

THE THIRD WAY MIDDLE CLASS PROGRAM



ARE YOU BETTER OFF?

A Third Way Report

by

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About the Authors

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Overview

Next Tuesday all of you will go to the polls, will stand there in the polling place and make a decision. ... [w]hen you make that decision, it might be well if you would ask yourself, are you better off than you were four years ago? Is it easier for you to go and buy things ...? Is there more or less unemployment ...? If you answer ... yes, why then, I think your choice is very obvious If you don't agree, ... then I could suggest another choice This country doesn't have to be in the shape that it is in. We do not have to go on sharing in scarcity with the country getting worse off.

— Ronald Reagan, October 28, 1980 (closing statement in final debate vs. Jimmy Carter)

In 1980, America was in the grip of economic turmoil. At the time of this debate, inflation averaged 12.8%.¹ The unemployment rate had risen to 7.5%.² And confidence in this nation and our future had ebbed.

In 2008, America is not experiencing runaway inflation or chronic jobless conditions. But some believe that a new type of malaise has set in. Housing values have plummeted. Wages have flat-lined. Debt levels have crested. In July, 75% of Americans rated the national economy as “bad, very bad, or terrible.” Only 7% said their household finances were “getting better.”³

But others continue to insist that the economy is still in good shape. They argue that the American economy has been strong for most of the decade and that average Americans have made progress. In March, President Bush boasted that under his leadership America has enjoyed “52 consecutive months of uninterrupted job growth, the longest sustained in the country's history. ... We've had a good record,” he added. “We're just in a tough period right now.”⁴ And Republican presidential nominee John McCain believes that America has passed the “better off” test. “Americans overall are better off, because we have had a pretty good prosperous time, with low unemployment and low inflation and a lot of good things have happened. A lot of jobs have been created.”⁵

In this paper, we seek to answer the question that Ronald Reagan succinctly posed in 1980 except we focus on the past eight years—a period that coincided with near-total control of the federal government by conservatives. Has the average working age family been better off over the past 8 years? Has their income grown and their wealth accumulated? Is it easier or harder to reach the middle class aspirations of sending kids to college, saving for retirement, and generally getting ahead?

In this analysis we create a balance sheet for Americans and America. We compare empirical evidence from 2001 to 2008 with 1993 to 2000. We look at 18 specific measurements of success in the areas of jobs, wages, wealth, the cost of living, opportunity, economic security and economic success. In 16 of these measures, America and Americans are worse off than they were eight years ago. They are doing better in two.

We found that the typical working age household—one in which adults work, a child goes to college, health care is covered, and people are saving for retirement—is worse off by an estimated total of \$97,310 compared to the previous eight years.

The report is split into two sections. The first asks “Are you better off?” and focuses on individual measures of economic success. The second asks “Are we better off?” and focuses on broad measures of success for the nation. In each section, we compare the periods of January 1, 1993 through December 31, 2000 with January 1, 2001 to the present (or through 2008 when estimates are possible).

The Bottom Line

Twenty-eight years ago, Ronald Reagan asked Americans if they were better off. In 1980, not everyone would answer that question the same way, and nor would they in 2008. We tried to define a typical family in the fairest way possible to see how that family would answer the Reagan challenge. The answer, for most typical families, is no.

Are You Better Off?

	GAIN	LOSS
Household Income		-\$58,945
Gas Prices		-5,069
Health Care Costs		-3,113
College Tuition		-7,290
Child Care Costs		-2,622
Groceries/Food		-482
Investment Income		-24,588
Home Equity		-1,293
Consumer Debt	+\$3,470	
NET TOTAL		-\$97,310*

* This net total does not include child care costs because it assumes a household with one child in college and no children in child care. It is rare for a family to have children in college and in child care at the same time. If the net total assumes a household with one child in child care and no children in college, the net total would be \$92,642.

Are You Better Off Than Eight Years Ago? Looking at the Balance Sheet of Average American Households

When investors want to know the health of a company, they look at its financial statements. A balance sheet reveals what a company owes and owns, and income statements tell investors how much a company takes in versus how much goes out in expenses.

We took the same approach in analyzing the financial health of the American middle class and America as a nation over the last eight years.

In the first two sections below, we lay out both an “income statement” and a “balance sheet” for the middle class, using nine standard measures of economic success. We look at income (mostly wages and salaries) versus expenses (e.g., gas prices), assets (e.g., home equity) versus liabilities (e.g., credit card debt). And we have compared the progress Americans made from 1993 to 2000 with 2001 to the present.

In eight of these nine measures, the last eight years have failed the Reagan test. The average family is not better off than it was eight years ago. In fact, we calculate that a typical working age family that was employed, sent a child to a public four-year college, invested \$200 a month in a retirement account, owned a home, and had the normal consumption of health care, food, and fuel is worse off by an estimated cumulative total of \$97,310 compared to the same family eight years ago. If that family had a young child in day care, rather than college, they are worse off by an estimated cumulative total of \$92,642.

Income

Wages, Salaries and other Income

For working-age households between the ages of 25 and 60, the last eight years can be summarized in one word—“stuck.” Real household incomes have gained only \$96 compared to eight years ago, about the amount of a tank of gas.

