HARVARD LAW SCHOOL
CAMBRIDGE, MASSACHUSETTS

ELIZABETH WARREN
LEO GOTTLIEB PROFESSOR OF LAW

PHONE: 617 495 3101
FAX: 617 496 6118
EWARREN@LAW.HARVARD.EDU

The New Economics of the Middle Class: Why Making Ends Meet Has Gotten Harder

by

Elizabeth Warren
Leo Gottlieb Professor of Law
Harvard Law School

Testimony Before
Senate Finance Committee
May 10, 2007

America's strength comes from her middle class. These are the people who drive the economy, who teach the children, who police the streets and fight the wars, who vote in large numbers and who pay billions in taxes.

The definition of the middle is always elusive, but my focus today is on the middle, those with household incomes from about \$20,000 to \$100,000.[1] In fact, most of my testimony will be about the millions of households who live on incomes close to the exact middle in the US, or about \$46,300.[2]

In the last generation, middle class families have undergone a powerful economic transformation that has attracted little attention, but that is quietly reshaping the face of

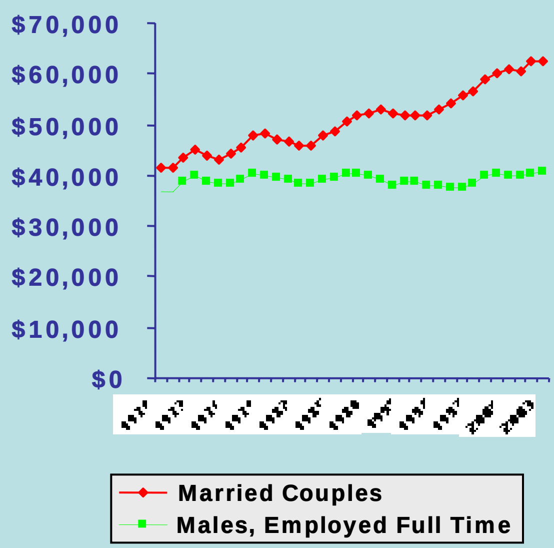
America. America's middle class is struggling, caught in a vise of stagnant incomes and rising costs and set upon by a largely-unregulated consumer credit industry that has reaped billions of dollars in profits from families' troubles. The economic rules have changed, leaving millions of hard-working, play-by-the-rules families caught in a battle for economic survival.

Higher Incomes, But at a Price

Over the past generation, new economic forces have reshaped the middle class. The most profound changes have taken place in family income.

As Figure 1 shows, today's median-earning family is making a lot more money than their parents did a generation ago. (Throughout this discussion, all dollar figures will be adjusted for the effects of inflation.)[3]

Figure 1: Median Income
Married Couples and Fully-Employed Males, 1970 – 2004



Source: U.S. Census Bureau
Adjusted for Inflation

But there are two lines on Figure 1. The second line shows what has happened to the wages of a fully-employed male over the same time period. As the data show, the typical man working full-time today, after adjusting for inflation, earns about $800 less than his father earned back in the early 1970s. After decades of rising incomes earlier in the 20th Century, about thirty years ago wages for middle class men flat-lined.

When wages quit increasing, how did family incomes rise? The answer is all around us. Mothers of minor children went back to work in record numbers, and many increased the hours they worked. In the early 1970s, the median family lived on one paycheck. Today the family in the middle brings home two paychecks.

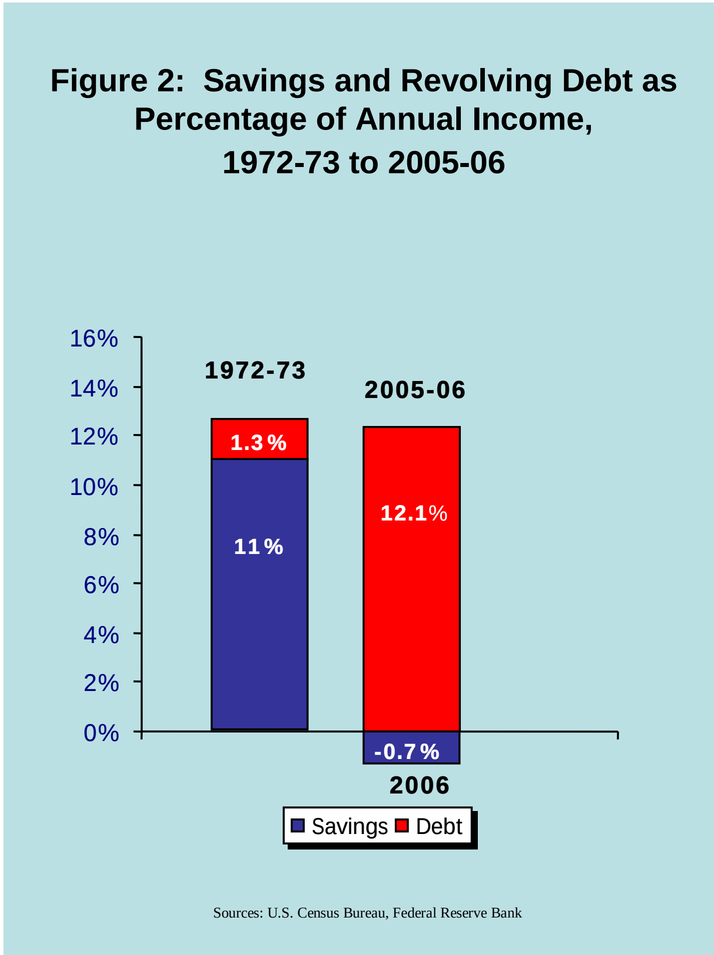
The shift from one income to two has had seismic implications for families across America. It means that all the growth in family income came from adding a second earner. Among two-paycheck families, median income is now $76,500, but the middle one-paycheck family now earns only $42,300.[4] This means that one-income households—whether they are couples in which one works and one stays at home or they are households with only one parent—have fallen sharply behind. A generation ago, a one-earner family was squarely in the middle, but now that average one-earner family has slipped down the economic ladder. Over the past generation, this is only the first of many critical economic divisions that have begun to emerge within the middle class.

