S. HRG. 110–108

ECONOMIC OPPORTUNITY AND SECURITY FOR WORKING FAMILIES

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

ON

EXAMINING ECONOMIC OPPORTUNITY AND SECURITY FOR WORKING FAMILIES AND AMERICA'S MIDDLE-CLASS

JANUARY 16, 2007

Printed for the use of the Committee on Health, Education, Labor, and Pensions

Available via the World Wide Web: http://www.gpoaccess.gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE

32–619 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

EDWARD M. KENNEDY, Massachusetts, *Chairman*

CHRISTOPHER J. DODD, Connecticut
TOM HARKIN, Iowa
BARBARA A. MIKULSKI, Maryland
JEFF BINGAMAN, New Mexico
PATTY MURRAY, Washington
JACK REED, Rhode Island
HILLARY RODHAM CLINTON, New York
BARACK OBAMA, Illinois
BERNARD SANDERS (I), Vermont
SHERROD BROWN, Ohio

MICHAEL B. ENZI, Wyoming,
JUDD GREGG, New Hampshire
LAMAR ALEXANDER, Tennessee
RICHARD BURR, North Carolina
JOHNNY ISAKSON, Georgia
LISA MURKOWSKI, Alaska
ORRIN G. HATCH, Utah
PAT ROBERTS, Kansas
WAYNE ALLARD, Colorado
TOM COBURN, M.D., Oklahoma

J. MICHAEL MYERS, *Staff Director and Chief Counsel*
KATHERINE BRUNETT MCGUIRE, *Minority Staff Director*

C O N T E N T S

STATEMENTS

TUESDAY, JANUARY 16, 2007

	Page
Kennedy, Hon. Edward M., Chairman, Committee on Health, Education, Labor, and Pensions, opening statement	1
Prepared statement	2
Enzi, Hon. Michael B., a U.S. Senator from the State of Wyoming, opening statement	3
Hacker, Jacob S., Peter Strauss Family Associate Professor, Yale University, New Haven, CT	6
Prepared statement	8
Appelbaum, Eileen, Ph.D., Professor and Director, Center for Women and Work, Rutgers University, Newark, NJ	17
Prepared statement	18
Forbes, Rev. Dr. James Alexander, Jr., Senior Minister, The Riverside Church, New York, NY	25
Prepared statement	26
Cablik, Anna, ANATEK, Inc., Marietta, GA	28
Prepared statement	30
Alexander, Hon. Lamar, a U.S. Senator from the State of Tennessee	38
Sanders, Hon. Bernard, a U.S. Senator from the State of Vermont	40
Murkowski, Hon. Lisa, a U.S. Senator from the State of Alaska	42
Reed, Hon. Jack, a U.S. Senator from the State of Rhode Island	45
Roberts, Hon. Pat, a U.S. Senator from the State of Kansas	48

ADDITIONAL MATERIAL

Statements, articles, publications, letters, etc.:	
Brown, Hon. Sherrod, a U.S. Senator from the State of Ohio, prepared statement	59
Dodd, Hon. Christopher J., a U.S. Senator from the State of Connecticut, prepared statement	59
Response to questions of Senator Enzi by:	
Eileen Appelbaum	60
Jacob Hacker	62
Questions of Senator Enzi to James A. Forbes, Jr.	63

ECONOMIC OPPORTUNITY AND SECURITY FOR WORKING FAMILIES

TUESDAY, JANUARY 16, 2007

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m. in Room SD–430, Dirksen Senate Office Building, Hon. Edward Kennedy, chairman of the committee, presiding.

Present: Senators Kennedy, Dodd, Bingaman, Reed, Sanders, Brown, Enzi, Alexander, Murkowski, and Roberts.

OPENING STATEMENT OF SENATOR KENNEDY

The CHAIRMAN. Good morning to our committee and to our witnesses this morning. We're very appreciative and grateful to all of our panelists who have come and joined us here today. And we welcome all of our members.

I think that one of the dramatic issues and questions that we're facing as a country is really what's happening to the middle class and what's happening with working families in America. And I think we're very mindful that there's no quick, easy kind of solution. I think it's important for us to try and sort of understand why we are in the ditch, I believe that we are, and what are the forces and factors that are going to continue us in that ditch? What are the things that can help us dig our way out? And this committee, by its nature and disposition, the labor and education, health and pensions, has great overall interest in what is happening to working families and to the middle class, as well as to many other particular issues that we will address during the course of this session of Congress.

Just very quickly, but I think all of us understand that we'll hear a good deal more about something that we have taken notice of over a very considerable period of time, Americans are working longer and harder than any other industrialized nation of the world. That's been demonstrated and shown. More Americans are working more jobs and hours just to get by. The number of Americans that are working over 40 hours a week, and even the numbers of Americans who are working 50 hours a week and a few that are working two full-time jobs, is breathtaking, in order to be able to keep alive. What we have seen is the expanding productivity, which we have seen over the recent times, which has taken place, even though it hasn't reflected itself in higher wages. I think most of us understood that when we saw the expanding productivity, we also saw an increase in wages. We also take note that corporations are doing exceedingly well. We've had the increased productivity. Looking at those charts would indicate that the corporations have been reaping the substantial resources. And this is about how we—we used to all grow, together, as we were always aware of, going on right through the end of World War II, into the immediate post-war period, right up through the 1970s. We were all moving along together. That old saying about the rising tide raising all the boats really raised them all, but now we find out that we're increasingly growing apart. So, we want to try and look at these factors and forces.

I want to thank all of the panelists for getting their statements in. I've had the chance—this was, you know, a weekend of a lot of activities, but it was very, very helpful just to meet, personally. We want, and expect, our witnesses to get their statements in, but it does make a big difference. It certainly did with me; I think, for the other members, as well.

So, with that, I'd recognize my friend and colleague Senator Enzi for whatever comments he'd like to make.

[The prepared statement of Senator Kennedy follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

The fundamental promise of the American Dream is that hard work leads to success and a better life for your family. It's a vision of shared prosperity where all of our hard work enlarges the economic pie and we all reap the benefits.

This vision was realized in the decades after World War II, when increased productivity and economic expansion raised living standards for families across the economic spectrum. The rising tide of abundance really did lift all boats.

Rapid technological advances, the advent of globalization, the movement of women into the paid workforce, and other changes have fundamentally altered our economy and society since then, but our shared vision of what America should be hasn't changed.

We should be a land of opportunity for all, where good jobs with fair wages and benefits that can support a family are available to all.

Where families have time to spend with their children, and can save to give them a brighter future. Where workers have a voice on the job and receive their fair share of the economic growth their work creates. Above all, America should be a country where no one who works for a living has to live in poverty.

Unfortunately, the American Dream has become a false hope for many working families. America is no longer about shared prosperity—instead, we have an economy that works for Wall Street, not for Main Street. While GDP is rising, productivity is up, and corporations are earning record profits, the economic growth of the last few years has largely bypassed working families. Americans are working harder than ever, but they are not reaping the benefits.

Good, middle-class jobs, with decent wages and benefits that formed the core of the American middle class are disappearing. Workers are down-sized, right-sized, laid off or leased out. Millions of their jobs are being shipped overseas. And most of the new jobs that are created come with lower wages, fewer benefits, and less stability. As a result, the great majority of people feel more insecure about their jobs, their incomes, their health insurance, their children's futures, and their own prospects for a dignified retirement.

This insecurity is felt across the economic spectrum. The middle class used to be the solid foundation of American society, but it is crumbling in the Bush economy. Middle class wages have been virtually stagnant, while prices for essentials like housing, health care, gas, and utilities have skyrocketed. The numbers don't add up. Families are exhausting their savings and falling into debt. Working parents are putting in longer hours—or accepting multiple jobs—just to get by, and are sacrificing time with their families and jeopardizing their children's well-being.

The American middle class is struggling to stay afloat, but our lowest paid workers are sinking. Our inexcusable refusal to raise the minimum wage has put downward pressure on wages for all low-income workers. To equal the purchasing power it had in 1968, the minimum wage would have to be more than $9.37 an hour today, not $5.15.

The middle class works longer and harder, but low-wage workers often can't even find the jobs or the hours they need to put food on the table and pay the rent.

Our society is becoming more and more stratified and that threatens our Democracy. Today, more than 40 percent of total income is going to the wealthiest 10 percent of Americans—the biggest gap in more than 65 years. The top 1⁄10 of 1 percent of Americans receive nearly 7 percent of the total income of our entire country. The divide between the haves and the have-nots is the largest since the Great Depression. It's growing every year, and putting our economy and our society at increasing risk.

It doesn't have to be this way. We can get back to where we ought to be. We can create more good middle class jobs. We can ease the strain on working families, and help hardworking people rise out of poverty. We can achieve a fairly shared prosperity and recapture the American dream. But to do so, we need to understand how we came to where we are today, and we must be willing to consider new ideas for the Nation's future.

The time has come for bold action to improve economic security and economic opportunity for America's working families. I look forward to the ideas and recommendations of today's panelists on these important issues, and to a lively discussion as well.

Opening Statement of Senator Enzi

Senator Enzi. Thank you, Mr. Chairman. And I appreciate your holding this hearing on labor issues. This is our first hearing on labor issues. And I want to thank the panel for their willingness to participate.

We can all benefit from a better understanding of real changes and opportunities that face America's working families. And I hope we'll have some more of these, because I noted that we had two professors and a minister and a small-business person. I kind of consider small-business people to be part of the middle class, not the upper class. Some of them are probably in the poorest of the working corps. But we need to get the perspective from those working folks, as well.

I travel out to Wyoming most weekends. I don't know how that'll work out, under our new schedule, because the trip takes me about 16 hours, round trip, to make it, so, if I have to leave late Friday and be back early Monday, that'll present some difficulties. But the folks in Wyoming think that that's my real working time, when I'm actually talking to them. And I've got to say that when I'm talking to the guy that's selling the shoes or doing the construction work on the end of the shovel, that they're where some of the best ideas come from. So, a little more interaction with the middle class and the poor, I think, would benefit us greatly in coming up with ideas that will result in the kinds of solutions that will make America a better place.

And I do think it's a good idea for the committee to conduct this sort of a regular checkup on the Nation's employment situation. In January 2007, based on available data through November, the situation looks pretty good, according to statistics, but there are unavoidable changes ahead to the U.S. workforce, and we have to be doing all we can to prepare for those shifts.

We've got to make sure that the benefits of a strong economy are reaching the employees. Real average weekly earnings rose by 4.4 percent over the year ending November 2006. That's 2.3 percent, when adjusted for inflation. The inflation-adjusted increase of 2.3 percent translates into an average of an extra $1,420 for the typical family of four with two wage-earners. Statistics, however, don't tell the whole story. There are certainly challenges facing today's working families. The cost of healthcare continues to rise. Many are still looking to get the right work/family balance, and employees in critical sectors of our economy lack the skills that are necessary to progress in their careers. I hope we'll acknowledge some of these struggles in today's hearing.

Like middle-class families, small businesses feel the middle-class squeeze, as well. They're caught between trying to compete in the global market with the bigger business competitors, and they're trying to provide for their employees, who they recognize and feel are almost family, and their most important asset. The two missions are entirely co-dependent. If a small-business person can't compete, he or she cannot provide jobs and benefits for the employees.

According to the Small Business Administration and economists, small businesses create the majority of new jobs in today's economy. If we want to stay on the path of economic and employment growth, we must take care not to take actions that make small business less likely to compete and succeed. When small businesses can succeed, they can provide good wages and benefits for their employees, and it's certainly in their best interest to do so. When their success is hampered by excessive and burdensome regulations and mandates, it hurts everyone who works for that small business and their families.

If we're talking about a middle-class squeeze, there are no better representatives in the middle class than the typical small-business owner and his or her employees. They're on the front lines every day, working to keep their business growing and to hire new workers. As a former small-business owner, I can truly empathize with today's small business in trying to juggle all the balls at once and provide a better life for themselves and for their workers.

In our discussions today, we must recognize that financial prosperity and job security cannot simply be legislated. Congress can't wave a magic wand and guarantee every American a well-paying job with gold-plated benefits for life. The government systems that have tried that approach have failed, and their citizens have been worse off for the effort. Rather, our role is to foster economic conditions that allow growth, which, in turn, creates jobs and raises wages and benefits. On the other side of the equation, we should do all we can to ensure that America is producing workers who possess the necessary skills to move themselves and our economy forward. My colleagues know that I strongly believe we have to do more in that department. For the past two Congresses, one of my major priorities has been reauthorizing and improving the Nation's job-training system that was created by the Workforce Improvement Act. This law would help to provide American workers with skills they need to compete in the global economy. Education and the acquisition of job skills represent the surest path to economic opportunity and security in the global job market.

Over the past few years, this bill has received unanimous support from both the HELP Committee, which has reported it out twice, and the full Senate, which has passed it, unanimously, twice. But election-year politics and political positioning have prevented this important bill from becoming law. So, this bill, which would start an estimated 900,000 people a year on a better career path, has been a casualty of Congress' inability to overcome its worst partisan instincts.

We, our workers, and our businesses can't afford any further delay. I hope we can quickly pass a job-training bill that will truly improve the wages and lives of workers in this country.

The potential skills gap that's facing American workers only deepens when we're compared to our competitors around the world. As chairman of this committee, I was able to travel to some foreign countries which are among the toughest competitors in the world market. I came home believing strongly that we have to focus even more seriously on the acquisition and improvement of job-related skills.

Wages, job security, and benefits are important for America's quality of life and worthy of significant discussion, but none of this matters if our overseas competitors are able to produce better goods and quicker services and dominate the global market. Every member of this committee wants the best for American workers. It's true that some of us may have different ideas on how to make that possible, but I am confident that, by working together, we can find common ground, as we've been able to do on so many occasions in the last Congress.

I look forward to hearing the testimony presented, and I thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Enzi.

I might just say, on that training program, we have 24 applications, in my State of Massachusetts, for every training slot—24 applications. We have 73,000 jobs that are out there in my State that could use these training. This is an important message.

We are very fortunate to have a strong panel here: Professor Jacob Hacker, who's a professor of political science at Yale, resident fellow of the Institution for Social and Policy Study, fellow at the New America Foundation, a former junior fellow of the Harvard Society of Fellows; his most recent book, "The Great Risk Shift: The Assault on American Jobs, Families, Healthcare, and Retirement, and How You Can Fight Back"—I had the good opportunity to read it over the Christmas break.

Eileen Appelbaum, is a familiar figure to this committee—joined the Rutgers University as professor and director of Center for Women and Work, March 2002, former research director, Economic Policy Institute, in Washington, DC., professor of economics at Temple University. Dr. Appelbaum's got 20 years of experience carrying out empirical research on workplace practices, labor managed cooperation, research focuses on work, processes, and work-life practices of organizations.

Reverend Forbes, James Forbes, was installed as the fifth senior minister of Riverside, June 1, 1989, and is the first African-American to serve as a senior minister of the multicultural congregation. He's an ordained minister in the American Baptist Churches and the original United Holy Church of America. In national and international religious circles, Dr. Forbes is known as the preacher's preacher, because of his extensive preaching career and his charismatic style. In their March 4, 1996, issue, Newsweek magazine recognized Dr.—Reverend Forbes as one of the 12 most effective preachers in the English-speaking world. We thank him.

Mrs. Cablik was born—is that the right pronunciation?

Mrs. CABLIK. Cablik.

The CHAIRMAN. Cablik, excuse me—Cablik was born and raised in the Republic of Panama and became a U.S. citizen. She married her husband, came to Atlanta in 1974. She completed her studies in medical technology at Canal Zone College, 1982. Ms. Cablik started her own contracting company, which specializes in highway bridges. Ms. Cablik's second company, ANASTEEL & Supply Company, was created in 1994, the only Hispanic female-owned reinforcing-steel fabricator in the Southeast. In 1989, she was Hispanic Businesswoman of the Year and a finalist for Entrepreneur of the Year in the construction category by Inc. magazine. In 1997, she earned the Pacesetter Award by the National Association of Minority Contractors, in Atlanta. Very much welcome you, Ms. Cablik.

So, we'll start, if we could, Professor Hacker.

STATEMENT OF JACOB S. HACKER, PETER STRAUSS FAMILY ASSOCIATE PROFESSOR, YALE UNIVERSITY, NEW HAVEN, CT

Mr. HACKER. Good morning, Chairman Kennedy, Senator Enzi, and members of the committee. Despite my trepidation about preceding a great preacher, I am honored to speak with you today about the economic condition of the American middle class.

Without mincing words, I believe that condition can be described as serious and unstable. Over the last generation, in nearly every facet of American middle-class economic life—pension plans, health insurance, job security, family finances—economic risk has shifted from the broad shoulders of government and corporations onto the fragile backs of American families. I call this transformation "The Great Risk Shift," and I believe it is at the heart of the economic anxieties that many middle-class Americans feel today.

As you know, the United States has a distinctive framework of economic security, one that relies heavily on employers to provide essential social benefits. Today, however, this framework is eroding, and risk is shifting back onto workers and their families. Employment-based health insurance has contracted substantially, leaving nearly one in three non-elderly Americans without coverage at some point every 2 years. Meanwhile, even as private pension coverage has stagnated, there has been a dramatic movement away from guaranteed defined-benefit pension plans toward individual account-style defined-contribution plans, which place much of the responsibility and risk of retirement planning on workers, themselves.

We hear much today about inequality, the growing gap between the rungs of our economic ladder, but what I'm talking about is insecurity, the growing risk of slipping from the ladder itself. And insecurity is what more and more Americans are feeling. In an election-night poll commissioned by the Rockefeller Foundation, fully three-quarters of voters, Republicans in almost as large a proportion as Democrats, said they were worried about their overall economic security.

Now, I want to emphasize that these are not just concerns of the poor or the poorly educated. Increasingly, insecurity reaches across the income spectrum, across lines of gender and geography, across the racial divide. More and more, all Americans are riding the economic roller coaster that was once reserved for the working poor.

Personal bankruptcies and home foreclosures, for example, have become dramatically more common, and most who experience these dislocations are in the middle class before they do. Indeed, the group most disadvantaged by these trends is families with children; in part, because they are drowning in debt.

In 2004, personal debt exceeded 125 percent of family income for the median married couple with children. Perhaps most telling of all, research I have done using the Panel Study of Income Dynamics, a survey that has tracked thousands of families from year to year since the late 1960s, shows that instability of family incomes has actually risen faster than inequality of family incomes. In other words, while the gaps between the rungs on our economic ladder have, indeed, increased, what has increased even more quickly is how far people fall down the ladder when they lose their financial footing.

I believe this risk shift is not inevitable. In an economy as rich and productive as ours, there's no reason why we could not shore up the buffers that protect families from economic risk to help them prosper in our increasingly dynamic, flexible, and, yes, uncertain economy.

We cannot, we should not, insure Americans against every risk they face, but I believe it is a grave mistake to see security, as opposed to opportunity. We give corporations limited liability, after all, precisely to encourage entrepreneurs to take risks. If middle-class Americans are to make the risky investments necessary to thrive in our new, uncertain economy, they need an improved safety net, not a more tattered one.

The American Dream, the economic promise of this great Nation, is about security and opportunity alike, and ensuring that the vibrancy of that dream will require providing security and opportunity, alike.

Thank you.

[The prepared statement of Mr. Hacker follows:]

PREPARED STATEMENT OF JACOB S. HACKER

Thank you, Mr. Chairman. My name is Jacob Hacker, and I am a professor of political science at Yale University. I thank the committee for the honor of speaking today about the economic condition of the American middle class.

Without mincing words, that condition can be described as "serious and unstable." Increasingly, middle-class Americans find themselves on a shaky financial tightrope, without an adequate safety net if they lose their footing.

A major cause of this precariousness is what I call "The Great Risk Shift." [1] Over the last generation, we have witnessed a massive transfer of economic risk from broad structures of insurance, whether sponsored by the corporate sector or by government, onto the fragile balance sheets of American families. This transformation is arguably the defining feature of the contemporary American economy—as important as the shift from agriculture to industry more than a century ago. It has reshaped Americans' relationships to their government, their employers, and each other. And it has transformed the economic circumstances of American families, from the bottom of the economic ladder to its highest rungs.

We have heard a great deal about rising inequality—the growing gap between the rungs of our economic ladder. And yet, to most Americans, inequality is far less tangible and immediate than a trend we have heard much less about: rising *insecurity*, or the growing risk of slipping from the ladder itself. Even as the American economy has performed fairly strongly overall, economic insecurity has quietly crept into American middle-class life. Private employment-based health plans and pensions have eroded, or been radically transformed to shift more risk onto workers' shoulders. Government programs of economic security have been cut, restructured, or simply allowed to grow more threadbare. Our jobs and our families are less and less financially secure.

Insecurity strikes at the very heart of the American Dream. It is a fixed American belief that people who work hard, make good choices, and do right by their families can buy themselves permanent membership in the middle class. The rising tide of risk swamps these expectations, leaving individuals who have worked hard to reach their present heights facing uncertainty about whether they can keep from falling.

Little surprise, then, that insecurity was a central issue in the 2006 mid-term elections—during which two-thirds of voters, Republicans in almost as large a proportion as Democrats, said they were "worried about their overall economic security, including retirement savings, health insurance, and Social Security." [2] Insecurity also appears to be a major reason for the huge divorce in recent years between generally positive aggregate economic statistics and generally negative public appraisals of the economy.[3] And it is certain to be one of the most pressing domestic challenges faced in the coming years.

In my remarks, I would like to review some of the major evidence that Americans are at increased economic risk, drawing on my recent book, *The Great Risk Shift*. After laying out the problem, I want to discuss the economic and philosophical grounds for addressing it—grounds that, I believe, demand bold and immediate action.

