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Why the Middle Class Feels Poor

By Jordan McGillis

Middle-class families don't feel as secure as they once did. It isn't because the poverty line is "really" \$140,000, as Michael Green claimed in a viral essay last year. Yet the impoverished feeling he describes among people who are too prosperous for public support but can't afford many luxuries has validity. It is due to what I call the Great Decompression.

The Great Decompression is the phenomenon of incomes rising across the board but much faster for families above the median. The upper middle class has done better than stay one step ahead. Families with income at the 80th percentile and above are pulling away in lifestyle and social status, opening a chasm that separates them significantly from families with median incomes.

It hasn't always been this way. The mid-20th century was an era of middle-class expansion. In the first three postwar decades, workers below the median saw their wages grow faster than workers above the median did. Economists Claudia Goldin and Robert Margo labeled this dynamic the "Great Compression."

Since about 1975, though, we've been in an era of upward escape for families with the right human and social capital, which has become ever more valuable with the rise of digital technology and globalization. As a result, the upper middle class is running away from the pack.

The Great Decompression we're experiencing is obvious to the naked eye (and especially on Instagram), but intensifying income stratification is also visible in the data. It is especially clear in the growing gap between the median family income and the 80th-percentile family income— often considered the gateway to the upper-middle class. The 80th percentile, more than the 90th or the 99th, shows something important: The broad class of educated everyday professionals significantly outpacing the median are setting a standard that median-income families can't keep up with.

As per the Integrated Public Use Microdata Series, for married couples with children (the kind of family Mr. Green wrote about), the median income in 1975 was \$15,000. The 80th percentile for married couples with children was \$22,600. Put another way, the 80th-percentile family earned 51% more than the median family.

Since then, the distance between the median and the 80th percentile has grown. In 2000, the median married couple with children earned \$59,000 while the 80th percentile family earned \$99,000, meaning the 80th-percentile family was earning 68% more.

By last year, the gap had grown even more substantial, with the median married couple with children earning \$130,000 and the 80th-percentile family, also a married couple with children, earning \$242,000—85% more.

Mr. Green's analysis implies that today's average American family is in poverty. That isn't true. What those families experience is the intuitive but accurate sense that they're losing ever more ground to the upper middle class.

Optimists argue that these changes are fine, maybe even good. People are getting richer, some faster than others. Yet as sociologists Richard Reeves, Robert Putnam and others have argued for a decade, the claim that decompression is a healthy part of a robust economy becomes less persuasive when taking generational trends into account.

The faster wealth building of the upper middle class in recent decades has been accompanied by assortative mating and what Mr. Reeves describes as the upper middle class's hoarding of the American dream. These days upper-middle-class kids don't only have more spending money; they have different neighborhoods, different schools, different horizons. In

the jargon of economists, absolute economic mobility remains strong, but it doesn't necessarily translate to relative mobility.

The basic material needs of Americans are more fully met today than they were 50 years ago. But without more opportunity for social advancement, a large portion of American families are bound to feel they are missing out. One hundred forty thousand dollars is nowhere near poverty, but the Great Decompression has so enlarged the prosperity of the upper middle class that the middle class can't be blamed for thinking the American dream is slipping away.

Mr. McGillis is a fellow at the Economic Innovation Group.

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