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ECONOMIC SCENE

The No-Frills Middle Class

By JEFF MADRICK

THE booming economy of the 1990's spawned many a spurious piece of conventional wisdom. One is that Americans' materialism has run amok.

Americans from all walks of life, the story goes, are spending with abandon on fancy and unnecessary products. Many people on the political right welcome this as evidence of how high the standard of living really is in the United States, despite slow-growing wages for three decades. Some on the left claim the indulgent materialism is using up the economy's resources while serious social problems are left unsolved.

Similarly, many economists argue that "affluenza" has pushed too many Americans deeply into debt and produced a savings rate too low to sustain prosperity without the piling up of mountains of foreign debt.

There is little doubt that some Americans are spending ostentatiously. But this Labor Day week it is appropriate to debunk the oversimplification. As Elizabeth Warren and Amelia Warren Tyagi convincingly claim, most Americans do not fit the bill. What is driving Americans into debt, they argue, is not superficial luxury spending but necessities.

If they perhaps push the point too far in their new book, "The Two-Income Trap" (Basic Books), they provide a clear-eyed correction to the myth of far-flung affluence.

The fact is that it is not only the poor and working poor who are not faring well in America. Many of those in the middle, especially two-income families, are having trouble making ends meet, despite the boom of the 1990's.

Part of the distortion about where American working families stand today is that we tend to think of a standard of living as measured in the physical goods we own. The conservative analysts W. Michael Cox and Richard Alm, in their 1999 book "Myths of Rich and Poor," asserted that Americans were buying a lot more goods like Gap clothes, Nike sneakers and VCR's, and the standard of living was improving faster than the data suggested. But the book conspicuously ignored the costs of education and health care, and put a misleading spin on housing.

Yes, the costs of food and clothing have risen more slowly than median family incomes, and the costs of electronic products have fallen rapidly. But the costs of what it really takes to be middle class today — education, health care, housing, drugs — rose much faster than median family incomes. According to federal data, for example, my own calculations show that nominal family incomes rose by about 5.5 percent a year from 1973 to 2000, but the cost of health care rose nearly 8 percent a year, and the cost of higher education 6.5 percent.

Ms. Warren and Ms. Tyagi make the point vividly, however. Ms. Warren is a professor at Harvard Law School, and Ms. Tyagi is a management consultant. They are mother and daughter.

The authors find that despite the popular notions about overconsumption, a typical family spends less on clothing today, discounted for inflation, than in the early 1970's. Similarly, it spends less on large appliances and on food, including going out to restaurants. As for vacation homes, the data suggest that 3.2 percent of families had them in 1973, and that 4 percent do now. Is this affluenza?

Rather, what families spend a lot more on, the authors calculate, is a house in a safe neighborhood with a good school — about 70 percent more a year, discounted for inflation, for the typical family of four. The scarcity of good schooling has created a bidding war that drives up house prices in first-rate school districts.

And these families are not buying huge new homes. The average home size has been skewed upward by the wealthy. The typical family's house is, in fact, only a half room or so larger than it was 30 years ago.

The other factors driving spending are largely the costs of the two-income family. The authors find that typical payments for day care and preschool for two children can add enormously to the household budget.

Two workers also make a second car a necessity, and often a good second car.

Also, the cost of health insurance is often up, even when spouses work, because corporate benefit plans are demanding higher employee contributions. For the typical family of four, it is up by 60 percent.

And two incomes often mean a substantial increase in taxes because the family moves into a higher tax bracket.

The upshot is that two-income families often have even less income left over today than did an equivalent single-income family 30 years ago, even when they make almost twice as much. And they go deeper in debt. The authors find that it is not the free-spending young or the incapacitated elderly who are declaring bankruptcy so much as families with children.

The authors' suggestions for how to solve the problems are not conventionally liberal. They call for vouchers for the total cost of public education; tuition freezes at colleges rather than more federal financing; and tax breaks for all savings.

Not all of these are practical.

And Ms. Warren and Ms. Tyagi draw too fine a point here and there. There is surely some mere status-seeking in sending a child to the right day care institution and living in the right neighborhood.

They also justify too readily the purchase of an expensive car as the family's second vehicle.

But their main thesis is undeniable. Typical families often cannot afford the high-quality education, health care and neighborhoods required to be middle class today.

More clearly than anyone else, I think, Ms. Warren and Ms. Tyagi have shown how little attention the nation and our government have paid to the way Americans really live.