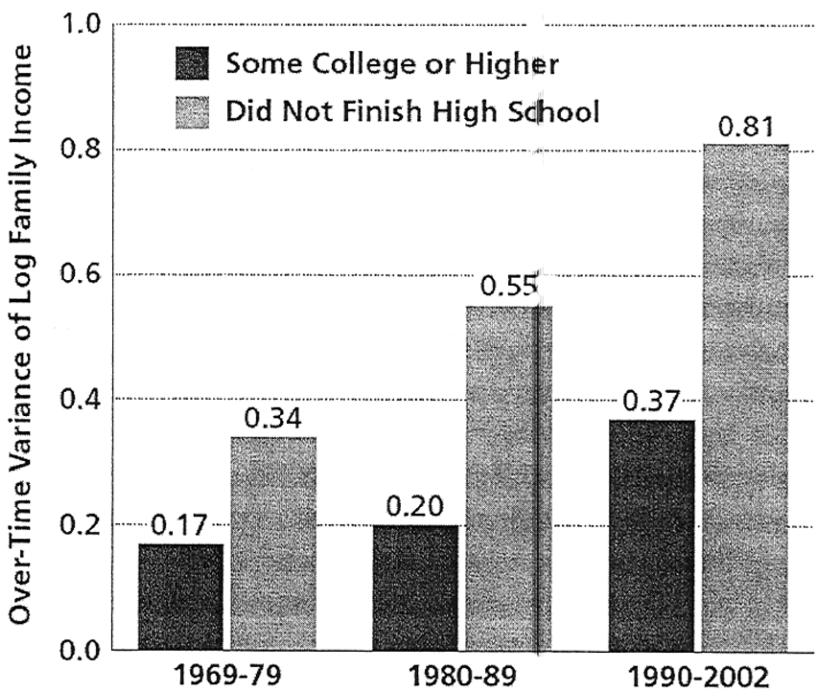
THE ECONOMIC ROLLER COASTER

American family incomes are now on a frightening roller coaster, rising and falling much more sharply from year to year than they did 30 years ago. Indeed, according to research I have done using the Panel Study of Income Dynamics—a nationally representative survey that has been tracking thousands of families' finances from year to year since the late 1960s—the *instability* of family incomes has risen faster than the *inequality* of family incomes. In other words, while the gaps between the rungs on the ladder of the American economy have increased, what has increased even more quickly is how far people slip down the ladder when they lose their financial footing.

Is this just a problem of the less educated, the workers who have fallen farthest behind in our economy? The answer is no. Income instability is indeed greater for less educated Americans than for more educated Americans. (It is also higher for blacks and Hispanics than for whites, and for women than for men.) Yet instability has risen by roughly the same amount across all these groups over the last generation. During the 1980s, people with less formal education experienced a large rise in instability, while those with more formal education saw a modest rise. During the 1990s, however, the situation was reversed, and by the end of the decade, as Figure 1 shows, the instability of income had increased in similar proportions from the 1970s baseline among both groups.[4]

FIGURE 1

Income Instability Increased at Both High and Low Educational Levels, 1969–2002



Source: PSID and Cross-National Equivalent File (CNEF), Cornell University. http://www.human.cornell.edu/che/PAM/Research/Centers-Programs/German-Panel/Cross-National-Equivalent-File_CNEF.cfm

Roller coasters go up and down. Yet when most of us contemplate the financial risks in our lives, we do not think about the upward trips. We worry about the drops, and worry about them intensely. In the 1970s, the psychologists Amos Tversky and Daniel Kahneman gave a name to this bias: "loss aversion."[5] Most people, it turns out, aren't just highly risk-averse—they prefer a bird in the hand to even a very good chance of two in the bush. They are also far more cautious when it comes to bad outcomes than when it comes to good outcomes of exactly the same magnitude. The search for economic security is, in large part, a reflection of a basic human desire for protection against losing what one already has.

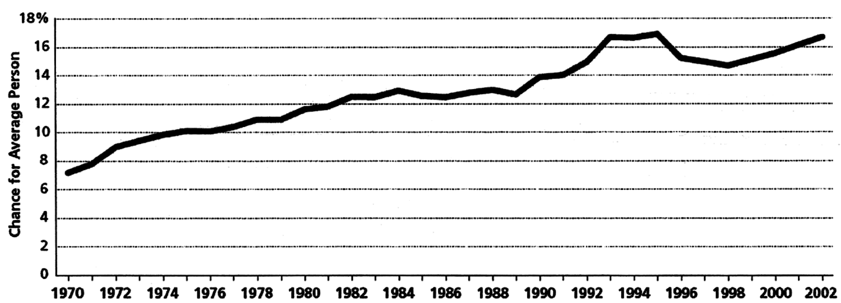
This desire is surprisingly strong. Americans are famously opportunity-loving, but when asked in 2005 whether they were "more concerned with the opportunity to make money in the future, or the stability of knowing that your present sources of income are protected," 62 percent favored stability and just 29 percent favored opportunity.[6]

Judged on these terms, what the Panel Study of Income Dynamics shows is troubling. About half of all families in the study experience a drop in real income over a 2-year period, and the number has remained fairly steady. Yet families that experience an income drop fall much farther today than they used to: In the 1970s, the typical income loss was around 25 percent of prior income; by the late 1990s, it was around 40 percent. And, again, this is the median drop: Half of families whose incomes dropped experienced larger declines.

Figure 2 uses somewhat fancier statistics to show the rising probability of experiencing a 50 percent or greater family income drop. The chance was around 7 percent in the 1970s. It has increased dramatically since, and while, like income volatility, it fell in the strong economy of the 1990s, it has recently spiked. There is nothing extraordinary about "falling from grace." You can be perfectly average—with an average income, an average-sized family, an average likelihood of losing your job or becoming disabled—and you're still 2½ times as likely to see your income plummet as an average person was 30 years ago.

FIGURE 2

Predicted Probability of 50 Percent or Greater Income Drop, 1970–2002



Source: PSID; CNEF.

Note: Probabilities are based on the time trend from a logistic regression, with all other variables set at their annual means. Variables include age, education, race, gender, income (mean of five prior years), and a series of events (such as unemployment and illness) that affect income. The time trend is highly significant and robust to the inclusion of fixed effects; all standard errors are robust and adjusted for clustering.

The most dramatic consequence of financial reversals is, of course, poverty—subsistence at a level below the Federal poverty line. According to the sociologist Mark Rank and his colleagues, the chance of spending at least a year in poverty has increased substantially since the late 1960s, even for workers in their peak earning years. People who were in their forties in the 1970s had around a 13 percent chance of experiencing at least a year in poverty during their forties. By the 1990s, people in their forties had more than a 36 percent chance of ending up in poverty.[7]

These numbers illuminate the hidden side of America's economic success story: the growing insecurity faced by ordinary workers and their families. Yet as dramatic and troubling as these numbers are, they vastly understate the true depth of the problem. Income instability powerfully captures the risks faced by Americans today. But insecurity is also driven by the rising threat to family finances posed by budget-busting expenses like catastrophic medical costs, as well as by the massively increased risk that retirement has come to represent, as ever more of the responsibility of planning for the post-work years shifts onto Americans and their families. When we take in this larger picture, we see an economy not merely changed by degrees, but transformed—from an all-in-the-same boat world of shared risk toward a go-it-alone world of personal responsibility.

AMERICA'S UNIQUE—AND ENDANGERED—FRAMEWORK OF ECONOMIC SECURITY

We often assume that the United States does little to provide economic security compared with other rich capitalist democracies. This is only partly true. The United States does spend less on government benefits as a share of its economy, but it also relies more—far more—on private workplace benefits, such as health care and retirement pensions. Indeed, when these private benefits are factored into the mix, the U.S. framework of economic security is not smaller than the average system in other rich democracies. It is actually slightly larger.[8] With the help of hundreds of billions in tax breaks, American employers serve as the first line of defense for millions of workers buffeted by the winds of economic change.

The problem is that this unique employment-based system is coming undone, and in the process risk is shifting back onto workers and their families. Employers want out of the social contract forged in the more stable economy of past, and they are largely getting what they want. Meanwhile, America's framework of government support is also strained. Social Security, for example, is declining in generosity, even as guaranteed private pensions evaporate. Medicare, while ever more costly, has not kept pace with skyrocketing health expenses and changing medical practice. And even as unemployment has shifted from cyclical job losses to permanent job displacements, Unemployment Insurance has eroded as a source of support and recovery for Americans out of work.[9]

The history of American health insurance tells the story in miniature. After the passage of Medicare and Medicaid, health coverage peaked at roughly 90 percent of the population, with approximately 80 percent of Americans covered by private insurance. In its heyday, private insurance was provided by large nonprofit insurers, which pooled risks across many workplaces (and, originally, even charged all subscribers essentially the same rate—a practice favorable to higher-risk groups). The American Hospital Association proudly described the Blue Cross insurance plans that once dominated U.S. health insurance as "social insurance under nongovernmental auspices."[10]

Since the late 1970s, however, employers and insurers have steadily retreated from broad risk pooling. The number of Americans who lack health coverage has increased with little interruption as corporations have cut back on insurance for workers and their dependents. From around 80 percent of Americans, private health coverage now reaches less than 70 percent, with nearly 47 million people without any coverage at all.[11] Over a 2-year period, more than 80 million adults and children—one out of three nonelderly Americans, 85 percent of them in working families—spend some time without the protection against ruinous health costs that insurance offers.[12] And the problem is rapidly worsening: Between 2001 and 2005, the share of moderate-income Americans who lack health coverage has risen from just over one quarter to more than 40 percent.[13]

The uninsured, moreover, are hardly the only ones at risk because of rising medical costs. Among *insured* Americans, 51 million spend more than 10 percent of their income on medical care.[14] One out of six working-age adults—27 million Americans—are carrying medical debt, and 70 percent had insurance when they incurred it. Of those with private insurance and medical debt, fully half have incomes greater than $40,000, and of this group a third are college graduates or have had postgraduate education.[15] Perhaps not surprisingly, as many as half of personal bankruptcies are due in part to medical costs and crises—and most of these medical-related bankruptcies occur among the insured.[16]

As employment-based health insurance has unraveled, companies have also raced away from the promise of guaranteed retirement benefits. Twenty-five years ago, 83 percent of medium and large firms offered traditional "defined-benefit" pensions that provided a fixed benefit for life. Today, the share is below a third.[17] Instead, companies that provide pensions—and roughly half the workforce continues to lack a pension at their current job—mostly offer "defined-contribution" plans like the 401(k), in which returns are neither predictable nor assured.[18]

Defined-contribution plans are not properly seen as pensions—at least as that term has been traditionally understood. They are essentially private investment accounts sponsored by employers that can be used for building up a tax-free estate as well as for retirement savings. As a result, they greatly increase the degree of risk and responsibility placed on individual workers in retirement planning. Traditional defined-benefit plans are generally mandatory and paid for largely by employers (in lieu of cash wages). They thus represent a form of forced savings. Defined-benefit plans are also insured by the Federal Government and heavily regulated to protect participants against mismanagement. Perhaps most important, their fixed benefits protect workers against the risk of stock market downturns and the possibility of living longer than expected.

None of this is true of defined-contribution plans. Participation is voluntary, and due to the lack of generous employer contributions, many workers choose not to participate or contribute inadequate sums.[19] Plans are not adequately regulated to protect against poor asset allocations or corporate or personal mismanagement. The Federal Government does not insure defined-contribution plans. And defined-contribution accounts provide no inherent protection against asset or longevity risks. Indeed, some features of defined-contribution plans—namely, the ability to borrow against their assets, and the distribution of their accumulated savings as lump-sum payments that must be rolled over into new accounts when workers change jobs—exacerbate the risk that workers will prematurely use retirement savings, leaving inadequate income upon retirement. And, perversely, this risk falls most heavily on younger and less highly paid workers, the very workers most in need of secure retirement protection.

As private and public support have eroded, in sum, workers and their families have been forced to bear a greater burden. This is the essence of the Great Risk Shift. Rather than enjoying the protections of insurance that pools risk broadly, Americans are increasingly facing economic risks on their own—and often at their peril. In the new world of work and family, the buffers that once cushioned Americans against economic risk are become fewer and harder.

THE NEW WORLD OF WORK AND FAMILY

The erosion of America's distinctive framework of economic protection might be less worrisome if work and family were stable sources of security themselves. Unfortunately, they are not. Beneath the rosy economic talk, the job market has grown more uncertain and risky, especially for those who were once best protected from its vagaries. While the proportion of workers formally out of work at any point in time has remained low, the share of workers who lose a job through no fault of their own every 3 years has actually been rising—and is now roughly as high as it was during the recession of the early 1980s, the worst economic downturn since the Great Depression.[20]

No less important, these job losses come with growing risks. Workers and their families now invest more in education to earn a middle-class living, and yet in today's post-industrial economy, these costly investments are no guarantee of a high, stable, or upward-sloping path. For displaced workers, the prospect of gaining new jobs with relatively similar pay and benefits has fallen, and the ranks of the long-term unemployed and "shadow unemployed" (workers who have given up looking for jobs altogether) have grown. These are not just problems faced by workers at the bottom. In the most recent downturn, the most educated workers actually experienced the worst effects when losing a full-time job, and older and professional workers were hit hardest by long-term unemployment.[21]

Meanwhile, the family—once a refuge from economic risk—is creating new risks of its own. At first, this seems counterintuitive. Families are much more likely to have two earners than in the past, the ultimate form of private risk sharing. To most families, however, a second income is not a *luxury*, but a *necessity* in a context in which wages are relatively flat and the main costs of raising a family (health care, education, housing) are high and rising.[22] According to calculations by Jared Bernstein and Karen Kornbluh, more than three-quarters of the modest 24 percent rise in real income experienced by families in the middle of the income spectrum between 1979 and 2000 was due to increasing work hours, rather than rising wages.[23] (Some of this overall gain has been reduced by recent family income declines.) In time-use surveys, both men and women who work long hours indicate they would like to work fewer hours and spend more time with their families—which strongly suggests they are not able to choose the exact mix of work and family they would prefer.[24]

With families needing two earners to maintain a middle-class standard of living, their economic calculus has changed in ways that accentuate many of the risks they face. Precisely because it takes more work and more income to maintain a middle-class standard of living, the questions that face families when financially threatening events occur are suddenly more stark. What happens when women leave the workforce to have children, when a child is chronically ill, when one spouse loses his job, when an older parent needs assistance? In short, events within two-earner families that require the care and time of family members produce special demands and strains that traditional one-earner families generally did not face.

The new world of work and family has ushered in a new crop of highly leveraged investors—middle-class families. Consider just a few of the alarming facts:

• Personal bankruptcy has gone from a rare occurrence to a routine one, with the number of households filing for bankruptcy rising from less than 300,000 in 1980 to more than 2 million in 2005.[25] Over that period, the financial characteristics of the bankrupt have grown worse and worse, contrary to the claim that bankruptcy is increasingly being used by people with only mild financial difficulties. Strikingly, married couples with children are much more likely to file for bankruptcy than are couples without children or single individuals.[26] Otherwise, the bankrupt are pretty much like other Americans before they file: slightly better educated, roughly as likely to have had a good job, and modestly less likely to own a home.[27] They are not the persistently poor, the downtrodden looking for relief; they are refugees of the middle class, frequently wondering how they fell so far so fast.

• Americans are also losing their homes at record rates. Since the early 1970s, there has been a fivefold increase in the share of households that fall into foreclosure—a process that begins when homeowners default on their mortgages and can end with homes being auctioned to the highest bidder in local courthouses.[28] For scores of ordinary homeowners—1 in 60 mortgage-owning households in recent years—the American Dream has mutated into what former U.S. Comptroller of the Currency Julie L. Williams calls "the American nightmare."[29]

• American families are drowning in debt. Since the early 1970s, the personal savings rate has plummeted from around a tenth of disposable income to essentially zero. In 2005, the personal savings rate was -0.5 percent—the first time since 1993, in the midst of the Great Depression, that savings has been negative for an entire year.[30] Meanwhile, the total debt held by Americans has ballooned, especially for families with children. As a share of income in 2004, total debt—including mortgages, credit cards, car loans, and other liabilities—was more than 125 percent of income for the median married couple with children, or more than three times the level of debt held by married families without children, and more than nine times the level of debt held by childless adults.[31]

As these examples suggest, economic insecurity is not just a problem of the poor and uneducated, as is frequently assumed. It affects even educated, middle-class Americans—men and women who thought that by staying in school, by buying a home, by investing in their 401(k)s, they had bought the ticket to upward mobility and economic stability. Insecurity today reaches across the income spectrum, across the racial divide, across lines of geography and gender. Increasingly, all Americans are riding the economic roller coaster once reserved for the working poor, and this means that increasingly all Americans are at risk of losing the secure financial foundation they need to reach for and achieve the American Dream.

SECURITY AND OPPORTUNITY ARE INTERTWINED

The increased income volatility and economic insecurity faced by many families imposes costs not just on those families, but also on the economy as a whole. Substantial economic insecurity may impede risk taking, reduce productivity by failing to help families that have suffered an adverse shock get back on their feet, and feed demands for growth-reducing policies. While some measure of financial risk can cause families to respond with innovation and prudence, excessive insecurity can cause them to respond with caution and anxiety. As a result, families lacking a basic foundation of financial security may fail to make the investments needed to advance in a dynamic economy.

It has long been recognized that policies that encourage risk taking can benefit society as a whole, because, in their absence, individuals may be unwilling to undertake valuable investments that involve high levels of risk. This is all the more true because, as already noted, people are highly loss averse, meaning that they fear losing what they have more than they welcome the possibility of substantially larger but uncertain gains. Moreover, the gains of risky investment may entail positive externalities, that is, benefits that are not exclusive to the individual making the investment, but that accrue to others outside the transaction. When investments involve large positive externalities, individuals may not have sufficient incentive to invest in achieving these societal gains.

Many economic investments made by families are both risky and highly beneficial to society as a whole. Purchasing a home, for example, is good for families and communities, but entails substantial financial risk.[32] Similarly, investment in workplace skills and education—particularly the education of children—is an investment that pays off handsomely, on average, for individuals and for society. Yet the returns to skills and education are highly variable, and becoming more so. In short, the wellsprings of economic opportunity—from assets to workplace skills to education to investments in children—are risky investments with positive externalities. Providing a basic level of economic security can encourage families to make these investments, aiding not just their own advancement but the economy as a whole.

Providing a basic level of security appears even more economically beneficial when considered against some of the leading alternatives that insecure citizens may otherwise back. Heavy-handed regulation of the economy, strict limits on cross-border trade and financial flows, and other intrusive measures may gain widespread support from workers when they are buffeted by economic turbulence, yet these measures are likely to reduce growth. The challenge, then, is to explore ways of protecting families against the most severe risks they face, without clamping down on the potentially beneficial processes of change and adjustment that produce some of these risks.

Unique among social institutions, government can provide such protection. It has the means—and, often, the incentive—to require participation in broader risk pools and to foster positive externalities that no private actor sufficiently gains from to encourage individually. This is a major reason why government has long played a central role in managing risk in the private sector.[33] Corporate law has long recognized the need to limit the downside of risk-taking as a way of encouraging firms to take a socially appropriate amount of risk. The law of bankruptcy and the principle of limited liability—the notion that those who run a firm are not personally liable if the firm fails—allow entrepreneurs to engage in risky investments knowing that they will not be forced into penury or debt servitude if their risky bets fail. Deposit insurance increases the likelihood of savings and decreases the possibility of devastating bank runs, by allowing depositors to feel secure that they can obtain their money when they need it.

This argument is not merely analogical. A growing body of evidence backs it up. Comparative statistics indicate, for example, that generous personal bankruptcy laws are associated with higher levels of venture capital.[34] Research on labor markets shows that workers who are highly fearful of losing their job invest less in their jobs and job skills than those who are more secure.[35] And cross-national studies suggest that investment in education and job skills is higher when workers have key risk protections. Workers, it seems, invest in highly specific assets—such as skills that do not transfer easily from one firm or occupation to another—only when the risk of losing the potential returns of those assets are mitigated by basic insurance protections that are not job-specific.[36] When insurance is not present, workers under-invest in the most crucial asset in most families' portfolio—namely, the value of family members' human capital.

Most of us think of social insurance as a way of helping those who have had bad fortune or fallen on hard times. What the foregoing suggests is that social insurance can also encourage families that do not experience misfortune to make investments that benefit themselves and society. Put simply, security is not opposed to economic opportunity. It is a cornerstone of opportunity. And restoring a measure of economic security in the United States today is the key to transforming the Nation's great wealth and productivity into an engine for broad-based prosperity and opportunity in a more uncertain economic world.

A TWENTY-FIRST CENTURY SOCIAL CONTRACT

In revitalizing the social contract that binds employers, government, and workers and their families, there can be no turning back the clock on many of the changes that have swept through the American economy and American society. Yet accepting these changes does not mean accepting the new economic insecurity that middle-class families face. Americans will need to do much to secure themselves in the new world of work and family. But they should be able to do it in a context in which government and employers act as effective advocates on working families' behalf. And they should be protected by an improved safety net that fills the most glaring gaps in present protections, providing all Americans with the basic security they need to reach for the future—as workers, as parents, and as citizens.

Make no mistake: This strengthened safety net will have to be different from the one that was constructed during the Great Depression and in the years after World War II. Our eroding framework of social protection is overwhelmingly focused on the aged, even though young adults and families with children face the greatest economic strains today. It emphasizes short-term exits from the workforce, even though long-term job losses and the displacement and obsolescence of skills have become more severe. It embodies, in places, the antiquated notion that family strains can be dealt with by a second earner—usually, a woman—who can easily leave the workforce when there is a need for a parent at home. Above all, it is based on the idea that job-based private insurance can easily fill the gaps left by public programs, when it is ever more clear that it cannot.

Americans require a new framework of social insurance that revitalizes the best elements of the present system, while replacing those parts that work least effectively with stronger alternatives geared toward today's economy and society. First and foremost, that means basic health coverage that moves with workers from job to job. In a policy brief released earlier this month, I have outlined a proposal that would extend insurance to all nonelderly Americans through a new Medicare-like program and guaranteed workplace health insurance, while creating an effective framework for controlling medical costs and improving health outcomes to guarantee affordable, quality care to all.[37]

A new social contract should also include enhanced protections against employment loss (and the wage and benefit cuts that come with it), and an improved framework for retirement savings. And I believe it should include a new flexible program of social insurance that I call "Universal Insurance"—a stop-loss income-protection program that insures workers against very large drops in their income due to unemployment, disability, ill health, and the death of a breadwinner, as well as against catastrophic medical costs. For a surprisingly modest cost, Universal Insurance could help keep more than 3 million Americans from falling into poverty a year and cut in half the chance that Americans experience a drop in their income of 50 percent or greater.[38]

Such a "security and opportunity society" will not be uncontroversial or easy to achieve. But it will restore a simple promise to the heart of the American experience: If you work hard and do right by your families, you shouldn't live in constant fear of economic loss. You shouldn't feel that a single bad step means slipping from the ladder of advancement for good. The American Dream is about security and opportunity alike, and rebuilding it for the millions of middle-class families whose anxieties and struggles are reflected in the statistics and trends I have discussed will require providing security and opportunity alike.