Savings and Debt

While not every family brought home two paychecks, by the early 2000s a substantial majority of families sent both parents into the workforce. For those two-income families, an outsider might predict that the economic picture would be rosy. Not so.

In the early 1970s, the typical one-income family was putting away about 11% of its take-home pay in savings.[5] In addition to its mortgage and car loan, that typical family also carried credit cards and other revolving debt that, on average, equaled about 1.3% of its annual income.[6]

By 2005, that picture had shifted dramatically. The national savings rate dropped below zero.[7] Revolving debt—largely credit cards—ballooned, topping 12% of the average family's income.[8]



In a single generation the family had picked up a second earner, but it had spent every dollar of that second paycheck. Worse yet, it had also spent the money it once saved and it had borrowed more besides.

By the most obvious financial measures, the middle class American family of the 21st Century is beginning to sink financially.

Over-Consumption—The Standard Story

There is no shortage of experts who are willing to explain exactly where the money went. The story is all about over-consumption, about families spending their money on things they don't really need. Economist Juliet Schor blames "the new consumerism," complete with "designer clothes, a microwave, restaurant meals, home and automobile air conditioning, and, of course, Michael Jordan's ubiquitous athletic shoes, about which children and adults both display near-obsession."[9] Sociologist Robert Frank claims that America's newfound "Luxury Fever" forces middle-class families "to finance their consumption increases largely by reduced savings and increased debt."[10] John de Graaf and his coauthors claim that the "urge to splurge" is an affliction affecting millions of Americans who simply have no willpower.[11] The distinction is critical: According to these critics, over-consumption is not about medical care or basic housing, and it isn't about buying a few goodies with extra income. It is about going deep into debt to finance consumer purchases that sensible people could do without.

The beauty of the Over-Consumption story is that it squares neatly with many of our own intuitions. We see the malls packed with shoppers. We receive catalogs filled with outrageously expensive gadgets. We think of that overpriced summer dress that hangs in the back of the closet or that new power drill gathering dust in the back of the garage. The conclusion seems indisputable: the "urge to splurge" is driving folks to spend, spend, spend like never before.

But is it true? Deep in the recesses of federal archives is detailed information on Americans' spending patterns going back for more than a century. It is possible to analyze data about typical families from the early 1970s and from the early 2000s, carefully sorting spending categories and family size.[12] If today's families really are blowing their paychecks on designer clothes and restaurant meals, then the expenditure data should show that they are spending more on these frivolous items than their parents did a generation earlier. But the numbers point in a very different direction.

Start with clothing. Everyone talks about expensive sneakers, designer outfits, and the latest fashions. How much more is today's typical family of four spending on clothing than the typical family spent in the early 1970s? They are spending *less*, a whopping 32% less today than they spent a generation ago.[13] The differences have to do with how people dress (fewer suits and leather shoes, more T-shirts and shorts), where they shop (more discount stores), and where the clothes are manufactured (overseas). Compared with families a generation ago, today's median earners are downright thrifty.

How about food? People eat out now more than ever before, and bottled water turns something that was once free into a $2 purchase. How much more is today's family of four spending on food (including eating out) than the typical family in the early 1970s? Once again, they are spending less, about 18% less.[14] The reasons are that people eat differently (less meat, more pasta), shop differently (big discount super-centers instead of corner grocery stores) and agribusiness has improved the efficiency of food production.

What about appliances? Families today have microwave ovens, espresso machines and fancy washers and dryers. But those appliances aren't putting a big dent in their pocketbooks. Today's family spends about 52% less each year on appliances than their counterparts of a generation ago.[15] Today's appliances are better made and last longer, and they cost less to buy.

Cars? Surely luxury vehicles are making a difference. Not for the median family. The per-car cost of owning a car (purchase, repairs, insurance, and gas) was on average about 24% lower in 2004 than in the early 1970s.[16]

That is not to say that middle-class families never fritter away any money. A generation ago no one had cable, big-screen televisions were a novelty reserved for the very rich, and DVD and TiVo were meaningless strings of letters. Families are spending about 23 percent more on electronics, an extra $225 annually. Computers add another $300 to the annual family budget.[17] But the extra money spent on cable, electronics, and computers is more than offset by families' savings on major appliances and household furnishings alone.

The same balancing act holds true in other areas. The average family spends more on airline travel than it did a generation ago, but it spends less on dry cleaning. More on telephone services, but less on tobacco. More on pets, but less on carpets.[18] And, when it is all added up, increases in one category are pretty much offset by decreases in another. In other words, there seems to be about as much frivolous spending today as there was a generation ago.

Where Did the Money Go?

