Testimony to the Subcommittee on Labor, Health & Human Services, Education, and Related Agencies

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Introduction

Chairman Obey, Ranking Member Walsh, and members of the subcommittee, I thank you for this opportunity to testify on the topic of income trends in the United States. I can think of few other topics as timely and important, especially given current economic conditions.

Chairman Obey, I noted that the first sentence of your biography on your website reads: "Every American who works hard should be able to fully share in the bounty of America and so should their families." Interestingly, this statement is much like that of our mission statement at the Economic Policy Institute.[1] To us, this is not merely simple common sense. It is a fundamental American value and a benchmark against which economic progress must be judged.

If the economy is expanding, if productivity is increasing smartly, if unemployment is low, then most families should be benefiting from the economy's overall growth. Yet, as the evidence I will show will confirm, over the last few decades, broadly shared prosperity has been the exception, not the rule. If we are to judge our progress against your benchmark, Mr. Chairman, we must admit that we have far to go.

The mechanisms which historically could be counted upon to ensure a fair distribution of the fruits of growth are broken, and those crafting economic policy must offer ideas to repair them. I do so in my conclusion, wherein I outline a set of policies intended to re-couple the American economy's growth and productivity with the living standards of the majority of families, not simply those of a narrow sliver at the top of the income scale.

But it is equally important not to exacerbate the problems we have with policies that further incapacitate working families' ability to get ahead. Too often in recent years, we

[1] EPI's mission statement is: "To inform people and empower them to seek solutions that will ensure broadly shared prosperity and opportunity."

have failed to strengthen workers' legal ability to organize, gutted investments in their skills and training, under-invested in our public infrastructure, or stood by as the employer-based systems of health coverage and pensions slowly unravel. Similarly, changes over the past few years to the Federal tax code have worsened the distributional outcomes, by disproportionately lowering the tax liabilities of the wealthiest families.

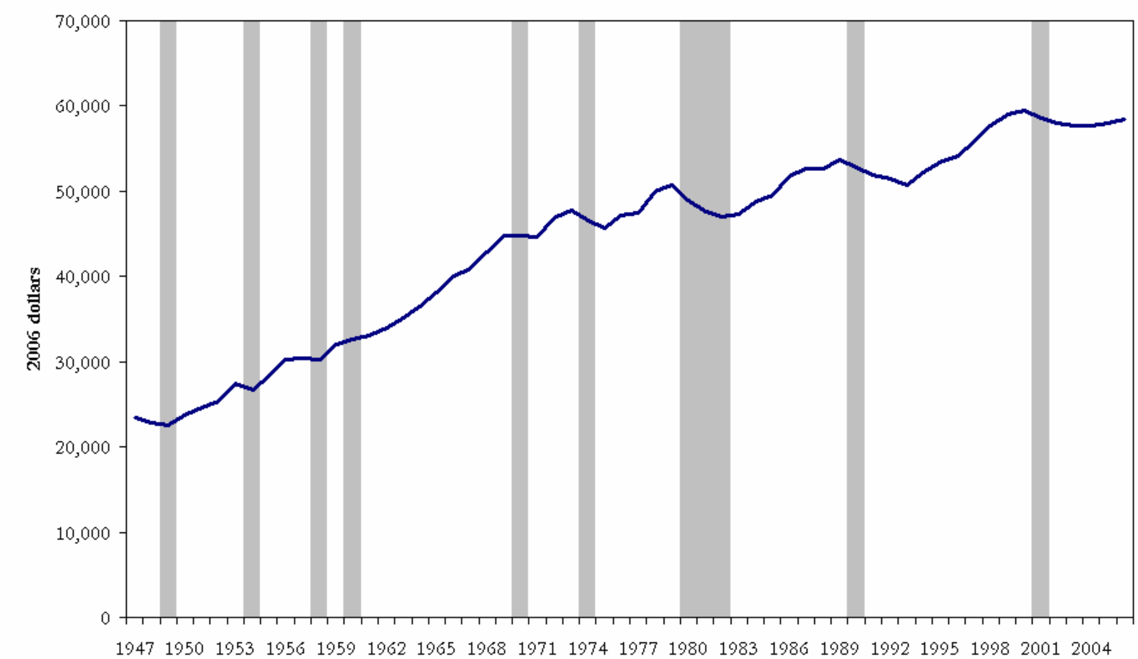
Such regressive tax policies hurt most families both directly and indirectly. Directly, they exacerbate the already excessive inequalities in market outcomes (i.e., the pretax distribution). Indirectly, they diminish revenues such that the Federal government is less able to perform needed functions, many of which, like safety net policies, disproportionately benefit the least well off. While the direct impact of the regressive tax cuts has been extensively measured and is well-appreciated, this indirect effect—the defunding of public services that boost the economic security of the least advantaged—is also important and problematic.

As I stress in my concluding remarks, polling data suggest that the American electorate is anxious for policy makers to address these concerns, and to do so ambitiously, with an agenda that meets the magnitude of the problems. I again applaud this committee for its foresight in "getting in front" of this wave.

The Long-Term Picture

The Census Bureau provides a long and consistent series on the inflation-adjusted income of the median family, shown in Figure 1 and Table 1. A few patterns are worth noting.

FIGURE 1: Real median family income, 1947-06



Source: Census Bureau, shaded areas are recessions.

First, the typical family's income grew at a faster and steadier rate up to the mid-1970s than has been the case since that time. This is partly a function of slower economic and productivity growth, post-1973, but it also reflects one of today's primary economic challenges: increased income inequality.