REFERENCES

1. Jacob S. Hacker, *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement—And How You Can Fight Back* (New York: Oxford University Press, 2006).

2. McLaughlin and Associates poll of 1,000 mid-term election voters, conducted for the Rockefeller Foundation. I am grateful to the Foundation for making this unpublished data available to me. Sixty-nine percent of Republican voters stated that they were worried, compared with 78 percent of Democratic voters and 76 percent of independent voters.

3. Hacker, *The Great Risk Shift*, Chapter 1.

4. Further explication of all the analyses discussed in this testimony are contained in my book.

5. Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decisions Under Risk", *Econometrica* Vol. 47, no. 2 (1979).

6. George Washington University Battleground 2006 Survey, March 24, 2005.

7. Daniel Sandoval, Thomas A. Hirschl, and Mark R. Rank, "The Increase of Poverty Risk and Income Insecurity in the U.S. Since the 1970's," paper presented at the American Sociological Association Annual Meeting, San Francisco, CA, August 14–17, 2004.

8. Jacob S. Hacker, *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (New York: Cambridge University Press, 2002); Willem Adema and Maxime Ladaique, "Net Social Expenditure, 2005 Edition," Paris, Organization for Economic Cooperative for Development, 2005, available online at *www.oecd.org/dataoecd/56/2/35632106.pdf.*

9. See Lori G. Kletzer and Howard Rosen, "Reforming Unemployment Insurance for the Twenty-First Century Workforce," Hamilton Project Discussion Paper 2006–06, Washington, DC., Brookings Institution, September 2006, available online at *www1.hamiltonproject.org/views/papers/200609kletzer-rosen.pdf.*

10. Hacker, *Divided Welfare State*, 186, 214, 204.

11. Current private coverage estimates are available through the Kaiser Family Foundation's "Trends and Indicators in a Changing Health Care Marketplace," available online at *www.kff.org/insurance/7031/printsec2.cfm*. The estimate of nearly 47 million uninsured (the actual number is 46.6 million) comes from Carmen DeNavas-Walt, Bernadette D. Proctor, and Cheryl Hill Lee, "Income, Poverty, and Health Insurance Coverage in the United States: 2005," Current Population Reports (Washington, DC.: U.S. Census Bureau, August 2006), 20, available online at *www.census.gov/prod/2006pubs/p60-231.pdf.*

12. Families USA, "One in Three: Nonelderly Americans Without Health Insurance, 2002–2003," Washington, DC., Families USA, 2005, available online at *www.familiesusa.org/assets/pdfs/82million_uninsured_report6fdc.pdf.*

13. Sara R. Collins, et al., "Gaps in Health Insurance: An All-American Problem," New York, Commonwealth Fund, 2006, available online at *www.cmwf.org/usr_doc/Collins_gapshltins_920.pdf.*

14. Families USA, "Have Health Insurance" Think You're Well Protected? Think Again," Washington, DC., February 2005, available online at *www.familiesusa.org/assets/pdfs/Health_Care_Think_Again.pdf.*

15. Robert W. Seifert and Mark Rukavina, "Bankruptcy Is The Tip Of A Medical-Debt Iceberg," *Health Affairs* 25:2 (2006): w89–w92.

16. David U. Himmelstein, et al., "MarketWatch: Illness And Injury As Contributors To Bankruptcy," *Health Affairs*, Web Exclusive, February 2, 2005.

17. John H. Langbein, "Understanding the Death of the Private Pension Plan in the United States," unpublished manuscript, Yale Law School, April 2006.

18. Geoffrey Sanzenbacher, "Estimating Pension Coverage Using Different Data Sets," Center for Retirement Research Issues in Brief Number 51, Boston College, August 2006, available online at *www.bc.edu/centers/crr/issues/ib_51.pdf.*

19. Alicia H. Munnell and Annika Sundén, "401(k) Plans Are Still Coming Up Short," Center for Retirement Research Issues in Brief Number 43b, Boston College, March 2006, available online at *www.bc.edu/centers/crr/issues/ib_43b.pdf.*

20. Henry S. Farber, "What Do We Know About Job Loss in the United States?" *Economic Perspectives* 2Q (2005): 13, 14, available online at *www.chicagofed.org/publications/economicperspectives/ep_2qtr2005_part2_farber.pdf.*

21. Ibid.; Katharine Bradbury, "Additional Slack in the Economy: The Poor Recovery in Labor Force Participation During this Business Cycle, Federal Reserve Bank of Boston Public Policy Brief No. 05–2, Boston, 2005, available online at *www.bos.frb.org/economic/ppb/2005/ppb052.pdf; Andrew Stettner and Sylvia A. Allegretto, "The Rising Stakes of Job Loss: Stubborn Long-Term Joblessness amid Falling Unemployment Rates,"* Economic Policy Institute and National Employment Law Project Briefing Paper No. 162, 2005, available online at *www.epi.org/briefingpapers/162/bp162.pdf.*

22. Elizabeth Warren and Amelia Warren Tyagi, *The Two-Income Trap: Why Middle-Class Mothers and Fathers Are Going Broke* (New York: Basic Books, 2003).

23. Jared Bernstein and Karen Kornbluh, "Running Faster to Stay in Place: The Growth of Family Work Hours and Incomes," New America Foundation, Washington, DC., June 29, 2005, available online at *www.newamerica.net/publications/policy/running_faster_to_stay_in_place.*

24. Jerry A. Jacobs and Kathleen Gerson, *The Time Divide: Work, Family, and Gender Inequality* (Cambridge, MA: Harvard University Press, 2004).

25. Data courtesy of Elizabeth Warren, Harvard Law School. 2005 was, of course, an unusual year because of the rush of filings before the 2005 bankruptcy bill took effect. The number in 2004, however, still exceeded 1.56 million.

26. Warren and Tyagi, *Two-Income Trap*.

27. Elizabeth Warren, "Financial Collapse and Class Status: Who Goes Bankrupt?" *Osgoode Hall Law Journal*, 41.1 (2003).

28. Calculated from Peter J. Elmer and Steven A. Seelig, "The Rising Long-Term Trend of Single-Family Mortgage Foreclosure Rates," Federal Deposit Insurance Corporation Working Paper 98–2, n.d., available online at *www.fdic.gov/bank/analytical/working/98–2.pdf.*

29. Christian Weller, "Middle Class in Turmoil: High Risks Reflect Middle Class Anxieties," Center for American Progress, Washington, DC., December 2005, 7, available online at *www.americanprogress.org/kf/middle_class_turmoil.pdf;* Joe Baker, "Foreclosures Chilling Many U.S. Housing Markets," *Rock River Times*, March 22–28, 2006, available online at *www.rockrivertimes.com/index.pl?cmd=viewstory&id=12746&cat=2.*

30. "U.S. Savings Rate Hits Lowest Level Since 1933," *4MSNBC.com*, January 30, 2006, available online at *www.msnbc.msn.com/id/11098797.*

31. Calculated from Federal Reserve Board, Survey of Consumer Finance 2004, available online at *www.federalreserve.gov/PUBS/oss/oss2/2004/scf2004home.html*; all results are appropriately weighted.

32. Robert J. Shiller, "Betting the House," Project Syndicate Commentary, 2004, available online at *www.project-syndicate.org/commentary/shiller20.*

33. David Moss, *When All Else Fails: Government as the Ultimate Risk Manager* (Cambridge, MA: Harvard University Press, 2002).

34. John Armour and Douglas Cumming, "The Legal Road to Replicating Silicon Valley," paper read at Babson Entrepreneurship Conference, Glasgow, Scotland, 2004.

35. For a review, see Lars Osberg, "Economic Insecurity," Discussion Paper, Sydney, Australia, Social Policy Research Centre, 1998.

36. Margarita Esteves-Abe, Torben Iversen, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State," *The New Politics of the Welfare State*, ed. Paul Pierson (New York, Oxford University Press, 2001; Sauro Mocetti, "Social Protection and Human Capital: Test of a Hypothesis," Department of Economics, University of Siena, 2004.

37. Jacob S. Hacker, "Health Care for America: A Proposal for Guaranteed, Affordable Health Care for all Americans Building on Medicare and Employment-Based Insurance," EPI Briefing Paper #180, Economic Policy Institute, Washington, DC., January 11, 2007, available online at *www.sharedprosperity.org/bp180.html.*

38. Jacob S. Hacker, "Universal Insurance: Enhancing Economic Security to Promote Opportunity", Discussion Paper 2006–07, The Hamilton Project, Brookings Institution, Washington, DC, September 2006, available online at *www.brook.edu/views/papers/200609hacker_wp.htm.*

The CHAIRMAN. Thank you. Thank you very much.

We'll go now to Professor Appelbaum.

STATEMENT OF EILEEN APPELBAUM, Ph.D., PROFESSOR AND DIRECTOR, CENTER FOR WOMEN AND WORK, RUTGERS UNIVERSITY, NEWARK, NJ

Ms. APPELBAUM. Okay. Well, thank you very much for the opportunity to speak to this panel today.

I think we all know that America is much richer today than it was a generation ago, that we produce about 70 percent more output than we did just 30 years ago, and the problem is, of course, that America's middle-class families have not shared fairly in these productivity gains. Today, the top 5 percent of families, the richest 5 percent, have more income—substantially more income than the bottom 40 percent of families, combined.

The problem, if we take a historical view, is that from 1973 to 1995, the United States had slow productivity growth and also stagnant or falling wages. And we're very well aware of the widening gap between wages and productivity in that period. In 1995, we saw a remarkable turnaround in productivity growth in this country as our companies learned to use IT effectively. And this has—we've had 10 years, now, of remarkable productivity growth.

From 1995 to 2000, what we saw was that family incomes rose along with productivity growth, and we began to see, ever so slightly, a narrowing of inequality. But that was really short-lived. Since 2000, what has happened is that productivity has continued to grow at about 3 percent a year, but real wages for the middle class have been stagnant from 2001 until 2005. And the result of that, of course, is that we have the widening gap again, and the gap between wages and productivity for middle-income workers is now wider than at any time in the last 60 years.

There are two main reasons, I think—or at least two important reasons—for the disconnect between productivity growth and wage growth. One is the decline in the real value of the minimum wage. It's so low now that it really does not provide a floor under middle-class workers. And the second is de-unionization, making it difficult for workers to negotiate for their fair share of a growing pie.

You know, labor markets were once viewed as an arena in which employers and employees negotiated over the distribution of the gains in our economy. But today, the labor market is viewed as a tournament, a tournament with just a few winners and lots of losers. CEO pay today is 262 times the average wage of the average worker. So, that's what this tournament is all about.

The interests of multinational corporations no longer coincide with the national interest in a growing middle class and a strongly competitive domestic economy. Barriers to union organizing have left many, many workers without effective representation. If you think about a lot of the jobs where we have growing employment—nursing assistants, assistant teachers, we could go through a list if we had time—these are jobs that are not footloose, they are not going to be outsourced, they are in high demand, but they pay low wages. And I think that the main reason for that is that workers do not have representation to help them negotiate and to protect them against the risk-shifting that Jacob Hacker has so eloquently described.

We've allowed our U.S. manufacturing capacity to be eroded, and this has hurt both American competitiveness and the wages of American workers. As Senator Enzi pointed out, in the last few months we have finally, finally, after 5 years, seen an increase in the real wage of middle-class employees. But there's reason to think that these good times are likely to be short-lived. The productivity growth that I just alluded to—we've had the strong productivity growth for 10 years—this has begun to slow. From the fourth quarter of 2005 and through 2006, we have seen a sudden decline in productivity growth, GDP growth is slowing, and this makes it a really difficult situation.

We face a lot of challenges, looking forward—the bursting housing bubble, the trade deficit—I see I'm running out of time, so let me just say that these challenges also provide us with an opportunity to introduce 21st-century economic policies that will level the playing field for our good employers, especially our good small employers, and that will enable all of us to share equally in a growing economic pie and American prosperity.

Thank you.

[The prepared statement of Ms. Appelbaum follows:]

PREPARED STATEMENT OF EILEEN APPELBAUM, PH. D.

THE GREAT AMERICAN DISCONNECT

The U.S. economy has experienced tremendous growth in the last 30 years. American workers today produce 70 percent more goods and services than they did at the end of the 1970s. There has been a dramatic increase in women's paid employment—especially in the employment of mothers of young children—as women have responded to both increased opportunities and increased financial pressures on families with greater attachment to the paid workforce. More women are working and working more hours than ever before. Workers have generated a huge increase in the size of the economic pie. As a country, America is much richer than it was a generation ago.

There is a problem with this picture, however. The overwhelming majority of American families haven't shared fairly in this bounty. Workers' pay and benefits have lagged far behind the increase in productivity. Families have struggled to make up the difference as wives' hours of work increased—by about 500 hours since 1979 for middle income married couples with children.[1] Family work hours have increased without benefit of affordable quality child care, paid sick days and family leave, or greater control over work schedules. The time squeeze on working families has grown sharper, especially now that baby boomers face the need to help aging parents as well as care for children. Despite working harder, America's families face greater stress and economic insecurity. The challenges are especially severe for single parent families, which today account for a quarter of all families with children.

As America has grown richer, inequality has increased. In 1979, the average income of the richest 5 percent of families was 11 times that of families in the bottom 20 percent. Today, the richest 5 percent of families enjoy an average income nearly 22 times that of families in the lowest quintile. Together, the top 5 percent of families receives more income than all of the families in the bottom 40 percent combined—21 percent of total family income compared with 14 percent.[2 3]

Americans know that this is unjust. They want their government and this Congress to do what's right to make sure that their hard work is rewarded fairly, and that they and their families face a more secure economic future.

LEFT OUT AS THE GOOD TIMES ROLL

The growth of U.S. productivity (the output of goods and services per hour of work) over the last 10 years has been remarkable. After being mired in the doldrums for decades, increasing at an annual rate of less than 1.5 percent a year from 1973 to 1995, productivity growth has rebounded. Between 1995 and 2005, productivity grew at 2 to 3 percent a year, comparable once again to its growth rate during the "golden age" of American prosperity that spanned the years from 1948 to 1973.[4 5] In that earlier notable 25 year span, both productivity and real median family income doubled. Then, as productivity growth slowed, the connection between productivity and family income that created the great American middle class fell apart. Productivity continued to rise between 1973 and 1995, though at a slower pace, while real wages of many middle-class workers stagnated or even fell. Families increased family hours of work just to stay even. Real median family income rose just 10.5 percent over the two decades.[6]

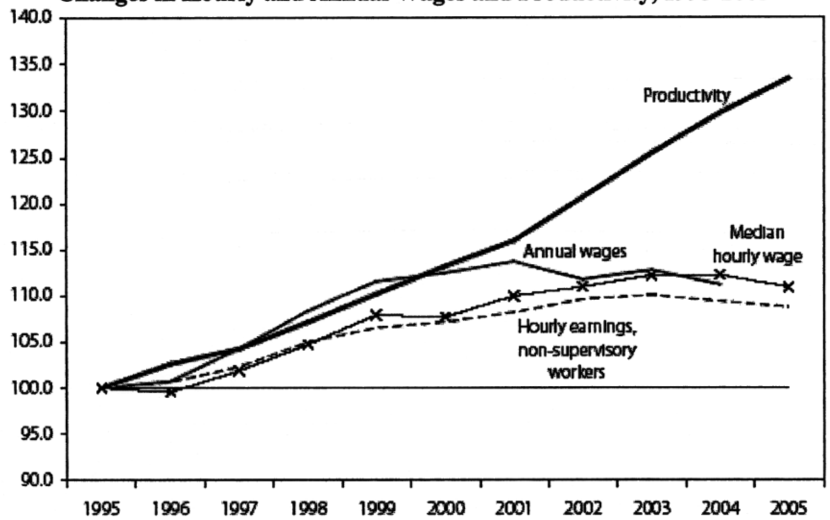
But then in 1995, as companies learned to use computer-based technologies effectively and the economy finally began to reap the fruits of the IT revolution, productivity growth recovered, rising once again at a 2 to 3 percent annual rate.[7] In the boom years between 1995 and 2000, the cumulative increase in productivity was 13.2 percent. For the first time in more than two decades, real median family income increased apace, rising by 11.3 percent over that half decade and narrowing inequality ever so slightly as unemployment fell to 4 percent and labor markets tightened.[8]

Optimism that the United States was returning to shared prosperity began to take hold, but these hopes were soon dashed. Productivity continued to rise strongly, growing at 3 percent a year between 2000 and 2005, but real median family income, which fell in the recession of 2001, failed to keep up. By 2005, real median family income still had not recovered to its pre-recession level.[9 10] Despite strong GDP growth, low unemployment, and rising productivity, real wages have been flat for the typical worker since 2001, and wage growth is once again falling sharply behind productivity growth. Working families supported consumption growth in the first half of the 2000s by spending faster than income rose as the bubble in the housing market expanded and housing prices surged. Personal savings fell from 2.9 percent of disposable income in the first half of 1999 to -0.9 percent in the first half of 2006.[11] In contrast, corporate profits have been strong as the economy has expanded in the 5 years since the recession ended, rising rapidly since 2001 and squeezing total labor compensation.[12] And the gap between the very richest families and the rest of American families is widening once again.

Since 2001, a yawning gap has once again opened up between productivity and real wages or compensation (see figure below). The gap between hourly productivity and hourly compensation is at an all-time high since these figures began to be tracked in 1947. At the same time, labor's share of GDP is at an all-time low.[13]

The main reasons for this disconnect between wages and productivity, despite strong productivity growth, are not difficult to identify or to understand. The decline in the real value of the minimum wage, which has not increased in nearly 10 years, has undermined the floor supporting workers' wages while de-unionization left middle income Americans with no bulwark against greed in the new "winner-take-all" economy. Labor markets, once described as the arena in which employers and employees negotiated the distribution of a growing economic pie, is today viewed as a tournament, with few winners and many losers. This winner-take-all economy is symbolized for Americans by the unseemly increase in CEO pay—now 262 times the earnings of the average worker.[14] The countervailing forces that can defend the interests of the many against the labor market power of the few are weak. The consensus politics of the Keynesian model has broken down as the interests of today's large multinationals no longer coincide with the national interest in rising incomes, a growing middle class, and a competitive domestic economy.

Changes in Hourly and Annual Wages and Productivity, 1995-2005



Source: Economic Policy Institute

Unions are hard pressed to defend the wages and working conditions of American workers. Less than 13 percent of workers (8 percent of private sector workers) belong to unions today, down from 20 percent in 1983, the first year for which we have comparable union data.[15] The difficulties workers face in organizing unions, and the barriers unions face in achieving a first contract even after winning a union election, have left many workers without effective representation or voice in the workplace. Since the 1980s it has become increasingly common for employers to fire workers who are involved in organizing drives. The penalties for engaging in this type of illegal behavior are sufficiently small that employers who want to keep a union out can chalk them up as a cost of doing business. The practice of hiring replacement workers to take the place of workers on strike, rare before President Reagan replaced the striking air traffic controllers in 1981, has also become increasingly common. As a result, it has become extremely difficult for unions to organize new workplaces or to protect the wages, benefits and working conditions of their members.

This does not bode well for many workers who are working hard and striving to achieve the American dream of economic independence, a secure future, and a good life for their children. Many of the occupations projected to experience large increases in the number of employees over the next 10 years—retail sales persons, food prep and serving workers, cashiers, janitors and cleaners, waiters and waitresses, nursing aides and orderlies, office clerks, teacher assistants, home health aides, personal and home care aides, and landscape workers [16]—are not footloose and cannot be outsourced. Yet despite high demand for workers in these occupations, many of these jobs pay low or very low wages. The reason for this lies, in large part, in the lack of a countervailing force to companies—blind, and often counterproductive, pursuit of profit. Low membership density makes it difficult for unions to provide effective resistance as employers shift the burdens and the risks of an uncertain marketplace onto their most vulnerable employees while claiming any payoffs in the marketplace for themselves.

The disdain for manufacturing over the last decade and the accelerated erosion of America's manufacturing capacity in the past 5 years have also had deleterious effects on union membership and employee earnings—as well as on America's national competitiveness. U.S. multinationals dominate the global economy, but our Nation's ability to compete in world markets has been seriously eroded. Demand for manufactured goods remains strong in the United States, but the share of demand met by domestic manufacturing has fallen sharply, from about 90 percent a decade ago to about 75 percent today.[17] Our negative trade balance in goods and services has grown so large that even the IMF is concerned that it now threatens the stability of the world economy.

No one should have any illusions that manufacturing employment can increase dramatically—strong productivity growth in this sector is a large part of the argument for maintaining manufacturing capacity in the United States. Nevertheless, the steady loss of American competitiveness in manufacturing over the last decade and our ballooning trade deficit in manufactured goods since 2000 have resulted in the loss of many more manufacturing jobs than would be dictated by productivity growth. A third of the drop in manufacturing employment is due to the increase in the share of domestic demand for manufactured goods filled by imports.[18]

Thus for nonsupervisory workers (production workers and nonmanagers in services), strong GDP and productivity growth in the United States following the recession and the tragic events of 2001 have not translated into higher earnings or greater family economic security. Instead, inequality has increased, and the benefits of growth have gone overwhelmingly to the richest families. Productivity grew by 2.3 percent during 2005, but the real median earnings of both men and women who worked full-time, year-round declined, by 1.8 percent for men and 1.3 percent for women.[19] The increase in real median income of all family households was just 0.2 percent ($99 increase in real annual income) and of married-couple households was also 0.2 percent ($121 increase in real annual income).[20] The economic prosperity enjoyed by American corporations and wealthy families during the first half of the current decade passed most Americans by.

