 17 years. In 1991, the wealthiest 1 percent accounted for 12 percent of the state's income. By 2008, their share had risen to 22 percent when just 35,000 tax filers reported a combined income of $53.7 billion. The wealthiest 10 percent of filers (349,000 in all) reported a combined income of $119 billion, which is just a shade less than the

PHOTOGRAPH BY J CAPPUCCIO

$122 billion reported by the other 90 percent.

Michael Goodman, an associate professor of public policy at the University of Massachusetts Dartmouth, and Robert Nakosteen, an economics professor at UMass Amherst, have plotted the changing pattern of income distribution in Massachusetts. In a recent report in MassBenchmarks, an economics journal published by the Donahue Institute at UMass, they divide the state's families into five equal groups based on income. From 1979 to 1999, each group experienced real growth in median income, although the top income group experienced much stronger growth. From 1999 to 2008, income growth slowed for the top group, but it ground to a halt or even declined for those in the lower groups. The result is a widening gap between the top and bottom quintiles.

In Greater Boston, the inflation-adjusted median income of the wealthiest 20 percent of families grew 55 percent between 1979 and 2008, rising from $150,000 to $233,000. But over that same time period the corresponding figure for the 20 percent of families at the bottom of the income spectrum fell slightly, dropping from $23,026 to $22,988. The decline at the lower end of the income spectrum was even more pronounced in the Berkshires (a 29 percent drop) and the Pioneer Valley (a 24 percent drop).

Theories abound about why incomes are diverging so dramatically. They include immigration, the decline of unions, laissez-faire politics in Washington, and, perhaps most popular, the combination of globalization and technological change. In a world where technology is changing rapidly and capital can move virtually anywhere, those with sought-after skills are in high demand and receive high compensation. By contrast, those with less valuable skills are vulnerable to losing their jobs to places where labor costs are low. Even traditionally middle-class jobs are not exempt from this dynamic. It's what Don Peck, in his new book *Pinched: How the Great Recession Has Narrowed Our Futures And What We Can Do About It,* calls the slow hollowing out of the middle class.

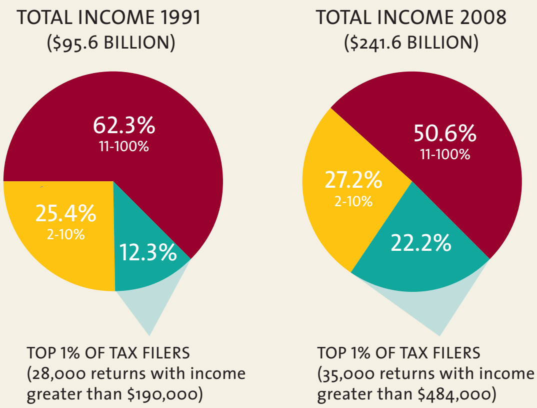
Harvard economics professors Claudia Goldin and Lawrence Katz explain income inequality by linking technological change and education. They say technological advancements throughout much of the 20th century

BIG MONEY EXECUTIVES IN MASSACHUSETTS

The top 25 executives at publicly held corporations made a combined $332 million in total compensation in fiscal 2010. Of the 25, more than half worked at just four companies. Six worked at State Street Corp., four at Affiliated Managers Group, and two each at TJX Cos. and Biogen Idec.

1. Carol M. Meyrowitz	TJX Cos.	Framingham	$23,079,110
2. Ronald D. Croatti	UniFirst Corp.	Wilmington	$21,370,201
3. James C. Mullen	Biogen Idec	Weston	$20,336,059
4. Sean M. Healey	Affiliated Managers Group	Beverly	$19,968,321
5. Paul Ricci	Nuance Communications	Burlington	$19,772,130
6. William H. Swanson	Raytheon Co.	Waltham	$18,591,959
7. Ronald L. Sargent	Staples Inc.	Framingham	$15,165,193
8. Matthew Emmens	Vertex Pharmaceuticals	Cambridge	$14,912,160
9. Jerald G. Fishman	Analog Devices	Norwood	$13,929,455
10. Scott Francis Powers	State Street Corp.	Boston	$13,539,924
11. Joseph L. Hooley	State Street Corp.	Boston	$12,919,120
12. Joseph M. Tucci	EMC Corp.	Hopkinton	$12,436,161
13. Marc D. Beer	Aegerion Pharmaceuticals	Cambridge	$11,924,172
14. Ronald E. Logue	State Street Corp.	Boston	$10,983,649
15. Joseph C. Antonellis	State Street Corp.	Boston	$10,583,091
16. Darrell W. Crate	Affiliated Managers Group	Beverly	$10,145,515
17. Nathaniel Dalton	Affiliated Managers Group	Beverly	$10,098,127
18. James S. Phalen	State Street Corp.	Boston	$9,798,520
19. Edward J. Resch	State Street Corp.	Boston	$9,441,577
20. George A. Scangos	Biogen Idec	Weston	$9,407,601
21. Jay C. Horgen	Affiliated Managers Group	Beverly	$9,143,923
22. Thomas E. Faust Jr.	Eaton Vance Corp.	Boston	$8,876,206
23. William M. Caldwell IV	Advanced Cell Technology	Marlborough	$8,861,921
24. Ernie Herrman	TJX Cos.	Framingham	$8,666,388
25. Mortimer B. Zuckerman	Boston Properties	Boston	$8,095,066

Source: CapitalIQ/Standard & Poor's



Source: Massachusetts Department of Revenue. Data is based on tax filings, which are filed by about 90 percent of the population. Those left out are primarily low income people. Income is net adjusted gross income, including wages and salaries, capital gains, and interest and dividend income. Capital gains losses are not included, but losses from business, farm rental, and royalty activity are included.

steadily boosted demand for skilled workers, but the nation's educational system churned out skilled workers fast enough to keep up with the demand. As a result, workers across the income spectrum gained economically but no one group gained disproportionately.

Over the last three decades, however, educational attainment stalled, sharply increasing demand for the skilled workers the educational system does produce. The result has been a supply-demand imbalance and a workforce increasingly divided into the well-compensated haves (those with sought-after education skills) and poorly-compensated have-nots (those with limited education).

Altagracia Ortiz, the woman laid off by TJX, falls in the have-not category. Her warehouse skills are not easily transferable to other jobs and her heavily accented English makes it difficult to move up the income ladder. She's returning to school to learn customer service skills that she hopes will enable her to find a new job.

Carol Meyrowitz, the TJX CEO, is one of the haves. She has a college degree and decades of corporate retail experience that have helped prepare her to run a mammoth company employing 150,000 workers. Still, her outsized compensation package seems to go beyond simply supply-and-demand economics. As Katz tells *CommonWealth's* Michael Jonas in this issue's Conversation, the huge compensation packages awarded to a select few have "much more to do with the massive growth of finance, with the politics of corporate governance, and changes in the norms up there." In essence, the salaries of the superrich are outliers, not fully explained by any one theory.

None of these theories would matter much if everyone, regardless of their background or race, had an equal shot at moving up the income ladder, what economists call economic mobility. Yet research conducted for the Organization for Economic Cooperation and Development indicates economic mobility is far from equal, that the income and education levels of parents heavily influence how far their offspring go in school and where they end up on the income ladder. The influence tends to be far more pronounced in the United States, the United Kingdom, Italy, and France, and less pronounced in the Nordic countries, Australia, and Canada, according to the OECD research.

GRIDLOCK IN WASHINGTON

Washington is in stalemate over what to do about the nation's deficit. Republicans want to curb spending by reducing the size of government, while Democrats favor a combination of spending cuts and tax increases. Republicans won the first round this summer, when Congress passed a budget agreement to head off a default on government debt. But since then the Democrats have tweaked their strategy, trying to make the debate more about income inequality than budget balancing. They've proposed a millionaire's tax. They've created the Buffet Rule, named for billionaire investor Warren Buffett, which stipulates that people making more than $1 million a year should pay at least the same percentage of their earnings in taxes as middle-class Americans. The Democrats in one sense are going where the money is—wealthy taxpayers—but they are also appealing to those voters who feel the rich have been getting favored treatment in the nation's capital.

> "If you tax job creators more, you get less job creation."

Republicans, led by Rep. Paul Ryan of Wisconsin, the chairman of the House Ways and Means Committee, are pushing back. They say tax increases or the elimination of tax cuts will only hurt the fragile economy. "If you tax job creators more, you get less job creation," Ryan told Fox News in September. "Class warfare may make for really good politics, but it makes for rotten economics."

US Rep. James McGovern, one of the most liberal voices in Washington, foreshadowed the emerging income inequality/class war debate when he voted against the budget agreement this summer. In a speech on the House floor, the Worcester Democrat said he did not come to Washing-

David Ellwood, dean of Harvard's Kennedy School of Government, asks: "How do you build real genuine economic ladders?"

ton to dismantle the New Deal and the Great Society. He said he did not want his children growing up in a country where the middle class is disappearing and the gap between rich and poor grows wider each year.

"One of the things that gets me so angry about this so-called deal that was struck before we recessed for the summer is it is just so unfair," he says in an interview. "There's no balance to it. Yes, we're in a mess. Yes, we have a debt. But the people who are paying for it are not responsible for that debt."

McGovern blames the federal debt on the Bush tax cuts and the wars in Iraq and Afghanistan. Yet he says Washington seems determined to deal with the debt by hacking away at programs that help working people. "Notwithstanding all the corporate greed and all the Wall Street misbehavior, Washington seems to have forgotten all of that and we're focused on inflicting more pain on the people who can least afford it," he says. "I don't think it takes a lot of courage for some of these politicians, who are multimillionaires themselves, to cut Social Security or to cut Medicare because they don't need it anyway. I think a lot of these people vote to cut programs that benefit poor people because they believe there's no political consequence at all. Poor people don't vote. They don't have a PAC. They can't write out a $2,500 check for a fundraiser."

Like most people in Washington, McGovern doesn't have a quick solution for curbing income inequality and restoring the American Dream. He talks about government working with the private sector to develop new industries. He supports giving companies financial incentives to create jobs in the United States. And he firmly believes government must invest in education.

McGovern says he was pleasantly surprised at the reaction of his constituents to his "no" vote on the debt bill, and chalks it up to a growing desperation he senses among the electorate. "They feel hopeless. They feel nobody is on their side, nobody is fighting for them," he says. "And it's not just those who don't have jobs. It's working people."

IS A FLAT TAX FAIR?

State Rep. Jay Kaufman of Lexington, who co-chairs the Legislature's Revenue Committee, is one of the few politicians in Massachusetts talking about income inequality. He says the notion of the American Dream, that anyone can move up the economic ladder, is rooted in the belief that "we're all in this together." Yet income inequality subverts that sense of togetherness, he says, and threatens our economic vitality and our social order. "I see the alienation and the anger," Kaufman says.

Kaufman believes the Massachusetts tax system contributes to income inequality, more so than the federal system. At the federal level, the income tax system is progressive, meaning an individual's tax rate increases as his or her wealth increases. Federal tax data indicate the wealthiest 1 percent of tax filers collect 20 percent of the nation's income yet pay 38 percent of all federal income taxes. In Massachusetts, with its flat 5.3 percent income tax, the wealthiest 1 percent of tax filers pocket 22 percent of the state's income and pay roughly the same percentage—25 percent—of the state's taxes.

To make the state's tax system more progressive, Kaufman is traveling around the state trying to build consensus for a number of initiatives. One is the implementation of a progressive income tax, which would require an amendment to the state constitution. Several efforts to implement a progressive income tax have failed in the past. Kaufman has filed legislation to expand the property tax circuit breaker, which currently allows low-income seniors to write off their property taxes as a deduction on their state taxes. Kaufman wants to expand the circuit breaker to include all low-income people. Kaufman says the state could also increase progressivity by raising taxes on dividends, interest, and capital gains.

Gov. Deval Patrick, asked at a press conference if he was in favor of President Obama's push for higher taxes on the rich and if a similar policy should be pursued here in Massachusetts, answered somewhat cryptically. "The answer to great wealth is not guilt, it's responsibility," he said. "And I think that's what the president is pushing for and I support his proposals."

Michael Widmer, president of the Massachusetts Taxpayers Foundation, which represents business interests on Beacon Hill, doesn't support a progressive income tax in Massachusetts, but he does agree with Kaufman that income inequality is a growing problem, not just in Massachusetts but across the nation. "What it really raises is whether the middle class is disappearing, and I think it is," Widmer says.

Jobs that once provide entrée to the middle class are much harder to come by and few new ones are being created. Andrew Bagley, research director at the Taxpayers Foundation, notes some of the biggest job losses in Massachusetts over the past decade have come in sectors such as manufacturing (35 percent decline) and construction (22 percent decline), where people without college degrees could earn a high weekly wage.

Both Bagley and Widmer say they worry about the political stability of a country where income inequality is so great. Widmer goes much further, raising an issue that is troubling many economic analysts. He says the gridlock in Washington and the inability of the nation's economy to get back on track after the Great Recession are both ominous signs that America's economic dominance is waning. "We have begun a long slow decline as a nation," he says. "Our ascendancy is over."

AN INTERNATIONAL PERSPECTIVE

David Ellwood, dean of Harvard's Kennedy School of Government, says the American Dream is alive—in Southeast Asia. On a trip last year through Indonesia, Singapore, Vietnam, and China, Ellwood says he was stunned at how upbeat people were. Even though many of the problems they were facing were more daunting than what Americans face, Ellwood says they felt they were doing better than their parents and they were convinced their children would do better than them.

"It was like the American Dream was all over Southeast Asia. It was so striking because it doesn't feel that way in this country," says Ellwood, who serves on the advisory board of the Economic Mobility Project, a nonpartisan effort of the Pew Charitable Trusts to assess the prospects for climbing the economic ladder. "How many people do you know who think their kids are going to do vastly better than they did? So much of the energy and the hope and the optimism in this country is tied up in this belief that we can do anything. It's really striking to see that kind of attitude in places like Vietnam."

Ellwood says the American Dream is an important value. "If you have that belief, that your hard effort will pay off for you and your kids, that's a reason to work hard, a reason to invest, a reason to believe in your country. It's even a reason to believe in your government. But when you don't believe that way, when you feel like somebody else is getting rich but you're not, and your escalator is hardly going up at all and maybe even going down, that's a very different feeling. I think we're in danger of losing that genuine feeling that you can be anybody and anything."

Baby boomers came of age at a time when the economy was expanding, and they were much better educated than their parents. "You put those two together and you had a recipe for growth and a recipe for optimism," Ellwood says. "Now our population is not growing and, to the extent it is growing, it is growing in groups that traditionally are at a disadvantage, who often don't get as much education or get a poor education. That's the workforce of the future. The danger is that they will not feel like they have a good route to get to a better place."

Ellwood worked in the Clinton administration on welfare reform. His goal was to move people off of welfare rolls and into the workforce, where they would start climbing the income ladder. The Clinton administration succeeded in moving many people off welfare, but they never started climbing the income ladder. "It was a new plateau," Ellwood says. "They were better off working, but they became the working poor. The real challenge for us is to create real genuine upward mobility."

It's not easy. Ellwood gives the example of a home health care aide, an entry level, dead-end job that's important yet doesn't pay well. Ellwood says many of the skills of a home health care aide could translate well to a better-paying job in a nursing home, but few people make that jump. Nursing homes, he says, are reluctant to train home health care aides because of the fear they'll just leave and go elsewhere. "How do you build real genuine ladders?" Ellwood asks.

Ellwood is still hopeful that the nation's political leaders can forge a unifying message that can bring the country together and build those ladders, but he's worried. He says the country's frustration with immigrants and the partisanship in Washington reflect growing frustration over the lack of upward mobility.

"We are kind of on a knife edge," he says. "There is another way this could go. That way is that firms increasingly find it difficult to find skilled workers here. They get them cheaper abroad. Workers get frustrated. They don't have a lot of resources. The public stops investing in education because we don't have as many kids, and we kind of unwind, and we gradually grow apart. There's a real danger of going in that direction. We can grow faster together or grow slowly apart." CW

Left behind

A gender achievement gap has males lagging behind females at every level from elementary school to college graduation rates. In an economy where education is now the key to a good job, that doesn't just spell trouble for men. It's creating a steeper climb for families to reach the middle class.

