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Saving the middle class

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ONTARIO - It's a simple question, not unlike one Joe McCarthy himself might have asked.

Are you now or have you ever been part of the middle class? "This is one of those questions I love," said Wally Knox, the founder and director of the Institute for the Middle Class. "If you ask an American what class he's in, literally 90 percent of them will say they're part of the middle class."

By definition, that's not possible, and it was one of the issues being discussed Friday at the Ontario Convention Center as part of the Southern California Association of Governments' 10th annual economic conference. The day's topic - "The Middle Class on Life Support" - was addressed by a dozen speakers from business, government, academia and the media.

The general conclusion was that there are some things that can be done and some things that can't. Lamenting the loss of manufacturing jobs won't accomplish anything, but battling for better job training and more affordable housing might accomplish something. "The middle class has been feeling a lot of angst," said Anil Puri, dean of business and economics at Cal State Fullerton. "High health-care costs, high transportation costs, high education costs and high housing costs, all at a time when globalization has taken away many high-paying jobs.

"The middle class is worse off despite six years or pretty continuous economic growth." It was left to Puri to come up with a definition. Ninety percent might consider themselves middle class, but the reality is far lower.

Historically, middle class has meant those having a household income between 80 and 120 percent of the median. Nationally, that means incomes from \$35,200 and \$52,800.

In California, it works out to the \$40,000-\$65,000 range. "People who are part of the middle class cannot actually afford the middle-class lifestyle," Puri said. "The American Dream - owning a home, having two cars, sending the kids to college."

A wider view that would include a lower middle class and an upper middle class would expand the range from about \$15,000 on the low end to \$100,000 at the top. That would encompass 75 percent to 80 percent of the population. "This is an issue that is long overdue for us to be focusing on," said Mark Pisano, executive director of SCAG. "We need to find an industry that will replace manufacturing as the core area that built our middle class."

Larry Kosmont, director of the Kosmont-Rose Institute, said California needs to find a way to lower the cost of doing business in the state. He suggested finding a way to fast-track projects and to direct the coming funds from infrastructure bonds to projects that will engender the most private investment.

"We have something of a perfect convergence of issues," Kosmont said. "The employment scene is changing, housing is unaffordable for most people and people who can afford homes are having to decide between longer commutes or smaller, denser dwellings." Kosmont pointed out that for all the talk about globalization, California is losing more jobs each year to Texas than to China and India combined.

"Governments ignore competitiveness at their own peril," he said. Regional economist John Husing of Redlands, who served as host of the conference, spoke of the widening gap between the well-off and the not-so-well-off.

"We are clearly having some difficulty with the center of our economic system," Husing said. "The 269,000 families in the Southland who make \$200,000 or more - the top 3 percent - have about the same total income as the bottom 3.9million people." Those folks aren't having trouble affording homes, even in the pricier coastal counties. But with affordability at less than 30percent even in the Inland Empire, the 3.9million are finding it difficult.

Michelle Johnson, executive vice president of KB Home's Inland Valley Division, said builders' costs have skyrocketed. "In just the last five years, the cost to build a home has increased between \$8 and \$10 a square foot," she said.

For people to be able to afford those costs, they've got to have good jobs. To get those jobs, they've got to have training.

"It is time for some necessary frankness among us all," said Robert Wolf, co-chairman of the Southern California Leadership Council. "The world is a very different place now. Nearly 50percent of the people in our region over the age of 25 have never set foot inside a college classroom." That left it to Don Averill, chancellor of the San Bernardino Community College District, to take the educational system to task.

"There has been an overzealousness about the fact that every kid coming out of our high schools is going to the University of California," he said. "That is just not going to happen. We built a good system of ROPs (Regional Occupational Programs) that gave people the opportunity to get into vocational trades. "That was all destroyed in the name of kids getting basic skills. It didn't work and we chased kids out of the schools."

In other words, plenty of children left behind. "The days of kids going to school K-12, then to a four-year college and then to a job has long disappeared," Averill said. "We need to create a system that addresses the needs of people who come in and out of the educational system."

Plenty of needs. Lots of work to be done to save California's shrinking middle class.

State Sen. Tom Torlakson, D-Antioch, summed up the situation fairly simply. "We need a jobs strategy," he said. "In fact, one thing we are missing is an economic strategy for California as a whole."

Michael Rappaport is the business editor. He can be reached at (909) 483-9395. WHO ARE WE?

Everybody thinks they're middle class, but if you break it down, here's how the College of Business and Economics at Cal State Fullerton defines groups: UPPER (1-2 percent): CEOs and other high-income individuals.

UPPER MIDDLE (15 percent): White-collar professionals, autonomy, graduate degrees. \$62,500 and up, \$100,000 and up for two-income families. LOWER MIDDLE (30-33 percent): Semi-professionals, bachelor's degree or some college, limited autonomy. \$32,500 to \$60,000.

WORKING (30-33 percent): Clerical, service and blue-collar, minimal autonomy, high school. \$15,000 to \$32,000. POOR (17-20 percent): Frequently unemployed, below poverty line, often no degree. Below \$15,000.

- WORKING

With jobs that traditionally were pathways into the middle class vanishing from the scene, state Senate Democratic Caucus Chairman Tom Torlakson says the state needs a jobs strategy that is funded in three areas.

"We need to look at the dollars we are spending and see if they're well used," he said. "Of 100 high school freshmen, about 19 wind up getting four-year degrees." 1. Investment in the infrastructure, particularly focusing in the areas of goods movement and mobility.

2. Investment in housing, particularly in finding ways to make the land supply more affordable to builders and buyers. 3. Investment in the education system, working to reshape it to make it more practical in supplying work-force needs.

- LIVING

If you wonder why homes cost so much, here's a breakdown of costs from KB Home. The home in question is a 1,500

square-foot townhouse in Rancho Cucamonga with a price tag of \$455,539.

LAND: The lot itself, \$111,867; in-tract development (sewers, etc.), \$52,690; carrying costs (interest), \$10,494; fees, \$26,182. Subtotal: \$201,233. HOUSE: Construction costs of actually building the house that sits on the property is \$142,313. Subtotal: \$343,546.

MISCELLANEOUS: Model homes, \$3,902; warranty, \$6,833; seller closing costs, \$1,000; sales commission, \$6,833; broker co-op fee, \$4,600; mortgage discounts, \$10,000; overhead (offices, salaries, etc.), \$45,000. Subtotal: \$78,168. TOTAL COST: \$421,714. Profit: \$33,825. 7.43 percent.

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