For the middle class, it is only in the past few months that the good times finally seemed to begin to roll. Hourly real wages of nonsupervisory workers began, at last, to increase in 2006, rising 4.2 percent in nominal terms or more than 2 percent in real terms. Family income figures are not yet available for 2006, but it is likely that real median family income may finally, 5 years after the end of the recession, recover to its pre-recession level.

Yet this increase in middle-class wages and family income is likely to be short lived. The 2.3 percent productivity growth in 2005 represents a sharp fall off from the 3.1 percent growth experienced in 2004—almost entirely the result of the sharp slowdown in productivity growth that began in the fourth quarter of 2005 and continued through 2006. Final productivity growth figures for 2006 are not yet available, but they are likely to be quite weak—about 1.5 percent.[21] This creates a more difficult situation in which to sustain real wage and income growth for the middle-class workers and families.

CLOUDS GATHERING ON THE HORIZON

Decelerating growth in GDP and an even sharper slowdown in the rate of productivity growth has raised the specter of a slowdown in the economy in 2007. Indeed, the U.S. economy faces two major economic challenges that threaten the economic security of American workers. The recent slowdown in the housing market and the turnaround in the rapid run-up of home equity values have already taken a percent or more off GDP growth in 2006, and will be even more of a drag in 2007. The correction to our ballooning trade deficit, when it comes, will result in rising prices at Wal-Mart and elsewhere and declining real wages for American workers. It may even lead to rising unemployment and a return to high readings on the misery index, which measures the impact of inflation and unemployment on the lives of ordinary people.

The current economic expansion has been fueled to a large extent by the housing bubble. Housing prices, which historically have tracked the overall rate of inflation, rose by more than 50 percent above the rate of inflation between 1997 and 2006. The housing bubble contributed directly to economic growth through its direct effect on home construction and the housing sector.[22] [23] The run-up in housing prices also increased housing wealth, and contributed indirectly to a growing GDP through the impact of housing wealth on consumption. The Congressional Budget Office estimates that the rise in home prices above the rate of inflation added $6.5 trillion to consumer wealth between mid-1997 and mid-2006, adding between $130 billion and $460 billion a year to consumer spending over that period.[24] The notion that home owners have used the equity in their homes as their personal ATM machines is borne out by the data on borrowing by homeowners against the equity in their homes. Withdrawal of mortgage equity rose from 3 to 4 percent of disposable personal income before 1997 to a peak of 11 percent at the start of 2005.[25] Homeowners were borrowing more than $600 billion annually against their home equity by 2005.[26]

Two groups of workers will feel the shock of lower home prices more severely than most. Workers approaching retirement with inadequate savings, who planned to use the equity in their homes to finance their retirements, now face financial insecurity. Homeowners will also be hit by the resetting of more than $2 trillion in adjustable rate mortgages (ARMs) in 2006 and 2007.[27] Some will be able to refinance their homes at favorable rates. But those who borrowed in the subprime mortgage market and purchased homes at inflated prices now stand to lose everything if they are unable to make the higher mortgage payments and unable to sell their homes at prices that cover their outstanding mortgage.

The decline in housing values has already begun to be felt. Consumption growth slowed in the second and third quarters of 2006 reducing the overall growth rate of GDP. This negative effect on GDP is likely to become more important for the economy in 2007, slowing economic growth and perhaps even leading to recession.

The second challenge to continued American prosperity comes from the rapid and accelerating growth in the trade deficit in the past 5 years, which is becoming unsustainable and threatens to lead to a disorderly decline in the exchange value of the dollar.[28] The United States is consuming substantially more than it produces, borrowing abroad to finance this spending, and amassing a very large level of debt in the process. A disorderly return to balance has the potential to inflict significant damage on the U.S. economy and on America's working families. Grave dangers for American workers are lurking in a trade deficit that, at well over $700 billion, is now nearly three times the size of the Federal budget deficit and growing. With the trade deficit now above 6 percent of GDP, the risks of a drastic and unruly decline in the exchange value of the dollar have increased.

Reducing the trade deficit to a more manageable 2 to 3 percent of GDP won't be easy.

The hard landing scenario is one in which there is a sudden plunge in the dollar[29] against foreign currencies. In the absence of any steps to increase manufacturing output and exports, the drop in the dollar would have to be quite steep—at least 20 percent and perhaps as much as 40 percent—to improve the trade balance to the point of sustainability. A rapid drop of that magnitude will create serious inflation and reduce workers' living standards. Interest rates and prices will rise and workers' real wages will fall, lowering consumption and investment, and reducing imports.[30] The likely result of ignoring the ballooning trade deficit is a decade of lost jobs, bankrupted businesses, and reduced living standards.

The situation will be made even worse if the Federal Reserve responds by raising interest rates in a misguided effort to reduce inflation. The Fed's anti-inflation policies lead to rising unemployment and falling wages, and hit low- and middle-income workers hardest.

The soft landing scenario is one in which the United States finds a way to increase exports without a drastic plunge in the dollar. While the dollar will have to fall and U.S. workers are likely to experience some decline in living standards, the effects can be mitigated if we negotiate an orderly decline in the exchange value of the dollar against these currencies, and especially with China. Equally necessary are domestic policies to rebuild U.S. manufacturing capacity via domestic investment in the production of innovative or high value-added products sooner rather than later. An increase in the production and export of manufactured products would accomplish the rebalancing of trade with a smaller depreciation of the dollar, and without the loss of jobs and reduction in living standards that are the likely result of current policies.

THINKING ABOUT WHAT AMERICA CAN BE

As we have argued, America's working families face a number of daunting challenges.

- Seventy percent of families are headed by dual earner couples or by a single parent; only 30 percent fit the Ozzie and Harriet mold today.[31] Workers urgently need to be able to take care of their families—their aging parents and spouses as well as their children—while meeting their responsibilities as employees. Families need to take responsibility, but they can't manage this alone. We need policies to create a workable balance for employers and employees.
- The gap between productivity growth and wage growth is wider today than ever. Even with the increase in the number of mothers who are working, and working more hours, real median family income has risen slowly. There has been a steady shift of income from wages to profit and from low- to high-income earners. Workers need a floor under wages in the labor market, and they need the right to form unions to represent their interests in negotiations over employment standards and the distribution of the rewards from productivity and GDP growth.
- Health care costs are rising rapidly, putting downward pressure on workers' wages and burdening employers. Employer health insurance costs are about the

same for high and low-wage earners, but they are a much larger fraction of compensation for low- and middle-income earners than for high earners. Increasingly, employers find the soaring costs of health insurance unaffordable for these employees. Increasing numbers of workers find themselves shouldering the rising health care costs or denied employee-sponsored health insurance entirely. Sixteen percent of people in the United States (46.6 million people) are without health insurance.[32]

- The deflating housing bubble is likely to reduce consumption and increase economic insecurity among middle- and lower-income households. This is especially worrisome for workers in the pre-retirement years who may have been counting on the equity in their homes to provide retirement income security. It is equally disturbing that many lower income families were lured by banks and mortgage lenders into home ownership and subprime mortgages with the promise of a risk free path to wealth accumulation and a piece of the American dream. But it is not only homeowners who bought at the top of an inflated market or face a sudden increase in their monthly mortgage payment as their ARM expires who are at risk. The entire country faces slower economic growth, the threat of rising unemployment, and possibly recession.
- The country faces an accelerating run-up in the trade (and current account) deficits, on pace in 2006 to exceed the record $717 billion trade deficit of 2005 for a fifth record year and to surpass 6 percent of GDP.[33] This is simply unsustainable. A reduction in the U.S. trade deficit will require a decline in the exchange value of the dollar against China and a host of low-wage countries. While this is a necessary precondition for U.S. exports to increase rapidly, it has the unwanted side effect that it raises the price of imported goods, bringing inflation with it. This rise in prices reduces the real wages of workers, especially those in the middle and low end of the wage distribution. The larger danger is that the Fed will respond by raising interest rates in a misguided effort to control inflation, putting the jobs as well as the wages of less-educated workers at risk. Such policy carries the risk of turning a necessary adjustment in America's trade position into a serious threat of recession and stagnation.

But these challenges can also provide opportunities to update the legal environment and put in place labor market policies for the 21st century. Despite the popularity with the public of many of the policies—policies that establish minimum employment standards, reduce the stresses on working families, and support their efforts to meet their care and work responsibilities—a work and family policy agenda has not gained the necessary traction with politicians and policymakers. In the context of a ballooning trade deficit and a deflating housing bubble, however, it has become clear that these are policies that can also provide a bulwark against the potential risks that threaten the stability of the economy itself and can sustain growth and prosperity.

Working families and the businesses that employ them need policies that support employees in their roles as worker and care giver; that make the domestic economy more competitive, and that sustains growth and prosperity. There is more economic risk, fewer economic buffers, and less economic security in our new, fast changing, and more global economy. We need policies for this new economy that enable all of us to thrive and prosper.

The 110th Congress is off to a great start in its first 100 hours. The House has already passed the Fair Minimum Wage bill to increase the minimum wage to a more realistic $7.25 an hour by 2009. The Senate must do the same and more. The minimum wage should be indexed to the average wage of workers, so that it doesn't take an act of Congress for low-wage workers to get a raise.

Workers need a greater voice at work and the right to form unions if they so desire. For all practical purposes, employers today face no restraint on their ability to fire workers for organizing a union. The Employee Free Choice Act would enable workers to form unions by requiring employers to recognize a union once a majority of workers sign cards authorizing union representation. It would also provide for mediation and arbitration of first contract disputes and would impose stronger penalties on unlawful behavior by employers.

Businesses and workers both need a better and more cost effective way of providing health insurance to everyone in America. Health care costs as a share of GDP are higher in the United States than in other countries, yet we cannot boast of superior health outcomes. Too much of our health spending is tied up in administrative costs, too many people in America lack health insurance, and too many companies are struggling to compete while bearing high employee health costs. As our population ages, we need to improve access to affordable quality services that allow the elderly to live in dignity in their own homes or to be cared for in assisted living or nursing homes.

Working families need time to care for loved ones without risking their jobs. Most families are squeezed for time, and workers need greater control over work hours and work schedules. All employees need a minimum number of paid sick days so they can stay home when they or their child has the flu, and not infect co-workers or school mates. They need a minimum number of hours of paid time off for small necessities—a visit with a child's teacher, to take an elderly parent to a doctor's appointment. They need temporary disability insurance and family leave insurance so they can draw partial wage replacement when they need to take time off for their own serious illness, to care for a seriously ill family member, or to bond with a new child. No one should ever have to face the impossible choice between a paycheck and caring for a seriously ill family member.

Preparing our children to grow up as healthy, happy individuals and to succeed as workers in the new 21st century economy means we must pay more attention to their needs. Children (and their parents, whether working or not) need access to affordable, quality child care; universal pre-K; and for older children, exciting and stimulating after-school care, sports, arts and summer programs. We need to invest more in K–12 education, and provide young people with multiple opportunities for postsecondary education or training.

Enacting a working families' agenda will better equip workers to shoulder the risks of a dynamic and rapidly changing economy. It will also buffer all workers against the worst effects of the bursting of the housing bubble or a disorderly decline in the dollar as global payment imbalances adjust. The American economy holds great promise for a prosperous 21st century. We need 21st century policies to assure that all workers will share in that prosperity.

References

1. Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006–2007*, Chapter 1, Washington DC.: Economic Policy Institute Advance Copy, September 2006, Chapter 1.

2. Ibid.

3. U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, accessed at *http://www.census.gov/prod/2006pubs/p60–231.pdf* on January 10, 2007.

4. William Nordhaus, *The Sources of the Productivity Rebound and the Manufacturing Employment Puzzle*, NBER Working Paper 11354, Cambridge, MA: NBER, November 2005.

5. Bureau of Labor Statistics, Productivity news release, December 5, 2006, accessed at *http://www.bls.gov/news.release/pdf/prod2.pdf* on January 11, 2007.

6. Mishel et al., op. cit.

7. Eileen Appelbaum, Thomas Bailey, Peter Berg, Arne Kalleberg, *Manufacturing Advantage: Why High Performance Systems Pay Off*, Ithaca, NY: Cornell University ILR Press, 2000.

8. Mishel et al., op. cit.

9. Bureau of Labor Statistics, Productivity news release, December 5, 2006, accessed at *http://www.bls.gov/news.release/pdf/prod2.pdf* on January 11, 2007.

10. U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, accessed at *http://www.census.gov/prod/2006pubs/p60–231.pdf* on January 10, 2007.

11. Dean Baker, *Recession Looms for the U.S. Economy in 2007*, Washington, DC.: Center for Economic and Policy Research, November 2006.

12. A. Sum, P. Harrington, P. Tobar, I. Khatiwada, *The Unprecedented Rising Tide of Corporate Profits and the Simultaneous Ebbing of Labor Compensation in 2002 and 2003*, Boston: Northeastern University Center for Labor Market Studies, 2004.

13. Arindrajit Dube and Dave Graham-Squire, *Where Have All the Wages Gone? Jobs and Wages in 2006*, Berkeley, CA: UC Berkeley Institute of Industrial Relations, August 2006.

14. Economic Policy Institute, "Facts and Figures: Wages." Washington, DC.: EPI, 2006.

15. Bureau of Labor Statistics, "Union Members Summary," January 20, 2006, accessed at *http://www.bls.gov/news.release/union2.nr0.htm* on January 10, 2007.

16. D.E. Hecker, "Occupational Employment Projections to 2012," *Monthly Labor Review*, February 2004, pp. 80–105.

17. L. Josh Bivens, *Shifting Blame for Manufacturing Job Loss*, Washington, DC.: Economic Policy Institute, 2004.

18. Bivens, op. cit.

19. U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, accessed at *http://www.census.gov/prod/2006pubs/p60–231.pdf* on January 10, 2007, Table A2.
20. U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, accessed at *http://www.census.gov/prod/2006pubs/p60–231.pdf* on January 10, 2007, Table 1.
21. Bureau of Labor Statistics, Productivity news release, December 5, 2006, accessed at *http://www.bls.gov/news.release/pdf/prod2.pdf* on January 11, 2007.
22. Baker, op. cit.
23. Congressional Budget Office, *Housing Wealth and Consumer Spending*, Washington, DC.: CBO, January 2007.
24. Congressional Budget Office, op. cit., p. 7.
25. Ibid., Figure 3, p. 10.
26. Baker, op. cit., p.2.
27. Ibid.
28. Catherine L. Mann, "Breaking Up Is Hard To Do: Global Co-Dependence, Collective Action, and the Challenges of Global Adjustment." *Focus.* CESifo Forum: 1/2005, accessed at *www.petersoninstitute.org/publications/papers/mann0105b.pdf.*
29. C. Fred Bergsten, "The Risks Ahead for the World Economy," op. cit.
30. Ibid.
31. Mishel et al., op. cit.
32. U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, accessed at *http://www.census.gov/prod/2006pubs/p60–231.pdf* on January 10, 2007, Table A2.
33. U.S. Census Bureau, International Trade in Goods and Services, Highlights, January 10, 2007, accessed at *http://www.census.gov/indicator/www/ustrade.html* on January 12, 2007.

The CHAIRMAN. Thank you. Thanks very much.

Everyone's very attentive to the time. That was a pattern set by our former chairman here, Senator Enzi.

Reverend Forbes, we thank you and look forward to your comments.

STATEMENT OF REV. DR. JAMES ALEXANDER FORBES, JR., SENIOR MINISTER, THE RIVERSIDE CHURCH, NEW YORK, NY

Mr. FORBES. Thank you very much, Chairman Kennedy and Senator Enzi, and members of the committee, for the privilege to be here to bring a word from the religious perspective on the issues you are concerned about day by day.

It may come as a surprise to some of you that there is at least one thing that unites those of us who are, within my tradition—I am a Christian—whether they are on the right or the left, they all recognize that, in regards to the founder of our faith, the opening statement about what a "mission" was had to do with poverty, so that Jesus' first sermon in a synagogue was, "The spirit of the Lord is upon me, because he hath anointed me to preach good news to the poor," which suggests that at least with all of the division, our people recognize that, if we are faithful to our calling, it will involve some good news to the poor. In regards to work, to labor, to wages, and standard of living, the poor are actually in the emergency room in our Nation.

And I would like to suggest that it is not only the right and the left of the Christian community within my Protestant tradition. In 1987, the bishops—the Catholic bishops produced what is a pastoral letter on economic justice in which, once again, they suggested that there's no way any of us are going to get into heaven unless the Lord is grading on the curve in regards to that matter. And I also work with the Partnership of Faith, in New York City—Protestants, Catholics, Jews. All of my colleagues recognize that the issue of poverty will determine whether or not we can hold up our heads when we claim that there is some advantage in having a faith perspective rather than simply a secular outlook.

In fact, a year or so ago, it was the time when the Dalai Lama invited representatives from all over the world to my church, The Riverside Church, and they read scriptures from their sacred text. Twelve major religions read, and it all boiled down to the Golden Rule, "Do not unto others that which you would not wish them to do unto you," or, "Do unto others as you would have them do unto you." So, there's no question that the call of faith is to pay attention to the poor.

Now, when I go to work in my church, I'm supposed to preach. But throughout the week, I go into that door at Riverside and there are about 75 or 80 people every morning that the food pantry is open, waiting with bags, to pick up just enough to live. There's the clothing bin. We've got people coming to get something to help in the midst of the wintry weather. We go downstairs, and then there's the shower project—men, no place even to take a bath—so, soap and towels are prepared. But, when I go upstairs to my office, I may also find middle-class people who are there to tap into our innkeepers fund, because more middle-class in the last 10 years have come to say, "You know, I've had a streak of bad luck, and what I'm finding is that next week I'm supposed to be evicted." And we've promised that we will stand with these people. We understand the soup kitchen and the clothing bin and the food pantry, but increasingly in New York we talk about the vanishing middle class.

We do have a very serious crisis. During the presidential campaign of the last go-round, Paul Sherry, of the National Council of Churches, Jim Wallace, myself, and others, traveled all across the country trying, both with Democrats and Republicans, to get the issue of poverty on the agenda. It was very difficult. Every now and then, we'd get a squeak.

What we are aware of now is that we are facing, hopefully, a cessation, some kind of withdrawal from the war, but the shrapnel from the war is going to manifest itself, and, somewhere or another, budgetary adjustments are going to have to be made on account of the expenditures. It has been, traditionally, the case that budgets are balanced on the backs of the poor. We understand that that is immoral.

Therefore, the challenge before us is, How can we define what American is? Does it include that the poor of the land will receive our care? For they are citizens, too.

[The prepared statement of Mr. Forbes follows:]

PREPARED STATEMENT OF REV. DR. JAMES A. FORBES, JR.

Good Morning Chairman Kennedy, Senator Enzi, and members of the committee. My name is James Forbes and I am the Senior Minister at The Riverside Church in New York City. I thank you for the opportunity to come here today and talk to you about an issue that is at the heart of my mission and ministry—poverty and inequality in America.

Riverside Church is in the heart of New York City. It gives us a unique viewpoint on the problems of modern society. In the city, the inequalities of our Nation stand in sharp contrast. The ivy towers of Columbia University are just a few blocks from soup kitchens. The shiny windows of Trump tower look down on the homeless men and women on the sidewalk grates below.

But it's not just New York City. The gap between the haves and the have-nots is widening all across the country. More and more of our Nation's wealth is going to those at the top of the economic ladder, while those at the bottom are sliding further and further down. As a result, we've got 37 million people living in poverty today. The poverty problem is particularly acute for women and children. Almost 50 percent of young children who live in households headed by women live in poverty.

These are working people—many full-time workers—who are unable to lift themselves and their families above the poverty level. I am not talking about extravagant living. I'm talking about being able to put food on the table, a roof over your head, and clothes on your back.

The Good Book would remind us that poverty and inequality aren't just economic issues—they're moral issues. And we shouldn't be scared to talk about them as such. We are a nation of diverse faiths, but one tenet that underlies every religion I know is that the exploitation of the poor to profit the rich is wrong; it's a sin.

In my faith tradition, based on both of the Biblical testaments, how we respond to the needs of the poor defines the quality of our relationship to God. It is for this reason that poverty is a moral and spiritual issue. The prophet Isaiah in Chapter 58 reminds his people that true religion demands that we feed the hungry, clothe the naked, and provide shelter for the homeless poor. The 25th chapter of Matthew's gospel informs us that the gates of heaven will be closed to those who are indifferent to the poor, and the voice of the Lord will say, "Go away!"

> *"For I was hungry and you gave me no food; I was thirsty and you gave me nothing to drink; I was a stranger and you did not welcome me; naked and you did not give me clothing, sick and in prison and you did not visit me." And when you ask, "When was it I saw you hungry or thirsty or a stranger or naked or sick or in prison and did not take care of you, then the Lord will answer, "Truly I tell you, just as you did not do it to one of the least of these, you did not do it to me."*

We are a nation that likes to talk about family values, but too often the morality of our economic policy is left out of this discussion. It is wrong that our economy is growing but hard-working people cannot afford to put food on the table or heat their homes. It is immoral to give tax cuts to the wealthy while working families are living in poverty and 14 million children go to bed hungry each night. If God were our consultant about economic reality, would God say "Well, what can I say? It's a free enterprise system. Let it work, and everything will be all right?" No. The truth is the invisible hand of the market needs to be balanced by another hand: that of justice, mercy, compassion, and concern for the common good.

We need to be talking about poverty and the profound effects it has on people's lives. I have always said that poverty is a weapon of mass destruction, and I see every day the devastating effects it has on the lives of people in New York and throughout this great Nation.

In our church, we make provisions for the poor with our food pantry, clothing service, shower project for the homeless, and an inn-keeper's fund for those facing imminent eviction. In addition to those who sadly have grown accustomed to marginal existence, there are increasing numbers of middle class people among us who suffer personal problems or face health crises, so that they also live on the threshold of financial disaster and the collapse of their way of life. One bad break can lead to a broken life.

Churches and people of good will need to stand ready to respond to people in their hour of crisis. But what is needed in a just society is a social system which works constantly to reduce the vulnerabilities of the socially and financially challenged. In fact, too often government is making their lives harder. We're denying people public assistance, telling them that they need to work, but there aren't enough jobs, or enough open slots in job training programs. And those who are lucky enough to find a job still can't support a family on poverty wages. The recent action of the House is good news, but even when we pass the legislation increasing the minimum wage, we will be a decade behind. Millions of people in this country go to work every day—choosing work over welfare—but don't get paid enough to keep their families out of poverty. Mr. Chairman, I don't have to tell you that's an outrage.

