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Democrats Still Resort to Mythology in Attacking the Economy:

Middle-Class "Misery," Revisited

This is the third in a series of papers analyzing Democrats' attacks on the economic conditions of the American middle class. This paper uses the most recent data available to rebut floor statements made by Senators in September. (See previous RPC papers on this subject, issued May 4 and June 23, 2004.)

Introduction

Senate Democrats' efforts to discredit the current economic expansion rely on the manufactured notion that the middle class is being "squeezed" by current economic and social policies. Whether they call it the "Middle-Class Misery Index" or the "middle-class squeeze," some Democrats support this claim by "cherry-picking" categories of consumer expenditures whose prices have increased faster than the overall inflation rate – specifically college tuition and healthcare premiums – then add to it a belittling of the current employment situation, arguing that wage and job growth is not sufficient to absorb these price increases. This formula is disingenuous, as are the statistics used to buttress it, because data are either taken out of context or are simply inaccurate.

Selection Bias

> *Over the course of the last 4 years, the income for a typical American family has actually been reduced by $1,500 in purchasing power, and yet the prices families today experience have gone up dramatically.*
> - Senator Tom Daschle (D-SD), *Congressional Record*, September 23

By isolating two consumer expenditure categories instead of using the overall Consumer Price Index (CPI), Democrat authors of the "middle-class squeeze" rhetoric are guilty of "selection bias" – that is, the tendentious selection of data to achieve a predetermined result. Although Democrats contend that the specific CPI components they have isolated are "the most vital elements of a family's budget," this is an unjustifiable rationalization.[1] The Bureau of Labor Statistics (BLS) already uses detailed expenditure information provided by over 30,000 individuals and families to weight the

[1] Senator Jon Corzine, *Congressional Record*, September 10, 2004.

CPI "market basket" in a manner that is directly proportionate to the average family's budget. [2] That is the purpose of the CPI.

Since January 2001, the CPI has increased by 8.2 percent, or about 2 percent per year – resulting in an increase that is 3.1 percent lower than the index's average annual increase over the past 30 years.[3] Although the prices of many items have increased faster than this weighted average (such as those chosen by Senate Democrats), the prices of many other goods purchased by middle-class families have increased at a slower rate or even dropped.

For example, since January 2001, the price of new cars and trucks has fallen by 4.3 percent, while the price of clothing has fallen by 7 percent.[4] The price of home furnishings and bedding has dropped 4.2 percent since January 2001, while the price of such household appliances as refrigerators, washers and dryers, and microwaves has fallen by 10.3 percent.[5] The prices of more elective consumer expenditures such as televisions (down 37.7 percent), cameras and other photographic equipment (down 16.6 percent), and stereo equipment (down 16.9 percent) have declined even more dramatically since 2001.[6]

These price declines are of importance to policymakers because, as Senator Jon Corzine correctly explains, "two-thirds of our economy is driven by consumer expenditures, and [those largely are made by] the middle class."[7] In light of these declines in the prices of consumer goods, it is difficult to see how Senator Corzine could ignore them when he argues that middle-class families "are suffering right now from what truly is a squeeze."[8]

Democrat Attacks and the Role of Public Policy

While Democrats omit any mention of the dramatic decline in the price of these consumer goods when propounding their "middle-class squeeze" rhetoric, even when treading on the Democrats' favored terrain – healthcare and college-tuition costs – the cost increases cited are either misleading, or not viewed in the proper context.

College Tuition

> *College tuition has gone up 38 percent in the new calculations since this President took office, which makes payment of the premiums for a college education out of the reach of middle-income families.*
> - Senator Edward Kennedy (D-MA), *Congressional Record,* September 22

[2] "CPI: Frequently Asked Questions," Bureau of Labor Statistics, available at: http://bls.gov/cpi/cpifaq.htm.
[3] CPI, Bureau of Labor Statistics, September 22, 2004.
[4] CPI, seasonally adjusted index of prices for apparel, September 22, 2004.
[5] CPI, seasonally adjusted index of prices for furniture and bedding and appliances, September 22, 2004.
[6] CPI, seasonally adjusted index of prices for televisions, audio equipment, and photographic equipment, September 22, 2004.
[7] Senator Jon Corzine.
[8] Senator Jon Corzine.

