

The Middle-Class Squeeze 2008:

A Drum Major Institute for Public Policy Overview

Being middle class used to mean having a reliable job with fair pay; access to health care; a safe and stable home; the opportunity to provide a good education for one's children, including a college education; time off work for vacations and major life events; and the security of looking forward to a dignified retirement. But today this standard of living is increasingly precarious. The existing middle class is squeezed and many of those striving to attain the middle-class standard find it persistently out of reach. With this overview, DMI brings together the latest data to shed light on this troubling state of affairs.

American Anxiety

- According to the Drum Major Institute's 2008 "Survey on the Middle Class and Public Policy", just 38% of self-identified middle-class households say they live comfortably. 77% of middle-class households say the country is headed in the wrong direction, while only 12% believe things are headed in the right direction. (Source: The Drum Major Institute for Public Policy)
- According to Pew's 2008 Report "Inside the Middle Class: Bad Times Hit the Good Life", 79% of Americans – and 78% of the middle class – say it is more difficult now than five years ago for people in the middle class to maintain their standard of living; in 1986, just 65% of the public felt this way. A majority of Americans believe that they either haven't moved forward in life (25%) or have fallen backward (31%) in the past five years, the worst short-term assessment of personal progress in almost a half century of polling by the Pew Research Center and Gallup. (Source: Pew Research Center)
- According to the July 2008 Rockefeller/Time Campaign for American Workers Survey, 72% of respondents say Americans are less secure economically now than 10 years ago, compared with 63% in 2007. 47% of Americans are concerned about their personal economic security, almost twice the number in 2007 (24%). 25% of Americans say they have not gone to the doctor because of the cost; 23% say they have gone without health insurance; and 37% say they have failed to pay a bill on time. 64% say they have cut spending on entertainment or vacation. (Source: Rockefeller Foundation/Time)

A Reliable Job with Fair Pay

- Despite high worker productivity during the last eight years, American workers have not benefited from the economic expansion that ended in 2007. Real incomes of middle-class families are – for the first time since the Census Bureau began tracking such data – lower at the end of this business cycle than they were at the beginning. 605,000 jobs have been lost since the beginning of 2008 and the unemployment rate stood at 6.1% in August of 2008. (Source: Bureau of Labor Statistics)

- As of August 2008, 9.4 million people were unemployed in the United States. (Source: Bureau of Labor Statistics)
- The economic cycle that began in 2000 and ended last year was one of the weakest on record. The median income of working-age households (headed by someone under 65) was \$2,010 below its 2000 level. While real median household income increased 8.3% between 1989 and 2000 and the poverty rate declined 1.5%, real median household income declined by 0.6% between 2000 and 2007 and the poverty rate increased 1.2%. Yet, American workers were more productive: average annual productivity growth was 2.5% a year between 2000 and 2007, higher than the 2.0% between 1989 and 2000. (Source: Economic Policy Institute)
- Income disparities are still widening in the United States. The average inflation-adjusted income of the top 1% of households has risen 42% since 2002, while the average inflation-adjusted income of the bottom 90% of households has risen about 4.7%. The average income gain of the top 0.1% of households was 57.6% between 2002 and 2006. Approximately 66% of total income gains since 2002 have accrued to the top 10% of households. (Source: Center on Budget and Policy Priorities)
- American businesses are increasingly outsourcing finance, technology, production, and marketing jobs. More than half of all U.S.-owned manufacturing production is now based in foreign countries, and a quarter of the profits of U.S. multinational corporations are made overseas—with these shares constantly expanding. Manufacturing jobs decreased 22% between January of 1998 and January of 2008. (Source: Bureau of Labor Statistics)
- The percentage of the GDP belonging to wages and salaries in 2006 has never been lower at any point over the past 77 years where data was available. (Source: Center on Budget and Policy Priorities)
- The number of Americans living in poverty increased by 5.7 million between 2000 and 2007 to 37.3 million. In 2000, the U.S. poverty rate was 11.3% compared to 12.5% in 2007. (Source: U.S. Census)
- Unions enable working people to earn a middle-class standard of living. Workers represented by unions earn, on average, 30% more than nonunion workers: \$863 in median earnings a week compared with \$663. (Source: Bureau of Labor Statistics)
- 79% of union members have employer-provided health insurance, compared with 50% of nonunion workers. The rates are nearly identical for employer-sponsored retirement plans. (Source: Bureau of Labor Statistics)
- 57 million workers say they would want to be in a union if they could. (Source AFL-CIO) Yet only 12.1% of U.S. workers were union members in 2007, down from 13.4% in 2000. (Source: Bureau of Labor Statistics)

