

Testimony before the Joint Economic Committee

Hearing entitled “How Much More Can American Families Be Squeezed By Stagnant Wages, Skyrocketing Household Costs, And Falling Home Prices?”

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July 23, 2008

I would like to thank Chairman Schumer and members of the committee for inviting me to testify about what the research of the American Human Development Project tells us about the well-being and human security of American families. It is a great honor to be here and to testify alongside scholars whose work has so enriched our understanding of America today.

I am co-director, with Sarah Burd-Sharps, of the American Human Development Project, an independent, non-partisan, non-profit initiative funded by Oxfam America, the Conrad N. Hilton Foundation, the Rockefeller Foundation, the Social Science Research Council, and the Anneneberg Foundation.

With their support, we have just released a first-ever human development report for the U.S. or any other affluent, industrialized country, *The Measure of America*. The centerpiece of this work is the American Human Development Index, which ranks the 50 states, the 436 congressional districts, and our major racial and ethnic groups on a scale of well-being and opportunity. The rankings reveal that some groups of Americans are living ten, twenty, even fifty years behind in terms of their health, education, and living standards, while others are enjoying levels of human development that the rest of the country will not reach for decades. The rankings also spotlight which parts of our nation are moving forward and which are stalled or even falling behind. Overall, the American Human Development Index paints a portrait of progress and opportunity in America today and sets a benchmark for gauging change over time.

Today, I'll tell you briefly about the project and discuss what our research reveals about the state of the American Dream and middle class security today. I will take a closer look at the different components of the index to highlight particularly worrisome areas of vulnerability for different groups of Americans in today's faltering economy. Then I will briefly touch upon where we stand in comparison with our peer countries and why we have slipped from #2 in 1990 to #12 today on the global human development index. And I'll conclude by highlighting a few of the report's recommendations that are particularly relevant to this morning's hearing.

First, let me say a few words about the project. Our aim with the American Human Development Project is to introduce to our own country a well-honed international approach and tool that have been very successful around the world in broadening the way in which we understand, measure, and track people's well-being – from strictly economic metrics to a measure that captures some of the other things, besides money, that expand our opportunities, choices, and freedoms. Developed in the early 1990s by the United Nations and based on the work of Nobel laureate Amartya Sen, the human development approach is, in Sen's words, about “advancing the richness of human life” – not just the richness of the economy. Human development is defined as a process of enlarging people's freedoms and opportunities and improving their well-being. It is about the real liberty ordinary people have to decide who to be, what to do, and how to live.

Countries around the world use this approach to understand and track progress and setbacks in their own countries, and the UN uses it to gauge global development trends. Since the early 1990's, in addition to the annual UN global report, more than 500 national and regional Human Development Reports have been produced in developing countries from Afghanistan to Zambia.

The hallmark of human development reports is the **Human Development (HD) Index**, an easy-to-understand numerical measure that embraces what most people believe are the fundamental ingredients of human well-being: health and longevity, access to knowledge, and a decent standard of living. The HD Index has become one of the world's most widely used indices of well-being.

So what, you may wonder, is the **relevance of this approach to the affluent United States**, home of the world's largest economy? The indicators most frequently deployed in evaluating how we are faring in the United States—GDP, the Dow Jones and NASDAQ, consumer spending, and the like—only address one aspect of the American experience. Our work presents a more comprehensive alternative, one that measures the basic building blocks of a good life. The modified American Human Development Index uses different indicators than the standard index to better reflect the U.S. context and to maximize use of available data, but it still focuses on the same three basic dimensions. Health is measured in the modified American HD Index by life expectancy. Knowledge is measured by a combination of educational degree attainment and school enrollment. Standard of living is measured using median earnings. All data are from official 2005 U.S. government sources; 2005 is the most recent year for which all the data required to calculate the index were available.

Unlike the many existing measurements used to assess health, education, or income alone, the American Human Development Index combines these indicators into a single measurement expressed as a number that falls between zero and ten. When disaggregated by state, gender, and ethnic group, this Index sheds light on the opportunities open to different groups of Americans and allows for apples-to-apples comparisons over time and among groups.

What did we find?