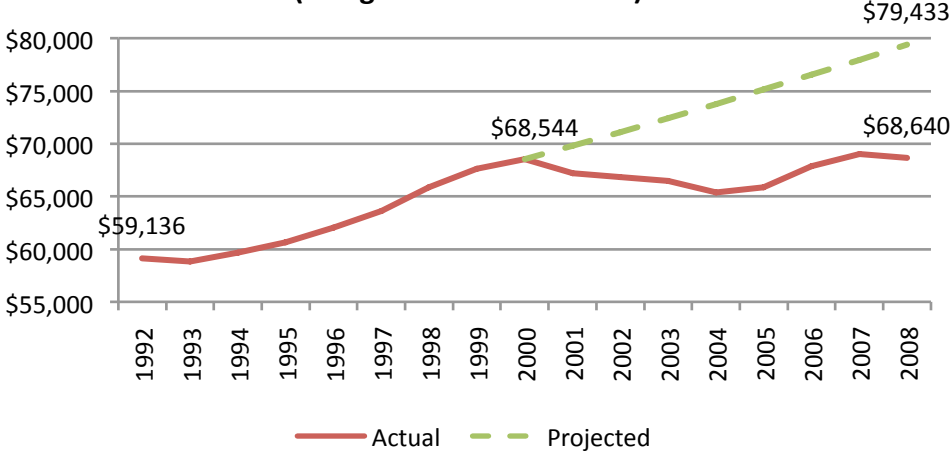
Between the end of 1992 and 2000, the median income for working-age households increased 15.9% in inflation-adjusted 2007 dollars, from \$59,136 to \$68,544. But from the start of 2001 to the present, median household income for working-age households barely budged—from \$68,544 to \$69,055 in 2007. Our estimate for 2008 median household income (based on personal income and inflation data through July 2008) is \$68,640 in inflation-adjusted 2007 dollars—a slight decrease from last year.⁶

	1992-2000	2000-2008
Total growth in median income, working age households	\$9,408	\$96
Percentage increase	15.9%	0.1%
Average annual rate of growth	1.86%	0.01%

*Source: U.S. Census Bureau and Bureau of Economic Analysis. All dollar amounts are in inflation-adjusted, 2007 dollars.

Where would the typical working-age household be, had incomes continued to grow at the same rate that they did from 1992 to 2000? Over this period, median incomes for working-age households grew at an average real rate of 1.86% per year. Had that rate of growth been sustained, median income for working-age households would be \$79,433 in 2008—or \$10,793 more than what that these same households are likely to earn this year. Over the course of eight years, the cumulative difference in household income would be \$58,945 in inflation-adjusted 2007 dollars.

Median Income, Working-Age Households (all figures in 2007 dollars)



Are you better off? NO.

The typical family would have earned a total of \$58,945 more from 2000 to 2008 if income growth had kept pace with the rate of growth in the previous eight years.

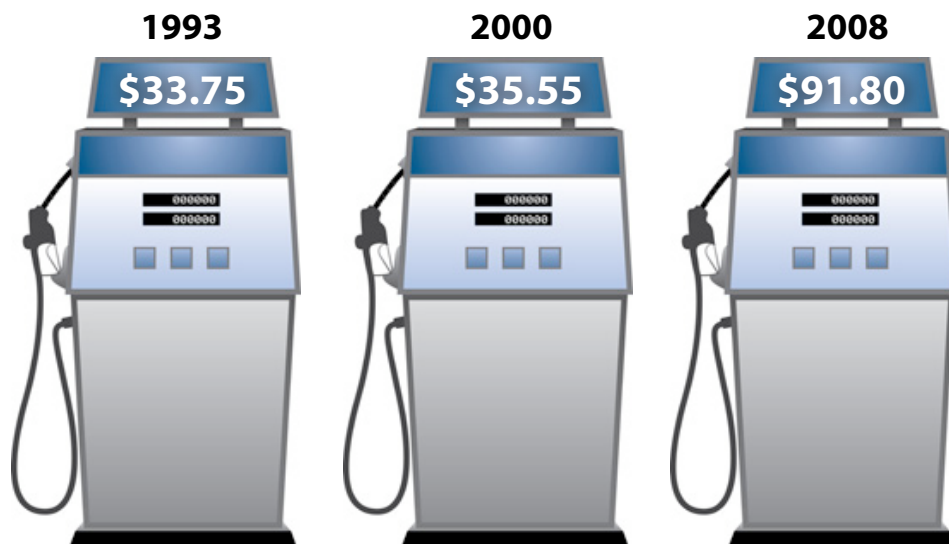
Expenses

Gas

In 2000, it cost \$35.55 in 2007 dollars to fill up the tank of a Ford Explorer.⁷ Today, it would cost \$91.80. Between 1992 and 2008, gas prices have nearly tripled in real dollars, from a national average of \$1.50 (in 2007 dollars) in January 1993 to \$4.08 in June 2008.⁸

For the typical American family, annual total spending on gas will have risen from \$1,409 in 1992 (in 2007 dollars) to a projected \$3,088 in 2008.⁹

Cost of one tank of gas for a Ford Explorer (2007 dollars)



Source: Department of Energy, Energy Information Administration

All told, the typical American household spent a total of \$11,100 in 2007 dollars on gas from 1993 to 2000; between 2001 and 2008, the typical family's spending on gas will have risen to a projected total of \$16,169.¹⁰

Are you better off? NO.