Access to Health Care

- 45.7 million Americans are currently without health insurance compared to 38.7 million in 2000. (Source: U.S. Census)
- Members of the middle class are increasingly joining the ranks of the uninsured and under-insured. 42% of people in the U.S. of working age had either no or inadequate

insurance in 2007, up from 35% in 2003. In addition, 18% of middle-income Americans, making between \$40,000 and \$59,999 a year, were without health insurance during 2007. (Source: Health Affairs, June 2008)

- People are going without needed coverage because health care is simply too expensive – health care coverage costs have outpaced increases in wages by a ratio of more than 3:1 since 2000. (Source: Kaiser Family Foundation)
- Health care premiums have increased 78% since 2001, with the average employee contributing 143% more to their company-sponsored health insurance than he or she did in 2000. Meanwhile wages have only increased 19% over this time period. (Sources: Health Affairs and National Coalition on Health Care)
- The rising cost of health care is making it more and more expensive for employers to cover their employees: 60% of U.S. companies offered their workers health insurance in 2007, down from 69% in 2000. Among U.S. businesses considered “small,” less than half (47%) offered health benefits in 2007, down from 45% in 2000. (Source: Kaiser Family Foundation)
- Health care costs are a leading contributor to financial hardship for middle-class families. In 2003, nearly one in four middle-income Americans spent more than 10% of their family’s disposable income on health costs. According to a Kaiser Family Foundation Public Opinion survey in April of 2008, 20% of Americans say they have had difficulty paying other bills in the past five years because of medical bills and 24% of those surveyed said they or a family member had skipped a recommended test or treatment because of the cost, up from 17% in 2005. (Source: Kaiser Family Foundation)
- Soaring health care costs even lead middle-class families to bankruptcy: a study by professors at Harvard Law and Medical schools found that the average person who declared bankruptcy in 2001 was a middle-aged, middle-class homeowner – more than half cited illness, injury, or medical bills as a contributor to their debt. (Source: Health Affairs)

A Safe and Stable Home

- Homeownership is often seen as a signature of having arrived in the middle class. Yet 1 in 33 American homeowners are projected to lose their homes to foreclosure over the next several years due to subprime loans. In addition, more than 40.6 million homes are projected to drop in value – by as much as \$356 billion dollars over the next two years – because of nearby foreclosures. (Source: Pew Charitable Trusts)
- According to another reliable projection, about 2 million Americans will lose their homes in 2008 and 2009. (Source: Demos)
- The housing bubble that inflated home costs over the past several years required many Americans to take out record amounts of debt to afford a home. The home mortgage debt of American households increased 73% between 2000 and 2007, totaling \$668.8 billion by the end of 2007. (Source: Federal Reserve Board)
- Rising housing costs meant that a growing number of Americans resorted to adjustable rate mortgages and other non-traditional financing mechanisms to buy a

home. As the rates on these mortgages increase over the next few years, middle-class homeowners who are already struggling to make mortgage payments will find themselves even more squeezed, forced to sell their homes or foreclose. (Source: Demos)

- Homeowners are increasingly cashing out the equity in their homes just to meet basic living expenses. Households cashed out \$715 billion worth of home equity between 2001 and 2005. As a result homeowners' equity actually fell – meaning that American homeowners now own less of their homes than they did in the 1970s. (Source: Demos) In 2006, Americans cashed out another \$352 billion in equity, setting a new record even as the nation's housing markets began to show their first signs of softening. (Source: Harvard University Joint Center for Housing Studies)

A Good Education

- Quality early childhood education has a tremendous social and economic payoff – generating a return to the public of as much as \$13 for every dollar invested. Yet the federal government provides no assistance to middle-income families to afford pre-school and only a few states and cities offer universal preschool. This makes it harder for middle-class families to balance work with parental responsibilities as they struggle to locate and pay for quality preschool. (Source: MIT Workplace Center)
- Higher education has long been recognized as a gateway to the middle class. In 2007, the average high school graduate earned \$31,286 per year, while the average college graduate earned \$57,181. (Source: U.S. Census) The advantages of education accumulate throughout a lifetime: the lifetime earnings for the typical individual with an associate degree is 28 percent higher than they typical lifetime earnings for high school graduates. (Source: College Board)
- Yet it has become exponentially more expensive to afford a college education. Tuition and fees at the average public four-year university has increased 76% since the 2000-2001 school year. (Source: College Board)
- Two out of three college graduates begin their careers with student loan debt, amounting to \$19,300 for the median borrower. (Source: College Board)
- 39% of Americans under 35 who have college debt report that they expect their loans will take more than ten years to pay off, more than a quarter report delaying a medical or dental procedure due to the debt, and 14% reported that their debts caused them to delay marriage. (Sources: Alice Bernstein Investments and Nellie Mae)