BY MICHAEL JONAS | ILLUSTRATION BY SHOUT

EACH SPRING, THE *Boston Globe* salutes the city's valedictorians by publishing photographs of the top-achieving student in each of Boston's 40 public high schools and describing their college plans. Many of the students come from lower-income families, and it's hard not to be inspired by the persistence they had to demonstrate in the face of tough odds. But something else also jumps out when scanning the portraits filling the newspaper page: Three out of every four faces belong to young women.

Girls are regularly outpacing boys when it comes to grabbing the prized honor for academic achievement at the city's high schools. But that female advantage extends far beyond competition at the very top level. Girls are achieving at higher levels across the board in Boston—and in schools throughout the country—opening a pronounced gender achievement gap

that has grown wider in recent years. The female advantage extends into higher education, where women now collect 60 percent of all college degrees. It's an astonishing reversal from 50 years ago, when men were 65 percent of all college graduates.

What makes today's gender achievement gap so alarming is that it is coinciding with huge changes in the economy that are placing an ever greater premium on education. Young men who have not obtained a college credential or, in too many cases, even a high school diploma, are tumbling out into a labor market that is punishing harshly those with low educational attainment. Manufacturing jobs, which once provided a ticket into the middle class for those without college education, have been disappearing for several decades. The recession has taken a further huge toll on sectors where men make up the lion's share of the workforce. "Traditional male employment got killed," says Mark Erlich, executive secretary-treasurer of the New England Regional Council of Carpenters, 25 to 30 percent of whose members are out of work.

"Men have been left behind," says Ira Rubenzahl, president of Springfield Technical Community College. But lagging male achievement is not leaving only men behind. Men without steady earnings also do a poor job at making family commitments. What's more, women are reluctant to marry men of lower educational attainment, so the gender gap is threatening the social fabric of entire communities, holding back the formation of strong families and entry to the middle class.

In the 1970s, marriage rates were comparable among males with and without college degrees. Today there is a gap of about 20 percentage points in marriage rates between those groups. One thing that has changed over this period is the ability of men without post-secondary education to earn a middle-class wage. "A man's ability to be a good breadwinner is probably the strongest predictor of when marriage occurs," says Sara McLanahan, a Princeton University sociologist who has studied the retreat from marriage in low-income communities.

"We're losing guy employment," says Tom Mortenson of the Pell Institute for the Study of Opportunity in Higher Education, a Washington, DC, policy organization. "And if our identity is found in the work we do, we can't be fathers or providers or protectors or much of anything else unless we have jobs."

GIRL GUMPTION

Nothing has come easy to Tameika Heathman. The 22-year-old Springfield resident spent her teens in foster homes following the death of both of her parents. At 17, she got pregnant and dropped out of high school.

She ended up on welfare with her daughter, but was able to complete her high school requirements. "They went back to my high school records and my MCAS scores and said, 'Oh, you're really smart, you got good grades for the most part,'" she says.

Today, Heathman is a psychology major at Holyoke Community College whose goal is to work as a clinician with children in the state foster care system. "There's probably lots of kids who could use help from somebody who knows what's going on, not just somebody who's pretending to care," she says. "I have to go for my bachelor's and my master's, so HCC is just a start," she says of the two-year college.

Her daughter's father, with whom Heathman is still involved "on and off," has been on a very different path. He dropped out of high school, never returned to it, and has no job. He takes care of their daughter these days when Heathman is at school. "He's been trying to go back and get his GED," she says, though he has been hampered by a reading learning disability.

Heathman's determination to get her life back on track, combined with the ability she already showed in high school before getting pregnant, reflect

Clint Bilodeau of Belchertown took a buyout from his manufacturing job and got training to drive trucks.

PHOTOGRAPH BY BRIAN MCDERMOTT

the edge in academic achievement—and in the drive to channel it to productive use—that females are showing throughout the K-12 and higher ed systems. Her boyfriend's story, meanwhile, sadly mirrors the experience of far too many young men.

On the 2010 MCAS exam, there was an 8 percentage point gap separating Massachusetts third-grade girls from boys in English language arts proficiency. Sixty-seven percent of all girls statewide scored proficient while just 59 percent of boys reached that level. For seventh graders, there was an even larger 11 percentage point gap in English proficiency. Math had been an area where boys retained an edge, but even here girls are now moving into the lead.

A 2006 report from the Rennie Center for Education Research and Policy found that the gender gap favoring girls was more pronounced in Massachusetts than the country as a whole. The same report pointed to other areas where males are struggling. More than two-thirds of those in special education are boys, and the dropout rate for boys is higher than for girls.

The higher high school graduation rates for girls, then, play out in college attendance rates. About 60 percent of college students nationally are women, a figure that has been rising steadily for several decades. "Not only are women attending more, they're doing better across the board," says William Messner, president of Holyoke Community College. "Men are more prevalent in our developmental courses [remedial classes required of those whose skills aren't up to college standards], they have higher drop-out rates, and lower graduation rates."

The Center for Labor Market Studies at Northeastern University tracked the experience over seven years of all of those graduating from the Boston public schools in 2000 to see how students were faring in their pursuit of post-secondary education. The overall finding was sobering: Of those who enrolled in college, only 35 percent had obtained a two- or four-year degree within seven years. But the study also showed an enormous gender gap in degree attainment. For every 100 men in the Class of 2000 who had obtained a four-year college degree, 146 women had done so. There were very big differences in the gender gap according to race. The gender differences among whites and Asians were minimal, but for every 100 black males who obtained degrees, 220 black women did. For Hispanics, 214 women received four-year degrees for every 100 men who did so.

"These are disastrous numbers," says Jeff Howard, a member of the state Board of Elementary and Secondary Education. "We know the association between any kind of post-high school degree and family income. If you've got a 2-to-1 disparity, you're just not going to have the solid middle-class family formation that you're looking for, that you need."

RUNNING IN PLACE

There is no single explanation for the gender disparities in education. Brian Jacob, an economist at the University of Michigan, has suggested that women's superior "non-cognitive" abilities—attentiveness, organizational skills, and a willingness to seek out help when needed—play a significant role in their greater college attendance rates.

Some have zeroed in on the idea of innate differences between boys and girls. It is a line of thinking that has been made popular by Leonard Sax, a Pennsylvania physician whose book *Why Gender Matters* has become a popular guide for advocates of single-gender classrooms.

Whether or not there are important "hardwired" differences between boys and girls that affect learning, those who work most closely with students invariably make the same observation when trying to explain why boys are having so much more trouble in school: They have a much harder time sitting still.

"Boys typically are much more active, they just need to move more," says Josh Zoia, founder of the KIPP Academy charter school in Lynn.

> School is difficult for boys because they have a harder time sitting still

That urge for kinetic movement, some say, has run head-on into the standards-and-accountability era in US schools, which has ratcheted up the focus on academics and led to more in-your-seat instruction and testing. "I'm a high standards guy," says Neil Sullivan, executive director of the Boston Private Industry Council, a nonprofit that directs school-to-career training programs. But he says we need to figure out approaches to classroom learning that will raise achievement without relying on relentless desk-based testing. "It's certainly not effective on one side of the gender gap, where we know more active engagement works better with boys," says Sullivan.

Richard Whitmire, author of *Why Boys Fail*, thinks the reason girls are outpacing boys—a phenomenon occurring across most developed countries—has to do with an overall heightened emphasis on verbal skills in education and in society and the work world more generally. He says schools have failed to adjust to take account of boys' slower development of these skills in the early grades, setting boys on a downward spiral. "The whole school reform movement inadvertently disadvantaged boys by pushing verbal skills at the earliest grades, where boys are not able to keep up," he says. "What happens is boys get discouraged, and they think school is for girls."

Keith Motley, chancellor of the University of Massachusetts Boston, is chairing Success Boston, an initiative formed in the wake of the 2008 Northeastern University study that is aimed at improving the dismal college graduation rates of Boston public schools graduates who go on to higher education. Thirty-eight area colleges have joined together and pledged to provide more aggressive advising and support for Boston students who enroll at their institutions.

But like Whitmire, Motley, an African-American who has long championed mentoring programs for young minority males, sees the difficulties for boys starting well before college. "Around third or fourth grade, students, particularly males, become a little disinterested and a little disorganized around traditional schooling," he says. Boys who are "a little anxious or won't sit still are labeled problems," says Motley, and soon "the new norm is that you're someone who can't perform."

Overshadowing various theories about learning differences is a factor that has obvious implications for boys: the absence of fathers in many low-income households. Nearly two-thirds of black children and 38 percent of Hispanic children in the US live in a household headed by a single-parent, overwhelmingly a female. The comparable figures for white and Asian children are 23 percent and 16 percent, respectively.

"Unfortunately, for far too many of our young boys there is not a father figure in their life," Zoia says of the KIPP school in Lynn, where 80 percent of the students are black or Hispanic. "I think that's one of the reasons boys in urban areas are falling behind."

The impact of fatherlessness also predicts poor performance for those males who do reach college. Thomas DiPrete, a sociologist at Columbia University, tracked the outcomes of college students and found that males who grew up in a home without a father were significantly less likely to complete their studies and obtain a degree.

Fatherlessness predicts poor performance in college

LOOKING FOR ANSWERS

KIPP Academy Lynn, a 5-8 grade charter school, has delivered impressive results since opening its doors in 2004. KIPP has an extended school day and longer school year, so its 390 students have 50 percent more time in school than district public school students. On the most recent MCAS exam, its eighth-grade students reached proficiency in math and English at rates substantially higher than those in the Lynn district schools and even slightly above the statewide average. Despite the strong overall results, the school has a persistent gender achievement gap.

The KIPP philosophy emphasizes a willingness to adapt to do whatever it takes to help students succeed. "If there a problem, we look for a better way. If there is a better way, we find it," reads a list of KIPP mottos.

In that spirit, the school took a dramatic step last year in an effort to close the gender achievement gap: it formed single-gender classrooms for two-thirds of the school's sixth graders. The school created one all-boys class and one all-girls class, while a third class was a conventional, mixed gender room. "It was very apparent to us that the way we've been teaching the boys wasn't effective," says Zoia.

Ricardo Pinto, a seventh grader at KIPP who was in last year's all-boys classroom, says despite some initial reservations among students, the experiment proved popular, and he thinks it helped the boys move forward. "Instead of having girls in the class answering all the questions, it was just us," he says. "We were going to have to do the work by ourselves."

Teachers in the single-gender classrooms were also able to tailor readings toward the interests of boys or girls. And they incorporated more active elements into the boys' class, such as a game using flash cards placed around an outdoor running track. "It's not about lowering the standard," says sixth grade teacher Beth McPhail. "Academic achievement is of course the end game."

"The idea isn't to make excuses," says Zoia. "It's to say, kids learn in all sorts of different ways."

The KIPP experiment with single-gender classes was in no way a rigorously designed research study. The results were nonetheless encouraging, with those in the all-boys' class showing more growth in English and math scores than boys in the mixed gender classroom. KIPP has broken its sixth grade into single-gender classrooms again this year, and school leaders say they may consider extending the model to other grades.

Research on single-gender schooling has not shown a clear-cut benefit, but there is growing interest in trying the approach as educators search for strategies that might close the gender gap. In 2008, Boston school superintendent Carol Johnson announced that she wanted to experiment with single-gender schools, but she abandoned the plan last year when it was concluded that state law prevents districts from setting up entire schools as single-gender academies.

"They've been very successful academically" in other cities, Johnson says of single-gender schools. "We'd like to try it."

Paul Reville, the state secretary of education, says he would support efforts to permit single-gender schools, and Boston officials have submitted legislation each of the last several years to change state law to allow single-gender schools. However, the measure hasn't advanced in the Legislature.

Other efforts to address the gender gap involve mentoring programs that give added attention to boys and more intensive advising systems for young men in college to keep them on track toward a degree.

In 2007, Boston launched a program called 10 Boys Clubs. The initiative, which is in place in about a third of the city's schools, identifies 10 black or Latino boys at each school who scored in the "needs improvement" category on the MCAS test, one level short of proficient, and assigns them extra tutoring, and regular meetings as a group where they hear guest speakers, who are often successful black and Latino professional men.

Community colleges are also making an extra effort to reach out to minority male students, who are at particularly high risk of dropping out. Three years ago, Springfield Technical Community College started a mentoring program for black and Latino male students, which also offers drop-in hours for students who are having any school-related problem. Male students "tend to have a lower tolerance for frustration," says Rubenzahl, the college's president. "So if they don't get the issue resolved, they often just leave."

NOT A MAN'S WORLD

There was a time not that long ago when an education achievement gap that had men lagging behind women would not have been particular cause for alarm. In the heyday of US manufacturing in the decades after World War II, factories were hiring high school graduates and union contracts delivered the sort of wages and benefits that put workers, if not exactly on easy street, solidly within a broadly defined middle class.

Those days, however, are gone, which is why the plight

Cleveland Cumby, 33, didn't complete a college degree after high school but now he's back studying computer systems engineering.

of boys who fall behind now is so dire and why the urgency of dealing with the gender achievement gap is so great.

The recession has only put an exclamation mark on the trend. The heavy concentration of job losses in the male-dominated manufacturing and construction sectors led some to dub the downturn a "mancession." In Massachusetts, male job losses have been among the worst in the country, with men accounting for all of the net loss of positions during the recession.

Nobody needs to tell that to Clint Bilodeau. The 53-year-old Belchertown resident went straight to work after high school, and spent 34 years at the Callaway sporting goods manufacturing plant in Chicopee, the only job Bilodeau ever had. Last November, it all ended. The plant, which was once bustling with 1,200 workers, is now down to about 150 employees, as the company has shifted most of its manufacturing to plants in Mexico and China. Bilodeau, who thinks it's only a matter of time before the factory is closed entirely, took a buy-out package that gave him 21 weeks of severance pay.

"I lost 34 years of my life for nothing," says Bilodeau, who bitterly recalls assurances from management over the years that they wouldn't move jobs out of the country.

Bilodeau falls in the demographic of those men out of work who may be facing the toughest challenge: He has no post-secondary education to fall back on and feels he's too old and far removed from classroom days to think about college now. Instead, tapping into federal job training funds available to workers whose jobs have moved out of the country, Bilodeau obtained a Class 1 license qualifying him to drive semi trucks.

Bilodeau's hope is to land a truck-driving job, "do this for another 13, 14 years, then retire."

Cleveland Cumby, a 33-year-old Springfield native, spent 13 years at Callaway before he also took the buy-out last fall. After graduating from high school, he spent a semester each at Holyoke Community College and Salem State College, but then became another statistic in the tally of male college dropouts. "I got that credit card my mom told me not to get," says Cumby. With bills to pay, his horizon turned short-term and he dropped out of school for a job at the plant, which was still hiring then. "The money sounded good," he says of the $17 an hour one could work up to at Callaway.

Today, he's back in school, this time at Springfield Technical Community College in a computer systems engineering program. He says he's determined to see it through and get a two-year associate's degree, and he hopes to push on and get a four-year degree. Cumby, who is not married and has no children to support, thinks getting dislodged from his factory job will, in the long run, be a blessing. "I'm rejuvenated," he says. "I was mad I didn't stay with it at the time," he says of his earlier stint in higher ed.

Cumby is hoping to climb out of the shaky world of blue-collar employment and onto the firmer footing that comes with a college degree. Notwithstanding all the stories of college grads unable to land jobs, the US unemployment rate in September was 4.2 percent for those with at least a four-year degree and 9.7 percent for those who only completed high school. It stood at 14 percent for those with no high school diploma. What's more, the financial returns on college education have increased significantly. Three decades ago, the typical college graduate earned 50 percent more than a typical high school graduate. By 2009, this "wage premium" had increased to nearly 100 percent.

