

# Center for American Progress



## **SPECIAL PRESENTATION:**

### **“IS THE RISING TIDE LIFTING ALL BOATS?”**

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SENIOR ECONOMIST,  
CENTER FOR AMERICAN PROGRESS**

#### **FEATURING:**

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THE NEW SCHOOL**

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MR. CHRISTIAN WELLER: Good afternoon. Thank you very much for coming. My name is Christian Weller. I'm a senior economist with the Center for American Progress here. Today we have a distinguished group of experts to discuss the fate of the middle class in the last five years.

If you look at the economic data, there are some conflicting news out there. Median income, for instance, hasn't risen in five years, but average wealth, for instance, has risen quite substantially in the last three years. Fewer people have healthcare from their employers since 1993, but many consumption items, including cars, VCRs, air conditioners, and others have become cheaper, including clothing and others. We're here today to get a better understanding of how the middle class is faring, whether there are needs to intervene through policy measures and what those policy measures could be if we identify problems.

With that, I would like to introduce our panel of speakers in the order that they will speak in. First, we have Heather Boushey. She's a research economist with the Center for Economic and Policy Research here in Washington, D.C. Heather's work focuses on labor and market issues, including the balance of work and family. Prior to coming to CEPR, Heather was a research economist at the Economic Policy Institute here in Washington. Heather holds a Ph.D. from The New School in New York.

Next, we have Jeff Madrick. He is the editor of *Challenge Magazine*, visiting professor of humanities at Cooper Union and director of policy research at the Schwartz Center for Economic Policy Analysis at The New School in New York. Jeff has a distinguished career as a writer with several books to his name, which have won accolades in the press. He frequently writes for major newspapers and regularly appears on television and on the radio.

Our next speaker is Richard Alm. Richard is an economics writer at the Federal Reserve Bank of Dallas. He's a co-author with Michael Cox of *Myths of Rich and Poor*. Prior to coming to the Dallas Fed, Richard was an economics writer with *The Dallas Morning News*. Richard's work has frequently been published in major newspapers, including *The New York Times*, among others.

Our final panelist is Diana Furchtgott-Roth. She's the senior fellow at the Hudson Institute here in Washington, D.C., and directs the Center for Employment Policy there. Before joining the Hudson Institute, Diana was the chief economist for Department of Labor from 2003 to 2005. Diana has a long career in public service with an emphasis in economic policy. Her work is often published in major newspapers, and she regularly appears on television and on the radio.

Without further ado, I'd like to hand it over to Heather. Thank you very much.

MS. HEATHER BOUSHEY: Thank you, Christian, and thank you for inviting me to speak here today. It's quite a pleasure. So in thinking about how well the middle class is faring – do I need to – can't hear me in the back? In thinking about how well the middle class is faring, what I'm going to walk you through a little bit is some of the numbers – some of the data on how well families are doing. And I'll look at it in three different ways: how well a family is faring relative to other kinds of families, specifically families at the top of the income distribution; how well families are faring in absolute terms; and how well families are faring relative to consumption patterns.

So the first chart that I want to show you is to look at the change in income share by economic class; that is, how much of the total family income are different economic classes receiving. And for those of you who may not be able to see in the back, there are handouts of all of my slides at the front. You can pick them up after the talk. What we see here is that clearly the top fifth of families have seen a rising share – have been taking a rising share of income for the past 30, 35 years up from a little under 44 percent in the late 1960s up to over half of income in 2004.

When we switch and we look at the middle 60 percent of households, we see that the share of total family income – or total household income that they are taking has been falling over that time, so in relative terms what we see is that the middle group of families – to fine-tune this chart, it's the middle 60 percent – has been faring worse relative to the high end over the past few decades.

And one question you may have is, like, well, okay. Well, that may not be not so bad. If incomes are rising across all kinds of families – if everybody's income is going up, the top is getting a little bit more, maybe that's not so bad. Well, that's not really what we've been seeing. When we look at the growth in inflation-adjusted family income, what we see are some quite shocking trends. Looking between the two periods between 1947 and '79, the immediate post-World War II period, looking across family income quintiles, what we see is what we like to call sort of the picket fence of income growth. You sort of imagine what you imagine the 1950s household to look like with a little nice white picket fence, and everybody is sort of – everybody kind of moving along at the same pace. That's what the income growth looked like. Household income across the income distribution was all growing at about 2.4, 2.5 percent. Everybody was growing at the same rate, so the rich were getting richer but the poor were getting richer as well, as was the middle class.

When we switch to the period between '79 and 2004, what we see is a very different picture. What we see is a staircase where families at the low end of the income distribution are not seeing their incomes rise nearly as fast as those at the top. So what that means is that it's not just that families at the top are taking a bigger piece of the pie, but that their income is growing much, much faster. So the families in the middle are not seeing the kind of income growth that they used to, nor are they seeing the kind of income growth relative to families at the top. And I think that first point is very important: families are seeing much slower income growth than they did in the

immediate post-war period. I'm going to come back to that point near the end of my comments.

So to just show you this in a different way, this chart looks at median family income over time. That's the blue line. And the red line is what median family income would be if growth had made – stayed at the same level as it had been in the immediate postwar period. And you can see from the figure that we are far behind where we would be if we were seeing the same kind of economic growth. There's a large gap between where one could argue we should be and where we are for families in the middle.

Now, turning to the issue of consumption, we all know that we all have more tools and gadgets than maybe we did last year or the year before and different kinds of things than our parents had. And so on the one hand we may have – we may think that we have more stuff. We have iPods, we have cell phones and all that. But when we – once we dig a little bit deeper and look into the kinds of goods and services that American households have, we see that families are at greater risk and that there's an increased ratio of what we could call fixed costs to discretionary costs. And by – now, let's just take a look at the next chart.

So the first thing that I'm going to show you are discretionary income; that is, money for iPods and all the other kind of stuff that we purchase as consumer goods. For a single family – single-earner family in the 1970s compared to a dual-income family in the early 2000s. And what we can see is that looking at consumption data, families spend about the same amount on these kinds of consumer goods in the previous period as they do in the current period: a little bit over \$17,000 a year.

When we switch to looking at the fixed costs, though, the cost for the mortgages, the child care, the health insurance, cars, and taxes, the kinds of things that you can't simply stop paying for very easily if you were to, for example, lose your job or to get sick or something, that they're the kinds of things that families need to have consistent spending on, what we see is a significant gap between today's families and families a generation ago. So whereas families a generation ago were spending about \$21,000 on fixed costs, which was a little bit over half of their family income, today families are spending about \$51,000 a year on these kinds of costs, which is much more – over two-thirds – of their total family income. So it's seen as a change in the basket of goods and services that families need.

Now, as families – just a little bit of a side bar here, as family income is stagnated, especially at the middle, we've seen less and less growth. One thing that families have done is taken on more and more debt, and this is really the big story for middle-class families. What we're seeing now is that debt levels are at record highs, as are debt service levels. So right now, American households have debt that is 121 percent of disposable income, so families are far more in debt. Even if they worked full time, full year for that entire year and spent nothing, they couldn't pay off all their debt. And that's much different than our parents' generation in terms of debt levels.

At the same time, families are drawing down their home equity lines at record levels as well. People are taking out more and more from their homes and using that money for consumption. Now, it's not necessarily a bad thing to be taking on debt. And, in fact, one of the great innovations of the past few decades have been that credit is more available to lower-income households and the kinds of families that didn't have access to credit 20, 30, 40 years ago. So that's a good thing.

But what we're really seeing is not just this expansion of credit, but that families are using credit to maintain their consumption levels. Because income hasn't been rising, they've been taking on debt in order to maintain their spending. And the reality is that at some point these families are going to have to pay off that debt. And in order to pay off that debt and not have it reduce consumption here in the United States, we're going to have to see significant increases in income, employment, and wages because otherwise we're going to see a much lower consumption level in the future as families have to pay off that debt level. So families are being squeezed.