The typical household will have spent \$5,069 more for gas over the past eight years than it did from 1993 to 2000—or enough to pay nearly one year's tuition at a public university.

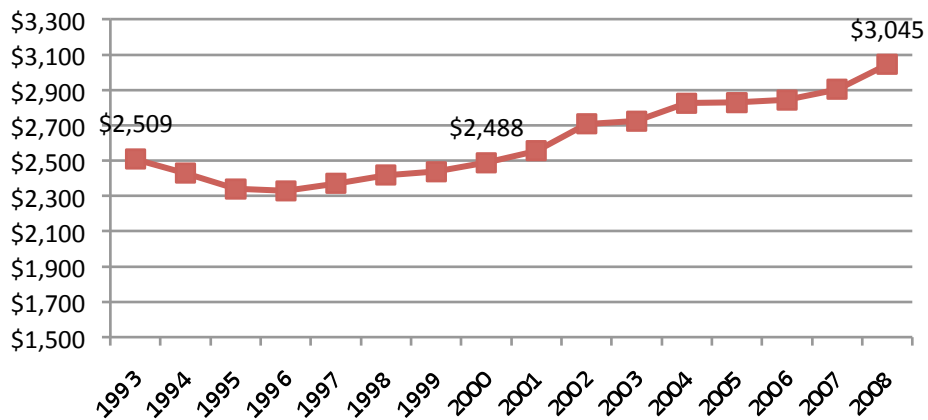
Health Care

Out-of-pocket health care costs are another expense that has increased substantially in the last eight years. These expenses include premiums for health insurance, drugs, and medical services and supplies. In 2007 dollars, the typical family will have paid \$3,113 more for health care from 2001 through 2008 than it did during the period from 1993 to 2000.¹¹

The typical household spent a total of \$19,320 in out-of-pocket health care expenses between 1993 and 2000 in inflation-adjusted 2007 dollars.¹²

Between 2001 and 2008, total spending on health care for a typical household will have risen to \$22,433.¹³

Average Annual Out-of-Pocket Health Care Spending per Household (2007 dollars)



Are you better off? NO.

In 2007 dollars, the typical household will have spent \$3,113 more for health care in the past eight years than they did from 1993 to 2000.

College Tuition

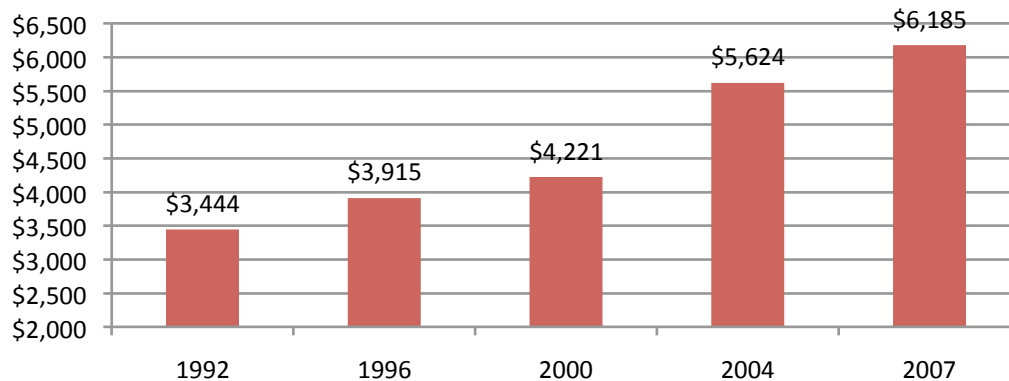
College is a necessity that has become priced like a luxury. For each of the past 28 years, college tuition has increased faster than the rate of inflation. Even so, the pace of increase has doubled over the last eight years.

In 1992-93, tuition at a typical 4-year public college or university was \$3,444 in inflation-adjusted 2007 dollars. By 2000-01, it was \$4,221—a 22.5% rate of increase. But by 2007-08, it had risen to \$6,185—a 46.5% increase over the past seven years.¹⁴

A person earning a degree from a 4-year public school in 2000 paid a total of \$16,251 in inflation-adjusted 2007 dollars. In 2008, that degree cost \$23,541.¹⁵

These rising costs have meant that more students are graduating from college with higher levels of debt than before. In 2004, 66% of college graduates graduated with student debt. For these students, the average debt was \$21,087.¹⁶

One Year Tuition, Public University (2007 dollars)



Are you better off? NO.

