The American Middle Class Under Stress

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New America Foundation

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New America Foundation

The American Dream is now to get out of debt.

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Tottering Pillars of America's Middle Class

1. Jobs and Wages
2. The Social Wage: Education, Health Care and Other Essential Goods
3. Wealth and Home Ownership
4. Retirement Security
5. Signs of Middle Class Decline

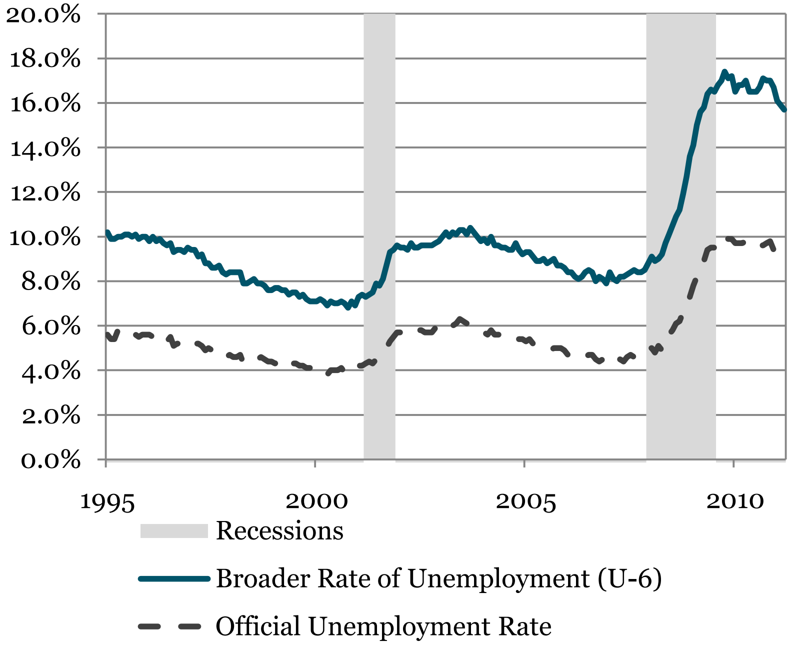
Jobs and Wages: High Unemployment

Jobs that pay middle class wages are essential to a healthy middle class.

Nearly two years after the recession officially ended, the unemployment rate remains high at 8.8%.

The broader rate of unemployment, which includes people who work part-time but want a full-time job and people who have given up looking for work, was 15.7%, nearly double the official rate.

Official and the Broader Rate of Unemployment



Source: Bureau of Labor Statistics, New America Foundation

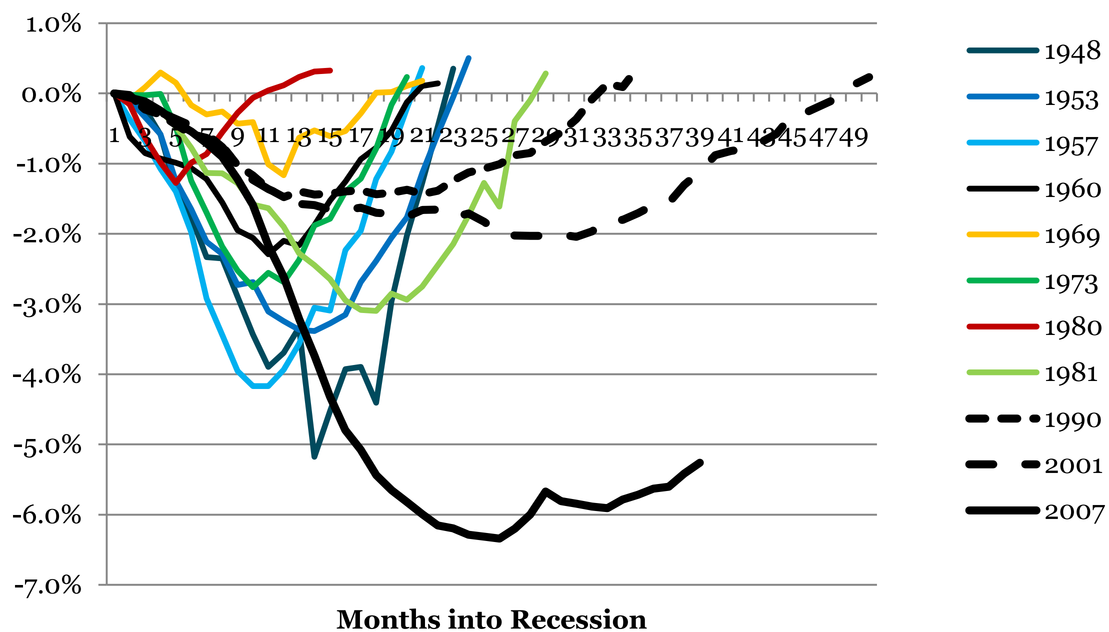
A Jobless Recovery

Employment in recent recessions has rebounded more slowly than in the past.