Now, even as we've seen income growth stall, and the two charts that I showed you before this that showed that the slowing of median family income growth and the relatively slow income growth for families in the middle and the bottom end of the income distribution, what we've also seen is that families are putting in more and more time into the labor market. So we've been working more, but we've been bringing home less bacon as it were. So what this chart shows is annual hours of work in married couples' families in 1979 and 2000. And what we saw was in 1979 you typically had a husband working about full time and a wife working far less than full time. Today, and this is for families in the middle – I'm sorry. The chart is not completely labeled. It's for families in the middle of the income distribution – the middle 20 percent. Now what we're seeing is that on average these families are putting in one and three-quarters full-time jobs.

Now, there's a lot of things we can talk about of the movement of women into the labor market. There's many wonderful things about it, but if families are putting in this many hours and their income isn't rising relative to their parents' generation, to me that signals an important squeeze on the middle class. You've got more hours of work, but you're not bringing home – you're not seeing the kinds of income gains that one would expect a priori if I would have shown you this chart first.

If I'd have shown you Figure 5 first, you would have thought that income growth would be much higher in the second period when wives were moving into the labor market than it was in the first period when most wives were not in the labor market putting in as many hours. So while families are working more – and, one must note, with this increased hours of work, of course, comes increased costs. Families now have to pay for child care, which is exorbitantly expensive, especially for families at the low end, for the bottom 40 percent of families who pay for child care, they pay about one-fifth of their total family income on that care, but families also have to pay for other costs. If you have two earners in most communities you need two cars, you need clothes for work, you need to – you probably eat more meals out because there's no one at home to cook them, so

there's higher costs. So even as income isn't growing as fast, families are facing increased costs because of the longer hours of work. And I think therein lies the middle class crisis.

Christian's cutting me off, so I'm not going to – you're going to be blessed and not have to see this last chart, but we can come back to it later. I just want to hit on some concluding points. First of all, the middle part of the income distribution is relatively worse off today than they were a generation ago. They haven't seen the same kind of income growth as families at the top have seen. In absolute terms, it is true that income growth is a little bit higher today than it was 30 years ago but, as Christian pointed out, since 1999 median family income has fallen by half a percentage point, so we haven't seen income growth over the preceding few years.

Families have less time at home. They're putting in more work, but they're not seeing strong income gains. What they're doing is they're taking on more and more debt, and if the economy keeps sort of moving a little bit better as it has, and we see increases in interest rates in the future, it's going to be more and more difficult for families to maintain these incredibly high debt levels.

And just to conclude – well, you know what? I'll stop there, because I'm getting that, but thank you very much.

MR. WELLER: Before I turn this over to – yeah –

MS. BOUSHEY: Yeah, before he cuts off my mike.

MR. WELLER: I'm sorry. I want to give the audience – I want to also say that the PowerPoint presentation from the three panelists who have PowerPoints are on our web sites at [www.americanprogress.org](http://www.americanprogress.org).

With that, I'll hand it over to Jeff Madrick.

MR. JEFF MADRICK: Well, Christian, thank you. Can you – is the mike on?

MR. WELLER: Yes.

MR. MADRICK: You can all hear back there? Thanks. It's a pleasure to be here. This is a subject dear to my heart, and I'm going to make five or six points which leaves me only a couple of minutes to make each point. I'm also going to make a decidedly low-tech presentation. I have a couple of pieces of paper here. My notes are in my loose-leaf notebook.

The discussion about living standards in America I find decidedly ahistorical; that is to say, there's a serious historical myopia about how we deal with these issues. We continually underestimate how rapidly we improved in the past. We continually underestimate how many new products and services there were in the past. We don't

have a serious understanding of what actually happened, I think, in the Industrial Revolution beginning in the last 1700s and early 1800s.

I don't think many people realize that for the most part during American history going back – to the extent you can measure it – to the colonial period, Americans had the highest wages in the world or just about the highest wage in the world. That hasn't been true for the last 25 years or 30 years, and we have a mindset that suggests, hey, that's good. We compete on the basis of lower wages. And yet when we did best in the U.S., we did best when we had high wages.

When you look at the data, and I'm always – maybe alarmed is not the right word, but – dismayed? Well, maybe that's an overstatement. Confused by the need to explain away data like falling average wages. Wages now by most measures of about 80 percent of nonprofessional, nonmanagement are still well below their 1973 levels discounted for the CPI. The need to explain that away always surprises me a little bit. We probably never in our entire history had a period when wages actually fell over a 30-year period – 30 years.

The other issue that disturbs me a little bit is we keep comparing this period to the rapid gains of the post-World War II period as if the post-World War II period, the '50s and '60s, was an extraordinary exception in American history. It was not an extraordinary exception. Wages, family incomes rose somewhat faster than they did in other periods. They rose over in consecutive decades, but we had very rapid growth, especially in the late 1890s and early 1900s. The economists tell us, in fact, that GDP grew between 1870 and 1910 – on average, mind you, because there was cycles, on average by 4 percent in that period and wages rose rapidly.

The three great progressive periods in politics – the late 1990s, early 1900s, the 1930s and the 1950s, 1960s – were characterized by different economic circumstances, but the first and third were characterized not by adversity, but by prosperity. Prosperity, by and large, led to progressive periods. So this post-World War – let's not compare anything to the post-World War II period because that was the great exception. It's a misunderstanding and misreading of American history.

Now, another idea which I consider a myth because it's ahistorical is that even though we have fairly stagnant wages or we have some growth in any case, but at least we have some growth. We're not stagnating or declining, say, in family incomes, but we don't account for new goods and new services properly. We don't have – we have DVDs and, as Heather mentioned, we have iPods. We don't have to go to the movies anymore. We have all kinds of new products, so – I can't think of them at the moment, but you probably can.

This is hardly new in American history. In fact, I think if one could measure this, the rate of production of new high-quality products, I think probably the 1990s or, say, the mid-'80s to the 1990s to the present would not compare adequately to the 1920s, and some periods even earlier. Consider what happened in the 1920s. In 1918 or '19 – I go

roughly by memory – one out of four American families owned an automobile. By 1929, three out of five families owned an automobile. Think if anything that momentous happened in the last 10 or 15 years. That was only 9, 10, 11 years of history. In that same period, washing machines, record players, the electrification of households and so forth, but we don't have to go back to the 1920s, which may well have been the most rapid period of consumer change in our history. The 1950s and '60s were extraordinary. The television was an extraordinary invention for the revolution of communications, but ask people today – I remember asking the editor of a major publication, a sort of avatar of the new economy, a publication I once worked for – I won't use its name, but I hope you look it up – said, "What about the TV?" I said to him the 1950s and '60s as he was waxing on about the (internet?). And he goes, "How can you compare the TV to the internet?"

Well, very easily, frankly. The TV may have had a greater – the internet is quite extraordinary, but the TV may have had a greater impact. The telephone may have had a greater impact. Even the telegraph – 1854, remember your history – may have had a greater impact. The sewing machine in the 1850s had an extraordinary impact on America. We don't adjust our economic data for those changes, the way the Boskin Commission overadjusted economic data in the last 10 or 20 years. In fact, if the Boskin Commission, which I think – I will be happy to go on record – which I think did really shoddy work, not that the CPI didn't have to be adjusted, but none of those people would ever have gotten a Ph.D. based on the work they did for that commission. (Laughter.) Some adjustment was necessary. They totally ignored declines in the quality of products, for example, of which we can name many. But in any case if we adjust – made the same kinds of adjustments in the past, we would see how rapidly the economic actually grew in the past. We ignore that kind of thing.

A couple of other points. People tell us, hey, at least incomes are going up some. They create this straw man. Liberals and progressives say incomes are not going up at all, and then you look at family and they went up less than 1 percent a year, I might add in the last 20 or 25 percent median family incomes. All the gains went to the top. And even those gains weren't as rapid as they were in the '50s and '60s, but at least they're going up some.

Well, what happens when the pie expands more slowly? What happens when the pie expands more slowly is lots of people get left out, left behind. Do we know how many people get left behind? Probably more people than got left behind in the past. I myself did some synthetic cohorts. I published a summary of them in a book I wrote a few years ago, which means that the data is getting to be five years old, which means sadly I'm getting to be five years older, but what they by and large show is that a very high proportion of males, usually white – and white males in particular made no progress; not this average wage issue. Remember, the average wage talks about the average wage of the whole economy, so you're more or less comparing what a 30-year-old with a certain amount of experience made in 1973 to what a 30-year-old with that kind of experience makes today. Those wages are down for that category that's measured.

