The American Middle Class is Shrinking, Where People Grow Up May Explain Why

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Introduction

The United States has struggled to mitigate headwinds that have generated higher economic inequality across the population in recent decades. Where an individual grows up has been identified as one such headwind. Neighborhood development in the United States has not been created equally. During the 1950s, post-WWII America experienced a rapid boom in the development of suburban communities. These mid-20th century advancements supported neighborhood growth and community expansion. Despite the success of these projects, a growing number of U.S. counties lack the resources needed to support economic growth for their residents. What are the variables contributing to a growing divergence in the quality of middle-class neighborhoods that create barriers to economic mobility? A body of literature has observed changes in neighborhood dynamics, including infrastructure development, business growth, and access to sufficient housing, as key factors contributing to neighborhood inequality. Research discussions have emphasized the role of *place* in determining the economic trajectories of households in the economy. Raj Chetty among other researchers has evaluated census tracts based on "childhood exposure effects."[1] Where an individual grows up can support income gains, but it can also lead to income losses. If policymakers fail to respond, these negative exposures will further exacerbate place-based inequality in neighborhoods across the country. The United States requires intervention strategies that emphasize spatial equality in order to revitalize community development nationwide. These solutions will incentivize greater production of affordable housing units, along with subsidies for small business development and strengthening channels that provide distressed communities with access to private capital. Uplifting the long-term trajectories of households in these areas will generate economic growth that can be more broadly shared across households in the United States.

Background Discussion and Literature Review | U.S. Middle Class

Defining the Middle Class

It is important to define and identify the characteristics of this population before addressing specific concerns in greater detail. The "American middle class" can often be used as an ambiguous term applied to a broad population. Economists and scholars have offered possible parameters that define who belong to the middle class. This is done primarily in terms of income. Researchers have taken data from the U.S. Census Bureau, which categorizes the income distribution by quintiles (fifths). A conservative definition would limit the middle class only to the middle quintile, defined by incomes between $52,179 and $85,076 for households in 2020.[2] A more generous definition may define the middle class by the middle three quintiles. This would expand the income parameters to include households between $27,026 and $141,110 in

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[1] Patrick Kesler, "Is the American Dream Alive or Dead? It Depends on Where You Look," *Economic Innovation Group* (blog), March 22, 2017, https://eig.org/distressed-communities/dcieop/.
[2] "Household Income Quintiles," Tax Policy Center, January 25, 2022, https://www.taxpolicycenter.org/statistics/household-income-quintiles.

2020.[3] An alternative option uses the upper- and lower-income bounds to define middle class households around the median income for each year. The Pew Research Center used this model to develop its definition in a recent review of how the middle class has changed in the past 50 years. The report defines "middle income" to be two-thirds to double the median income in 2020. The median income in 2020 was $67,521 according to U.S. Census Bureau data.[4] Based on adjustments for household size, the researchers determined middle class households would include incomes between $52,000 and $156,000 (for households of three).[5] This proposal is particularly effective because the lower- and upper-bounds adjust with the median income. Fluctuations in the median will shift which set of households are considered middle class. This will also adjust which households are considered "lower class" and which are considered "upper class." Economists have also proposed defining the range of incomes for middle class households based on the distance from poverty. For example, the federal poverty guidelines for households with three members was $21,720 in 2020.[6] Researchers have often set the lower bound for the middle class at 150 percent of the federal poverty line. This would mean middle class households at the lower end of the range would include incomes of $32,580 or above for a household of three.[7] A higher percentage can then be used to develop the upper bound of this range. Despite the available options, there has not been a broad consensus around a single, official definition of the middle class.

Roadblocks to Success: Challenges Facing the Middle Class

Politicians often refer to middle class families as the "backbone" of the American economy. Consumption patterns among these households are critical for economic growth. In the United States, being a member of the middle class often indicates an individual's ability to achieve the "American Dream." However, research indicates that the United States has grown increasingly unequal in the past several decades. The percentage of U.S. adults who are "middle income" fell from 61 percent in 1971 to 50 percent in 2021.[8] Both "lower income" and "higher income" shares of U.S. adults have grown during this period. The *New York Times* surveyed four families in the middle class to examine their budgets and highlight their concerns for the future. One couple with two daughters from Layton, Utah explains how even with two paychecks, the family of four is struggling. The couple's combined annual income is about $90,000, and they have concerns about the rising cost of housing, health care, and higher education.[9] The budgets of middle-class families are being squeezed because these line-item expenses are increasing. This family's experiences identify several factors contributing to the decline of the middle class, including reductions in income growth, rising costs, and job insecurity.[10] Income growth since

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[3] "Household Income Quintiles," Tax Policy Center, January 25, 2022, https://www.taxpolicycenter.org/statistics/household-income-quintiles.
[4] Emily A. Shrider et al., "Income and Poverty in the United States: 2020," US Census Bureau, September 14, 2021, https://www.census.gov/library/publications/2021/demo/p60-273.html.
[5] Rakesh Kochhar and Stella Sechopoulos, "How the American Middle Class Has Changed in the Past Five Decades," *Pew Research Center* (blog), April 20, 2022, https://www.pewresearch.org/fact-tank/2022/04/20/how-the-american-middle-class-has-changed-in-the-past-five-decades/.
[6] "2020 Poverty Guidelines," ASPE, accessed December 13, 2022, https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines/prior-hhs-poverty-guidelines-federal-register-references/2020-poverty-guidelines.
[7] "2020 Poverty Guidelines."
[8] Kochhar and Sechopoulos, "How the American Middle Class Has Changed in the Past Five Decades."
[9] Tara Siegel Bernard and Karl Russell, "The Middle-Class Crunch: A Look at 4 Family Budgets," *The New York Times*, October 3, 2019, https://www.nytimes.com/interactive/2019/10/03/your-money/middle-class-income.html.
[10] Bernard and Russell.