Overall, we found human development progress since 1960: on average, we are living eight years longer, are twice as likely to have a high school diploma, and are earning nearly twice as much in 2005 dollars.

But by combining current information with historical data, the report reveals that some groups of Americans are living ten, twenty, even fifty years behind others in human development terms, constrained by limited access to education, well-paying jobs, and adequate health care, whereas others are far ahead of the country as a whole. Today, some groups experience levels of human development typical of the whole country as far back as the 1960s. At the other end, if present trends continue, the country as a whole will not catch up to high-performing groups until at least 2030. Income is an important part of the story, but not the only part. Health and education are critical factors in determining how much freedom people have and the quality of the lives they lead.

Regional variation: The American HD Index reveals large disparities among the country's four major geographic regions. The Northeast is ranked number one and outperforms other regions in education and income, while the West, ranked number two, has the best performance in health. The South, ranked fourth, has the worst performance in all three dimensions of human development – the shortest lifespan, the lowest levels of educational attainment and enrollment, and the lowest earnings.

The ten states with the highest HD Index are mostly in the Northeast—Hawaii, Maryland, and Minnesota being the exceptions. At the other end of the spectrum, nine of the ten states with the lowest HD Index are in the South—the exception being Montana.

State variation: The level of overall human development in Connecticut is the highest in the United States, followed closely by Massachusetts. Neither of these states ranks highest on any of the three indices that make up the HD Index, but both score well across the board, yielding a balanced and high outcome. The District of Columbia, ranked third overall (tied with New Jersey), has the best performance on education; an impressive 45 percent of its adult residents have a college degree and one-quarter have a graduate or professional degree, far more than in any other state and well above the national average. It is also first in income. But the District of Columbia ranks last on health, with a life expectancy, at 73.8 years, approximately that of the average American in 1980. Wyoming has the highest percentage of the adult population with at least a high school diploma, but settles fairly far down on the overall state ranking table. Residents of Hawaii and Minnesota are living the longest lives,

Congressional District variation: New York's Congressional District 14 (the east side of Manhattan, Roosevelt Island, and parts of Queens) has the highest score in the country; California's 20th District (the Central Valley, near Fresno) has the lowest score. These two districts are far apart in human development terms, with the NY resident ten times more likely to have a college degree, earning three times more, and even living 4 ½ years longer.

New York's 14th has the highest median earnings of any district (more than \$50,000); people in Virginia's 8th district, not far from here, are living the longest lives (82.9 years); and California's 30th district (Hollywood, Santa Monica, Beverly Hills) has the highest educational score.

California's 20th is the poorest district, with typical earnings of less than \$17,000; Texas's 29th has the lowest education score, with nearly half of adults lacking a high school diploma or its equivalent; and people in Kentucky's 5th district are living the shortest lives. A baby born today in Kentucky's 5th can expect to live 72.6 years – more than a decade of life less than a baby born today in Virginia's 8th. The overall index scores of the bottom twenty congressional districts are comparable to the scores of the country as a whole in the 1970's and early 1980's.

New York and California have the highest human development gaps among districts – some of the lowest and highest scores are to be found in these two states, often within the same city – Los Angeles and New York, for example. A telling example is the comparison between two New York congressional districts, the 14th, Manhattan's east side, and the 16th, which is in the South Bronx. The 14th district is where the country as a whole will be in 2041, if current trends continue; the 16th is where the country as a whole was in 1985 – a gap of 56 years between two communities located some two miles apart.

Differences across race, gender and ethnicity: Some of the largest disparities in human development outcomes occur across different gender and race/ethnicity combinations. When we look at gender alone, men have a slightly higher HD Index than women, but the difference is small; American men and women have virtually the same human development level. However, examining each of the three dimensions of the HD Index individually, outcomes for men and women are anything but equal.

Women have a higher education index and live, on average, about five years longer. But advantages in education and health are wiped out by lower earnings. American men earn 50

percent more than women. (While the income measure used in this report is personal earnings, as a way to capture the gender differences in earnings and control over economic resources, this measure can underestimate women's standard of living in cases where household earnings are pooled.) One particularly striking finding is that in every ethnic group except for Asian Americans, women are getting more education than their male counterparts, but earning less. The difference is greatest among whites, with a \$14,000 gap separating men and women. Given that median earnings are just a bit more than \$27,000, this is a huge gap. The earnings differential between men and women makes female-headed households particularly vulnerable to economic shocks as well as reducing the income available to two-earner families.

