US living standards in 2005 continued downward trend

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16 January 2006

Millions of Americans saw their living conditions drastically decline in 2005. For the US working class, four years of a supposed economic recovery celebrated by Wall Street have translated into rising expenses, stagnating real wages and record debt.

Several annual studies document the skyrocketing cost of housing, health care and energy, finding that millions of Americans are shouldering more debt in order to compensate for inflation and insufficient pay. By all indications, this trend will continue in 2006.

One of the ways that American households have attempted to meet rising costs is by taking out second mortgages on their homes, which are used as temporary sources of extra funds. Harvard University's Joint Center for Housing Studies, in its *State of the Nation's Housing* report, found that net growth in second mortgage debt nearly doubled in 2005, to $178 billion. The Federal Reserve pegged total noncommercial mortgage debt at $641 billion by the end of the third quarter.

The heavy use of housing mortgages to meet daily expenses puts homeowners at considerable risk of an avalanche of debt or foreclosure in the event of an unexpected medical expense or job loss. It also increases the possibility that when the housing market deflates, as many economists project will occur in 2006, homeowners will be locked into paying enormously high amounts for homes worth significantly less upon resale.

The housing market has been a principal prop for the entire US economy for several years, and the volume of financial activity flowing through new home construction and purchases has often been flaunted by the Bush administration as evidence that its fiscal policies have stimulated an "ownership society." Record numbers of home buyers with poor or no credit have been lured into exotic loan contracts with hidden fees and floating interest rates to finance their purchases. As interest rates rise, as they are expected to over the coming period, the debt burden confronting millions of American families will grow substantially.

Contrary to the promises given by companies offering these loans, affordability was clearly a myth for the 28 million households expending more than 30 percent of monthly income on housing in 2005. The Harvard study estimates that more than one in eight households in this group spent half of their monthly income on housing bills.

Moreover, even these telling figures understate the lack of affordability because they do not take into consideration the sacrifices and hardships many households make in order to meet payments. The statistics, as the Harvard study points out, "miss the 2.5 million households that live in crowded or structurally inadequate housing units. They also exclude the growing number of households that move to distant locations where they can afford to pay for housing, but must spend more for transportation to work."

Low-income households are the most adversely affected by transportation costs, spending around 10 percent of their monthly income on travel, and an average of $100 more per month than those families living in more expensive housing closer to centralized areas of employment.

Another study on housing from the National Low Income Housing Coalition, *Out of Reach 2005*, reveals an even more dire situation for the 36 million US households living in rental units. The study uses a measure called the housing wage, which is the hourly wage that would be required to afford average area rental rates under the federal affordability standard of paying no more than 30 percent of income into housing. Nationally in 2005, the housing wage for a two-bedroom unit was $15.78, a 41 cent increase over 2004.

Taking this increase into consideration, the NLIHC reports that "between fall 2004 and fall 2005, both average wages and average rents increased by 2.9 percent, indicating that for the market as a whole, incomes kept pace with rent payments made to landlords in the last year. However, overall inflation outpaced earnings, in part because of a 13.3 percent increase in the costs of housing-related fuel and utilities." In other words, the parallel of wage and rent percentage increases was more than offset by rising energy prices.

For the 2 million workers who earn the federal minimum wage of $5.15 an hour, no single rural county or metropolitan area in the entire country offers even single bedroom rental units at affordable rates. Most locally set minimum wages, while higher than the federal rate, still amount to less than half of the housing wage.

All workers who rent housing bear substantial and increasing burdens. The national average wage for renters is approximately $12.22 per hour, according to the Bureau of Labor Statistics. By this measure, *Out of Reach 2005* states, “Assuming 40 hours per week and year-round employment without vacation or sick days, the local mean renter wage is sufficient to make a two-bedroom unit affordable in only 41 metropolitan areas nationwide, containing only 14 percent of all renter households.” And in 10 areas with a particularly high cost of living, two individuals earning the average renter wage, working full time, year-round, cannot afford with their combined wages an average two-bedroom apartment at the local market rate.

The debt and privation millions of families are experiencing this winter in order to keep—and heat—their homes drive some to seek out emergency food, heating or medical assistance. In many cases, the aid is simply not there. Agencies responsible for distributing the grossly inadequate Low-Income Home Energy Assistance Program (LIHEAP) funds have been overwhelmed with pleas for assistance. Emergency rooms have been treating higher numbers of the uninsured, particularly in states which enacted drastic cuts to Medicaid. Food pantries nationwide have had to turn people requesting food away for lack of supplies, or give out smaller portions.

The US Conference of Mayors *Hunger and Homelessness Survey 2005* reports that overall requests for emergency food assistance increased by an average of 12 percent in the past year in 18 of the 24 major cities included in the survey. Most of the requests came from families with children, and 40 percent of requests came from people who were employed.

During the last year, requests for emergency shelter also increased by 6 percent, with most city officials citing lack of affordable housing as the leading cause of homelessness. Most officials expect requests for both food and shelter to increase in the coming year, especially requests from young families.

While homelessness is a difficult feature of US society to track, an informal survey conducted in June by the Department of Housing and Urban Development (HUD) placed the number of homeless Americans at 727,304. Four months after Hurricane Katrina, half a million displaced Gulf Coast residents are also homeless. Many of these families are set to have their rental assistance cut off this month. In a given year, an estimated 3.5 million Americans experience temporary homelessness. Many millions more live in substandard conditions, routinely go through shut-off periods without basic necessities such as water and heat because they fall behind on their utility bills, and forgo needed prescription drugs or medical treatment because of prohibitive expense.

The US housing “boom” has simultaneously signaled record profits for Wall Street and crisis for average Americans. In a broad sense, the widening housing affordability gap is a symptom of the growth of economic inequality.

The past year has further illustrated that not only has this been largely a “jobless recovery,” it has been a recovery propelled by the elimination of jobs and the redistribution of wealth into the hands of the ruling class. As recently noted by the Economic Policy Institute, “Inflation-adjusted hourly and weekly wages are still below where they were at the start of the recovery in November 2001. Yet, productivity—the growth of the economic pie—is up by 13.5 percent.” A larger portion of profits has been siphoned off by executives and investors than in the past, EPI explains. “Wage growth has been shortchanged because 35 percent of the growth of total income in the corporate sector has been distributed as corporate profits, far more than the 22 percent in previous periods.”

US manufacturing has long been on the decline, as industry seeks out cheaper labor through outsourcing and cost-cutting at home. White-collar and clerical jobs have gone the same way in the past decade, leaving workers facing a job market concentrated evermore around the low-paying service and retail sector. Pensions, health benefits and sufficient wages have been replaced with subsistence and uncertainty for millions of households. The gutting of traditional defined-benefit pension plans and mass layoffs in 2005 will accelerate in the coming year. In response, Congress and the Bush administration have pressed ahead with plans to cut and privatize government aid programs, intensifying the crisis.