But raising the minimum wage is only the first step—it's a baby step. There's so much more we need to do to make it the norm that workers will have a *living* wage.

Now, everybody may not be desperately trying to get into heaven, but what about making the world a little bit more like heaven by committing ourselves to the elimination of extreme poverty and making equality of opportunity a reality in living color?

I remember in the 1980s hearing Ronald Reagan talk about the "silent majority" of Americans. I too have seen a silent majority of Americans, and I am here to give them voice. They are poor. They are struggling. Even in this Nation of plenty, they are scared about what will happen tomorrow and how they can provide for their families. I can assure you that God cares about them. This government should too.

One is surely a victim of *spiritual* impoverishment if one doesn't get the message of this "Parable of Utter Impoverishment":

And I saw a great exodus from New York City.

All the bridges, tunnels, and piers were jammed with the departing poor.

And as they walked or limped along, they pushed their carts of precious little things.

And when the poor had all departed,

God looked around and saw that they who remained in the city now breathed a sigh of relief.

They could enjoy their precious little things in peace, without the burden of care for the destitute and the poor.

Then God, in deep sorry and tender compassion, began to gather God's precious little things so God could journey with those who had been cast from the city.

And it came to pass, that when God had gathered up the sunlight and rain, the seed-bearing earth, and the life-giving air,

God wept over the city and departed, pushing God's own cart of precious little things.

And New York City was no more.—James A. Forbes, Jr., ©2006

Again, I appreciate the opportunity to address you all today, and I look forward to your questions.

The CHAIRMAN. Very good.

Anna Cablik, thank you for being here.

STATEMENT OF ANNA CABLIK, ANATEK, INC., MARIETTA, GA

Mrs. CABLIK. Good morning, Chairman Kennedy, Senator Enzi, and all the Members of the Health, Education, Labor, and Pensions Committee. It is, indeed, an honor for me to be here today.

Before I begin, I want you to know a little bit more about me. I am a proud American, but I was born and raised in the Republic of Panama. It was in Panama that I got an education in medical technology at the Canal Zone College. After I graduated, my husband and I moved to Atlanta, Georgia. Once settled in Atlanta, I took a job at Piedmont Hospital. Two years later, I left the work for a construction material supply company. I started in that company just as a clerk, but, in 7 years, I rose to vice president. In 1982, I began my own contracting company, ANATEK, Inc., which specializes in highway bridges. This May, ANATEK, Inc. will celebrate its 25th anniversary.

My second company, ANASTEEL & Supply Company, was created in 1994, and it is the only Hispanic female-owned reinforcing-steel fabricator in the Southeast, and possibly the United States.

In 1989, I was honored to be named Hispanic Businesswoman of the Year by the Hispanic Chamber of Commerce. In 1997, I received the Pacesetter Award from the National Association of Minority Contractors.

But, most of all, I am proud of the fact that I have been married 32 years and my husband and I have raised three wonderful and successful sons.

In thinking about what I would like to share with you today, it occurred to me that, in many ways, my businesses are like my second family. Just as I take pride in my children, I take pride in my businesses. And just as I have responsibilities to my family, I also have responsibilities to my over-100 employees.

Over the years, I have often faced difficulties providing all I wanted to provide for my family. In the same way, I have faced difficulties in providing everything I wanted to, and need to, provide for my employees. In both instances, I have been able to do so, and I believe I know what it takes.

In the case about my family and my business, my ability to provide does not come out of thin air. Nobody gives you that ability. Nobody, and no government, can mandate that you have it. What enables me to provide for my employees is simple, it is the financial success and competitiveness of my business. Anything that makes my business more competitive and allows my business to grow enables me to provide good wages and benefits for my employees. Everything that detracts from that not only hurts my business, it hurts everyone who works there.

Fortunately, our economy has been strong and my businesses have grown. That has enabled me to provide competitive and increasing wages, steady work, and benefits, like insurance, profit-sharing and leave policies that treat my employees as individuals, not numbers. Successful business people all know that their workers are their most valuable asset. Our businesses are not any better than the people that work for us.

No successful business owner wants to provide wages and benefits that are substandard. That is a myth. The truth is that businesses want to pay the most competitive wages and benefits they possibly can. That is the only way to attract and retain the quality employees that guarantee our success as a business. Business owners who think differently do not succeed.

I know firsthand that small-business owners, more than any others, feel the rising cost of government regulation and procedures. The employer mandates you enact, whether they are well-intentioned or not, cost money. And those costs hurt my ability to provide for my employees. Likewise, I know that employees are squeezed by expenses, such as the cost of healthcare, but employers feel the exact same squeeze. Rather than new laws that impose new mandates and costs, reduce employers' ability to pay wages and benefits, I think that laws which would make health insurance more affordable will be a far better approach. Rather than laws that make our business less competitive in the global market, I think we need to look for ways that help us meet these challenges and keep our workforce as well-trained and skilled as possible.

Senators, as you can see, I am not an economist and I am not an expert, but I do believe I know something about both opportunity and security. The America I know is, indeed, the land of opportunity. There are no limits to the success that any individual in this country can enjoy. I came with nothing, and I made it. I believe I am living proof of this American dream, and there are no secrets to my success. I have worked hard and played by the rules. I still tell people I work half days, 7 a.m. to 7 p.m.

In closing, economic security is not something that politicians can grant, it is something that people must get for themselves. When it comes to job security, every one of us is in the marketplace. We need to do everything we can by the way of training, education, and interactions to—with others that make us a valued commodity in the employment marketplace. I believe that is the real source of security in the real world.

Thank you. And I will be happy to answer any questions you might have.

[The prepared statement of Mrs. Cablik follows:]

PREPARED STATEMENT OF ANNA R. CABLIK

Good morning Chairman Kennedy, Senator Enzi, and all the Members of the HELP Committee. It is an honor for me to be with you today.

Before I begin, I want you to know a little about me. I am a proud American, but I was born and raised in the Republic of Panama. It was in Panama that I got an education in Medical Technology at the Canal Zone College. After I graduated, my husband and I came to live in Atlanta, Georgia.

Once settled in Atlanta, I took a job with Piedmont Hospital, only to leave 2 years later to work for a construction materials company. I started in that company as a clerk, but in just 7 short years, I rose to Vice President. In 1982, I began my own contracting company, ANATEK, Inc., which specializes in highway bridges. This May, ANATEK will celebrate our 25th anniversary. My second company, ANASTEEL & Supply Company, LLC was created in 1994 and is the only Hispanic female-owned reinforcing-steel fabricator in the Southeast.

In 1989, the U.S. Hispanic Chamber of Commerce named me Hispanic Businesswoman of the year. In 1997, I earned the Pacesetter Award from the National Association of Minority Contractors.

Of course, I am most proud to say that I have been married 32 years and, together, my husband and I have raised three sons. In thinking about what I wanted to share with you today, it occurred to me that in very real ways, I run my businesses similarly to how I run my family. In fact, I often have to spend more time with my business family. Just as I have my three sons, I have over 100 employees.

Certainly, over the years, I have faced difficulties providing all that I wanted to provide for my family. In the same way, it is equally difficult to provide everything I want to provide for my employees. Small business owners are the first to feel the impact of the rising cost of governmental regulation. Additionally, we are in the difficult position of having to absorb, as best we can, the rising costs of health care. But we also have to ensure that our increased costs do not make our product noncompetitive. This is often a difficult balance, not one where there is a one-size-fits-all solution, and one made even more difficult by the added burdens of costly regulation and red tape.

As someone who must make payroll week after week, I am aware of the escalating cost of insurance and other benefits and must also deal with the costs imposed on me by government regulation. The more I spend on red tape and regulations, the less I have for other items. That's just simple math.

I also know that as a business person who must compete for work every day, there is no such thing as absolute economic security. The only real security in my business is the quality of the work I provide for my customers. I must be competitive, and I must be current. That requires that I continue my education in my business and ensure that my employees do as well.

Senators, as you can see, I am not an economist or an expert, but I do believe I know something about opportunity and security. I am here to tell you that the American Dream is not dead. There are no "two Americas." America is not on a "steady drift toward a class-based system."

The America I know is indeed the Land of Opportunity. There are no limits to the success that any individual in this country can enjoy. I believe I am living proof of that. There is no secret to my success. I have worked hard and played by the rules.

Thank you and I am ready to answer any questions you may have.

The CHAIRMAN. Thank you very much. Enormously impressive accomplishment and achievement, and I—you're certainly to be commended. It's an extraordinary success story, and we thank you for sharing it with us.

This morning we've outlined some of the trend lines. We didn't get to where we are overnight, we're not going to get out of it overnight. I think everyone gave us a pretty good idea about what's really happening out there. I think there's a general—always a general kind of a sense that the impoverished in the country, where the—necessarily, the most unskilled came from the circumstances of poverty. At different times, we had different kinds of programs to try and deal with these issues. I think you've all outlined a different type of insecurity.

Professor Hacker I was most distressed in your—either your statement or in your book, when you talked about—I was deeply disturbed to read your finding that "nearly half of all American children will live at least one year of their lives below the poverty line." That's a rather startling figure, I think, for most people. To think that half of all the children, American children, will live, with all of its implications, of health, educational, and other kinds of challenges that these children will be facing.

I'd be interested to hear from each of you, if you had just two or three things that we ought to focus on, what would be the areas of greatest focus? I know all of these are interactive. I mean, we've got to have a house, you've got to have an education, you've got to have health, you've got to have a job, you've got to have childcare. You know, I mean, most of us would think in those terms. But are there some things that you think particularly stand out that we ought to begin to try? We're not going to be able to do all of these kinds of issues, but maybe we can start to prioritize some of these areas and begin to do it in a systematic way to try and make some kind of difference. I'd be interested in the panel's comment.

We'll do 6-minute rounds.

Ms. APPELBAUM. Okay, I'll start.

Well, I think that one of the things that we have to recognize is that a big part of the growing economic pie is due to the increased employment of women, the increased hours of work, and especially the increased hours of work of mothers. Seventy percent of our families are either dual-earner families or they're single-parent families, and this, I think, is a large part of the stress that families are feeling. And so, we need to think about what are the kinds of policies and practices that would most benefit these working families. I think what everybody wants is to be able to take care of their family responsibilities and also to be good and productive employees. I think that that's really what every person who's in the workforce would like to be able to do. And we need to think about what it would take to make that possible.

And I agree with the last panelists, that some of these things are beyond the ability of individual employers to provide. That's why we need to think about social insurance the way we think about unemployment insurance. It's a real burden, for employers and for employees, that health insurance in this country comes through your job and not through the fact that you're a citizen or a resident of this country, as is true in most of the rest of the industrialized world. And if we think about the work/family pressures, I think it is also really difficult to expect employers to be able to provide their employees with family leave insurance, with—even if it could be bought; I don't believe such insurance exists in the market, but it would be extremely expensive and extremely difficult for individual employers to provide family leave insurance, medical leave insurance, where people might be out, to have a baby, for 6 or 8 weeks. I think this would be a burden on American companies, and especially on those that are employers of large numbers of women. Think about hospitals, for example, or retail trade.

I think that we need to handle these kinds of things through social insurance. We already do this in my own State of New Jersey. We've had paid medical leave since the 1940s. There's no uprising of employers against it. In fact, it's a blessing to employers. You have an employee who is going out on maternity, you do not have to have disability insurance in the State of New Jersey, because every workers is entitled to temporary disability insurance, has paid medical leave for their own medical emergencies and necessities. We're moving towards family leave insurance in New Jersey. It will cost 25 cents a week for a low-wage worker. It will max out at about $1.80 a week for workers making $90,000 a year or more. It's insurance you can't buy. And it means a lot to a family to have partial wage replacement if a member of the family is unable to work or needs to take care of a sick family member, a seriously ill family member, or has just given birth or has adopted a child, and so on.

So, I think that there's a lot that we can do along these lines. I think that we need to encourage greater flexibility in work schedules and work hours. Negotiate a flexibility between employers and employees. I'm not talking about a mandate here, but I'm talking about encouraging this type of consultation.

Making part-time work a viable alternative. Right now, if you feel that in order to take care of your family, you need a part-time job, you need—basically, if you're anywhere in the middle class or above, you need to quit the job you have in order to get the part-time hours. The majority of part-time jobs in this country are low-wage part-time jobs. We do not have much in the way of part-time employment for professionals, for managers. Even where we have billable hours—lawyers, accountants—why couldn't these be part-time? People are paid on the basis of billable hours, and these are among the people who work the longest hours.

So, we need to be rethinking this. We need a public dialogue about some of these things. We need to think about what the standards ought to be.

And I think that what I would say—just my last comment along these lines—is that nobody wants to be a highway fatality, nobody wants to be a number, and, nevertheless, we have to have laws of the road, rules of the road that are enforced and enforceable in order to protect all of us from those people who, if they didn't have the 60-mile-an-hour or 65-mile-an-hour speed limit, would be going 80 and 90 and 100 miles an hour and endangering everybody else who is trying to do the right thing. And that's how I look at a lot of the kinds of employment standards that I think are really important. Set minimum——

The CHAIRMAN. I'm going to give—my time is about through, and I'd like to hear from Professor Hacker, maybe Forbes, for just a minute here. So, if you would—we can come back in a second round.

Mr. HACKER. Well, very briefly, first of all, you mentioned the statistic about the number of children who spend at least a year in poverty, and I want to emphasize that what this dynamic focus on the economy that I provide in the book suggests is that the middle class and the poor and even people near the top of the economic ladder experience much the same thing over the course of their lives, that middle-class Americans are much more likely than we once thought to fall into poverty during their working lives. There is work by, for example, Mark Rank, a sociologist at Washington University, that finds that about half of nonelderly working-age Americans will spend at least a year in poverty during their lives. And what this means is that we need to provide not just support that's premised on the idea that we need to lift the bottom up, but also support that protects people from falling down the ladder.

I agree with Eileen, that healthcare is a crucial component of that. And, as Ms. Cablik said, it's one where business and individual workers have a common interest in seeing costs brought down and affordable coverage provided. I think there should be an option available to employers to provide coverage at a very low cost, perhaps through an expanded Medicare-like program. I think that this would be something that would allow low-wage workers and their employers to benefit.

I also think we need to deal with the debt burden on the middle class. I think one area to deal with that is with retirement security. Obviously, if people aren't in good condition financially during their working life, they may not be well-enough prepared for retirement. But I also think it would be useful to think about the subsidies, through the tax code, that we provide for savings, and finding ways to restructure them so that they will provide more incentives for middle-class Americans to save.

And finally, I endorse what Eileen said about work/family balance. We have a new kind of workforce and a new kind of worker, and we should be thinking about what kinds of supports does that new sort of worker need in this transformed economy we live in today.

The CHAIRMAN. That's good.

I'll come back, Reverend, my second round.

I'll recognize Senator Enzi.

Senator ENZI. Thank you. I don't think the microphones on our side are working, but——

The CHAIRMAN. Well——

Senator ENZI [continuing]. At any rate, I want to thank you——

The CHAIRMAN. Are we supposed to have them work on your side?

[Laughter.]

I didn't know that, as chairman.

Senator ENZI. The last 2 years, we let them work on your side. [Laughter.]

But I do want to thank all of you for your testimony.

Mrs. Cablik, I know that you provide healthcare benefits for your employees. Can you share with the committee your experience in securing that coverage and how government actions have either helped or hindered that process

Mrs. CABLIK. Well, in general, obviously, it is the marketplace that's going to determine whether you're going to provide benefits or not, because if I don't provide benefits and my competitors will, then obviously I'm going to lose out and lose my employees. So, it is a market-driven situation as to whether you provide medical care or not; however, every time the government mandates and expects us to provide specific care for specific individuals, what it does, it creates an increase in the cost of our insurance, and that creates a problem for us, as far as being able to meet that.

In the marketplace, every cost that we incur, obviously, we have to pass on to the product. And if we cannot compete against the biggest producer in our industry, then we're just going to be out of business.

We started out providing what we call a PPO, point of service, which meant that everybody could really go to whatever doctors they like to; however, over the years that became too expensive, so what we had to do is scale down and start going down to an HMO that restricts you to whatever medical facilities or doctors you actually can use.

I believe that the marketplace will take care of a lot of these problems if we let them take care of it. If the small businesses could really work together in associations or cooperatives, where we would have the same buying power that, for example, the Federal Government has, where we could offer the same kind of benefits that they offer, but, instead of being just one company trying to buy insurance for 35 people or 50 people, we would have, all of a sudden, a pool of 5,000 or maybe 50,000 or millions. So, I believe that we need to look at it from a perspective of, What is it that can take place out in the marketplace?—rather than, What can we do to impose some new laws and new mandates?

Senator ENZI. Thank you.

Well, I have a whole series of questions for each of you. Our time is somewhat limited. I understand that you've volunteered to answer in writing some of the more specific questions.

But, Dr. Appelbaum, in your testimony you mentioned that the average CEO earns 262 times what the average worker does. Now, you used the EPI release, which is based on the Mercer Survey, which is the 350 largest U.S. companies. And I was kind of curious as to why you didn't use some of the other indicators, which would still show a greater amount for the CEOs than for the average employee.

Ms. APPELBAUM. Sir——

Senator ENZI. My question is, Are you suggesting a cap on CEOs——

Ms. APPELBAUM. No, I wanted to illustrate the point that we have gone from a society in which the basic idea is that the economic pie grows, that it is the result of actions by employers and employees, and that the gains should be fairly shared among employers and employees. In the period from the end of the second World War until 1973, the economic pie of the United States grew by about 3 percent a year. Profit grew by about 3 percent a year, and wages grew by about 3 percent a year. So, the pie grew, and everybody's slice of the pie grew, more or less together. And the point that I wanted to illustrate is that we've gone from the idea of a society in which workers also contribute to the growing pie, to the idea that we live in a tournament, and if you can rise to the top, you're the winner and you're entitled to take all, and if you are just a worker and you have no representation today, you—I'm sure everybody here knows that just 8 percent of private-sector workers are represented by unions. And so, without that representation, it's been really difficult to get that idea of a shared pie. And, instead, what we have is the idea of a tournament with a winner-take-all, with a few winners and lots of losers. So, that—I just wanted to illustrate that point.

Senator ENZI. I appreciate that. I won't debate it, although I think there's a big difference between big companies and small companies. So, I'll go back to Mrs. Cablik—in the testimony that Professor Hacker gave, he commented on economic security among workers—do small-business owners experience any feelings of economic insecurity or worry? And what creates those concerns? And what helps to address them?

Mrs. CABLIK. Obviously, the insecurity of the worker is no different than insecurity of the employer. I mean, in this society nowadays, we only have 4.5 percent unemployment, which means most people that really want to work are working. So, if, for any reason, the job that I'm offering one of my employees does not meet that employee's expectation, he's going to find himself a better job, no different than if I'm not satisfied with his work, I probably will let him go and look for somebody else that will do the work. So, the insecurity is on both sides. This is a society where the people are going to have to be able to develop the skills that will get them ahead.

When you all were talking earlier about, "What can we do to improve the lot of the people that are in the lower economic echelons?" I suggest that doing training, where the people can actually get better jobs and have better skills, would probably be the best way. Education, in its most elemental way, is the solution to most of our social ills. And education is not just to try to force the schools to get the children to be reading at third-grade level or first-grade level, it is to get the parents involved in taking interest in getting the children to learn. So, we need to really get the whole society to take responsibility of their own actions. The insecurity is on both sides. It's not just a one-sided situation.

Senator ENZI. Thank you very much.

And I know that my time is expired, but I would mention that it seems to me like the smaller the business, the greater the possibility for insecurity.

The CHAIRMAN. Senator Bingaman.

Senator BINGAMAN. Well, thank you very much. Thank you all for being here.

The CHAIRMAN. I'm sorry. We'll recognize—Jeff, as I understand, Senator Sanders is going to preside at 11:30, so, after Jeff, if that's okay with you, Jack, we'll let Bernie, when his turn comes up, and then——

Senator BINGAMAN. Thank you very much for being here and testifying.

Let me ask Professor Hacker about—in the testimony, the written testimony you've given us here, you talk about a universal insurance, a flexible program of social insurance that you call universal insurance, which is a stop-loss income-protection program that would ensure workers against very large drops in their income due to unemployment, disability, ill health, death of a breadwinner, as well as against catastrophic medical costs. Could you just give us more detail as to how that would work, who would pay for that, and how it would interface with the unemployment insurance programs that are currently in place in most States?

Mr. HACKER. Yes, thank you very much for that question.

The proposal that I have outlined, entitled Universal Insurance, I prepared for the Hamilton Project, which is a policy research initiative housed at the Brookings Institution, in which Robert Rubin is involved, and is going to be headed by Jason Furman, formerly of New York University. The proposal is essentially a way of dealing with the most severe economic losses that families face. I mean, it would not be a substitute for existing programs. In fact, I see it as a way of highlighting the serious gaps that exist in these programs, by protecting families against the most severe drops in their income or catastrophic medical costs.

Essentially, the proposal would work through the tax code, and it would provide workers with money to cover a share of losses in excess of 20 percent of income, due to the causes you mentioned, or medical costs in excess of 20 percent of income. It would be advance-paid so that workers could get it soon after these risks occurred. And it would be available to all workers, although it would be much more generous to workers in the middle and bottom portions of the income spectrum.

Senator BINGAMAN. And this would be paid for how?

Mr. HACKER. Well, I've proposed that you—I actually suggest we could pay for it in numerous ways. It could actually be something that would be contracted out to the private sector, if there were a private—a way of creating a private insurance alternative that would provide such coverage. Currently, it's not coverage you can buy in the private sector. It also could be paid for through small payroll or income tax surcharge. It would essentially be insurance against income losses, so it would make sense for people to pay it against their—as a small share of their income.

What I estimate is that, even with a payroll tax surcharge of less than 1 percent, that you could provide coverage that would prevent roughly 3 million Americans from falling into poverty each year, and reduce by half the proportion of average people who fall into—have income drops of 50 percent or greater every year. So, it would have a fairly dramatic effect, even though it was relatively modest overall cost.