MIT economist David Autor says two big forces have been working in tandem to deliver a devastating blow to US men. First, huge impacts from globalization have hollowed out the US economy of many mid-level jobs, making a much bigger share of jobs either high-wage jobs that require more formal education or low-skill, low-wage jobs, many of them service-sector positions that can't be shipped offshore. The second factor has been the education

PHOTOGRAPH BY BRIAN MCDERMOTT

gender gap, which has put men and women on very different paths as these mid-level jobs disappeared.

"Females primarily moved upward in the distribution as they departed the center," Autor wrote in a paper last year. "Male employment instead moved in roughly equal measures" toward the top and bottom, to the "high-wage, high-skill and low-wage, low-skill jobs." Men are being "squeezed between declining demand and not increasing supply," Autor says in an interview. "The demand for the typical employment in which they're engaged is declining, and the supply of skills among men that would offset that is not increasing."

A DRAG ON MIDDLE-CLASS HOPES

"It's tempting in one sense to say boys are falling behind girls. I think the bigger issue is that boys are falling behind in the changes that are occurring in the economy," says Mortenson of the Pell Institute. "The girls are getting ready for the jobs the economy is producing, and you have to wonder, what are the boys doing?"

"The rising educational attainment of women is great," says Autor. "I'm not implying that men's losses are their gains. It's simply the case that men are not rising as fast, and it has many ill consequences—and not just for men."

It means incomes are not keeping pace in families that rely on male earnings. What's more, because research shows women are inclined to want to marry someone of comparable educational background, the gender education gap is both a cause and consequence of the increasingly fragile state of families in lower-income and minority communities.

"It's sort of a vicious cycle," says McLanahan, the Princeton sociologist who specializes in family studies. "The men aren't doing well so the women don't want to marry them. But then by not marrying them and giving them the responsibility of family and children, it takes away a motivator that might make them work harder."

Meanwhile, the downward spiral continues with boys born into the increasing number of households headed by a single mother. With no father in their home, they are less likely to make it through college to a place where they'll be both a more solid wage-earner and more attractive marriage partner.

Social historian Barbara Dafoe Whitehead has spent years connecting the dots between family-structure dynamics and changes in the American economy and labor market. "Two things that continue to define the middle-class American Dream are some level of financial security and some level of competence and success in child rearing," she says. "So when men drop out of education and when they drop out of marriage, you have a huge threat to the American Dream, especially the American Dream as it's lived by what we hope is a broad and expanding middle class." CW

Out of reach

The housing bubble burst six years ago, but homeownership is even more elusive today for middle-class families in Massachusetts

BY PAUL McMORROW | ILLUSTRATION BY SHOUT

Jeffrey Goldstein lived the American Dream growing up. His father joined the postwar exodus from the city, and got his own piece of land out in the suburbs. Like many families in the postwar real estate boom, Goldstein's father was the first in his family to own a piece of the rock.

For Goldstein's father's generation, housing was a forced savings program—every month's mortgage check paid down a chunk of principal. Housing was also a dynamic long-term investment vehicle, and one that never lost its value. The investment in that house on Long Island cemented the place Goldstein's family had in the middle class, as it did for a generation of upwardly mobile families.

Today's housing market doesn't work the way it did in the 1950s and 1960s. Housing has morphed from a savings program into a money machine. Homeowners tapped soaring bubble-market values to make up for stagnant incomes and the fallout from the resulting crash has been catastrophic. Nearly 50,000 Massachusetts families have lost their homes to foreclosure, and sliding home values have left hundreds of thousands of more in homes worth less than the mortgages on them.

Goldstein sees the continued fallout from the six-year-old housing crash every day. He's the chief operating officer at Boston Capital, the nation's largest owner of rental housing, a business that has been booming since the housing bubble burst. "We think there is a paradigm shift happening," Goldstein says. "There's a fear of volatility that's rippling through the housing market. I think it really weighs on people's psyches. Housing used to be liquid—you could sell in 60 days if you had to. Now people are stuck, and it makes you think twice about buying. When I was a kid, going to college and owning a home weren't decisions. You were doing those things. Now, there are people who don't see the upside."

Housing has always been a pillar of American middle-class attainment for the better part of a century, but a decade's worth of volatility has significantly complicated the traditional middle-class path of grabbing a piece of land and riding it into economic security. Housing's recent boom-bust cycle turned that upside-down. And, despite low post-bubble sticker prices, housing remains more fraught with economic danger than it ever has been.

Even at the bottom of a historic housing collapse, with median home values down 26 percent in real dollars from their 2005 peak, homeownership is more elusive in Massachusetts than it was a decade ago. Housing is more unaffordable than ever for those in the market, and less attainable for those standing on the outside. In real terms, Massachusetts residents are spending far more on housing than they were a decade ago. Housing has traditionally provided the foothold families use to solidify their place in the middle class; now, it's a source of uncertainty at best, and a cause of growing inequality at worst.

"Owning a home has become more problematic," says Michael Goodman, chair of the Department of Public Policy at the University of Massachusetts Dartmouth. "If housing isn't a vehicle for creating wealth for the next decade, it even further problematizes homeownership as a form of entry into the middle class. Right now, homeownership is not quite a guarantee. It's risky. Volume is down and prices are dropping. Families are voting with their pocketbooks."

A GROWING AFFORDABILITY CRISIS

Housing prices in Massachusetts took off in the late 1990s, fueled by low unemployment rates and robust growth in the state's technology sector. That's to be expected: Market demand pushes prices up.

What happened next, after 2000, wasn't expected. Home prices exploded, even as the tech bubble popped, unemployment climbed, and the state's economy ground to a virtual standstill. Between 2001 and 2005, the state's economy grew by just 4 percent and household income shrunk by 3 percent, but housing prices jumped by 40 percent. (Unless otherwise noted, all data throughout this article are in real dollars, and have been adjusted for inflation.)

The housing bubble unglued housing from the market forces that normally control prices. Low interest rates and a flood of easy credit caused housing prices to shoot upward, even as Massachusetts families plodded through a middling economy. The result was a growing affordability crisis: By 2005, nearly 30 percent of middle-income Massachusetts homeowners were house-poor, spending more than 30 percent of their income on housing, according to the Federal Reserve Bank of Boston. In 2002, that figure had been 20 percent, up from 17 percent in 1990.

The US Department of Housing and Urban Development characterizes households as being burdened, meaning they are more likely to struggle to pay everyday bills, when they devote more than 30 percent of their income to paying for shelter. Massachusetts homeowners are far more likely to face housing burdens than the average American homeowner, according to the Boston Fed.

The same forces that fueled the nation's housing bubble also drove up housing prices in Massachusetts. However, Massachusetts housing prices were affected by another factor unique to the Bay State: Tight restrictions on new housing construction. "The cost of housing is higher here than it is in the rest of country because we don't produce an adequate supply of housing," says Goodman. "You'd expect, in a normal market, where there's demand for housing, we'd build housing, and when there wasn't demand, we wouldn't. That's not the case here."

A tight supply of housing drove up housing prices in Massachusetts far beyond what the rest of the country experienced. Between 1997 and 2005, housing prices in Massachusetts grew by 95 percent. Nationally, housing prices grew by 42 percent during that same time period; they peaked in 2006, 49 percent higher than they were in 1997.

Supply restrictions drove high housing prices higher in Massachusetts, and supply restrictions have cushioned the state's post-bubble fall. Nationwide housing prices are now down 38 percent from their bubble-era peak, compared to a 26 percent drop in Massachusetts. States like Florida, Nevada, and California, which saw huge booms in new housing construction during the housing bubble, have been struggling with a large surplus of vacant homes. Massachusetts doesn't have a glut of vacant houses depressing post-bubble prices. So Bay State home prices, which climbed far higher than the national average during the boom, have remained high, relative to the rest of the country.

"You have to pay at some point," says Goodman. "The trade-off for not having a big drop in housing prices is there's no relief from the affordability crisis. Affordability remains a major obstacle for hundreds of thousands of families."

Home prices exploded even as the tech bubble popped.

Across the US and in Massachusetts, prices have settled around their 2001-2002 levels. The median home in Massachusetts is now selling for $279,000, a number that seems low but masks troubling trends.

"The prices look great on paper, but in terms of people's ability to buy, there are still a lot of constraints," says Robert Clifford, a policy analyst at the Federal Reserve Bank of Boston's New England Public Policy Center. "The number of burdened households remains stubbornly high."

Data from the Boston Fed shows that Massachusetts families are plowing greater portions of their stagnant incomes into housing costs, even as housing prices have fallen. In 2005, when housing prices hit their peak, 29 percent of middle-income households in Massachusetts were burdened by housing costs; that figure is now 32 percent.

The share of house-poor homeowners has risen since the housing bubble reached its frothiest heights. In 2000, just 15 percent of Massachusetts homeowners were facing housing burdens; that figure grew to 20 percent by the housing bubble's peak, and is now closing in on 25 percent. The share of residents spending more than half their income on housing is also rising (it's at 14 percent now, up from 10 percent in 2000).

Pain has been spread broadly among middle- and lower-income families: According to the US Census Bureau, the share of Massachusetts families who make less than $75,000 per year while devoting an excessive amount of their household income to housing has risen, from 53 percent in 2005, to 59 percent in 2010. In 2010, 46 percent of homeowners making between $50,000 and $75,000 spent an unaffordable share of their incomes on their homes.

The typical home in Massachusetts, which currently costs $279,000, remains unaffordable to the typical homebuyer, who makes $62,000 per year. According to Clifford at the Boston Fed, median housing prices would have to fall another 14 percent for a family earning the state's median income to afford a home selling at the statewide median. The pinch is even greater around metropolitan Boston. The bulk of the state's jobs are located inside Route 128, but a recent Urban Land Institute study found that families making 100 percent of the area median income were priced out of the vast majority of municipalities inside the Interstate 495 belt. Families making 80 percent of the area median couldn't afford to buy east of Worcester.

"Where people are able to live, relative to where the jobs are and where people care about living, that's where we're in a real tough spot," argues Clark Ziegler, executive director of the Massachusetts Housing Partnership. "The young, educated workers we're trying to attract don't want to be on 495."

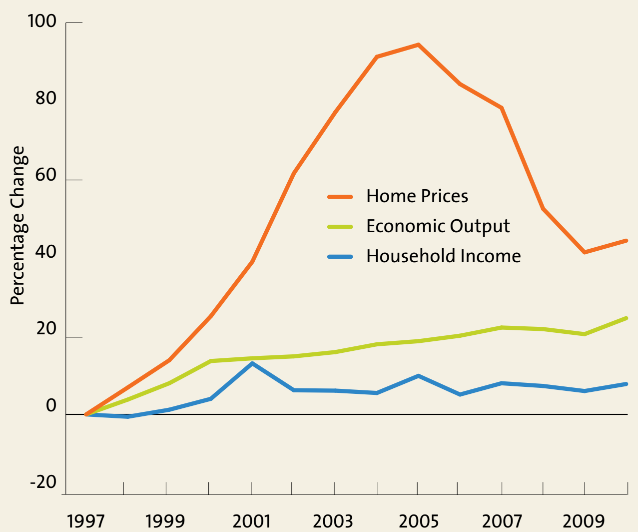
Economist Edward Moscovitch agrees. "If you want to live in Worcester or Orange or Warren, you can get a hell of a bargain right now," he says. "But if you're a college-educated professional, the fact that housing is cheap past Worcester is really irrelevant to you."

Goodman of UMass also points that homes in towns within a reasonable commuting distance of work and with high-performing schools are very expensive. "By limiting people's options about where they can live, and where they send their kids to school, housing [affordability] forces people to make difficult choices."

INCOMES NOT KEEPING PACE

Affordability woes have mounted, even as home prices have fallen, because incomes haven't kept pace with housing prices. Bay State residents earn more than workers nationwide, but those higher incomes aren't enough to overcome substantially higher housing prices. Between 1997 and 2010, real housing prices in Massachusetts grew by 45 percent, while real incomes only grew by 7.8 percent. Even after accounting for the recent reduction in home prices, home prices have grown 5.7 times more quickly than wages.

INFLATION-ADJUSTED CHANGES IN MASSACHUSETTS HOME PRICES, STATE ECONOMIC OUTPUT, AND INCOME



Source: US Bureau of Economic Analysis; US Census Bureau; The Warren Group

The housing affordability crunch is squeezing families in the middle. But it's also stretching families more thinly: As residents spend ever-greater portions of their income on housing, they're more vulnerable to a drop in income or a costly medical bill. This is especially true for homeowners who bought or refinanced their mortgages when the market was hot, and have been left with little to no equity in their homes. The deep recession that followed the housing bubble has thrown this phenomenon into sharp relief.

"Being house poor means you can't afford to do repairs, and that's more consequential with an old housing stock," says Ann Houston, executive director of Chelsea Neighborhood Developers, a nonprofit housing developer. Houston tells the story of one Chelsea homeowner who fell into foreclosure after his roof started leaking. Falling property values meant the homeowner didn't have the equity to take out a loan to fix the roof, so it kept leaking. The leaky roof drove out the two-family home's tenant, exacerbating the homeowner's financial strain. He lost his home.

"We work with folks who have lost their jobs, who have health issues, who are working two or three jobs and can't get back to even keel. They're $40,000 behind on their mortgage with no prayer of catching up," says Elyse Cherry, CEO of Boston Community Capital. Cherry's nonprofit runs a loan fund that buys urban properties out of foreclosure, and then extends new mortgages to foreclosed owners based on current market values. The fund has kept 130 families out of foreclosure and in their homes. Still, Cherry says, its reach is limited. "Our program works for the 20 percent of people that still have income. There are an awful lot of people for whom there isn't a lot of help. There is no endgame. They've lost a job. They have no income."

CREDIT SQUEEZE STIFLES SALES

Current homeowners aren't the only ones struggling with the rising cost of housing. First-time home buyers are also finding it harder to jump from renting to owning. Tight credit, steep down payment requirements, and rising rents are all pushing homeownership further out of reach.

"Five years ago, if you could fog a mirror, you could get a mortgage, and now you have to give up your first-born," says Tom Gleason, executive director of MassHousing, a quasi-public state agency that writes low-down-payment mortgages for first-time homebuyers. "People who do have good credit are finding it very difficult to get a mortgage, unless they have a substantial down-payment and a pristine credit history."

MassHousing has historically served as a lender to buyers who don't qualify for traditional financing. Its business is also counter-cyclical: It gets busier when private lenders slow down.

During the market's go-go years, when mortgage companies were tripping over themselves to hand out cash, MassHousing did $200 million in business in a good year. Two years ago, without altering its lending standards, MassHousing loaned $550 million. "We grew as the market collapsed around us," Gleason says. "What it really says is there's less money in the market. We need to be very careful. The housing and mortgage markets are fragile right now, and if we're overly restrictive, we're not helping."

Just as loose credit helped fuel record home price increases, banks' post-crash credit tightening has put a damper on home sales. Buyers are having difficulty securing mortgages, and without mortgage debt the housing market doesn't function. That's especially true for first-time homebuyers, who are facing steep new barriers to entering the market.

"Lack of regulation in finance enabled lending to people who shouldn't have a mortgage, and now we've gone off the deep end in the other direction," says Barry Bluestone, an economist at Northeastern University's Dukakis Center for Urban and Regional Policy.

Home sales data show a market under deep strain. Through August, sales volume in Massachusetts was at its lowest level in two decades. Fewer homes are selling now, when the economy is in a statistical recovery, than in 2009, at the recession's depths. Plus, more than one-third of this year's sales were cash deals—deals normally confined to wealthy buyers and investors. In 2009, only 20 percent of home sales were cash sales.

Federal policy is also moving toward restricting mortgage lending. The Treasury Department wants to eliminate Fannie Mae and Freddie Mac, the government-controlled companies that pump cash into the mortgage market. Treasury also wants to cut in half the size of the Federal Housing Administration, which guarantees low down payment mortgages to first-time and moderate-income homebuyers. Fannie, Freddie, and the FHA have backed nearly every mortgage written in the past two years. And federal regulators are also pushing for a return to 20-percent down payments—a standard banks are beginning to return to on their own without hard federal guidelines.

