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THE MIDDLE-CLASS SQUEEZE

PREPARED FOR
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EXECUTIVE SUMMARY

President Bush took office with the nation prospering under excellent economic conditions: the budget was in surplus, jobs were being created at record levels, and the inflation and unemployment rates were low. Over the last six years, however, these economic fundamentals have eroded, with the deficit rising, job growth slowing, and inflation now reaching its highest levels in fifteen years.

This report analyzes the impact of these economic trends on middle-class families. Since President Bush took office in January 2001, real incomes have fallen, while the costs of health insurance, gasoline and home heating, and attending college have soared, creating a middle-class economic squeeze. The report finds:

- **Real incomes for middle-class families have declined.** For the median family, real annual incomes have declined from \$47,599 in 2000 to \$46,326 in 2005, a drop of 2.7%. For working-age families — those headed by adults younger than 65 — the decline has been even steeper. For these families, median annual incomes have declined from \$55,284 in 2000 to \$52,287 in 2006, a drop of 5.4%
- **Prices for health insurance, energy, and education have risen rapidly.** Three key expenses for middle-class families are the costs of health insurance, energy, and college education. In all three areas, price increases have outstripped inflation. In real terms, the cost of health insurance has increased 48%, the cost of gasoline

has increased 57%, and the cost of college education has increased 39% since 2000.

- **The middle class is being squeezed.** The combination of declining real incomes and increasing expenses reduces the standard of living for the middle class. In real terms, health insurance costs have increased by nearly \$900, gasoline and other energy costs have increased by over \$2,300, and college education costs have increased by over \$1,500 since 2000. The median U.S. family facing these three expenses would have seen its real income drop by almost \$1,300 since 2000, while its real expenses would have increased by almost \$5,000.

Middle-Class Families Are Squeezed by Lower Incomes and Increasing Costs



I. BACKGROUND AND METHODOLOGY

President Bush took office in January 2001 with the nation's economy in excellent condition. Record deficits had been turned into multi-billion dollar surpluses; incomes were rising for Americans of all economic classes; job growth was at historically high levels; and both unemployment and inflation were low.

Over the last five years, these economic indicators have deteriorated. A surplus of over \$200 billion in 2000 became a deficit of over \$300 billion in 2005. The unemployment rate increased by almost 50% within the first three years of President Bush taking office and remains half a percentage point higher today than it was in January 2001. Job creation slowed significantly, with the economy losing almost 1.5 million workers in the first four years of the Bush Administration. And now, after remaining at moderate levels for the first four years of the Bush Administration, inflation has increased by 3.8% over the last twelve months. This is the highest inflation rate in fifteen years.

At the request of Democratic Leader Nancy Pelosi and Rep. Henry A. Waxman, this report examines the impact of these economic trends on the average middle-class family in America.

The data in used in this report comes from the following sources:

- The data on household incomes is from the information on median household income published on an annual basis by the US Census;
- The data on health insurance costs is from a survey by the Kaiser Family Foundation;
- The data on gasoline and other energy costs is from the U.S. Energy Information Administration; and
- The data on the costs of college education is from a report by the College Board.

II. FINDINGS

Since President Bush took office in January 2001, middle-class families have seen their real incomes decline while the real costs of key goods and services have risen. These opposing forces have created an economic squeeze that has eroded the standard of living for middle-class families throughout the United States.

A. Middle-Class Incomes Are Declining

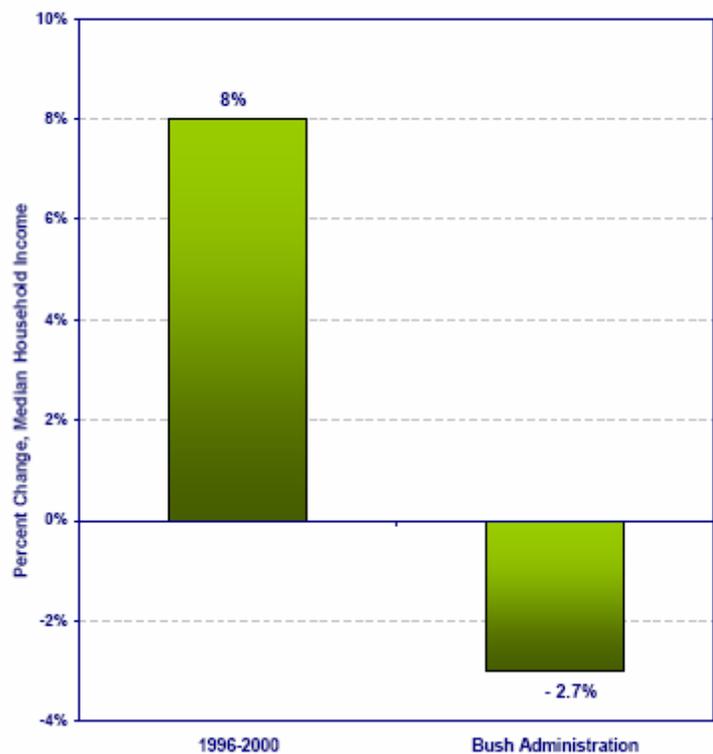
In the five years before President Bush took office, real median household income increased by over 8%. Real incomes increased for six of the eight years of the Clinton presidency.¹