Turning to Index by ethnicity, the picture is highly uneven. Overall, Asian Americans have the highest HD Index, outperforming the other ethnic groups in all three human development dimensions. They earn slightly more than whites, the second-ranked group, but have a large advantage in health and are ahead by a mile in education. For instance, about half of Asian Americans have bachelor's degree, compared to 30 percent of whites, 17 percent of African Americans, and 12 percent of Latinos.

Latinos have the lowest ranking for education—more than 40 percent do not have a high school diploma—as well as for income, but score well on health, resulting in a number-three ranking overall. African Americans, on the other hand, rank third in income and education, but have a large gap in life expectancy—five years less than American Indians, the second lowest-ranking group on health, and more than thirteen years less than Asians. The thirteen-year lifespan gap between Asian Americans and African Americans is about the same as the gap between Japan and Guatemala. African Americans are living today shorter lives than the average American in the late 1970's. Poor scores on health are the main drivers of African Americans' last-place ranking on the Index.

Gender adds another layer of difference to an already highly unequal picture. Among Asians and whites, men have an income advantage over women that more than compensates for their relative disadvantages in health (Asians and whites) and education (whites only). At the opposite end of the spectrum, the reverse is true. Among African Americans, American Indians, and Latinos, men all have lower HD Indices than women. While men's earnings are higher in these three groups, advantages in education or longevity, or a combination of the two, outweigh superior earnings to yield a higher HD Index for women.

Looking in greater depth, the high level of educational attainment among Asian men drives their #1 rank on the American Human Development Index. While Asian and white men have similar high school graduation rates, 53 percent of Asian men have at least a college degree, compared to 32 percent of white men. Asian women have the highest health index and rank second overall in terms of human well-being, followed by white men, who have the highest earned income.

Latino men score last on education (with less than 60 percent graduating from high school and only 12 percent graduating from college) and rank ninth out of ten overall; African American males have the lowest health index, and occupy the number-ten overall ranking, in spite of being ranked fourth in income. Latino men, on average, are as likely to have a high school diploma as the typical American in the mid 1970s; African American men today are living shorter lives than the typical American in 1960, half a century ago, one of our study's most stunning and dismaying findings.

America as a whole can expect to reach the HD Index of Asian males by the year 2035, while African American males are living at a level that prevailed in America circa 1986. In sum, the human development gap between Asian and African American males is half a century.

Income vs. Investment in People's Capabilities

Looking at congressional districts with similar incomes but highly divergent well-being outcomes helps to illustrate a key rationale of the human development approach: that consideration of income alone produces an exceedingly narrow and incomplete portrait of the human condition. For example, Vermont's only congressional district has about the same average income as Nevada's First District, about \$26,300 per year. However, they are separated by 223 places on the HD Index. Why? Vermont residents can expect to live on average three and a half more years, and about nine in ten Vermonters have at least a high school diploma; in Nevada's First District, only about three in four adults has a high school diploma. College and graduate school completion rates are higher as well in Vermont.

In order to fully understand why two districts with nearly identical income levels have such different outcomes in health and education, one would need to examine a full range of indicators, analyzing each district's conditions, circumstances, and historical backgrounds. But the data make clear that money is buying neither a better education nor a longer life for the average Nevadan.

Let's now take a closer look at what this might mean for American families given the current economic downturn.

In the post-war period, the country grew together. Now we are growing apart. In 1980, the average executive earned forty-two times as much as the average factory worker; today, executives earn some four hundred times what factory workers in their industries earn. According to the U.S. Census Bureau, the richest 20 percent of all U.S. households earned more than half of the nation's total income in 2006, whereas the bottom 60 percent earned less than one quarter of the total income. The average income in the top quintile of U.S. households in 2006 was \$168,170. This is almost fifteen times the average income of the lowest quintile, with an average income of \$11,352 per year.