1970 has not been equal across the distribution. "Middle-income" households have realized 50 percent higher incomes (1970-2020) while "low-income" households generate a 45 percent increase, with gains for "high-income" households being the largest at 69 percent.[11] This data represents the median of each income tier, provided by data from the Current Population Survey (CPS), along with the Annual Social and Economic Supplement (IPUMS). For "middle income" households, incomes grew from $59,934 in 1970 to $90,131 in 2020.[12] These gains have not been sufficient in keeping pace with expenses such as mortgage or rent payments, childcare costs, and student loan debt. "High-income" households have seen their incomes grow faster than "middle-income" households and *much* faster than "low-income" households. A consistent pattern of diverging incomes across the household distribution plays a critical role in explaining the problems facing the middle class.

Since the 1970s, the United States has experienced more income inequality among its population. Researchers have identified a relationship between a higher prevalence of inequality and lower rates of economic mobility. Intergenerational mobility explains the relationship between a parent's earnings and the earnings of a child when they reach their adult earning potential. Literature on this topic has examined how this variable may affect current and future generations of the middle class. Chetty et al. (2017) examine absolute income mobility, the likelihood that a child exceeds their parent's economic status when they reach their parent's age.[13] Examining a birth cohort from 1940 and a later birth cohort from 1980, the researchers find that the rate of absolute income mobility falls from 90 percent in 1940 to 50 percent in 1980.[14] The researchers then evaluated two counterfactual scenarios, one with "higher GDP growth" and another with "more broadly shared growth."[15] The first scenario increased the rate of absolute income mobility for the 1980 birth cohort from 50 percent to 62 percent. The second scenario led to an even larger increase for the 1980 birth cohort from 50 percent to 80 percent.[16] These findings emphasize the role inequality plays in suppressing future mobility.

Corak (2013) also examines inequality and its influence on mobility. This research utilizes the "Great Gatsby Curve" which measures the relationship between income inequality and intergenerational economic mobility.[17] On the horizontal axis, income inequality is measured using the Gini coefficient, with a measure of 0 meaning perfect equality and a measure of 1 meaning perfect inequality. On the vertical axis, intergenerational earnings mobility is evaluated using generational earnings elasticity. This measures the elasticity of parental earnings and a son's adult earnings. Corak's study consists of a cross-country analysis of OECD nations identifying the mobility differences across low- and high-inequality nations. The study was designed to assess the influence of this "parental earnings" factor on a birth cohort from the mid-1960s when they evaluated their adult outcomes during the 1990s.[18] The Great Gatsby Curve is upward sloping, exhibiting a positive relationship. Greater inequality is associated with lower

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[11] Kochhar and Sechopoulos, "How the American Middle Class Has Changed in the Past Five Decades."
[12] Kochhar and Sechopoulos.
[13] Raj Chetty et al., "The Fading American Dream: Trends in Absolute Income Mobility since 1940," *Science* 356, no. 6336 (April 28, 2017): 398–406, https://doi.org/10.1126/science.aal4617.
[14] Chetty et al.
[15] Chetty et al.
[16] Chetty et al.
[17] Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives* 27, no. 3 (September 2013): 79–102, https://doi.org/10.1257/jep.27.3.79.
[18] Corak.

intergenerational mobility. Nations with lower Gini coefficients were more likely to experience less "stickiness" in the elasticity of parental earnings and a son's future earnings.[19] The stickiness of income increases as a nation's Gini coefficient rises. The United States has one of the highest Gini coefficients among the OECD at 0.49 in 2021, up 1.2 percent from 2020.[20] The incomes of parents in the United States have a greater influence on a child's future earnings due to higher elasticity. This goes in both directions. Children born into low-income households will likely also experience lower incomes in adulthood. Conversely, children in high-income households are likely to experience higher earnings in their adulthood given these advantages.