"I don't think you can accomplish everything [Washington] said they'd like to do, and keep the housing market in place," Gleason says. "We probably should shrink FHA, but where will moderate-income buyers and first-time buyers go? That discussion hasn't taken place. There has to be a place for moderate-income buyers. If we go to a world where you have to have 20 percent or 30 percent down, it would have a dramatically negative effect. And it's more difficult in high-cost states." Twenty percent of the current median home price in Massachusetts adds up to nearly $56,000. "I don't know a lot of people sitting on that kind of cash," Gleason says.

And as down payment requirements are rising, it's getting more difficult for prospective buyers to stockpile savings. That's because rents across the state, and especially in metropolitan Boston, are rising. At the depths of the housing bust, rents have hit an all-time high, and Massachusetts residents are having to devote more of their income to covering rent than they ever have.

Census data show that 48 percent of Massachusetts renters are spending an excessive amount of their household income (more than 30 percent) on rent. More than 62 percent of families earning less than $75,000 are paying excessive rents. According to Bluestone, more than half of renters in greater Boston are paying excessive rent, with 25 percent of them spending more than half their income on rent. Those figures have all jumped over the past 10 years. Bluestone fears rising rental costs will mean more would-be homebuyers are getting "stuck in rental."

MINORITIES LAGGING

Rising rents, diminished access to mortgage debt, and higher barriers to entry are being felt especially acutely by the state's black and Hispanic residents, who have experienced greater levels of inequality in homeownership. Tightening access to housing affects nonwhites disproportionately, since nonwhites are disproportionately renters.

Homeownership rates for racial and ethnic minorities in Massachusetts trail minority homeownership rates for the country as a whole. The overall homeownership rate in Massachusetts stands at 66 percent. That statewide rate masks vast gaps between white and non-white residents, though. While 69 percent of whites in Massachusetts own their homes, just 35 percent of blacks are homeowners. The homeownership rate is 25 percent for Hispanics, and 50 percent for Asians.

Although blacks, Hispanics, and Asians trail whites in homeownership nationwide, racial and ethnic minorities in Massachusetts have achieved lower levels of homeownership than minorities nationally. The gap between minorities and whites is also wider in Massachusetts than it is in the country as a whole. These gaps are especially severe among Hispanics. Nationally, Hispanic homeownership trails the white homeownership rate by 23 percentage points; Massachusetts Hispanics trail whites by 44 percentage points. The gap between homeownership rates is only slightly less pronounced for blacks.

The housing downturn, and the spike in foreclosures that followed, also muted broad gains in minority homeownership across Massachusetts.

According to the US Census Bureau, black homeownership in the state grew by two percentage points from 2000 to 2010, despite peaking in 2003 at 8 percentage points above its 2000 level. Hispanic homeownership peaked later, in 2007, 7 points above its 2000 level. It then fell, to end the decade 3 points higher than it was in 2000. White homeownership showed less volatility, spiking by 4 percent and settling in 2010 at 2 points higher than in 2000.

"The very rapid rise in homeownership that took place between 1940 and 1970 was overwhelmingly white," Bluestone says. "Now, just as homeownership rates were rising for people of color, we're cutting back. It would be a shame if we pulled the rug out on minority homeownership."

HOUSING SPURS INEQUALITY

Homeownership rates matter because the housing market relates directly to social uplift. In the past, homeownership wasn't just the marker between the working class and the middle class; home equity was the vehicle for transitioning from one to the other.

It's no surprise, Bluestone says, that the great broadening of the middle class that began in the 1940s dovetailed with a sustained real estate boom. "Paper wealth is highly concentrated," he says. "Housing is the one true asset people can have. A home is most people's major asset."

And in an economy where wages are stagnant and most families aren't getting a cut of the stock market's gains, home prices become intertwined with personal wealth creation.

Communities across the state experienced a rapid run-up in housing prices, but the housing downturn hasn't been uniform. Wealthy communities have largely escaped the wealth destruction that the housing downturn brought on, while low-income communities have seen huge amounts of equity erased. Between 2000 and the market's peak, nominal housing prices in Chelsea doubled, while nominal prices in Newton shot up by 45 percent; through August, prices in Chelsea have fallen by 39 percent, while Newton homes are only off their peak by 2 percent.

The housing downturn hit two- and three-family homes far harder than single-family and condo units; double- and triple-decker homes are concentrated in the state's poorest communities. Statewide, roughly 20 percent of homeowners are carrying mortgages worth more than their home's value; in communities such as Springfield, Worcester, Brockton, and Fitchburg, however, half of homeowners with mortgages have no equity left in their homes.

"Low-income workers have seen their wages fall, and their cost of housing went up, while the wealthy had their income fall less, and their cost of housing go down," Bluestone says. "The gap between the rich and poor grew because of wages, but it's been exacerbated because of trends in housing. Housing is leading to even greater inequality."

A recent forecast from the economist Robert Shiller predicted that housing prices might not rebound to their previous peak levels until 2015. Northeastern's Bluestone thinks it could take twice that long. But a sputtering economy, sluggish wages, and tight credit, combined with three years' worth of anemic sales data, have some questioning whether we're in more than just a cyclical downturn.

"As a country, the single-most important way to build net worth has been through housing," says Cherry of Boston Community Capital. "One way or another, we have to level the playing field. Either housing is the way to build net worth, or it isn't." CW

Dream deferred

Many seniors are running the numbers and deciding to put off retirement or combine work and retirement

BY JACK SULLIVAN | ILLUSTRATION BY SHOUT

FOR ANN JONES, the clerk-teller's position she landed at the Registry of Motor Vehicles in 1984 was her shot at the American Dream. Jones had worked a few jobs, gotten married, and had a son. But the Registry post offered her job security and the chance to buy a house, earn a pension, and retire comfortably.

"My plans were to stay [at the Registry] and retire and sell my house, live somewhere warm," says Jones with a soft, sardonic

laugh. "It didn't work out that way."

Jones achieved many of her goals. She bought a two-family house in Dorchester and, in 2007, retired after 23 years at age 60 with a $1,400-a-month pension. But her mother's stroke, her father's funeral, and the cost of caring for her 45-year-old son's multiple sclerosis quickly ate up much of her income and depleted her savings. To make ends meet, Jones, who divorced years ago, abandoned her dream of a sunny retirement, took equity out of her home using a reverse mortgage, and began working 20 hours a week as a bus monitor with hearing-impaired students in Boston.

Her situation is typical of many retirees these days. Retirement assets such as homes and 401(k)s have taken body blows from the recession. Less than a quarter of American workers have enough money in a 401(k) or similar defined contribution plan to be able to live comfortably in retirement. Seniors are entering retirement with twice as much debt as they did just 15 years ago, and a survey by the Pew Research Center last year found that more than 41 percent of adults say they have had to steal from their retirement by withdrawing money from their savings, 401(k), or retirement account in order to pay bills.

With Americans living longer, many seniors are running the numbers and deciding either to put off retirement or to combine work and retirement. In Massachusetts, the senior stampede to work is startling. According to research by the Center for Labor Market Studies at Northeastern University, the total number of workers 65 and older increased by 64,000, or 63 percent, between 2000 and 2010. It's not the picture many painted of what life would be like when they reach the magical age of 65.

"It's a reflection of this lengthy recession, the severity of this recession," says Barbara Anthony, the state's undersecretary for consumer affairs and business regulations, whose office oversees the Division of Elder Affairs. "A lot of people did all the right things—they worked hard, they saved money. But a lot of people had things happen that they couldn't control. The enormous expense the retiring generation is now facing is something the generation before did not face. Even if you've done everything right, you may end up today at 65 or 67 and not be able to retire."

THE BIG SHIFT

It wasn't too many generations ago that people worked until they could no longer physically perform. In the late 19th and early 20th century, employment pensions were unheard of. Workers, generally men, stayed in their jobs literally until death or illness forced them out. The average length of retirement was about two years, and there were few social safety nets available.

Government made retirement an achievable part of the American Dream, first in the 1930s with Social Security and then in 1965 with the introduction of Medicare, which provided older Americans with health benefits. These government backbones, supplemented by pension and other benefits provided to workers by businesses and unions, transformed retirement into a stable, secure time of life. For years, the average age of people in the workforce dropped steadily as more and more families saved and planned for retirement, secure in the fact their government and employer provided for their golden years.

But, as economic volatility forced businesses to scale back their benefits and government to pile up enormous deficits, retirement has become a much less secure period in life. In the private sector, growing unfunded pension liabilities have prompted companies to reduce benefits or drop their pension plans altogether and shift to 401(k) plans, which put more of the burden on workers to save for retirement. The federal government has already raised the full retirement age for Social Security to 66 for those born between 1943 and 1954 and to 67 for those born after 1960. For those born between 1955 and 1960, the age falls between 66 and 67 depending on the birth year.

Social Security is under fire and a central theme of the presidential election, with candidates calling for changes to its benefits and structure to keep the system solvent. Mix all this uncertainty with a three-year recession that has decimated savings and retirement accounts, and you're left with a lot of anxiety as workers are being forced to juggle shifting expectations about how long—and how well—they will live.

"The landscape of retirement has really shifted," says Andrew Eschtruth, associate director at the Center for Retirement Research at Boston College. Retirees today "are really in a different kind of world than their parents were. There's more risk and responsibility for their own retirement."

According to the US Bureau of Labor Statistics, the average length of retirement for men 65 and older in 1980 was 17 years between ceasing work and their death. Last year, it was 19.5 years and by 2050, with the increase in life expectancy, the average length of retirement is projected

> Seniors are entering retirement with more and more debt.

When Loretta Webb, right, joins her husband Jerry in retirement, the couple will use North Carolina as their legal residence because of what they deem to be tax advantages there for retirees.

to be almost 22 years. Eschtruth says most workers are not prepared for such a long period of need.

"A healthy couple age 65 retiring today faces a 50 percent chance of one of them living to 92," he says. "We're very concerned with the twin risk people face [if they] spend too quickly and run out of money, or hang onto to it too tightly and diminish their quality of life. If people want to maintain the same living standard they had when they were working, they have to work a little longer."

Eschtruth says another option is to combine part-time work with retirement. "It's going to become increasingly common," he says. "There are advantages to working later in life: better health, better mental acuity, psychological benefits. And as we move from an industrial-based economy, there are a lot more service-sector jobs and white-collar jobs than there were a generation ago that are not as physically taxing. Certainly, you're going to see a lot more 70 year olds [in the workforce] than you did a generation ago."

But all those working 70-year-olds are having a generational side-effect. As they move into the workforce, they are crowding out teenagers and young adults trying to break into the workforce, making it difficult for them to launch their work careers. The Northeastern study that found a 63 percent increase in the number of workers in the state over 65 also found the number of workers age 16 to 19 had dropped by 45,000 during the last decade, or roughly 28 percent.

REVERSE MORTGAGES

As retirees scramble to fill the money gap between the funds they have and the funds they need in retirement, they are beginning to turn to an investment source once deemed untouchable: the family home. Rather than paying a bank interest or letting a paid-off home sit untended, a growing number of seniors are turning to reverse mortgages to tap into the equity they've built up over decades of payments.

It's simple and alluring: That house you've spent years—as much as half your life—pouring money into can be turned into your own ATM machine, generating the cash

PHOTOGRAPH BY JACK SULLIVAN

you need for retirement.

A reverse mortgage, most of which are issued though a government-backed program called Home Equity Conversion Mortgages (HECM), works one of three ways: as an annuity where the borrower receives a monthly check; as a line of credit that can be drawn down as needed; or as a lump sum payment. When the borrower dies or moves, the house is sold and the loan is repaid.

Though the use of reverse mortgages has exploded in the last decade, they still represent just 2 percent of all mortgages. Peter Bell, president and CEO of the Reverse Mortgage Lenders Association in Washington, DC, predicts growth will accelerate as people start to wrap their heads around the concept that they are sitting on a pile of cash that is theirs to spend.

"Acceptance of reverse mortgages requires a sea change in thinking," says Bell. "For many years, the home was sacred; many people still recall the concept of the mortgage burning party. Taking on a new loan at this stage of life requires a different thought process. Seven or eight years ago, our borrower was typically a 78-year old newly widowed homeowner.

"Today it is as likely to be a couple as a newly widowed [woman], 62 and 63 year olds today, younger folks who are being forced into retirement earlier," says Bell.

Some experts say it's gone from a small, targeted program aimed at assisting low- and moderate-income elderly retirees who have outlived their money to remain in their homes to one that is entrapping anxious workers just entering retirement who don't understand the long-term ramifications.

Bonnie Heudorfer, a consultant and researcher who authored a study last year on reverse mortgages in Massachusetts, says she saw—and still sees—similarities to the subprime mortgage scandal that played a big part in the recession.

"The heavy-handedness in how some of these loans were being sold, some of the same behaviors that got us into the subprime crisis was being used here," she says. "Before the crash, most of the reverse mortgages were for people who were house-rich and cash-poor and needed to draw on their equity for basics. It went from being a very, very niche market to being sold by Fonzie and Robert Wagner on TV commercials and all those people saying [seniors] could take trips, buy things they always wanted. They were being sold as lifestyle enhancements."

Through the 1990s, reverse mortgages, available only to people 62 and older with a certain level of equity, represented a tiny portion of the overall market for mortgages, especially in Massachusetts. But beginning in 1999, the number began to grow rapidly, reaching a peak in 2007 but slowing down again in the past few years as home values dropped, erasing much of the equity people had built up. According to the Department of Housing and Urban Development, more than 720,000 reverse mortgages have been issued nationally with more than 90 percent of them still outstanding.

In Massachusetts, there are more than 17,000 active reverse mortgages with the vast majority issued after 2001. According to HUD data compiled by Heudorfer for a study she authored for the Massachusetts Community and Banking Council, reverse mortgages are disproportionately issued in Barnstable County, where more than 48 percent of homeowners are older than 60, the highest ratio in the state. Nearly 12 percent of reverse mortgages in the state have been made in Barnstable County, eclipsed only by Middlesex and Plymouth counties where less than one-third of homeowners are older than 60. Barnstable County's share of reverse mortgages, however, is, by far, the highest per capita in the state.

Ann Jones bought her Dorchester home in 1998 for $97,500, and it is now appraised by the city at $290,000. After remortgaging the home several times over the years, Jones was struggling to make the payments. She took out a reverse mortgage, using the lump sum to pay down her larger conventional mortgage. She then refinanced the balance of her conventional mortgage, reducing her monthly payment so she could afford to continue living there.

"I didn't want to lose my house, I wouldn't have had a place to stay," says Jones. "I have nowhere to go."

In Massachusetts, there are more than 17,000 reverse mortgages.

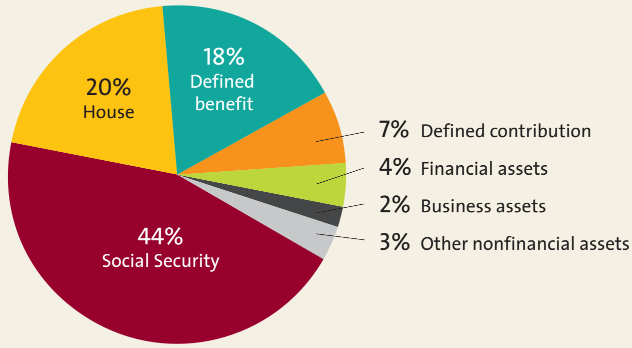
Jones's strategy lowered her monthly nut, but it also erased her biggest asset. A reverse mortgage is generally a one-time option. Once you've tapped the equity, it's gone and compounding interest eats away any increase in value the house may gain over time and usually closes out any options of tapping into it in the future.

"If you take out a reverse mortgage in your 60s and you live another 20, 25 years, you have to make sure that money is going to last," says Anthony.