Consumer expenses are down, but the big fixed expenses are up—way up. Start at home. Style Section headlines are all about McMansions, granite countertops and media rooms. But today's median family buys a three-bedroom, one-bath home—statistically speaking about 6.1 rooms altogether.[19] This is bigger than the 5.8 rooms the median family lived in during the early 1970s, but only modestly so. At the same time, the price tag—and the resulting mortgage payment—is much bigger. In 2004, the median homeowner was forking over a mortgage payment that was 76% larger than a generation earlier.[20] The family's single biggest expense—the home mortgage—had ballooned from $485 a month to $854. (Remember that all the numbers have already been adjusted for inflation.)

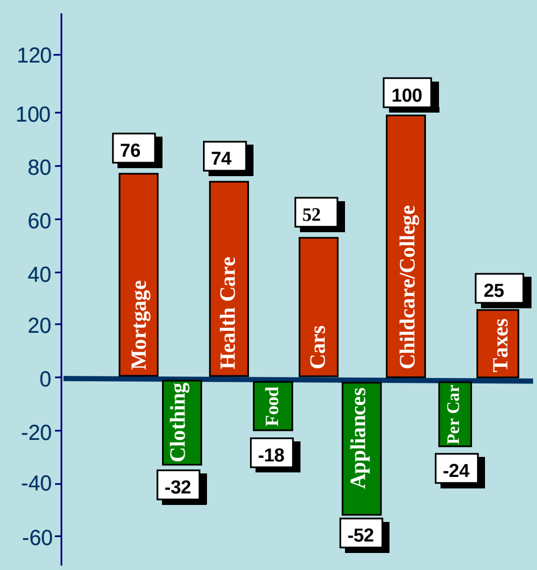
Increases in the cost of health insurance have also hit families hard. Today's family spends 74% more on health insurance than their earlier counterparts—if they are lucky enough to get it at all.[21] Costs are so high, that 48 million working-age Americans simply went without coverage last year.[22]

The per-car cost of transportation is down, but the total number of cars is up. Today's family has two people in the workforce, and that means two cars to get to work. Besides, with more families living in the suburbs, even a one-earner family needs a second car for the stay-at-home parent to get to the grocery store and doctors' appointments. Overall transportation costs for the family of four have increased by 52%.

Another consequence of sending two people into the workforce is the need for childcare. Because the median 1970s family had someone at home full-time, there were no childcare expenses for comparison. But today's family with one pre-schooler and one child in elementary school lays out an average of $1048 a month for care for the children.[23]

Even when the children are past the daycare years, the costs keep multiplying. Ask any parent about how much it costs to send a child to public school—band, sports, fees, fund raisers—as well as the costs of after-school care. For parents facing the college years, the news is even worse. The cost of sending a child to college has doubled in twenty years, at the same time that a family's ability to save for college continues to fall.[24]

Figure 3: Median Family Spending by Category, Percent Change, 1972 – 2005



Source: Updated from sources cited in *The Two-Income Trap*

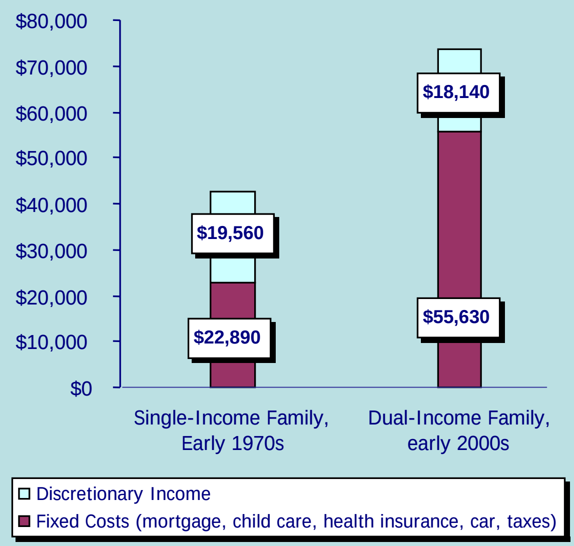
Taxes also take a bigger bite from the two-income family of 2004. Because their second income is taxed on top of their first income, the average tax rate is 25% higher for a two-income family in 2004 than it was for a one-income family in 1972.[25]

The ups and downs of family spending over the past generation are summarized in Figure 3. Notice that the biggest items in the family budget—the mortgage, taxes, health insurance, child care are all on the up side. Reduced spending—food, clothing, and appliances—are all relatively smaller purchases.

Also notice that the items that went down were more flexible, the sorts of things that families could spend a little less on one month and a little more on the next. If someone lost a job or if the family got hit with a big medical bill, they might squeeze back on these expenses for a while. But the items that increased were all fixed. It isn't possible to sell off a bedroom or skip the health insurance payment for a couple of months. If both parents are trying to work, childcare costs will go on even during a job search. The increases occurred among expenses that a family must meet month after month, in good times and in bad.

When it is all added up, the family in the 2000s has a budget that looks very different from that of its early 1970s counterpart. As Figure 4 shows, there is more income, but the relationship between income and fixed expenses has altered dramatically.

Figure 4: Fixed Costs as a Share of Family Income, 1972-2005



Source: Adjusted for Inflation. Updated from sources cited in *The Two-Income Trap*

The family of the 1970s had about half its income committed to big fixed expenses. Moreover, the typical 1970s family had one stay-at-home parent, someone who could go to work to earn extra income if something went wrong. By contrast, the family of 2004, has already put everyone to work so there is no extra income to draw on if trouble hits. Worse yet, even with two people in the workforce, after they pay their basic expenses, today's two-income family has less cash left over than their one-income parents had a generation ago.