And I really see this as a proposal that is pushing forward a debate about how, in a newly uncertain and flexible and dynamic economy, we deal with some of these pressing risks. Stop-loss insurance is something that employers and corporations often have, but there's no way to purchase such insurance if you're a worker in the market today. Robert Shiller, my colleague at Yale, and others, have talked about how important it is to provide at least a basic level of protection to people so that they can feel confident to take some of these risks that are necessary to make the new economy thrive.

Senator BINGAMAN. Well, you also indicate that you have a proposal to extend insurance to all nonelderly Americans through a new Medicare-like program, and guaranteed workplace health insurance. Could you give us just a very short description of that?

Mr. HACKER. Yes, it's an, actually, extremely simple plan, in concept. I just prepared it for the Economic Policy Institute, which has put together a new Agenda for Shared Prosperity, and one of the things that it's focusing on is healthcare. This proposal would be very straightforward. If your employer did not provide—if you do not have secure workplace coverage, you could buy into a new Medicare-like program called the Health Care For America Plan, for a relatively modest cost. At the same time, employers would be given the option of purchasing coverage for their workers through this new Health Care for American plan. And if employers were required to either purchase coverage through this new plan or to provide coverage on their own, it would cover all Americans, and it would do so without putting, I think, an undue burden on corporations. For the payroll-based contribution rate under the plan—that is, the amount that employers would pay to insure their workers—would only be 6 percent of payroll, which is much lower than most employers pay today to cover their workers. So, the proposal would essentially provide employers with a low-cost option for obtaining good coverage, and workers with a low-cost option for obtaining good coverage, and thereby, reach all working Americans.

Senator BINGAMAN. Now, the program Governor Schwarzenegger announced contemplates a similar requirement on employers, as I understand it. They either have to pay a certain percentage of their payroll——

Mr. HACKER. Yes.

Senator BINGAMAN [continuing]. Into a statewide program or provide a certain level of insurance. Is that your understanding?

Mr. HACKER. Yes, there are similarities between the proposals. The main difference is that, in Governor Schwarzenegger's proposal, the 4 percent payment that employers are required to make—and it would only apply to employers with 10 or more workers—is not really purchasing coverage for those workers. Rather, it's paying into a fund that would be used to try to cover uninsured Californians throughout the State. So, a fear that I have is that the current system is—which is employment-based, allows most Americans to get coverage through their employer. That is the conduit for coverage. I believe that that aspect of the system, that when you work you should be able to easily obtain coverage through your place of work, should be preserved, and moving towards the system that Governor Schwarzenegger proposes would sever that link for many employees, and it would pose the risk, I fear, that some employers would drop coverage, thinking that their workers would be covered through the new public-sector plan in California. So, I think it's very important that there be a direct link between—for employers—between making a contribution to the cost of coverage and having their workers actually covered, and that's what my proposal would do.

Senator BINGAMAN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Yeah.

Senator Alexander.

STATEMENT OF SENATOR ALEXANDER

Senator ALEXANDER. Thank you, Mr. Chairman. I thank you for holding the hearing. I think this is an issue that's poorly understood in our country right now, those who—some on our side—go around saying, "The economy's good." A lot of people don't feel good about the good economy, although, by traditional statistics, it is good.

So, I have a question—and let me start with you, Dr. Hacker—about comparing the minimum wage and the earned income tax credit as an efficient way to help working people who are poor have a little higher floor. And let me say a couple of things first about my understanding of things.

First, I believe we are richer, as a country, despite all the gloom and doom about outsourcing in India and China. Over the last 10 years, according to the international Monetary Fund, you know, we've gone from 25 percent of the world's GDP to 28 percent or something like that, so probably we could stipulate that.

Second, there might be inequality. I'd like to spend some time asking about whether that includes benefits, that chart, and the effect of the phenomenal change of women in the workforce and part-time workers, and make sure that we really do understand the inequality question. But there may be, and that is something we surely ought to pay attention to.

Third, I believe the insecurity part, that you put your finger on, which is—I think a lot of the problem—there's nothing new about that. I mean, 25 years ago, we were in a situation—I remember, there was a group at MIT that actually counted job loss, and about eight out of nine Americans who do what Ms. Cablik has done, don't make it, their businesses collapse. And about 7 or 8 or 9 or 10 percent of the jobs in American disappear every year. That was true 25 years ago, and it's accelerated today, I think, by globalization. So, this insecurity is a big thing, nothing new. And my understanding of that has been, so far, that the way you deal with that is, first, with education, and creating the largest number of good new jobs so that people can go from the job they had to the job that they get, and hope it's a better one. That's just the way things are. And it's more that way. And we're learning, too—as the witnesses from Atlanta, has talked about—mandates on businesses, especially small businesses, aren't such a good idea. Several witnesses have said moving healthcare away from the employer may be a problem, but if our steel fabricators are going to compete in the world marketplace and not see jobs go to Mexico, China, other places, anytime we add to their costs, we're driving a job out of town.

So, that leads me to this question. Why, then, is the minimum wage such a good idea? I mean, here's a mandate primarily on small businesses, sort of a relic from the 1930s. It's like using something from the Pony Express, you know, in the computer age. And according to all the studies, including the Congressional Budget Office's, it costs a lot, maybe $11 to $18 billion a year, only 15 percent goes to people who live in poor families, less than half would go to people who have wages at two times the poverty level. The small businesses pay a disproportionate part of the bill. And the earned income tax credit, a negative income tax, would seem to be a lot more efficient, to me. I know there are charges of fraud within it. Maybe that can be fixed.

But—and I'll stop with this—according to the CBO, the Congressional Budget Office, if we increase the minimum wage, as has been proposed, it would cost at least $11 billion, but only 1.6 billion would go to working families living below the poverty line. If we did it through the earned income tax credit, it would only cost about $2.4 billion to increase the income tax credit by 1.4 billion. So, why wouldn't a focus on family incomes be a more efficient way to help with that part of the problem than a focus on minimum wages?

Mr. HACKER. Well, thank you, Senator Alexander. And thank you for this very interesting discussion of these issues. I agree with you completely that insecurity is nothing new. At the same time, as you said, some of the trends, such as de-industrialization, globalization, the movement of women to the workforce, have increased, I think, both the sense of insecurity of workers and their actual experience of it.

You did mention job loss, and I just wanted to note that according to the Displaced Worker Survey, which is the best source we have on job loss, the numbers are actually—the percentage of workers who experience job loss is actually, in recent years, basically at the level it was in the early 1980s, which was one of the worst economic downturns since the Great Depression. Unfortunately, we don't have statistics on that, going farther back.

One thing that those statistics show is that, actually, educated workers are experiencing the largest proportional income drops when they experience job losses, which I think really drives home that, in this new skill-based economy, we have a different kind of displacement from work than we used to, where workers may need to retrain, gain new skills to get new jobs.

And I say that as a preface to actually wanting to defer the question that you asked to Professor Appelbaum, because I am not an expert on the minimum wage. However, I would just say that I don't think we should see the earned income tax credit and the minimum wages as mutually exclusive options. And I think many economists do believe the earned income tax credit is a very efficient and effective way of reaching low-income workers, and yet, many, at the same time, would support an increase of the minimum wage, as does Professor Appelbaum.

Ms. APPELBAUM. Yes, just a comment on that.

So, the two serve very different purposes. The earned income tax credit is a subsidy to the very poorest families to just prevent the worst kinds of crisis for families with children. And I think it's a very important thing, but it doesn't really satisfy the needs of the labor market. What the minimum wage does, when it's set at a reasonable level—and going back historically, the minimum wage has been at one-half the average wage—at one-half the average wage, the minimum wage provides a floor under middle-class families. It prevents the kind of falling-down-the-ladder that Dr. Hacker has been talking about. So, if you are a middle-class family, and you lose your job, and you have to take whatever job is available, working at $5.15 an hour is not going to enable you to support your family.

Senator ALEXANDER. What would half the average wage be today?

Ms. APPELBAUM. About $8 an hour. And I do think it should be set there, and I do think that it should be indexed to the average wage. In most countries, the poverty line is—people are considered to be in poverty if they are earning less than half the average wage. And if they are earning a third of the average wage, they are considered to be in extreme poverty. And, of course, the minimum today is less than one-third the average wage. So, by that definition, for most countries in the world, people in minimum-wage jobs would be seen as living in extreme poverty. I don't think that's a standard that we want to set in this country.

The CHAIRMAN. Senator Sanders.

STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you very much, Senator. And thank you for allowing me to jump the line. I've got to go down, to preside. And thank you very much for holding this hearing, which I think touches on one of the very most important issues facing our country, but an issue, frankly, that doesn't get the kind of discussion, in the media and elsewhere, that it deserves.

Now, I hold a lot of town meetings in the State of Vermont. And what I always do when we meet is, I ask people a very simple question. I say, "Well, tell me"—you know, I'm reading in the papers, the economy is doing well, GDP is growing—"tell me, from your lives, how is the middle class doing? How are you doing?" And at every meeting, a couple of people will raise their hand and say, "We're really doing well. Things are going great." But what I have to tell you is that the vast majority of the people say that things, for the middle class, are very, very tough. And, as Senator Kennedy, in the charts, indicated, the reality is, the middle class is shrinking. The reality is that, in the last 6 years, 5 million more Americans have slipped into poverty, and, more frighteningly, the reality is that the gap between the rich and the poor and the middle class is growing wider and wider. We have the dubious distinction of having, by far, the most unequal distribution of wealth and income of any major country on Earth. I don't think that's anything that we should be proud of. I think we should put that issue right up there.

And I want to ask two questions. I want to ask Reverend Forbes a question. We hear, in Congress, a lot about morality and a lot about values. Most often, those issues come around the issue of abortion, the issue of gay rights, and so forth and so on. In your judgment, in a circumstance in which we are—we have, as a Nation, by far, the highest rate of childhood poverty of any industrialized nation on Earth—18–20 percent of our kids live in poverty—at the same exact time as we're seeing a proliferation in the growth of millionaires and billionaires—richest people becoming much richer, 18 percent of our kids living in poverty—in your judgment, is this a moral issue that Congress should be focused on?

Mr. FORBES. There is no question in my mind that the issue of what we do for children says something about our basic sense of humanity. That is, if we do not value those who are not voters yet, who are not able to demand that they be heard, it shows that our primary response to life is to respond to those who can meet our need. Humanity is about the capacity to meet the needs of fellow human creatures, and other species, as well, when there perhaps may not immediately be any benefit to us. In the course of time, enlightened self-interest will reveal that the care for children—their health, their education—will benefit us, but the test is—it's a moral disgrace and outrage that we should neglect the children in our effort to amass more things for ourselves.

Senator SANDERS. Thank you very much. But I think the fact that we have the highest rate of childhood poverty, when the wealthiest people are becoming wealthier, is something that we should put on the agenda.

I want to ask Professor Appelbaum a question. There are economists who believe that one of the reasons for the decline in the middle class has something to do with our disastrous trade policies, forcing American workers to compete against China, where people make 30 cents an hour; it has to do with tax policy, in giving billions of dollars in tax breaks and corporate welfare to large multinational corporations who throw American workers out on the street; has to do with the fact that we're the only industrialized nation on Earth that does not guarantee healthcare to all of its people; has to do with the dismal rural economic development policy. I know that Senator Enzi was talking about economic development. We come from small rural States. And let me tell you, we've got to focus on rural economic development, as well.

But my question to Professor Appelbaum is, Do these things happen by accident? I mean, does the decline of the middle class and the growing gap between the rich and the poor, the fact that unions are declining, the fact that we have a disastrous trade policy—did this all happen by accident, or are there some people who are doing very well and are proud of their accomplishments of driving down the middle class while they grow wealthier, while corporations become more profitable?

Ms. APPELBAUM. Yes, thank you for that question.

I think you've put your finger on one of the major disconnects in this country, and that is, you know, if you go back a couple of decades, we could say, "What is good for General Motors is good for the country," that we all prosper together. But what has happened is that there is now a disconnect between the interests of multinational corporations and the interests of both American workers, but also of our domestic producers. It's not just workers who are put at risk by these policies, but also our smaller companies, our companies that are focusing on producing in this country, who are subject to that same kind of competition.

And I think that we are in an enormously dangerous situation. It's true, as you say, that this has had a major effect on the middle class, and on wages and on jobs. But the country, as a whole, is at risk. And I don't think that this is an issue that we have faced up to.

At this point in time, our trade deficit is almost triple the Federal Government budget deficit. And we're all up in arms about the budget deficit; you hardly ever hear anything about the trade deficit. It now exceeds 6 percent of GDP. This is unsustainable. We can still do something about it. We can still think about enhancing—growing our manufacturing capacity, investing in manufacturing in this country, so that we have something to export. We could put limits on China, but, you know, the effect of putting limits on China is that we'll have to import TVs from someplace else, because we don't make televisions in the United States. So, we need to think about how we're going to improve our manufacturing capacity, how we're going to improve our exports, and how we are going to manage, as we did in the 1980s, in the Plaza Agreements under the Reagan administration, how we are going to manage an orderly decline in the value of the dollar, because a disorderly decline in the value of the dollar is going to lead to a major economic crisis for the country. It will not just be a crisis of manufacturing workers, it will be a crisis that we all face. We have time to do something about it. I think we need to put this on the agenda, as well.

Senator SANDERS. Thank you.

The CHAIRMAN. Senator Murkowski.

STATEMENT OF SENATOR MURKOWSKI

Senator MURKOWSKI. Thank you, Mr. Chairman. It's been a very interesting discussion this morning, and I appreciate you having the hearing.

And thank you, to those of you who have participated.

Professor Appelbaum, you brought up the trade deficit. I think we would all agree that the statistics are troubling. It was just last year that the National Association of Manufacturers surveyed 800 manufacturing firms and found that more than 80 percent of those firms were not able to hire enough skilled workers to keep up with the demand. And we recognize that policies like that are really inhibiting us.

Ms. Cablik, you mentioned, also, that, in order for your business to be successful, you were competitive, you offered incentives, if you will, or paid good wages, you offered the benefits so that you got the workers. We also recognize that it's imperative that you have good, competent, skilled, trained workers.

Reverend Forbes, as you deal with those people that come in and out of your church, you recognize that, in order for them to move ahead, they need that training, they need those educational opportunities that will allow them to move forward.

So, I guess a very general question to all of you, or any of you that would care to respond is: What more do we need to be doing, from the government perspective, to facilitate these training programs, to make sure that our workers are competitive, and that they have the skills to provide for their families in good-paying jobs? So, I throw that out to the panel.

Ms. APPELBAUM. Sure. Well, I——

Senator MURKOWSKI. Professor.

Ms. APPELBAUM [continuing]. I think there are two points that I would make. The first is that postsecondary education and training is extremely important, but we have just very narrowly taken that to mean getting as many high school graduates into a college program as possible. Many of them enter, not all of them graduate.

I think, as far as manufacturing is concerned, in particular, we need to think about other kinds of postsecondary training as also being valuable, important, and so on.

The second thing I think—and Senator Enzi and Senator Kennedy have been really great proponents around the issue of training, and I very much appreciate that, being in a State where we try to do the best we can with training dollars. But the Center for Women and Work is very much involved in using new technologies, information technologies, Web-based programs, to make it possible to cost-effectively increase the amount of training we're able to deliver for the dollars that are available. And I think that that's going to be the wave of the future.

If there were more time, I'd be happy to talk about the things that we're doing at the Center for Women and Work. We have taken some of these programs national. We now have 20 States and four major cities, including Washington, DC., that are engaging in the use of information technology, Web-based programs, to expand the ability to bring training to workers currently employed in low-wage jobs who can't take time off to go get the training, but could access it in other ways. And these programs have been proven to be effective—effective, in terms of the outcomes for workers, and effective, in terms of being cost-effective for the States.

Mr. HACKER. Yes. Well, I agree with what Professor Appelbaum said. I would also want to call attention to, sort of, the flip side of education, which I believe is insurance, and that is—what I want to say is that if we expect people to make investments in education and in skills, then we also have to recognize that sometimes those investments will put workers at risk.

I think, here, particularly of workers who are fearful of layoffs. In the last 20 years or so the proportion of the workers who say they're frequently concerned about layoffs has tripled from about 12 percent to 36 percent. And now, some of this fear may be unwarranted, but I think it might be an impediment to workers making those investments up front in skills, because some skills, skills that are highly specific to a job, can put you at risk if you're laid off, because you might have to retrain or gain new skills.

So, I do think we should think of this as a three-part equation. First, we want to try to limit the amount of debt that people take on gaining education and skills to get into the workforce. And, second, make sure there are effective forms of insurance that are there to help people deal with the short-term and longer-term dislocations that might result if they invest in skills and those skills don't end up earning the kinds of return that they had expected.

I just want to give you one statistic that I think drives this home, because we hear so much about inequality across the educational pyramid. In 2000, if you look just at full-time workers who received a bachelor's degree, a worker at the 90th percentile earned about $1,700 per week; whereas, a worker at the 10th percentile earned about $423 a week, which is less than the median high school graduate. So, there is risk inherent in education, and we should recognize that risk, provide, for example, wage insurance that would help workers take a lower-paying job and still stay afloat financially, or job retraining programs for——

Senator MURKOWSKI. Do we do enough for the job retraining? I appreciate the emphasis that you're putting——

Mr. HACKER. Right.

Senator MURKOWSKI [continuing]. On the curriculum and a focus on vocational education. We do need to be doing more. But we are also recognizing that we are in an environment now where people don't stay with the same company for——

Mr. HACKER. Right.

Senator MURKOWSKI [continuing]. Fifty years. Are we doing enough when it comes to the retraining opportunities? And I'd throw it out to you, Ms. Cablik, or Reverend Forbes.

Mrs. CABLIK. Not only the retraining. I really think the vocational training of trades—I mean, that is where I think there should be a lot more emphasis, and maybe allow some private organization, such as CEFCA, that's an organization that actually will train people in the construction trades, such as carpenters and masons, which, right now, there is a huge shortage. I mean, we have ads in papers right now all over the Atlanta area, and we cannot find anybody. These are wages—they are not minimum wages, they are way above the minimum wage, but you cannot find any people, because the mentality of most of the high school kids are that, "I'm going to go to college." They might drop out, but if we would miss—we would redirect these kids and try to make them understand that having a trade, such as an electrician, or being a iron worker or a carpenter, that it is very fulfilling—a lot of these people are making close to six-figure incomes after they have been in the business for quite a while. But when they don't go into them, and—we have a huge shortage. The average construction worker, right now, is 46 years old. Where are our replacements? And those are not college degrees that we're looking for, these people, in many instances, are even being able to get on-the-job training. If there would be some way that we could emphasize support of organizations that are already doing—not necessarily, doesn't always have to be the government—a lot of times, they're private industry or nonprofits—that can do a job just as well, if not better.

Mr. FORBES. I would like to suggest that it's time, now that we are challenged in the age of globalization, to go back and look at the nature of work. Julius Wilson talks to us a lot about—work is about more than just making money, it's about meaning. And, therefore, in our training—and remember the good old days of manpower forecasting, I think we might call it person-power forecasting—to be able to talk—what are the actual meaningful jobs that we need, to preserve our way of life and be competitive in this new global market? That means that we change the notion that there are a whole lot of people who are obsolete and expendable. Forget them. It may mean that the new situation is, we need everybody we've got, but we need them recognizing that they are making a contribution to the quality of life we deserve and intend to have in this country.

If we look at the meaning of work and decide that most of our citizens, unless they are otherwise challenged, should be able to recognize that, "If I prepare myself, this is not just a make-busy work, it's not just picking up paper," though we may need to have somebody to do that, "this is making my country a great country."

If the training is linked to an education and there are mechanisms by which people are actually granted living wage after they get these jobs, maybe we'll be better.

So, the crisis of the present moment is an opportunity for imagining anew what work could be, so that we, even holding our rights and our human rights, our principles, can compete with others, because a new imagination releases new energy of people who otherwise have been kept out of the workforce.

Senator MURKOWSKI. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Reed.

STATEMENT OF SENATOR REED

Senator REED. Thank you very much, Mr. Chairman.

And thank you, panelists, for your excellent testimony.

And, Professor Hacker, in your discussion with Senator Alexander, you did note that this instability of income is not new, but are there characteristics at the present moment that are more worrisome than in the past? And I guess my sense is that, when you talk—years ago, when I was a little younger, the instability was located around the entry-level work, low-skills work, but I think the instability that I sense—and maybe it reflects Senator Sanders' comments—affects people that used to be immune from these things, that they're middle class, solid middle class, and now suddenly they are seeing this. And if you can comment at that, then the follow-on question would be, Does that drive us to new policy directions? You've suggested some, and you might elaborate.

Mr. HACKER. It's an excellent question, and I do think that much of the insecurity we see today is reflective of the fact that people who once did not feel the cold hand of insecurity now are sensing it in their lives.

Let me just give you some illustrations from the statistics that I have, and as well as some related work.

With regard to my own work, what I have found is that instability—over time, income instability, how much income fluctuates up from—and down—from year to year, is actually now, among workers who have gone to college, among Americans who have gone to college, about as high as it used to be in the 1970s among people who didn't finish high school. So, absolutely, we've seen this shift.

We've also seen a shift of problems that were once associated with less-educated or entry-level workers—not having health insurance at your job, not having a secure retirement pension, being laid off, and experiencing large income losses when you're laid off, or risk of job loss altogether—all those problems have become—have moved up the income ladder, if you will.

And so, while—as I said, people who are higher up the income ladder are now experiencing some of the insecurities that used to be isolated among the working poor, and I think that's part of the reason we're seeing such a high level of middle-class anxiety today, because there is this sense in which, if you work hard and you play by the rules and you make it into the middle class—in the past, there was a sense that that was a—if not a guaranteed place in the middle class, you had a very strong assurance that you would remain there. And now many people are fearful of falling. And that's the one last statistic I would mention. It's from—again, from the work of Mark Rank, who's found there has been a big increase in the probability that even people who are in their peak earning years, in their 40s, fall into poverty during the course of their time in the forties.

I think it changes our view, because, I think, in the most fundamental way, it links our interests across economic lines. If we see this more as a picture of greater dynamism in our economy that causes insecurities for middle-class Americans, if we see the problem of lack of health insurance or lack of secure retirement as a problem that affects almost all workers, then we start to address these issues, not as something that we're doing for other people, for people at the bottom, it's something we're doing for ourselves.