Identifying the Primary Focus

The dynamics that have been presented make it increasingly difficult for middle class families to achieve economic prosperity. Income inequality has played a major role in hollowing out the middle-class population in the United States. Income growth has mainly gone to households in the upper tier. A smaller portion of these income gains will be accessible to the middle class due to the sticky relationship of incomes intergenerationally. Because middle class families face growing income inequality, it becomes increasingly difficult for households to keep expenses within their budget constraints. One necessary expense that has grown in recent years is the cost of housing. Americans have continued to pinpoint homeownership as an essential component of middle-class life. Due to higher income inequality, homeownership is an increasingly difficult goal to achieve. Access to sufficient and stable housing conditions are important variables that generate greater economic success for Americans. Households require neighborhood conditions that are safe, with paved roads, and sufficient infrastructure to protect individuals from environmental harm. These areas should have good business diversity and other available services that provide entertainment to people. There should be job opportunities available, ones that pay well and provide long-term economic stability. These resources should be available to all middle-class households in an effort to ensure future generations are better off. Unfortunately, not everyone is afforded the same access to sufficient infrastructure or resources that support economic stability. There is a growing body of research that has evaluated regional differences in neighborhood prosperity across the United States. Where an individual grows up has an outsized role in determining their economic prospects as an adult. Because heightened income inequality has made housing more expensive, middle-class households have had to settle for communities with fewer economic opportunities. These households will not be able to offer their children the same quality of resources and their adult earnings may suffer as a result. This current economic environment requires lawmakers to reform the nation's housing and infrastructure policy. Interventions should focus on providing sufficient and affordable housing opportunities to a larger share of Americans. Policymakers should also focus on proposing *place-conscious* policies that support business development and provide investments in infrastructure for communities in need. These interventions will facilitate greater economic prosperity for American households as a way of counteracting the effects of income inequality.

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[19] Corak.

[20] Jessica Semega and Melissa Kollar, "Increase in Income Inequality Driven by Real Declines in Income at the Bottom," US Census Bureau, September 13, 2022, https://www.census.gov/library/stories/2022/09/income-inequality-increased.html.

Topic Overview | The Role of *Place*

Quantitative Background

At the center of concerns surrounding the future of the American middle class, housing prospects for many families have become a major impediment. Recent public opinion data reveals a growing share of Americans identify affordable housing in their local community to be a "major" problem. An October 2021 Pew Research Center Survey found this accounted for 49 percent of total responses, up 10 percentage points from a similar 2018 survey.[21] The data reveals important trend variations across different demographics. Respondents in urban areas were most likely to identify affordable housing as a major problem at 63 percent compared to suburban respondents at 46 percent and rural respondents at 40 percent.[22] In addition to neighborhood type, there were also variations in the response data based on regional differences. 69 percent of respondents living in the West identified affordable housing as a major problem. This was far more than respondents in the Northeast where 49 percent said affordable housing was a major problem, along with respondents in the South at 44 percent and respondents in the Midwest trailing at 33 percent.[23] What is the cause of these response differences based on the *type* of neighborhood a person lives in and *where* they are regionally located in the United States? These patterns are not superficial. Economists have developed models to identify the forces motivating these differences. Response divergence in this survey indicates that the economic prospects of a household may be influenced to some degree by where they live.

A 2017 Economic Innovation Group (EIG) report assesses county-level data from their Distressed Communities Index (DCI) in combination with economic mobility estimates developed by a research team led by Raj Chetty. This data is used to evaluate the role geography plays in determining the persistence of inequality. Their findings identify a relationship between economic well-being and economic opportunity across U.S. counties. Alongside this, Chetty's team evaluated how the "neighborhood effects" of different zip codes influence a child's future adult earnings.[24] The report identified *positive* exposure effects that led to higher future earnings and *negative* exposure effects that reduced future earnings. Combining these research materials, the EIG categorized all U.S. counties into one of four types: (1) alive and well, (2) fenced off, (3) within reach against the odds, and (4) a distant prospect. Table 1 on the next page provides a summary description of each county type. The research team was concerned with assessing both mobility and inequality levels across the four categories. County mobility is labeled either "prosperous" or "distressed" and county inequality is labeled either "mobile" or "immobile". Based on the data from Table 1, 62 million Americans live in a county that is immobile and 15.9 million Americans live in a county that is distressed.[25] Households living in these counties often experience economic harm associated with these negative exposures.

[21] Katherine Schaeffer, "A Growing Share of Americans Say Affordable Housing Is a Major Problem Where They Live," *Pew Research Center* (blog), January 18, 2022, https://www.pewresearch.org/fact-tank/2022/01/18/a-growing-share-of-americans-say-affordable-housing-is-a-major-problem-where-they-live/.
[22] Schaeffer.
[23] Schaeffer.
[24] Kesler, "Is the American Dream Alive or Dead?"
[25] Kesler.

Table 1 – Breakdown of U.S. Counties by Type

	Alive and well	**Fenced off**	**Within reach against the odds**	**A distant prospect**
Number of Americans	71 million	47.5 million	1.4 million	14.5 million
Number of U.S. counties	[420]	28% of prosperous U.S. counties	10% of distressed U.S. counties	[522]
Primary Locations	East Coast, Upper Midwest and Mountain region, urban areas on the West Coast	Counties dotted across the U.S., concentrations around urban centers in the Midwest and South, areas in the West	Counties clustered in rural areas of the Southwestern United States	Rural regions in the South and Appalachia, pockets in the desert Southwest (Native American reservations)
Observations on Spatial Inequality	73% of these counties fall below the national average	50% of these counties fall above the national average	Most counties are too small to measure data, the two that were large enough produced opposite results	*[no data presented]*
Result	Prosperous and mobile	Prosperous and immobile	Distressed and mobile	Distressed and immobile

Source: Economic Innovation Group (2017)[26]