That point is made in Table 2, which compares the annualized growth rates of real median income to those of productivity. There are, of course, good reasons why we wouldn't expect these two series to track each other identically. Family income is influenced by family labor supply, family size and type, and non-labor income sources. But barring large changes in those factors, holding inequality constant, we might expect the trends to more or less mirror each other (one large change in family labor supply—the increased labor force participation of women—should have boosted the rate of family income growth).

In fact, productivity and real median family income did grow at precisely the same annual rate, 1947-73: 2.8%, i.e., they both doubled. Since then, income has grown one-third as fast. In other words, it is not simply a matter of slower productivity growth in the post-1973 period, though that was of course problematic. Median family income growth slowed far more, due in part to inequality playing a wedge-like role between overall economic growth and the living standards of middle-income families.

More recently, as shown in the last line of the table, productivity growth has accelerated, growing only slightly slower in the past 11 years as over the "golden era" of the 1940s-mid-70s.[2] But the growth of middle-class incomes accelerated only slightly. In fact, and this will be a point of emphasis later in this testimony, the 0.8% annual rate of income growth, 1995-2006, combines two very different periods. In the latter half of the 1990s, real median family income grew 2.2% per year. In the 2000s, it fell 0.3% per year.

TABLE 1: Annualized Growth Rates: Productivity and Real Median Family Income, 1947-2006

	Productivity	Real Median Income
1947-73	2.8%	2.8%
1973-2006	1.8%	0.6%
1995-2006	2.6%	0.8%

Source: Census Bureau and BLS nonfarm business sector productivity.

The second point made in Figure 1 is that real median income is a cyclical variable, stagnating or falling in recessions. But importantly, as shown in Figure 2, it has been taking longer in recent years for families to recover the real income lost in the downturn. Each bar in the figure represents the number of years it has taken the median family income to recover the economic ground lost in the recession. One reason this time period

[2] In the last few years, productivity growth has decelerated, and nonfarm business sector productivity rose at an annual rate of only 1.7% (2005q4-2007q4). Some economists believe this may simply by a temporary, cyclical slowdown, though it could also be structural.

has gotten longer is, as can be seen in Figure 1, incomes have kept falling after the recession and into the recovery.

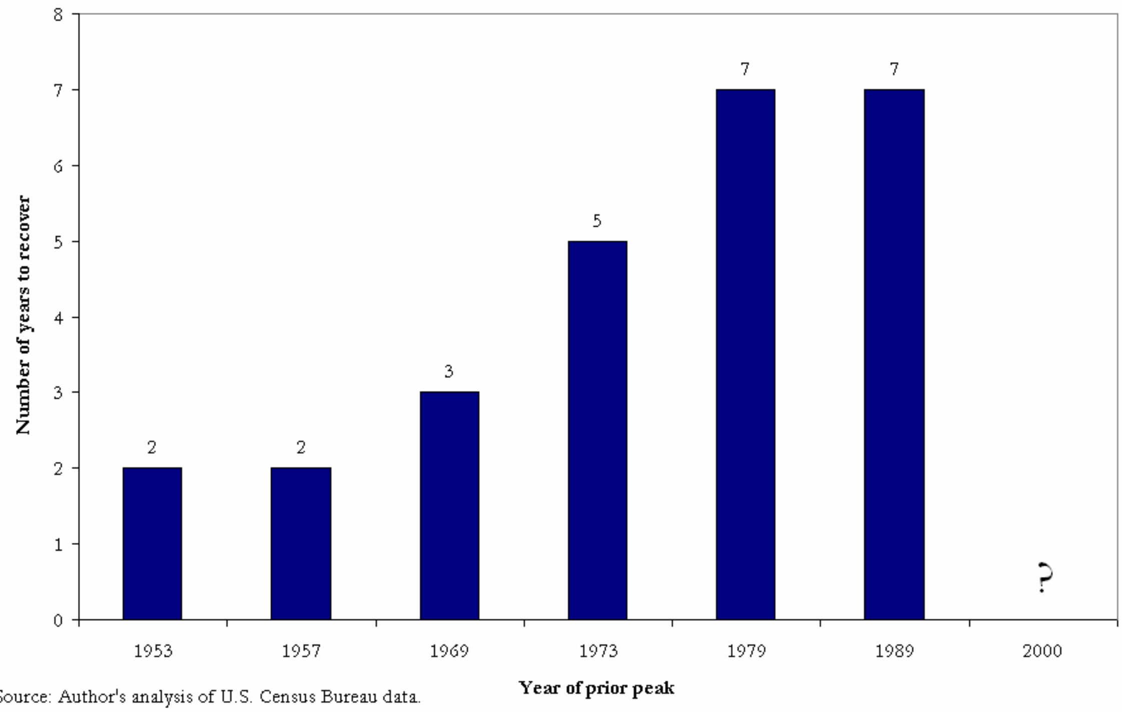
This is particularly the case in the current business cycle. As of 2006, the most recent available data, real median family income remains about 2%, or $1,000 (2006 dollars), below its 2000 peak. Using a reliable forecasting model,[3] my forecast for 2007 is for median family income to remain about $500 below its 2000 peak. If this is correct, and if 2007 is in fact the peak of the recovery that began in 2001, this will mark the first time on record that median family income failed to regain its prior peak.

Given the highly touted macro-economic performance of key variables over this business cycle, such as productivity and unemployment, this stands as quite an indictment. Of course, my forecast may be too pessimistic and income may surpass its previous peak, but it is unlikely to do so by much, and if we are truly in a recession, real median income will soon start to decline.

In sum, the long history of median family income growth is characterized by sharp break with productivity growth occurring around the mid-1970s. Productivity has since accelerated, but income growth, especially in the 2000s, remains stagnant. A major factor has been the increase in income inequality, to which I now turn.