Advocates say anyone interested in a reverse mortgage must carefully read the fine print. Interest on reverse mortgages taken as an annuity or a line of credit is accrued at a variable rate on the amount withdrawn, not the total amount approved. But with the lump sum version, interest begins compounding immediately on the full amount and keeps the total rising. The lump sum is attractive to someone pinching pennies to pay for fuel or food, but it also poses a temptation to spend it all, a temptation that salesmen prey on.

"It's targeted to a very vulnerable population," says Len Raymond, executive director of Homeowner Options for Massachusetts Elders (HOME), a nonprofit advocacy group that counsels seniors about mortgage options. "People have to look very hard and carefully at this. We're not crazy about them in general. They're intended for highly individualized circumstances. For some people, it might be a great thing for them. For a significant number of people, it might not be the best option, and for many, it might even be outright dangerous."

WHERE THE TYPICAL RETIREE'S MONEY COMES FROM



Source: Federal Reserve Board, Survey of Consumer Finances. Based on the mean of the middle 10 percent of households headed by an individual 55 to 64 years old.

While many homeowners are under the impression they are safe from foreclosure, the fine print says otherwise. Homeowners are still required to pay taxes and insurance as well as maintain the home's upkeep. If, as many find, they lack the money to be able to do that, they could be in "technical default" and have the mortgage foreclosed.

Raymond says he has encountered plenty of elders from all walks of life in that situation. "If it sounds too good, if it sounds too terrific, it probably is," says Raymond.

Some of the rules covering reverse mortgages are still being clarified. The AARP this summer filed two class action suits against banks alleging they defrauded the heirs of an estate by demanding they pay off the balance of a reverse mortgage before taking title to the home. The heirs say they should have the same rights as a surviving spouse and be able buy the home at fair market value, even if it is less than the loan amount.

Anthony says she met with a group of elders in a community recently and many of them said one town administrator urged them to take reverse mortgages out to help pay for a senior center. Anthony says none of the homeowners did, labeling them "savvy." But she says not everyone understands the risks. She declined to identify the community.

While both federal and state governments require counseling for borrowers, Massachusetts will require face-to-face counseling beginning next year. Currently, counseling only has to be done over the phone to satisfy the requirement. In addition, Massachusetts will become the only state that requires reverse mortgage counselors to be certified by the state. Now, states simply accept federal certification.

Bell, the Reverse Mortgage Lenders Association president, the says the angst over high-pressure reverse mortgage pitches is overblown and feeds into the negative perception of the product, which can be a useful tool for seniors struggling to make ends meet even though they have an asset readily available.

"Longevity is forcing people to spend down the equity," he says. "It's just a reality that we need to deal with. As people live longer, our parents are going to need more to finance their own needs. This notion of passing the house on is sort of an outmoded notion."

The only party to a reverse mortgage transaction that doesn't face any risk is the lender, who gets his money back through the sale of the home and, if the value is below the loan amount plus interest, is made whole by the federal government. The federal guarantee wasn't a major issue as long as home values kept rising, but once the recession hit and home values dropped 30 percent and more, suddenly the sale of a home was inadequate to pay off the mortgage and the government paid the difference between the sale price and the loan balance.

In fiscal 2010 and 2011, when the initial effects of the housing market crash were being felt on reverse mortgage loans, the government paid out at least $1.1 billion to cover lenders' losses. As of January, HUD estimated that $7.3 billion of the $76 billion in guaranteed reverse

"Longevity is forcing people to spend down their equity."

mortgages were underwater. Beginning this year, HUD started tacking a surcharge on mortgages as insurance against the shortfall but many wonder if it is too little too late. "You have to wonder if it's a good deal for the government—and taxpayers," Heudorfer says.

STRETCHING THE DOLLARS

Jerry and Loretta Webb pack up their belongings after a three-week vacation on the Cape in their fifth-wheel trailer. For Jerry Webb, 66, it is just another day in his long-anticipated and relished retirement after 35 years as an emergency room physician assistant. For Loretta Webb, it is practice for when she can join her husband in retirement in 4-½ years when she turns 62.

The couple now lives in Fairfield, Maine, though Jerry Webb is a Holyoke native and lived in Woods Hole until 1970. He says he has "an honest to goodness pension" that sustains him and they buy family health coverage through his wife's insurance plan. "Medical insurance is going to kill us," says Loretta Webb, who works as a transcriber in the medical field.

The Webbs' post-working plan is simple and complete: When Loretta retires, they will sell the house in Maine and spend six months on the Cape in their trailer and six months in North Carolina, where they will likely buy a small home—possibly a park model that many call a mobile home—that can accommodate them and their dog, Enif, named after the brightest star in the constellation Pegasus. For Jerry Webb, it's a no-brainer.

"Maine is not a retirement-friendly place," he says. "In North Carolina, they leave the pension and Social Security alone. There's the cost of heating, living up here in the cold. They have a warmer climate, less tax structure. I think we will end up there."

The Webbs are looking at what faces most people, though few go through the trouble to plan how and where to best maximize what are, for many, finite resources to last a lifetime. While the Webbs say staying in Massachusetts for half the year is attractive, they do not want it to be their base of operations because of what they see as the high cost. Statistically, however, Massachusetts ranks closer to the top than the bottom in many retirement analyses.

Like North Carolina and 34 other states, the Bay State does not tax Social Security or government pensions nor does it tax public pensions from those states that do not tax Massachusetts residents. The Kiplinger Report ranks

Massachusetts as one of the country's 14 most pension-friendly states.

In addition, Massachusetts offers a "circuit breaker" program that lets seniors 65 and over write off a portion of their property taxes for their residences on their state income tax returns. Many communities are also now offering the chance for seniors to volunteer working for the town in exchange for reduced property taxes. There are breaks available on auto insurance and other tax abatement programs, though HOME's Raymond points out just 18 percent of seniors take advantage of those.

There are other programs, such as an interest-free $25,000 home improvement loan program from the city of Boston that does not have to be repaid until the home is sold. Again, says Raymond, few seniors are aware or take advantage of the benefit. Anthony points out Massachusetts has the "18-65 law" that requires banks to allow people under 18 or over 65 to open one free checking account without fees, except for a $5 returned check fee.

Part of the allure in being able to stay in Massachusetts after retirement is the chance to remain close to other family members. As people live longer, they need more help physically, fiscally, and emotionally.

But even with those options available, many seniors run through their money early and are down to looking for loose change in the sofa cushions a decade into retirement with another decade or more to go. For many who go back to work, it's not a matter of keeping busy but a matter of survival and, in some cases, a blow to their late-life plans.

Donna Pavloski understands the dilemma. Pavloski, who declines to give her age, retired from her commercial locksmith business, where she employed 10 people, early in life to enjoy what she thought would be a relatively brief but fulfilling retirement. With her family history of illness and what she thought was a short life expectancy, Pavloski, who never married, decided traveling was the best way to spend her time, but after 25 years on the road, she had to get a job.

Pavloski lives in an RV, spending her summers at Adventure Bound Camp Resort in North Truro and packing up in the fall for the warmer weather climates in the winter. This year, her destination is Texas, though in the past she's parked in Florida and other retiree-friendly states for the winter.

At the Cape RV resort, Pavloski works part-time on the front desk in return for a small paycheck and reduced rent, an arrangement that more and more retirees—called "workampers" in the industry jargon—are turning to in order to supplement their desire to travel.

For Pavloski, and an increasing number of retirees, it's a simple matter of math. "I have outlived my money," she says matter-of-factly. "I never suspected I'd live this long." CW

Pieces of the Dream

Three stories from Framingham illustrate the diversity of the immigrant experience in Massachusetts

BY GABRIELLE GURLEY | PHOTOGRAPHS BY MARK OSTOW

Retired Holy Cross economics professor Nicolás Sánchez: "The American Dream to me is to be ruled by law."

The American Dream knows no borders. The often-quoted lines on the Statue of Liberty's pedestal, "Give me your tired, your poor, your huddled masses, yearning to breathe free," underscore the tradition of open-armed welcome that Americans give to people seeking the political freedoms or economic opportunities denied to them in their homelands.

In reality, however, there has always been an uneasy relationship between native-born Americans and immigrants. Benjamin Franklin worried that German immigrants in colonial Pennsylvania would outnumber the native-born and threaten the supremacy of the English language. "Even our Government will become precarious," he wrote.

Franklin's complaints aren't far off the mark from current anti-immigrant sentiments. In the past decade, it has become almost patriotic to call for undocumented people to pack up and go home. Fears about competition for jobs and downward pressure on wages from illegal workers fuel resentment. Recent incidents, like the case of an undocumented Ecuadorian man who allegedly killed a young Milford motorcyclist while driving intoxicated, dial up tensions even more.

There are roughly 11 million illegal immigrants in the United States. An estimated 190,000 undocumented people live in the Bay State, a low figure compared to other states.

Illegal immigrants dominate the headlines, but they are only a small part of the immigration picture. Many people come here legally, work hard for their money, and transform their cities and towns for the better. More than 900,000 immigrants live in the Bay State.

Brazilians are the largest group of foreign-born residents in the state and the largest group in Framingham. Of the more than 68,000 residents of Framingham, roughly 7,000 identify as Brazilian, according to a 2009 US Census Bureau estimate. Brazilians confront many of the same challenges that earlier waves of immigrants did when they arrived. But many Brazilians point out that the goals that the average worker back home can only dream of—opening a business, buying a home, or getting a college degree—are possible in America through perseverance and hard work.

Framingham is a place where many of those experiences

Alceu and Barbara Venturoso are hoping their specialty meat shop, Smart Market, will prove to be a smart investment.

converge: Entrepreneurs working hard to gain a foothold in a recession-battered economy; an undocumented student agonizing about the choices his parents made; and a long-time resident, an immigrant himself, who wrestles with the questions raised by the debate over illegal immigrants.

A SMART MOVE

If Alceu Venturoso is proud of the fresh beef, chicken and other meats behind the gleaming butcher counter, he's prouder still of his selection of sausages. He reels off the choices: chicken, pork and beef, smoked, Italian, Jamaican jerk, and country style. The store also has an on-site bakery and there are plans in the works to add a sandwich counter and fresh pasta to go.

Venturoso and his wife Barbara own Smart Market. Like most small business owners, they do everything from bagging groceries to managing the finances. The specialty meat store is a short walk up Hollis Street beyond the Framingham commuter rail station, past several small grocery and convenience stores. Market Basket and Shaw's are less than two miles away.

But Venturoso is not worried about his competitors. The cheerful, burly businessman is banking on the meats, plus butchers who speak English, Portuguese, and Spanish, to seal the deal with customers craving quality products. "We heard a lot of people saying, 'I grocery shop at Market Basket, but I don't buy meat there,'" says Venturoso. "When they come here, they say, 'You have very good stuff.'" The couple is onto something: Nine months after opening, the store has tripled the sales volume of its early months.

The Venturosos are part of the surge in immigration to the US in recent years among people continuing the long-running story of newcomers seeking a better life on America's shores.

As the director of logistics for a supermarket products wholesaler in Brazil, Venturoso helped the company to set up soup-to-nuts training for small businesses: how to buy products, fix up a store, and manage finances. The experience persuaded him to strike out on his own.

America continues to have a certain allure even for prosperous international professionals. Venturoso was doing quite well in Brazil, but business travel in the fifth largest country in the world wore him down. In 2005, he took a year-long sabbatical to study English at Mount Ida College in Newton and Worcester State University. After growing up in a small city in the state of São Paolo and living all over Brazil, he found that he enjoyed the American quality of life. Bureaucracies were easier to navigate and crime was much lower than in big cities like São Paulo and Rio de Janeiro back home.

The US has been welcoming to professionals who have a concrete business strategy that aims to produce jobs for American workers. Armed with a business plan, Venturoso came back to the country in 2009 on a visa that allowed him to invest in and run a small commercial enterprise. The couple expects to receive their green cards shortly and plan to become American citizens. "The reality of the American Dream is that more people can reach something [here] than in Brazil," says Venturoso.

Having friends in the Boston and Worcester areas persuaded them to settle in the Bay State. Their big break came when a small store came up for sale downtown and they swooped in to buy it. Last September, the Venturosos traded in that store for the larger 3,500 square-foot space where they renovated everything from the basement to the roof. The previous market closed after being cited for health code violations, and they wanted to do everything by the book. "We worked hard with them," says Ethan Mascoop, the Framingham public health director.

The Venturosos also run a second venture, Earth and Stone Landscaping ("our baby" the couple calls it) that they hope to grow into a full-scale construction company. Venturoso, 51, is a mechanical engineer by training; Barbara, 35, is an architect.

The couple does not have any children. (Venturoso has a 24-year-old daughter from his first marriage who lives in Brazil.) Between the two businesses, they work anywhere from 40 to 70 hours or more a week. They employ eight people and expect to hire up to 20 in the next two years.

Businesses with expansion potential "are extremely important…because those are the ones that provide local jobs," says Marcia Drew Hohn, director of the Immigrant Learning Center's Public Education Institute, an adult education center in Malden. What's more, immigrant entrepreneurs who invest in areas that have been in decline for years help revitalize neighborhoods.

The Brazilians arrived in Framingham in the late 1980s, mainly from the city of Governador Valadares, north of Rio de Janiero, to find a central business district that was a ghost town overrun by drug dealers and prostitutes. Shoppers' World on Route 9 had helped kill off downtown commerce.

The first storefront businesses in the high crime/low-rent district were money transfer centers that the new immigrants used to send funds back home to their families. Simple buffet-style restaurants and bakery-cafes followed where people could grab a quick meal or watch "telenovelas," soap operas, or soccer games. Crime dropped; foot traffic increased. Brazilian business people moved the downtown a notch above other town centers that experienced similar boom-bust cycles.

The Venturosos see that the center could still use some sprucing up to attract more businesses. "We don't think people like to walk downtown," Barbara says. They aren't alone in recognizing that Framingham needs to do something about the charmless area. But what exactly? Boston's North End, that city's "Little Italy," is one model for turning an immigrant neighborhood into a go-to destination, but Framingham has never tried to cultivate a "Little Brazil" downtown. Others think about a move "upscale" by promoting assets like the Danforth Museum of Art to attract artists and the culture-vultures who follow them. Not everyone is onboard with that idea either. "I go to Starbucks, but is that what we need?" says Ilma Paixão, general manager of WSRO 650 AM, a Brazilian radio station.

Framingham never tried to cultivate a "Little Brazil" downtown.

"Nobody has a plan that everyone can agree on," says Bonnie Biocchi, president of the MetroWest Chamber of Commerce. Until Framingham comes up with one, "it will continue to be hard for the identity of the downtown to take hold," she adds.

Face-to-face communication is also an issue. "Quite honestly, and there really is no delicate way of saying this, there is, in fact or perception, a language barrier issue," says Alison Steinfeld, Framingham's community and economic development director. The downtown survey confirmed that many residents think that no one in the Brazilian shops speaks English. But the group also found that 99 percent of Brazilian businesses surveyed have at least one English speaker.

"That's a big obstacle to overcome when you are asking traditional American buyers to come into stores that they are not familiar with," says Ted Welte, a former MetroWest Chamber of Commerce president who volunteers with Framingham Downtown Renaissance, a public-private partnership working on economic development initiatives in the center.

The town has contributed $30,000 toward a Framingham Downtown Renaissance initiative to hire a person to improve contacts between all small business owners and the town officials on issues like marketing and signage. The Venturosos and other Brazilian business owners also are talking about how to improve opportunities for everyone. "Most of them sell only to Brazilians," Venturoso says of the small stores downtown. "Now they need to sell to others."

Smart Market once sold mostly Brazilian products. Now the store sells a mix of Brazilian and Latin foods and they are adding American, Caribbean, and African goods. "If you are staying with only one community, it's going to be hard," says Barbara. "We knew that from the beginning."

"You cannot forget that you are in the USA," adds Venturoso with a smile. "We try to have something good for everybody."

EDUCATION OR DEPORTATION?

"It's over."