Time Off Work for Illness, Vacation, and Major Life Events

- 46 million private sector employees in the United States do not have a single paid sick day at work, while 86 million workers do not have paid leave to care for sick children or dependent adults or to bring them to the doctor. (Sources: Bureau of Labor Statistics and Institute for Women's Policy Research) At the same time, 1 in 5 adults currently have caregiving responsibilities for another adult, a ratio which will only increase as the Baby Boomers reach retirement age. (Sources: National Alliance for Caregiving and AARP)

- The United States is unique in its failure to guarantee paid sick leave: 136 countries require employers to provide a week or more of paid sick leave annually. (Source: The Work, Family, and Equity Index)
- Part-time workers are particularly unlikely to have paid leave: 77% do not have paid sick leave and 61% lack paid vacation. (Source: Bureau of Labor Statistics)
- 23% of private sector workers do not have any paid vacation at all. (Source: Bureau of Labor Statistics)
- The Family and Medical Leave Act, passed in 1993, is intended to provide some security to families facing a longer illness or welcoming a new child. The law guarantees 12 weeks of *unpaid* leave to Americans working at businesses with 50 or more employees. Employers cannot replace workers on FMLA leave or retaliate against them in any way.
- But the FMLA is severely limited. The restrictions on coverage mean that nearly half of working Americans receive no protection from the law. (Source: Department of Labor) 3.5 million people who needed leave and were eligible for it still could not take time off because they could not afford to miss a paycheck. (Source: National Partnership for Women and Families)
- 169 countries around the world guarantee some form of paid leave to new parents. The U.S. joins Liberia, Papua New Guinea, and Swaziland on the short list of nations that leave workers alone to cope with this life-changing event and fail to provide paid time off when a child is born. (Source: The Work, Family, and Equity Index)

Retirement Security

- In 2007, one in three American workers said they hadn't saved at all for their retirement. This compares to 78% who said they had saved at least some money for retirement in 2000. Of those who are saving for retirement, half have saved less than \$25,000 so far. (Source: Employee Benefits Research Institute)
- Even those who do have retirement plans at work must assume a greater degree of personal risk, as employers increasingly shift from traditional defined benefit pension plans (in which individual benefit levels are guaranteed and the employer bears the risk of a market downturn) to defined contribution plans like 401(k)s (where there is no individual guarantee about the amount of retirement income that will be available). (Source: Employee Benefits Research Institute)
- Americans have a historically low rate of personal savings— only 11% of eligible workers contribute the maximum to their 401(k) and about 21% who contribute nothing. While financial advisors recommend setting aside 10-12% of wages for retirement, middle-class Americans are juggling debt, buying a home, sending their children to college, and dealing with unexpected medical costs, making this unrealistic for many. For those who participate, the typical contribution rate is 6%. (Source: Center for Retirement Research at Boston College)

Rising Costs for Staples

- Families making the same commute are spending an average of \$2,195 more for gas than they did in 2000. (Source: Testimony of Dr. Elizabeth Warren before the U.S. Senate Joint Economic Committee)
- Food prices have skyrocketed over the last 8 years. 4 dozen eggs, which cost \$6.25 in 2000, now cost \$9.61, an increase of 53.9%. The price of tomatoes has risen by more than two dollars since 2000. The price of 6 pounds of hamburger has increased 51.3% since 2000, while the cost of 2 pounds of macaroni increased more than 17% in the last year (June 2007 to May 2008). (Source: Center for American Progress)

Rising Debt

- Americans built up a record \$956.9 billion in revolving debt (primarily credit card debt and overdraft protection) by April 2008, an increase of 70% from a decade earlier. (Source: Federal Reserve Board of Governors)
- American households as a whole spent 19.5% of monthly income to service debt in the first quarter of 2008. (Source: Federal Reserve Board of Governors)
- The nation's personal savings rate dipped into negative territory in 2005 for the first time since the Great Depression, and has not risen above 1% of income since then. (Source: U.S. Department of Commerce Bureau of Economic Analysis)
- Looking specifically at middle-income families, the Pew Research Center calculated that in 2004 these households had a median debt-to-income ratio of 1.19, meaning the typical family spent 19% more than they earned. The number is up from 0.54 in 1992 and 0.45 in 1983. (Source: Pew Research Center)