[3] That is, this model consistently provides one-step-ahead forecasts of annual growth that are within a few tenths of the actual values. I regress the log change in nominal income on a flexible trend and the log change in aggregate hours worked from the BLS establishment survey.

FIGURE 2: Years it took for median family income to regain prior peak.



Source: Author's analysis of U.S. Census Bureau data.

Income Inequality: Growth Fails to Reach Most Households

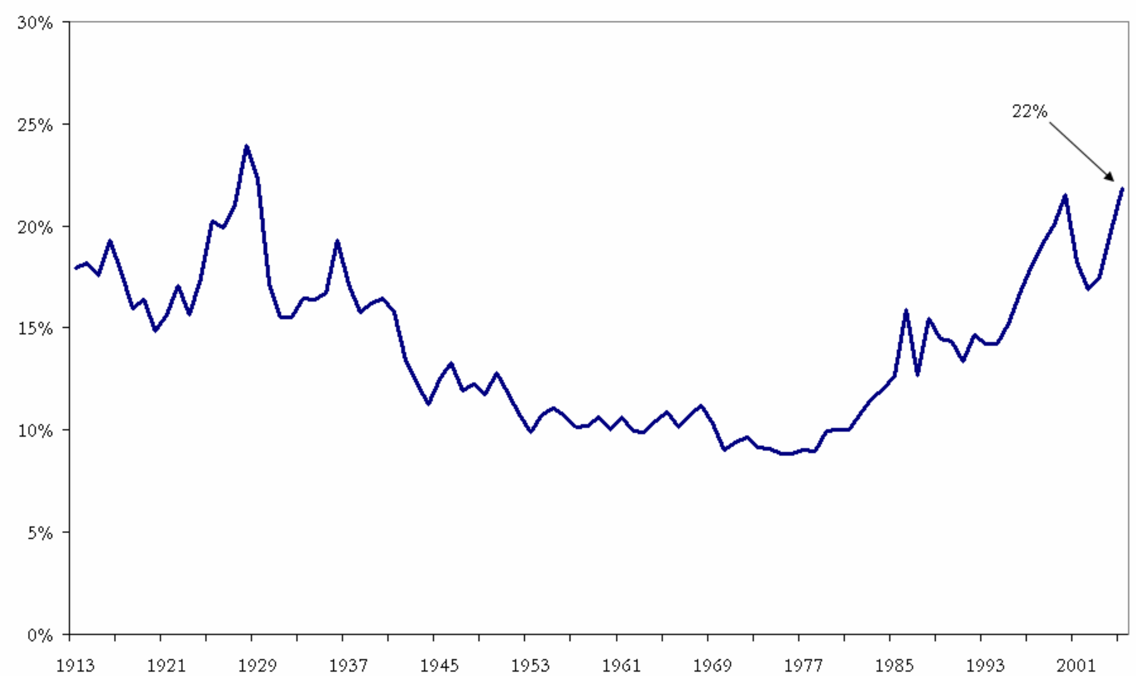
The earlier table comparing productivity growth to that of median income suggested that income inequality has grown over the past few decades. After all, the benefits of productivity growth had to flow somewhere. The evidence in this section confirms that development, showing that we have achieved particularly high levels of income concentration. Taken together, these facts—strong productivity growth, historically high levels of inequality, and stagnant median income—tell a consistent story: working families are working harder and smarter, contributing to a growing pie, yet their slices are diminished.

The work of economists Piketty and Saez provides us with a long time series of the share of income, including capital gains, accruing to the top 1% (Figure 3). After flattening out at around 10%, the series begins to rise in the 1980s, and picks up speed in the latter

1990s, driven partly by the increase in realized capital gains over those years.[4] There was a sharp dip when the dot.com bubble burst in late 2000, but this was a temporary setback. The underlying forces, discussed below, that have been driving the rise in inequality remained operative, and by 2005, the most recent observation for these data, the share was 22%, only slightly below the all-time highs achieved in the late 1920s.

The sources for these data arrive with a lag, which is why the series ends in 2005, but other relevant information on trends in wages, bonuses for high-end earners, and profitability suggest that income became even more concentrated in 2006 and 2007.[5]

FIGURE 3: Share of Income to Top 1%, 1913-2005



Source: Piketty and Saez, 2006

[4] The Piketty and Saez data shown in the figure reveal that between 1994 and 2000, the top percent's income share grew by 7.6 percentage points. In their series excluding capital gains, the increase was half as large.

