



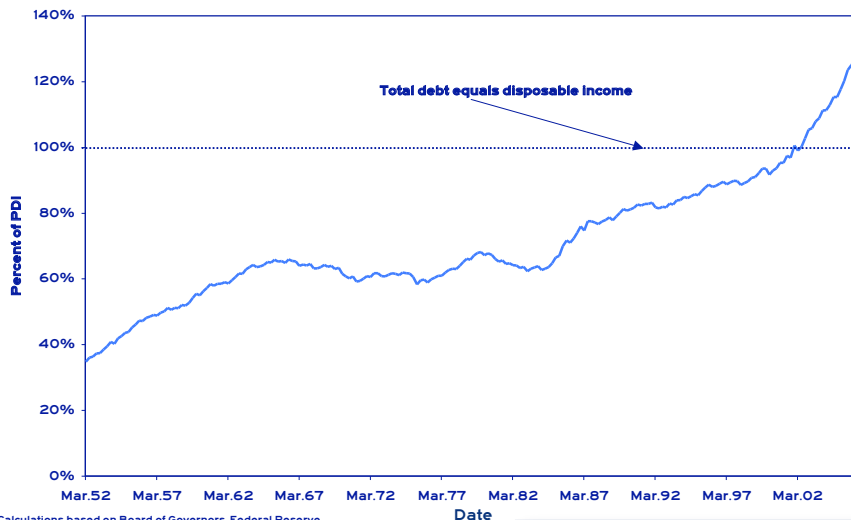
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In the summer of 2006, America's middle class continues to struggle and the economy remains on an unsustainable path. In the current business cycle that began in March 2001, middle-class families borrowed record amounts of debt amid sharp price increases, 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 0.7% higher and weekly wages were essentially the same in May 2006 as in March 2001. Wages were actually lower in May 2006 than in November 2001, when the recovery started.
- 2) **While 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 late 2005, families had to spend 13.9% of their disposable income to service their debt — the largest share since 1980.
- 4) **As savings plummet.** The personal savings rate of -1.4% in the first quarter of 2006 was the second 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.** 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.
- 6) **The unemployment rate overstates the strength of the labor market.** Since the employed share of the population has stayed low, millions of workers have given up looking. Had the employed share of the population not dropped since March 2001, there would be 2.7 million more jobs, or the unemployment rate would be 6.3%.
- 7) **As 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, including the extension of President Bush's tax cuts, fixing the Alternative Minimum Tax and the costs of the wars in Iraq and Afghanistan.
- 9) **And 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 79% of new Treasury debt between March 2001 and March 2006. Over the same period, the share of foreign-held debt grew to 49% from 32%, and quarterly interest payments from the federal government to foreign lenders grew to \$32 billion from \$20 billion.
- 11) **As energy prices soar.** Prices at the pump have risen from \$1.40 in March 2001 to \$2.93 at the end of June 2006. By the first week 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) **And record trade deficits mount.** In the first quarter of 2006, the trade deficit stayed at 6% of Gross Domestic Product.

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

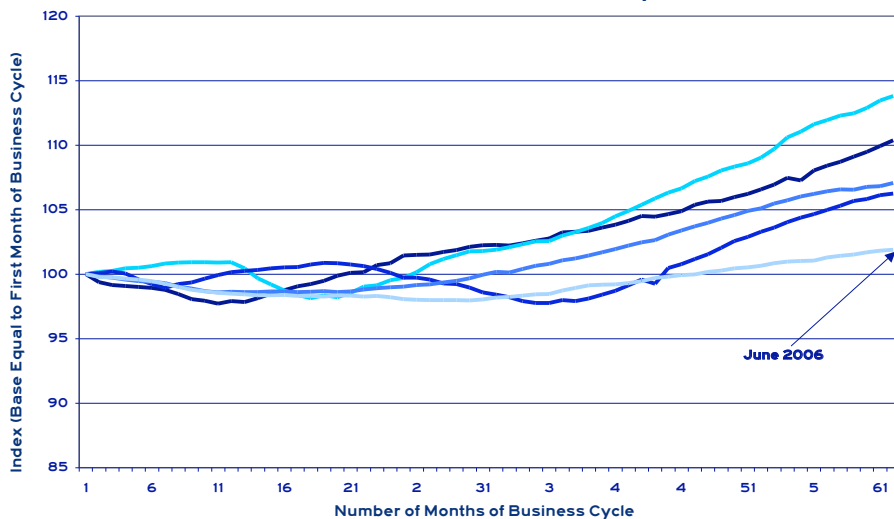


Calculations based on Board of Governors, Federal Reserve, 2006, Flow of Funds Accounts of the United States, Washington.

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Employment Growth in Business Cycles That Lasted at Least 61 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. Gasoline prices for July are for the first week of July. Prices for July are the July forecast from the EIA.

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