



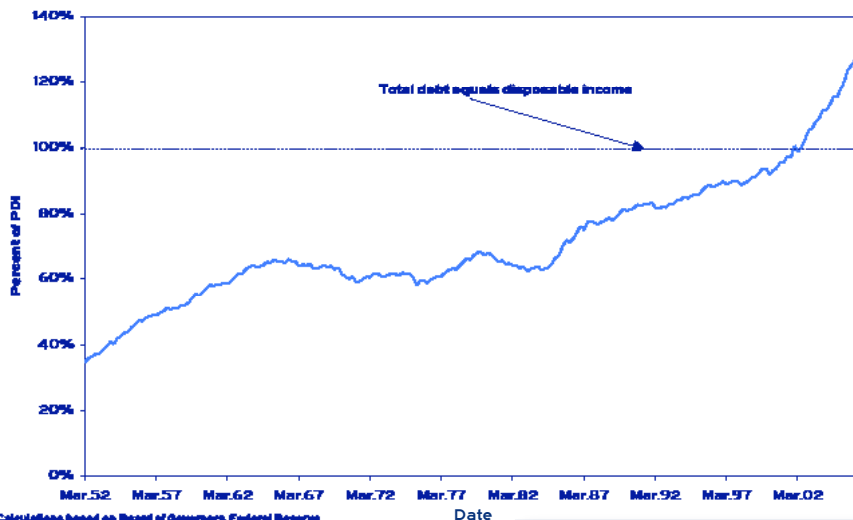
CHRISTIAN E. WELLER, SENIOR ECONOMIST, CENTER FOR AMERICAN PROGRESS

America's middle class faces a slowing economy and a weakening labor market. In the current business cycle that began in March 2001, middle-class families borrowed record amounts of debt to manage in a slow-moving labor market, which now further declines. Amid sharp price increases, the federal government has piled on massive budget deficits, and the trade deficit has hit record highs. These debt burdens jeopardize future economic opportunities. Consider that:

- 1) **Wages stagnate.** Factoring in inflation, hourly wages were 1.0% higher, and weekly wages were 0.5% greater in July 2006 than in March 2001. And wages were lower in May 2006 than in November 2001, when the recovery started.
- 2) **Benefits disappear.** The share of private sector workers with a pension dropped from 50.3% in 2000 to 46.3% in 2004, the last year for which data are available, and the share of people with employer-provided health insurance dropped from 63.6% to 59.8%.
- 3) **Family debt is on the rise.** In the first quarter of 2006, families had to spend 13.9% of their disposable income to service their debt — the largest share since 1980.
- 4) **Savings plummet.** The personal savings rate of -1.5% in the second quarter of 2006 was the lowest since the Great Depression. Also, by March 2006, household debt rose to an unprecedented 126.4% of disposable income.
- 5) **Job growth is the weakest for any business cycle.** Despite the 2003 tax cut, job growth averaged only 1.3% — the lowest growth increase than any recovery of the same length. Monthly job growth since March 2001 has averaged an annualized 0.4%.
- 6) **The unemployment rate overstates the strength of the labor market.** Since the employed share of the population has remained low, millions of workers have given up looking for jobs. If the employed share of the population had not dropped since March 2001, there would be 2.7 million more jobs, or the unemployment rate would be 6.5%.
- 7) **The poverty rate climbed** to 12.7% in 2004, the last year for which data are available, from 11.3% in 2000.
- 8) **Government deficits are soaring.** For 2006, the deficit is expected to approach \$350 billion. Goldman, Sachs & Co. predicts \$4.7 trillion in deficits over the next decade, a figure that includes the extension of President Bush's tax cuts, a fixed Alternative Minimum Tax, and the costs of the wars in Iraq and Afghanistan.
- 9) **These deficits won't shrink.** In 2011, the costs of the tax cuts, if extended, and the prescription drug bill will add more than \$500 billion to the deficit, including added interest payments, according to estimates by the Congressional Budget Office.
- 10) **This endangers our economic independence.** Foreign investors bought 78% of new Treasury debt between March 2001 and March 2006. The quarterly interest payments from the federal government to foreign lenders increased to \$33 billion from \$20 billion; over the same period, the share of U.S. foreign-held debt grew to 48% from 32%.
- 11) **Energy prices soar.** Prices at the pump have risen from \$1.40 in March 2001 to \$3.00 at the end of July 2006. By the end of July 2006, oil prices per barrel were \$75 — more than double the level in March 2001, when oil cost less than \$27 per barrel.
- 12) **Record trade deficits mount.** In the first quarter of 2006, the trade deficit stayed at 5.9% of the Gross Domestic Product.