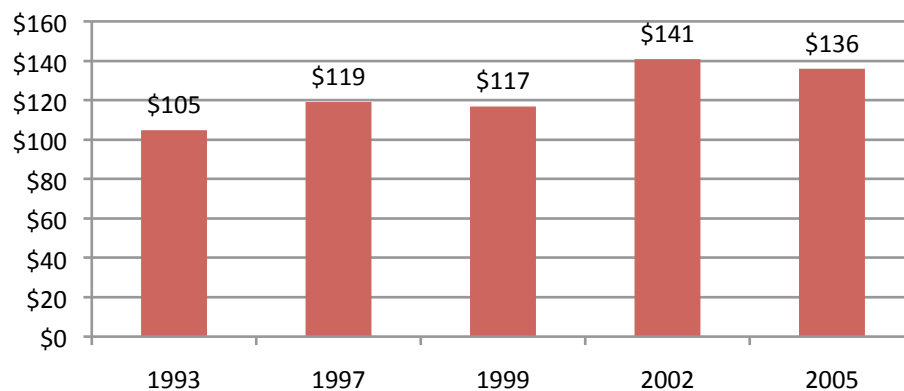
The same 4-year degree cost \$7,290 more than it did eight years ago in inflation-adjusted 2007 dollars.

Child Care

For a growing number of modern families, the cost of living now includes the cost of child care.

Nationwide, on any given day, more than 6.7 million children under age 5 are in child care outside the home.¹⁷ Nine out of ten children under 5 who have a working mom are in a regular child care arrangement.¹⁸ Half of middle-class working moms with children under age 5 rely on day care centers or other paid care.¹⁹

**Average Weekly Child Care Costs for Families
with Child Care Costs and Children Under 5**
(2007 dollars)



Source: U.S. Census Bureau, Survey of Income and Program Participation (SIPP)

As the demand for child care has risen over time, so has its cost. In 1993, those families with children under 5 making payments for child care spent an average of \$105 per week in 2007 dollars. This figure increased to \$117 in 1999, but increased further to \$136 by 2005. This is the equivalent of a \$988 annual increase in child care costs over the 6-year period.²⁰

***Are you better off?* NO.**

A family with a child in day care for three years (assuming 46 weeks of care per year) will spend \$2,622 more for the same day care eight years earlier.

Food

Despite the recent attention being paid to rising food prices, consumers are only slightly worse off when it comes to their ability to put food on the table.

In 2007 dollars, the typical household spent an average of \$6,187 on food in 1992. That figure has remained relatively constant since then, rising to \$6,210 in 2000 and \$6,284 in 2006, all in inflation-adjusted 2007 dollars.²¹ From 2001 to 2008, the average family spent \$49,834 on food, compared to \$49,352 from 1993 to 2000. As a share of average household spending, total expenditures on food have declined, dropping to 12.6% of total expenditures in 2006, compared to 13.5 percent in 2000 and 14.3% in 1992.²²

The share of food dollars going toward meals eaten out has also increased from 38% in 1992 to 44% in 2006.²³

Average price	January 1993	December 2007
Coffee, per pound	\$3.32	\$3.69
Bananas, per pound	\$0.60	\$0.53
Eggs, one dozen	\$1.27	\$2.10
White bread, per pound	\$1.06	\$1.28
Ground beef, per pound	\$2.78	\$2.70
Lettuce, per pound	\$0.88	\$0.95
TOTAL	\$9.91	\$11.25

Source: Bureau of Labor Statistics, Consumer Price Index, Average Price Data, U.S. City Average. All figures are in 2007 dollars.

Are you better off? NO.

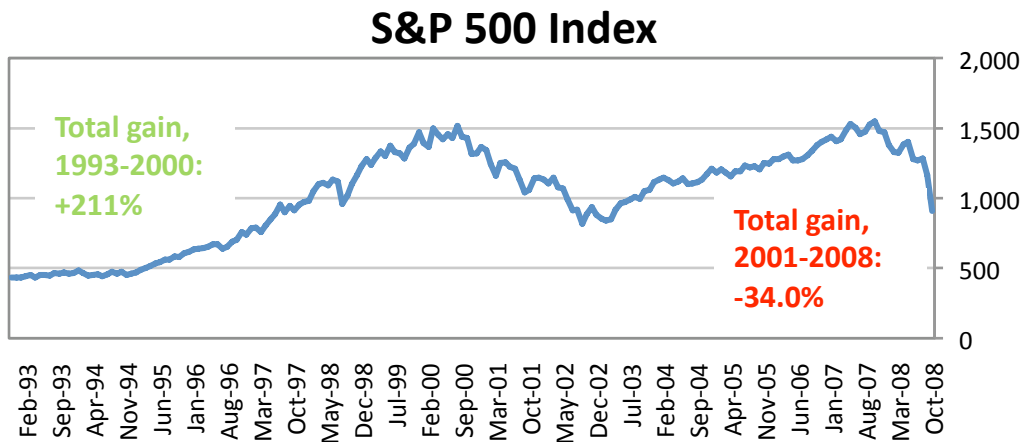
The typical family spent \$482 more on food during the past eight years compared to the previous eight.

Assets

Investment Income

Twenty-one percent of Americans today hold stock, either directly or as part of their retirement plan.²⁴ As a consequence, the performance of the U.S. stock market is having increasing impact on the wealth of middle-class Americans.

Over the last eight years, middle-class investment wealth has taken a significant hit, and families are considerably worse off than they were in the 1990s.