Looking at the increase in college tuition and fees without considering the offsetting impact of public policy paints a very misleading picture. The average, inflation-adjusted tuition and fees charged at public universities increased by 28 percent between the 2000-2001 and 2003-2004 school years. When including private colleges and universities, average tuition and fees increased by 20 percent overall over the past four years.[9] While this increase in college tuition and fees may seem troubling, a far better measure of affordability for middle-class families would be net – rather than gross or published – tuition costs. Thanks to federal, state, and institutional grant aid – money that requires no repayment – **net tuition and fees** for the average student at four-year public universities *declined* in real terms between 2000 and 2002 before edging up slightly to $1,682 in 2003.[10]

Although the average college tuition price has increased by 45 percent in real terms over the past 10 years, this increase was more than offset by the increase in total student aid (grants plus loans, federal work-study programs, and tax credits), which *increased by 137 percent* in real terms over the same period.[11] Moreover, since President Bush took office, the real increase in federal aid to support post-secondary education expenses (23 percent) has exceeded the real increase in average tuition and fee expenses at four-year colleges and universities (20 percent).[12] Given this robust level of support, the cost of a college education is not out of reach for middle-class families, as Senator Kennedy incorrectly suggests.

<u>Increase in the Cost of Health Care</u>

> *Let us look at what happened at the cost of living: family health care premiums up 45 percent.*
> —Senator Jon Corzine, *Congressional Record*, September 10

Most middle-class families receive their healthcare through employer-sponsored insurance plans[13] and, according to the Kaiser Family Foundation, the premiums paid for

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[9] *Trends in College Pricing*, pgs. 3 and 14.

[10] The average tuition for full-time students at four-year colleges and universities increased from $7,946 in 2000-2001 to $9,499 in 2003-2004. Calculated from data contained in *Trends in College Pricing*, p. 8. The average tuition and fee expense is calculated for both years by assigning a 68-percent weight to the public and a 32-percent weight to the private enrollment-weighted tuition and fee costs. This weighting is based on the public and private share of full-time undergraduate enrollment during the 2000-2001 school year, *Trends in College Pricing, 2003*. Available at: http://www.collegeboard.com/prod_downloads/press/cost03/cb_trends_pricing_2003.pdf.

[11] Total inflation-adjusted aid increased from $42.45 billion in 1991-1992 to $105.12 billion in 2002-2003. The College Board, *Trends in Student Aid, 2003*, p. 14. Available at: http://www.collegeboard.com/prod_downloads/press/cost03/cb_trends_aid_2003.pdf.

[12] Total inflation-adjusted federal student aid increased from $58.41 billion in 2000-2001 to $71.57 billion in 2002-2003, *Trends in Student Aid*, p. 7 (no figure available for 2003-2004). The average tuition and fee expense is calculated for both years by assigning a 68-percent weight to the public and a 32-percent weight to the private enrollment-weighted tuition and fee costs. This weighting is based on the public and private share of full-time undergraduate enrollment during the 2000-2001 school year, *Trends in College Pricing*, p. 17.

[13] About 160 million non-elderly Americans have employer-sponsored health insurance, and another 13 million purchase insurance directly from an insurer or HMO. Kaiser Family Foundation, "Health Insurance/Costs," available at: http://www.kff.org/insurance/index.cfm.

this coverage have increased by an inflation-adjusted, annual average of 9.8 percent since 2001.[14] Since 1993, total U.S. healthcare spending has increased in both inflation-adjusted terms (by 40.5 percent) and as a percentage of GDP (by 11.2 percent).[15] Healthcare spending will increase as the population continues to age, but it is impossible to understand the increase in healthcare spending without putting it in the context of the corresponding **improvements in quality of healthcare and quality of life.**

For example, thanks to increased screening and the broader dissemination of medical technology and treatments, the mortality rate for breast cancer has fallen by 2.3 percent per year over the past decade, with similar declines for colorectal (1.7 percent per year), lung (0.7 percent per year), and prostate cancer (4 percent per year in the second half of the decade).[16] Overall, the increase in spending has led to improvements in 20 of the 57 measures of healthcare quality that have trend data.[17] Moreover, a new book published by the American Enterprise Institute argues that increased healthcare expenditures – especially for pharmaceuticals, which is the fastest growing segment of the U.S. healthcare system – increases quality of life and disease-specific life expectancy.[18]