The jobs recovery from the Great Recession is the weakest yet.

At the current pace of job creation, the economy won't return to full employment until 2018.

Payroll Employment Relative to Peak during Recessions



Source: Bureau of Labor Statistics, New America Foundation

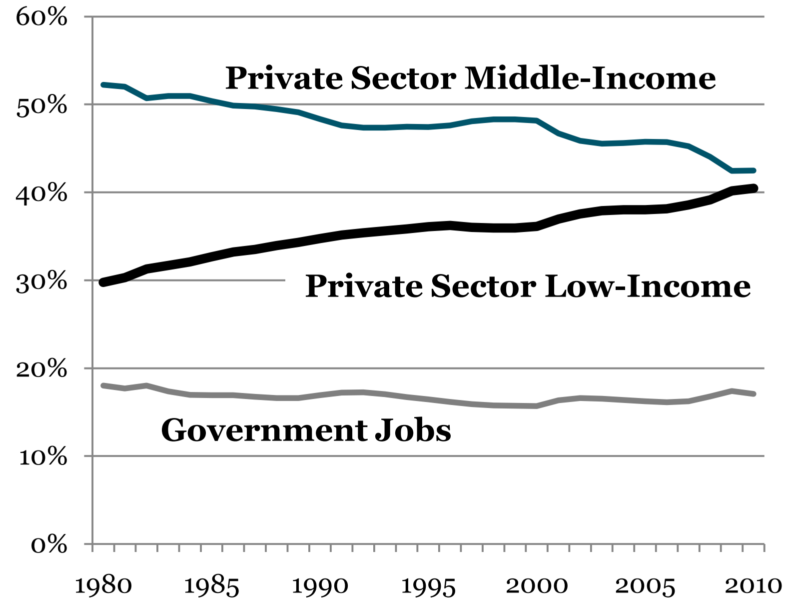
More of the Employed Have Low-Income Jobs

Middle-income jobs are disappearing from the economy.

The share of middle-income jobs in the United States has fallen from 52% in 1980 to 42% in 2010.

Middle-income jobs have been replaced by low-income jobs, which now make up 41% of total employment.

Share of Total Employment



Source: Bureau of Labor Statistics, Westwood Capital

The Under-Employed American

The problem is not lack of skills, but the structure of the job market.

17 million Americans with college degrees are doing jobs that require less than the skill levels associated with a bachelor's degree.

Just under 30% of flight attendants and 16% of telemarketers have bachelor's degrees even though this credential is not necessary for these jobs.

Occupation	Percent with BA/BS	Number
Waiter/Waitress	13.4	317,759
Flight Attendants	29.8	29,645
Laborers	5.07	118,441
Janitors	5.01	107,457
Truck Drivers	5.09	85,205
Bartenders	16	80,542
Food Preparation	7.24	63,737
Telemarketers	15.85	54,713
Postmen/women	13.95	49,452
Parking Lot Attendants	13.74	18,749

Source: Bureau of Labor Statistics

Real Wages are Falling

Real wages have stagnated over the past two decades, and in recent months, have actually fallen.

Over the past year, nominal wages grew only 1.7% while all consumer prices, including food and energy, increased by 2.7%.

The spending power of many American families has therefore declined.

