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Squeeze on America's Families
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“Middle Class Economic Insecurity on the Rise”

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Good morning. Thank you very much, Chairman Miller, Ranking Member McKeon, and members of the committee for giving me the opportunity to speak to you today.

In my testimony today, I will address what I consider to be an important source of middle class anxieties: the rise in financial and economic insecurity.¹

Despite an economic recovery that has already lasted more than five years, middle class families are struggling to pay for a home, health insurance, transportation and their children's college education due to weak labor market gains and sharply higher prices. To pay for these necessary expenditures, middle class families are borrowing record amounts of money, leaving them unable to put away much extra cash for a rainy day.

The upshot: Today, more families are more vulnerable to unexpected events such as a layoff or a medical emergency. A few stark indicators of the precarious financial position of America's middle class highlight why so many families feel economically insecure today. Over the past five years, families with enough resources to weather a layoff or a medical emergency declined dramatically, wiping out the gains in financial security that many families experienced in the 1990s. Specifically:

- ***Families are increasingly unable to save for a rainy day.*** Job growth of this business cycle has been less than one-fourth that of previous business cycles and, after factoring in inflation, wage growth has been flat or declining for most of this business cycle. At the same time, the cost of families' top five expenditures—on medical care, housing, food, household operations and cars—have risen more than twice as fast as the cost of the bottom five items. To maintain their day-to-day consumption, families took on a record amount of debt equivalent to 130.9 percent of disposable income in the third quarter of 2006.
- ***Families capable of weathering this financial crunch are diminishing.*** Less than a third of families boast accumulated financial wealth equal to three months' income (counting all financial assets, including retirement savings accounts minus debt), a decline of 6.2 percentage points to 32.5 percent in 2004, the last year in which this data was available, from 38.8 percent in 2001. This trend is particularly pronounced among typical middle class families—dual income couples between the ages of 35 and 54 who earn between \$18,500 and \$88,030 a year. What families in this middle 60 percent of income distribution who had three months' income socked away in liquid financial wealth declined 10.5 percentage points over the same period, to 18.3 percent from 28.8 percent.
- ***Declining wealth and savings pose significant risks to middle class families facing a spell of unemployment.*** The weakest job growth since the Great Depression means that people who lose their jobs today face a much harder time finding new employment. Long-term unemployment in this business cycle is on average the highest for any business cycle, with 17.5 weeks as the average period

¹ This testimony is based on Weller and Staub (2006a, 2006b). Small differences in data come about because of updated estimates and additional months and quarters of observations.

of unemployment. As a result, a spell of unemployment can be quite costly for families. Less than half of all families, 48.2 percent, could weather a bout of unemployment in 2004, the last year data was available, down from 53.6 percent in 2001. Again, the trend is particularly pronounced for typical middle-income families, only 28.8 percent of which could sustain themselves through a spell of unemployment in 2004 compared to 39.2 percent in 2001.

- ***A medical emergency is an even bigger risk for families' financial security.*** Ever rising health care costs consistently outpace overall inflation, leading more and more employers to shift more and more of those costs to their employees through higher premiums, co-pays and deductibles, or to drop health care coverage altogether. As a result, the cost of a typical medical emergency jumped to \$3,701 in 2004, according to our analysis of the most recent figures, from \$2,832 in 2001 (in 2004 dollars). That's less than \$1,000 dollars over four years, yet families financially capable of weathering such an increase declined to 35.7 percent in 2004 compared to 43.7 percent in 2001. And once again, the decline is much more pronounced among typical middle class families. Less than a quarter of these families, 22.1 percent, could cope financially with a medical emergency in 2004, down from 34.8 percent in 2001, a decline of 12.7 percentage points.

America's middle-class families are clearly caught in an unprecedented financial crunch. After five years of strong economic growth many middle class families were worse off today or just a short step away from financial disaster should they encounter layoffs or medical emergencies.

Middle class security has eroded since 2001, wiping out the gains of the 1990s

The economic security of American middle class families today rests largely on their ability to weather an economic emergency. Will they be able to keep their home if a breadwinner is suddenly unemployed or the family encounters a sudden medical emergency? Do they have sufficient wealth to withstand one or both types of emergencies?²

The answers to these questions are alarming. A substantially smaller share of typical dual income couples between the ages of 35 and 54 who earn between \$18,500 and \$88,030 a year—those in the middle 60 percent of income distribution—were prepared for an emergency in 2004 (the last year complete data was available) than in 2001 (figure 1).³ Another measure of rising financial insecurity is how much wealth these typical middle class families boast relative to their income. Families in this income range with at least three months of their income stored away in liquid financial wealth declined by 10.5

² Financial wealth is the difference between financial assets, including retirement savings, such as IRAs and 401(k)s, and all debt.

³ The dates chosen here for comparison are determined by data availability and by the business cycle. The intent is to compare business cycles with each other. The last full year before the prior business cycle was 1989 and is thus chosen as a comparison point. The last full year of the last business cycle was 2000. However, no data are available for 2000 and thus 2001 is chosen as the closest survey year. Where annual data are available, comparisons are drawn to 2000 instead of 2001.

percentage points over this same period, to 18.3 percent in 2004 from 28.8 percent in 2001 (table 1).

An additional indicator of middle class economic security is whether a family has sufficient savings to cover a spell of unemployment. And here, too, the trend is downward. Families with enough financial wealth to weather a bout of unemployment dropped 10.3 percentage points, to 28.8 percent in 2004 from 39.2 percent in 2001.⁴

In each of these three cases, the declines more than eliminated all the gains that a typical middle class family managed to amass between 1989 and 2001 (figure 1). Yet unemployment isn't the only threat to a middle class family's financial well being. Families capable of covering the unexpected cost of a medical emergency⁵ dropped 12.7 percentage points to 22.1 percent in 2004, from 34.8 percent in 2001 (table 1, after rising 2.4 percent between 1995 and 2001 despite rising health care costs).