With those words from his brother, Denis Lemos's world fell apart. In 2009, the University of Massachusetts Lowell computer engineering student was studying for his final exams when his twin brother called to tell him that their green card applications had been denied. "That was the thing I feared the most," Lemos says. Soon afterward, he dropped out of college.

Lemos and young people like him find themselves between a rock and a hard place. They have grown up American but cannot fully participate in the life of the country because their parents made decisions that put their children in legal jeopardy.

The application process had been going on for about 10 years. Lemos came to the US in 2000 at age 14 with his family from the Brazilian city of Anápolis. When the São Paulo public electric company went private, his father lost his job there as a manager. Using funds from the severance package, Lemos's parents decided to take their chances in the US. They wanted their sons to attend college and look forward to a better life. The family came to Massachusetts on tourist visas, but remained after the documents expired.

They first settled in Framingham. The year after they

UMass Lowell student Denis Lemos is hoping to be able to stay in the US.

arrived, his father found a company willing to hire him. Since he had a sponsor, they were allowed to apply for green cards, which, in turn, meant that the family received Social Security numbers.

After middle school, Lemos attended Framingham High while working 32 hours a week as a waiter. By the time he graduated in 2005, he was too tired to think about a four-year college workload, especially since his green card hadn't come through yet. Instead, Lemos enrolled at MassBay Community College in Wellesley where he completed an associate's degree in electrical and computer engineering in 2009.

During a college fair at MassBay, Carlos Fortoura, a long-time Brazilian friend, came up with an idea. He wanted to go to the University of Massachusetts Lowell, and he encouraged Lemos to apply as well. "'We can be roommates,'" Lemos remembers him saying.

Lemos paid cash for the first semester's tuition and housing, using proceeds from the sale of a house that his parents owned in Milford. Lemos thought life was good. He was a full-time computer engineering student living in a dorm. "That was my dream," he says. "You see movies like that."

After selling the house, Lemos's father, who worked as a printer and carpet installer, and his mother, who worked as a hotel chambermaid and later as a cafeteria worker, returned to Brazil. Nearing retirement age, they were exhausted by the nearly 10-year residency battle.

Now here on his own, at age 25, Lemos faces deportation. "I am not going to say it was a mistake, because it was what my parents decided to do given the situation," says the tall, dark-haired young man who sports a stylish five o'clock shadow.

As he prepared for his first deportation hearing earlier this year, Lemos learned about the Student Immigrant Movement, a Massachusetts network of immigrant youth. The group is helping him fight deportation. Lemos now campaigns for both the federal Dream Act and a measure that would allow undocumented immigrants to pay in-state tuition rates at public colleges and universities in Massachusetts. The federal proposal would provide a six-year pathway to citizenship for some undocumented young people who graduate from college or serve two years in the military.

Lemos calls his plight "a wasted opportunity." For him, living the American Dream means finding a job that he loves, spending time with friends, having a girlfriend, and eventually getting married. "You have this group of people who call themselves American, who speak English," he says. "They want to do well because they already grew up in hardship."

Lemos has attracted some muscle for his cause. Sen. John Kerry, a Dream Act co-sponsor, assists students who would qualify for residency if the Dream Act ever became law. Kerry wrote US Homeland Security Secretary Janet Napolitano asking the department to stop the proceedings against Lemos, citing his "exceptional qualities."

"Because they are young, because they feel that they are truly being discriminated against…and punished for the acts of their parents, I think they've been emboldened to speak out and become activists," says Kirk Carter, a Framingham immigration attorney of students in this situation.

Legislation pending on Beacon Hill would allow undocumented Massachusetts high school graduates who can prove at least three years of state residency to pay in-state tuition rates. They would not receive free tuition, a common misconception about the bill, and would not be eligible for state or federal financial aid.

A 2006 Massachusetts Taxpayers Foundation report found that the state higher education system stands to gain millions of dollars in new revenues under the bill. If the in-state tuition policy for public colleges and universities had been in place in 2009, up to 660 undocumented students would have enrolled, bringing in between $2.1 and $2.7 million.

State Rep. Ellen Story, an Amherst Democrat, met Lemos in August and is also supporting his bid. "He's smart, he's hard working, and we need people like him here," she says.

There is support for the students—and interest in the new revenues, according to Eva Millona, executive director of Massachusetts Immigrant and Refugee Advocacy Coalition. "But the votes are not quite there to pass legislation at this point," she says of the measure, which Gov. Deval Patrick supports.

"We need people like him here," Rep. Story says of Lemos.

Immigration officials expect to apprehend 400,000 people this fiscal year, but the type of people being targeted for deportation has shifted. Under the Secure Communities program, local law enforcement officials send fingerprints of people who have been arrested to the FBI to determine if they have criminal records. The FBI, in turn, sends fingerprints to Immigration and Customs Enforcement officials for crosschecking against immigration databases. The program has been relaxed in recent months to allow immigration officials to exercise "prosecutorial discretion" in order to concentrate limited federal resources on undocumented criminals or people who threaten national security rather than college students who have stayed out of trouble.

Asked to explain why he is willing to speak so openly about his situation, Lemos laughs and throws up his arms. "They already got me," he says. This fall, the UMass Lowell junior returned to his computer engineering studies. His next court date is in mid-December.

PLAYING BY THE RULES

For Nicolás Sánchez, the United States is a country that takes the letter of law seriously. But for decades the federal government has been lax in enforcing its own immigration laws. The millions of undocumented people here are living proof of that contradiction, according to Sánchez.

The 66-year-old Cuban immigrant wants all immigrants to follow the letter of the law just like he did. "The American Dream to me is to be ruled by law," says the retired Holy Cross economics professor who has lived in Framingham for 33 years. "This is where illegal immigration does not fit in."

However, he sees trying to expel every illegal immigrant as "insane." By the same token, he says, current laws are too harsh: most people must return to their country of origin for 10 years before they can start the green card process. Sánchez would rather see undocumented students, for example, go back to their home countries for at least one year to learn about their native lands. "I want these individuals to make a deliberate choice that what they want to do is they want to be Americans," he says.

Sánchez came to the United States at the age 15 in 1960 under the Pedro Pan program. The initiative allowed children of Cuban parents who opposed Fidel Castro, the former president, or feared Communist indoctrination in the schools to come to the US. His parents and his brother and sister followed later. Yet Sánchez held out hope that he could return to Cuba. Fifteen years passed before he finally gave up on the idea. He became a US citizen in 1980. He is fiercely proud of the fact that his family took legal routes to US citizenship, he says.

Married with two grown children, Sánchez has been active in politics with modest success, serving on Framingham's school and finance committees. But he has yet to move up the political ladder. He lost two races for state representative, most recently in 2006, and another for the board of selectmen earlier this year.

Sánchez's views reflect a frustration in Framingham that is not about immigrants in general, but whether a person is here legally or not, according to Robert Anspach, chairman of the Framingham Human Relations Commission. As the largest immigrant group in the town, Brazilians bear the brunt of that resentment. "People say…'I'm a hard-working painter, but you get these illegal immigrants who are coming undercutting the price of doing a house,'" Anspach says.

Concerns about illegal immigration have brought Framingham unwanted notoriety. In August, the spotlight fell on Onyango Obama, the 67-year-old uncle of President Obama who lived illegally in the town for decades prior to his arrest for allegedly driving under the influence. Some of the debate has gone beyond healthy civic dialogue. In 2009, the Southern Poverty Law Center, a nonprofit civil rights organization, identified Framingham's Concerned Citizens and Friends of Illegal Immigration Law Enforcement as a hate group. The local group has blamed Brazilians for crime in the town, kept tabs on day laborers, and once produced a local public access cable television program on illegal immigration.

Rick Holmes, the opinion editor of *The MetroWest Daily News,* says that immigration is a "really big deal" only for a few. "We've got a loud, anti-immigrant minority," he says, "but when it comes to voting, Framingham is pretty liberal place."

No one knows for certain how many illegal immigrants live in Framingham. A San Diego State University study published in 2009 estimated that about 70 percent of adult Brazilians in Framingham were undocumented. Critics of the report said the figure was high and that such conclusions often lead the general public to equate illegal immigrants with legal residents. Some undocumented people, exhausted by a fugitive-style existence, have returned to Brazil.

Others also have decamped to Brazil to take advantage of the country's newly vibrant economy and leave the American recession behind. But it's not mass exodus. "The percentage of Brazilians that went back is not as large as people have portrayed in the news," says Vera Dias-Freitas, the Brazilian Outreach Liaison at MassBay Community College and a long-time community advocate.

Sánchez may speak for one strand of naturalized citizens who celebrate the opportunities that the US offers, but who want new arrivals to play by the rules as they did. He's gotten accustomed to the puzzled reactions from people surprised at these views from an immigrant, but he is not about to back down. Immigrants should "come to America through the legal process," Sánchez says. No one should get the privileges and benefits of citizenship "just because you are here." CW

Learning curve

Claudia Goldin and Lawrence Katz say it was an expanding public education system that gave rise to a broad American middle class and the shared national prosperity of the 20th century. A big slowdown in educational attainment, they say, is driving the surge in income inequality that now has Americans growing apart.

PHOTOGRAPHS BY FRANK CURRAN

FOR MOST OF the 20th century, America truly was the land of opportunity. The nation emerged as the world's dominant economic superpower, and the prosperity that resulted was widely shared. A growing middle class had every reason to believe in the promise of the American Dream in which each generation is poised to do better than the one before it. Starting in the late 1970s and early 1980s, however, Americans' hold on that dream became increasingly tenuous. More and more families struggled economically to get ahead or even stay in place. In recent years, that shaky hold on middle-class life has given way to economic free-fall for millions of Americans. The growing income inequality that now characterizes the country's wage distribution has become one of the defining economic features of the early 21st century.

Everything from economic globalization to the decline of unions has surely played some role. But Claudia Goldin and Lawrence Katz have peeled back the layers on a very complicated story to offer a sweeping explanation for what's happened over time with US wages.

At the root of changes in the wage structure, argue Goldin and Katz, professors of economics at Harvard, is a race that has been taking place between technological advances and education. For much of the 20th century, as technological developments increased the demand for more skilled workers, Americans more than kept pace by climbing the education ladder. The early 1900s witnessed huge increases in high school attendance, while the period after World War II saw a similar surge in college completion rates.

Technological advances brought higher wages to those with skills to meet the new workplace challenges, and the growth in educational attainment, in turn, meant these wage premiums were shared widely across a growing American middle class. What's more, although this wage premium provided a strong incentive to go further in school, the burgeoning supply of educated workers meant the wage premium didn't race wildly ahead of pay for less educated workers.

A slowdown in educational attainment is driving a wedge between earnings of better educated Americans and less educated workers.

In the late 1970s and early 1980s, however, the US began experiencing a marked slowdown in educational attainment. The US high school graduation rate, which has been essentially flat since the 1970s, is now in the bottom third of advanced countries. In four-year college degree completion rates, for which we once led the world, the US is now in the middle of the pack. International comparisons also show a decrease in the quality of US education based on student achievement scores.

Goldin and Katz say this slowdown has, as a function of simple supply and demand economics, increased the wage premium for better educated Americans—and helped drive a growing wedge between their earnings and those of less educated workers. "The slowdown in education at various levels is robbing Americans of the ability to grow strong together," they write in *The Race Between Education and Technology*, their 2008 book that lays out this story.

Goldin and Katz say the shared economic prosperity that Americans enjoyed for much of the 20th century was fueled by an education system characterized by a set of important egalitarian "virtues" that set us apart internationally. Among these was the wide accessibility to publicly-funded schools, which churned out high school graduates at rates far greater than those in European countries, where there was a belief that education was for society's elites, not its masses. But an open education system, in which even those who stumbled a little could make their way through high school, eventually began to seem like more of a liability than asset, as American high schools produced graduates who seemed increasingly ill-prepared for the rigors of college studies that more people were pursuing. The education system's one-time "virtues are no longer as virtuous," Goldin says in our interview.

The standards era in US education arose in response to such concerns, but we are still struggling mightily to get students to the levels of proficiency necessary for success in college and the high-skills careers of the 21st century. Goldin and Katz offer no easy fix for the slowdown in educational attainment. But they make a compelling case that addressing our education deficits is the only way we'll lessen the yawning income gaps that have emerged and return to a time of broadly shared prosperity.

Goldin and Katz are personal as well as research partners, and are well matched for the task of mining decades worth of data relating to technology, education, and wages, and finding a coherent story in it. Goldin is an economic historian with a particular interest in education, while Katz is a labor economist who served as chief economist for the US Labor Department during the Clinton administration.

The country's growing income inequality has been at the heart of protests that unfolded this fall on Wall Street in New York and spread to other cities, including Boston. Demonstrators have decried the massive concentration of wealth among the top 1 percent, saying they are rallying on behalf of the other 99 percent that are struggling to keep their heads above water. Goldin and Katz are quick to say education gains will not solve the jobs crisis we are facing, which has to do with huge slowdowns in spending and other macroeconomic forces set loose by the financial crisis. They also haven't focused their research on the outsized wealth accumulation of those at the very top, as disturbing as some may find those payouts to be. The economic divide Goldin and Katz document has emerged between the top 20 or 30 percent of the population and the bottom 70 or 80 percent, and it is that chasm, they say, that is causing the once sturdy foundation of the American middle class to buckle and crack.

I sat down to talk with them a short hop down Mass. Ave. from the Harvard campus, at the National Bureau of Economic Research, where they also serve as research associates. What follows is an edited transcript of our conversation.

—MICHAEL JONAS

COMMONWEALTH: There's been so much written about income inequality and its causes in recent years. You have proposed a very comprehensive explanation grounded in an exhaustive set of data that ties much of this issue of inequality to what you call a race between education and technology. It's a race that you say education was winning for three quarters of the 20th century, but in which technology has been in the lead since then—and with pretty negative consequences for the American wage structure.

LAWRENCE KATZ: A hallmark of the US economy over the last 150 years has been very rapid, dynamic technological change. When we expand access to education, we get the double benefit of a more skilled workforce and new technologies that raise the productivity of people who are able to keep up. In the periods with fast technology change and rapid growth and access to education, we get balanced growth where we have shared prosperity.

CW: And that's what we saw for a good part of the 20th century?

KATZ: Yes. When we had huge changes in technology early in the 20th century—electrifying the factory, all sorts of

CW: You write about the continued expansion of education here to more and more of the population and its close connection to the shared prosperity that Americans enjoyed for so long. Should we really think of that as the distinguishing feature of what we sometimes call "American exceptionalism?"

KATZ: Yes.

CLAUDIA GOLDIN: And other developed countries looked over their shoulders and said, "What should we copy?" And much of Northern Europe has changed from apprenticeship program systems to high schools that look more like our high schools [by preparing students for college].

KATZ: This country, whether it's a small town in Iowa or in Massachusetts, had a commitment to providing education not just for an elite core, but for the broad population. Europeans who looked at us thought that this was very strange. They had a much more elitist view. They viewed it as a waste of resources to try to educate everyone through the secondary schooling level in a general set of skills. They have certainly changed their view. We took a tremendous lead in the 20th century economically [because of this]. By the mid-20th century we were light years ahead on education. What is striking today is if you look at a 55-year-old, Americans are still, by far, the most educated country in the world, but if you look at a 25-year-old we're right in the middle of the pack among wealthy countries and losing ground substantially.

A 30-year-old today is more educated than his or her parents, but not by very much.

new things in transportation, modern germ theory in medicine—we had a high school movement and then expansion of college [that allowed skills to keep pace with technology]. We have had a dramatic slowdown in that. Today, a 30-year-old is more educated than his or her parents, but not by much. His or her parents have more years of schooling than the grandparents, and that's been the hallmark of the US. You really need that to keep pace with technology. That's where we've really slowed down.

CW: That's the trouble.

KATZ: Yes. We still draw people from around the world to go to higher education at our better schools and most flagship state universities. But in terms of access to college and preparation [in the K-12 system] before getting there, we are really lagging.