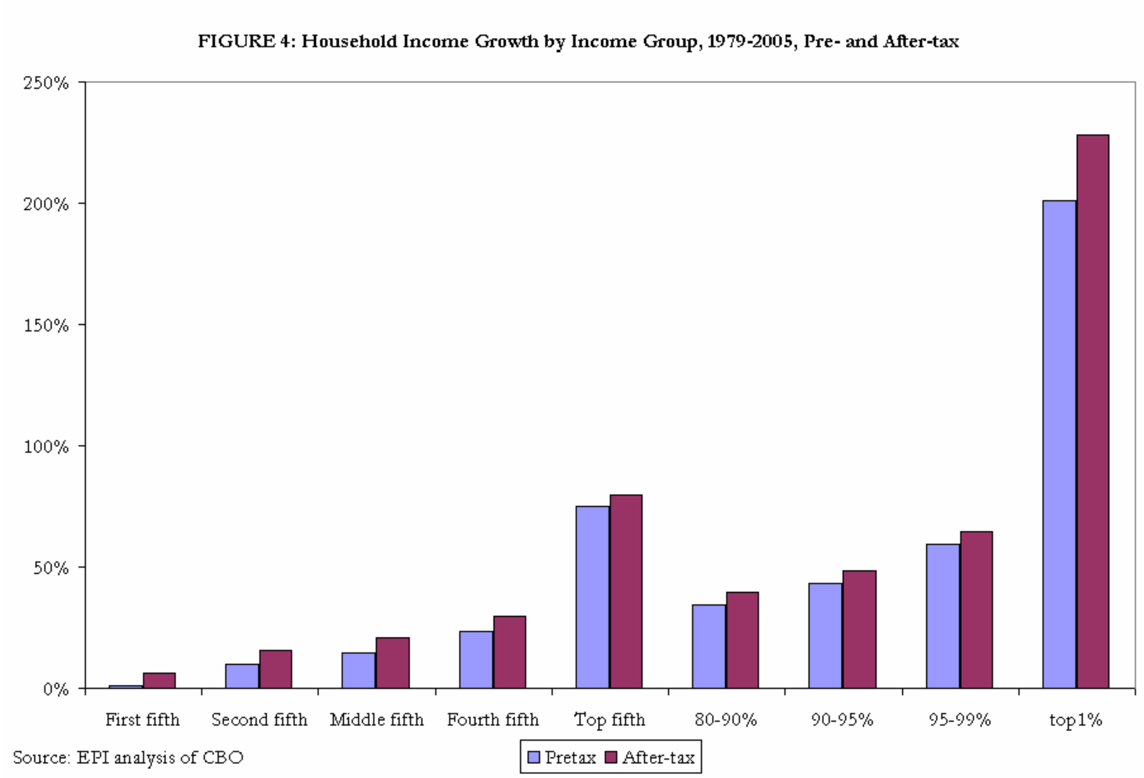
[5] For example, CBO forecast the capital gains realizations increased by 16 and 8 percent, respectively, in 2006 and 2007 (see table 4.3: http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf). Though these are slower growth rates than 2003-05, gains of this magnitude in this income source—capital gains flow largely to the top of the income scale—are usually associated with increased income concentration.

While the Piketty and Saez inequality data provide invaluable information on the very top of the income scale, their data on lower income families are less complete than another valuable resource: the household data series constructed by the Congressional Budget Office.

Figure 4 uses this series to show the long-term growth in real income for each fifth, 1979-2005, with the top fifth broken out into its various sub-classes. The “staircase” pattern is evidence of the increase in unequal income growth over this period. Note also that while the federal tax system raised the income growth of each group of families (after-tax income grew more than pretax), it steepened the tide of inequality. After-tax income growth was much higher for the top 1% than was pretax growth (the decline in effective tax rates—the share of income paid in federal taxes—was largest for households in the top 1%).

Real income growth over this period was minimal to moderate for most households. Income for the poorest households grew only 1.3%, pretax, but grew 6.3% post-tax, thanks largely to the increase in the refundable Earned Income Tax Credit over these years. Middle incomes grew 15% pretax, and 21% post-tax, or less than 1% per year over this 26 year period. Income for the top fifth grew much more quickly, 1979-2005: 75% pretax, and 80% post-tax. But the most dramatic growth occurred at the top of the income scale. Households in the top 1% saw their income triple over these years, up by 200% pretax and 228%, post-tax.

These trends led to stark differences in actual income levels by 2005. In that year, the average after-tax income for households in the bottom fifth was $15,300; for the middle fifth, $50,200; and for the top 1%, just over $1 million. These gaps have led to much greater economic distance between income classes over the years. Back in 1979, the post-tax income of the top 1% was 8 times higher than that of middle-income families and 23 times higher than the lowest fifth. In 2005, those ratios grew to 21 (top compared to middle) and 70 (top to bottom), a vast increase in the distance between income classes.



The 2000s: A Closer Look

How are these trends playing out most recently? As noted above, the median family income has been stagnant at best in the 2000s, and inequality, after reversing briefly, has again been rising sharply. Before we turn to a set of policy ideas to address the income challenges facing American households, let us more closely examine these most recent developments.

Table 2 below focuses on inflation-adjusted gains and losses in a broad set of living standards indicators. Earlier, I focused on recent losses by middle-class incomes, but this table shows that African-American and working-age households have done considerably worse. Poverty is up a percentage point, from 11.3% in 2000 to 12.3% in 2006, underscoring the failure of growth to reach the lowest income families.

Since most working-age families depend on their earnings, real wage trends are an important part of this story. The median wage grew less than 3% in real terms over these years, and for men, it was essentially unchanged. Women made much stronger gains at the median, though their pace was still less than 1% per year, about one-third the pace of productivity growth.

Average compensation grew more quickly over these years, but that reflects two factors with great influence on economic outcomes in the 2000s: inequality and health costs. In an environment of rising inequality, average values, unlike medians, are pulled up by very high values at the top of scale. This has certainly occurred in the 2000s. As the median wage rose 2.6% over this period, the 95th percentile wage was up 9.4%.

Fringe benefit costs are omitted from these wage values, but included in the real average compensation measure in the table, which rose almost 6%. Average real wages from this same series were up only 2.2%, meaning that benefit costs were a major factor in driving this result. In theory, workers are indifferent between compensation spent on fringes and that on wages. In reality, the difference can be significant, as paychecks cover less of the basic needs and wants of working families. As I have written elsewhere, the stagnation of most workers' real wages, net of benefits, in the 2000s is a major factor behind the so-called middle-class squeeze (Bernstein and Allegretto, 2006). In addition, insurance and pension costs rose considerably faster than average inflation over these years, and while some of these higher payments arguably reflected better quality, some share certainly accrued to providers of health and pension plans, and not to workers.