Additional research has been collected to evaluate regional differences in mobility across the United States. Connor and Storper (2020) examine data on mobility levels that have shifted over the 20th and 21st centuries. Their research identifies geographic changes in opportunity-generating economic activities and policies that promote racial inequality as key reasons for some of these regional concerns.[27] There are many U.S. counties in the South and Midwest that face both mobility and equality issues. A mass exodus of blue-collar jobs in the Midwest has reduced the employment opportunities available to workers with these skill sets. Conversely, the nation's long history of racial inequality beginning with slavery and developing into Jim Crow Laws has contributed to the South's consistent immobility and inequal concerns. Researchers have determined that the economic and social attributes of *place* have an influence on childhood development and later-life outcomes.[28] Data from the Social Security Administration (SSA) has observed consistent annual declines in the geographic mobility rate of U.S. workers. The SSA Bulletin identifies worker mobility as a primary mechanism for preventing geographic differences in earnings and employment.[29] Strong geographic mobility promotes stable macroeconomic adjustments that can properly respond to downturns in the labor market. Because geographic mobility has declined, there are fewer workers relocating to find new employment opportunities. Again, this trend has been supported by growing income inequality. Income gains have not been sufficient in allowing households to utilize relocation strategies to

[26] Kesler.
[27] Dylan Shane Connor and Michael Storper, "The Changing Geography of Social Mobility in the United States," *Proceedings of the National Academy of Sciences* 117, no. 48 (November 16, 2020): 30309–17, https://doi.org/10.1073/pnas.2010222117.
[28] Connor and Storper.
[29] Patrick J. Purcell, "Geographic Mobility and Annual Earnings in the United States," *Social Security Administration Research, Statistics, and Policy Analysis* 80, no. 2 (2020), https://www.ssa.gov/policy/docs/ssb/v80n2/v80n2p1.html.

improve their economic environment. These conditions force middle class households to remain in neighborhoods that inhibit economic success. A growing number of economists and researchers are committed to expanding the available information on how place-based factors can reduce economic mobility. They have also assessed how the type and location of these neighborhoods contribute to the problem. Still, these efforts are made to broaden public awareness and emphasize their importance in identifying solutions.

The Problem: Divergence in Neighborhood Quality

Public Goods and Neighborhood Infrastructure

Identifying the principal characteristics of this research problem will reveal the possible consequences for the American middle class if regional divergence in the quality of U.S. neighborhoods continues to grow. The Brooking Institute discussed the idea of "parental advantage" as elements that influence the future success of children. Their report identifies that 50 to 66 percent of the parental income effect is influenced by neighborhoods. They also found that lifetime earnings are $900,000 ($730,000 in net present value terms) higher for children who grow up in top quintile neighborhoods than those who grow up in bottom quintile neighborhoods.[30] Based on these figures, children that grow up in prosperous neighborhoods will continue to enjoy economic opportunities into their adulthood. Children born into distressed neighborhoods will likely continue to fall even further behind. Access to public goods such as quality education systems is critical in determining neighborhood housing costs. The quality of an education system is highly correlated to neighborhood income.[31] Experimental data suggest that better schools translate into higher cognitive scores and higher lifetime earnings for children.[32] Because access to quality school systems plays such an important role in deciding where households choose to live, housing costs can often be reflective of the education system in a specific location. Households that are unable to overcome the financial barriers to access higher quality schools will not be able to provide their children with the resources to achieve higher earnings in their adulthood.

Alongside quality education systems, prosperous counties often have higher quality infrastructure that uplifts the economic well-being of households in these neighborhoods. Strong infrastructure can support business development for these areas that generate greater access to employment opportunities for its residents. Scholars have identified several ways infrastructure in the United States can promote spatial inequality, which refers to the uneven economic well-being of Americans due to geography. Poor or inaccessible public transportation systems make it difficult for workers to take jobs that require them to travel to different locations. Policymakers have failed to provide distressed counties with the mechanisms that make it easier for residents to access mobility-generating opportunities. Poor infrastructure and a lack of community investment aimed at revitalizing the conditions of many of these areas support further divergence in neighborhood quality if these headwinds are not properly addressed. Research indicates that the long-term effects for households living in under-resourced and segregated neighborhoods

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[30] Jonathan Rothwell, "The Neighborhood Effect: Localities and Upward Mobility," *Brookings* (blog), November 12, 2014, https://www.brookings.edu/blog/social-mobility-memos/2014/11/12/the-neighborhood-effect-localities-and-upward-mobility/.
[31] Jonathan Rothwell, "Housing Costs, Zoning, and Access to High-Scoring Schools," *Brookings* (blog), April 19, 2012, https://www.brookings.edu/research/housing-costs-zoning-and-access-to-high-scoring-schools/.
[32] Rothwell, "The Neighborhood Effect."

will be consequential, especially for children.[33] Similar to quality school systems, limited access to many critical resources can influence the economic trajectories of children living in these neighborhoods. It will be important to reflect on the generational concerns associated with these place-based factors when developing policy solutions.