Similarly, families capable of surviving a job loss and a medical emergency fell by 11.8 percentage points to 21.9 percent in 2004 from 33.7 percent in 2001. In contrast, between 1995 and 2001 families able to weather these twin storms actually climbed by 1.9 percentage points, from 31.8 percent in 1995 (figure 1).

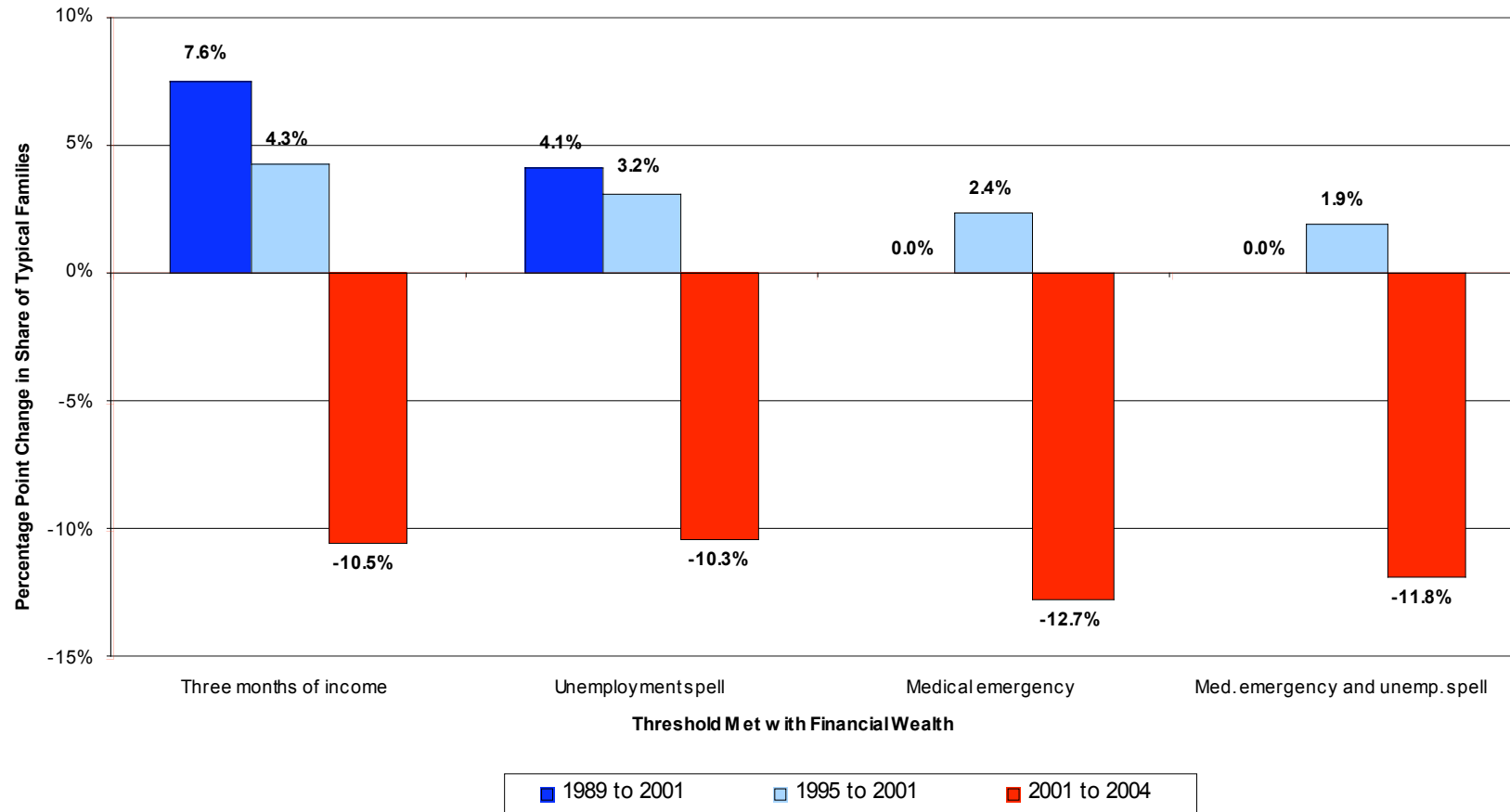
These are telling numbers, but what does it mean for individual American middle class families at different points in their career trajectories? Labor force participation and age, for example, can influence the ability of families to withstand an economic emergency, which would obviously influence national average trends. For instance, a couple with two incomes has some cushion if one of them experiences a medical emergency or a spell of unemployment. And in fact, families increasingly rely on both spouses working to help them make ends meet amid stagnant wage gains and the rising cost of living.

Or consider older families who have had more time to build up their savings; they too are better prepared for an economic emergency. The point is this: National averages may actually mask a more dire financial situation for most middle class families precisely because these figures take into account dual-income families and older families. That's why it's important to hold labor force participation and age roughly constant, as was done here, to gauge the extent of financial insecurity among similarly situated families over time.

⁴ The costs of an unemployment spell are equal to the median length of unemployment times the share of income dedicated to basic consumption times the income of one worker minus the average weekly unemployment benefit times the median length of unemployment.

⁵ A medical emergency is the median cost of exactly one emergency room visit and exactly one hospital stay.

Figure 1: Changes in Middle-Class Security Indicators



Notes: Changes are in percentage points. The typical family is a two-earner couples between the ages of 35 and 54 with incomes in the middle three income quintiles. Financial wealth is the difference of all financial assets, including retirement savings accounts, such as IRAs and 401(k)s, minus all outstanding debt. See appendix for additional details.

Table 1
Changes in Middle-Class Security Indicators for Typical Family, 1989 to 2004

Year	Have three months of income worth in financial wealth	Can cover unemployment spell	Can cover medical emergency	Can cover medical emergency and unemployment spell
1989	21.2%	35.0%	n.a.	n.a.
1992	16.7%	25.3%	n.a.	n.a.
1995	24.5%	36.0%	32.4%	31.8%
1998	22.6%	33.1%	29.2%	28.6%
2001	28.8%	39.2%	34.8%	33.7%
2004	18.3%	28.8%	22.1%	21.9%
1989 to 2004	-2.9	-6.2	n.a.	n.a.
1989 to 2001	7.6	4.1	n.a.	n.a.
1995 to 2001	4.3	3.2	2.4	1.9
2001 to 2004	-10.5	-10.3	-12.7	-11.8

Notes: See appendix for details on tables and figures.