Annual Change in Wages and Prices

Source: Bureau of Labor Statistics

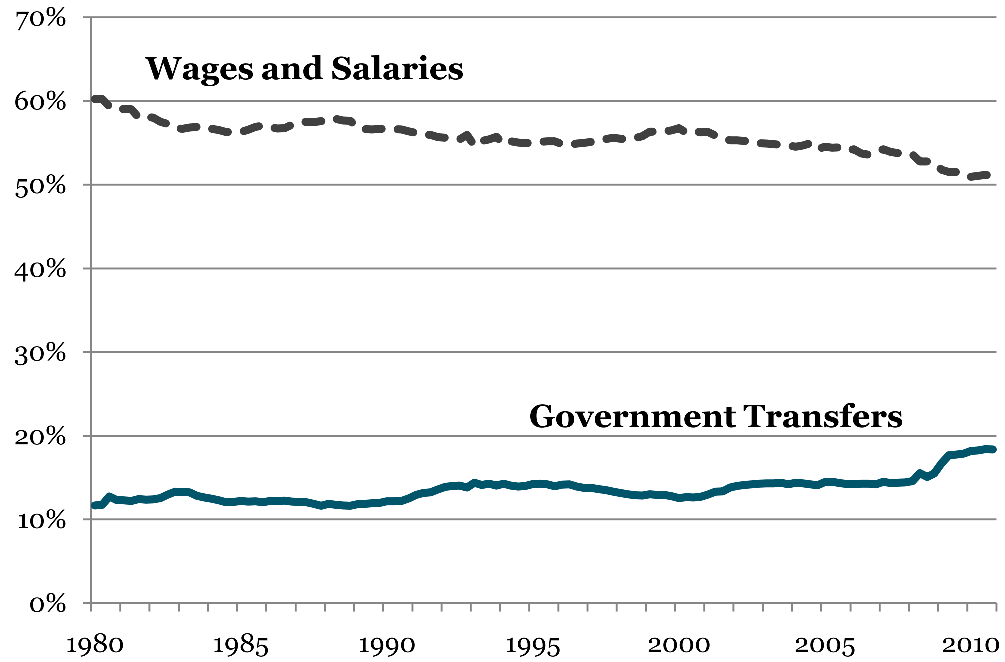
Government Transfers Have Partly Offset the Stagnation of Wages

Wages and salaries have fallen from 60% of personal income in 1980 to 51% in 2010.

Government transfers have risen from 11.7% of personal income in 1980 to 18.4% in 2010, a post-War high.

There are 8.5 million people receiving unemployment insurance and over 40 million receiving food stamps.

Share of Personal Income



Source: Bureau of Economic Analysis, New America Foundation

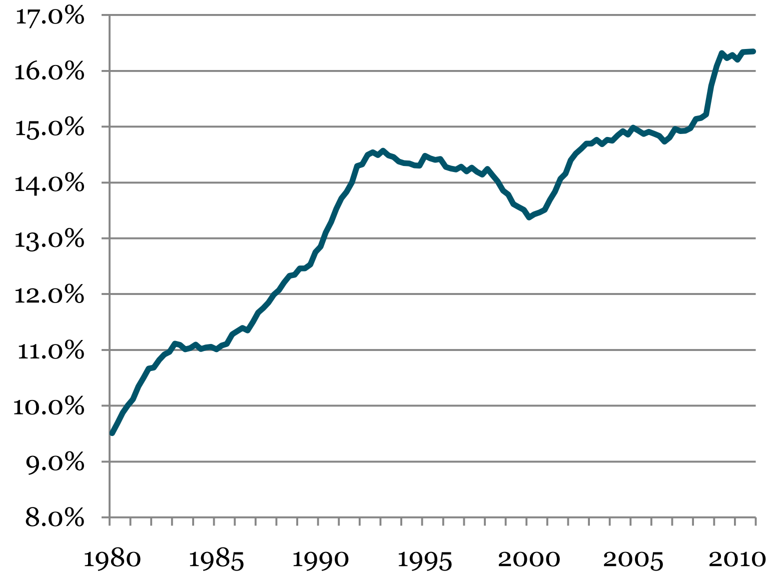
The Erosion of the Social Wage: Rising Health Expenditures

Despite an increase in government transfers, America's social wage has been eroded by the rising cost of health care and education.

Health care spending increased from 9.5% of personal consumption in 1980 to 16.3% in 2010.

Many households cannot afford rising insurance premiums and out-of-pocket health care costs, leaving nearly 50 million Americans without adequate health coverage.