While income is critical for life's necessities, wealth, also called net worth, provides financial security and opportunity. Wealth allows families to keep their homes and maintain their standards of living in the event of illness, job loss, natural disaster, divorce, or death. It enables parents to invest in the next generation—to buy a home in a safe neighborhood with good public schools, finance a college education, or help an adult child with a down payment on a house or financing for a new business venture. It can buy autonomy, influence, and power. At the opposite end of the spectrum, debt is negative net worth, which often absorbs income and can make it harder to get an affordable loan, a car, or an apartment.

The top 1 percent of households possesses 33.4 percent—one-third—of America's wealth, and the bottom 60 percent of households only 4.2 percent of all wealth¹. Net worth by race reveals stark disparities. In 2004, median net worth was \$140,800 for whites, and \$24,900 for non-whites², a nearly six fold difference fueled largely by difference in the rate of home ownership. Minority families have much less to fall back on than white families, on average. And the reality for many Americans is negative net worth; the average household has more than \$8,000 in credit

¹ Wolff, "Changes in Household Wealth in the 1980s and 1990s in the U.S."

² Federal Reserve Survey of Consumer Finance.

card debt; the average college graduate emerges from his or her course of study with a B.A. degree in one hand and \$20,000 worth of educational debt in the other.

In the post–World War II years, unionized manufacturing jobs in workplaces like steel mills and auto plants brought a middle-class lifestyle to a generation of Americans. The credential required for this secure, well-paying work—other than being a man—was, at most, a high school diploma. Today the world has changed. The demand for skills is becoming increasingly hourglass-shaped—with high demand for highly educated workers at the top and high demand for less-educated, low-wage workers at the bottom. The middle is becoming increasingly wasp-waisted as domestic demand for skilled manufacturing workers drains away.

As a result, for many families today, the cornerstones of middle-class life since the post–World War II era—steady, well-paying work; a home of one’s own; security in ill health and old age; and a general confidence that life will be better for your kids—have cracked. Job security and many benefits have eroded for all but the wealthiest Americans. Wages for workers at the middle and bottom of the income scale have hardly budged in real terms. Well-paying manufacturing work has been shipped overseas. Young adults are facing huge challenges in the transition to independent adulthood: staggering college debt, run away credit card balances, and skyrocketing housing costs that land them back in their childhood bedrooms.

The American meritocracy, the foundation of the American Dream, is at risk. Social mobility is now less fluid in the United States than in other affluent nations. Indeed, a poor child born in Germany, France, Canada, or one of the Nordic countries has a better chance to join the middle class in adulthood than an American child born into similar circumstances.³ Moving into the middle class – and staying there – is particularly challenging for African Americans and Latinos. For instance, a recent study found that nearly half of African Americans born to middle-class parents in the 1960s ended up among the bottom 20 percent of earners as adults.⁴

Today’s families have a tenuous hold on middle-class status; the social safety net is frayed and frequently unable to support the weight of a serious shock such as natural disaster, death, divorce, job loss, or serious illness. Those groups of Americans with higher index scores – indicating better health, higher levels of educational attainment, and higher earnings – have greater ability to seize and even create opportunities as well as greater human security and resilience in the face of shocks. Those with lower scores, on the other hand, are significantly more vulnerable to economic downturns as well as to shocks to individual households, such as divorce, serious mental illness, or job loss.

Stagnating wages, high child-care costs, and increases in housing and health prices mean that most families need two full-time workers to sustain the kind of middle-class life enabled by a single wage-earner just a few decades ago. “The American standard of living is based on the earnings of the main breadwinner,” declared the United Steelworkers in 1945. With more than seven in ten mothers in the workforce, no one can credibly make that claim today.

Yet despite a massive social and economic transformation from one-earner/one-caregiver families to two-earner and single-parent families, neither institutions nor expectations have significantly adjusted to the “new normal” of mom in the workforce. Overstretched families must cobble together the care and maintenance that families and communities alike require to function. The

³ Sawhill and Morton, “Economic Mobility.”

⁴ Fletcher, “Middle-Class Dream Eludes African American Families.”

well-known deficiencies in our health care and educational systems intensify the struggle of Americans in the middle to hang on to their quality of life.