Source: "Historical Prices for S&P 500 Index," Yahoo!Finance, updated daily. Accessed October 14, 2008 from www.finance.yahoo.com

Between January 1993 and December 2000, a family that set aside \$200 each month for a college account and invested it into a mutual fund that mirrored the S&P 500 would have earned \$17,374 by the year 2000—enough to pay for almost three years of college tuition at a typical public university today. That same investment between January 2001 and October 2008 would have actually lost \$6,814.²⁵ The chart below illustrates the difference:

	Total interest and earnings on \$200 monthly investment	Total
1993-2000	\$17,374	\$36,574
2001-2008	-\$6,814	\$11,986
Difference:		\$24,588

Are you better off? NO.

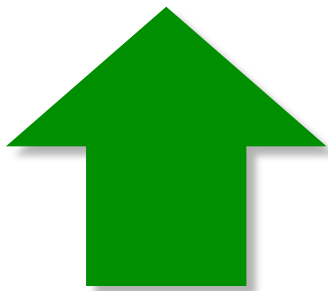
This typical household would have earned \$24,588 less on the same investment from the previous eight years compared to the current eight years.

Home Equity

Although housing prices have increased over the last eight years at a slightly faster rate than it had in the previous eight years, it has been offset by a decline in net equity. In December 1992, the average price of a home was \$108,220 in inflation-adjusted dollars. By December 2000, the average price of a home increased by 20.1% to \$129,920. And by March 2008, it was \$159,180—a 22.5% increase.²⁶

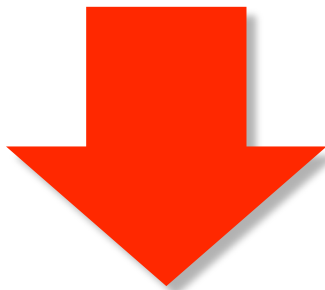
At the same time, there has been a fairly remarkable change in the amount of net equity people have in their homes. Between 1992 and 2000, the amount of equity held by the typical homeowner (expressed as a share of the value of the home vs. the amount owned by their lender) slipped slightly from 59.9% to 57.6%. But between 2000 and 2008, net equity plummeted to 46.2%. For the first time since 1945, the typical homeowner owned less than half of his or her home.²⁷

The net result is a decline in net equity for the typical homeowner. From 1992 to 2000, homeowner equity increased 15.4%, from \$64,823 to \$74,834 in inflation-adjusted 2007 dollars. From the end of 2000 to March 2008, homeowner equity decreased 1.7%, to \$73,541.



Average home prices

1992: \$108,220
1996: \$106,830
2000: \$129,920
2004: \$178,990
2008: \$159,180



Net equity:

1992: \$64,824
1996: \$61,534
2000: \$74,834
2004: \$95,044
2008: \$73,541

Are you better off? NO.

While home values have increased in the last eight years, so has homeowner debt. The typical homeowner saw a loss in net equity of \$1,293 over the last eight years.

Liabilities

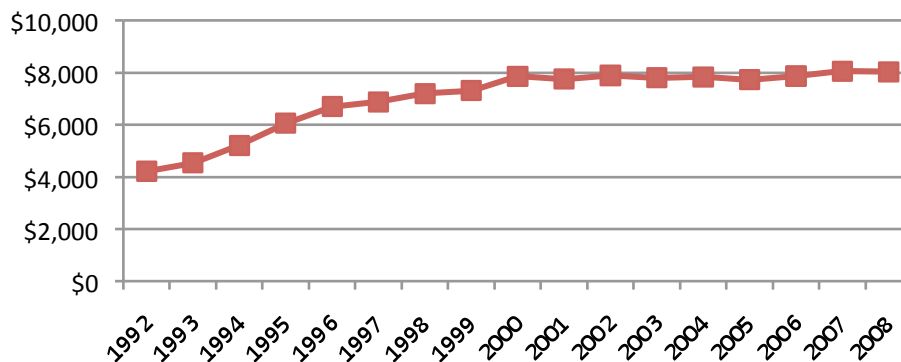
Consumer Debt

The typical middle-class family has manageable credit card debt, and in fact, consumer debt is one area in which the typical American family has fared better in the last eight years than it did in the 1990s.

Between December 1992 and December 2000, households accumulated debt rapidly, with the average credit card and consumer debt in America increasing by 86.5%, from \$4,214 to \$7,862 per household.^{28*}

In the last eight years, however, the household consumer debt burden has remained relatively flat. Between December 2000 and April 2008, average consumer debt increased by a total of 2.3%, to \$8,040 per household.²⁹

Average Consumer Debt per Household
(2007 dollars)



Source: Federal Reserve Board, Consumer Credit, Historical Data

Are you better off? YES.

In 2007 dollars, average household consumer debt increased by \$178 over the last eight years, compared to an increase of \$3,648 dollars in the preceding eight years. The typical household is better off by \$3,470.

* This figure represents an average, not a median. It includes credit card balances that are both current and past due. It also includes some credit card debt that belongs to sole proprietors for business expenses. It means that actual, median credit card debt per household for personal use is lower, but the trends should be the same.