Health Care Spending as a Share of Personal Consumption



Source: Bureau of Economic Analysis

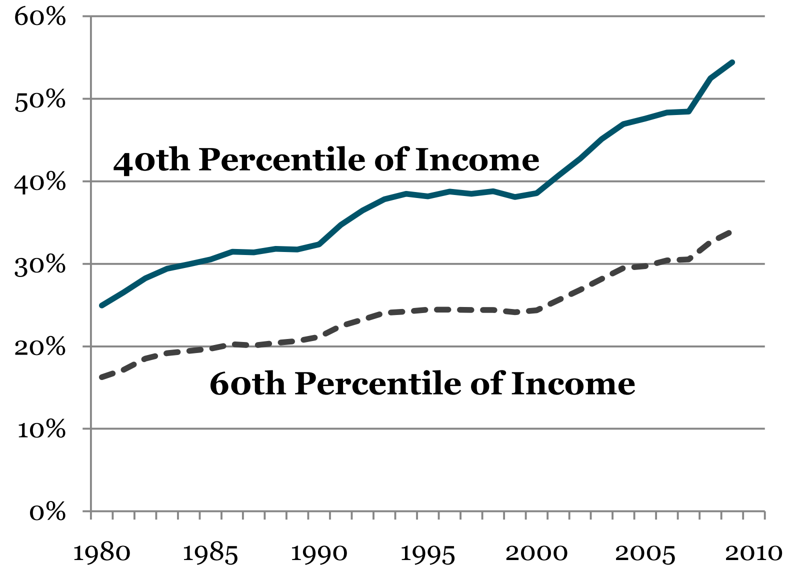
Higher Education is Not Affordable

A college education is considered necessary to get a good job, but for many families college is no longer affordable.

The average cost of one year of college is $21,000. After adjusting for inflation, it has risen 72% since 1990.

For households with incomes at the 40th and 60th percentiles, one year of college tuition makes up 54% and 40% of their annual income, respectively.

Cost of 1 year of College Tuition as a Share of Annual Household Income



Source: US Census Bureau, National Center for Education Statistics

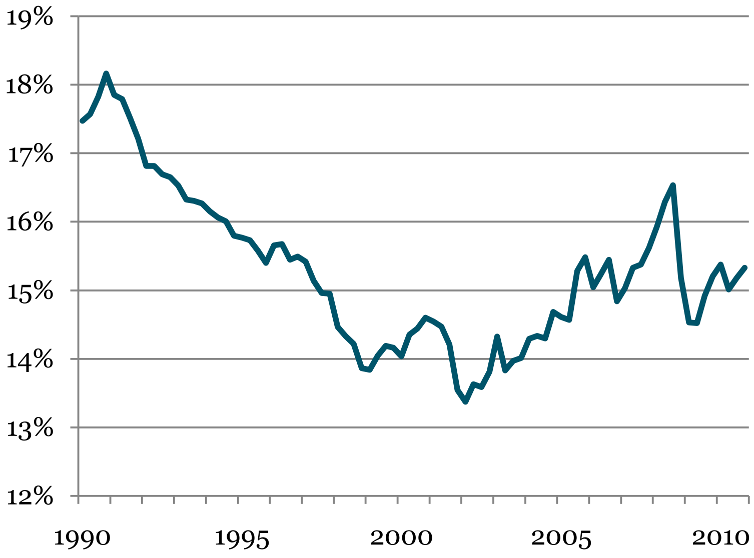
The Emergence of "Screwflation"

"Screwflation," a term coined by Wall Street guru Doug Kass, describes how falling wages and rising costs of basic goods are squeezing the middle class.

The share of personal consumption spent on food and energy has risen from 13.4% in 2002 to 15.3% in 2010.

Elizabeth Warren warned that the rising costs of basic middle class goods and stagnant incomes have put many Americans in an "economic vice."

Food and Energy as a Share of Personal Consumption Expenditures*



* Market-based PCE
Source: Bureau of Economic Analysis

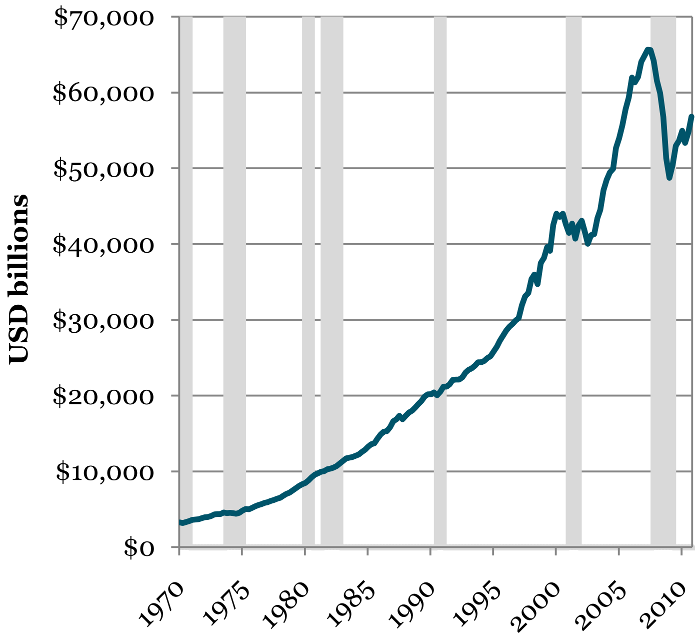
The Great Recession Dealt a Blow to Middle Class Wealth

Household net worth declined from $65.7 trillion in the second quarter of 2007 to $56.8 trillion in the fourth quarter of 2010.