The effect of these trends can be seen not just in people's every day lives; they can also be seen in our global standing compared to our peer countries. Indeed, comparisons with affluent nations reveal some awkward truths. First, others have achieved better outcomes in many vital areas, including infant mortality and longevity, than we have. Second, they have achieved superior results with less spending per capita.

In 1990, the U.S. occupied the #2 place on the global Human Development Index of the United Nations. Today, we have tumbled to 12th place. Though we have made progress in health, education, and income during that 18-year period, other countries have made much quicker progress, overtaking us on the global Index. It is important to note that the U.S. has higher income scores than every country but Luxembourg on the global scale – we're still #2 in income. But the eleven countries ahead of us – particularly fast-moving countries like Australia and Ireland – have been more successful and efficient in transforming income into positive health and education outcomes for their people.

Let's look at a few examples.

Healthcare is the obvious one. Public and private spending on health care in the United States adds up to \$2 trillion, and it continues to rise. We are spending more money by a significant margin than any other country. But we aren't getting our money's worth. We are living shorter lives than people in 41 other nations. The U.S. infant mortality rate is on par with that of Croatia, Cuba, Estonia, and Poland. If the U.S. rate were equal to that of first-ranked Sweden, twenty-one thousand more American babies would have lived to celebrate their first birthday in 2005. It is not a question of whether we can afford something better—we are already paying caviar prices. So the question is this: Can we reform health care so that our number-one rank in spending leads to a number-one rank in outcomes?

Health insurance for everyone is the clear solution. For the 47 million people who lack insurance, the consequences are higher levels of insecurity and shorter lives. In the lower forty-eight states, 43 percent of the variations in age at death can be explained by the percentage of a state's population without health insurance. For society as a whole, the uninsured entail tremendous costs. The uninsured are generally connected to employment, and many are in their most productive years. While higher-income workers without employment-based insurance can afford to obtain coverage and can even deduct some out-of-pocket expenses from their taxes, there is little recourse for those in low-wage jobs, young adults, self-employed middle-class workers, and those who are on the cusp of Medicare eligibility without qualifying. Many simply cannot afford private health insurance premiums. In addition to 47 million Americans without health insurance, more than 80 million go without coverage during a two-year period.⁵ Others avoid moving jobs to advance their careers or skills in order to maintain employer-based health coverage. The economic impact of this "job lock" phenomenon is difficult to measure. However, it is clear from voluminous anecdotal evidence as well as surveys and studies that job lock constrains employment choices and likely creates an inefficiency drag on economic activity.

Like the United States, other countries around the globe are struggling to balance rising costs and quality care. Yes, it is a complicated problem to address. Yet all of our peer countries have managed to do it, covering their entire population with health insurance in one way or another.

⁵ Committee on the Consequences of Uninsurance, *Hidden Cost, Value Lost*.

No solution will be perfect, but a pragmatic approach to comprehensive health coverage for all is both necessary and feasible.

Another area in which the U.S. is far behind is in the **support we give to working families**. Two of the last century's most far-reaching socioeconomic transformations have been the wholesale entry of women into the paid workforce and a sharp increase in single motherhood. Yet our policies, workplaces, social institutions, and societal expectations have been slow to adapt to the altered landscape. As a consequence, we have millions of overstretched, overstressed families cobbling together caregiving crazy-quilts while still trying to pay the bills. Our peer countries have faced similar social transformations, and they have responded with policies to help. Today the U.S. is in the company of Swaziland, Liberia, and Papua New Guinea as one of only four countries on the planet with no federally mandated paid maternity leave.⁶ In addition:

- 66 countries guarantee paid paternity leave. Ninety-eight countries have fourteen or more weeks of paid leave for mothers, 31 have fourteen or more weeks of paid leave for men as well.
- At least 107 countries protect the right to breastfeed, with 73 offering paid breaks. This right is not guaranteed in the United States.
- One hundred thirty-seven countries mandate annual paid leave. U.S. firms are not required to provide annual paid vacation.
- One hundred forty-five countries have paid sick leave for short- or long-term illness, with 136 having at least one week annually, and 81 allowing at least twenty-six weeks or until recovery. Sick leave is offered in the United States through the Family and Medical Leave Act, but it is unpaid and does not cover all workers.⁷