The Affordable Housing Crisis

Housing access is a fundamental component in supporting stable and sufficient economic prospects for American families. The extent to which housing issues have grown in the last several decades reveals just how important this issue is for the future success of the middle class. There have been concerns regarding the relative availability of housing stock in the United States. There is not enough available supply of housing units to meet the current demand needs. The 2022 Up for Growth report uses a longitudinal analysis to assess the nation's concerns around the underproduction of housing by county and metropolitan area. States experience a housing deficit of 79,000 units on average and estimates suggest 3.8 million housing units are needed nationwide to keep up with the current pace of household formation in 2020.[34] Research indicates that shortages in affordable housing units reduce wages and productivity by $2 trillion annually.[35] Households that lack access to quality housing units will not enjoy the same opportunities for income growth, which may lead to annual declines in GDP growth. The prospect of fewer available housing units may help explain why there are fewer families choosing to relocate. Households that face poor housing conditions will see their economic fortunes continue to worsen because there are simply not enough housing units available for families to relocate to a more prosperous county.

The Up for Growth report goes on to discuss county-level differences in housing underproduction observed today compared to trends a decade ago. In 2012, counties concentrated on the East and West Coasts, along with the Southwest, experienced the highest prevalence of affordable housing issues. Today, 47 states and 169 metropolitan areas have experienced rising housing underproduction.[36] Given these observations, housing insecurity is not an isolated issue, but rather a growing concern for households across the country. Researchers note that the pandemic has worsened existing housing issues in addition to creating shortages in new areas. Demand in the housing market surged when lockdown and stay-at-home measures were put in place. Elevated demand as an outcome of the safety response to COVID-19 has contributed to rising housing costs. The home-buying fever that was induced by the Federal Reserve during a time when interest rates were at near-zero historic lows can also help explain this pattern.[37] Housing underproduction has made it difficult for supply to meet current demand needs in the economy. Home prices will increase due to this disequilibrium in the housing market. Current rates of home construction are insufficient in addressing these supply issues. The

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[33] Stuart M. Butler and Jonathan Grabinsky, "Tackling the Legacy of Persistent Urban Inequality and Concentrated Poverty," *Brookings* (blog), November 16, 2020, https://www.brookings.edu/blog/up-front/2020/11/16/tackling-the-legacy-of-persistent-urban-inequality-and-concentrated-poverty/.
[34] John Lambo, "US Housing Underproduction Report Released," July 19, 2022, https://www.worldwideerc.org/news/mobility/us-housing-underproduction-report-released.
[35] Lambo.
[36] Lambo.
[37] Jane E. Ihrig, Gretchen Weinbach, and Scott A. Wolla, "How the Fed Has Responded to the COVID-19 Pandemic," Federal Reserve Bank of St. Louis, August 12, 2020, https://www.stlouisfed.org/open-vault/2020/august/fed-response-covid19-pandemic.

prospects of buying a home may be increasingly unattainable for many families in the coming years. Homeownership has been identified as an essential characteristic for households that strives to be part of the middle class. The United States needs higher access to quality housing units. These homes should be developed to encourage spatial equality and support reductions in the divergence in neighborhood quality. Policy interventions must address structural deficiencies in current housing policy and identify strategies that support economic growth for middle class households.

Policy Interventions

Relocation Programs

A variety of intervention strategies aim to address a different component of the nation's current housing difficulties. Relocation programs are one option that has been repeatedly offered to support American households. In 1994, the Department of Housing and Urban Development (HUD) launched the Moving to Opportunity (MTO) demonstration. Between 1994 and 1998, the MTO program enrolled 4,604 low-income families living in high-poverty neighborhoods across five major metropolitan areas: (1) Baltimore, (2) Chicago, (3) Los Angeles, (4) New York City, and (5) Chicago.[38] In this experimental relocation effort, families were randomly assigned placement in one of three categories. These experimental groups are outlined in Table 2 below.

Table 2 – MTO Program Group Descriptions

Low poverty voucher	Traditional voucher	Control
The "experimental group", these families received Section 8 rental vouchers that could only be used in low-poverty areas (census tracts with < 10% of the population below the federal poverty line for 1989)	The "Section 8 comparison group", these families received regular Section 8 rental vouchers with no geographical restrictions, given briefs and assistance from Public Housing Authorities (PHAs)	The "control group", these families continued to receive project-based assistance with no additional support from the program

Source: Brookings (2019)[39]

The MTO program was concerned with determining the economic and health outcomes that are generated when households relocate from high-poverty to low-poverty neighborhoods. The program's initial design was aimed at evaluating the short-term effects of these outcomes for both adults and children. Since 2015, a research team including Raj Chetty has examined the experimental data collected by HUD to assess the program outcomes for these two populations in the long-term. In the short term, there were no economic gains associated with the relocation of children or adults. In the long-term, there was minimal evidence to suggest that the MTO moves improved the employment, earnings, or social-program participation for adults who moved into low-poverty neighborhoods. However, there were long-term improvements in the health outcomes for adults with depression, diabetes, and obesity.[40] Despite few economic gains in the short term, follow-up data reveals young children (below 13 years) that moved to low-poverty neighborhoods experienced exposures that improved their economic outcomes as adults. This

[38] Robert Collinson and Jens Ludwig, "Neighborhoods and Opportunity in America," *Brookings* (blog), September 19, 2019, https://www.brookings.edu/research/neighborhoods-matter-for-opportunity-time-for-more-place-conscious-policy/.
[39] Collinson and Ludwig.
[40] Collinson and Ludwig.

includes higher adult earnings, higher housing incomes, along with higher rates of college enrollment.[41] Chetty's new analysis reveals that childhood exposure plays a role in determining the effect neighborhoods have on economic outcomes. Their quasi-experimental methods reveal that for every year a child lives in a better neighborhood, their potential earnings as an adult will increase.[42] This implies that the earlier a child is exposed to positive neighborhood effects, the better off they will be as adults. Chetty argues that there is no critical age where relocation must take place for children. Rather, the duration of time a child spends in low-poverty environments translates into larger economic gains when they reach adulthood.