Financial security has declined for broad swaths of American families

Changes are indeed less pronounced for all families compared to the typical, middle class family. Yet the majority of families still cannot make it through a single emergency without dipping into the equity in their homes—if they are lucky enough to own one. In 2004, the last year data was available, only 32.5 percent of families had enough financial wealth, including the money in their Individual Retirement Accounts (IRAs) and their 401(k) plans to cover three months of their income in case of a unexpected emergency. Moreover, only 35.7 percent of families had enough financial wealth to cover a medical emergency, and only 48.2 percent of families had enough financial wealth to go through an unemployment spell (table 2), even after taking unemployment benefits into account.⁶

Similarly, families with at least three months of their income in financial wealth declined by 6.2 percentage points, to 32.5 percent, in 2004 from 38.8 percent in 2001, after rising by 5.9 percentage points between 1989 and 2001 (table 2). This is a clear reflection of the inability of large shares of American families to save more, even as the value of some of their financial assets presumably grew once the stock market recovered in 2002.

Among economic emergencies, medical crises can pose a much bigger threat than unemployment spells to the financial security of American families. In 2004, only 35.7 percent of families had sufficient financial resources to cover such an emergency, a

⁶ All unemployment related calculations are net of average weekly unemployment benefits for the median length of unemployment in the respective year.

decline of 8.0 percentage points from 2001 and a much lower share than in 1995, the first year for which data are available (table 2).

Table 2
Changes in Middle-Class Security Indicators for Entire Population, 1989 to 2004

Year	Three months of income	Unemployment spell	Medical emergency (one emergency room visit and one hospital stay)	Unemployment spell and medical emergency (one emergency room visit and one hospital stay)
1989	32.8%	50.5%	n.a.	n.a.
1992	33.9%	49.5%	n.a.	n.a.
1995	34.7%	49.8%	40.7%	40.8%
1998	37.9%	52.1%	41.8%	41.4%
2001	38.8%	53.6%	43.7%	42.8%
2004	32.5%	48.2%	35.7%	35.5%
1989 to 2004	-0.3%	-2.3%	n.a.	n.a.
1989 to 2001	5.9%	3.1%	n.a.	n.a.
1995 to 2001	4.1%	3.8%	3.0%	2.0%
2001 to 2004	-6.2%	-5.4%	-8.0%	-7.3%

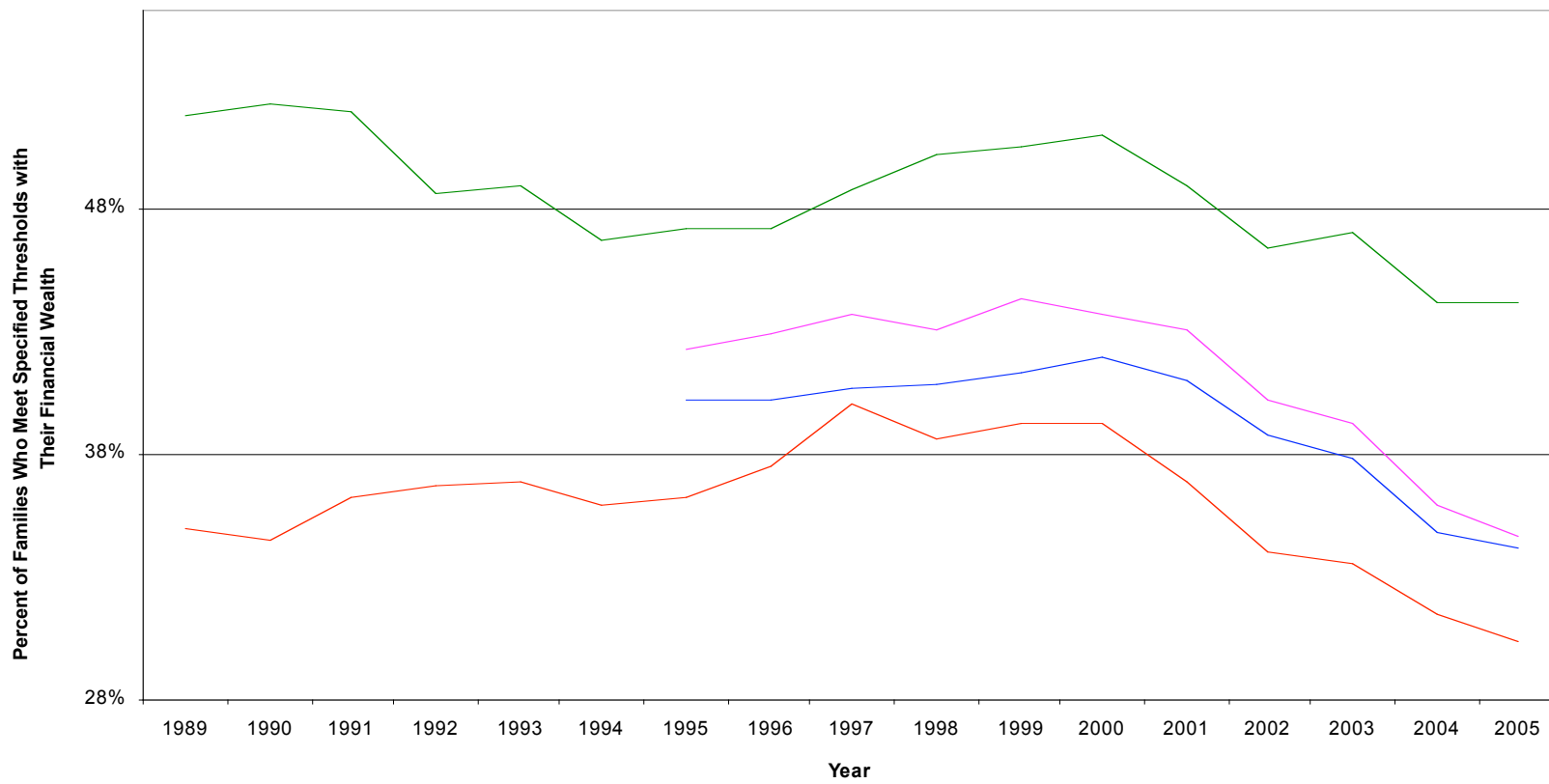
Note: See the appendix for details on tables and figures