But here with synthetic cohorts, you measure what's actually happened to somebody who was 30 in, say, 1978 or 1988, what happened as he got older. A very high proportion of those people are not making any more money and are making less money discounted by the CPI. Christian is giving me the sign.

Just a couple other quick points. The CPI, when we look at those real incomes, sure they're growing and people will – Heather to some extent alluded to this issue, I think; other people have written about this quite well. But CPI, this rising income, doesn't take into account the rise – how rapidly the rising costs of healthcare, education, public transit, drugs, and so forth are rising. They're rising significantly faster than median family incomes.

Now, why doesn't CPI take that into account? Because it's a measure of the package of goods and services we actually buy, not what we want to buy. If we measure median family income rises against these critical goods and services – critical to the definition of what it means to be middle class – we'll begin to see how difficult times were – are for most people and how insecure they've gotten.

I'm running out of time, but let me just say this rather quickly. The thing that distresses me most about this argument is that we've ignored the – we've underplayed and underemphasized, even ignored, and certainly neglected economic frustration in America. And by neglecting economic frustration, we've fallen for this idea that the political dialogue today or the political disunity and political confrontation today is about values – it's a cultural war.

My argument is, if we really understood the level of economic frustration, we'd begin to understand that the source of this cultural war, this source of aggravation and the need to find scapegoats is economic frustration, and that's what's driving, if you must call it a culture war, a war over values. That's what's driving it. I think we'll have some time to discuss these issues further.

Thank you.

MR. WELLER: Thank you very much, Jeff.

And with that, I'm handing it over to Richard.

MR. RICHARD ALM: Good morning. Good afternoon, rather. I want to start out by paying homage to Mike Cox, who – chief economist of the Fed who I've been working with for 15 years, and a lot of what I'm about to show you comes from his fertile mind, and I never want to forget that and he never wants me to forget that.

Anyway, the – where is the middle class? I thought one way to look at this is to look at some of the things we would want as markers of the middle class, and these seem to be as good a list as any that I came up with, so I want to go down this list and just see what we're looking at today. And I think we – Mike and I like to take a long-term view

in the sense that we – you know, short-term things – things get muddied around. A lot of time, what you'll see is the short term – and the presentation is that the short-term wiggles that we spend so much time worrying about are really in long-term perspective almost insignificant.

Let's start talking about education. First of all, first thing is we have more of it than ever before. The middle class and everybody else is getting more education and education still has a good record for increasing per capita – increasing income both shown that way and here's on an individual basis. If you look at the last column, you'll see that – and do some quick math in your head, you'll see that a college degree over a high school degree is a matter of \$2.4 million over a lifetime.

Now, there's one thing that – one caveat you have to add about this is that this – the United States educational achievement based on expenditure is not up to the world average. Did a good job. First off, I'd like to – as you know, there's probably – employment is very high. It keeps growing. The blip on the right there was the recession we just got out of. The recession of the early '90s, and you'll see the unemployment rate is low, so we're not having a lot of distress in that sense.

Long term, wages are on a – this is real wages over the long term, and they're very high compared to the past. There's less over – there's been a trend towards fewer and fewer economic downturns. You'll see that this used – that economic strife used to come along quite frequently in the early parts of our – of the industrial age, but in recent years it's been long periods of prosperity.

And we have, of course, had a tremendous reallocation of labor from agriculture and industry over our history to services and service jobs are, in general – we find that they now pay more than the goods-producing jobs. We find that jobs of the past had a working – working conditions weren't as good as they are today when you live in a – see how she's smiling? Yes. We don't send any subliminal messages, do we? And there's telecommuting and all sorts of other – you can look at this on your – at your leisure. And some of the trends on the workplace is going on. There's been late – work has become more rigid and these are some of the things that we're seeing in general in the labor force.

Now, one of the things you have to understand is that there are – Mike Cox and I are very cognizant of the fact that there are all sorts of ups and downs and we're not – I don't like – I don't particularly like the title of this being with the boats and everything, but I'm looking for the right metaphor because we like to think there is a lot of churning and going on under the water as the tide rises and goes. And this sort of suggests that in the sense that we have lots of job losses and job changes are a fact of life. And it goes on regularly, but what you should note from here in the corners of this table is you've seen a lot of jobs destroyed, but you've seen a net – a gain of 44,000 – 44 million jobs over the 25 years, and unemployment is low, and note that productivity is growing.

Now, you can own a home. Now, homeownership rate is at a record level or close to it. You see it's tailed off a little bit as prices have risen in recent years. The

affordability index, however, is not necessarily too far out of line. If you want to pick your point of comparison of the early '80s, things look a lot better. If you want to pick your comparison of 1970 so – it just shows at least interest rates are very important to the calculation.

But one thing that's interesting is that you – the houses you buy today are a lot better, a lot bigger, and have a lot more features as you go through time, so the prices are not necessarily a good indicator of what you're buying. As you see here, some of the – so when you say that people are having – spending more money on their homes, well, they're also getting more home for that money.

Now, living the good life – and I just like – I always think it's like having a lot of stuff and I like having stuff. The only reason why I have a home is to have stuff – a place to put your stuff. Well, all this goes back to 1900 and two things are happening is that where the percent of households that have – and we start out with four products, and we just move through time here, and we're seeing a steady climb of – there's two things happening. First, we're getting more products added to the mix and you can pick your place where it hits the middle class when it's 30 or 40 percent or whatever you define middle class as being, but you'll see that all through the history we're adding more goods and services to this mix and they're – and more households are getting them.

And so we're – one of my favorite jokes or Schumpeter quotes: “Queen Elizabeth owns silk stockings. The capitalist achievement does not typically consist of providing more silk stockings for queens, but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort,” and that's what we believe our economy does.

We did an exercise in which we measured the cost of living, not in terms of money but in terms of time. We call it time well spent, and we find that food is getting cheaper. It was a basket of food and this in terms of hours of work, the – that's what the axis is on the right. And so the number of hours to afford basic food commodities in 1955, it took us 1,600 hours to get a car. That was 1,200 – excuse me, a gallon of gasoline. All these things choke me up. (Laughter.) Airplane. I'm going to go through a whole bunch of these or at least a few of these, and you'll see the general pattern is used to be these – at one time these were – these things we take for granted today like a flight were once exclusively for the rich, and now they are – now they are applicable to the – and I'm going to go through these very quickly, since I – he's giving me this thing here. You can look at these on the website. The set pattern is all the same and I want to get to one more thing about the debt.

Saving for a rainy day. Let's talk about that for a minute. That's the last thing is one of the things you're seeing is that over the last quarter – 30 years you've seen an almost doubling of the average financial wealth of households. This is in real dollars. And you're seeing that real estate has gone up, as you might imagine, with the housing prices, particularly in the last five years. But when you add in the net of mortgage,

you're also seeing real estate wealth hanging in there, so our mortgage burden is not necessarily becoming overwhelming in this particular way of looking at things.

And I rushed through that so I can stop now. Thanks.

MR. WELLER: Thank you very much, Richard.

MS. DIANA FURCHTGOTT-ROTH: Ladies and gentlemen, can you all hear me? Thank you very much for listening. I realize that I'm the fourth speaker. I'll try not to duplicate anything that you've heard already and I'll try not to put you all to sleep.

What I'd like to say today – I'd like to make about four major points. First of all, all groups are doing better today than they did 20 years ago. The returns to education, as Richard has showed, are rising and that's one reason for the greater dispersion of income. Increasing inequality is not a phenomenon we need to be concerned with per se. It is a natural outgrowth of increased economic growth. And as long as people are moving up through the different income classes, it's not something that we need to worry about.

However, we do need to be concerned when one group, such as the less skilled, seems to be falling behind and that is what I'm going to argue is happening today. Policy recommendations: first of all, we need more economic growth. Economic growth is what gives us the money to fund education programs. In order to get more economic growth, we need to make the tax cuts permanent, keep taxes efficient, and keep government programs efficient also.