The middle class, which has much more of its net worth tied up in home equity, has borne the brunt of this decline.

Wealth recovered $8.1 trillion since the first quarter of 2009 due mostly to the recovery in stock prices.

Household Net Worth



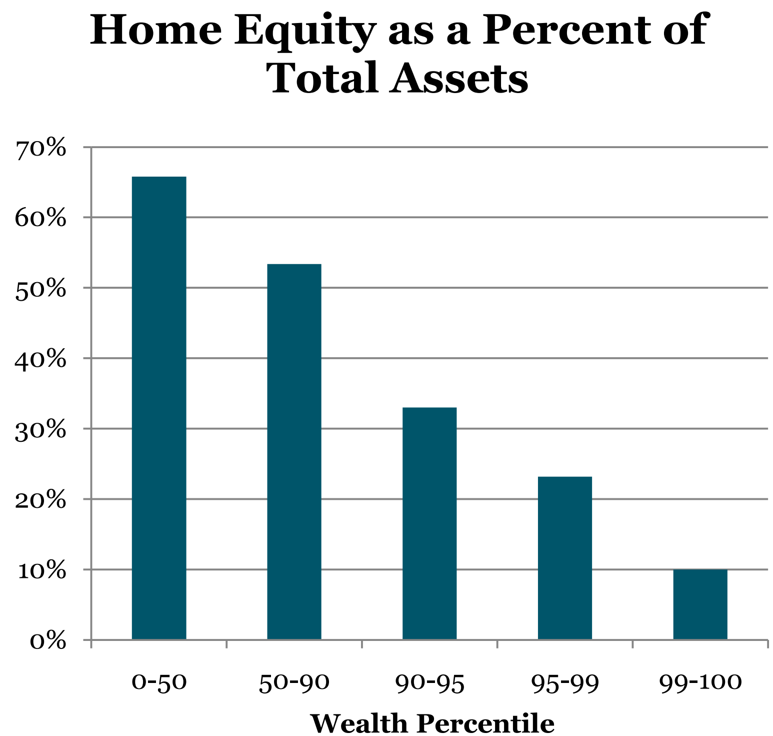
Source: Federal Reserve

Home Equity and Wealth

Home equity makes up a greater share of total wealth for the middle class than it does for wealthy families.

For families up to the 90th percentile of net worth, home values make up over 50% of total wealth.

But with the decline in home values, many homeowners are now underwater, meaning that the value of their home is less than the amount owed on their mortgage.



Source: Kennickell, 2009

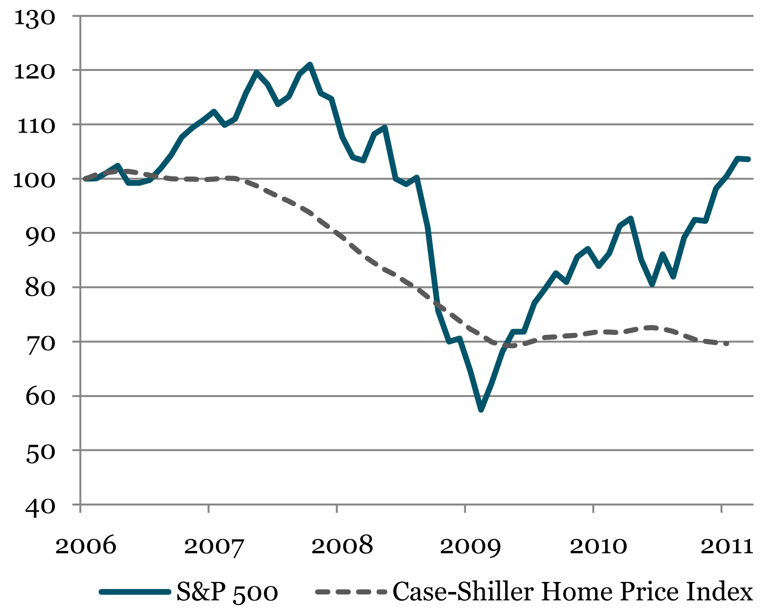
Uneven Recovery: Stocks & Home Prices

Equity markets have recovered much of their losses, but housing prices have not.

While the outlook in the equity market is uncertain, housing prices have resumed their decline and could fall another 10% to 20%, due to the pressure from the shadow inventory.

At the end of 2010, 23.1% of all residential properties with a mortgage were underwater, with total negative equity nationwide of $750 billion.