Neighborhood improvement programs can be designed to prioritize households with children, especially young children. Preference guidelines can be developed by local housing authorities to prioritize these target households. A portion of the federal funds allocated to these resources can be set aside and limited only to households of this type (ones containing children). Voucher programs can be implemented most effectively in public housing markets. Think tanks have suggested prioritizing relocation programs for households living in high-poverty neighborhoods. These would include census tracts with greater than 25 percent of households below the federal poverty line.[43] Lower levels of poverty nationwide will support middle class stability because the economy will work better for a larger portion of people. Researchers argue that relocation efforts should be implemented in tandem with infrastructure improvements to support neighborhood development. HUD has also organized the Jobs-Plus Initiative Program (JPI) which promotes locally based, job-driven approaches to achieve higher earnings and generate higher employment outcomes.[44] The three core components of the program include (1) Employment-related services, (2) Financial incentives, and (3) Community support for work. Since 2015, HUD has allocated $136 million through 56 grants to varying Public Housing Authorities (PHAs).[45] These funds have been used to develop community jobs programs across the United States. The JPI is characterized as a *place-conscious* policy. These policies prioritize mobility concerns and aim to directly improve the living conditions of households based on where they are located. Additional interventions outlined in this section will emphasize expanding resources for place-conscious policies.

Incentivize Affordable Housing Construction

Relocation efforts cannot be implemented effectively if there is not enough supply of sufficient, affordable housing units. Because of this roadblock, policy interventions should also incentivize expanding the construction of housing units that can be largely accessible to all families. Remember that 2020 data *estimated* the United States was experiencing a shortage of 3.8 million housing units. That number could be as high as 5.5 million units.[46] Policies should prioritize housing for low- to middle-income households along with homebuyers entering the

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[41] Collinson and Ludwig.
[42] Raj Chetty, Nathaniel Hendren, and Lawrence Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," *Opportunity Insights* (blog), May 2015, https://opportunityinsights.org/paper/newmto/.
[43] Collinson and Ludwig, "Neighborhoods and Opportunity in America."
[44] "Jobs Plus Initiative Program," HUD.gov / U.S. Department of Housing and Urban Development (HUD), accessed December 15, 2022, https://www.hud.gov/program_offices/public_indian_housing/jpi.
[45] "Jobs Plus Initiative Program."
[46] Janneke Ratcliffe, "How We Can Solve the Nation's Affordable Housing Crisis | CNN Business," CNN, February 16, 2022, https://www.cnn.com/2022/02/16/perspectives/affordable-housing-crisis/index.html.

market for the first time. Financial incentives can motivate builders to increase construction efforts. This includes expanding federal subsidies for housing construction and removing regulations that increase building costs on new units.[47] The government can also support the private market in expanding construction on manufactured homes. These are modular, precut units that are built in factories and assembled on-site. An additional 200,000 housing units would be available if production for these home types increased.[48] The federal government may decide to subsidize the construction of manufactured homes to incentivize these production efforts. Administrative data from Current Population Surveys (CPS) and other public databases can be utilized to identify areas in the United States that would benefit most from this program. This will be an important tool in ensuring that federal funds are allocated to communities that truly need resource support. Government spending in these areas should emphasize a target population that promotes efficiency without being wasteful. These strategies will also ensure that policies aimed at increasing housing construction are place-conscious. Widespread housing production that is attractive to households may motivate more families to move into these neighborhoods. A larger population may invite new businesses into the local economy, which provides additional employment opportunities and may promote funding for infrastructure to meet the needs of these new households. Communities will be more successful in supporting the needs of American families if these interventions are put in place.

Promote Spatial Equality

Place-conscious housing policies will emphasize the importance of spatial equality across neighborhoods in the United States. A February 2021 EIG report reveals that several forms of spatial inequality are on the rise. These include inequalities across states, the rural-urban continuum, counties, and across zip codes.[49] These outcomes are primarily the result of policymakers failing to address the geographic influences of *place* on the economic success of American households. The EIG's Distressed Community Index reveals that the top 20 percent of zip codes have gained over 10 million new jobs since 2000, compared to the bottom 20 percent of zip codes that have lost nearly 2 million during this period.[50] Policies that actively promote spatial equality across U.S. neighborhoods will provide residents with mechanisms to revitalize local communities. One proposal includes increasing access to capital for new and small businesses operating in distressed communities. These include the kinds of neighborhoods in the "within reach against the odds" and "a distant prospect" sections found in Table 1. People living in distressed communities often do not have the necessary funds to start a new business. These neighborhoods are in desperate need of business development to support community growth and increase economic mobility. Scholars have called on lawmakers to reauthorize the State Small Business Initiative (SSBI). The SSBI was originally allocated $1.5 billion when it was established through the Small Business Jobs Act of 2010. President Biden recently reauthorized the SSBI in the American Rescue Plan Act which was signed into law in March 2021. The ARPA allocated an additional $10 billion to promote entrepreneurship by expanding access to