Are We Better Off than Eight Years Ago? Looking at America's Balance Sheet

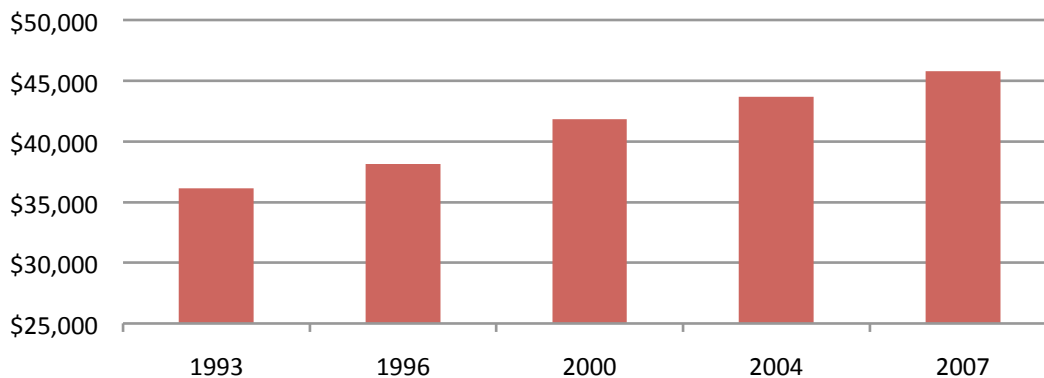
Income

Gross Domestic Product

Over the last eight years, the U.S. economy has grown at a significantly slower rate than it did in the 1990s.

Between 1993 and 2000, America's gross domestic product grew by 25.7%, from \$9.407 trillion to \$11.820 trillion in inflation-adjusted 2007 dollars. That is an annual growth rate of 2.9%. Between 2000 and 2007, America's gross domestic product grew by 17.1%, from \$11.820 trillion to \$13.841 trillion. That is an annual growth rate of 2.3%.³⁰

U.S. GDP Per Capita (2007 dollars)



Source: Bureau of Economic Analysis, National Economic Accounts

Are we better off? NO.

If our economy had grown over the most recent seven years at the same rate as the previous seven years, America's economy would be larger by \$1.017 trillion.

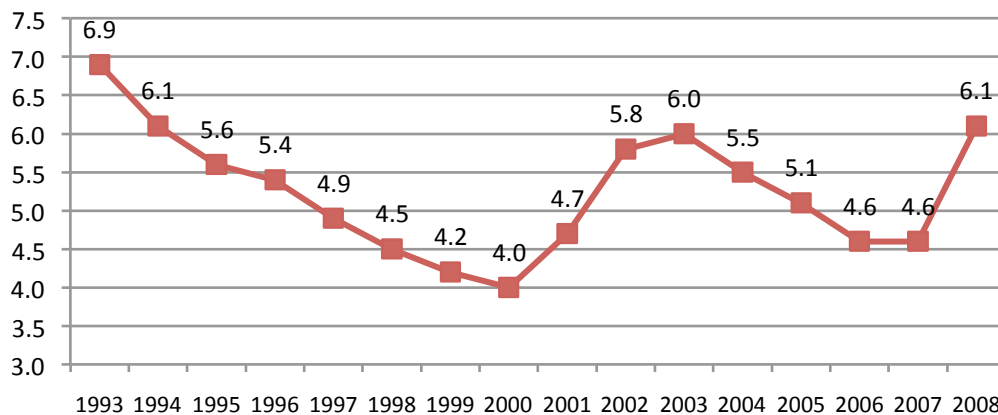
Expenses

Unemployment

The unemployment rate in America appears to be in the midst of a steady climb upward. The current monthly rate of 6.1%³¹ is still, on balance, relatively low compared to past economic downturns. It is well below the peak levels reached during the downturns of the early 1990s and 1980s. But forecasts predict higher unemployment rates in the year to come with a general consensus of unemployment cresting at around 6.5%.³²

Between 1993 and 2000, the average unemployment rate in America was 5.18%. The rate was at its peak in early 1993 and declined each year to a low of just under 4.0% in 2000. Between 2001 and September 2008, the unemployment rate averaged 5.2%. Unlike the previous period, the rate has risen, declined, and risen again. As of September 2008, 9.5 million Americans were unemployed.³³

Average Annual Unemployment Rate



Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey; 2008 figure reflects data through September

Are we better off? NO.

While the unemployment rate during the current eight years and the previous eight years are nearly identical, the annual average unemployment rate dropped by 3.0% in the 1990s but has risen by 2.1% (so far) since 2000.

Uninsured

While the cost of coverage has spiraled in the last eight years, the share of the American population without insurance has also increased significantly.

Between 1992 and 2000, the number of people in America without health insurance declined by 215,000, from 38,641,000 to 38,426,000. Between 2000 and 2006, the number of uninsured increased by 8,569,000, from 38,426,000 to 46,995,000.³⁴

	Number of uninsured Americans	Share of U.S. population
1992	38,641,000	15.0%
1996	41,716,000	15.6%
2000	38,426,000	13.7%
2004	43,404,000	14.9%
2006	46,995,000	15.8%

Source: U.S. Census Bureau, Current Population Survey

Are we better off? NO.

