The country finds itself in the middle of a heated national debate over the government’s priorities. Public programs, particularly Medicare and Medicaid, but also taxes for middle-income and higher-income families are part of this key policy discussion to lower the government’s long-term structural deficits, such that economic growth can take hold and America’s middle class becomes economically more secure.

This unfolding discussion is of vital importance for American families, who are only now beginning to see a modest labor market recovery strengthening. The unemployment rate is dropping, household debt continues to decline, and financial distress shows signs of easing.

These gains, though, are tentative and could quickly evaporate. Job growth is still relatively weak; debt, credit card defaults, and foreclosures remain at comparatively high levels; and oil prices are rapidly rising, putting a damper on household budgets and slowing consumption. And the trade deficit remains stubbornly high, endangering long-term economic and job growth.

The challenge is clear. Policymakers have to secure the gains of the recovery while strengthening the recovery for the American middle class. This means maintaining consumption and investment growth in the short run and addressing trade and budget deficits in the medium term. The current budget negotiations must find a growth-enhancing balance between spending cuts and revenue increases that does not unduly encumber middle-class families who have carried much of the burden of the crisis.
1. **The U.S. economy continues a moderate recovery.** Gross domestic product, or GDP, grew at an annual rate of 3.1 percent in the fourth quarter of 2010, the sixth quarter of positive growth in a row. Consumption grew at an annual rate of 4 percent in the fourth quarter of 2010, the highest rate since the end of 2006. And, year-over-year business investment growth was 10.6 percent in the fourth quarter of 2010, the highest such growth since the middle of 2000.¹ *See Figure 1*

2. **The trade deficit stays high.** The U.S. trade deficit stood at 3.3 percent of GDP in the fourth quarter of 2010, up from its last trough of 2.4 percent of GDP in the second quarter of 2009. U.S. exports are still expanding at solid rates with 9.6 percent in the fourth quarter of 2010, while imports dropped at the same time by 12.4 percent—the first decrease since the second quarter of 2009. More than 90 percent of this import decrease came from lower petroleum imports and is thus unlikely to recur as oil prices have sharply risen since the end of 2010.²

3. **The labor market recovery slowly takes hold in the private sector.** The U.S. economy continuously added private-sector jobs from February 2010 to March 2011 for a total of 1.8 million jobs. This included 230,000 new jobs in March 2011.³

4. **Unemployment stays high because of a massive jobs hole.** There were still 7.2 million fewer jobs in March 2011 than at the start of the recession in December 2007 and the population has also grown since then, putting the labor market deeper into the hole than the raw number suggests. The unemployment rate has hence remained stubbornly high with 8.8 percent in March 2011.⁴

5. **Unemployment stays high among the most vulnerable.** The African-American unemployment rate that month stood at 15.5 percent, the Hispanic unemployment rate at 11.3 percent, and the unemployment rate for whites at 7.9 percent. Youth unemployment stood at a high 24.5 percent. And the unemployment rate for people without a high school diploma stayed high with 13.7 percent, compared to 9.5 percent for those with a high school diploma and 4.4 percent for those with a college degree.⁵
6. **Rapidly rising oil prices threaten a fledgling recovery.** A gallon of regular gasoline cost $3.79 in the second week of April 2011, 32.6 percent higher than a year earlier. This is the highest gasoline price since September 2008.6

7. **Employer-provided health insurance benefits continue to disappear.** The share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 55.8 percent in 2009. This is the lowest share since 1987 when the Census started to track these data.7

8. **Family incomes drop sharply in the recession.** Median inflation-adjusted household income fell 3.6 percent in 2008 and by another 0.7 percent in 2009. It stood at $49,777 in 2009, its lowest level in inflation-adjusted dollars since 1997. White family income stood at $54,461, compared to African-American family income, which was $32,584, or 59.8 percent of white income. Hispanic family income was $38,039 in 2009, or 69.8 percent of white income.8

9. **Poverty continues to rise.** The poverty rate stood at 14.3 percent in 2009—its highest rate since 1994. The African-American poverty rate was 25.8 percent, the Hispanic rate was 25.3 percent, and the white rate was 9.4 percent in 2009. The poverty rate for children under the age of 18 stood at 20.7 percent. More than one-third of African-American children (35.7 percent) lived in poverty in 2009, compared to 11.9 percent of white children and 33.1 percent of Hispanic children.9

10. **Family wealth losses linger.** Total family wealth was down $12.8 trillion (in 2010 dollars) from June 2007—its last peak—to December 2010, despite an increase of $6.6 trillion in 2010 dollars from March 2009—the lowest point during the recession—to December 2010. Home equity is also recovering but homeowners on average still own only 38.5 percent of their homes, with the rest owed to mortgage banks.10 **SEE FIGURE 2**

11. **Debt levels are still high.** Total household debt equaled 116.1 percent of after-tax income in December 2010. This is down from a record high of 130.2 percent in September 2007 but still higher than at any point before 2005.11

![Home equity as share of house values](image-url)
12. **Mortgage troubles stay high.** One in eight mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 8.2 percent in the fourth quarter of 2010 and the share of mortgages that were in foreclosure was 4.6 percent—the highest share on the Mortgage Bankers Association’s records, dating back to 1979.12

13. **Families feel the pressure.** Credit card defaults amounted to a high 7.7 percent of all credit card debt by the fourth quarter of 2010—down 29.4 percent from its peak in the second quarter of 2010 but still 85.5 percent above the rate in fourth quarter of 2007, just before the Great Recession started.13 **SEE FIGURE 3**

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**Endnotes**

1 All GDP data are from: Bureau of Economic Analysis, *National Income and Product Accounts*, (Department of Commerce, 2011). Investment growth is expressed as year-over-year change, rather than the most recent quarterly change by itself, as quarterly investment data can be more volatile than consumption data.

2 Trade deficit as share of GDP are calculated as share of net exports out of nominal GDP, based on: Bureau of Economic Analysis, *National Income and Product Accounts*.


6 Gasoline prices are taken from: Energy Information Administration, *Petroleum Prices* (Department of Energy, 2010). Prices refer to the average for regular gasoline since it offers the longest period for time comparisons.

7 Data for health insurance are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Department of Commerce, 2010). This report is occasionally referred to as the poverty report.


11 Debt calculations are based on: “Federal Reserve Statistical Release Z.1” Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.


13 Data are taken from: “Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks,” available at http://www.federal-reserve.gov/releases/chargeoff/. The charge-off rates reported here are the seasonally adjusted rates for all banks.