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[47] Ratcliffe.
[48] Ratcliffe.
[49] Kenan Fikri, Daniel Newman, and Kennedy O'Dell, "Uplifting America's Left Behind Places: A Roadmap for a More Equitable Economy," *Economic Innovation Group* (blog), February 2021, https://eig.org/tackling-spatial-inequality/.
[50] Fikri, Newman, and O'Dell.

capital for small business ventures.[51] When it comes time for the SSBI to be reauthorized again, regulators should create community guideline requirements to establish a threshold for the types of communities that most require funding. These parameters can ensure small businesses in distressed communities are the primary recipients of these funds.

There are additional policies emphasizing spatial equality that should also be mentioned. Researchers often examine recommendations for place-conscious measures that develop holistic improvements for American households. Jones and Grigsby-Toussaint (2021) have called on the federal government to institute a national directive allowing states to implement rent and mortgage reliefs along with waivers for municipal service fees. The authors also suggest increasing investment in social services available to community members.[52] The federal government may be able to allocate grant money to a set of particularly distressed communities to improve infrastructure including better roads, building construction, and repairs to the physical environment. There have also been voices calling for the modification of the Community Reinvestment Act (CRA). The CRA, enacted in 1977, requires the Federal Reserve, in coordination with federal banking regulators, to motivate financial institutions to provide credit opportunities to low- and middle-income neighborhoods.[53] There have been no major updates to the CRA requirements since 1995. However, bank regulators have recently taken an interest in revising the CRA to account for institutional changes that have been made to the banking industry in recent years.

On May 5, 2022, the Federal Reserve Board issued a joint Notice of Proposed Rulemaking (NPR) with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) announcing interagency changes aimed at modernizing the CRA regulations. These proposals would further extend access to credit opportunities, provide banking services to low- and middle-income neighborhoods, and distribute better education tools to inform the public about how these mechanisms can be used to expand their economic potential.[54] The NPR emphasizes small-value loans for these target communities as a way of promoting community engagement and financial inclusion. The variety of proposals and changes that have been offered provide policymakers with an opportunity to focus on place-conscious approaches to extending positive economic prospects to a larger portion of American households. But which proposals offer the most effective solutions? More importantly, which solutions offer attainable goals to support middle class households in the coming years? Addressing the implications of these policies will be important in determining which solutions to prioritize in the short term to promote economic growth in the long-term.

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[51] "State Small Business Credit Initiative," U.S. Department of the Treasury, accessed December 16, 2022, https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci.
[52] Antwan Jones and Diana S. Grigsby-Toussaint, "Housing Stability and the Residential Context of the COVID-19 Pandemic," *Cities & Health* 5, no. sup1 (July 21, 2021): S159–61, https://doi.org/10.1080/23748834.2020.1785164.
[53] "Federal Reserve Board - Community Reinvestment Act (CRA)," Board of Governors of the Federal Reserve System, accessed December 16, 2022, https://www.federalreserve.gov/consumerscommunities/cra_about.htm.
[54] "Agencies Issue Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations," Board of Governors of the Federal Reserve System, May 5, 2022, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20220505a.htm#_blank.

Policy Implications

Recommendations for Practical Solutions

There have been many policies outlined by economists, think tanks, and scholars highlighting important mechanisms that can minimize the effects of the growing gap in neighborhood quality across different areas of the United States. Each of these proposals may offer a new way of approaching the spatial inequality issues that are prevalent, but some may be more effective than others. Additionally, some of these proposals may be better designed for quick implementation at the federal level. These considerations are important when determining which recommendations should be emphasized by government leaders. Table 3 outlines the major programs lawmakers and regulators should prioritize. This list of policy solutions is not exhaustive. However, these recommendations have been identified as ideal starting points for public officials to pursue a higher degree of spatial equality for households living across the United States both in policy and in practice.

Table 3 – Policy Priorities to Promote Place-Conscious Support Mechanisms

Subsidize Affordable Housing Construction	**Establish Additional Requirements for the State Small Business Initiative (SSBI)**	**Implement Rulemaking Changes to the Community Reinvestment Act (CRA)**
○ Provide tax incentives on the construction of manufactured homes ○ Remove regulations that add unnecessary costs to the construction of affordable housing units ○ Expand housing vouchers and the National Housing Trust Fund (HTF) ○ Reform zoning laws to allow small, lower-value homes to be built on more expensive land ○ Prioritize diversity in housing *type* across neighborhoods to reduce pockets of concentrated wealth in some areas and pockets of concentrated poverty in other areas	○ Utilize administrative data to pinpoint the most distressed communities, establish channels of credit that can be easily accessed by community members ○ Update national standards for SSBI compliance and oversight ○ Coordinate SSBI efforts with the New Market Tax Credit (NMTC) which prioritizes incentives for economic development in low-income communities ○ Identify ways the SSBI can receive continuous funding support rather than one-time allocations that can only be offered during reauthorization	○ Motivate federal regulators to implement the rulemaking changes to CRA now that the comment period deadline has already passed – August 5, 2022 ○ Expand publicly available information on how the Federal Reserve System coordinates with banking regulators and financial institutions to meet the credit needs of low- to moderate-income neighborhoods ○ Incentivize financial institutions to make community investments in particularly distressed neighborhoods

