United States Senate

Republican Policy Committee

Jon Kyl, Chairman

347 Russell Senate Office Building
Washington, DC 20510
202-224-2946
http://rpc.senate.gov

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Democrats Still Resort to Mythology in Attacking the Economy:

Middle-Class Misery Mythology, Continued

Introduction

Although the "Middle Class Misery Index"[1] released by the Presidential Campaign of Senator John Kerry has been widely panned in the media because of its highly selective use of economic indicators, Senate Democrats have continued to invoke its themes – if not its name – to challenge the economic record of the past four years. By Senator Jon Corzine's account on the Senate floor just last week, "We on this side of the aisle – as well as Senator John Kerry – are talking about a middle-class squeeze because it is real in people's lives."[2]

Whether called the "Middle Class Misery Index" or "Middle Class squeeze," the Democrats' efforts to find fault with this economy have become formulaic and fraudulent. In creating their formula, Democrats ignore the overall consumer price level in favor of items whose prices have increased faster than the overall inflation rate – college tuition, gasoline, and healthcare premiums. Then they add to it a belittling of the current employment situation, arguing that wage and job growth is not sufficient to absorb the aforementioned price increases. This formula is misleading, as are the statistics used to buttress it, because data are either taken out of context or are simply inaccurate.

Increase in the Cost of College Tuition

"College tuition, under the Bush administration, is up a whopping 35 percent."
— Senator Tom Harkin, *Congressional Record*, June 16, 2004.

Senator Harkin's estimate includes only public universities' tuition and fees and fails to account for inflation. After adjusting for inflation, the average tuition and fees charged at public

[1] In April, former Clinton Administration economic advisers Gene Sperling and Jason Furman – now advisers to the presidential campaign of Democrat John Kerry – introduced the "Middle Class Misery Index" a compilation of seven equally weighted statistical indicators: median family income; college tuition; healthcare premiums; gasoline prices; homeownership; private-sector job growth; and personal bankruptcies. See "Middle Class Misery Mythology," Senate Republican Policy Committee, May 4, 2004, available at http://rpc.senate.gov/_files/0504MiseryIndexJT.pdf.
[2] Senator Jon Corzine, *Congressional Record*, June 16, 2004.

universities increased by 28 percent between the 2000-2001 and the 2003-2004 school years, but when also considering private colleges and universities, which one-third of U.S. college undergraduates attend, the enrollment-weighted real increase in average tuition and fee expenses has been only 20 percent. [3]

While this increase in college tuition and fees may seem troubling, a far better measure of affordability for middle-class families would be net, rather than gross or published, tuition costs. Thanks to federal, state, and institutional grant aid – money that requires no repayment – **net tuition and fees** for the average student at four-year public universities *declined* in real terms between 2000 and 2002 before edging up slightly to $1,682 in 2003.[4]

Although the average college tuition price has increased by 45 percent in real terms over the past 10 years, this increase was more than offset by the increase in total student aid (grants plus loans, federal work-study programs, and tax credits), which *increased by 137 percent* in real terms over the same period.[5] Moreover, since President Bush took office, the real increase in federal aid to support post-secondary education expenses (23 percent) has exceeded the real increase in average tuition and fee expenses at four-year colleges and universities (20 percent).[6]

By "cherry-picking" their statistics and attempting to quantify the effect of college tuition increases on middle-class families without also considering offsetting increases in student aid, Democrats paint an inaccurate and misleading picture.

Increase in the Price of Gasoline

While there may be some good economic statistics out there, middle-class Americans are being hit unbelievably hard on the fundamentals that drive their basic budgets. Nothing – nothing – more clearly demonstrates this than these rising gasoline prices we have been experiencing this year. There has been a 23-cent increase in the price of gasoline.
— Senator Jon Corzine, *Congressional Record*, May 5, 2004.

The price of a gallon of unleaded, regular gasoline has increased by about 25 percent in real terms since January of 2001 and now stands at $1.98.[7] After adjusting for inflation, the price

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

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

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

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

[7] Energy Information Administration (EIA), *U.S. Weekly Retail Gasoline Report*, June 16, 2004.

of a gallon of gasoline was $1.66 in 1955, $1.28 in 1972, $1.98 in 1976, and $2.36 in 1981, making today's prices well within historical norms.[8]

However, since gasoline is a fuel, its effect on the "basic budgets" of American families as consumers should be viewed in context of its use (transportation), rather than its stand-alone price. Thanks to greater fuel efficiency**, the cost to power a car one mile** has dropped by 47 percent since 1981, even though the price of gasoline has only fallen 16 percent (in real terms) since then.[9] By this standard, a middle-class family pays even less per mile to power the average automobile in June 2004 ($0.08) than it did in 1972 ($0.09), the "golden age" of pre-embargo, cheap gasoline.[10]

Increase in Healthcare Premiums

Health insurance premiums are up 50 percent.
— Senator Tom Harkin, *Congressional Record*, June 16, 2004.