TABLE 2: Real Income and Wages, 2000-2006/07

	Percent change
Median HH Income*	-2.0%
African-American	-8.0%
Working-Age	-4.2%
Poverty (PPt increase)*	1.0
Median Wage	2.6%
Men	0.4%
Women	5.0%
High-School Average Wage	1.4%
College Average Wage	2.5%
Average Compensation (ECI)	5.7%
Productivity	18.9%

Sources: BLS, Census, EPI
* Latest available data point is 2006.

Inequality also rose quickly over the last few years. The CBO household inequality series cited above reveals that the growth of both pre- and post-tax income inequality, as measured by the change in the shares of income going to different income classes, was greater, 2003-05, than over any other two year period covered by the CBO data (the series begins in 1979). As I elaborated shortly after these data were released (Bernstein, 2007b), over these few years, $400 billion in pretax 2005 dollars was shifted from the bottom 95% of households to those in the top 5%. That is, had income shares not shifted as they did, the income of each of the 109 million households in the bottom 95% would have been, on average, $3,660 higher in 2005.

Finally, some analysts criticize living standards analysis based on income, arguing that consumption is a better measure. The argument has some merit because a) a family's economic well-being is in large part a function of their access to the consumption goods and services they desire, and b) families can "smooth over" periods of income disruption with borrowing to maintain a desired level of consumption.

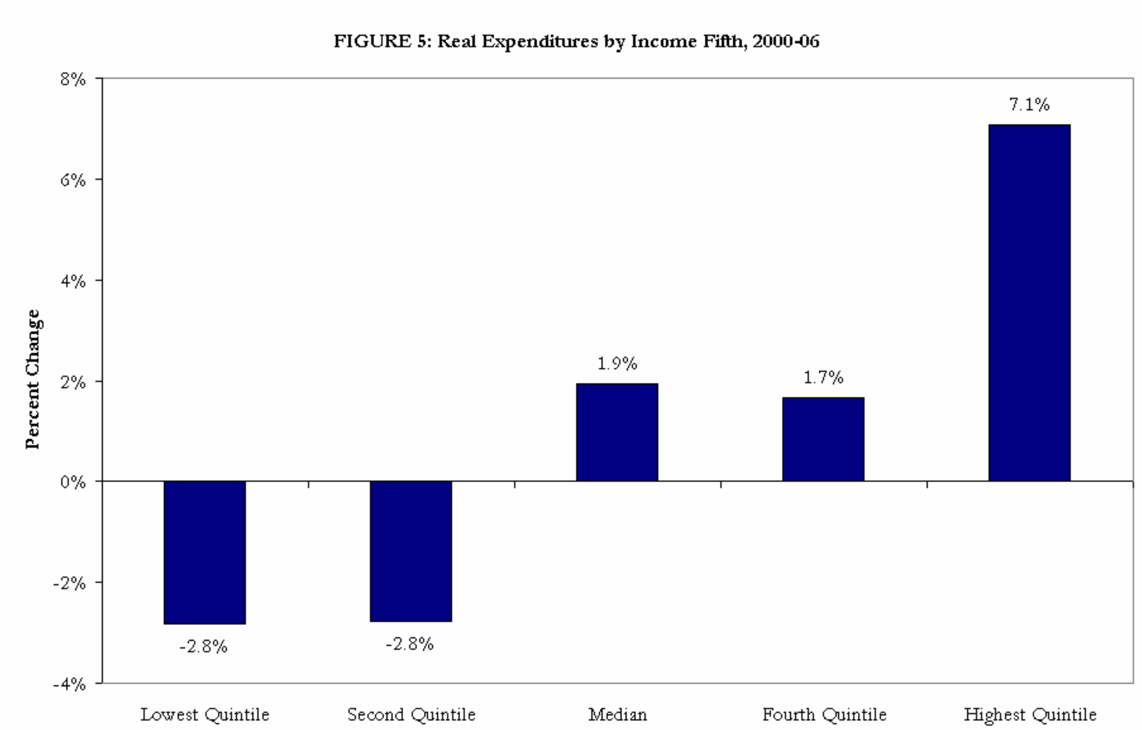
Of course, over the long term, a family's wage and income flows determine their consumption possibilities. The fact that the median family income has stagnated in the 2000s does imply limited lifetime consumption possibilities for middle-income families against a counterfactual where middle-incomes were rising. Families can of course finance consumption through debt, and, as occurred recently, when assets appreciate (e.g., home values), this becomes an important source of greater consumption. But, as we are also seeing in real time, without the underlying incomes (including asset-flows) to support the borrowing, it cannot continue unabated. In other words, living standards analysts cannot dismiss the importance of income in favor of consumption.

Moreover, consumption trends, even in the heavily leveraged 2000s, also reflect both real stagnation among middle and low-income households and greater inequality as well. The data in Figure 5 show real expenditures by income fifth from the BLS Consumer Expenditure Survey.[6] Expenditures are not synonymous with consumption but, especially over relatively short periods, they are very highly correlated.[7]

Expenditures among low-income households—those in the bottom 40%—actually fell about three percent in these years. Among the next 40% of households, expenditures rose by about 2%, suggesting that despite stagnating incomes, middle-income households slightly increased their expenditures, presumably by borrowing. But the largest gains were, once again, among the highest-income households, whose expenditures rose 7.1%, more than three-times the rate of middle-income households.

[6] Another approach would be to deflate these nominal expenditure values by the PCE deflator from the NIPA accounts. This does not, of course, change the inequality results, but since this price index grows more slowly than the RS deflator, the bars in the figure would show these changes, from lowest fifth to top fifth: -0.8%, -0.7%,. 4.1%, 3.8%, 9.3%.