This chart shows that over the past 25 years families have moved to more upper-income brackets. There are more Americans in upper-income brackets than there were before. This table shows income adjusted for inflation, so we see that in 1979 there were – approximately 9 percent of families were making \$100,000 and over. Now it's about 20 percent. There are 11 percent of families making \$75,000 to \$100,000. Now it's 13 percent of families. So in all, those making \$75,000 and over now we have about 33, a third of Americans are making over \$75,000 whereas in 1979 it was about 20 percent. And under \$25,000 now there are about 20 percent of families whereas it was 22 percent of families.

As well as families earning more money, families are spending more. Measures of self-reported income are not always reliable because they're collected through survey data, and when someone calls you at your home and says, how much do you earn, you're not always going to give the right answer. You might think someone is going to try and see if you're cheating on your tax returns. So one interesting thing is to look at how – what do people spend. And you see in terms of again real change in expenditures (to '04?) compared to 1984. Average expenditures for the lowest 20 percent have gone up by 11 percent. The second 20 percent have gone up by 15 percent. The lowest 20 percent are spending about 20 percent more on housing. They're spending about 17 percent more on entertainment. The only category they're spending less on is transportation. Apparel and services is the only category that people are generally

spending less on than in 1984. One reason for this is the reduction in trade barriers, which is allowing more inexpensive clothes to come into the country.

Richard has talked a lot about educational attainment and it's a link to employment and employment prospects. Briefly I just want to say that with a bachelor's degree, the returns to education are increasing. The mean real earnings of workers who have a bachelor's degree have increased from 1978 to the current time. And you can see that the mean average earnings to those with a high school degree and not a high school degree have stayed about the same.

Again, the mean earnings of college graduates relative to the earnings of noncollege graduates, both relative to high school graduates and non-high school graduates have increased over the past since 1978. There are more Americans who are completing college, both men and women. Women have increased more than men.

In terms of occupations, we find that there are more high-skilled occupations. The occupational composition of the workforce is moving from blue collar to professional, so there are more workers moving into professional occupations, fewer in blue collar occupations. This is true for both men and women and we can see a more dramatic change for women. Women are moving increasingly into the managerial and professional specialty occupations.

If we look at unemployment rates by educational achievement, this is a very interesting chart. It shows if you have less than a high school diploma, you have about a 7.6 percent unemployment rate. Everybody knows the unemployment rate is about 4.8 percent now in the United States. But with a bachelor's degree or higher, your unemployment rate is only 2.3 percent. Some college or associate degree, it's 3.9 percent.

It's especially interesting the difference in less than a high school diploma between men and women. Men's unemployment rate is 6.4 percent and women have a much higher unemployment rate without a high school diploma. That's because men without a high school diploma can get dangerous, risky jobs, such as working on construction sites, working on oil rigs, working in mines, logging, cutting timber where women generally don't have those jobs.

More inequality, as you can see from this chart, seems to come with higher growth countries, so the higher-growth countries being the United States at the top. And you see the UK and Canada. And at the bottom you see France, Germany, and Italy. They have much more equal distributions of income. And as long as people are moving up and jobs are turning over, this is not necessarily a problem. It's just something that comes as there are more high-paying people at the top. And yet, the wages at the bottom remain about the same, and this is something that we want to have happen.

Our minimum wage is about \$5.15 an hour. Only three million people get paid minimum wage, but we need these low-skilled jobs at the bottom so that these people

without high school degrees, people who have just come out of prison, people with drug records can actually get a job. And if we were to have the bottom wages rising at the same rate as the top wages, then you'd have people priced out of basic, entry-level jobs. And you find that people in minimum wage jobs tend to move out of those fairly rapidly. About 80 percent of people in minimum wage jobs are out of those within a year, but it provides an entry level and it's very important to keep that entry-level step on the ladder. That's what we've done in the United States.

In France and Germany, for example, and Italy, many of the countries in Europe, the basic wage has been raised because of the extensive social safety net, as well as increased minimum wages, so you find 10 percent unemployment rates compared with 4.8 for ours. And one can ask a question. Is it really more socially rewarding? Is it a better social model to have 10 percent of your population unemployed – generally, about 50 percent have been unemployed for more than a year – or is it more socially acceptable to have people work at a low wage, get a foot on the ladder where they can then work their way up. And I would argue the United States system has a lot to say for it.

So I would like to make my policy conclusions. First of all, we need to make our tax cuts permanent to encourage economic growth. Growth is really very important just in terms of economic progress, in terms of making everyone better off, in terms of getting government funds to work on policies that will help the less skilled. And in order to get economic growth, we need to have low taxes and low levels of regulation. We need to encourage employers to hire. And we also need to make workers – we need to increase the quality of workers that need to be hired.

We need to improve our educational system. Our educational system is the one – one of the few areas in the United States where there's no competition. People in inner-city ghettos don't have any choice of what schools to go to. It's as though you were driving on I-95 from Washington, D.C., to Boston and all you had was McDonald's. You didn't have a choice of any other type of restaurant. Well, the service in those McDonald's would not be very good because they wouldn't have to compete with Wendy's and Burger King and Hardee's. It's the same with the school system. We need more school choice. We need to raise the quality of our schools to the quality of other things in our economy where there's active competition.

Also, we need to have greater use of community colleges for low skill and dislocated workers. We're not just talking about training people who are in school. We're also talking about training less-skilled workers whose jobs have perhaps gone abroad, and we're not talking about a lot of jobs here. Data shows that we outsource maybe 300,000 to 500,000 jobs a year, but to every worker whose job is outsourced, this is very important, a very important thing and we need to make sure that they are retrained and community colleges are one of the most active and vibrant parts of our educational system today. We need to make sure that these dislocated workers have vouchers to go to these community colleges and choose programs that will enable them to get skills for the jobs of the future, and not just have them sent to some federal – assigned to a federal

job training program where they will be told they have to be hairdressers or barbers or manicurists.

So these three conclusions: economic growth, improving our educational system, and making more use of community colleges for job training. That's what I would suggest that we do. Thank you very much.

MR. WELLER: Thank you very much. I would like to take the moderator's prerogative and probe a little bit deeper into some of the presentations and I would like to start with Richard's presentation and in particular on the question of debt. You showed us numbers on average debt, but if you look at the latest numbers from the Fed (on?) consumer finances and you look at median levels, median wealth has barely moved from 2001 to 2004, so for the typical family in the middle, hasn't barely moved.

The other part is also when you look at the net equity in the real estate market, some people would argue that you would have to have an adjustment here given that some of the prices in homes have – (maybe you're seeing?) a little bubble. So the question is what do you say to people who say like the middle class has been become overburdened with debt given what has happening really with – at the median level.

MR. ALM: Well, I think you have to separate the debt into two different categories because home debt is an entirely different animal, I think, than the kind of consumer debt that might be epitomized by credit cards, because you know the home debt is asset-backed, and so in the worst-case scenario you have – that debt has an asset to go – so you can't – getting in trouble with that is a lot – it's not a pleasant thing if you lose your job and you have to sell your house or something, but that debt is not – is at least backed by something, by a tangible asset that can be liquidated if necessary.

So as long as there's positive – as long as positive home equity continues to increase, I don't see that that end of the equation is a debt problem. And debt service ratios tend to go up and down with the business cycle and how people consume. And we found – when we looked at it, we didn't find they were that far out of kilter compared to some of the – some periods in the past.

MR. WELLER: Okay. Thank you. I'm sure there's going to be more questions here, but let me move to Jeff. And I think isn't it – when you look at historical expectations, shouldn't we have coming from a lower level of development expect the faster growth rates in the past than we should nowadays at the higher level of overall wage levels, meaning like now growth should be slowing down.