CW: You write that the rate of technological change and the demand for new accompanying levels of skill has been fairly steady throughout the last hundred years. We like to think that the world has turned upside down in the last decade or two, in this case because of the computer revolution. Maybe every generation feels that way.

KATZ: Think of just things that happened in the late 19th, early 20th century—whether it's the automobile, the plane, electrification, germ theory. Computers are wonderful and revolutionary, but there have been many other things that have had huge impacts both on our lives and on the workplace. We've had a steady stream of innovations, and with all of them, rapid change benefits more educated people who are able to learn and pick up new things. That's where a very good general education system that the US set up, as opposed to a very apprentice specific-skill one, has had a very big payoff.

CW: There's been a lot of concern around immigration, with the suggestion that it has been a contributor to income inequality by further depressing wages at the lower end of the wage scale. You write that it is a factor, but a relatively minor one.

KATZ: Yes. In terms of changes in skills and how fast education is racing versus technology, immigration has been a very small factor relative to the slowdown of educational attainment growth among the US-born population.

CW: The declining fortunes of unions also coincide with the beginning of this period of rising inequality. But you say this, too, is a much smaller factor than the broad slowdown in educational attainment.

KATZ: Yes. It certainly reinforces and contributes to it, but they're two issues. If you think about the middle of the income distribution and what used to be high-wage, high school [graduate] jobs and the lower half of college [graduate] jobs, the educational slowdown is important, but there have been some technological changes, and outsourcing opportunities have also played a role in really hollowing out the middle. But we haven't had the proper educational response to move people who used to have a middle management job or a high-wage production job that can be computerized or done offshore into higher level jobs. If you look at our data, just like the 1940s had a bigger [wage] compression than you would have thought from this race between education and technology, because of the rise of unions and the role of government wage setting, the growing inequality that started in the late 1970s to the mid-80s is bigger than our model predicts because that really was the last hurrah and then decline of unions. So the decline in unions played a role, but it's sort of 20 percent of the story, not most of the story.

The decline of unions played a role but it's 20 percent of the story, not most of the story.

CW: In the very final pages of the book you sound some cautionary notes and say college is no longer an automatic ticket to success and talk about some of the ways that there could be threats to the economic returns from college education.

GOLDIN: Some of [the reason to go to college] is going to be for consumption purposes. You want to be a thoughtful person. You want to think deep philosophical thoughts on your deathbed and things like that. But by and large, sometime in the 20th century education became less consumption and more investment. When you go to college you have to think about what it is that you're going to be doing with that degree. It's a changing world. And so the best college education is one that's going to give you some specific skills but also a lot of general skills to make you a person who can be flexible and adapt.

KATZ: A high quality liberal arts education that allows you to think for yourself is going to be much more valuable to a wide range of employers than just doing a business major and just knowing a very specific set of management or accounting skills. If we look at what's going on in the labor market recently, for the bottom half of college [graduates], wages are pretty flat, but they're even worse for the top half of non-college [graduates]. So if you didn't go to college, can you count on getting a manufacturing job today that pays a high wage? Absolutely not. So the return [on college education] is actually still extremely high, but how well you'll do, say, relative to your parents is not looking very good if you're a middle [level] college graduate.

CW: But it still beats the alternative.

KATZ: It beats the alternative, but that's more because the alternative [income for non-college graduates] has gotten so bad.

CW: If we are being hurt by this sort of stalled level of educational attainment, how do you propose that we fix it?

KATZ: This is the very hard unanswered question. One issue is how much of the problem is caused by people that are really college-ready but can't afford college or they can't get into classes. That is playing a role. Better school financial aid would help. In the early 20th century, we basically made high school free for everyone. Today, in the 21st century, college education is as important as high school was. So cost still matters. But a much bigger factor is that too many American youth are not college-ready.

So even when they go to college, they're taking developmental/remedial courses, they're dropping out. So what happens in K-12 and before is crucial. There are some low-hanging fruit. Improved access to quality early childhood education has a very high payoff. The very difficult part is what can we do to reignite our K-12 system, which used to be the best in the world? We're still trying to get in the black box. Do urban charter schools in Boston seem to pay off? Yes. But do the nonurban charter schools in Massachusetts seem to work? Absolutely not seems to be the evidence. Are smaller classes the answer? Absolutely not. Are higher quality teachers? There's very strong evidence that improving the way we recruit and treat teachers could be a very important component. Getting parents involved early on is clearly an important component.

CW: You write at one point that there are some people who might say, in challenging your arguments, that there's a natural limit to the pool of students here who are going to be able to go to college and succeed there.

GOLDIN: Why should it be different in other countries [where college graduation rates are increasing]? I think that the financing part is really important. The impact goes down to the person who is in sixth grade and looking ahead and realizing, "I can't afford it. My parents will not be able to afford this." The incentives are then different. Canada is doing a remarkable job in providing college education to individuals from all parts of the socioeconomic status distribution, and we're doing a lousy job of it. We don't find that Canadian students, when they enter college —and they are entering college in large numbers from all different backgrounds—have problems with remediation. So they're doing something right at the high school level, and it may be that because college is so available, so accessible, kids at the lower level take things a lot more seriously.

CW: You kind of scratch your heads at one point late in the book about our lagging educational attainment, given that, as economists, you see that there is such a rational argument for going to college in terms of the return on this investment.

KATZ: The incentives are so high.

CW: You say that young people are leaving money in the streets.

GOLDIN: What we might also say is that the society is leaving money in the streets. Those north of the border [in Canada] have decided to have higher taxes and spend more on education. And we have decided that we have user fees that put a lot of the burden on kids for whom this is a tremendous burden that they don't want to take up.

CW: You can certainly argue that if a college degree is as necessary today as a high school degree was at some other time then it would follow that it ought to be publically available.

KATZ: My vision is everyone would have access to at least several years of college directly free. Their higher earnings, their future income and payroll taxes would essentially pay for that over the long haul.

GOLDIN: The real kicker here is the high school graduation rate. The fact that it has slowed down—the rate of increase—and reached a plateau and it's not going anywhere. And we have this great second chance system with the availability and accessibly of the GED, but does that dampen what happens in high schools? Does that mean that the kid who isn't doing well, says, "Well, I'll just drop out and, just like my uncle, I'll go get a GED later." And then doesn't. We're not going to be able to really push the margin on college if what's going on in high school isn't improving. Because you don't take someone who dropped out in 11th grade and put them in college. But even among the students who are graduating, and it's not just at the

We're not going to be able to push the margin on college if what's going on in high school isn't improving.

margin, there really is an absence of standards that has led a large fraction of them to go off to college, even some relatively good colleges, and not be truly college-ready.

CW: The picture that you paint, even in this discussion of rising inequality, is still one of a system that is, in some ways, a meritocracy, in the sense that you're saying a middle-class life is still within reach through higher educational attainment. It's a different argument about inequality than the one we're hearing about so much today, which focuses on this idea of soaring wealth that is concentrated among the top 1 percent. It almost seems like you're talking more about an 80/20 split than a 99/1 divide.

GOLDIN: People have said, "What about this incredible increase in incomes at the very, very top." That in many ways is a different story. We're not dealing with that. We're dealing with 99 percent of the population

KATZ: Our explanation is pretty good for the bottom 99.5 percent. The top half percent has obviously much more to do with the massive growth of finance, with the politics of corporate governance, and changes in the norms up there.

CW: But it certainly doesn't seem to be part of some rational kind of labor market explanation that they are commanding these returns because they are offering such scarce talent that is in high demand.

KATZ: Certainly people would still have incentives to work for millions versus tens of millions.

CW: Is it fair to say, then, that your view is that it hasn't been that bleak a time for the 20-some percent of the US adult population with at least a four-year degree?

KATZ: It's more like 30 percent. Of the top half of that group, which is saying 15 percent of the population—people who went to the more elite colleges, people who did post-college training—it's been fine times. The bottom half of that group was doing well except for the last 20 years. The return to people in the bottom half is still high, though, because it's even worse to be in the non-college group.

CW: Your book was completed before the recession. How has the economic crisis affected the race between education and technology? Or maybe the question is, how has the recession reflected it?

GOLDIN: Well, one answer has to do with college students and the problem that they have in funding. Here's a very good way of thinking about it. The Great Depression was pretty bad times. It saw a huge increase in high school [attendance], and the reason was that these kids—particularly the boys—couldn't get jobs so they went to high school. Why did they go to high school? High school was free. Fast forward. In the Great Recession, we can't have the same thing because, although they can't get jobs, they can't go to a [higher education] school that's free because there is no school that's free.

CW: It's not a refuge to wait it out and build skills.

GOLDIN: Exactly. One of the positive sides of the Great Depression, and it was a positive side of many downturns, was that you went out and got more skills.

CW: Although I have heard about more people going on to college or grad school because of the bad job market.

KATZ: There has been an increase in enrollment rates in college, but it's not tremendously large. Many more people apply to graduate school, but Ph.D. programs can't suddenly admit twice as many people, so the odds of getting in have gone down. The supply of slots in post-college programs is pretty inelastic. Where has there been a flexibility of supply in college? [The] crowding [into] community colleges and the huge growth of for-profit higher education institutions.

CW: Unemployment rates are very tightly correlated with educational attainment levels. The South Coast area—New Bedford and Fall River—and the Merrimack Valley, which have low educational attainment rates, have the state's highest unemployment. That seems to reflect or reinforce this point about the returns and the value of education.

KATZ: Areas that have more educated workers tend to withstand recessions much better and that is still true. Expanding education is very important. What is certainly not true, however, is that we could get out of this recession just by educating more people. We need to create employment opportunities to make use of that education. But as long as employers aren't hiring because they don't think there's a lot of business, just having more educated workers alone won't change things.

GOLDIN: Depressions and recessions, any economic activity that leads to unemployment, is not what we call sharing the pain. Some people feel it a lot more than others, and those who feel it a lot more are generally those who, as you just pointed out, are the ones least able to take on more pain.

KATZ: Making sure that people have access to education is incredibly important for the long-run health of the economy and for inequality, but that shouldn't be confused with the view you hear some people saying—some Federal Reserve Board governors and others—that the reason we have high unemployment now is because all our workers are not educated. We're no less educated than we were in 2007 when we had an unemployment rate under 5 percent. We have a macroeconomic dilemma with very low demand as people are deleveraging and cutting back on purchasing. We need to solve that problem. We'll be much better off once we solve that problem if we have a higher educated workforce. But that's not the reason we have a 9 percent unemployment rate today.

CW: Right. What's happened in the last 30 years is sobering. But in the longer, broader view is the story you tell an encouraging or optimistic one? This earlier, long period of rising educational attainment and shared prosperity suggests the inequality we have is not intractable. Identifying what needs to happen to lessen inequality, of course, is a very different thing than figuring out how to make that happen.

GOLDIN: It points to the importance of studying history. We were writing this book during a time of rising inequality, and there were a lot of fingers being pointed and we had stagnant education in various ways. But few people looked back and said this was once a nation that invented an educational system that other nations have copied and have managed in copying it to leapfrog ahead of the US. That in many ways is the point of the book, to say this was once a great system, how can we recover a great system? We don't know exactly how to accomplish it. If we knew how, we wouldn't be sitting here and talking to you; we'd be out there doing it. There are no easy fix-ups.

> Other countries have copied our education system and have, in the process, leapfrogged ahead of us.

KATZ: History does give one some optimism. If you hear the voices speaking in the late 19th century, early 20th century, leading into the Progressive movement, many of the current critiques of our education system and of immigration and of inequality show up. And yet we know we then had 70, 80 years of shared prosperity. That doesn't prove one can do it, but looking back at history one certainly sees the things that appeared to be intractable. CW

The politics of extremism

Polarization is making the American Dream impossible to realize

BY ALAN WOLFE

WAS THERE EVER a generation luckier than mine? Born in 1942, I have no memories of the horrors of World War II. But I have clear recollections of the way my parents, neither of whom had ever gone to college, lived the American Dream in the years after the war came to an end. My 1950s and 1960s consisted of moving from a small row house to a larger ranch version, attending college and graduate school to compensate for the degrees my parents lacked, and protesting against the inequities of American society—in short, all of those things that make one believe that, in America, every year will be better than the one that preceded it.

Two prominent features of the American political system characterized those years. One was the often lamented but in fact quite productive lack of severe ideological conflict between the two parties. To be sure, the 1950s featured McCarthyism on the right and the 1960s had more than its share of left-wing anger that erupted into violence. But the leader of the Republican Party, Dwight D. Eisenhower, successfully cooled out the former and his successor, John F. Kennedy, was, much like our current president, a cautious centrist at heart. These were years when politicians, no matter how partisan, also possessed a sense of responsibility for the country they governed. There really did exist something called an Establishment, and its job, as those who composed it understood, was to do those things they believed to be in the national interest. They could be spectacularly wrong, as they were in Vietnam. But say this for the best and the brightest, as they were sarcastically labeled: They possessed enough status and self-confidence to rise above partisan and financial self-interest to envision huge undertakings that had the potential to improve the lives of all.

Lacking deep divisions, the American political system of those years responded with its second determining feature: legislation that changed the face of American life. Without the support of prominent Republicans, the 1964 Civil Rights Act—the single most important embodiment of the American Dream in my lifetime—never would have passed. A decade later, Richard Nixon, in the absence of Democratic help, would never have been able to sponsor the creation of the Environmental Protection Agency, a landmark effort to preserve so much of what had made America great. The fuel for the realization of the American Dream turned out to be government. Without it, and without the jobs it provided and the growth it generated, the highways that made suburbia possible would never have been built, the factories and farms that produced ever-cheaper goods would have been stagnant, and not a single American could have taken pride in landing a man on the moon.

It did not take rocket science, however, to understand that the realization of ambitious dreams could not be done without money and that taxation is the way government gets the money it spends. Americans did not like paying taxes then, as they do not now. But they paid them nonetheless.

Our time is almost the exact reverse of that time—and this, more than any other reason, is why I fear the American Dream is becoming a thing of the past. Anyone who likes the idea that politics should be about the clash of radically different world views will be an admirer of the way our political life is conducted today. But anyone who seeks from politics a common vision for the country—and a realistic path for realizing that sense

ILLUSTRATION BY ALISON SEIFFER

of purpose—will be deeply disappointed. As far as politics is concerned, there is no longer an American Dream because we no longer dream and because we cannot agree on what it means to be an American.

In 1998, I published a book with the optimistic title *One Nation, After All*. Yes, we were a divided country, I argued. But after talking with middle-class suburbanites around the country, I concluded that our divisions were deepest among politicians and political activists; most Americans remained in the middle, leaning to the left on some issues and to the right on others. Much of this picture, I believe, is still true. But if the activists were sharply divided then, the gap between them now is simply unbridgeable. A country that cannot agree on a budget will never agree on a purpose. It has proved to be a huge struggle just to pass a law, any law, or to appoint a judge, any judge, which means that defining an agenda for the society, as the New Deal and Great Society did, is a thing of the past. Even if the United States had a political system capable of responding to majority will, which it does not, it lacks majorities on any of the significant issues of the day.

Politics, in addition, has become a form of blood sport, an attempt to deny the other side a victory at all costs. When politics is a form of war by other means, the other party is not composed of your fellow citizens, however strongly you may disagree with them, but with enemies, traitors, committers of treason. Harsh rhetoric is one thing. Charges of un-Americanism are another. Whether you agree with his policies or not, we are fortunate enough to have a president whose life story is testimony to the American Dream. Not only that, he has articulated its meaning in the best of his speeches. "Yes, we are rugged individualists," he said in his September speech urging the creation of new jobs. "Yes, we are strong and self-reliant. And it has been the drive and initiative of our workers and entrepreneurs that has made this economy the engine and the envy of the world." But, in line with those leaders from an earlier time, Obama also pointed out that the American Dream cannot be achieved in isolation: "Ask yourselves—where would we be right now if the people who sat here before us decided not to build our highways, not to build our bridges, our dams, our airports? What would this country be like if we had chosen not to spend money on public high schools, or research universities, or community colleges? Millions of returning heroes, including my grandfather, had the opportunity to go to school because of the G.I. Bill. Where would we be if they hadn't had that chance?"