In the summer of 2006, America's middle class continues to struggle and the economy remains on an unsustainable path.

Household Debt Relative to Personal Disposable Income (PDI), 1952 to 2006



Calculations based on Board of Governors, Federal Reserve, 2006, Flow of Funds Accounts of the United States, Washington.

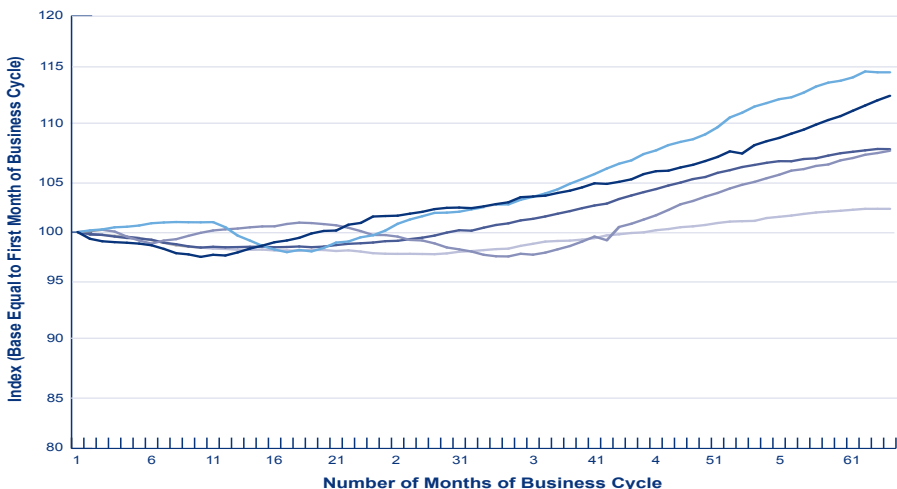
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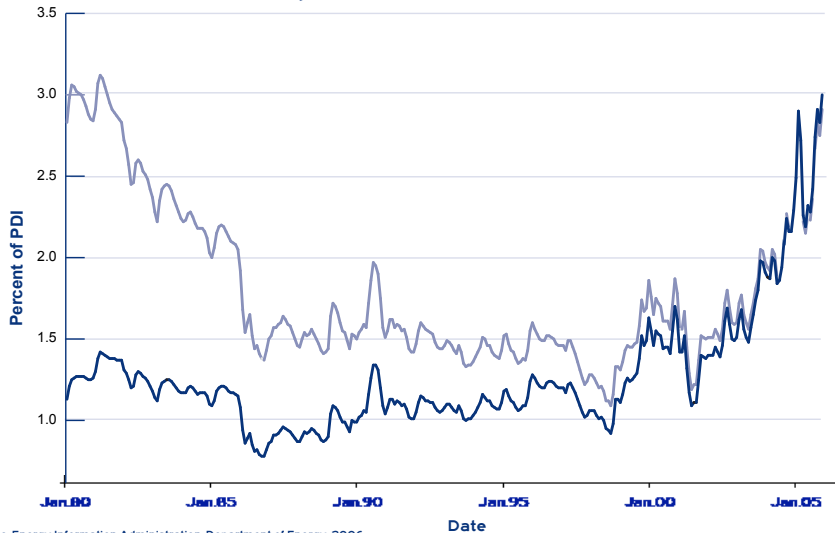
Monthly job growth since March 2001 has averaged an annualized 0.4%. Even since the 2003 tax cut, job growth averaged only 1.3% — the lowest for this period of any recovery of the same length.

Employment Growth in Business Cycles That Lasted at Least 64 Months, Indexed to First Month of Business Cycle



Calculations based on Bureau of Labor Statistics, 2006, Current Employment Survey, Washington, D.C.: BLS.

Nominal and Inflation Adjusted Gasoline Prices (\$/Gallon), 1980 to 2006



Source: Energy Information Administration, Department of Energy, 2006, Short-Term Energy Outlook, Washington, D.C.: EIA. Prices for July are EIA forecasts.

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