MR. MADRICK: Yeah. The answer to that is no. You can look back historically. I see this sort of historical fallacy time and again. In 1890 we were probably the largest industrial nation in the world. Data then didn't quite – wasn't current enough to make that clear, I think, to the American public, but in retrospect the U.S. was considerably more powerful both in terms of GDP per capita and overall GDP than Britain, the leading economic power of the day. And if we sat around and said, "Okay,

look how big we are in 1890, we don't have to keep growing as rapidly as we did between the Civil War in 1890 because we're so big now, and it's only natural for us to slow down." Imagine if we had slow growth in the 20<sup>th</sup> century when we really had in many respects the most rapid growth.

But here's the key issue. The key issue – there are two key issues. One is when you don't have as rapid growth, as I mentioned before, you leave a lot of people out. So half of men might be doing worse 10 and 20 years later with job experience and so forth than they did earlier – half of them. And that's discounted by CPI, which is distorting, because it doesn't take into account all that money you need for health, education and so forth, to keep up.

And number two, how has America developed its – its way to solve problems? America's methodology – and I completely agree with Diana about growth – America's way to solve its problems has been to grow rapidly. If we stopped growing rapidly – and I cannot emphasize this issue enough: if this pie doesn't keep growing do we have the political tradition to deal with slower economic growth and maintain our democracy and maintain our economic opportunity? I think we may not.

In fact, I think that's what we've been going through for the past 30 years. Notions that – while I agree entirely with Diana that growth matters, that education matters, and her third point, I disagree about how to get there, number one. But inequality as evidence that the economy is doing well, I find a misplaced and misleading notion. When we grew most rapidly in the '50s and '60s, this was the most equal nation we had. And at that time, the minimum wage was high and the unemployment rate was not distorted by what is happening today, a falling-job participation rate. It was a genuinely low unemployment rate.

MS. FURCHTGOTT-ROTH: If I could just –

MR. WELLER: Yeah. No, I – can I –

MS. FURCHTGOTT-ROTH: If I could just clarify, I didn't say that economic – that inequality was evidence that there is high growth because there are plenty of countries in the – that I could name in the Caribbean, such as Haiti where there's a lot of inequality and no economic growth. I'm saying inequality is a consequence, a natural consequence of economic growth. That's what I'm saying.

MR. WELLER: Let me follow-up on some of the things you've said, Diana. In particular, you showed a changing composition in the labor force towards college-educated jobs, but it is my understanding that the composition for going forward is not forecast to change that much.

MS. FURCHTGOTT-ROTH: Oh, yes. It's –

MR. WELLER: Don't we have to – and the other part is also a large share of the population falls – doesn't fall into that college-educated group in terms of the jobs that are available in the future. Don't we have to make sure that the jobs that don't require a college education are well-paying, do cover jobs?

And second, when you talk about the value of the minimum wage, don't we have to also make sure that minimum-wage jobs are truly entry-level jobs and that mobility remains high? It is my understanding from the data that mobility actually has declined.

MS. FURCHTGOTT-ROTH: Well, the first part of your question was that jobs of the future will they not require education. They will certainly require education. The jobs of the future, as projected by the Bureau of Labor statistics, which you can get on the web site [www.bls.gov](http://www.bls.gov), shows that many of the – most of the jobs of the future are going to require a college education, so we need to make really sure that people get those college educations, either at a traditional four-year college or at a community college. So we need to make sure that our graduates, people in high school now, that they are encouraged to go to college.

And what was the second part of your question?

MR. WELLER: The second is really like mobility. How do we make sure that people actually move out of minimum-wage jobs?

MS. FURCHTGOTT-ROTH: We have a tremendous amount of mobility in our economy right now. We have a labor force of 150 million. Last year we had about 57 million new hires, about 55 million separations, so there's a tremendous amount of churning going on. And about half of those separations were voluntary. And the amount of mobility in our economy, the amount of churning in our jobs, I think, can be seen from those data and many of those are people going to jobs that are paying more. Some is just churning going to lateral jobs, but there's a tremendous amount of turnover in our economy already.

There isn't any way to ensure that jobs at the bottom, and I think that was part of your question that low-skilled jobs pay adequate wages. If we mandate that the wages for low-skill jobs have to be higher, then companies are just going to take those jobs elsewhere or else businesses are going to replace those workers with machines as we see these self-service, for example, checkouts instead of cashiers in supermarkets. There's no way that you could mandate that an employer pay someone more than their productivity or more than their product because the job will just vanish.

MR. WELLER: Let me turn to Heather. I have some responses to that, but I'll reserve mine for off the record. The – isn't – when you show us the numbers, in particular on the squeeze, that people have to work longer to basically meet those – the necessary items, isn't it also true that it has come easier at the same time for them to pay for that because other items have become cheaper? Also taking some of the points that

Richard made into consideration, isn't it true that some of the quality of those items has improved?

MS. BOUSHEY: Well, I think there's a number of issues in that question. And first, yeah, of course, the quality of some items has improved and some of the increase in quality or changes has made many of the necessary goods and services out of reach for many families. I'd point to the example of healthcare. It is true that employers are decreasing their coverage, not necessarily for their workers, but for their workers' spouses and most importantly for their workers' children. So we've been seeing a significant decrease in the ability of families to get health insurance coverage for their children, especially among families in the bottom half of the income distribution over the past few years.

The percentage point declines are phenomenal when you look at how sharp that drop has been. And what we've seen over the late 1990s and early 2000s, of course, is that because of the S CHIP program that was implemented in 1997, many of those children kicked off the employer plans in '98, '99, 2000, 2001, were able to get onto the state Medicaid program, but it's unclear how long those programs will be – will continue to cover the children of working parents.

But I say this only because the – sorry, I got a little bit off on a tangent there, but there are some items that have become cheaper and there are some items that have become much more expensive and, quite frankly, just are beyond the reach of many families. If you don't get health insurance from your employer, it's incredibly difficult to purchase this on your own. Less than half of low-wage workers; that is, workers in the bottom 30<sup>th</sup> percentile of the income distribution, get health insurance from either their employer or anybody else's employer, so less than half of workers in the bottom 30<sup>th</sup> percentile are simply not a part of this system because it's so expensive.

But if I may just take one moment to talk about the mobility question because I've done an extensive amount of research on this – two issues. One, the table that I skipped deals directly with this issue of mobility. It is important to understand the facts here as we know them from the body of research that's been done on the mobility question. All of the research – the recent research on this has clearly shown that families today are much less likely, and “much” is in relative terms, less likely to move up the income ladder than they were a generation ago. So families who were at the bottom 28<sup>th</sup> percentile of families in the 19 – late 1960s, 49.4 percent of them made it. I'm not going to – yeah, 49.4 percent of them were still in the bottom quintile in 1979 compared to 53.3 percent of families at the bottom who were still at the bottom a decade later over the 1990s.

So families were getting stuck at the bottom, more likely to get stuck at the bottom in the 1990s, and families were also more likely to be stuck in the middle. Families are simply not moving up, and that's – in table one, which is the last slide that I had skipped, but on to this question of minimum wage workers, it is actually the case that only about one-third of minimum wage workers are in an above minimum wage job three

years later over the period from the 1990s through the early 2000s. And one of the most important elements in helping workers move up was the strong labor market of the late 1990s, but it's certainly not 80 percent. It is really only closer to about a third.

Now, of course, another third of those workers are not working three years later, and about a third are still stuck in minimum wage jobs. And that study comes from a study of workers who are prime age between the ages of 25 and 54, not teenagers, but folks who are really stuck in these kinds of jobs.

So if you include the teenagers, yes, people move up. If you're in college and then you graduate, well, then, separating out that, looking at the reality of what life is like at the bottom end for prime-age people, the reality is that they are not likely to move up and that's what the research shows us.

MR. WELLER: I would like to open the floor for questions, so we're going to take first questions from representatives of the media. We ask that you state your name, wait till the mike comes to you, then state your name and your affiliation. And do we have any members of the press here? We have –

Q: My name is Craig Torres. I'm a reporter for *Bloomberg News*. First, a comment on Heather's presentation. I'm wondering why you don't talk about net worth. Fifty percent of families own mutual funds, almost 70 own homes. It's an enormous factor and why they're going into debt. You have to look at the assets standing behind the debt.