Under President Bush, this trend has been reversed. Between 2000 and 2005, real median household incomes in the United States declined by 2.7%. Real median household incomes declined for each of the first four years of the Bush Administration, falling by as much as 2.2% annually. While real median income increased slightly last year (by 1.1%), this small increase could not make up for the declines in the previous four years. Overall, real median income has declined by \$1,273 since President Bush took office, from \$47,599 in 2000 to \$46,326 in 2005.²

Working-age families — those headed by adults younger than 65 — have faced even steeper declines. For these families, in the five years before President Bush took office, real median household income increased by 9%.³ But between 2000 and 2005, real median household incomes for working-age families in the United States fell every year, declining by 5.4%. For these families, real median income has declined by almost \$3,000 since President Bush took office, from \$55,284 in 2000 to \$52,287 in 2005.⁴

Figure 1.

Figure 1: Middle Class Incomes Have Declined Since President Bush Took Office



¹ U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United State, 2005* (Sept. 2006).

² *Id.*

³ U.S. Census Bureau, *supra* note 1. Analysis by Center on Budget and Policy Priorities (Sept. 2006).

⁴ *Id.*

B. Health Insurance Costs Have Increased by Almost \$1,000 Annually

Increasing health insurance costs are placing a significant strain on middle-class families. In 2000, workers paid an average of \$153 per month for health insurance coverage for their families.⁵ By 2005, these costs had increased to \$226 monthly.⁶ In real terms, health insurance costs for the average worker increased by \$876 annually between 2000 and 2005. This is a real increase of 48%. Figure 2.

These rapidly rising health insurance costs reverse the trends under the Clinton Administration. Between 1996 and 2000, the cost of health insurance for workers remained essentially stable relative to the inflation rate. Monthly insurance costs relative to inflation were \$151 in 1996, and \$153 in 2001.⁷

Figure 2: Health Insurance Costs For Working Families Have Increased by Almost \$1,000 Annually



C. Gasoline, Home Heating, and Other Energy Costs Have Increased by Over \$2,000 Annually

Energy prices — including prices for gasoline, home heating, and other forms of energy — have risen rapidly over the last five years.

Although gasoline prices have moderated in recent weeks, they remain historically high. This week, gas prices averaged \$2.67 per gallon.⁸ Before President Bush took office, gasoline prices were significantly lower, costing only \$1.60 per gallon six years ago.⁹

⁵ Costs are expressed in constant 2005 dollars. Kaiser Family Foundation, *Trends and Indicators in the Changing Health Care Marketplace* (2006). The costs shown do not include the employer's share of the costs of health insurance.

⁶ *Id.*

⁷ Costs are expressed in constant 2005 dollars. *Id.*

⁸ Energy Information Administration, *Weekly Retail Gasoline Prices* (2006).

⁹ *Id.*

On an annual basis, gasoline cost an average of \$1.52 per gallon in 2000.¹⁰ It is projected to cost an average of \$2.71 this year.¹¹ This is a real increase of 52%. After adjusting for inflation, the average family will spend over \$1,000 more on gasoline this year than the average family did in 2000.¹² Figure 3.

In addition to high gasoline costs, middle-class families are facing higher costs for natural gas, heating oil, propane, and electricity. Relative to the inflation rate, natural gas costs are expected to be 69% higher than they were in 2000; heating oil costs are expected to be 73% higher; propane costs are expected to be 59% higher, and electricity costs are expected to be 8% higher. Overall, after adjusting for inflation, increased heating and electricity prices will cost the average American family \$155 more in 2006 than they spent in 2000.¹³

Middle-class families also pay billions of dollars in indirect costs due to higher energy prices. These indirect costs are the result of higher jet fuel prices; higher gasoline and diesel prices for commercial fleets; and higher natural gas costs for industrial and commercial users. After adjusting for inflation, they will cost large and small businesses over \$130 billion more this year than they spent in 2000.¹⁴ Assuming that these added costs are passed through to consumers, they will cost, in real terms, an average of \$1,150 per household this year.