These three programs offer policymakers the best opportunity to implement reform for housing and infrastructure policies. A coordinated effort by policymakers and agency regulators to promote these place-conscious reforms will generate greater spatial equality for households across the United States. Providing additional subsidies to promote affordable housing construction will help reduce current housing shortages that have grown larger in recent years. Subsidies will help motivate the construction of these units at a faster rate. Subsidies can also be offered to support homebuyers directly, emphasizing support for low-income or first-time homebuyers. Additionally, subsidies can be combined with reforms to zoning laws that allow for the construction of different types of housing units, such as duplexes, townhomes, and apartment units.[55] These strategies will reduce the prevalence of neighborhoods with high concentrations of wealth, along with neighborhoods with high concentrations of poverty. By doing so, policymakers will be able to expand mobility access to a larger segment of the population.

With the SSBI having recently been reauthorized, federal money allocated to this program should be used to reach target communities. This may include utilizing administrative data to pinpoint particularly distressed areas and prioritizing fund allocation to these neighborhoods. As outlined in the ARPA, $2.5 billion of the total $10 billion allocated to the SSBI will be used to specifically support small business development for socially and economically disadvantaged people.[56] To ensure these funds reach the correct programs, the SSBI can coordinate with the New Market Tax Credit (NMTC), which specifically focuses on attracting private capital into low-income localities. Because the SSBI requires a reauthorization process to receive additional funding, there is instability in the amount of support the SSBI can provide on a consistent basis. Policymakers should investigate ways the SSBI can receive continuous funding to ensure time lags do not impede the program's success.

The comment period for the joint Notice of Proposed Rulemaking (NPR) on the CRA ended on August 5, 2022.[57] Since this date, federal agencies have provided little information by on when the implementation of program reforms can be expected. There should be an effort made to motivate regulators to release and enact these measures as quickly as possible. These proposed changes will be necessary to expand the amount of relevant banking-related information available for public use. In addition, reforms to the rulemaking procedures of the CRA should emphasize the important role financial institutions play in supporting business development for counties that are most in need. The CRA offers financial institutions the opportunity to support community revitalization. Providing targeted incentivizes may invite greater participation from these institutions. Private capital can be used to support business growth in distressed communities. Through this effect, higher community engagement with the private market will support long-term economic growth for communities across the county.

Conclusion

For years now, scholars have sounded the alarm on several growing concerns that have worsened the economic conditions of middle-class households. A review of the critical literature has pinpointed the role of *place* as an essential component in characterizing the nature of these concerns. The policies and intervention strategies outlined in this paper provide lawmakers and regulators with a toolkit for approaching how to redress the concerns of middle-class families. Since the 1970s, inequality has grown across the household income distribution in the United States. Heightened income inequality has brought forth concerns surrounding intergenerational mobility and the influence parental decisions can have on the adult outcomes of children. Rising costs have made it difficult for households to cover their expenses considering the lackluster

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[55] Jenny Schuetz, "To Improve Housing Affordability, We Need Better Alignment of Zoning, Taxes, and Subsidies," *Brookings* (blog), January 7, 2020, https://www.brookings.edu/policy2020/bigideas/to-improve-housing-affordability-we-need-better-alignment-of-zoning-taxes-and-subsidies/.
[56] "State Small Business Credit Initiative."
[57] "Agencies Issue Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations."

improvements in income growth over the past several decades. As a result of these headwinds, there has been a growing divergence in neighborhood quality. Some areas of the country continue to enjoy the positive neighborhood effects of mobility and equality. These prosperous counties juxtapose the conditions of distressed counties, with households experiencing the consequences of negative neighborhood effects exacerbated by high levels of inequality and concerns surrounding immobility. To reduce these place-based factors harming middle class households, place-conscious policies have been proposed. This paper emphasizes three major program reforms that will be most successful in providing timely support to the target population. This includes (1) Subsidizing affordable housing construction, (2) Establishing additional requirements for the SSBI, and (3) Implementing rulemaking changes to the CRA. Through a coordinated effort, these program proposals can concentrate support aimed at promoting greater spatial equality. Although there are many programs that have been brought forth to resolve this issue, these three will provide the most effective means of achieving policy goals for middle class households in a sufficient timeframe. At the end of the day, the American middle class is at a crossroads, and policies enacted now will affect what the middle class looks like in the decades to come. Plenty of economists and scholars have pointed out concerns regarding a “hollowing out” of the middle class. To promote equality in every corner of the United States, these policy reforms will support the expansion and revitalization of middle-class households in the years to come. When policy uplifts those in need, the entire economy can benefit. These programs will be able to foster an economic environment that functions for a larger number of American families. Now is the time for policymakers to act, the American people cannot afford inaction any longer.

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