Although Obama has both lived and expressed the American Dream, a shameful number of Americans are evidently unwilling to conclude that he is even American. Our public life is dominated, not by the question of what Americans can do together, but of who are the real Americans—and by implication who are those who do not really belong here. We have one candidate running for president (Michele Bachmann) who called President Obama and liberals anti-American and another (Rick Perry) who proposed that his state secede from the union. Those are the acts of small people lacking any sense that the country in which they live is and should be composed of large numbers of people unlike themselves.

Both the politicians I have just mentioned are leaders of the Republican Party. I have no idea whether the leaders of that party, who are so militantly opposed to taxes and who believe that government is evil except when it tells people what to do with their sex lives, are sincere in their convictions or simply ignorant of economics and history. But I do know that the politics of extremism and polarization they have brought to our public life is making the American Dream impossible to realize.

Although the conventions of centrism require blaming both parties, the truth is that the Republican base is far more extremist than anything that can be found among the Democrats. It goes without saying that both parties claim to be representing the American Dream. But for one it has become a tool to avoid any sense of common obligation and for the other it has become too ambitious a goal to pursue in a time of retrenchment.

What are ordinary Americans to make of the spectacle their leaders have brought about? If you are today what my parents were nearly 70 years ago—a young family hoping for the best for your children—you had better already have what you will need because government will not be there to help you on your path upwards. You may make it nonetheless, and if you do, you will deserve the good fortune that comes your way. But it will be your dreams that will be realized, not the American Dream. The latter belongs to all of us or it belongs to none of us. It is symbol of who we are as a people not what we become as individuals.

My parents are no longer alive to see what has happened to the country in which they realized their dreams. But I have children of my own, all of them at the start of their careers. I hope they will be as lucky in their future as I was in my past. That opportunity still exists for them, but only if their fellow Americans recall, as the president did in his September speech, that our greatest efforts are those in which we engage collectively. CW

Alan Wolfe is a professor of political science and director of the Boisi Center for Religion and American Public Life at Boston College. His latest book, Political Evil: What It Is and How to Combat It, *was published in September by Knopf.*

The Lost Decade

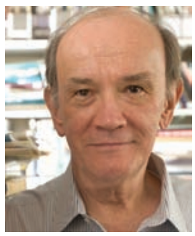
Since 2000, the American Dream has been on hold in Massachusetts

BY ANDREW SUM

THE PAST DECADE in both the United States and Massachusetts has been referred to as a "Lost Decade" for the economy and especially its workers. Nationally, the Gross Domestic Product (GDP) per capita grew by only 7 percent, the only decade in the past 80 years, including the 1930s Depression decade, in which the nation failed to achieve double-digit growth in output per capita. Total wage and salary payroll employment in the US was several million lower in 2010 than it was at the beginning of the decade in 2000. This is the first decade in post-World War II history in which we failed to add any net new jobs. In the eight years from 1992 to 2000, the US economy added 23.5 million payrolls jobs. The national overall unemployment rate was more than twice as high in 2010 as in 2000, and both underemployment and hidden unemployment rose sharply.

The Massachusetts economy performed just as badly during this Lost Decade. Real output per Massachusetts resident grew by just 8 percent over the decade, well below the 30 and 50 percent growth rates of the 1979-89 Massachusetts Miracle decade. The total number of workers on the payrolls of private firms and government agencies in 2010 was more than 3 percent below its level in 2000, the seventh worst job creation performance among the 50 states. The losses in payroll employment were particularly steep in the state's key goods producing industries (construction, manufacturing) and in selected transportation industries which were intensive employers of blue-collar workers, from high-skilled construction and precision crafts workers to machine operators, fabricators, and transport operatives. Many of these jobs had provided Massachusetts workers without college degrees access to a middle-class standard of living. These well-paying blue collar employment options have diminished considerably over the past decade.

The declines in employment opportunities across the state over the past decade were not uniformly shared across gender, age, educational attainment, geographic, or occupational groups of workers. All of the net declines in civilian employment over the 2000-2010 period took place among men, with males losing a substantial number of jobs over the course of the Great Recession of 2007-2009 and its largely jobless aftermath. While employment rates of the state's older workers (55-plus) were higher in 2010 than they were at the beginning of the decade, and ranked fifth highest in the country, workers in all younger age groups experienced declines in their employment rates



with the youngest residents (those under 30) faring the worst by far. Combinations of declining labor force participation rates and rising unemployment helped push the job-holding rates of every gender/age group of workers under age 55 frequently well below those prevailing in the full employment year of 2000. If the members of each of these age/gender groups of the resident population under 55 had been able to maintain their year 2000 employment rate, there would have been another 263,000 Massachusetts residents at work in 2010. This represents a massive underuse of our potential workforce. Year-round, full-time jobs also fell at a very high rate, especially for men, reducing their annual earnings and incomes.

Workers in each major educational group, including those with college degrees, were less likely to be employed in 2010 than at the beginning of the decade. The sizes of these employment rate declines were considerably higher among those workers with either no post-secondary schooling or with only one to two years of college than they were among workers with bachelor's, master's, or more advanced degrees. Bachelor degree holders, especially those under 35, did encounter rising malemployment problems over the decade, trapping more of them in jobs that did not require their college degrees, lowering their weekly earnings and annual earnings well below those of their college educated peers who obtained jobs that typically required a college degree. This mal-employment reduces the productivity of workers, their annual earnings and incomes, and their tax payments to state and federal government.

The past decade witnessed a decline of several percentage points in the median real income of US families and no growth in the median real income of Massachusetts families, the only decade in which such an event happened in the past 70 years. Movement of the state's families into the broadly defined middle class came to an end, some families were thrown out of the middle class, and the income gaps between the state's more affluent families and those in the bottom half of the distribution widened considerably. The top quintile of people captured half of all family incomes in 2010. Household and family income inequality have risen to post-World War II highs. These widening gaps in incomes also took place among families with children. These trends have serious negative consequences for the economic, educational, and social well-being of the children in these lower income families. Nationally, family income and wealth play significant roles in determining the high school graduation, college enrollment, persistence, and graduation experiences of their children.

Mal-employment reduces productivity, earnings, and tax payments.

Both nationally and here in Massachusetts, adults express increasing problems in achieving their economic goals and worries about the economic well-being of the next generation. In a November 2010 national Pew Foundation poll, nearly four of every 10 respondents reported that they were struggling "a lot" these days versus only 2 of 10 who said they were not struggling at all. In an April 2011 MassINC poll, nearly half (48 percent) of respondents claimed that it had become more difficult over the past 10 years to live "the kind of life they want to lead," while only 9 percent said it had become easier to do so. One half of the respondents reported that they were "better off" than their parents were at their age versus only 22 percent who reported being "worse off." However, when asked about the financial fate of the next generation, these same respondents were twice as likely to believe that the next generation would be "worse off" rather than better off at the same age (40 versus 20 percent). Very similar results are found in national surveys on this topic. This belief in a deteriorating standard of living for future generations represents a radical departure from findings of previous years. It's a loss of faith in the American Dream.

There is a loss of faith in the American Dream.

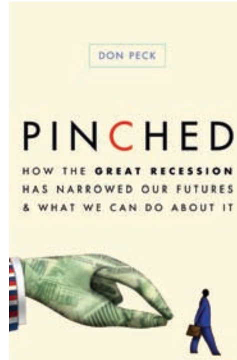
I've been tracking the American Dream in Massachusetts along with MassINC for the last 15 years. Our first joint venture, *The State of the American Dream in New England*, was published in January 1996. It found the boom years of the 1980s had given way to a period of slower growth in which income disparities were rising and most of the middle class was treading water. Updates followed in 1998 and 2002 that showed very strong job growth and some wage growth between 1992 and 2000 yet only modest gains in median real incomes and widening family income inequality. The strategies Massachusetts families had relied upon to achieve middle-class status (more wives going to work and working more hours per year) were being tapped out. Our forthcoming report, *The State of the American Dream in Massachusetts 2010,* finds many of these troubling trends have only worsened.

The ability to reclaim the American Dream for more of our state's residents will require progress on many different fronts. First, we will need a major acceleration in economic growth with the potential to create well-paying jobs for those left behind by the Lost Decade. Second, the link between productivity growth and real wage growth that underlay the broad-based prosperity of the Golden Era from 1946 to 1973 and the Miracle Decade of the 1980s must be reestablished. Workers must benefit from productivity growth. Third, a more experienced, literate, and highly trained workforce will be needed to boost labor productivity (the foundation for future improvements in worker earnings), expand our economic competitiveness, and help more families enter in and remain in the middle class. CW

Andrew Sum is director of the Center for Labor Market Studies at Northeastern University.

The great squeeze

Income inequality is the economic issue of our time—and the recession has only made a bad situation worse



Pinched: How the Great Recession Has Narrowed Our Futures and What We Can do About It By Don Peck
New York, Random House, 224 pages

REVIEWED BY MARK ERLICH

FIFTEEN YEARS AGO, I borrowed a visual image from economist Bennett Harrison's book *Lean and Mean* for a class I was teaching. Harrison divided the nation's history into three eras. In the latter years of the 19th century, he suggested, society was organized like a pyramid, with a few wealthy individuals at the top and the bulk of the population near the bottom. During the post-World War II period, wealth and income distribution looked more like a diamond, with some rich people at the top, a declining number of the very poor, and an expanding middle class. And at the time of his book's publication in 1994, Harrison argued that America had become a bottom heavy hourglass, with a larger wealthy population at the top, and an overwhelming number of people whose incomes were stagnating or declining at the bottom, leaving a shrinking middle.

Don Peck's *Pinched: How the Great Recession Has Narrowed Our Futures and What We Can do About It* is the latest in a long line of studies and books over the last 20 years documenting this growing economic inequality in the United States. Peck's book is an expansion of a March 2010 *Atlantic* article in which he wrote: "We are living through a slow-motion social catastrophe, one that could stain our culture and weaken our nation for many, many years to come."

The current downturn has been deeper and longer than initially forecast. The recession may have technically ended in 2009, but by the middle of 2010, a majority of American workers had either experienced the loss of a job, a reduction in work hours, a change from full-time to part-time status, or a pay cut. In July of this year, the share of Americans working or looking for work dropped below 64 percent, the lowest rate in 20 years. The average family's net worth has plunged by 23 percent since 2007, shredded by the twin daggers of joblessness and declining home values.

The impact has been spread unevenly across income groups. During the anemic recovery that began 20 months ago, wages and salaries accounted for just 1 percent of the nation's economic growth, compared to 88 percent from rising corporate profits. Despite the weak job market, the typical CEO of a major corporation earned 23 percent more last year than the year before. This is not a new development. The richest 1 percent of Americans received 56 percent of all income growth between 1989 and 2007. In July, Michael Cembalest, chief investment officer of J.P. Morgan Chase, reported that "US labor compensation is now at a 50-year low relative to both company sales and US GDP," while profit margins are at their highest levels since the mid 1960s. "Strong winds have been at the backs of the rich for many years, and if anything, the recession only intensified them," Emmanuel Saez, a University of California expert on income and wealth, tells Peck. "The market itself doesn't impose a limit on inequality."

According to the US Census Bureau, the wealthiest 5 percent of Americans have expanded their share of total income by 32 percent and inequality has increased by 22 percent since 1980. During the same period, average family income climbed less than 1 percent a year, despite the growth of two wage earners in many families. The United States now ranks 31st out of the world's 33 most advanced economies in terms of income inequality, more unequal than Third World countries such as Guyana, Nicaragua, and Venezuela.

The recession has furthered the hollowing out of middle skill jobs. Total employment in professional, managerial, and high-skilled technical jobs has been largely unchanged, as have low-wage service jobs in food preparation, personal care, and house cleaning. However, blue-collar and mid-level white-collar jobs have been disappearing. Since much of the unemployment has been in manufacturing and construction, there has been a disproportionate impact on those traditionally male occupations. Men suffered three-quarters of the 8 million job losses in 2008-09. Minorities have been hit particularly hard. The recession, Memphis Mayor A.C. Wharton tells Peck, has "done more to set us back than anything since the beginning of the civil rights movement."

Meanwhile, the housing bubble masked the effects of income stagnation for many Americans. Housing accounted for more than half the growth of private fixed assets between 1999 and 2009, so homeowners could ignore declining household income during that decade. But housing values dropped by 31 percent from 2006 to 2010 nationwide. At the beginning of 2011, one in four houses was "underwater," worth less than the outstanding principal on the mortgage.

Peck quotes a Nigerian software engineer in the Midwest who blogs about putting all his savings into real estate hoping to achieve the immigrant dream. "It was difficult (horrendous even) to work an average of 75 hours a week for over a decade. It stings to realize that it was all for naught," he writes. Peck talks with a family that bought into a 760-home planned Florida community built in 2005. At the closing, their purchase price was $350,000. Comparable homes sold for $550,000 a year later. Since the recession, 80 percent of the homes have been in foreclosure. Ownership has shifted to rentals with a high churn rate. The once-elegant streets are tagged with gang graffiti and a typical house was recently assessed at $179,000.

Long-term unemployment forms the basis of lasting changes in physical and mental health—depression, stress, substance abuse, domestic violence, and failing marriages—particularly on the current generation of young adults with less than a college education. Among 16-24 year olds, high school dropouts' unemployment levels are more than triple that of college graduates. Military recruiters understand this economic divide, aiming their pitches at communities with limited prospects for good jobs or higher education. Children from upper income families are now 20 times more likely to have high incomes of their own than children from low income families.

Pinched combines a wealth of financial data, valuable research on the social and psychological impacts of the downturn, and a series of insightful personal interviews. The book is less successful when Peck attempts to explain the broader causes of inequality and how the current recession fits into American economic history.

Peck cites the standard explanations for increasing inequality—the decline of manufacturing, the role of outsourcing, and technology innovation as contributors to the demise of middle skill jobs. But he gives relatively short shrift to other consequences of globalization and free trade, immigration policy, currency exchange manipulation, changes in tax and public policies, and, above all, the decrease in union density.

Peck's attempts to provide an overarching historical theory are also unsatisfactory. He claims that today's collapse is similar to the Panic of 1893, the Great Depression, and the oil-shock recessions of the 1970s, all periods characterized by "a slow buildup of social discord, a rise in racial antipathies and anti-immigrant sentiment, the corrosion of trust and, in general, the mobilization of efforts geared toward trying to recapture some past idyll rather than those that squarely confronted the future." He focuses on the intolerance of the populists of the late 19th century to the exclusion of their democratic, anti-corruption, anti-monopoly traditions that prefigured the trust-busting of the Progressive era. Similarly, he minimizes the social cohesion provided by the activist intervention of New Deal federal agencies and the transformative effect of widespread labor organizing during the 1930s. It is too simplistic to claim that the responses to economic turmoil are only shaped by fear and a turning inward. Economic crises in our history have drawn out both the best and worst of the American spirit.

Will a broad middle class survive?

Peck's solutions would be common sense in a less toxic political environment. He calls for retraining of displaced workers and investment in infrastructure, education, and research and development, proposals that would be helpful but do not address the deeper crisis. In any case, Congress is unlikely to enact meaningful job-creating legislation prior to the 2012 election. While there are occasional references to economic inequality in the political arena—as in President Obama's inaugural address comment that "a nation cannot prosper long when it favors only the prosperous"—the very mention of the topic usually draws charges of "class warfare" and ends substantive discussion. According to the IRS, today's wealthiest 400 Americans pay one-third less in taxes than their counterparts did in the prosperous 1950s, yet the prevailing congressional wisdom is that repeal of the Bush tax cuts would block any possible recovery.

Will the American success story of a broad middle class survive? Peck's conclusion that "extreme income inequality causes a cultural separation in society that is unhealthy on its face and corrosive over time" is the central, and largely unspoken, issue of our times. CW

Mark Erlich is the executive secretary-treasurer of the New England Regional Council of Carpenters.

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