Importantly, America's families did not receive a respite after the effects of the recession in 2001 and the stock market crash in 2001 and 2002 wore off.⁷ Specifically, the number of families with at least three months of their income in financial wealth declined throughout the years after 2000, as did the share of families with enough financial wealth to cover a medical emergency or the loss of a job. Indeed, these declines continued after the recession ended in 2001 and after the stock market decline ended in 2002.

How is it possible amid a growing economy and rebounding stock market for most American families to become less financially secure? The answer is simple: Most families did not share equitably in the economic gains of the last few years. A very weak labor market recovery went hand-in-hand with sharply rising costs for many typical middle-class expenditures, such as housing, health care, college education and transportation. To cope with these rising costs, families accelerated their borrowing and ended up with more consumer debt relative to their income than ever before. All of these trends continued through 2005, resulting in a continuous erosion of middle class security by all measures (figure 2).

⁷ The shares depicted in figure 2 differ slightly from those calculated in table 1 as they are based on a different data set. Although both surveys – the Flow of Funds Accounts and the Survey of Consumer Finances – are meant to capture the same household wealth, there can be substantial divergence from year to year (Antoniewicz, 2000). The advantage is that the use of the Flow Funds Accounts allows for an extrapolation on an annual basis, which the Survey of Consumer Finances does not.

Figure 2: Trends in Middle-Class Financial Security Indicators



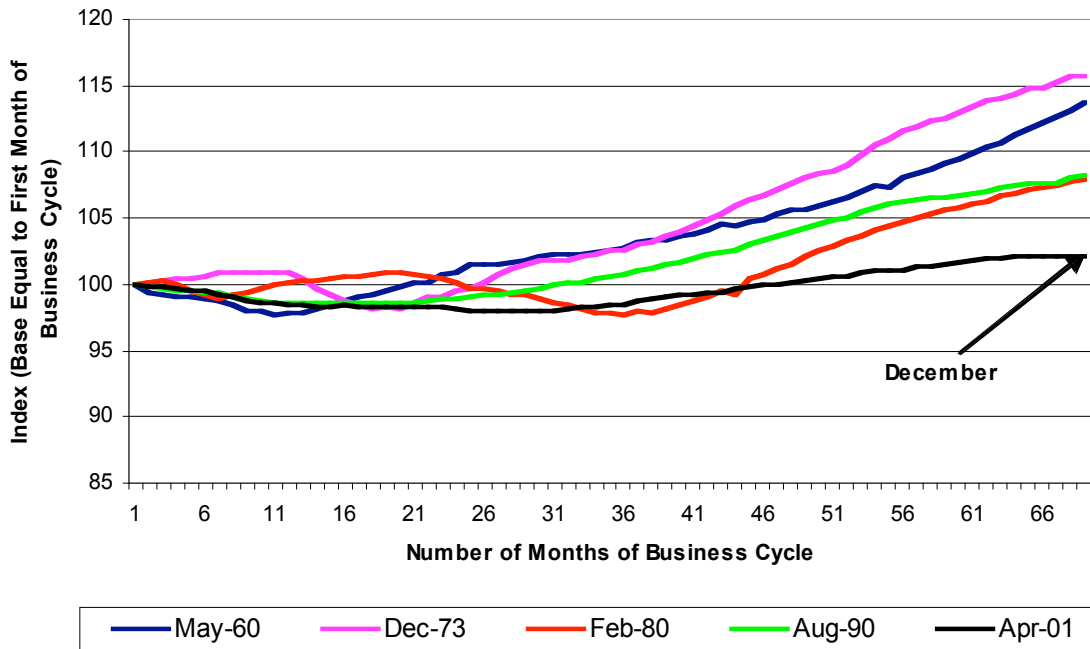
— 25% of income — Medical emergency — Unemployment spell — Medical emergency and unemployment spell

Notes: See appendix for details on all tables and figures.

Slowest job growth since World War II and flat wages equal declining incomes

One of the foremost reasons for the erosion in middle class economic security is that families face a comparatively weak labor market despite a growing economy. Job growth in the business cycle that started in March 2001 is the weakest of any business cycle since World War II (figure 3). In fact, in the initial stages of the economic recovery, which started officially in November 2001, the economy shed jobs for a sustained period of time—a first for any economic recovery.

Figure 3: Employment Growth in Business Cycles That Lasted at Least 69 Months, Indexed to First Month of Business Cycle