Richard, good. Jobs are good. What – something different is going on in the economy right now and that is the concept known of labor share of income. If you look just at wages, it's at the lowest levels since the 1950s. I'm sorry, since the Great Depression. If you include healthcare benefits, it's the lowest since the 1950s. This is the context of low unemployment and very high productivity growth, so something different is happening right now and it needs to be understood.

And then finally, Diana, I think it's interesting that we talk – globalization is a defining element in income disparity because it pushes comparative advantage into several corners of the economy where it didn't exist before. Why is there no talk of global competition in the educational system in this country, and where is the leadership on that or why don't we have it?

MR. WELLER: Why don't we go Heather, Richard, to Diana?

MS. BOUSHEY: You want me to start?

MR. WELLER: Yes.

MS. BOUSHEY: Yeah, I focused my talk primarily on the income issues rather than the wealth and debt issues because I only had 10 minutes, but that's an excellent

question. It is true that more families are in mutual funds; it also true that more families now have 401(K)s. That's great, except of course that's been at the cost that we've seen a proportionate decline in the share of families that have pensions. So I think we need to – that those always need to be set in the same sentence if you're seeing pension – you know, the share of families that have a defined benefit through their entire retirement – supposedly, unless their company goes bankrupt, and that's again a whole other panel. But if you see pensions declining and 401(K)s and the owning of mutual funds increasing, families are investing more in the market, and they do have this wealth that now they have on paper. But they used to have more wealth in their pensions because they had a guaranteed lifetime annuity that was coming to them, and we had more families that had that. So that that's one answer.

The second answer is that – I mean, I think, when we're looking at the growth in wealth, there's two things. And one is that of course, when we look at the numbers we see that over the past few years as families and – on average, as Richard showed, we've seen average wealth increasing, but that has been incredibly disproportionately benefited to the very top echelon of families where between '83 and '01, which just happens – I don't have later numbers in front of me here – the top 1 percent saw the – gained 32.8 percent of the wealth gains over that nearly 20-year period, while the bottom 80 percent only saw 1.4 percent of increase in wealth. So there have been increases in wealth on average, but that's disproportionately, overwhelmingly gone to the richest families.

And on the issue of homes, yes, 70 percent of families own homes, but many of these new homeowners, we all know that the – over the past few years, over the course of the upsurge in housing prices, many of these new loans have been zero interest down, families are taking more and more of the equity out of their homes and using it to finance their current consumption, and while I agree with Richard that there's a big distinction between a mortgage that is based on the loan that you take out purely for buying your home and credit card debt, the reality is I would guess if I took a poll and asked you all to raise your hands, how many people they're using at least some of their home equity, if you own a home, to pay off either your student loans or your credit cards or your car or something. But I venture to say that most of us – or most people who own homes have done something like that. So this home ownership is being used to foster current consumption, and so we need to be looking at this differently than we did in the past. But I'll stop there.

MR. ALM: Labor share of income – I presume we would prefer that it would go up, but there's lots of – because we've looked at this over a tremendous – the question was posed over long periods of time, and during these long periods of time, there were tremendous structural changes in the economy. For example, we've gone from a primarily industrial economy in the 30s and 50s to a service-based and entrepreneurial economy and a technology economy in the present situation. And that may have something to do with this distribution.

You also have an increasing supply of scarce factors in your increasing supply of highly-educated labor that seems to have taken some of the gains. We are seeing over

time some of the gains to the lower people – lower educated – less educated people being diminished.

And you also – you know, if you're getting – you had a tremendous increase in capital and there's a lot of competition of course, also, which is foreseeing companies to be productive and the productivity pays off in terms of cheaper products and things like that that do help the common man consume more, as in some of the examples, I've suggested in terms of hours worked for, for their basic goods and their toys too.

MR. WELLER: Diana?

MS. FURCHTGOTT-ROTH: Thank you. Before answering your question, I just want to make two or three quick points about Heather's points. First of all, when you say, Heather, all of the research shows that there is no mobility and that mobility has decreased over time, it's just incorrect. There are studies that do show that there's mobility. I'm not going to get into details. Professor Gary Soloun (ph) is one person who said that mobility has not decreased over time. It's about the same as it was.

Second, when you say that the prime-age males do not move out of minimum-wage jobs as quickly, there are about three million workers out of 150 million on minimum wage. The vast majority of those are teenagers. Those are the ones that move out quickly. The groups that remain that are prime-age males are approximately one million, and we have to recognize that there are people in our society that are not capable of moving on to some higher-paying jobs. They could be people who have a culture of not working, people who have drug problems, people who have gotten out of prison, and there's no reason to raise the – hold the minimum wage because one has a group of people who are not able to progress to higher-level jobs.

Now to answer your very excellent question, why don't we talk about global competition and education, we should be talking about it. It would be an excellent subject for an article of yours. You can see that people come to the United States for university education; that we are the leader in university education. But on the other hand, in terms of elementary and secondary school education, we are way behind. Our children score way lower on standardized tests in terms of math, science, reading than children in other countries. They are at school fewer hours. Children in Europe, India, China are at school both longer hours during the day, and they have fewer vacations, they do less sports, they have less fluffy subjects, they have less women's history, black history, sex education, all that kind of thing that takes time away from real – really learning math, reading, writing, geography, and history. And we should take a look at how these other countries are educating their children and try and copy that. So it's an excellent point.

MR. WELLER: Thank you.

MR. MADRICK: Since I'm being neglected here, I demand a little bit of equal time. Quick, I did want to ask Diana, maybe when she gets an opportunity again,

whether what's driving all the good education in India, China, and Japan are as – are competitive K-12 school systems? I don't know the answer to that, but I have my doubts. But I'd love to hear your answer to that. On assets, one of the problems with relying on assets, Heather pointed out on that, borrowing against assets is – of course, it doesn't – it's not a basis for ongoing growth.

MS. BOUSHEY: Right.

MR. MADRICK: Eventually you just run out of gas. We're – we'd probably run out of gas if our economy has been supported by – consumption has been supported to some extent by rapidly rising stock prices and real estate prices. Where's the growth going to come from after that if it doesn't start coming from real wages?

Which brings me to that third issue; the last five years have been extraordinary. It's been a rising productivity, extraordinarily rapid rises in corporate profits, and no – or minimal rises in wages and in fact occasional years when wages have fallen; no increase in family income since 1999 at the (glass top?). This is an extraordinary period which economists cannot explain, and they even have wars over it among the Federal Reserve banks. You can look at all kinds of research that – where people are trying to come up with explanations.

You know, the common, mainstream economic answer to this is ah, just wait. It will correct itself. Well, I have some doubts about that, it – perhaps it will correct itself a little bit. But this is an issue where we should be seeing series in the *New York Times* and the *Washington Post* and the leading networks and so forth trying to explain what the heck is going on here. This is quite a serious issue. And to parade increases in consumption before us and ignore the fact that those increases in consumption are dependent on the borrowing you're talking about, and much higher levels of borrowing, especially at middle and low incomes, and dependent on more working hours among families is simply misleading.

MR. WELLER: Are there any more questions from members of the media? There's one in the very back.

Q: Hi. Peggy Sands Orchowski. I write for the *Community College Week* and also the *Hispanic Outlook on Higher Education*. As you know, college in America is the most expensive in the world. The reason foreign students have been coming here is because they're accessible more than in other countries. In most countries, the college systems are extremely elite. But they pay a lot. They pay in public institutions four times more than the – than Americans and legal residents, so they're going to stop coming once their countries are now beginning to produce big institutions of higher education. And that being said, Americans are now stuck with the highest tuition in the world, and it's becoming increasingly difficult for middle-class kids.

Now, I'm thrilled, Ms. Roth, that you are saying that one of the solutions is community colleges. I couldn't agree more. But how are they going to be paid for –

these programs? You want to cut – make the tax cuts permanent, you – the Perkins Grants, which have been funding community colleges, have been eliminated in the Bush budget in order to raise the Pell Grant a whoopy-doo \$500 a year. I mean, where is this support for community colleges and for Americans to go to be retrained to come from? That's my question.

