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Hearing Statement of Senator Max Baucus
Can the Middle-Class Make Ends Meet?

In the Analects, Confucius said: “When wealth is distributed, the people are united.”

And 2,500 years later, the success of a broad middle class has been one of the keys to America’s success.

Today’s hearing will try to answer the question: Can the middle-class make ends meet? And next month, we will hold hearings on continuing and expanding middle-class tax relief.

Lately, the incomes of middle-class households have not been doing that well. Between 2000 and 2005, median weekly earnings of full-time workers — adjusted for inflation — fell by nine-tenths of a percent. And in the same period, total income for the median household — adjusted for inflation — fell by nearly \$1,300.

But when you adjust for taxes, the data tell a different story. Many view the middle-class as the middle three-fifths, or quintiles, of the income distribution. Between 2000 and 2004, after-tax income for the three middle-income quintiles — adjusted for inflation — rose.

For the second quintile from the bottom, it rose by 2.8 percent. For the middle quintile, it rose by 5.4 percent. And for the fourth quintile, it rose by four percent. That provides a strong case for the proposition that middle-income tax relief is doing its job.

Even so, income inequality is rising. Between 2004 and 2005, the average income of the top one percent of households — adjusted for inflation — increased by more than \$100,000. On the other hand, the average income of the bottom 90 percent of households increased by only \$250.

So why aren’t middle-class incomes doing better?

One explanation is corporate profits. Corporate profits are at a record high as a share of the total economy. Corporations are distributing less of their revenue to workers as wages, and retaining more as profits. Corporate profits go primarily to the well-off, through capital gains and dividends.

In contrast, wages and salaries form most of income for the middle class. Wages and salaries are at a record low as a share of the total economy.

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Another concern is health-care costs. Out-of-pocket health-care costs for consumers who are not in group health insurance plans are much higher than for consumers who are in group insurance plans. The normal adjustments for inflation do not adequately reflect the expenditures of middle-class consumers who are not in group plans. They pay much higher out-of-pocket costs.

Another concern is college costs. The normal adjustments for inflation put too small a weight on the costs of going to college, for those families incurring those costs.

And college costs have been rising. Between the 2005-2006 school year and the 2006-2007 school year, the annual costs of tuition, fees, room, and board at a four-year private college grew by 5.7 percent — to more than \$30,000. The annual costs of a four-year public college grew by 5.6 percent — to nearly \$13,000. Both are growing much faster than the cost of living generally.

And another concern is gasoline prices. In January 2001, the average price of gasoline nationwide was \$1.47 per gallon. By March of this year, it had more than doubled to \$3.05 a gallon.

Although the standard inflation adjustments cover gasoline costs, they understate the squeeze on drivers who need to use a lot of gasoline. For example, driving distances can be very long in my home state of Montana.

So far, I have been talking about income and expenditures for middle-class families. Another way to look at the middle-class is to consider what happens when a calamitous event occurs to a middle-class family.

Such an event might be an illness striking a member of the family. Or it might be the loss of a job. And too often, the result is bankruptcy. That suggests that we should consider expanding refundable tax relief, like the Earned Income Tax Credit. So we will look at these issues today, as well.

So the story of middle-class families makes a good case for middle-class tax relief. It argues for expanding health-care affordability and coverage. It argues for making college more affordable. And it argues for targeted tax relief like the Earned Income Tax Credit.

So let us examine how to increase the distribution of wealth, particularly to middle-class families. Let us look for ways to improve the success of America's broad middle class. And let us thereby work to maintain that key to the success of America.

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