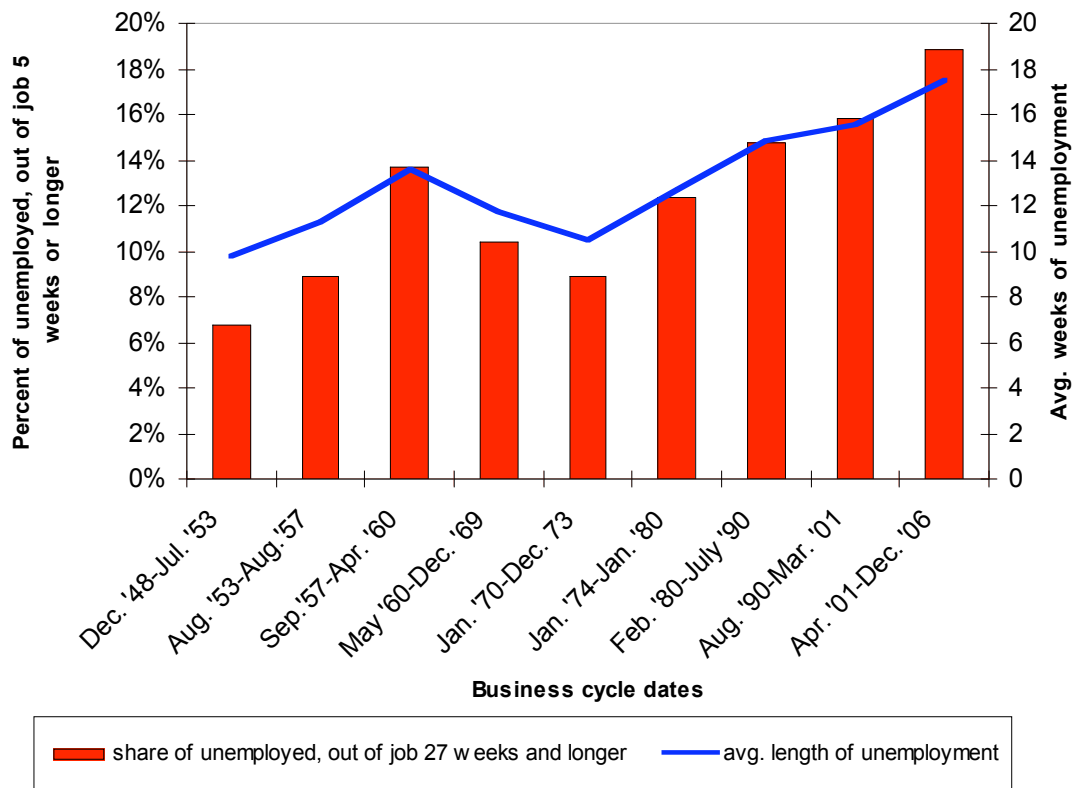


Notes: See the appendix for details on all tables and figures.

A direct result of the slow job growth in the current business cycle is disproportionately high long-term unemployment. The average length of unemployment for this business cycle is 17.5 weeks, longer than for any other business cycle (figure 4). The median length of unemployment averaged 9 weeks, which is also longer than in any previous business cycle. Similarly, the share of people unemployed for 5 weeks or more was on average 65 percent – again, the largest share of any business cycle (figure 4). In fact, it is the people unemployed for 15 weeks or longer who keep this share high. For the entire business cycle, they constituted on average 34.3 percent of the unemployed—higher than any other business cycle.⁸

⁸ Calculations are based on BLS (2007a). Details not shown here, but available from author upon request.

Figure 4: Measures of Long-Term Unemployment



Notes: See the appendix for details on all tables and figures.

This comparatively low job growth was matched by flat wage growth in inflation-adjusted (or real) terms in the current business cycle. By December 2006, real hourly wages were only 3.1 percent higher than in March 2001. Real weekly earnings were only 2.6 percent larger in December 2006 than in March 2001 (BLS, 2007d).

Weak job growth and flat wages took a bite out of families' incomes. In inflation-adjusted terms, family incomes did not rise in any single year between 2000 and 2004 (table 3). Almost all groups saw either declines or flat incomes during this period, with two small exceptions: High income families and Hispanic families saw small income increases from 2003 to 2005. But the overall declines from 2000 and 2005 were larger for minority families and lower income earners than for their counterparts.

For instance, from 2000, the last full year of the last business cycle until 2005, the inflation-adjusted incomes of black families declined by 8.2 percent, and those of Hispanic families dropped by 4.3 percent. White families saw their inflation-adjusted earnings drop by 2.5 percent over the same period. And low income families' earnings declined by 7.5 percent compared to a decrease of 3.3 percent for middle income families. In fact, the decline after 2000 for low income families was large enough to erase almost all income gains made by low-income families from 1989 to 2000 (table 3).

Table 3
Family Income Trends, 2000 to 2005 (in 2005 Dollars)

Year	Total	White only	Black only	Hispanic	Bottom quintile	Middle quintile	Top quintile
1989	43,946	46,227	27,492	33,327	10,633	43,976	130,031
1990	43,366	45,232	27,048	32,340	10,378	43,131	126,199
1991	42,108	44,125	26,287	31,716	10,101	42,139	123,179
1992	41,774	43,919	25,573	30,812	9,894	41,766	124,233
1993	41,562	43,849	25,986	30,447	9,790	41,603	134,704
1994	42,038	44,336	27,397	30,516	10,050	42,196	138,039
1995	43,346	45,496	28,485	29,079	10,616	43,384	139,175
1996	43,967	46,034	29,089	30,853	10,648	43,959	143,096
1997	44,883	47,269	30,383	32,297	10,721	45,091	148,898
1998	46,508	48,933	30,321	33,884	11,031	46,607	152,531
1999	47,671	49,580	32,694	36,016	11,614	47,735	158,432
2000	47,599	49,782	33,630	37,598	11,514	47,874	161,272
2001	46,569	49,093	32,499	37,015	11,178	47,011	160,975
2002	46,036	48,942	31,509	35,934	10,845	46,462	156,038
2003	45,970	48,424	31,460	35,017	10,608	46,256	156,082
2004	45,817	48,218	31,101	35,417	10,587	45,896	156,502
2005	46,326	48,554	30,858	35,967	10,655	46,301	159,583
1989 to 2005	5.4%	5.0%	12.2%	7.9%	0.2%	5.3%	22.7%
1989 to 2000	8.3%	7.7%	22.3%	12.8%	8.3%	8.9%	24.0%
1995 to 2000	9.8%	9.4%	18.1%	29.3%	8.5%	10.3%	15.9%
2000 to 2005	-2.7%	-2.5%	-8.2%	-4.3%	-7.5%	-3.3%	-1.0%

Notes: See the appendix for details on all tables and figures.