In 2000, 13.7% of the population was without health insurance. By 2006, it had increased to 15.8%.

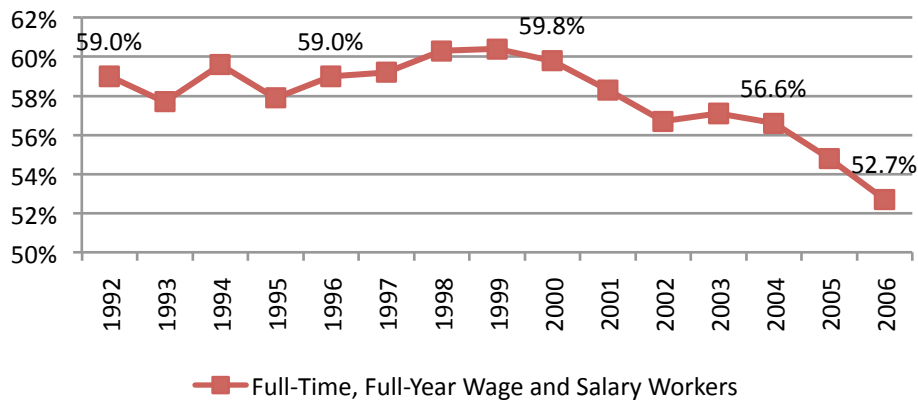
Assets

Pension and Retirement Coverage

For the typical American, the prospect of a comfortable retirement also declined in the last eight years. Since 2000, the share of Americans participating in employer-sponsored retirement benefit plans has dropped slowly but steadily to its lowest rate in decades.

In 1992, 59.0% of full-time, full-year wage and salary workers participated in an employer-based retirement plan. That percentage essentially remained flat through the decade, and by 2000, 59.8% of full-time workers participated in a retirement plan. But participation in retirement plans has declined every year since to reach a participation rate of 52.7% in 2006.³⁵

Participation in Employment-Based Retirement Plans



Are we better off? NO.

Pension participation is at its lowest since the Employee Benefits Research Institute began keeping statistics in 1987.

College Degrees Conferred

A well-educated population is America’s greatest asset. Over the past eight years, the number of college-educated workers in America improved slightly in comparison to the preceding eight years.

Between 1993 and 2000, 9,454,842 Americans earned an undergraduate degree. Between 2001 and 2008, the number of undergraduate degrees conferred increased by 1,804,088 to 11,258,930.³⁶ Adjusting for population size, from 1993 to 2000, 32.6% of college age Americans earned a degree, compared to 33.9% during the most recent eight years.

	Number of bachelor’s degrees awarded	Share of college-age Americans (age 20-25) with a college degree	Share of adult population with college degree or more ³⁷
1993-2000	9,454,842	32.6%	27.1%
2001-2008	11,258,930	33.9%	27.5%

Source: National Center for Education Statistics (NCES), Digest of Education Statistics; Census Bureau, Current Population Survey

Are you better off? **YES.**

The number of undergraduate degrees conferred increased by 1,804,088 over the past eight years. The share of college-age Americans earning college degrees increased by 1.3 percentage points in comparison to the prior eight years.

New Jobs

In keeping with the slower overall economic growth that the country has seen in the past eight years, the rate of job creation in the past eight years is significantly lower than it was in the 1990s.

In particular, the number of “good” office jobs—i.e., those in managerial, professional and skilled service occupations—created in the past eight years is about half the number created in the 1990s. In addition, the number of total manufacturing jobs slid precipitously.

Between 1993 and 2000, the total number of American jobs increased by 18.6 million, including approximately 8.1 million new office jobs and 3.3 million new manufacturing jobs. From the end of 2000 through 2007, the number of American jobs increased by 9.5 million, including 4.1 million new office jobs and 3.2 million fewer manufacturing jobs.³⁸

Total Number of Jobs Created

	Office	Manu- facturing	Low-skilled Service	Farm	Total
1993-2000	11,475,524	3,289,893	3,873,316	-59,966	18,578,767
2001-2007	10,819,254	-3,208,094	1,929,785	-28,510	9,512,435

Source: Analysis of BLS data performed by economist Stephen Rose for Third Way

Are we better off? NO.

If job creation was on a par with the previous eight years, America would have created 7.0 million more jobs by the start of 2008.

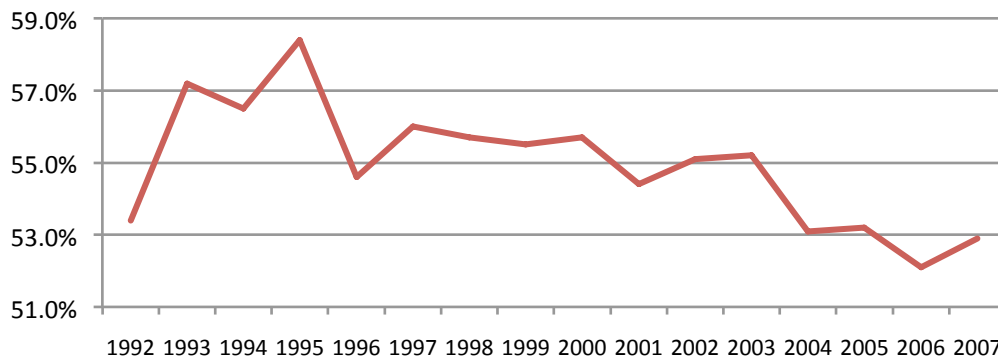
Patent Applications

America's future success depends on its ability to innovate and create new intellectual property, and our nation has always been first in technological achievement. But in the past eight years, however, its progress—as measured by the number of new patents American individuals and companies have applied for—has slipped.