Equity and Home Prices Diverge

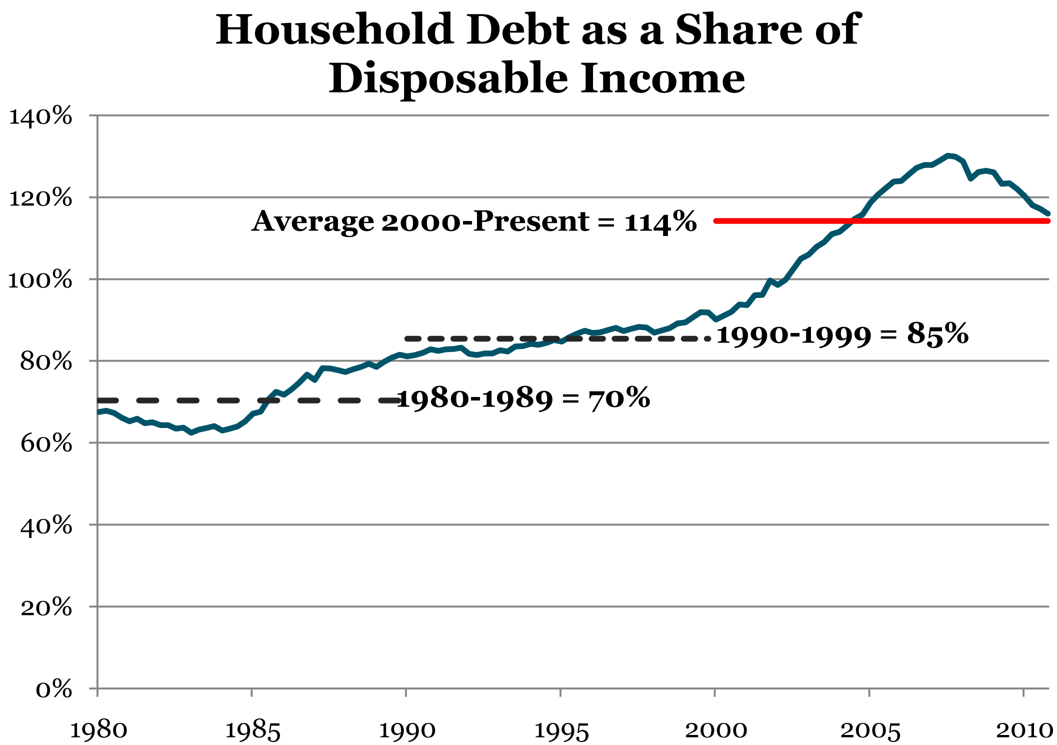


Source: Standard and Poors, New America Foundation

Deleveraging Remains a Painful Reality

Over the past three decades, household debt as a share of disposable income increased from 68% to 116%.

Households have begun to pay down debt, but have a long way to go to get back to the 1990s average of 85% of disposable income.



Source: Federal Reserve, Bureau of Economic Analysis

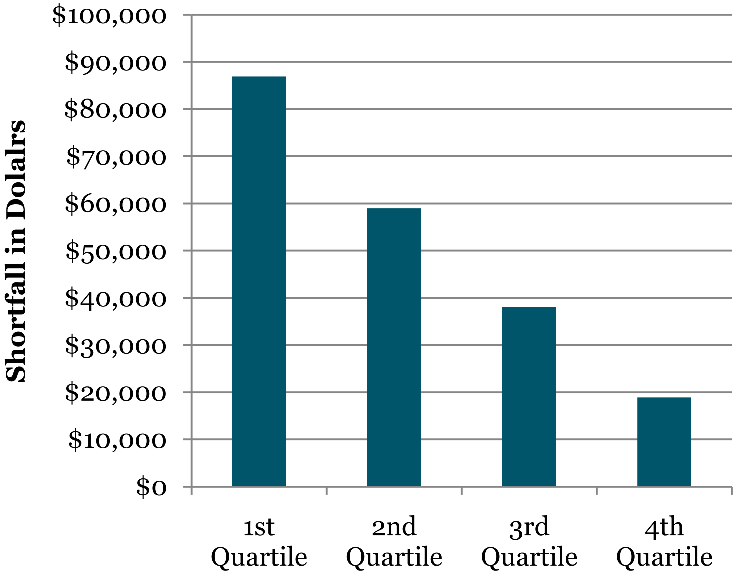
A Less Secure Retirement

Many Americans were relying on rising home values to finance their retirement and have thus under-saved.