[7] For example, properly measured, consumption would include the depreciation of assets, essentially the consumption of fixed capital. Expenditure data usually fails to take account of such depreciation.



Source: BLS Consumer Expenditure Survey.

Summarizing, whether we consider wages, income, or consumption, low and middle income families have reaped few of the highly touted gains of the economy thus far in the 2000s. Real incomes are down, especially for minorities, and wages, apart from rising benefit costs, have generally grown slowly, especially for men. As of 2006, poverty rates were actually a percentage point higher than in 2000. Consumption growth was stagnant among low-income households, and grew only moderately among middle-income households, while posting strong gains for wealthy households. Inequality grew particularly sharply through the mid-2000s, the latest years for which we have such data.

A new policy agenda is called for, one directed at reconnecting the living standards of most families with the economy's overall performance. In the final section of this testimony, I suggest what the architecture of this policy framework might look like.

The Policies That Can Help Reconnect Growth and Prosperity

These policies can be grouped into four categories, bargaining power, macro conditions, safety nets, and investments in human and physical capital.

Bargaining Power: The inability of most workers' to bargain for a greater share of the value they're adding to our economy is at the heart of the various gaps documented above. Historically, a broad set of policies and norms, discussed compellingly in Levy and Temin (2007), helped to lift workers' ability to bargain, and were thus associated with more broadly shared prosperity.

Many factors have eroded these institutions and norms. Global competition clearly has strong upsides, as the increased supply of goods and capital has lowered prices and interest rates. But this same increased supply has hurt the bargaining power of many workers in this country, particularly those with less than a college education. Indeed, recent trends in the offshoring of white collar work are reducing the bargaining power of more highly educated workers as well: Table 2 reveals the relatively minor wage gains among college-educated workers in the 2000s (up 2.5%; see also Blinder, 2007, and Bernstein et al, 2007).

Unions play a key role in precisely this area. Research reviewed in Mishel et al (2007, table 3.37) shows that the decline in union density explains one-fifth to one-half the increase in male wage differentials over the past 25 years, and union wage premiums remain highly significant, even after controlling for human capital and observable characteristics.

The decline in unions is partly a mechanical function of the loss of jobs in unionized industries, like manufacturing, but the more important explanation is the very unbalanced playing field on which unions try to gain a foothold. In fact, Freeman (2007) argues that slightly more than half of the non-union workforce would like some type of union representation, a finding that is not particularly surprising given the wage and income data shown above.

The problem here is that the legal and institutional forces that have historically tried to balance the power of anti-union employers and their proxies have significantly deteriorated in recent decades, as described by Shaiken (2007). One legislative solution is the Employee Free Choice Act (EFCA), a bill that helps to restore the right to organize in the workplace. A central component of EFCA is so-called majority sign-up or "card-check," which gives the members of a workplace the ability to certify a union once a majority sign authorizations in favor the union. The law also puts much needed teeth back into labor law by ratcheting up the penalties for those who violate the rights of workers trying to organize or negotiate a contract.

Macro-Economic Conditions: Full employment—a tight match between labor supply and labor demand—is another important criterion for reducing the gap between overall growth and living standards of working families. Historically, very low unemployment rates have also been a key contributor to workers' bargaining power, ensuring that employers needed to bid compensation up to get and keep the workers they needed in order to meet the demand for their goods and services.

We do not need to look back too far in time to corroborate such assertions. Most of the data I discussed above did much better for middle and low wage workers over the latter 1990s, when the unemployment rate headed towards levels associated with full employment, dipping below 4% in 2000. Overall poverty fell by 2.5 points, 1995-2000, with decline among minorities that were more than twice that magnitude.

And such trends are not at all unique to the 1990s cycle: longer term analysis confirms the result. For many of the years over the period 1949-73, the unemployment rate was actually below the so-called NAIRU: the lowest unemployment rate considered to be consistent with stable prices.[8] Recall from Table 1, however, that this was the period when real median family income grew in step with the overall economy. Conversely, over the post-1973 period, the labor market was often slack, as unemployment was higher

[8] NAIRU is an acronym for "non-accelerating inflationary rate of unemployment". These findings are described in Bernstein (2007a).

than the rate associated with full employment. As has been shown, middle-incomes grew much more slowly over these years and inequality increased.

Of course, the conventional response would be that inflation must have grown more quickly over the earlier period, when job markets were especially tight but, in fact, the opposite is true. Even controlling for the steep inflation of the latter 1970s, inflation actually grew more slowly when the job market was “tight than recommended,” at least based on the NAIRU criterion. We relearned this lesson in the latter 1990s, also a period of decelerating price growth, even while the unemployment rate was headed for 30-year lows.

The policy levers here, at least in normal times, i.e., outside of recessions, rest mainly with the Federal Reserve, but Congress can also play an important role which I discuss below under the rubric of investment policy.

Safety Nets: Historically, working families in our country have depended on employers to provide health care and pensions, but it is not an exaggeration to observe that this system of employer-based coverage is slowly unraveling. A slow but undeniable shift is occurring, as the economic risks associated with illness and aging out of the workforce are shifting from employers to workers. This shift is not simply affecting the least skilled workers, but, as Gould (2007) shows in the area of employer-based health coverage, it is reaching workers at all wage and skill levels. In the area of pensions, the shift from defined benefits (a guaranteed pension) to defined contribution has been at the heart of the process of shifting risks from firms to workers.