New Risks for the Middle Class

The numbers make it clear that the cost of being middle class is rising quickly—much more quickly than wages. Many families have tried to cope by sending both parents into the workforce. But that change has helped push up costs, and it has increased the risks these families face. They now have no backup worker. Instead, they now need both parents working full-time just to make the mortgage payment and keep the health insurance. And when they need twice as many paychecks to survive, they face twice the risk that someone will get laid off or become too sick to work—and that the whole house of cards will come tumbling down.

The new two-income family faces other risks as well. Back in the 1970s, when a child was ill or grandma broke her hip, there was a parent at home full-time to deal with the needed care, to administer medications and drive to doctors' appointments. But someone in the family with no parent at home must take off work whenever anyone else in the family has a serious problem. As a result, problems that were once part of the ordinary bumps of life today have serious income consequences.

New risks keep multiplying. A trip to the emergency room can easily cost $10,000. A child who needs tutoring or car that needs significant repairs can put an already strained budget into the red zone. Savings have fallen and families are in debt even before something goes wrong. Retirement presents another risk, as generous pensions disappear and even the social security back up system looks shaky.

Some will read these data and conclude that one parent should just stay home. Whatever the advantages and disadvantages of that idea from a social or psychological perspective, it is clearly a losing proposition from an economic perspective for all but the most well-to-do families. Go back to the first graphic and look at what a fully employed male can earn (and remember that a fully-employed female will earn even less). Then look at the big, fixed expenses. Sure, the family can save on childcare and taxes will be lower, but the house payment and the health insurance stay the same, and car expenses are unlikely to drop by much. That leaves the median one-income family with a 71% drop in discretionary income compared with a one-income family a generation ago. In other words, today the two-income family can barely afford the basics, and the median one-income family is simply out of luck.

What do these data say to one-parent families? These families get the worst of both worlds. They have no partner to provide childcare every day and no back-up earner when something goes wrong. In those ways, they look like the typical two-income family—except that they don't have that second income either. A typical one-parent household cannot cover even the basic expenses that would put that family squarely in the middle of American economic life.

It is no surprise that an increasing number of middle class families turned to bankruptcy. From 1980 until federal law was changed in 2005, the number of households filing for bankruptcy quadrupled.[26] By 2004, more children were living through their parents' bankruptcy than through divorce.[27] In fact, households with children were about three times more likely to file for bankruptcy than their childless counterparts. What were the main reasons cited for these bankruptcies? About 90% of the families cited some combination of job loss, medical problems or family breakup.[28]

Thinking About Solutions

The pressures on the middle class have come from many sources, which is both the good news and the bad news. It is bad in the sense that no single silver bullet will fix everything. But it is good in the sense that many different approaches can make things better—much better—for families across the economic spectrum.

There are five areas where Congress could make changes that would have a powerful impact on the economic security of middle class families.

- Health care and disability protection
- College
- Pre-school education
- Public schools
- Credit safety

Each of these areas has its own experts, and policy changes are justified on a number of grounds. But I want to put the focus today on middle class family economics.

Health Care and Disability Protection.

Finding better health care solutions in America is not simply about bringing the uninsured under the tent of insurance. That is an important goal, but it does not address a far more profound point: Even insured families are getting squeezed. The extraordinary rise in the costs families pay for health care has been exceeded by the amounts that employers are paying—for the lucky people who have access to employer-sponsored health care. For many employees, what might have been a rise in wages has been siphoned off to ever-increasing health insurance costs.

As insurance becomes more expensive, many companies cut costs by providing less and less coverage. Recent research revealed that about half of all the families in bankruptcy were filing in the aftermath of a serious medical problem.[29] The more shocking finding, however, was that three-quarters of those who described their bankruptcies as related to medical problems had health insurance at the onset of their illnesses or accidents. Health insurance is not an on-off switch, providing adequate coverage to every person who has it. There is much room for improvement.

Disability insurance has also been overlooked in our national discussion of health insurance. In the age of families living close to the economic edge, disability insurance can be all that stands between them and financial ruin. Unfortunately, a majority of workers do not have any private long-term disability insurance, and only a handful of states provide coverage for their residents.[30] Unemployment insurance offers no relief because most states require that an individual be "able" to work in order to qualify for benefits.[31] Fortunately, there is some good news here. Fixing the disability coverage problem may be easier than solving the health insurance crisis, because the apparatus already exists. Virtually every worker in America has long-term disability coverage through the Social Security Disability Insurance (SSDI) program. All that remains is to close the holes in the SSDI safety net, many of which are big enough to drive a truck through.

The uninsured were once only the very poor and the very young. Today, middle class families with decent jobs are increasingly counted among those with no insurance. Why? Because they cannot afford the premiums. Health insurance is becoming a luxury item, and hard-working families are forced to make choices between mortgage payments and health insurance premiums. Fixing a broken health care system is no longer about benefits for the poor. It is now about survival for the middle.