The median value of retirement savings for retirees is $45,000.

The average retiree has a retirement savings shortfall of $47,732, with larger shortfalls among low-income Americans.

Retirement Savings Shortfall by Income Quartile



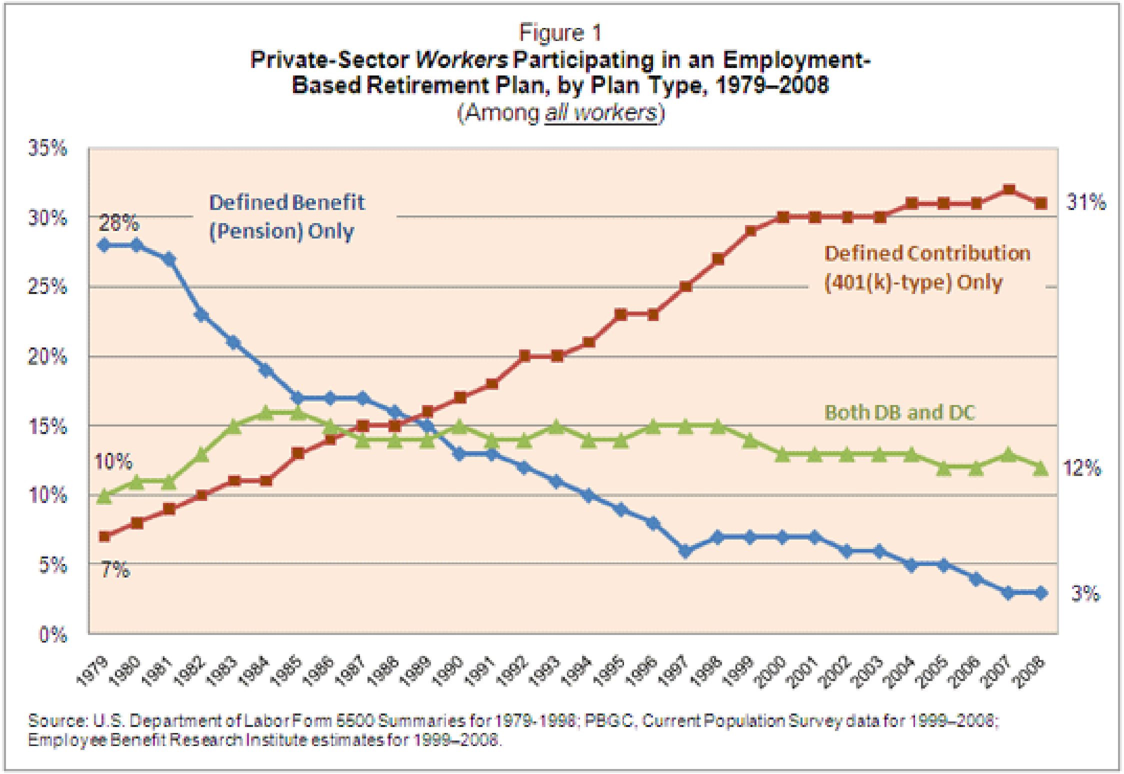
Source: Employee Benefit Research Institute, 2010

Shifting the Risk of Retirement Onto Employees

Over the past three decades, American companies have shrunk their private pension programs.

Defined benefit pensions now make up only 3% of private sector pensions.

Public employee pension programs are also in decline.



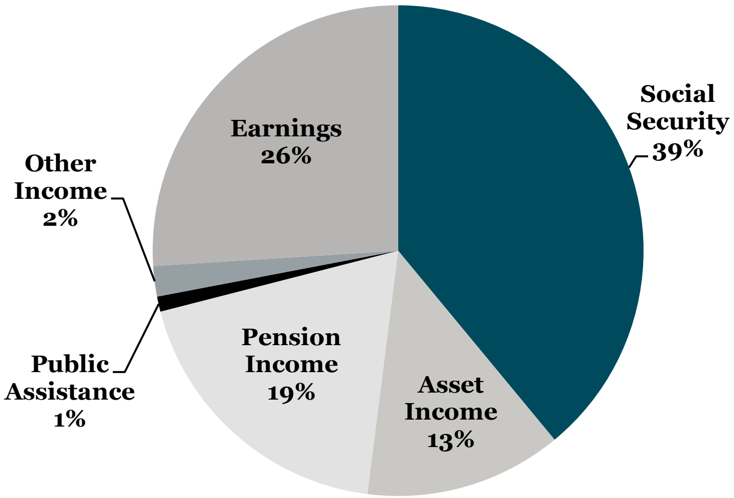
Relying on Social Security

Half of married couples and nearly three quarters of individuals over the age of 65 depend on Social Security for the majority of their income.