The presidential campaigns have brought this issue to the fore, particularly regarding reform of our health care system. Such reform is especially urgent given the realization that the rate of increase in health spending in both the public and private sector is unsustainable. Similarly, the lack of savings preparedness among many persons approaching retirement (see Weller and Wolfe, 2005) and the shift from guaranteed pension underscores the need for pension reform as well.

It is beyond my scope here to review these plans. I refer interested parties to EPI's Agenda for Shared Propserity, an initiative by our institute to elaborate in some detail the best plans for meeting these challenges. I raise these issues in the context of this testimony for one simple reason: health and pension coverage mean the difference between a good job and a bad one. As ongoing technological change, globalization, and the lost bargaining power of many in the workforce have led to trends documented above, employers have been in the process of backing off their historical commitments to their workforce in many ways, including these types of coverage. And of course, the least advantaged workers rarely had such coverage to lose in the first place.

The inequality data along with information on profitability reveal that it is not for lack of resources that firms have been cutting back on health and pension coverage, although rising health costs can and should also be viewed as a competitiveness issue. Instead, it is yet another symptom of the unbalanced nature of growth in the current economy, as wealth flows upwards and risks flow down.

As these policy debates unfold, I urge the committee to view the issue of health care and pension reform as one that is intimately related to the findings regarding incomes, wages, and inequality in the first section of my testimony. By helping to provide workers with access to health care and pensions, we take a huge step towards improving job quality and blocking the ongoing risk shift.

Finally, our nation's Unemployment Insurance system is also in need of reform and modernization. In the short term, extended UI benefits are an important component of a stimulus package, providing a necessary safety net for the long-term unemployed as well as a much larger bang-for-the-buck than most other forms of stimulus, including tax rebates.

Over the longer term, our UI system needs to be updated to reflect changes in the structure of work and the demography of the workforce. The Unemployment Insurance Modernization Act, already passed by this chamber, would make such changes, including providing benefits to both part-time workers and those who leave their jobs for compelling family reasons. The bill also accounts for shorter job tenures by considering a worker's most recent work history when determining eligibility for UI benefits.

Investments in Human and Physical Capital: The emphasis in this section thus far has been more towards creating good jobs than on improving the skills of workers. That "demand-side" emphasis is important, because 70% of the workforce is non-college educated, and we must have a strategy for improving the quality of all jobs, not just those for workers with high levels of education. Similarly, regardless of skill levels, all workers will benefit from more effective and efficient safety nets.

But it's also critical to invest in the skills of the workforce of both today and tomorrow. Unfortunately, our budgetary priorities have been moving in the opposite direction, as federal budgets over the past few decades have shortchanged training programs. Eisenbrey (2007), for example, shows that Federal investment in employment services and training is down about $1 billion in real terms since 1986 (from about $6 to $5 billion, 2006 dollars) even while the workforce has grown in size considerably over those years. The result is a decline in the budget for worker training and services from $63 to $35 per worker, in 2006 dollars.

According to the Coalition for Human Needs (2008) analysis of Congressional appropriations for a number of training programs, real declines have occurred in a number of job training programs between FY05 and FY08. Spending on both adult (-12%) and youth training (-14%) through the Workforce Investment Act are down, as are dislocated worker training (-9%) and adult basic education (-12%).

As Savner and Bernstein (2004) discuss, one reason this disinvestment is misguided is that recent initiatives in worker training have shown considerable promise relative to earlier, less effective approaches. Our analysis was partly motivated by the evident limitations of work-first policies, i.e., programs that placed workers in jobs with little attention to job quality or career opportunities. In reaction, there has been a growing emphasis on programs designed to help job seekers prepare for good jobs and advance to careers. As we wrote:

> This new generation of programs shares several key elements. First, they're grounded in extensive knowledge of the local labor market, focusing on occupations and industries that offer the best opportunities for advancement. Second, they help workers access education and training at community colleges, community-based training programs, and union-sponsored programs that work with employers to design curricula based on the skills that employers actually need. And third, they provide access to remedial services -- often referred to as "bridge" programs -- so that people who have weak basic skills can prepare for postsecondary-level programs. (Savner and Bernstein, 2004)

Savner and I also recognized that even the best training programs will not work when the jobs aren't there. There will always be disadvantage localities beyond the reach of even the strongest macroeconomic booms, and neither full employment in the rest of the economy nor the most integrated training program will help. In these cases, we advocate the creation of public-service jobs to keep people gainfully employed, drawing on the successful experience of transitional jobs programs that have sprung up around the country using public funds to create work for people struggling to get a foothold in the labor market.

In the current economic context, with a recession probably either underway or soon to be so, there has been considerable discussion of investment in public infrastructure as a component of a stimulus plan. Though the plan agreed upon by Congress and the White House did not include such investment, I strongly believe it is an important topic for Congress to consider, and not simply in the context of recession.

Four facts motivate this contention. First, American households are highly leveraged, and may well be poised for a period of enhanced savings and diminished consumption. In this context, public investment should be viewed as an important source of labor demand. Second, there are deep needs for productivity-enhancing investments in public goods that will not be not made by any private entities, who by definition cannot capture the returns on public investments in roads, bridges, waste systems, water systems, schools, libraries, parks, etc. Three, climate change heightens the urgency to make these investments with an eye towards the reduction of greenhouse gases and the conservation of energy resources.

Fourth, our job market appears to be weakening considerably. Though these figures may undergo positive revision, payrolls contracted last month for the first time in over four years. The rate of job growth has slowed considerably, from 2% per year in early 2006 down to less than 1% over the past few months. The unemployment rate, though still low in historical terms, has been inching up in recent months.