MS. FURCHTGOTT-ROTH: That's an excellent question. It's really an excellent question. Most people don't know that the federal government spends \$15 billion – that's not million, that's billion dollars a year on job retraining programs. And many of those are not effective. The vast majority of those are, I would say, ineffective. It's clear to describe them like that. So what we need to do is be moving some of the \$15 billion that we spend on these federal job training programs into community colleges by instead of channeling unemployed workers into these federal job training programs, giving them a voucher or a certificate that could be used at that community college, and if we wanted to we could limit the choice of cost.

For example, data shows that dislocated workers who go to community colleges and take quantitative-type classes such as computer science, nursing – those kinds of classes have a higher rate of increased earnings than students who take more soft humanities-type classes. So one way to support the community colleges and also help these dislocated workers would be channeling some of these federal job training funds into vouchers that can then be used for community colleges. And by the way, 45 percent of freshmen in the United States go to community colleges. This is a very widely-used option.

MR. WELLER: Thank you. Are there anymore questions from members of the press? Seeing none, I open the floor to the general audience, and we'll start in the back there's right – one right behind you, Paige.

Q: Hi. Can you hear me?

MR. WELLER: Yes.

Q: Picking up on community colleges, my husband teaches at Annandale NOVA. They have an excellent nursing program. They have a several year waiting list to get in, and the reason is they don't have the facilities. It's going to take a long time before any of the funds that you suggest might be moved to community colleges because as the previous woman said, a high percentage of students go to community college right after high school. They either do it straight on because they know they want to save money and get in a matriculated program to be applied to a bachelors, or they start out at regular universities as several of my children's peers did, and for some reason come home and go to community college. But NOVA Annandale, for example, the second-largest community college after some place in Florida, they cannot accommodate all these different things as good a solution as it may be.

MS. FURCHTGOTT-ROTH: Right. That's an excellent point. It's because community colleges basically have limits on high-returns training that they can provide. It costs more to teach a nursing student, and they have to charge people pretty much the same, so they're limited by the amount of nursing students, and nursing is a special problem.

It's also especially ironic because our country needs more nurses. And what we need to do is be – is expand the amount of facilities in your husband's community college, as well as community colleges all over the country, to enable that waiting line to go down; and if necessary, raise the cost of tuition somewhat in order to accommodate that and to have more of an inflow of resources in that area. The vast majority of nurses who are trained in the United States are trained at community colleges, and we need to be expanding the facilities for that. You're absolutely right.

MR. WELLER: I saw a question over here in the front. I'm sorry. We're going to jump back and forth.

Q: Oh, hi. I'm Julia. I'm from Hudson Institute. I have a question for Ms. Heather Boushey or Diana Furchtgott-Roth. It seems that income – the family or household income measures from the Census Bureau do not include the value of the company-provided employee benefits; for example, like the company-paid vacation, sick time, and the company contributions of 401(K) or health insurance. I want to ask what will happen if the value of the employer-provided employee benefits were included in your analysis? Thanks.

MS. BOUSHEY: Well, clearly, the – how that would affect the analysis would depend on what direction those benefits moved in. What we know from available data sources on the prevalence of employee benefits in terms of vacation and sick time is that there's been very little change in those numbers over the past 20 or 30 years. They've gone up a little bit; they've gone down a little bit, but they've stayed about the same. So employers are not spending more or less money on these benefits. We know from recent studies on work/life balance that while firms did offer a small amount of more work/life balance benefits in the late 1990s when the job market was tight, many of those had been pared back due to the labor market's (unintelligible) since early 2000. So on net, I don't think we would see any increase in those either if we were going through 2005.

But those aren't really the big-ticket items. The two big-ticket items are in the areas of retirement and health insurance. And what we see is that in both areas, firms are paying much less in terms of the benefits. Now, the costs, of course, have gone up for health insurance coverage for firms as well as employees, so the costs are going up, but firms are dealing with that by covering less workers or by offering less dependent care.

In terms of the retirement benefits, for many workers especially at the bottom end, 401(K)s are not matched. Christian would know because he's the expert on that, but firms have been moving away significantly from pension benefits, which have a long-term liability for the firm. As we've sort of heard lately in the news, when you – the

firms are responsible for pension benefits, 20, 30, 40, 50, 60 years on out, whereas 401(K) benefits, they pay in time, so there's an accounting issue but I don't believe it's costing firms any more.

So this all a very long way of saying that I don't think if you included any of those benefits our numbers would look any better. In fact, I think they would look worse, especially since workers at the low end are far less likely to receive those benefits compared to workers at the high end.

MR. : I guess –

MS. FURCHTGOTT-ROTH: Well, I would say that – oh, I believe she asked me the question too.

MR. : Sorry.

(Cross talk.)

MS. FURCHTGOTT-ROTH: Well, if you look at the Employment Compensation Index which shows how much is paid in total to workers, including benefits, you find that the year-over-year percent change in wages and salaries has been 2.6 percent, but the benefit costs have risen by 4.5 percent. And so you do find that benefit costs are rising a lot higher than wages. So if you were to include benefit costs in the measures, you would see – you would have a higher approximation of income.

MR. WELLER: Well, we – can we go to the back to the gentleman with the green sweater?

Q: Yeah, hi, my name is Bill Neil. I'm an author. I write about globalization and the future of the Democratic Party. Jeff, I heard a comment linking economic frustration and a price we're paying to the culture war is displaced anger. What's striking to me is the human nature that I hear described in the new economy and new economic man, the level of change and adaptability that's being asked of human nature, and I would toss this in Diana's direction: Edmund Burke was horrified at the pace of change in the French Revolution. A lot of us were horrified at the "new Soviet man" that was being erected in the Bolshevik Revolution as a model. After reading Tom Friedman, I come away with a model of expectation in human nature that's far out of line with anything that conservatives in their past history have described as compatible. And I'd like the economists up there to address that question: as a driver of economic dislocation and rising crime rates, level of sleeping pills in the U.S. and so forth, there's a price to be paid for the level of change you're asking people to cope with.

MS. FURCHTGOTT-ROTH: Do you want to answer it?

MR. MADRICK: I'm not exactly sure. (Laughs.)

MS. FURCHTGOTT-ROTH: Yeah, could you repeat the question? What is your specific question? What question are you asking?

Q: The question I'm asking is whether the new model economy from Thatcher's England, from the Reagan Revolution, the Washington consensus, and the golden straightjacket, to put it in concise terms, has a view of human nature that is long-term incompatible with social stability, which is the thesis of John Gray's book *False Dawn*, one of your countrymen who jumped off the Thatcherite ship.

MS. FURCHTGOTT-ROTH: Excuse me, I'm an American citizen, and so he's not one of my countrymen. But I would like to say that the pace of social change that – there has been a lot of social change that does not – there appears to be still a lot of people who want to immigrate to the United States. We have waves and waves of people who want to come here, so the United States still appears from outside to be a very attractive place to live. There are a lot of opportunities here, people see opportunities as upward mobility, people's expenditures uprising, so I would see that I wouldn't say that any – I wouldn't see any particular problem with the Thatcher-Reagan model.

MR. MADRICK: But, I think – let me try to focus what you're saying, at least from my own point of view. I think what you're saying is that this new model of the economic behavior means that we should – that individuals should accept more risk, uncertainty, responsibility, live with uncertainty about their future, uncertainty about their pension, uncertainty about their healthcare – it's the so-called responsibility society.

Well, from my point of view, the progress of civilization over the last 250 years has been much the opposite. This is not to say that we should – or that America ever will abjure responsibility and self-reliance – by no means. But we moved in a direction where we took some of the risk out of capitalist life. We're all capitalists here. We all believe in entrepreneurialism, but we made that compatible with the human spirit by taking some of the risk out of it. Now we're being asked to put all that risk back in.

And it – and I applaud your question because I think we're ignoring that issue. To what extent can you ask people to reduce the – to increase the risk-taking for their own lives without having a cultural backlash. Well, folks, we are having a cultural backlash. It's a backlash against minorities; it's a backlash against the use of government. Some of it – I believe some of the uses of government were inappropriate. Some reforms were necessary, some deregulation was necessary. But it's gotten pretty far out and it's become ideological. And I think it's – I think you raised a very important issue and it's one that simply not discussed – certainly in my experience, not in the beltway.