College

Americans see a college degree as the single most important determinant of a young person's chances of future success, their ticket to the future.[32] But it is becoming harder than ever for families to pay for that ticket. Costs are rising and family savings are falling, and that leaves many middle class families deeply worried. And as students increasingly try to shoulder the burden, many are graduating deep in debt—tempering the good news of higher earning potential with the higher risks associated with debt. Many others, including almost 20 percent of low-income high school graduates with high test scores, do not manage to enroll in college at all within two years of graduation.[33]

The high costs of college have hit middle class families especially hard. As a group, these students are unable to rely on family income or savings to pay for college, so they shoulder large debt loads. Every cut in the federally funded student loan program is a cut felt directly by middle class families. Policy tradeoffs pit low-income students, eligible for grants, against moderate-income students who must rely on loans, leaving both groups scrambling to try to find a way to pay for the college educations they need.

Underfunding grant programs for low-income students is a mistake, but making middle class students pay for increases in grant programs by cutting their access to loan programs is a bigger mistake. College is the ticket to security and success. A new financing mechanism is essential, one that lets students take responsibility for the cost of their own educations without burdening their families unduly, forcing them to make career choices that push them out of public service, or taking on so much debt that their economic futures look bleak.

Any person—regardless of income—who is willing to work hard should have a realistic chance to get a college education and to pay for it without mortgaging the future. Adequate federal loans should be made available to every student in the country, with enough money to cover four years of room, board, tuition and books (pegged to state university costs). After graduation, repayment options should include public service, as well as dollar repayment.[34] A year of college expenses could be forgiven for each year the graduate works in public service.[35] With such a program, typical students could begin adult life debt-free at age 26, with a college diploma and four years of work experience already in hand. Those who go to college later in life would also have the opportunity to participate in the loan forgiveness program. Equally important, giving college students an opportunity to repay loans through public service would provide an opportunity for young Americans to contribute vital services to their nation and their communities.

Pre-School Education

Over the past generation, the image of preschool has transformed from an optional stopover for little kids to a prerequisite for elementary school. Parents have been barraged with articles telling them that early education is important for everything from "pre-reading" skills to social development. As one expert in early childhood education observes, "In many communities around the country, kindergarten is no longer aimed at the entry level. The only way parents can get their child prepared is through a pre-kindergarten program."[36]

Middle-class parents have stepped into line with the experts' recommendations. Today, nearly two-thirds of America's three- and four-year-olds attend preschool, compared with just 4 percent in the mid-1960s.[37] This isn't just the by-product of more mothers entering the workforce; nearly half of all stay-at-home moms now send their kids to a pre-kindergarten program. As *Newsweek* put it, "The science says it all: preschool programs are neither a luxury nor a fad, but a real necessity."[38]

But the costs are staggering. In 2002, a full-day program in a pre-kindergarten offered by the Chicago public school district costs $6,500 a year—more than the cost of a year's tuition at the University of Illinois.[39] According to one study, the annual cost for a four-year-old to attend a child care center in an urban area is more than double the price of college tuition in fifteen states.[40] Today's middle-class families simply spend and spend, stretching their budgets to give their child the fundamentals of a modern education.

This problem can be fixed by extending the scope of public education. If Americans generally believe that educational programs should begin at age three, why should public education wait to kick in at age five or six? The decision about how old children should be when they start school was made more than a century ago, when views about the learning capacity of young children were very different. The absence of publicly funded preschool is an anachronism, one that could easily be remedied.

Preschool and college, which now account for one-third (or more) of the years a typical middle-class kid spends in school, are paid for almost exclusively by the child's family. Helping families with these expenses would give them much-needed relief.

Public Education

Failing public schools have an impact on the children trapped in them, but they also impose a terrible burden on the families struggling to escape them. Failing public schools translate directly into higher housing costs for middle class families as they try to escape those school. Home prices have grown across the board (particularly in larger urban areas), but the brunt of the price increases has fallen on families with children. The home value for the average childless couple increased by 58 percent between 1984 and 2004—an impressive rise in less just twenty years.[41] (Again, these and all other figures are adjusted for inflation.) For married couples with children, however, housing prices shot up 145 percent during this period—nearly three times faster.[42]. To put this in dollar terms, in 1984 the average married couple with young children owned a house worth about $77,000 in today's dollars. Less than twenty years later, a similar family bought a similar house worth $188,000—an increase of more than $110,000, and mortgage costs shot up at the same time.

Homes can command a premium for all sorts of amenities, such as a two-car garage, proximity to work or shopping, or a low crime rate. A study conducted in Fresno (a midsized California metropolis with 400,000 residents) found that, for similar homes, school quality was *the single most important determinant of neighborhood prices*—more important than racial composition of the neighborhood, commute distance, crime rate, or proximity to a hazardous waste site.[43] A study in suburban Boston showed the impact of school boundary lines. Two homes located less than half a mile apart and similar in nearly every aspect, will command significantly different prices if they are in different elementary school zones.[44] Schools that scored just 5 percent higher on fourth-grade math and reading tests added a premium of nearly $4,000 to nearby homes, even though these homes were virtually the same in terms of neighborhood character, school spending, racial composition, tax burden, and crime rate.

This phenomenon isn't new, but the pressure has intensified considerably. In the early 1970s, not only did most Americans believe that the public schools were functioning reasonably well, a sizable majority of adults thought that public education had actually *improved* since they were kids. Today, only a small minority of Americans share this optimistic view. Instead, the majority now believes that schools have gotten significantly worse.[45] Fully half of all Americans are dissatisfied with America's public education system, a deep concern shared by black and white parents alike.[46]

Parents are trying to buy safe streets and good schools, and they are doing it by bidding up prices in a shrinking number of neighborhoods. Failing schools impose an enormous cost on those children who are forced to attend them, but they also inflict an enormous cost on those who don't. Reinvigorating America's public schools is good for many reasons, but relevant to our discussion here today, such relief would take a great deal of pressure off middle class families.

