Challenges Facing American Workers

Testimony by Michael Ettlinger, Vice President for Economic Policy, Center for American Progress Action Fund, before the

Committee on Ways and Means
Subcommittee on Income Security and Family Support
United States House of Representatives

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Chairman McDermott, Mr. Weller, members of the committee, thank you for the opportunity to appear before this committee on the subject of the challenges facing working Americans. That American workers are indeed facing challenges is difficult to deny. This isn’t the great depression but it is a period distinguishable from any in the post-war era. It’s statistically distinguishable by a number of measures, but it’s also distinguishable beyond each of these measures in two important ways. The first is simply that the challenges are coming on so many fronts. Things have gotten worse before, but we are now headed in the wrong direction, or at risk of heading in the wrong direction, in several areas that are critical to working Americans. Wages are stagnant or declining, costs are rising, access to health care is declining, retirement security is in decline—and most recently, the value of the family nest-egg in the form of their homes has fallen dramatically. The second way today is different is that the public, while holding to optimism for themselves, doesn’t see these problems being addressed at the societal level or for their children.

How bad are things? Before I get into the statistics, there’s an important, admittedly fairly obvious, point I’d like to make about interpreting them. In general, what one hears in this sort of presentation are a lot of averages and medians—single numbers to represent a very wide set of experiences by real people. Of course, however, if I tell you that as of 2007 real median household income was 0.8 percent lower than in 1999—that doesn’t sound like a good thing—after all, there’s an expectation that incomes rise in this country, not fall. But that number also has the feel of things not changing, that the situation might not be ideal, but, really, what’s going on isn’t imposing any significant hardships—0.8 percent doesn’t seem like that much. In fact, however, what I want to point out is that if an average or median is stagnant or falling, that means that while some are getting ahead, many, many are falling behind—that if a median income is falling 0.8 percent then millions of Americans are losing 5 percent, 10 percent, or more. So, if we’re defining our economic aspirations statistically, they should be ambitious enough that they bring most people along, not just the fanciful median or average working person. And stagnant median or average incomes don’t do that.

Falling incomes

To continue on the subject of income, as of 2007, real median household income was, indeed, 0.8 percent lower than its 1999 peak. Real hourly earnings are now down 2.5 percent from a year ago, and the prospects for turning this trend around in 2008 are slim to none. Weekly wages have
declined by 0.3 percent since the start of the current business cycle in March 2001. One can pick different periods and come to the conclusion that incomes are up a little or down a little—but the bottom line is that they haven’t risen in any meaningful sense since the 1990s. That is bad enough on its face, but it’s worse when put into context. First, as I said, when the average or median is stagnant, it means that, while some are getting ahead, many, many Americans who are working hard and playing by the rules are falling behind. Second, it’s clear that falling or stagnant incomes and wages are far from the only challenges facing working people.

Rising costs

Among those challenges, costs have gone up in ways that make even inflation-adjusted income comparisons understate the problem. The costs of necessities have been particularly hard hit. It’s a sign of the times that a national average price for regular unleaded gasoline of 3.779 in August is seen as progress.¹ It is hard to overstate the burden higher fuel prices are putting on working Americans—gasoline prices rose by 44.6 percent between July 2007 and July 2008, in inflation-adjusted terms, and the increase since March 2001 is 258.8 percent.² Fuels and utilities cost 16.1 percent more in July 2008 than a year before and are up 52.9 percent since March 2001.

Transportation costs in general have been hit hard. In July they were 13.0 percent higher than they were in July 2007 and 35.8 percent greater than they were in March 2001. The grocers bill is also not a pretty story. Food prices have increased 7.1 percent from July 2007 to July 2008 and by 25.6 percent since March 2001.

Alarmingly for the long-term financial health of the middle class and our national economic prospects, college tuition increased by 6.3 percent from July 2007 to July 2008. This puts college tuition at 67.9 percent more than in March 2001.

Health care

Health care is, of course, a³ story all its own. Of all the necessities, health care has, for the longest time, been rising in cost and, for many, it has become unavailable. Recently, costs associated with medical care increased by 3.5 percent from July 2007 to July 2008 and by 35.1 percent since March 2001. But whatever the cost, access has become a huge challenge.

The share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 59.3 percent in 2007.² In 2007, 45.7 million were uninsured, 7.2 million more than in 2000.⁵ In 2003, almost one-fifth of American families were spending more than 10 percent of their disposable income on health care.⁶ And more than one-quarter of adults reported not obtaining treatment or prescription drugs because of cost.

I probably don’t have to elaborate at length as to how this is playing out in real people’s actual lives. There’s the saying that “if you have your health you have everything.” A corollary may be that if you don’t have health insurance you don’t have anything. If you’ve ever cared for someone who couldn’t get adequate treatment because they couldn’t obtain health coverage for an illness you know what I mean—and at this point more and more of us are seeing that or experiencing it. This is a huge source of stress for working Americans, a huge factor in people’s
choice in jobs, a substantial constraint on people changing jobs to seek new opportunities or to set off on their own—all to the detriment of not just the individuals involved but the economy as a whole.

Pensions

Another important way in which the conditions of working people are declining is in their preparation for retirement. Only 43.2 percent of private-sector workers had an employer-sponsored retirement plan, either a traditional pension or a retirement savings plan, in 2006, the last year for which data are available. This is the lowest share in more than a decade and a substantial drop from 50.0 percent in 2000, the last peak. According to Center for American Progress research, 8 million people, or one in four workers with defined-benefit pensions, have seen their benefits significantly cut since 2000.

In addition, a growing number of workers are saving with defined-contribution retirement savings plans instead of defined benefit plans. This can leave workers exposed to a number of new risks—as declines in the stock market are now so amply demonstrating. These adverse trends have meant that a growing number of families will have to rely solely on Social Security as source of retirement income.