Alexis de Tocqueville once said that Americans believed in self-interest rightly understood, which was, "help yourself and help others at the same time." And I think that the—hopefully, we can have a debate about these issues that isn't framed solely in what we need to do for others, even though I am—I feel that clarion call that the Reverend speaks about, about the moral concerns we should have for people at the bottom.

Senator REED. Let me follow on and open it up to comments by other panelists, is that one of the perceptions I also have, in talking to my constituents in Rhode Island and around the country is that it's just not the sense of this immediate anxiety for a middle-aged worker, it's, for the first time in my recollection, that people are fearful of the future of their children, that they see this instability, and they look forward, and they say, "Well, if I've gone to college and I've worked 20 years, and suddenly I'm faced with a—the dilemma of—poverty, in some cases, what about my children?" And I think it's manifested in some of the other characteristics of the marketplace. We used to take for granted, up in Rhode Island, that most jobs had health insurance. Now that can't be taken for granted. How do your children afford healthcare, when you barely can?

We assumed, in the 1950s, 1960s, and 1970s, that you could move next door to Mom and Dad and buy a house. Can't do that anymore. And I think, you know, Reverend Forbes, in New York City, you saw the vanishing middle class, and that's one reason they're vanishing; they can't afford to live there.

And what does this tell us about this extra dimension of anxiety, that, for the first time, the, really, American dream, which I think is—can be expressed in many ways—one way is, my children will have to do better than I, because that's the nature of America. That dream is being challenged, at the moment. And—Dr. Hacker and then the Reverend and anyone.

Mr. HACKER. I would love to hear the other panelists' responses to that question. I will only note that in the exit poll from the most recent election, something like 70 percent of voters said that they thought life for the next generation of Americans would be worse than today. And I think that is a remarkable statistic.

Senator REED. Dr. Appelbaum.

Ms. APPELBAUM. Yeah, I would say two things about it. One is, we have to recognize that we have harnessed the IT revolution, we have productivity growing again, there's no reason that we have to have this kind of economic insecurity. So, it's not that it's a slow-growth economy. As everybody has said, if you look at the top-line figures, the economy seems to be growing just fine, the problem lies somewhere else. And the second comment I would make is what I hear from my students, which is that their parents worked hard, worked for a company, thought they were going to have a job, thought that they would be—always be able to be middle class, and have lost their footing. And these students feel a tremendous—they're still undergraduates, and they feel a tremendous amount of insecurity. They worry that they're going through the paces, they're getting the college education—What kind of job will be out there? What kind of life will be out there?

And speaking to the interests of our business community, they're not prepared to be loyal employees. They feel that their parents have been loyal and have not reaped the benefit of it, and they're interested in—they exhibit a self-interest that, really, I haven't seen. I've taught for many, many years, and I have not seen this kind of narrow self-interest, "I would junk the job for an increase in pay. I don't care what, because I don't believe that this company will be loyal to me. My parents' companies weren't loyal to them." I think this is going to be a problem in the workplace, as well.

Senator REED. My time is gone, but, Reverend Forbes, if you have a comment, I'd—you were, sort of——

Mr. FORBES. Yes. You know, it seems, Senator, that we forget that, in 1993, we had some terrorist activity in New York, then we had some Oklahoma City stuff, and then we came back with some 9/11 stuff, and then we had political changes that seemed to make it even unclear about the future and well-being of people in office versus those out of—it felt like it all came together. So, post-traumatic stress disorder is not just about folks that are, sort of, waiting to get a place in the mental hospital, it's that more and more of the citizens of this Nation are not so sure that the securities that we have enjoyed in the past are available to us now, and the real problem seems to be that there does not yet seem to be a sense of strong national purpose and vision that gives us the chance to say, "Our cause is so just and so right that we will weather the storm." The world is changing. Globalization has altered the situation. Bigger powers—we're in debt to other folks. So, the question is, What is the vision of America? And I would advise—I like Bill Moyer's word, in The Nation, about "A New Story." What is the vision of America that poor people, middle-class folks, and even rich folks, are willing, once again, to sacrifice in order to help us achieve the new security, based much more on a reality—of a global reality that is not just our interest, but the interest of other nations around the world? We need that new story so that we can invest again with confidence that we're going to make it through.

Senator REED. Thank you very much.

Thank you. And my time's expired. Thank you.

The CHAIRMAN. Preacher, you're getting to us, Reverend Forbes.

[Laughter.]

Mr. HACKER. I knew I could get them going, Mr. Chairman.

The CHAIRMAN. I know. You're getting us all excited up here now. He's getting a little taste of all this.

Senator Roberts.

STATEMENT OF SENATOR ROBERTS

Senator ROBERTS. Yes, thank you, Mr. Chairman.

I feel compelled to say that—I don't know how many hearings and how many briefings we've had in the last 10 years that I've been privileged to be on the Intelligence Committee, but we have had 5½ years without an attack on the U.S. soil, after Beirut, USS Cole, Embassy bombings, 1993, et cetera, et cetera, all before we went into Iraq, so we're doing something right. It's been very difficult, and almost like pushing a rope, but we have had some success.

Dr. Appelbaum, does the—did the Center for Women and Work have anything to do with that scandalous ball game in Texas between Kansas State University and Rutgers, where you shamelessly ran up the score?

[Laughter.]

Ms. APPELBAUM. We were—we sent a contingent down to cheer for Rutgers.

Senator ROBERTS. Yes, you did. I heard them.

[Laughter.]

I was there. But I think, you know, running up the score like you did—see, our team had an excuse, we arrived late, we didn't have any uniforms, so we had to wear——

[Laughter.]

Senator Roberts [continuing]. Our bib overalls, and they're pretty—you know, it just didn't allow us to keep up with your team. I wish you'd just be a little more modest in the next go-round, if that would be all right.

[Laughter.]

In Kansas, let me tell the panel, we have 60,000 small businesses, 600,000 jobs. These firms represent 97 percent of the employer business in the State and employed more than 50 percent of non-farmworkers. We created 12,338 new jobs. But what I hear from the small-business community in Kansas is the inability to provide quality childcare options—that's something a little bit different, in terms of the topic we've been talking about—and affordable healthcare to the employees, which this entire committee talks about a lot. I realize these are two different issues. They may be different from the issue that we're talking about, but, after all, this is the Senate, and that's what we do.

At any rate, let me just repeat to you an experience I had when I was going door to door in south Dodge City, where I'm from, and a lady came to the door with two small children, who were not happy, and were letting their mother—there wasn't—and she wasn't happy. And so, I handed her my brochure—first attempt at public office—and I said, "My name is Pat Roberts. I'm running for Congress. I would like to represent you in the Congress. I think I could do a good job. What could I do for you?" And she looked right at me, and she says, "It's your world. I'm just living in it."

[Laughter.]

Bingo. And so—I got to thinking about it—and so, I said, "I want to know, what would be the most help to you?" She said, "I had a job offer, but, with these two youngsters here, I cannot accept the job." So, the first bill that I introduced in 1997, when I first got here, along with Jim Jeffords, was the Small Business Child Care Act. It's a grant program to our small communities, so if the implement dealer and the restaurant, where she worked, or the bank could come together for a childcare program, they could, and they offer a grant of $500,000; then, to continue, you have to match it. It would simply be authorized by this committee, as opposed to being appropriated. And I know we're in a tight budget schedule. But that is the one bill that I introduced. I was going to make an amendment on the floor. I was still fresh from the House. I thought I had to have the agreement from all parties concerned. Obviously, that doesn't happen in the Senate. And I learned my lesson.

Jim Jeffords wanted a more comprehensive bill. I was for that, but I didn't think we had the votes to do it, so my first-step bill never got anywhere, after 10 years. And I've kept introducing it. And Lamar Alexander, who has just left the committee room, is my cosponsor, along with a lot of others.

But, at any rate, I'd like to ask Mrs. Cablik what she thinks of that. What it would do is give the small community, like Dodge City and much smaller, an opportunity to provide quality childcare for that person that I am talking about, to match up the small-business community, where they do not have the expertise, maybe do not have the money, but they could, if they went, together. Would that be helpful to your experience, in regards to the small-business community?

Mrs. CABLIK. Definitely. What—I always feel, when you take a group and put it together, where they work together to solve the solution—to find a solution for a common problem, that will definitely be helpful. It is difficult for a small business to come up with a daycare provider, like some of the big companies. And if there would be a way of coming up with a daycare for a whole entire community so that the mothers could come to work and be reasonably assured that the child would have adequate care, that would be helpful.

I'm not sure whether the government really would need to actually fund it. I think most times, if there would be a way of the private industry to do it, in my experience, private industry has usually done a better job than the government.

Senator ROBERTS. Well, we are trying very hard with private industry to do that job. This bill, the small businesses are eligible for grants up to $500,000 for startup costs, for training, for scholarships and other activities, priority given to grantees who work with other small businesses or local childcare organizations.

Typically, we have—we have outstanding childcare facilities in Kansas City, in Lawrence, in Manhattan, in Topeka, in Wichita, so on and so forth. And that's fine. I'm not saying this is a moral issue, but it is a regional issue when you have a small community—more especially, a non-county-seat community, that—they simply do not have the expertise. Now—and then, of course, if you continue, you have to have a matching grant from the local community to keep it going, but you at least get started. Now you have nothing. And so, from the standpoint of regional fairness, I still think it's a good bill, and I would hope that the leadership of the committee would also say that.

The other thing that I would simply say is that everybody out there—we have, what, 60 percent staff—we have 60 percent of the small-business community who do not have any insurance? None. No insurance. And Senator Enzi's bill got 55 votes on the House floor, then we got into what we call sort of a disagreement here. We had a clear majority, but we couldn't get past a 60-vote hurdle in the Senate. It is time to pass that bill to give the small-business community, the employer and the employee, the opportunity to say, "At least I have some healthcare insurance"—perhaps not the most comprehensive.

I'm making a speech, I'm not asking a question. My time's already expired. But at least—I would like all of the panelists to consider this childcare option, because I think it would afford us a real opportunity, especially that single mother with children, who has no other opportunity to go forward in the community.

I thank the Chair.

The CHAIRMAN. Thank you very much.

Senator Dodd.

Senator DODD. Well, thank you very much, Mr. Chairman.

And, first of all, my apologies to the witnesses for getting over a little late.

Mr. Hacker, welcome. It's nice to have a Connecticut representative here with us today, and I thank you.

[Laughter.]

And, Ms. Appelbaum, you've been here many times. It's a pleasure to see you back here again, and we thank you.

And, Reverend and Anna, thank you, as well, for being a part of today.

First off, let me just say to my good friend from Kansas, I'm delighted to hear about his efforts on the childcare front. As he may recall, Senator Hatch and I, beginning back around some 22 or 23 years ago, offered the first Child Care Development Block Grant. Senator Kennedy was invaluable in those efforts in—a leading supporter of the efforts to begin the process.

Tragically, over the last 5 or 6 years we've been able to get almost zero help in extending those benefits to the working poor, people who really need it, as you point out. And I'm delighted to hear there's a growing interest in this, because it's absolutely been a critical element in the country, and we've been falling way behind, in terms of our ability to provide those resources for people who have no alternatives. I hope we'll focus on quality, because one of the major problems has been—while there's been some resources—the quality of childcare. I've actually pointed out, we have better quality care for pets, by regulation, than we do for our children, in many settings, in terms of the ratios of adult supervisors, even the basics, health and safety standards, in places. And it's just been sad to watch what's happened over the years here with little or no interest in the subject matter, despite the growing pressures.

Senator ROBERTS. If the Senator would yield, I think I remember going over here to the childcare center that we have for Federal employees, with Senator Kennedy and yourself. I can't remember the fourth one. And I think I was the lone elephant, as I recall. But, at any rate—and that's been, what, 5, 6 years ago? As you've indicated, we haven't seen any progress. At least the bill that I have is a first step and, I think, would make a very good plank in your presidential campaign, sir.

[Laughter.]

Senator DODD. Well, I appreciate the endorsement. I don't have many people in Kansas——

[Laughter.]

That may be my first Republican on the ballot here.

[Laughter.]

Senator ROBERTS. Well, mark me down as undecided.

[Laughter.]

Senator DODD. All right. Well, it's a start, anyway.

I just was going over and looking at some of the data, and—on some of the stuff you've had. Just in terms of what's happened to real income, how it's fallen. I don't have large charts here for anyone. I apologize. I should have—but, in every single income category—the bottom 20 percent, the lowest 20-percent income, median income, second-highest 20-percent income, top 20 percent—every one of them have watched incomes that have declined between 2000 and 2005. The only category that watched its income increase is in the top 5 percent of income earners. I mean, the data is just pretty clear. This is from the Census Bureau, as well.

In terms of levels of education—and maybe you have some of these here. Maybe I have them already. I guess you do. Here, the levels of education—the only area where we've seen any kind of an increase at all is in the low—those with less than a ninth-grade education. I'd be interested in how that's particularly happening in that category. But, nonetheless, in every other education level, we found a staggering decline in incomes for people.

Personal savings rates have dropped down to a negative level, minus 1.2 percent. Health insurance, if you know the numbers, continue to rise. Households with very few—30 percent of the population of this country, in excess of 30—have a net worth of less than $10,000. Almost 18 percent have a zero net worth. And it's—27 percent have a net worth of less than $5,000, in the country, as we go forward. And consumer debt now is approaching 20 percent. The average share of household income spent on debt payments is now approaching 20 percent. That's up from 16 percent in the early 1980s, a low level in the mid-1990s, now skyrocketing again over the last 5 or 6 years. So, the data is pretty compelling, here, that these last 5 or 6 years have been hard on most families in this country, it isn't just low-income, but well into the middle-income categories have really suffered tremendously. And I wonder if you might, if I can—Dr. Hacker, if you could talk about the—just the policies over the last couple of years. What have been the impact, in your view, of these policies on these numbers? Were these numbers—would they have occurred anyway, or have they resulted, in part, because of the policies that have been enacted by the Congress and the administration over the last 5 or 6 years?

Mr. HACKER. Well, thank you, Senator Dodd. And it's a pleasure to be able to testify before you, as a——

Senator DODD. Thank you.

Mr. HACKER [continuing]. Fellow Connecticut resident.

It's a difficult question, you ask, actually. I was part of the American Political Science Association's Task Force on Inequality in American Democracy, which, a few years ago, issued a report expressing concern about the spillover effect of growing economic inequality on political equality in the United States. And we actually looked at all of the available evidence on the effect of public policy in the United States on inequality and insecurity and other measures of family economic well-being. And what I want to emphasize is that, while we know, and we can tell, both by looking across nations and by looking across States, that there is a strong relationship between what government does, in terms of public policies and the distribution of income and well-being, it's harder sometimes to assess the effect of individual policies, in isolation.

So, let me just give you two broad pieces of evidence. The first is just that we know that the United States is the country that has done the least to deal with rising economic inequality, compared with other advanced industrial democracies. If you look at all of the other rich countries for which we have evidence, there's actually been an increase in the degree to which these countries redistribute income to offset rising market income inequality. The United States has moved, actually, in the opposite direction.

The second observation I would make is simply about one of the key economic policies of recent years, which, of course, has been the repeated rounds of tax cuts that have been passed. All of the evidence we have, including the most recent data that's come out of the Census Bureau, suggest that these tax policy changes have exacerbated an already serious problem with economic inequality in the United States, both because they've distributed a great deal of benefits at the top of the income ladder and because they've reduced the tax rate on those forms of income, like capital income, that are most prevalent at the top end of the income scale. So, that, I think, we can say clearly has contributed to this overall increase.

Senator DODD. Ms. Appelbaum, would you want to comment on that, as well? I'd like you to add one other element, because—something that Dr. Hacker raised, and that is the issue of how our policies—the global competitiveness issues. I mean, we all give these talks and speeches to our constituents about how our children are not going to be competing, the child in Boston with the child in Hartford, or the child in Cleveland with the child in Bridgeport, but, rather, with children in Sydney and Beijing and Johannesburg Taipei. How are we doing? As this sets up now, in light of where we are today, how are our present policies affecting—and these numbers—affecting, in your view, the position of the United States in global competitiveness?

Ms. APPELBAUM. Well, I think that there are two parts to the answer. One of them has to do with our ability to provide all of our young people with excellent education, not only K-through-12, but, to the point that was raised earlier about childcare, we have to start earlier with universal pre-K, good K-through-12, affordable university education for those who are going to pursue those kinds of careers, and, as was indicated earlier, we need to think about other kinds of postsecondary education to meet the general employment needs in the country. It's not just all about college education, although I agree that that's extremely important.

But I think there's a big area of neglect in this country. We think of manufacturing and people who care about manufacturing policy as trying to protect jobs. Well, the thing we know about manufacturing is that this is where the greatest productivity growth takes place. The reason we want a strong manufacturing sector in the United States is that that is the engine of productivity growth in the United States. And so, the other side of that coin is, you can't really think about this as the job-creating machine. What it does is, it creates a competitive domestic economy. It means that people will be employed, not just in the manufacturing jobs, but in all of the high-level business-service jobs, also the—I mean, hotels are part of the business-service sector that you just don't think about, with all of the business travel and so on. A strong domestic economy has to be built around a strong manufacturing base, and our policies have not looked to that.

We've taken the position that the rest of the world can be the brawn, we're going to be the brains. It doesn't work like that. You cannot separate the brains from the brawn. We gave up the manufacture of television, because we said, "Well, this is a mature industry, and nothing is going to happen." And now we have all of the new plasma screens and so on, which are not only in TVs, they're in cockpits of airplanes, there's a whole new technology that is being developed, none of it in the United States.

So, what's really important, in my view, is to begin a national dialogue about how we reestablish our manufacturing competitiveness. I don't have the answers. To be honest, I think there are a lot—I have some answers. I'd bet everybody in this room has their own favorite answers. But I would really like to see a blue-ribbon bipartisan commission that would travel around the country, take testimony from business, from labor, from citizens, put together the best ideas, and think about how we are going to restore competitiveness in manufacturing to drive sustainable productivity growth, sustainable trade, and sustainable employment.

Senator DODD. Well, it's a national security issue, as well. I would just tell you—in fact, the committee that I chair, the Banking Committee, has jurisdiction over the Defense Production Act, which is up for reauthorization this year. We've lost 3 million jobs in about 7 years in the manufacturing sector in this country, about a third of them in areas that are producing those small parts—midsized small business—that are components of some of our most important military industrial products, whether jet engines or submarines or tanks or armored vehicles, and we're giving a lot of that away, and that raises serious issues in the 21st century as to whether or not we can rely, and have available to us, an industrial base that will contribute to the defense needs of our country. So, beyond the economic issues, they reach into the security issues——

Ms. APPELBAUM. That's right.

Senator DODD [continuing]. As well.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Dr. Forbes, thank you for framing this as a moral question, as you have so well.

I want to followup on Senator Dodd's question and comments to Dr. Appelbaum.

When I first ran for Congress in 1992 and was elected, we had a $38 billion trade deficit. Today, it will exceed $800 billion for 2006. It will—our trade deficit with—bilateral trade deficit with China in those days was barely double—were barely into the double digits. Today, it may exceed 250 billion, as you know, for 2006. If you would—you mentioned, in your testimony, the disdain for manufacturing, which I see and hear all the time, especially from people on the coasts, frankly, the East Coast and the West Coast. What I've seen in the State of Ohio, and just coming off a campaign, was—and have seen this for years—is, as we lose large manufacturing—as a Ford plant moves to Mexico or a steel mill shuts down or experiences major layoffs, it's a lot of small tool-and-die manufacturers, a lot of small machine shops that are usually nonunion, usually family-owned, usually 60–80 employees that can lose their biggest customers and lay off half their employees. For a moment, if you would, be prescriptive about what we should do on manufacturing. I know the blue-ribbon committee—commission suggestion is not the answer I'm looking for here. If you would be prescriptive on two or three things that we should do, not expecting that a steel mill with 10,000 employees is going to move to Lorrain, Ohio, or not expecting an auto plant with 8,000 employees is going to locate in my State, but what do we do, specifically, for a real manufacturing policy, which we've simply ignored?

Ms. APPELBAUM. I think that is one of the most difficult questions. I mean, that's—I think we've dug ourselves into a deep hole, and, to me, it's probably as difficult a question as asking, you know, How will we get out of Iraq without leaving chaos behind? It's an incredibly difficult question.

I think we need to look to some of our strengths. We have huge strength, for example, in the manufacture of medical electronics. We need to look at the industries that are successful and see, What can we do to expand these industries? We need to think about green technology. Companies have begun thinking about it. I think that this is another area where the United States can excel.

We do have a financial market that makes possible—if we only had some protections for the individuals involved—but makes possible great risk-taking, great—making big bets on things that are uncertain. And I think that we need to encourage that kind of entrepreneurial behavior, and I think that's where Dr. Hacker's policies and proposals are so important. If you want people to take those really big risks and think about what they can do, what might pay off in the future, they need some sort of safety net so that, if the risk fails, they don't fall all the way down to a minimum-wage job in which they can't support their family and to living in poverty.

So, I think that, to look at the places where we're strong—aerospace is a strength, medical technology is a strength, green technology is a strength, alternative energy is a strength—to think about these areas, and to identify others—I know other people could come up with their own list—and to think about the kinds of both training, education, investment, risk—you know, making it possible to take these risks—that would enable the entrepreneurial ability and the scientific ability of the American workers and employers to make themselves felt.

I also think that we need to have a lot more investment in higher education, in making sure that people have the necessary skills. If we're going to invest in new technologies, we've got to educate people for these new technologies. And I think that that's another important aspect.

Senator BROWN. Thank you.

At Oberlin College was built, recently, the largest freestanding building in the country on any college campus that's entirely powered by solar. And to get the solar panels, he had to go to Germany and Japan to buy them, because we haven't created the market in this country, and it's also—apparently has to do, a good bit, with investment tax credit and predictability of investment.

Let me, real quickly, Dr. Hacker, switch to you—and thank you, for—I've actually read "The Great Risk Shift," and thank you for illuminating so much of what's happening to the middle class in this country.