Although private healthcare spending has increased by 17 percent since 2000, it now makes up a smaller percentage of aggregate healthcare spending than it did four years ago because public healthcare spending has grown even faster during that period.[11]

Since 1993, total U.S. healthcare spending has increased in both inflation-adjusted terms (by 40.5 percent) and as a percentage of GDP (by 11.2 percent).[12] Healthcare spending will increase as the population continues to age, but it is impossible to understand the increase in healthcare spending without putting it in the context of the corresponding **improvements in health quality of care and quality of life.**

For example, thanks to increased screening and the broader dissemination of medical technology and treatments, the mortality rate for breast cancer has fallen by 2.3 percent per year over the past decade, with similar declines for colorectal (1.7 percent per year), lung (0.7 percent per year), and prostate cancer (4 percent per year in the second half of the decade).[13] Overall, the increase in spending has led to improvements in 20 of the 57 measures of healthcare quality that have trend data.[14] Moreover, a new book published by the American Enterprise Institute argues that increased healthcare expenditures – especially for pharmaceuticals, which is the fastest

[8] Jerry Taylor and Peter Van Doren, "Gas Panic," *The Wall Street Journal,* April 6, 2004. The 1976 figure was calculated from CPI and gasoline price data from the BLS.
[9] James S. Tisch, op-ed, "No Need to Sing Those Gas-Guzzlin' Blues," *The Wall Street Journal*, April 8, 2004.
[10] EIA, *25th Anniversary of the 1973 Oil Embargo: Energy Trends Since the First Major U.S. Energy Crisis*, September 3, 1998 (1972 miles-per-gallon estimate of 14.5). National Highway Traffic Safety Administration, *Automotive Fuel Economy Program: 2002 Annual Update*. DT-HS-809-512, September 2003 (2002 miles-per-gallon estimate of 24.6, including Sport-Utility Vehicles).
[11] Center for Medicare and Medicaid Services, "National Health Expenditures," January 2004.
[12] Center for Medicare and Medicaid Services.
[13] Agency for Healthcare Quality and Research, "National Healthcare Quality Report," December 2003. AHRQ Publication No. 04-RG003.
[14] Agency for Healthcare Quality and Research.

growing segment of the U.S. healthcare system – increases quality of life and disease-specific life expectancy.[15]

By highlighting the cost of healthcare spending while completely ignoring the corresponding benefits, Democrats seem to suggest that we should abandon investments in healthcare and instead turn to rationing and privation. As *The New Republic* senior editor Gregg Easterbrook explains:

> Healthcare costs are rising, but so are benefits. Rates of almost all major diseases are in decline while people are living ever-longer; this means society keeps getting more for its healthcare investment. Also, with an aging population, healthcare spending would be expected to increase. It would be easy to reduce healthcare costs – just stop paying for heart surgery over the age of 70, stop paying for most dialysis, stop paying for nonessential procedures that only relieve pain, stop trying to save very premature infants, and so on. (I cite these because they are the real-world ways that some European health care systems restrain costs.)[16]

<u>'Stagnant' Family Income</u>

Family income has fallen 2 percent.
— Senator Tom Harkin, *Congressional Record*, June 16, 2004.

…People with capital gains and dividends are paying 15 percent. But if you are working and you are up in the $40,000, $50,000, $60,000 area, you are paying 28 percent; your marginal rate is significantly higher. Why are we advantaging capital over wages? It makes no sense and we end up with a distribution like this.
— Senator Jon Corzine, *Congressional Record*, June 3, 2004

Senator Harkin cites a fair, but dated, statistic: according to the most recent data, between 2000 and 2002, the after-tax median family real income declined by 2.1 percent.[17] Yet, since the Census Bureau does not release its next income report until September 2004, hard data on *current* family incomes is largely speculative at this point. Clearly, this statistic does not allow for the changes that were realized following the income tax relief measure enacted in 2003 (Public Law 108-27, the Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted May 28, 2003). As a result of this tax relief law, the dramatic upturn in Gross Domestic Product (GDP) witnessed in 2003 and 2004, and the rapid job growth in high-paying industries,[18] it is likely that family incomes are much higher now than they were in 2002.

