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## NOT JUST THE 1%: THE UPPER MIDDLE CLASS IS LARGER AND RICHER THAN EVER

Research shows the number of upper middle class households has more than doubled since 1979

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A range of data after the recession and the housing bust supported the idea that only a tiny elite of U.S. society, generally seen as the top 1%, had rebounded and was doing well.

But a growing body of evidence suggests the economic expansion since the 2007-2009 financial crisis has enriched a much larger swath of the upper middle class, and that a deeper income divide is developing between that top quarter or so of the population and everyone else.

The latest piece of evidence comes from economist **Stephen Rose** of the **Urban Institute**, who finds in new research **that the upper middle class in the U.S. is larger and richer than it's ever been**. He finds the upper middle class has expanded from about 12% of the population in 1979 to a new record of nearly 30% as of 2014.

"Any discussion of inequality that is limited to the 1% misses a lot of the picture because it ignores the large inequality between the growing upper middle class and the middle and lower middle classes," said Mr. Rose. The Urban Institute is a nonpartisan policy research group.

There is no standard definition of the upper middle class. Many researchers have defined the group as households or families with incomes in the top 20%, excluding the top 1% or 2%. Mr. Rose, by contrast, uses a more dynamic method similar to how researchers calculate the poverty rate, which allows for growth or shrinkage over time, and adjusts for family size.

Using Census Bureau data available through 2014, he defines the upper middle class as any household earning \$100,000 to \$350,000 for a family of three: at least double the U.S. median household income and about five times the poverty level. At the same time, they are quite distinct from the richest households. Instead of inheritors of dynastic wealth or the chief executives of large companies, they are likely middle-managers or professionals in business, law or medicine with bachelors and especially advanced degrees.

Smaller households can earn somewhat less to be classified as upper middle-class; larger households need to earn somewhat more.

Mr. Rose adjusts these thresholds for inflation back to 1979 and finds the population earning this much money has never been so large. One could quibble with his exact thresholds or with the adjustment that he uses for inflation. But using different measures of inflation, or using higher income thresholds for the upper-middle class, produces the same result: substantial growth among this group since the 1970s.

Mr. Rose's new paper is part of a broader body of research reappraising and seeking to measure the upper middle class. This reappraisal does not fit comfortably in the left or the right's political narratives. While it underscores the growth of American economic inequality, it undermines the idea of lower and upper-middle class voters being in the same boat. It suggests that the majority of Americans have indeed struggled but that a large minority has thrived.

Research from **Sean Reardon** of **Stanford University** and **Kendra Bischoff** of **Cornell University**, for example, found in research published in March that the number of families **living in affluent neighborhoods** has more than doubled, to 16% of the population in 2012 from 7% in 1980. They define these neighborhoods as those where the median income is at least 50% higher than the rest of the city.

The **Pew Research Center** last month found that 203 metropolitan areas have seen **their middle class shrink**, but in 172 of those cities, the shrinkage was in part due to the growth in wealthier families. (In 160 of the cities, the share of lower-income families grew as well.) So Pew found the middle class shrinking from both ends – not just from families falling below the middle class, but also because of families rising out.

**Richard Reeves**, a senior fellow at the Brookings Institution, a centrist think tank, is writing a book called "Dream Hoarders" that looks at the way upper-middle class families perpetuate their status across generations, in ways that can sometimes be harmful to middle- or lower middle-class families. Mr. Reeves argues that many of the social anxieties and resentments against inequality are in fact driven by what he **calls "the dangerous separation"** between middle and upper-middle income families.

Take high housing costs or the soaring costs of higher education. The spread of \$3,000-a-month apartments or a national average \$32,000-a-year college tuition bill is not driven by heirs or CEOs renting dozens of apartments or sending dozens of children to college. It's driven by millions of upper middle class families with enough income to foot those bills, Mr. Reeves said.

"It's true the top 1% or top .1% have galloped away more quickly," Mr. Reeves said, but ignoring the role of the upper middle class "gets in the way of an honest conversation about what's happening with American inequality."

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