Helping middle-income families build assets needs to become a greater priority. A study commissioned by the Federal Reserve in 2006 demonstrated the strength of a patchwork of federal asset-building policies, but found that they are largely reaching higher-income households. Through various incentive programs, the federal government subsidizes home buying, retirement savings, and small businesses through direct outlays from the federal budget and from tax deductions (considered an expenditure for the government) like the mortgage interest deduction. The study estimated a total cost of \$367 billion in 2005 for these programs. However, the study found that over 45 percent of the benefits went to households with annual incomes of more than \$1 million. These households received an average benefit of \$169,150. By contrast, the bottom 60 percent of the population shares among them less than 3 percent of the benefits of these policies.⁸ Policies like the UK Baby Bond Act of 2005, which provides a universal, long-term savings and investment account that ensures all British young people begin adulthood with at least a modest level of financial assets, warrants close study and may offer a useful model to consider.

Conclusion

Based on the data in the American Human Development Index and the information and analysis in the American Human Development Report, a steady, broad-based advance of human development in the United States as well greater security for middle class families will require attention to several priorities.

⁶ Heymann, Earle, Hayes, "The Work, Family and Equity Index."

⁷ Ibid

⁸ Woo et al, "Subsidies for Assets."

- For Americans to live longer, healthier lives as well as remain solvent when serious illness strikes, it is obvious from the report that progress depends in large part on a comprehensive resolution of the problem of health insurance. Today, some 47 million Americans lack health insurance; this is the number one reason that although we spend more than any other country on healthcare, we live shorter lives than every other Western European and Nordic country save one. Indeed, we rank a dismal #42 in global life expectancy. The one in six Americans without health insurance are not just courting financial ruin – they are also facing an early death sentence. The nation appears unlikely to make significant strides in health until every American has adequate health coverage.
- The days when basic skills were sufficient to ensure a life of reasonable economic security and full participation in society are past; the labor market today is unkind to those who lack high school diplomas, and jobs that afford financial security increasingly require college degrees. Yet only 74 percent of American public high school students graduated on time (within four years) with a regular diploma in 2003–04 – an 18th place finish among industrialized countries. American 15-year-olds are also far behind their international peers in math and science. In terms of relevance, the content of education needs revitalization. To seize opportunities brought by globalization and technological change, young people need to know how to think, create, and relate—to work with others unlike themselves to solve problems. Schools need to teach twenty-first-century skills and content, expand the scope of school assessment, and create meaningful career education tracks for teens who are not headed for college. In terms of fairness, we must tackle the appalling disparities in educational quality that persist more than half a century after the landmark *Brown v. Board of Education* ruling. The American Human Development Index reveals vast educational attainment gaps among congressional districts and racial and ethnic groups that undermine America’s claim to a level playing field.
- For Americans to sustain, or obtain, a decent standard of living, the wages and opportunities of millions of Americans must improve. Growing inequality in income distribution and wealth raises a profound question for Americans: Can the uniquely middle-class nation that emerged in the twentieth century survive into the twenty-first century? Or is it fracturing into a land of great extremes?

The answers to these questions will determine not only the future of America, but also the future of the idea of America—that of a land of opportunity where those who work hard and live honestly can prosper in freedom and security. The American Dream has drifted beyond the reach of many, while fading from view among others. To reinvigorate it, to make it real for millions of middle-class and poor Americans, the stagnation and decline of middle and low incomes must be reversed, and opportunity must once again reach down to the lowest rungs of society.

American history is in part a story of expanding opportunity to ever-greater numbers of citizens. Practical policies such as the GI Bill, which opened the gates of higher education and expanded home ownership, and Social Security, Supplemental Security Income, and Medicare, which provide income and health security to the elderly, have allowed more Americans to realize their potential for a good life. We hope that *Measure of America* and the human development approach it champions can contribute to efforts to build upon these policy successes of the past and to create an infrastructure of opportunity and security that serves a new generation of Americans.