But, Social Security is far less generous than most seniors need for a secure retirement.

When Social Security is needed most, Social Security is under attack.

Income Sources for Persons Aged 65 or Older as a Share of Aggregate Income



Source: Congressional Research Service

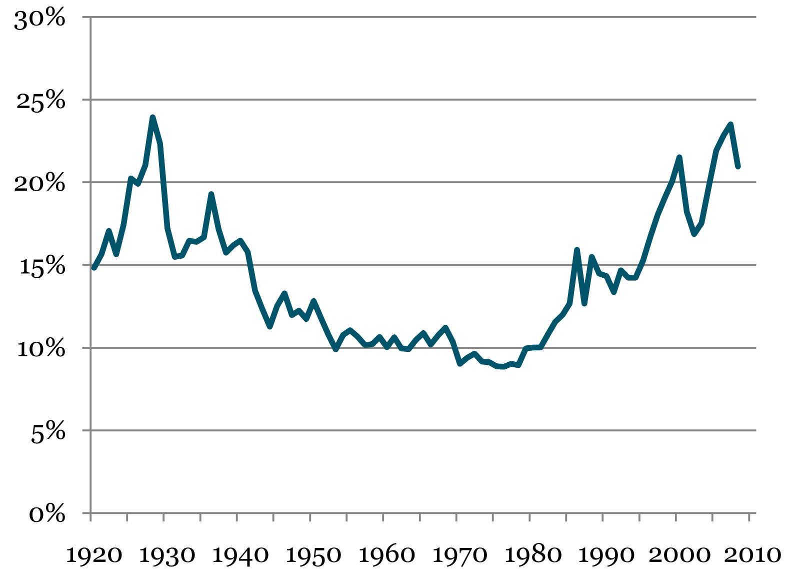
Signs of Middle Class Decline: More at the Top, Less for the Middle

The top 1% of income earners in the United States account for 21% of aggregate income.

The wealthiest 1 percent own about 35% of the nation's wealth.

The top 20% of income earners account for nearly 40% of total consumption.

Income Share of the Top 1% of Earners*



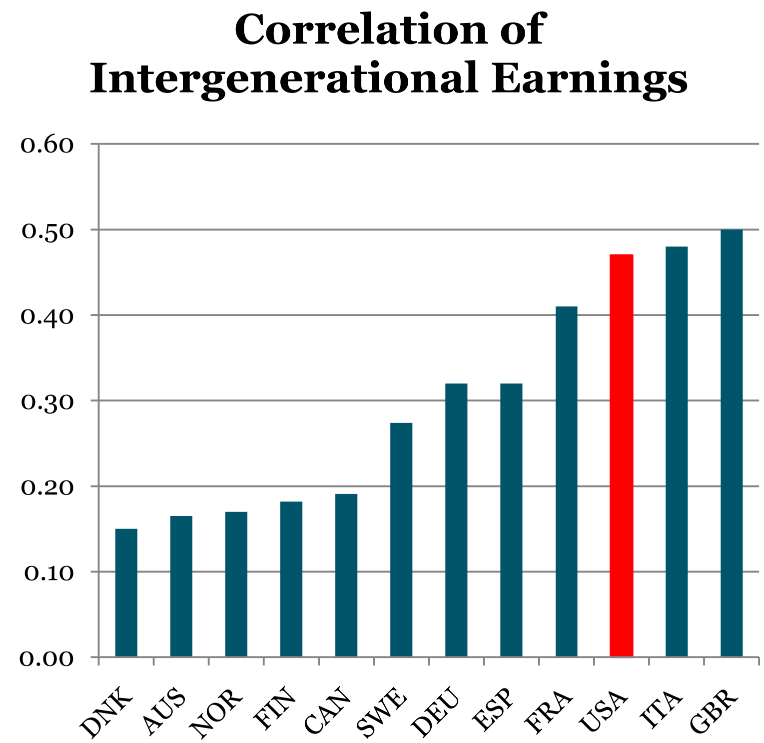
* Including capital gains
Source: Top Incomes Database, UC Berkeley

Signs of Middle Class Decline: Low Social Mobility

Parental incomes in the United States are more correlated with children's incomes than in most other OECD economies.

Educational achievement of children in the United States is more closely linked to parental background than in any other OECD country.

Intergenerational mobility is worse in countries with unequal wealth distribution, like the United States.



Source: OECD