Rising health care costs and lack of health insurance lead to family financial pinch

The ever rising cost of health care and the concurrent decline in health insurance in America leaves more and more families exposed to sudden and higher out-of-pocket health care spending. The number of people without any health insurance at all climbed to 15.9 percent in 2005 from 14.2 percent in 2000 (table 4), and the share of people with employer-provided health insurance dropped to 59.5 percent from 63.6 percent over the same period. The number of uninsured Americans is now the highest since 1998.

Over the same period (from 2000 to 2005), medical care costs prices grew by a total of 23.9 percent, while overall prices grew at about half that rate (13.4 percent). Underlying the overall growth rate in medical care prices was a price increase in hospital services of 39.4 percent and of prescription drugs of 22.3 percent.⁹

⁹ Calculations are based on BLS (2007b).

Not surprisingly, health insurance premiums have also gone up (table 4). Importantly, the average growth rate of health insurance premiums were in the double digits from 2001 through 2004 and were only modestly lower, at 9.2 percent, in 2005.

Table 4
Selected Data on Health Care Costs and Coverage, 1989 to 2005

Year	Share of people without health insurance	Annual growth rate of medical care consumer price index	Annual growth rate of prescription drug prices	Annual growth rate of hospital services	Annual growth rate of health insurance premiums	Costs of medical emergency (in 2004 dollars)
1989	13.6	7.7	8.7	n.a.	18.0	n.a.
1990	13.9	9.0	10.0	n.a.	n.a.	n.a.
1991	14.1	8.7	9.9	n.a.	n.a.	n.a.
1992	15.0	7.4	7.5	n.a.	n.a.	n.a.
1993	15.3	5.9	3.9	n.a.	8.5	n.a.
1994	15.2	4.8	3.4	n.a.	n.a.	n.a.
1995	15.4	4.5	1.9	n.a.	n.a.	1,871
1996	15.6	3.5	3.4	n.a.	0.8	1,905
1997	16.1	2.8	2.6	n.a.	n.a.	2,024
1998	16.3	3.2	3.7	3.2	n.a.	2,701
1999	14.5	3.5	5.7	4.1	5.3	2,268
2000	14.2	4.1	4.4	6.0	8.2	3,149
2001	14.6	4.6	5.4	6.6	10.9	2,832
2002	15.2	4.7	5.2	9.0	12.9	3,307
2003	15.7	4.0	3.1	7.4	13.9	3,238
2004	15.6	4.4	3.3	6.0	11.2	3,701
2005	15.9	4.2	3.5	5.3	9.2	3,778

Notes: See the appendix for details on all tables and figures.

The potential financial threat to a family from a medical emergency is up sharply due to declining health insurance and rising health care costs. The cost of a medical emergency for a median middle-income family in 1995 was an estimated \$1,871. In 2005, that estimated cost stood at \$3,778, a 101.9 percent increase in inflation-adjusted terms (table 4).

Health care inflation accelerated most noticeably after 2000. Quarterly price increases averaged 3.2 percent on an annualized basis between March 2001 and September 2006, up from 2.7 percent from December 1995 to March 2001 (table 5). This meant a sharp increase in the share of disposable income dedicated to health care. From March 2001 to September 2006, the share of disposable income used for medical care grew by 2.0 percentage points, faster than for any other family expenses.

As a result of this long term trend, medical care moved from being the third-largest expenditure for families in 1989 to being the largest in 1995 and thereafter. Out-of-control health care costs stand out as the largest and fastest growing expenditure of middle class families, yet other costs are also on the rise. Food, housing, and household

operations all saw average quarterly price increases of two percent to three percent between 1990 and 2006 (table 5).

In comparison, expenditures on smaller consumption items, such as cars, furniture, and clothes, experienced occasional or persistent price declines. Prices for families' top five expenditures, which took up a total of 52.2 percent of disposable income in 2000, grew two times to 12 times faster than prices for the smallest five consumption items (table 5).

Such swiftly rising prices were manageable for most families throughout most of the 1990s because strong income gains enabled families to keep their spending on big ticket items below the growth of their disposable incomes. But that changed after 2000. The share of disposable income spent on these big ticket items rose by 1.9 percentage points after 2001, compared to a 0.6 percentage points decline from 1995 to 2001 (table 5).

Debt Burden Reaches Record Highs as Families Struggle to Make Ends Meet

Caught between rising prices and stagnant and declining income, families are obliged to borrow more money to make ends meet. This worrisome development is also reflected in a sharp decline of the personal saving rate. From June 1990 through September 2006, personal saving relative to disposable income dropped by 8.6 percentage points (table 5). While personal saving was the fourth most important allocation of disposable income in 1989 and the sixth most important in 1995, it fell to last place by 2000.

Table 5
Changes in Prices and Consumption Shares of Ten Large Consumption Categories and Personal Saving, 1990 to 2006