Overall, including both the direct and indirect cost increases, increased gasoline and energy prices will cost middle-class families \$2,360 more this year than in 2000.

Figure 3: Higher Gasoline Prices Are Costing Working Families Over \$1,000 Annually



¹⁰ Energy Information Administration, *Annual Retail Gasoline Prices* (2006).

¹¹ Energy Information Administration, *Short Term Energy Outlook* (Sept. 2006).

¹² Cost increases are adjusted for inflation and expressed in constant 2006 dollars. The calculation of increased costs is based on estimates that the average American family uses 1,143 gallons of gasoline annually. EIA, *US Household Vehicle-Miles Traveled, Vehicle Fuel Consumption, and Expenditures* (2001).

¹³ Although prices for heating oil, propane, and natural gas this year are far higher than in 2000, actual expenditures for families are only expected to be slightly higher. This is because the winter of 2000-2001 was extremely cold, resulting in greater use of heating fuels. This winter, prices will be much higher, but the use of heating fuels is expected to be much lower, moderating the total price increase. EIA, *Short-Term Energy Outlook, Table WF-01, Selected U.S. Average Consumer Prices and Expenditures for Heating Fuels During the Winter* (Sept. 2006); EIA, *Short Term Energy Outlook, Table 4: U.S. Energy Prices Base Case* (Sept. 2006).

¹⁴ These cost increases, adjusted for inflation, include \$65 billion in fuel costs for the short- and long-haul trucking industry; \$15 billion in jet fuel costs for the aviation industry; and \$49 billion in increased electricity and natural gas costs for industrial and commercial users. A report prepared by the minority staff of the Government Reform Committee provides additional details about the methodology used in these calculations. See Minority Staff, Special Investigations Division, House Committee on Government Reform, *The Bush Administration Energy Policy: A Five Year Review* (May 2006). The calculations in this analysis are based upon baseline prices in 2000, are adjusted for inflation, and are updated to reflect the latest estimates of energy and fuel costs.

D. College Costs Have Increased by Over \$1,500 Annually

The cost of a college education has increased dramatically over the last five years. The cost of attending a four-year public university during the 2000-2001 academic year was \$3,925. The cost during the 2005-2006 academic year was \$5,491.¹⁵ In real terms, this represents an increase of \$1,566 annually, a 39% increase. Figure 4.

Like health care costs, the cost of a college education has increased at a much faster rate since President Bush took office. Between 1996 and 2000, the costs of tuition and fees increased by an average of 2% above the inflation rate.¹⁶ Since 2001, the real rate of increase has more than tripled, increasing by almost 7% annually above the inflation rate.¹⁷ In the 2003-2004 academic year, tuition and fees at public universities increased by 11%, a ten-year high.¹⁸

Middle class families have had an even more difficult time paying for college because of the decline in federal student aid. While campaigning for office in 2000 and 2004, President Bush promised to increase this assistance and give students “more access to and more choice in higher education.”¹⁹ But over the last five years, there has been no increase in the financial support available to eligible students through the Pell Grant program, the federal program that provides grants to low- and middle-income students.²⁰ At the same time, interest rates for student loans, the other major source of federal education assistance, have increased to their highest levels in 16 years.²¹

Figure 4: The Cost of a College Education Has Increased by Over \$1,500 Annually Since 2000



¹⁵ The College Board, *Trends in College Pricing, 2005* (2005).

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Bush Proposes Pell Grant Raise*, University Wire (Sep. 8, 2000).

²⁰ Office of Management and Budget, *Budget for the U.S. Government: FY 2007* (Feb. 2006).

²¹ P.L. 107-139.

V. CONCLUSION

Under the Bush Administration, middle-class families are facing an increasingly difficult time making ends meet. Since 2000, median household income has dropped by almost \$1,300 when adjusted for inflation. Working-age families have faced an even bigger decline, with real incomes for these families declining by almost \$3,000. At the same time, average annual health insurance costs have increased by almost \$900; average annual energy and gasoline costs have increased by over \$2,300; and the average annual costs of a college education have increased by over \$1,500. The median U.S. family facing these three expenses would have seen its real income drop by almost \$1,300 since 2000, while its real expenses would have increased by almost \$5,000. The net result is an economic squeeze that is undermining the standard of living for middle-class families. Figure 5.

Figure 5: Middle-Class Families Are Squeezed by Lower Incomes and Increasing Costs