Although increased healthcare spending is correlated with increased healthcare quality, there is still the question of cost-conscious delivery. In this context, it is interesting to note that according to the "National Health Expenditures" report released by the Department of Health and Human Services in January 2004, private healthcare spending now makes up a smaller percentage of aggregate healthcare spending than it did four years ago because public healthcare spending has grown even faster during that period.[19] This distinction is particularly relevant to the current public policy debate because many Democrats, including Senator John Kerry, propose addressing escalating healthcare costs through increased government intervention. But with the cost of public healthcare programs increasing at a faster rate than private spending, more government involvement will only increase aggregate healthcare costs.

According to an analysis by the Lewin Group, the proposal forwarded by Senator John Kerry would result in a decline in private sector healthcare spending by $52.1 billion over the next 10 years – to be replaced by over $1.2 trillion in government spending.[20] While this federal spending would reduce premium payments by an estimated $451 per family,[21] the taxes required to pay for such spending would be over

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[14] "Employer Health Benefits 2004 Annual Survey," Kaiser Family Foundation, September 9, 2004.
[15] Center for Medicare and Medicaid Services, "National Health Expenditures," January 2004. Center for Medicare and Medicaid Services.
[16] Agency for Healthcare Quality and Research, "National Healthcare Quality Report," December 2003.
[17] Agency for Healthcare Quality and Research.
[18] Richard D. Miller and H. E. Frech, *Health Care Matters: Pharmaceuticals, Obesity, and the Quality of Life*, AEI Press, March 2004.
[19] Center for Medicare and Medicaid Services.
[20] John Sheils, "Bush and Kerry Health Care Proposals: Cost and Coverage Compared," The Lewin Group, September 21, 2004. Available at: http://www.lewin.com/NR/rdonlyres/ezchwovv6phvqcc6ginbpns2vva4e2qskhmznq7rpbt6gpfyj6vzireglhn43rpuk7tl3hmoc5kfqi/LewinPressRelease921.DOC
[21] Sheils.

$1,000 per household in the United States.[22] Instead of representing real cost savings, this scheme would simply shift money around and exacerbate current inefficiencies.

Wages and Disposable Income Increase

> *Household income has gone down under this President. That is a serious problem for this country, a serious problem for the middle class, and wages are falling behind inflation. This is something which should concern all of us because we see wage increases falling behind inflation. That is why people feel squeezed.*
> - Senator Kent Conrad, *Congressional Record*, September 22

Beyond rising costs in selective categories, Democrats have focused on the notion that wages have stagnated and that new jobs fail to pay as much as the ones lost during the recession. Yet, the data simply do not support these claims. Inflation-adjusted, average hourly earnings have increased 2.86 percent during the first 44 months of the Bush Administration, compared with only a 0.6-percent increase during the same period of the first Clinton Administration.[23] In addition, per capita, after-tax, disposable income, adjusted for inflation, has increased 5.7 percent since President Bush took office – well above the 4.0-percent increase during the same period of the first Clinton Administration.[24]

Interestingly, it appears that the middle class is actually working less and earning more. According to the Bureau of Labor Statistics' index of aggregate weekly hours, people are working 2.9-percent less per workweek, but earning 1.6-percent more, on an inflation-adjusted basis since January 2001.[25] This is in stark contrast to the first Clinton Administration, when hours worked increased 11.5 percent during his first 44 months, but inflation-adjusted weekly earnings increased 0.6 percent.[26]

Conclusion

Since the strength of the current economic expansion prevents Democrats from attacking the President's economic record head-on, they have turned to fallacious rhetoric about a "middle-class squeeze." Ironically, the fact that they would resort to such a contrivance to attack current conditions is a testament to the economy's current strength.

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[22] There will be an average of 110 million households in the U.S. over the period in question. U.S. Census Bureau, "Projections of the Number of Households and Families in the United States," available at: http://www.census.gov/prod/1/pop/p25-1129.pdf.
[23] BLS, average hourly earnings historical data.
[24] Bureau of Economic Analysis (BEA), National Income and Product Accounts Tables, September 24, 2004. Available at: http://www.bea.gov/bea/dn/nipaweb/index.asp.
[25] BLS, average hourly earnings historical data.
[26] BLS, average hourly earnings historical data.