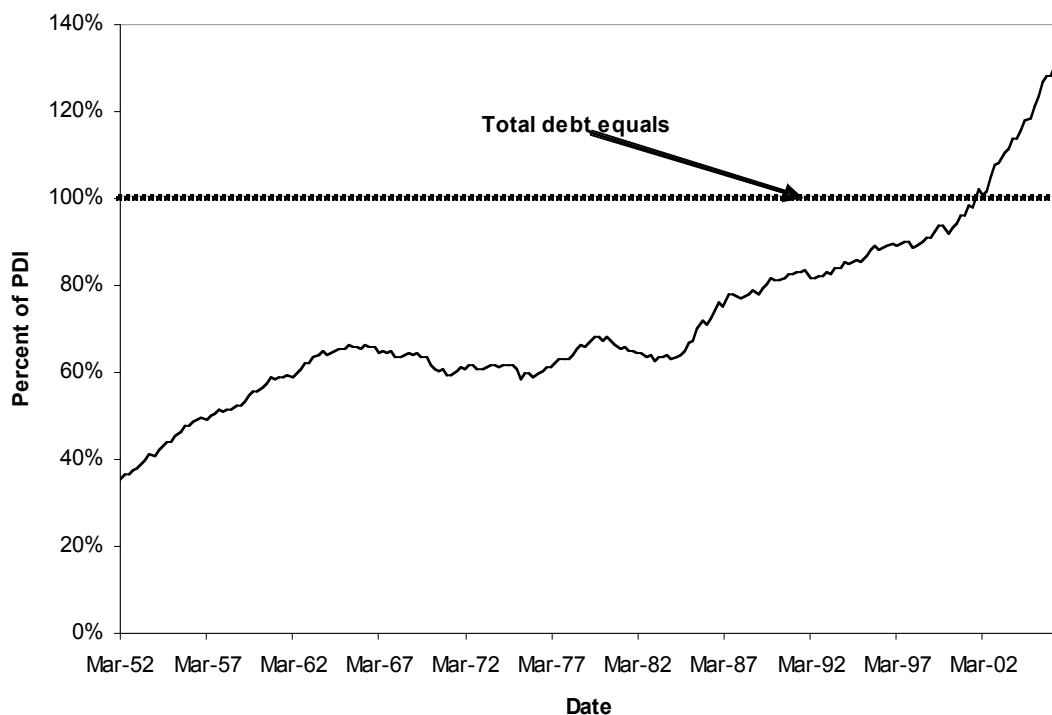
Category	Cars	Furniture	Food	Clothes	Gasoline	Housing	Household operation	Transp.	Medical care	Recreation	Saving	Top 5	Bottom 5
Rank													
1989	6	8	1	7	11	2	5	9	3	10	4	n.a.	n.a.
1995	5	8	3	7	11	2	4	9	1	10	6	n.a.	n.a.
2000	5	6	3	7	10	2	4	8	1	9	11	n.a.	n.a.
2006	5	6	3	8	9	2	4	10	1	7	11	n.a.	n.a.
Price change													
1990 to 2006	1.1%	-4.1%	2.2%	-1.1%	5.9%	3.0%	2.2%	2.7%	3.5%	3.0%	n.a.	2.6%	0.6%
1990 to 2001	1.8%	-3.7%	2.2%	-0.8%	3.2%	3.0%	2.0%	2.8%	3.7%	3.1%	n.a.	2.7%	0.4%
1995 to 2001	0.4%	-5.6%	2.3%	-1.2%	5.4%	3.0%	1.8%	2.2%	2.7%	3.1%	n.a.	2.4%	0.2%
2001 to 2006	-0.2%	-5.0%	2.3%	-1.6%	11.1%	3.1%	2.6%	2.7%	3.2%	2.9%	n.a.	2.5%	1.2%
Change in consumption share													
1990 to 2006	-0.3%	0.2%	-1.4%	-1.0%	1.1%	0.6%	-0.1%	0.1%	3.9%	1.1%	-8.6%	2.7%	1.5%
1990 to 2001	0.3%	0.2%	-2.0%	-0.7%	0.0%	0.3%	0.3%	0.6%	1.8%	0.9%	-5.3%	0.7%	0.9%
1995 to 2001	0.3%	-0.1%	-0.7%	-0.4%	0.3%	0.0%	0.1%	0.1%	-0.2%	0.2%	-2.1%	-0.6%	0.2%
2001 to 2006	-0.6%	0.0%	0.4%	-0.3%	1.2%	0.4%	-0.3%	-0.5%	2.0%	0.2%	-3.0%	1.9%	0.5%

Notes: See the appendix for details on all tables and figures.

A clear indicator of the decline in personal saving is a sharp increase in household debt relative to disposable income after 2001 (figure 5). By September 2006, families had amassed a record high amount of debt equivalent to 130.9 percent of disposable income. At the end of 2001, family debt equaled disposable income for the first time on record. Moreover, the increase of debt relative to income averaged 1.3 percentage points per quarter from March 2001 through March 2006, compared to an average increase of 0.4 percentage points from December 1995 through March 2001 (figure 5).¹⁰

Not only did the levels of debt increase, but also the share of disposable income used to pay off debt. It reached a record high of 14.5 percent in June and September 2006.¹¹

Figure 5: Household Debt Relative to Personal Disposable Income (PDI), 1952 to 2006



Notes: See the appendix for details on all tables and figures.

With personal saving declining and even turning negative, and with household debt mounting, families have fewer and fewer resources to fall back on if anything should go wrong. In fact, middle class families' financial wealth declined in inflation-adjusted dollars by 9.2 percent from 2001 to 2004, and the share of households with positive financial wealth declined by 6.1 percentage points from 52.0 percent in 2001 to 45.9 percent in 2004, the smallest share ever recorded (table 6). Even total accessible wealth, which includes real estate that saw a large boom starting in the late 1990s, only increased by 6.1 percent in inflation-adjusted terms from 2001 to 2004. In comparison, total

¹⁰ Data are not shown here. Calculations are done for data underlying figure 5.

¹¹ See BOG (2006c) for details.

accessible wealth grew by 37.8 percent and financial wealth by 57.7 percent from 1995 to 2001 (table 6).

Table 6
Select Family Wealth Data, 1989 to 2004 (in 2004 Dollars)

	Share of families with positive accessible wealth	Share of families with positive financial wealth	Median accessible wealth for families with accessible wealth	Median financial wealth for families with financial wealth
1989	80.6%	48.3%	94,268	26,829
1992	80.9%	48.4%	86,008	27,874
1995	80.9%	48.0%	84,772	31,011
1998	81.4%	50.6%	104,292	44,402
2001	81.9%	52.0%	116,842	48,909
2004	82.3%	45.9%	124,020	44,400
1989 to 2004	1.7%	-2.5%	31.6%	65.5%
1989 to 2001	1.3%	3.7%	23.9%	82.3%
1995 to 2001	1.0%	3.9%	37.8%	57.7%
2001 to 2004	0.4%	-6.1%	6.1%	-9.2%

Notes: See the appendix for details on all tables and figures.

Conclusion

America's middle-class families are caught in an unprecedented crunch. Despite a growing economy, their incomes have been stagnant or flat. And because prices for big ticket items, such as housing and health care, have gone through the roof, families were not able to put away a rainy day fund. Instead, middle-class families have had to take on more debt to maintain their basic needs and could not save anything for a rainy day. Taken together, these trends have left families increasingly vulnerable to the impact of an economic emergency, such as unemployment or a medical emergency.