Between 1993 and 2000, American patent applications for new inventions[†] totaled 1,008,586, and the number of applications during this period rose by 78%. In contrast, between 2000 and 2007, American patent applications totaled 1,411,231, and the rate of growth in patent applications dropped to 46% over this time period.

As a result, the share of patents originating in the United States fell from 55.7% in 2000 to 52.9% in 2007.³⁹

Percentage of Patent Applications Originating in U.S.



Source: U.S. Patent and Trademark Office

Are we better off? **NO.**

Patent applications increased during both periods, but at a much faster rate between 1993 and 2000. And the percentage of total applications originating in the U.S. dropped from 2000 to 2007.

[†] Referred to as “utility patents” by Patent and Trademark Office.

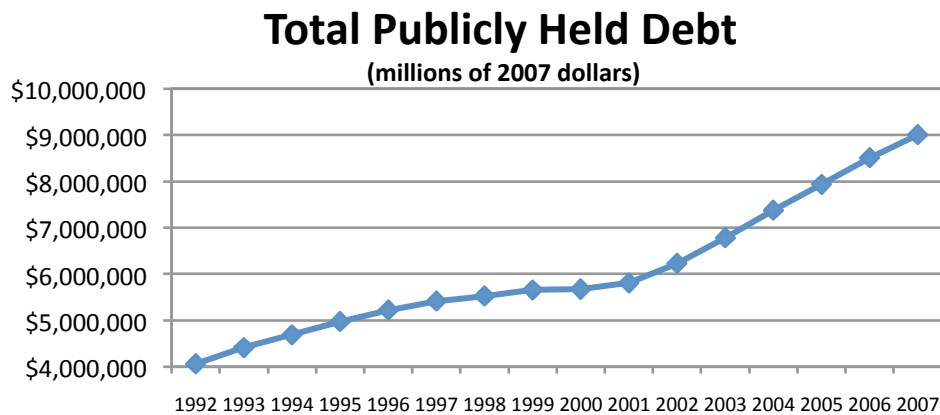
Liabilities

Government Debt

While American consumers may have managed to keep their debt levels in check during the past eight years, the same can't be said for the federal government. Since 2000, the federal budget deficit, and with it, publicly-held debt, has ballooned to historic highs. One out of every 12 dollars in the federal budget now goes toward paying interest on the debt.⁴⁰

Top five holders of US debt	Amount held as of August 31, 2008 ⁴¹
Japan	\$ 585.9 billion
China	541.0 billion
UK	307.4 billion
Oil Exporters [‡]	179.8 billion
Caribbean Banking Centers*	147.7 billion

On September 30, 2000, publicly-held debt in the United States stood at \$5.674 trillion. It had increased by \$1.609 trillion over the previous eight years. On October 31, 2008, total government debt is projected to reach \$9.577 trillion.⁴²



Are we better off? NO.

Per capita debt will have increased from \$24,207 at the end of 2000 (in 2007 dollars) to a projected level of \$31,545 by the end of 2008.

[‡] Includes Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, UAE, Algeria, Gabon, Libya and Nigeria

* Includes Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama and British Virgin Islands.

Trade Deficit

Between 1992 and 2000, the United States ran a trade deficit each year, increasing from \$70.3 billion in 1993 to \$379.8 billion in 2000 for a total increase of \$309.5 billion in current dollars over this time period.

Between 2001 and 2008, the United States ran much larger trade deficits each year, from \$365.1 billion in 2001 to \$700.3 billion in 2007, or a total increase of \$335.2 billion in current dollars.⁴³

US trade deficit, top five countries	Current total deficit Jan through August 2008 ⁴⁴
China	167.6 billion
Canada	54.7 billion
Japan	50.7 billion
Mexico	47.0 billion
Saudi Arabia	32.7 billion

Source: Census Bureau, Foreign Trade Statistics

Are we better off? NO.

Over the last eight years, the trade deficit increased by \$335.2 billion, compared to \$309.5 billion in the preceding eight years.

Are YOU better off?

YES

- Consumer debt

NO

- Household income
- Gas prices
- Health care costs
- College tuition
- Child care costs
- Investment income
- Home equity
- Groceries/Food

Are WE better off?

YES

- College degrees conferred

NO

- GDP
- Unemployment
- Health care coverage
- Retirement coverage
- New jobs created
- Patent applications
- Government debt
- Trade deficit

Endnotes

¹ Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers (CPI-U), U.S. City Average, All Items. Available at <ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt>

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