One area of particularly significant job loss has been in construction. Jobs in residential building and contracting are down 244,000 over the past year, and when we include other jobs related to housing, such as real estate, we find a decline in almost half-a-million jobs since the peak of April 2006. In other words, there exists considerable labor market slack that will certainly deepen if the economy is in or near recession.

In this regard, infrastructure investment serves a dual role of deepening on investments in pubic capital while creating good jobs for workers that might otherwise by un- or underemployed.

Most recently, EPI economists have carefully documented infrastructure needs in the context of the stimulus debate (Mishel et al, 2007). The following are examples of the infrastructure needs identified by these researchers:

- There are 772 communities in 33 states with a total of 9,471 identified combined sewer overflow problems, releasing approximately 850 billion gallons of raw or partially treated sewage annually. In addition, the Environmental Protection Agency (EPA) estimates that between 23,000 and 75,000 sanitary sewer overflows occur each year in the United States, releasing between three to 10 billion gallons of sewage per year.

- According to a survey by the National Association of Clean Water Agencies, communities throughout the nation have more than $4 billion of wastewater treatment projects that are ready to go to construction, if funding is made available. Funds can be distributed immediately through the Safe Drinking Water and Clean Water State Revolving Funds and designated for repair and construction projects that can begin within 90 days.
- The National Center for Education Statistics (NCES) put the average age of the main instructional public school building at 40 years. Estimates by EPI find that the United States should be spending approximately an [additional] $17 billion per year on public school facility maintenance and repair to catch up with and maintain its K-12 public education infrastructure repairs.
- According to a 1999 survey, 76% of all schools reported that they had deferred maintenance of their buildings and needed additional funding to bring them up to standard. The total deferred maintenance exceeded $100 billion, an estimate in line with earlier findings by the Government Accounting Office (GAO). In just New York City alone, officials have identified $1.7 billion of deferred maintenance projects on 800 city school buildings.
- The U.S. Department of Transportation has identified more than 6,000 high-priority, structurally deficient bridges in the National Highway System that need to be replaced, at a total cost of about $30 billion. A relatively small acceleration of existing plans to address this need—appropriating $5 billion to replace the worst of these dangerous bridges—could employ 70,000 construction workers, stimulate demand for steel and other materials, and boost local economies across the nation.
- The House Committee on Transportation and Infrastructure has identified more than $70 billion in construction projects that could begin soon after being funded. An effective short-term stimulus plan could include $16 billion directed at projects for roads, rails, ports, and aviation; only projects that can begin within three months would be considered.

Finally, while I have discussed these infrastructure needs in the context of recession and stimulus, it is important to recognize that a) these are all necessary and productivity-enhancing investments that should be made regardless of the state of business cycle, and b) recent history suggest that it is a mistake to think that labor market slack will no longer be a problem when the recession officially ends.

This last point deserves a bit of elaboration. Much of the current recession/stimulus debate has stressed that recent recessions—the ones in 1990-91 and 2001—were both mild and short-lived, and perhaps the next recession will follow the same pattern. It is critical to recognize that these claims are based solely on real output growth, and not on job market conditions. The allegedly mild 2001 recession, wherein real GDP barely contracted, was followed by the longest "jobless recovery" on record. Though real GDP grew, payrolls shed another net 1.1 million jobs. The unemployment rate rose for another 19 months and for just under two years for African-Americans. The pattern was similar, though not quite as deep, after the early 1990s recession.

Part of the explanation for this disjuncture has to do with the way recessions are officially dated by the committee at the National Bureau of Economic Research, as they have apparently given less weight to the job market and greater weight to output growth.[9] But policy makers are likely to give greater consideration to working families whose employment and income opportunities are significantly weakened as unemployment rises and job growth contracts. Thus, from a stimulus perspective, the investments I stress will likely be relevant after the recession is officially ended.

Conclusion

Clearly, this is an ambitious program, and legislators may well ask where they might be expected to find the resources to fund these investments, especially given current and especially future budget constraints. This tough question is beyond the scope of this testimony, but I will stress that our nation has found the resources for what many view, at

[9] Please refer to http://www.nber.org/cycles.html for more information.

least at this point in time, as a much less productive investment: the war in Iraq. Basic economics reminds us that the opportunity cost of that conflict is not simply the hundreds of billions we have sacrificed thus far, much of which is borrowed from future generations. We must also consider the costs of forgoing the productive investments, the good jobs, and the opportunities for our citizens to achieve greater levels of learning and training. In each case, the quality of life of working families is diminished when public officials ignore or downplay these steep opportunity costs.

A similar argument could be made about the tax cuts that have largely benefited those at the high end of the income scale. As the data in this testimony reveal, pretax outcomes have become more highly unequal over the past few decades, and there is no obvious reason to exacerbate this with regressive tax changes. On the other hand, I have provided what many see as a compelling list of investments that our country and its citizens sorely need.

During the current election season, a central theme among some of the candidates has been a call for a change in direction. Polling data repeatedly reinforce this notion that most citizens view our country to be on “the wrong track.” Of course, an unpopular war looms large in this result, but those same polls have most recently stressed the role of the economy in these negative assessments. While economists still quibble as to whether a recession is underway, majorities of the public have believed this to be the case for at least six months. And given the evidence presented above, this should not surprise anyone.

In this light, reconnecting growth and living standards has to be at the heart of our political agenda in coming years. The agenda I have outlined today—full employment, universal health and pension coverage, freedom to organize, and investment in human and physical capital—is but one set of ideas designed to move our politics and ultimately, our economy back towards the values so clearly articulated in Chairman Obey’s biography, an economy where every hard working family is “able to fully share in the bounty of America.”

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