Appendix

Notes on Figures:

Figure 1: Changes are in percentage points. The typical family is defined as two-earner couples between the ages of 35 and 54 with incomes in the middle three income quintiles. Median costs for medical emergencies are for individuals undergoing exactly one emergency room visit and exactly one hospital visit in a given year. Medical expenditure data are extrapolated for 1995 and 2005. Extrapolation is done by adjusting the closest known expenditure data, i.e. 1996 and 2004, respectively, by the share of people without health insurance and the consumer price index for medical care. Unemployment costs are the difference between basic consumption – as share of income – times the median length of unemployment and the average unemployment benefit times the median length of unemployment. Basic consumption items are food consumed at home, housing, utilities, apparel, transportation, health care, personal care, education, and insurance. The median share of basic consumption relative to before tax income for the entire population is set equal to the average share of the middle quintile. Financial wealth is the difference of all financial assets, including retirement savings accounts, such as IRAs and 401(k)s, minus all outstanding debt. Authors' calculations based on AHRQ (2006), BLS (2007a, 2007b, 2007c), DOL (2006), and BOG (2006a).

Figure 2: All figures in percent. Shares are calculated based on BOG (2006b) using Pareto interpolations to approximate annual distributions. All interpolations are done on the basis of 20 equal sized groupings. Distributions are calculated based on BOG (2006a) for the survey years and held constant for the subsequent two years.

Figure 3: Authors' calculations are based on BLS (2007d). Only business cycles that lasted at least as long as the current one are considered. In each case, employment is indexed to the first month of the business cycle.

Figure 4: Median weeks are available only after June 1967. The average median length of unemployment for the five business cycles, for which complete data are available are: 5.7 weeks, 6.7 weeks, 7.1 weeks, 7.5 weeks, and 9.0 weeks in chronological order. That is, the most recent business cycle also has the longest median length of unemployment. Source is BLS (2007a).

Figure 5: All figures in percent. Total debt is all credit market instruments. Authors' calculations based on BOG (2007b).

Notes on Tables:

Table 1: All figures are in percent. Changes are in percentage points. The typical family is defined as two-earner couples between the ages of 35 and 54 with incomes in the middle three income quintiles. Median costs for medical emergencies are for individuals undergoing exactly one emergency room visit and exactly one hospital visit in a given year. Medical expenditure data are extrapolated for 1995 and 2005. Extrapolation is done

by adjusting the closest known expenditure data, i.e. 1996 and 2004, respectively, by the share of people without health insurance and the consumer price index for medical care. Unemployment costs are the difference between basic consumption – as share of income – times the median length of unemployment and the average unemployment benefit times the median length of unemployment. Basic consumption items are food consumed at home, housing, utilities, apparel, transportation, health care, personal care, education, and insurance. The median share of basic consumption relative to before tax income for the entire population is set equal to the average share of the middle quintile. Financial wealth is the difference of all financial assets, including retirement savings accounts, such as IRAs and 401(k)s, minus all outstanding debt. Authors' calculations based on AHRQ (2006), BLS (2007a, 2007b, 2007c), and BOG (2007a).

Table 2: All figures are in percent. Changes are in percentage points. Median costs for medical emergencies are for individuals undergoing a) exactly one hospital visit, b) exactly one hospital visit if they also had exactly one emergency room visit, and c) at least one hospital visit if they had at least one emergency room visit in a given year. The conditionalities of the different calculations result into the counterintuitive result that costs for exactly one hospital stay are slightly higher than costs for exactly one emergency room visit and exactly one hospital stay in 2004. Medical expenditure data are extrapolated for 1995 and 2005. Extrapolation is done by adjusting the closest known expenditure data, i.e. 1996 and 2004, respectively, by the share of people without health insurance and the consumer price index for medical care. Unemployment costs are the difference between basic consumption – as share of income – times the median length of unemployment and the average unemployment benefit times the median length of unemployment. Basic consumption items are food consumed at home, housing, utilities, apparel, transportation, health care, personal care, education, and insurance. The median share of basic consumption relative to before tax income for the entire population is set equal to the average share of the middle quintile. Financial wealth is the difference of all financial assets, including retirement savings accounts, such as IRAs and 401(k)s, minus all outstanding debt. Authors' calculations based on AHRQ (2006), BLS (2007a, 2007b, 2007c), and BOG (2006a).

Table 3: All dollar values are in 2005 dollars. Percentages are percent changes. Figures for total, Whites, Blacks, and Hispanics are median family incomes. Figures by quintile are averages for the respective quintile. Data for whites and blacks refer to whites only and blacks only. Prior to 2001, people could only select one race/ethnicity, while they have been able to choose one or more since then. Authors' percent change calculations based on Census (2006).

Table 4: All figures are in percent, unless otherwise noted. Sources are Census (2006), BLS (2007b), Kaiser (2005), and AHRQ (2006). Data on health insurance premium reflect total health insurance premium for family of four. A medical emergency is defined as exactly one emergency room visit and exactly one hospital visit in a given year. Data for 1995 and 2005 are extrapolated by adjusting for changes in the CPI-U for medical care and the share of people without health insurance.

Table 5: Price changes are in percent. Price changes are annualized quarterly average changes. Average price changes for top and bottom consumption groups are weighted averages, with consumption shares in the four quarters before the respective period used as weights. Changes in consumption relative to disposable income are in percentage points. Changes in consumption relative to disposable income are total changes. Changes for top and bottom consumption item groups are the sums of each group's components. All calculations are based on BEA (2006).

Table 6: Shares are expressed in percent and changes in shares as percentage points. Levels of wealth are in 2004 dollars and changes in levels of wealth are in percent. Authors' calculations based on BOG (2006a). Financial wealth is the difference of all financial assets, including retirement savings accounts, such as IRAs and 401(k)s, minus all outstanding debt. Total accessible wealth is equal to financial wealth plus real estate holdings.

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