Where—if the insecurity persists or grows, if the inequality persists or grows, as it has, where are we in 10 years in this country? And—this is a harder question, perhaps—give us two or three things, in terms of trade policy or the role of unions or whatever we need to meet this growing inequality and to blunt this growing anxiety that people have.

Mr. HACKER. Well, thank you very much.

And I think that if we continue down this path, we will be in a very bad place. I think that's clear. I think we'll be in a bad place, both for those who believe strongly in the need to address economic inequality and insecurity and for those who are not as concerned about those problems today, because workers who are anxious and insecure are going to search for solutions, and if there are not constructive solutions on the table, they will seize destructive solutions. What comparative statistics we have suggest that the worst alternative is clamping down strictly on the flexibility of the labor market, putting in place very strict regulations on hiring and firing, which is what some European nations have done in response to these trends. There's also, obviously, tendencies towards fear of immigration and foreigners that can emerge in periods of economic stress. So, I think we really should see this as a broader problem that could put many Americans in the position of wanting to search for scapegoats or to demand reforms to our economy and society that many of us would not support.

If we can provide both the protections that workers need and the skills and education that they need to provide them with the ability to compete in this global economy, then I think that we will both have a more optimistic and opportunity-seeking society and one in which there's more harmony and higher social welfare overall.

I think the greatest failure—and this goes back to Senator Dodd's question—is our failure to act on healthcare, because I think it links a lot of these problems. I mean, I have the same concerns you have about the way in which our trade deficit has grown and manufacturing has declined, and yet, I see healthcare as tied up with many of these trends. And one—and it is an area in which our failure to act, if you will, the lack of a policy, has really exacerbated all of these other problems.

You know, over the last few years, we've seen an explosion of healthcare costs, a major decline in coverage, near—moderate income workers, according to a recent Commonwealth Fund survey, have gone from having about 25 percent uninsured to having almost 40 percent uninsured in 4 or 5 years. That's just remarkable. And that—and so, we're seeing an erosion, and maybe even an implosion, of the employment-based health-insurance structure we've come to know. It's imposing the greatest cost on those companies, like manufacturing, that have committed themselves the most to the welfare of their active and retired workers.

We need to deal with these costs. We need to move some of these burdens off the companies. We need to share them, as a society. And we need to attack the underlying causes of rising costs so that corporations aren't burdened, and individuals aren't burdened, by these costs, going forward. To me, that is the most imperative step that we need to take today.

The CHAIRMAN. Let me thank our panel.

I'd just like to come back to the Reverend Forbes. We've talked a good deal this morning about different plans. We've talked about health insurance, childcare, of investments, and different human endeavor. Give us just a couple of minutes about what you think has to be done, in terms of the society, to get them to be more willing to accept these kinds of alterations and changes. I know you mentioned that Bill Moyer's article in The Nation, which I've read, which is very powerful. But I'd be kind of interested, I mean, how—we've talked about plans and programs and policies, but if you had to say, to get this sense about the country, you know, being one country and one nation, one destiny, one future, maybe you'd talk a little bit about your own experience, in traveling around the country and facing these kinds of issues—you've heard everything here a thousand times this morning. What good advice can you give to it? That would really be my last question.

Mr. FORBES. Well, thank you, Mr. Chairman and Senator Enzi and members of the committee. Please, this story.

After 9/11, there was a time when they were seeking to find bodies. After that, they simply started to remove the rubble. A little after they had decided there could be no life there at all, a white pigeon flew up out of the rubble. And, given my background, that had two meanings. We'd been praying, God Bless America. It felt to me that that pigeon—and in the Bible, the dove is the symbol of peace and also of the spirit—and I think that, since it was a real crisis, if you didn't have a dove, a pigeon would have to do. So the issue is, we are a capitalist society, and we speak about the invisible hand of the market. But religious leaders believe, in general, that there needs to be another invisible hand, not only—but, of course, productivity—but the "what for." If we are thoroughly materialistic without being open to issues of spirit, we will gain, perhaps, but we will lose the end of the process. By "spirit," I mean issues of, What is the purpose of our lives? What is the source from which we derive our values? Where do we turn to when we are desperate and vulnerable? What is our responsibility to each other?

And what kind of world do we want to pass on to our children and the children in the other parts of the world? Unless America, as we pray for the recovery of our security, the ending of our wars, the redevelopment of meaningful work, manufacturing, we will have to also ask that, if our spirit is one part of our being human, How do we nourish that spirit? And it seems to me that the religious traditions, on the right and the left—the various traditions, not just my own—all of us will have to give the answer. What does the religious tradition have to offer people that, beyond their earning money, helps them to understand "what for," not only for themselves, but also for their enemies and their families and their friends.

So, my belief is that the future well-being of our Nation cannot be envisioned apart from spiritual revitalization. And I don't simply mean hands raised up and shouting and being all religious in the traditional sense, I mean spirituality of budgets, spirituality of our care for the vulnerable, the spirituality of visioning, not only for our Nation, but for other nations of the world, broad spirituality. I, therefore, am saying, we, who are in the religious community, are your partners. You can't do it all, but it's our responsibility. Keep on asking. Whatever policies are made, measure them by the plumb line of humanity, love, care, and a future that can be shared by all of us. That's my sense of where we need to join hands and be in partnership for a brighter and a new America.

The CHAIRMAN. Amen.

Senator DODD. Amen. I was going to say.

[Laughter.]

The CHAIRMAN. Senator Enzi, is there anything further you'd like to——

Senator ENZI. I've got just a couple of questions——

The CHAIRMAN. Sure.

Senator ENZI [continuing]. Dr. Forbes, does your church have a private school?

Mr. FORBES. My church has a weekday school—that's for the pre-K school—but not an elementary school.

Senator ENZI. Because that seems like one of the—you mentioned that great list of things that your church is doing, as you started your original testimony, and I congratulate you on that, and I'm always encouraging churches to be more proactive in those areas. Senator Roberts mentioned childcare, and it seems like churches would be an obvious place to do some childcare. The primary use of the building is often on Sundays, and the primary need for the care is often during the weekdays, so I suspected that you might do something like that, as well, and I congratulate you for it.

One of the questions that I'll be submitting for you is things that churches could do to play a bigger role in solving people's problems, and perhaps we can help expand that out to the faith community to have them play that kind of a role, because it isn't all government. You can't do it without government, occasionally—but you can't do it without community and you can't do it without faith.

Mr. FORBES. Yes.

Senator ENZI. And if we can bring them all together, I think we can probably make some great changes.

There have been a lot of comments, too, about the need to increase manufacturing in the country. And I'm a strong advocate of that. Particularly small-business manufacturing, as you might guess. I see a trend in the country where there is more emphasis and more kids that are looking at small business, being willing to take the risk, because they can see some of the benefits from taking the risk, but there's also the potential for employing some other people there. And I've started doing an inventor's conference in Wyoming each year to encourage young people to invent something that they can make in Wyoming and ship all around the world. And I'm really pleased with the progress that we're making there, and it has some international implications. There's a fellow that makes tachometers. He makes—they're highly technical—makes them for NASCAR cars. And originally he had the parts made in Taiwan, and assembled in Taiwan, and it occurred to him that maybe Wyoming folks could put those tachometers together with less errors, and have a better product, and provide some jobs. And he tried that, and it worked. They're making more money, he's making more money. Now he's considering making the parts in Wyoming, for the same reason. And I'm hoping he's very successful in that and we will have stolen the business from Taiwan.

But I want to thank Mrs. Cablik, particularly, for the role model that she provides both as a businessperson and as a businesswoman. And I think examples like you provide will encourage more kids to learn a business, try a business, own a business. And there is a lot of risk involved in that. So, I'll be providing you with some questions on keys that you might have for the ability to start and grow a business, and—as well as the obstacles—and how we might participate in those.

I just want to thank the panel for a tremendous amount of information. And, as I said, we'll be providing you with some additional questions to get some very specific information.

Thank you very much.

The CHAIRMAN. We'll be submitting some other questions, so we'll keep the record open for a week.

We thank you all very, very much. It was an enormously interesting, valuable, helpful hearing. Thank you.

The committee stands in recess.

[Additional material follows.]

ADDITIONAL MATERIAL

PREPARED STATEMENT OF SENATOR BROWN

Thank you, Mr. Chairman. And I'd like to thank our witnesses for joining us this morning.

A living wage; benefits that are both earned and awarded, not earned and reduced or earned and eliminated; affordable housing; decent health coverage; a solid public education and college that's accessible and affordable—those are the basic supports that enable working families to build personal economic security and contribute to a strong national economy.

Economic security begins with economic opportunity: good paying jobs, the kind of training that enables workers to diversify their skills and take on new challenges; and again, high quality primary, secondary and higher education.

Our Nation is the wealthiest in the world, and working families should be thriving. By and large, they are not. Working families are struggling to find and maintain good paying jobs, they are earning health and pension benefits that may or may not last until retirement; they are watching their health premiums and copayments increase . . . if they even have access to health coverage; they are borrowing in record amounts just to cover day-to-day costs . . . they are struggling.

The Center for American Progress looked at some key statistics over the past 5 years and found that:

- average job growth is one-fifth the rate of previous business cycles;
- wages have been flat; and
- only 28.8 percent of middle class families have the financial resources to sustain themselves through a period of unemployment.
- The average family took on debt equal to 126.4% of disposable income just to manage their day-to-day expenses.

Our Nation cannot afford to take these statistics in stride, hoping that the precarious financial position of working families is a temporary phenomenon linked to the ebbs and flows of our economy. It is not.

Our economy as a whole is losing ground as our trade deficit skyrockets, energy and health care costs spiral upward, good-paying jobs are shipped overseas and our Federal deficit climbs higher and higher.

When Democrats say we need a new direction, it's not just rhetoric; it's a fact.

Today's hearing is an opportunity to look at the problems and review potential solutions. It is the beginning of a process that I hope and trust will lead to concrete policy changes aimed at getting our economy back on track and enabling working men and women to build a secure retirement for themselves and a solid future for their children.

PREPARED STATEMENT OF SENATOR DODD

Thank you, Mr. Chairman, for holding this hearing, and welcome to our witnesses. I'm especially happy to welcome a fellow resident of Connecticut, Professor Jacob Hacker of Yale University, before the committee.

Today's hearing cuts to the heart of one of the most basic desires shared by all Americans and people around the world: the hope of building better lives for ourselves and our children. In seeking to achieve this goal, American families are walking an increasingly precarious economic tightrope. They are taking on greater amounts of risk—mostly in the form of added debt and increased exposure to health care and retirement costs—while their incomes are becoming increasingly less stable.

In the last few years, especially, many families have been forced to stretch themselves too thin economically. The average family today makes almost $1,300 less, in real terms, than it did in 2000, yet that family is paying more for major expenses like health care, gas, and college tuition. Those at the bottom of the income scale and with the least amount of skills have fared the worst, but even households in the top 20 percent of the income distribution have experienced a drop in real income, on average, as have individuals with a college or graduate degree.

Many households have little in the way of savings to fall back on if something goes wrong, like a family illness or loss of a job. Thirty percent of Americans currently have a net worth of less than $10,000. Eighteen percent of Americans have zero or negative net worth. The personal savings rate has been negative for six consecutive quarters, while consumer debt burdens have risen to record highs—American households, on average, now spend nearly 20 percent of their income paying off debt. With so little margin for error or misfortune, even the slightest disruption can have serious consequences. As I expect our witnesses will discuss, this trend has troubling implications not only for the economic security of individuals and families, but also for the entrepreneurship, risk-taking behavior, and human capital investments that drive our economy's growth.

In spite of these trends, I believe our country still offers great economic promise to people of all backgrounds. I look forward to hearing our panelists' thoughts as to how we might deal with this "great risk shift," as Professor Hacker calls it, and strengthen economic opportunity and security for hardworking people across our great country.

Response to Questions of Senator Enzi by Eileen Appelbaum, Ph.D, Jacob Hacker, and Rev. Dr. James A. Forbes, Jr.

RESPONSE BY EILEEN APPELBAUM, PH.D.

Question. In your written testimony you note that "workers need greater control over work hours and work schedules." Could you support Fair Labor Standards Act changes that would allow private sector hourly employees who wish to spend more time with their families the option of voluntarily having their work hours calculated on a bi-weekly, rather than weekly basis? This way, a working mother could work 50 hours in 1 week and 30 hours in the next week, while her husband worked an opposite schedule and their children enjoyed an extra 10 hours a week with a parent.

In my scenario the employer would not be required to pay overtime pay for the extra 10 work hours—and, thus, employing the working parents would not be a disadvantage for the employer or for the other, non-parent employees who are earning out of the same pool of profits.

What is the difference between Federal employment and private sector employment that would justify allowing this arrangement in the former, but not in the latter?

Answer. As I understand the question, Senator Enzi is posing a hypothetical situation in which a husband and wife both work full time and both have sufficient control over their schedules that they each are able to obtain schedules that permit the husband to work 30 hours in the week his wife works 50 hours and to arrange those hours so that he can be home with the children during the 10 hours that she is working above the standard 40 hour work week. Similarly, the wife works 30 hours the week the husband is working 50 hours and is able to arrange those hours so she can be home with the children during the 10 hours that he is working above the standard 40 hour work week. The weekly work schedules are at the discretion of the employees. Moreover, the employees are able to coordinate their weekly schedules.

It is, of course, highly unlikely that many employees will have this type of discretion over their weekly work hours. A national survey conducted by the highly regarded Families and Work Institute found that only 35–36 percent have "a lot" or "complete" control over their work hours—and this is for both low wage workers and those in higher paid managerial and professional positions (Bond and Galinsky, "What Workplace Flexibility is Available to Entry-Level, Hourly Employees," 2006—compared low wage to mid and high wage employees).

It is also highly unlikely that employers will be able to accommodate individual requests by hourly workers for work hours that coordinate with those of a spouse for more than a few employees. Scheduling could become difficult in large workplaces while covering the work could be difficult in small and/or specialized establishments or units.

The opposite schedules are very important for the parents since child care is usually not available or is prohibitively expensive to cover a 50 hour work week plus travel time to and from work. A single parent on this schedule would be particularly disadvantaged. She would have to pay for full-time day care every week, since the day care provider does not operate on a short schedule on alternate weeks. And she would have to pay for extra coverage, if she could find it, in the weeks when she worked long hours. And she would have to do this without receiving overtime pay for those extra hours to help with the extra expenses.

It is very likely that worker and family well-being will suffer if workers are regularly scheduled/required to put in a 50 hour work week. If they lose overtime pay, this will reduce household income. More important, perhaps, these workers will sacrifice leisure time and will be less able to balance competing demands on their time in those weeks when they work 50 hours. Another study by the Families and Work Institute found that the overwhelming majority of workers prefer to work less than 50 hours a week (Galinsky, Kim and Bond, "Feeling Overworked," 2001).

Labor productivity may also suffer during the 26 weeks of the year that these workers are working long hours. Fatigue is one reason that productivity falls off when workers work long hours. Another is that workers may view the loss of overtime pay as a pay cut and reduce work effort.

These problems emerge even in a "best case" scenario such as the one suggested by Senator Enzi in which employees voluntarily agree to having their work hours calculated on a bi-weekly basis and both the husband and wife can determine which hours they work in the long week and which they work in the short week. If control over work schedules is in the hands of employers, then workers on a bi-weekly 80 hour schedule face further difficulties. Their work hours may be incompatible with those of their spouse and their work hours may be unpredictable and/or highly variable from week to week. Employers can require work weeks of more than 50 hours a week. Workers face the threat of being fired for insubordination if they refuse the long hours schedule in a particular week, even if it is because they have child care or family care responsibilities. Only two States currently have laws that allow workers to refuse mandatory overtime because of child or family care responsibilities. Long, unpredictable, or variable work hours further complicates the task for workers of meeting their responsibilities to their families and to their employers.

Public sector workers do not have bi-weekly 80 hour schedules. Public sector employers can legally grant comp time instead of cash overtime payments if employees agree to this arrangement. In principle, employees are supposed to have discretion over when they take this comp time and to be able to "spend" the banked comp time when and as they choose, as they would earned wages. There is not much data on how well this works for public sector workers and whether, in fact, they get to use the comp time or whether it accumulates unused in their comp time banks waiting for work demands to slow enough for employees to take it.

However, there are many differences between the public and the private sectors that make the banked comp time approach especially problematic in the private sector. The most obvious is that private sector firms can go out of business, can move to another location, or can close an establishment and move the work offshore—in all of these cases, employees lose the accumulated time in their comp time banks and are never compensated for the extra hours they worked. Private sector workers are also far less likely than public sector workers to belong to a union or to have the protections afforded by a union contract. It is, in this case, unclear how voluntary the agreement to comp time in lieu of overtime pay is. It is also unclear how much choice private sector hourly workers would have about when to use comp time. Private sector employers might shut operations during slow times and subtract the time from workers' comp time accounts. In an "employment at will" system such as we have in the U.S., many workers will be afraid to complain about such treatment and will simply go along to keep their jobs.

I would like to thank Senator Enzi for his question and for the opportunity to address this important issue.

RESPONSE BY JACOB HACKER

Question 1. Professor Hacker, I note that to a large degree you used the word "insecurity" in a psychological sense, pointing out that individuals are increasingly worried about their economic future, or *feel* negatively about the economy even if the statistical evidence may suggest a more positive picture. Isn't this kind of "insecurity," at least in part, a direct function of increased personal responsibility? Once any of us assumes responsibility or control for something don't we worry more about it?

Answer 1. I use "insecurity" to mean lack of adequate protection against hardship-causing economic loss. This definition does have a psychological component, as one person may view their own protection as "adequate" while another similarly situated person may not. But in my testimony, I meant to focus only on the *objective* or *measured* insecurity of Americans—that is, the extent to which they actually lack protection. And, as I showed, using this objective measure, Americans appear to be substantially less protected today than they were quarter century ago. Health insurance is less common; health costs are astronomically higher; guaranteed pensions are fast becoming a thing of the past; bankruptcy and home mortgage foreclosure are more frequent; families are more deeply indebted; and family incomes are less stable.

As I noted in my testimony, however, Americans also appear to feel less economically secure. We know surprisingly little about what influences public perceptions of economic security—a topic of my ongoing research. And there may well be truth to your claim that increased responsibility for financial planning is part of the reason. For example, 401(k)s require that people make sometimes vexing choices about how to allocate their money across investments and manage their savings in retirement. Nonetheless, the evidence suggests that those who feel least secure are least likely to have access to 401(k)s, least likely to own substantial assets, least likely to have health insurance, and least well equipped to meet their present financial obligations. Thus, my own strong impression is that the main reason why more Americans feel insecure is that they are having a harder time making ends meet and feel that government and corporations aren't looking out for them.

Question 2. Professor Hacker, is there such a thing as "healthy insecurity?" By that I mean isn't a certain sense of concern about a necessarily unpredictable economic future a good thing since it causes us to act in a rational and prudent way and prepare for the negative economic contingencies that life sometimes brings? Doesn't such concern or "insecurity" motivate individuals to act responsibly and make beneficial decisions like acquiring marketable job skills, increasing personal savings, curbing debt, and preparing for retirement?

Answer 2. To a certain degree, anxiety about the future is healthy. It can indeed prompt people to make prudent long-term decisions. Problems occur, however, when (a) anxiety itself is unhealthy (and there is a good deal of evidence that the stress associated with, say, involuntary unemployment can be quite debilitating) or (b) anxiety encourages people to shy away from taking risks they might otherwise take. After all, we give corporations and entrepreneurs protection against full liability and financial bankruptcy precisely because we want them to take risks they otherwise would avoid. By the same token, we should give workers and their families protection against the most severe economic risks they face. For example, we should provide people with protection against the dislocations associated with losing a high-skill job so that people feel confident investing in specialized skills in the first place. Unfortunately, I believe that the pendulum has swung too far in favor of making people bear risks on their own. As I often put it, we still have limited liability for corporations, but increasingly we have full liability for American families.

Question 3. Professor Hacker, have your studies examined, at all, the role that personal behavior plays in creating either the sense, or reality of economic insecurity? For example, what role does excessive consumer purchasing, and consumer debt play; or what about inadequate personal or retirement savings; or other spending, saving and lifestyle choices?

Answer 3. As I indicated in my earlier answer, we know relatively little about what shapes personal perceptions of economic security. Certainly, people without "personal or retirement savings" do feel less secure. The question is why the rate of debt has risen so sharply over the last two or three decades. Why, that is, are so many people have such trouble saving for retirement and other long-term ends? The evidence that we have indicates there has *not* been a fundamental shift in consumers' views of financial responsibility. For example, the Survey of Consumer Finances suggests that people are no less patient or consumer-oriented in their financial decisions today than they were two or three decades ago. (See, e.g., http://www.federalreserve.gov/Pubs/feds/2007/200737/200737pap.pdf.)

My own conclusion is that people feel more constrained financially for three main reasons: (1) growing inequality, which means that middle-income Americans have not shared fully in the gains of economic growth and have thus fallen farther and farther behind those at the very top; (2) rising "fixed" costs, primarily the cost of housing, health care, and education—which leave people with less and less discretionary income after the mortgage or rent, health premium, and tuition bill have been paid—and (3) declining employer guarantees in health care and retirement, requiring that people save on their own (perhaps in a 401(k)) and pay more of their health costs directly. When you add up these three factors, it strikes me as understandable why so many middle-income Americans feel they are financially hanging by a thread.

JAMES A. FORBES, JR.

Question 1. The minimum wage increase which is currently pending before the Senate will raise it to $7.25 an hour. This is only 10 cents higher than the current minimum wage in your home State of New York. It is hard to imagine this victory having a very significant benefit for your congregation. Do you believe that there are other ways to improve the income of those working at the lowest earning levels of our economy, such as education and job training?

Question 2. I know that your church provides many services for parishioners and community members. I believe that churches and faith-base organizations are in a unique position within communities to provide many different types of services and programs. I am very interested about any childcare and early education services and programs your church may offer or facilitate. Can you please describe them?

Question 3. Do you believe that having churches and other faith-based community organizations provide social and educational services is important for those organizations and the people they service? What can government do to assist in this important work, and what should government avoid doing that might impede the delivery of these community services?

[Editor's Note: Responses to the above questions were not available at time of print.]

[Whereupon, at 12:08 p.m., the hearing was adjourned.]

○