Credit Safety

Stagnant incomes and escalating expenses have left Americans drowning in debt. Their difficulties are compounded by substantial changes in the credit market that have made debt instruments far riskier for consumers than they were a generation ago. The effective deregulation of interest rates coupled with innovations in credit charges (e.g., teaser rates, 2-28 mortgages, negative amortization, increased use of fees, cross default clauses, penalty interest rates) have turned ordinary purchases into complex financial undertakings.

In the mid-1980s, the typical credit card contract was about a page long; today it is more than 30 pages, often of dense legalese that even a lawyer cannot understand.[47] Small loans that may seem safe in the beginning are repeatedly rolled over in the payday loan industry, making the average effective interest rate more than 400%.[48] Credit reports, the foundation of the modern credit system, have errors of 50 points or more in 31% of all files, and consumers have little help when they try to straighten out the tangle.[49] Home mortgages are promoted by brokers who take bribes—known in the trade as yield spread premiums—to "upsell" customers into higher interest products than they qualify for.[50]

Aggressive marketing, almost non-existent in the early 1970s, now shapes many consumer choices. Six billion credit card applications were mailed out in 2005, in addition to on-campus, phone, flyers, in-store, and all other sorts of other marketing. Companies hawk mortgage refinancing, promising lower payments and cash back, and without mentioning the high fees and increased odds of losing a home. Consumer capacity—measured both by available time and expertise—has not expanded to meet the demands of a far more dangerous and aggressive credit marketplace.

No one has to be an engineer to buy a toaster. No one needs to be a crash test expert to buy a car. No one needs to have a degree in chemistry to buy a prescription drug. These markets have soared with innovation over the past decades, but they have also been supported by national safety standards that kept burst-into-flames toasters, crumple-on-impact cars and poisonous pills off the markets. Government and industry joined forces to develop enforceable guidelines, and cheap short-cuts that would boost profits but leave consumers at risk have been banned from those markets. The result is intensified competition for the things consumers can readily see and evaluate, like price, convenience, and color, and safer products at lower prices. It is time for safety regulation for credit products as well.

Conclusion

The rules of the game have changed. For today's middle class families, hard work and good intentions are no longer enough. Go to school, get a good job, do your work, don't go crazy with spending, and everything will work out. That formula may have worked in their parents' day, but today families face a tough, new world. There are opportunities to be sure, but there are also new costs and hidden dangers.

America was once a world of three economic groups that shaded each unto the other—a bottom, a middle, and a top—and economic security was the birthright of all those who could make it to the middle. Today the lines dividing Americans are changing. No longer is the division on economic security between the poor and everyone else. The division is between those who are prospering and those who are struggling, and much of the middle class is now on the struggling side.

The economy has changed, and middle class families are struggling to change with it. Laws like social security, Medicare, FHA, consumer product safety, fair credit reporting and a host of other statutes were designed to help middle class Americans cope with the risks in the economy of the mid-Twentieth Century. With a strong safety net to back them up, Americans innovated at a rate unparalleled in world history. Today's families face new costs and new risks, and they need help so that they too can achieve security and prosperity for themselves and a stronger, healthier economy for everyone.

---

[1] The lower 20% of income cuts off at $19,000, while the top 20% starts at about $92,000. The 60 percent in the middle are solidly middle class, although many of those with higher and lower incomes would also call themselves middle class. http://pubdb3.census.gov/macro/032006/hhinc/new05_000.htm

[2] http://www.census.gov/Press-Release/www/releases/archives/income_wealth/007419.html

[3] Today, the two-parent family right in the middle is earning about $66,000. Bureau of the Census, 2005 American Community Survey, S. 1901 Income in the Past 12 Months (in 2005 Inflation Adjusted Dollars), http://factfinder.census.gov/servlet/STTable?_bm=y&-qr_name=ACS_2005_EST_G00_S1901&-geo_id=01000US&-context=st&-ds_name=ACS_2005_EST_G00_&-tree_id=305 Because all households include one-adult and two-adult households, any statistic confined only to two-parent families will show considerably higher earnings.

[4] Bureau of the Census, *Historical Income Tables—Families*, Table F-13. http://www.census.gov/hhes/www/income/histinc/f13ar.html

[5] http://www.bea.gov/bea/dn/nipaweb/TableView.asp#Mid (savings rates reported by quarter)

[6] Computed from data on debt, both revolving and total, from the Federal Reserve (available at http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.html), number of households and data on household income, from the Bureau of the Census (available at http://factfinder.census.gov/servlet/ADPTable?_bm=y&-geo_id=01000US&-ds_name and http://factfinder.census.gov/servlet/STTable?_bm=y&-qr_name=ACS_2005_EST_G00

[7] 2006 savings rate was –0.7%. Bureau of Economic Analysis, National Economic Accounts, Table 2.1, Personal Income and Its Disposition. http://www.bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=58&FirstYear=2004&LastYear=2006&Freq=Qtr

[8] See data cited in note 8 supra.

[9] Juliet B. Schor, *The Overspent American: Upscaling, Downshifting, and the New Consumer* (New York: Basic Books, 1998), p. 20, 11.