Even those workers who are in retirement plans often lack retirement sufficiency. As defined-benefit plans have become less and less prevalent, workers are increasingly finding themselves doing more of the heavy lifting in planning for their retirement as well as bearing the bulk of the risk involved in having a defined-contribution plan. Companies typically contribute about 7 percent of payroll to support DB plans, but only about 3 percent for 401(k) plans.

While the right-kind of 401(k) plan can help Americans retire with dignity, too many plans have proven inadequate to the job. The median 401(k) balance for workers nearing retirement—those ages 55 to 64—is only around $60,000. While $60,000 is a significant sum, it is not sufficient for retirement security, and can only purchase an annuity that pays approximately $400 per month.

Home values

The problems facing working Americans are, of course, compounded by the housing crisis. The most valuable asset that most middle-class asset-holding families have has just seen its value fall precipitously. Data from the Federal Reserve, for example, show that home equity relative to income dropped by 5.0 percentage points by March 2008, compared to a quarter earlier, the largest such drop on record.

Standard of living and security

All of this manifests in working Americans’ lives in a multiple ways. Obviously with stagnant incomes and rising prices, people’s quality of life declines. If more of one’s income is going into a gas tank less of it’s going to dinner out and a movie. It is also reflected in security. A recent
study by the Center for American Progress measured families’ ability to weather different types of financial emergencies. The most general measure used was simply the percentage of families having three months worth of income in financial wealth. That declined from a peak in 2000 of 39.4 percent to 29.4 percent in 2007. Other indicators were whether a family can cope with the cost of a medical emergency—33.9 percent could in 2007, down from a high of 44.4 percent in 1999. The share of families able to keep pace during a typical period of unemployment spell fell from 51 percent in 2000 to 44.1 percent in 2007.

It’s not a secret

The public, not surprisingly, is aware of the problem. A Pew Research Center poll conducted from Jan. 24 through Feb. 19, 2008 found the following:

• Nearly eight in ten (79 percent) respondents said that it is more difficult now than five years ago for people in the middle class to maintain their standard of living. Only 12 percent said that it had become less difficult.

• Sixty-nine percent said that, compared to 10 years ago, it’s easier to fall behind today. Just 11 percent think it is harder to fall behind.

• A majority of Americans say that in the past five years, they either haven’t moved forward in life (25 percent) or have fallen backward (31 percent). This is the most downbeat short-term assessment of personal progress in nearly half a century of polling by the Pew Research Center and the Gallup organization.

Furthermore, a September 2007 Lake Research Partners/Change to Win poll found these results:13

• Seventy percent of voters say it is getting harder to achieve the American Dream, and only 8 percent say it is getting easier, with 21 percent saying it is the same.

• When asked about the next generation, only 9 percent of voters say it will be easier for them to achieve the American Dream.

The reason for the public’s gloomy view of the present is, of course, the reality they see. Their concern for the next generation speaks, however, to a disillusionment with the policies being pursued to deal with these challenges

Progressive growth

With the laundry list of problems we face, I’m reminded of the Bette Davis quote that “old age isn’t for sissies.” These days, “governing isn’t for sissies” either. But that begs the question—what needs to be done. It’s said that the definition of insanity is doing the same thing over and over again and expecting a different result. That suggests that whatever we do, it should be
something different than what we’ve been doing as the situation has worsened for working Americans over the last few years.

At the Center for American Progress we have a plan called Progressive Growth—it has many components, including transforming our economy to a low-carbon economy, which is critical to bringing under control how much working Americans spend on energy, and health care reform to make health care more affordable and more broadly available. One more narrowly targeted element is a plan we are developing to address retirement security through a universal 401(k) plan which has as key components:

- portability from job-to-job
- incentives for employers to contribute
- subsidies targeted at low- and middle-income workers

The challenges of the American worker are America’s challenges

The conditions workers face are not, of course, their problem alone. Policies that attempt to solve our economic challenges without addressing the conditions of the middle-class are doomed to failure. In the long run the hedge fund manager and the corporate CEO do not succeed unless there are businesses profiting from working Americans. The direction this country has been heading is a direction away from a hard-working, skilled, innovative workforce to a workforce so constrained by the challenges of just getting by that they, in fact, just get by. That is not the kind of workforce that moves business and a nation ahead economically. While one can overstate the extent that all our fates are tied together, in recent years such overstatement has been the least of our worries. The failure has been in understating it. The fact is that investments in people are investments that pay off for the economy as a whole. When we have millions who are marginalized from the economy, millions who can’t afford to take risks because they can’t change jobs because they’ll lose health coverage, millions who must limit their lives to spending on what’s needed to just get by—we lose innovative energy, we lose the participation of many millions who could contribute greatly, we lose customers for our businesses, we lose a middle class that drives the growth in national prosperity.

That’s why it’s so critical that moving forward we don’t pretend that one class of people can go it on their own without everyone. Spreading the benefits of economic growth isn’t just a nice idea—it is, in fact, a key to continued growth. There are many challenges to be faced and we all will fail if they are not faced. The health care challenge must be dealt with—the rising costs are hurting individuals and industry alike. Investing in a low-carbon economy is an absolutely necessity—and the United States wants to be at its forefront, not lagging behind the rest of the world when we could be gaining a competitive advantage. Education and innovation are key linchpins to success in a modern economy. These are a few of the paths forward we need to take to move ahead our economy for the benefit of America’s workers and all Americans.

Thank you again for the opportunity to present this testimony.


4 http://www.epi.org/content.cfm/webfeatures_econindicators_income_20080826_health.

5 http://jama.ama-assn.org/cgi/content/abstract/296/22/2712