MS. FURCHTGOTT-ROTH: I should say that I'm an economist, so I don't understand cultural issues. (Laughter.) So that's why it's best Jeff answer that question.

MR. WELLER: So we have one question here in the middle.

Q: Hi, I have two questions, one for Heather and one for Diana. Heather, your comparisons, which I appreciated in their very simple chart forms, were between “typical families” in their earlier – a single-earner family of the Ozzie-and-Harriet era and in current – a two-earner family. What I’m curious about is in today’s economy, single-earner families, single-parent families which are a huge proportion of the workers and the earners, how does your analysis – I mean, where in the analysis do single-earner families in today’s economy fall? You had single earner from before and double earner now.

And my second question for Diana is sort of along the lines of the woman who asked about community colleges. I agree with three out of – two out of three of your goals which are really – or two out of three of your goals; the first being growth, the second being improved education. She talked about community colleges. I’d like to talk about elementary and secondary education all paid for by tax dollars. So to the extent that the third goal, which I don’t agree with, is making permanent tax cuts, and I’m assuming encouraging further tax cuts at the state and local level, I don’t see where improvement is going to – competition with no money doesn’t yield results. Competition with money could yield results, but certainly schools are not going to improve without funding for a public school system in this country.

And the ancillary point I would make along with that is that I do believe we need to do something about funding schools differently than using local property taxes because poor communities have poor schools and wealthy communities have wealthy schools, and there is a great disparity in the way they operate. But all of them rely on tax dollars, and I can’t make that connection from your proposal.

MS. BOUSHEY: Okay. Okay, very briefly, it was only one of my charts that was actually looking at those two kinds of families, every other chart was looking at median families, so that was collapsing the – the significant changes that we’ve seen in family live over the past 40 years, probably one of the most significant changes that we’ve seen. Increasingly, it’s difficult for single-parent families to make it. They’re more likely to be at the – they’re moving down. When we – there’s been some very interesting mobility studies that have shown that it’s wives employment patterns that have actually made the difference for families that have moved up. So among families that are moving up the income ladder, it’s because wives are working – over this period that we’ve been talking about today in the post – the sort of 1970s through today, we’ve seen male wages at the median and below fall or have no growth relative to where they were in the 1970s, and it is the contributions of wives that have made the difference. So I would venture to say that the single-earner families are really struggling to make ends meet.

MS. FURCHTGOTT-ROTH: And if I could add just a little bit, the family – looking at a family over time discounts the fact, as you say, that families have grown smaller. And so if you look at family income on a per capita basis, you get a much higher rate of growth. For example, Heather’s figure 2, growth and inflation adjusted family income, she had the bottom 20 percent, 79 to 204 making 0.2, then 0.4 for the second, 0.5, 0.7, for the fourth, 1.1. That’s family based. If you divide it and look on it

as a – on a per capita basis, you find the growth rate is much higher, 1.3 percent real growth rather than those low rates.

But to get back to your excellent question about elementary and secondary education, what's important, I believe, is competition. So what – each school district spends a certain amount per child, and it varies per area of the country from – I don't know – \$4,000 or \$5,000 per child per year, to about \$8,000 or \$9,000 in some school areas. Parents should be given that money and told to go to whatever school you choose, and if you're philosophically inclined towards public schools, go to whatever public school you choose. The point is that way schools will be able to compete and parents won't choose the bad schools, they'll choose the good schools. The bad schools will go out of business or they'll have to improve their quality.

So the point is that quality raises the level of the product in anything that you can think of. If there's competition – if there's just Comcast in your area, Comcast is going to do a terrible job. If there's RCN or Starpower in your area, then Comcast is going to have to improve its quality. It's exactly the same with schools. Competition improves quality. And right now, parents don't have the option of taking that \$6,000. How many parents here would like to take that \$6,000 raised from taxes that the government spends on their child and move that child to another school? I'm sure a lot of parents would like the choice of doing that, and they don't have that choice right now. Having that choice would raise school quality without increasing taxes or spending any more.

MR. ALM(?): Just two quick things on those issues. We did education last year. We did a study on education, and we found that America spends more than any other country in the world on education and spending is growing, and so it may not be a money issue; it may be an allocation of the money. There's more spent on administration and things like that.

We also did a calculation involving what it would take to – in the current environment to have the lifestyle of the '70s, which seemed to be the paragon when everything was good. And it turns out it doesn't take two workers; it would take 0.7 workers to have that same lifestyle. But that lifestyle was much, much less than it is today. Houses were smaller, it was one car, there were a whole bunch of less things you had. So it's not a question of anything except this rising expectations now, and then the middle class has to have – the middle class definition is at a higher level of consumption.

MR. WELLER: Okay. With that, I would like to give the panelists a chance to say 40 – 45 seconds of closing remarks since we're almost out of time.

Heather?

MS. BOUSHEY: Oh yes, okay. Well, I would just like to close in saying that, you know, as family income has not grown as quickly as it has in decades past. Families certainly appear to be struggling to maintain that standard of living. We see it in the fact that they're taking on more debt. We see it in the fact that they're trying to sort of get to

where their parents are, where they think they should be. But I think one of the things that we need to focus on is this issue that Jeff and the questioner asked about how much risk we're asking families to take on. One of the trends over the past 20 years has been that families have been asked to increasingly take on the risk of getting old, of becoming sick, of losing one's job, job tenure is down. The idea that we are sort of as a society, as a government, abdicating our responsibility to help insure against these risks that all of us face is certainly a part of this inequality story.

MR. WELLER: That was – thank you.

MR. MADRICK: Don't make this mistake of thinking that if you own the – that you could go back to the 1970s and replicate that life. I'm sure a black and white television set is a lot cheaper today, if you could find one, than color TV set. But the point is a lot of these things we have today are simply necessities. People have two-worker cars partly because they are two-worker families. People have two-worker cars to take their kids to school. I don't want to belabor this point, but this – these historical analogies simply do not hold up.

The main issue for America is that in the 1970s – and the golden period was really the 1960s – there was optimism. There was growing security. We were moving in a direction where we thought we'd always keep getting better. We – the kids went to school in college in four years, not six years and eight years. Times have changed significantly. Simple historical analogies are deceiving and I think they've misled us about what the nature of our true political issues are today.

MR. WELLER: Thank you, Jeff.

Richard?

MR. ALM: I think that it's important to understand that we achieved this level of prosperity we have through an economic system that involves flexibility. It's an open – it allows for failure. People can succeed if they work hard and they do the right decisions, but it's not a system that guarantees you to be middle class. You have to make your way through life as an – you know, get an education and handle your money correctly, and you'll do all right.

MR. WELLER: Thank you. Diana?

MS. FURCHTGOTT-ROTH: I'd like to conclude by going back to the title of the debate: "Is a Rising Tide Lifting All Boats?" I think the answer is clearly no, that the lesser skilled are falling behind, and we need to do something to be able to address this square on. And we need to admit this deficiency.

And I'd also like to say that government is not responsible for making every decision for us. We need to realize that people do know in a sense what they're doing. People are borrowing for reasons that they think is legitimate because they have

confidence in the future, because they have certain tradeoffs between current and future consumption, and we need to just let them make (their?) decisions and not criticize that.

There are certain parts of the economy that really need improving, one of those which I haven't had a chance to talk about, is healthcare. I just want to say that we need to have more competition also in the healthcare system. The way the structure is set up with employers being responsible just for the provision of health insurance for their employees without any other alternatives needs to be ended. We need to have more incentives for companies to offer large-risk pools of insurance privately to self-employed workers through association health plans, through taking down some of these regulations that prevent states offering health insurance across different state lines, companies offering across state lines. We need to do something to have more competition in education, and primarily we need to keep tax rates low so that we have more economic growth and we can fund all the programs that we want to fund.

Thank you very much.

MR. WELLER: Well, with that excellent debate – very stimulating, very informative – let me thank our panelists and thank the audience for staying so long. Thank you.

(Applause.)

MR. ALM: Thank you.

MR. MADRICK: Thank you. This was fun.

(END)