[10] Robert H. Frank, *Luxury Fever: Why Money Fails to Satisfy in an Era of Excess* (New York: Free Press, 1999), p. 45.

[11] John de Graaf, David Waan, and Thomas H. Naylor, *Affluenza: The All-Consuming Epidemic* (San Francisco: Barrett-Koehler, 2001), p. 13.

[12] The Bureau of Labor Statistics maintains the Consumer Expenditure Survey (CES), a periodic set of interviews and diary entries, to analyze the spending behavior of over 20,000 consumer units. Much of the analysis compares the results of the 1972–1973 CES with those of the 2004 CES. In some instances, prepublished tables from the 1980 or the 2000 survey are used in order to use the most comparable data available. In both time periods, the data used are for four-person families.

[13]1972-1973 CES, Table 5, Selected Family Characteristics, Annual Expenditures, and Sources of Income Classified by Family Income Before Taxes for Four Person Families; 2004 CES, Table 4, Size of Consumer Unit: Average Annual Expenditures and Characteristics. See also Mark Lino, "USDA's Expenditures on Children by Families Project: Uses and Changes Over Time," *Family Economics and Nutrition Review* 13, no. 1 (2001): 81–86.

[14] 1972-1973 CES, Table 5; 2004 CES, Table 4. See also Eva Jacobs and Stephanie Shipps, "How Family Spending Has Changed in the U.S.," *Monthly Labor Review* 113 (March 1990): 20–27.

[15] 1972-1973 CES, Table 5; 2004 CES, Table 4.

[16] 1972-1973 CES, Table 5; 2004 CES, Table 4.

[17] 1972-1973 CES, Table 5; 2004 CES, Table 1400. Electronics comparison includes expenditures on televisions, radios, musical instruments, and sound equipment. Computer calculation includes computer hardware and software.

[18] For example, in 2000 the average family of four spent an extra $290 on telephone services. On the other hand, the average family spent nearly $200 less on floor coverings, $210 less on dry cleaning and laundry supplies, and $240 less on tobacco products and smoking supplies. 1972-1973 CES, Table 5; 2004 CES, Table 1400.

[19] Bureau of the Census, *American Housing Survey: 1975, General Housing Characteristics,* Current Housing Reports, H-150-75A, Table A1; *American Housing Survey, 1997,* Current Housing Reports, H150/97 (October 2000), Table 3-3, Size of Unit and Lot—Owner Occupied Units.

[20] CES, *1984*, Table 5; CES, *2004*

[21] 1972-1973 CES, Table 5; 2004 CES, Table 4

[22]Commonwealth Fund, Gaps in Health Insurance: An All-American Problem (2006).

[23] Day care costs are calculated from average child care costs for mothers employed full-time with a child aged five to fourteen, and preschool costs are calculated from average child care costs for mothers employed full-time with a child under five. 2004 CES, Table 1A, consumer price index for all consumers: US city average, by expenditure category and commodity and service group, 1999 annual, and 2004 annual. Preschool and daycare cost data were adjusted using consumer price index for "tuition & childcare".

[24] In inflation-adjusted dollars, the cost of a four-year public college has increased by 134%. SANDY BAUM & KATHLEEN PAYEA, THE COLLEGE BOARD, EDUCATION PAYS 2006, *available a* http://www.collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf (last visited Feb. 11, 2007).

[25] Claire M. Hintz, *The Tax Burden of the Median American Family,* Tax Foundation Special Report 96 (Washington, DC: Tax Foundation, March 2000), Table 1, Taxes and the Median One-Income American Family. For more details on the complex tax calculations, see Two Income Trap, Chapter 2, page 206-07, note 115.

[26] Administrative Office of the United States Courts, Table F-2, 1980, 2004. In 1980, 287,570 households filed for bankruptcy. In 2004, that number had jumped to 1,563,145.

[27] Two-Income Trap, page 13.

[28] Id. at page 81.

[29] Himmelstein, Warren, Woolhandler, and Thorne, *Illness and Injury as Contributors to Bankruptcy*, HEALTH AFFAIRS (February 2, 2005).

[30] Only 43 percent of workers have long-term disability coverage, and only 19 percent have at least six months of short-term coverage. Helen Levy, "Disability Insurance: Where Are the Gaps in Coverage?" unpublished paper (July 2002).

[31] In Texas, for example, an individual "must be physically and mentally able to perform full time work" in order to qualify for unemployment benefits. Texas Workforce Commission, "Unemployment Insurance Benefits, Frequently Asked Questions." Available at http://m06hostp.twc.state.tx.us/CLAIMS/common/help.html#faqs

[32] JOHN IMMERWAHR & TONY FOLENO, CTR. FOR PUB. POLICY AND HIGHER EDUC., GREAT EXPECTATIONS: HOW THE PUBLIC AND PARENTS—WHITE, AFRICAN AMERICAN, AND HISPANIC—VIEW HIGHER EDUCATION 3, tbl.1 (2000).

[33] DAVID ELLWOOD & THOMAS KANE, WHO IS GETTING A COLLEGE EDUCATION? FAMILY BACKGROUND AND THE GROWING GAPS IN ENROLLMENT, IN SECURING THE FUTURE 294 (S. Danziger & J. Waldfogel eds., 2000). *See also* SANDY BAUM & KATHLEEN PAYEA, THE COLLEGE BOARD, EDUCATION PAYS 2004: THE

BENEFITS OF HIGHER EDUCATION FOR INDIVIDUALS AND SOCIETY (2004), *available at* http://www.collegeboard.com/prod_downloads/press/cost04/EducationPays2004.pdf.