Perhaps more importantly, and in contrast to Senator Corzine's suggestion, if capital gains and losses are excluded from the 2002 data, the *median after-tax real income actually*

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[15] Richard D. Miller and H. E. Frech, *Health Care Matters: Pharmaceuticals, Obesity, and the Quality of Life*, AEI Press, March 2004.
[16] Gregg Easterbrook, *Easterblog*, available at: http://www.tnr.com/easterbrook.mhtml?pid=1554.
[17] U.S. Census Bureau, *Income in the United States: 2002*, September 2003.
[18] Of the new jobs created in May, 77 percent were in industries that paid more than the national average. Bureau of Labor Statistics, Current Population Survey.

increased by 3.6 percent between 2000 and 2002.[19] Although a majority of Americans own stocks or stock mutual funds, most stockowners (particularly those in the middle class) are long-term investors whose income is unlikely to be affected by swings in realized capital gains.[20] Consequently, it is a valid argument that excluding capital gains and losses from income figures more accurately captures the disposable income of a middle-class family. Unrealized capital gains contribute to household wealth, which hit an all-time high of over $44 trillion at the end of 2003.[21]

There is a case for middle-class Americans to say things are not so great. Average weekly earnings are up 1 percent … Remember, 4 years ago, we had come through a period of creating 22.5 million jobs … when we saw real income growing every single year.
— Senator Jon Corzine, *Congressional Record*, June 3, 2004

While it is true that average real weekly earnings increased by 1.1 percent between January 2001 and May 2004,[22] coupling this statistic with a laudatory review of the Clinton economic record ignores the fact that between January 1993 and May 1996, real weekly earnings rose by a meager 0.06 percent.[23] That means that through the first 40 months, real weekly earnings grew 18 times faster during the period that Senator Corzine derides than in the period he glorifies.

'Private Sector' Employment

Now, again, there have been a few jobs in the last couple months. Of course, when the glass is dry, a drop of water seems like an ocean. That is what we have had. We have had a couple drops of water.
— Senator Tom Harkin, *Congressional Record*, June 16, 2004

While the Democrats no longer can ignore the way the growing economy is rapidly adding jobs, their arguments seem to suggest that today's job growth is unimpressive, or irrelevant because it did not occur earlier during the President's term. In truth, the average number of jobs added per month in 2004 has been higher than the monthly averages of 8 of the last 12 years,[24] while over 940,000 jobs have been created over the past three months alone.

Surely, employment failed to rebound as quickly as desired following the recession that began in the fourth quarter of 2000,[25] but in the context of the economic shocks experienced over the past four years, it is remarkable that the economy and jobs market was able to rebound at all. The policies of the past four years – specifically successive rounds of tax relief – have allowed the economy to not only rebound from these shocks, but also to continue expanding.

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[19] Income in the United States: 2002. Table RDI-1. Household Income Before and After Taxes: 1990-2002.
[20] ABC News/*Washington Post* poll conducted by telephone July 11-15, 2002, among a random national sample of 1,512 adults. Available at: http://abcnews.go.com/sections/business/DailyNews/market_poll020716.html.
[21] Federal Reserve, Flow of Funds Report, March 5, 2004.
[22] Bureau of Labor Statistics (BLS), Current Employment Statistics.
[23] BLS.
[24] BLS.
[25] According to the National Bureau of Economic Research, the recession began in March of 2001, but some economists believe it actually started in at the end of the Clinton administration. See: Wayne Angell, "The Rubin Recession," *The Wall Street Journal*, March 25, 2004.

In the last year of the Clinton Administration, financial markets began to recognize that stock prices were vastly overvalued, particularly in the technology sector. Between August of 2000 and August 2001, the broad-based S&P 500 declined by more than 28 percent, while the NASDAQ fell 55 percent over that same period.[26] Based on the Federal Reserve Board of Governors' model, this stock market decline caused GDP to drop by approximately 1.75 percent, or slightly less than $180 billion.[27]

The nation was then confronted with the terrorist attacks of September 11, 2001, which cost an estimated $83 billion in destruction of property and interruption to business activity. Much more significant, however, was the economy-wide impact from the attacks arising from depressed economic activity, which was estimated at $191 billion for 2001 alone.[28]

The following year the bankruptcies of Enron, WorldCom, Adelphia, and other large corporations created a crisis of confidence in the integrity of U.S. financial disclosure that cost the economy between $21 billion and $50 billion in 2002 alone.[29] The cumulative effect of these shocks depressed GDP by over 4 percent ($420 billion), a figure that would have been difficult, if not impossible, to overcome without the economic stewardship of the past four years.

Conclusion

First they called it "middle class misery," now it's the "squeeze"; by either name, it's an overblown story. The economy is growing at the fastest pace in 20 years, jobs are being added rapidly, and household wealth is at an all-time high. That — more than some contrived mélange of arbitrary economic data points — is what is "real in people's lives."

[26] Yahoo! Finance, Historical Prices. Available at: http://finance.yahoo.com/.
[27] John V. Duca, "The Controversial Stock Wealth Effect," Federal Reserve Bank of Dallas, June 2001.
[28] Milken Institute estimate in General Accounting Office, Impact of Terrorist Attacks on World Trade Center," GAO-02-700R, May 29, 2002.
[29] Carol Graham, Robert E. Litan, and Sandip Sukhtankar, "Cooking the Books: The Cost to the Economy," Brookings Institution, Policy Brief No. 106, August 2002.