[34] For more details on *Service Pays*, a program to pay off college loans through public service, see, Elizabeth Warren, Sandy Baum and Ganesh Sitaramen, A Ticket to the Middle Class: Working Off College Debt Boston Federal Reserve Communities & Banking 6 (winter 2007).

[35] Students could opt for two years in public service, for example, and pay off the remainder of their loans in cash. This would give more flexibility to the students, and it would preserve resources for the program.

[36] Laurent Belsie, "Preschools Are Popping at the Seams," *Christian Science Monitor*, July 9, 2002, p. 13.

[37] Belsie, "Preschools Are Popping at the Seams," p. 13.

[38] Anna Quindlen, "Building Blocks for Every Kid," *Newsweek*, February 12, 2001.

[39] Kate N. Grossman, "Pre-kindergarten Lures Middle Class to Public School," *Chicago Sun-Times*, June 10, 2002; in-state tuition and fees at the University of Illinois are $5,748. University of Illinois Web site, at http://www.oar.uiuc.edu/current/ tuit.html

[40] Karen Schulman, *The High Cost of Child Care Puts Quality Care Out of Reach for Many Families* (Washington, DC: Children's Defense Fund, 2000), Table A-1, Comparison of Average Annual Child Care Costs in Urban Area Centers to Average Annual Public College Tuition Costs.

[41] BLS, *Consumer Expenditure Survey, 1984,* Table 5, Composition of Consumer Unit. BLS, *Consumer Expenditure Survey, 2004,* Table 5, Composition of Consumer Unit, Average Annual Expenditures and Characteristics. Data are mean estimated value of owned home for "husband and wife only" consumer units ($182,558 in 2003; $63,667 in 1984). Similarly, the American Housing Survey shows that homeowners with no unmarried children (including both single and married homeowners) experienced a 20 percent increase in median home value between 1985 and 2001. *American Housing Survey for the United States in 1985,* Current Housing Reports, H-150-85 (December 1988), Table 3-22, Value by Selected Characteristics—Owner Occupied Units.

[42] BLS, *Consumer Expenditure Survey, 1984,* Table 5. BLS, *Consumer Expenditure Survey, 2004,* Table 5. Data are mean estimated value of owned home for married couples with oldest child under age 6. We have focused on couples with young children because they are typically new entrants into the housing market and therefore feel most acutely increases in housing prices. Couples with the oldest child between 6 and 17 also experienced a significant (though somewhat smaller) increase in average home value during this period, of 58 percent. The American Housing Survey indicates a somewhat less dramatic rise in median home values, showing that the average homeowner with two young children saw a 37 percent real increase in median home value between 1985 and 2001, compared with a 20 percent increase for homeowners without children. *American Housing Survey for the United States in 1985,* Current Housing Reports, H-150-85 (December 1988), Table 3-22. *American Housing Survey for the United States: 2001,* Annual Survey (2001), Table 3-22. The difference between BLS and American Housing Survey data may in part be due to the fact that BLS data seprates married couples, whereas American Housing Survey lumps together both married and single homeowners. AHS data may be skewed by the growing number of single mothers, who live in much smaller and less expensive homes than their married counterparts, thus reducing the average amount spent by households with children.

[43] David E. Clark and William E. Herrin, "The Impact of Public School Attributes on Home Sale Prices in California," *Growth and Change* 31 (Summer 2000): 385–407. "The elasticity of teacher-student ratio is nearly 8 times that of murder rate and just over 10 times that of the largest environmental quality measure [proximity to interstate]."

[44] Sandra E. Black, "Do Better Schools Matter? Parental Valuation of Elementary Education," *Quarterly Journal of Economics* 114 (May 1999): 577–599.

[45] George H. Gallup, "The Eleventh Annual Gallup Poll of the Public's Attitudes Toward the Public Schools," *Phi Delta Kappan* (September 1979), p. 37. "More Than Half of Americans Say Public Education Is Worse Today Than When They Were Students," *Public Agenda Online* (April 2000), available at http://www.publicagenda.org/issues/pcc_detail.cfm?issue_type=education&list=16

[46] Black parents are almost three times more likely than other parents to report that they are "completely dissatisfied" with the quality of their children's schools. Lydia Saad, "Grade School Receives Best Parent Ratings, Education Nationally Gets Modest Ratings," *Gallup Poll Analyses,* September 4, 2002.

[47] Mitchell Pacelle, *Putting Pinch on Credit Card Users*, Wall Street Journal (July 12, 2004).

[48] Center for Responsible Lending, Support SA 4331, Consumer Credit for Service Members http://www.responsiblelending.org/policy/congress/page.jsp?itemID=29895875 (last visited September 3, 2006).

[49] M.P. McQueen, *Credit Bureaus Create Single Rating: VantageScore to Streamline Process but Doesn't Improve Consumer Data Reliability*, Wall Street Journal Online (March 15, 2006).

[50] This practice produces what are known in the industry as "yield spread premiums." See, for example, the testimony of Martin Eakes, Preserving the American Dream: Predatory Lending Practices and Home Foreclosures (February 2007) http://www.responsiblelending.org/policy/testimony/page.jsp?itemID=31558717.