US: Working families struggle to make ends meet

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As thousands of jobs are shed on a daily basis and consumer credit tightens, the economic crisis is driving working families and individuals to make difficult decisions on how to spend their dwindling resources—many with serious ramifications for their current and future well-being.

Because real wages have stagnated since the early 1970s, families have attempted in recent years to make ends meet by working longer hours, taking on second jobs, or by adding more family members to the labor force. Such options have now become few and far between as more and more workers search for work and many are forced to work reduced hours.

The most recent Federal Reserve flow of funds report indicates that at $13.9 trillion, American household debt more than doubled over the last decade. Or, as *Time* magazine put it, "Household debt in the US—the money we owe as individuals—zoomed to more than 130% of income in 2007, up from about 60% in 1980."

However, with the collapse of the housing market has come a drying up of credit. Decreased home values mean decreased home equity that can be realized either through sale or borrowing. Some banks are even offering customers hundreds of dollars to cancel their unused home equity lines of credit. Likewise, credit card companies are decreasing credit limits, raising rates, canceling cards, or offering small financial incentives to cancel them.

Reuters quoted banking analyst Meredith Whitney, who warned that "credit cards are the next credit crunch." Available lines of credit were reduced by nearly $500 billion in the fourth quarter of 2008 alone, she said, estimating that over $2 trillion of credit card lines will be cut in 2009.

In response to these pressures, people—and businesses—have cut back on spending. According to a Commerce Department report released February 27, consumer spending—which accounts for about two-thirds of the US economy—decreased in the fourth quarter of 2008 at a 4.3 percent pace, the most in 28 years.

Spending on health care is one area where people are cutting back, often endangering their health, their lives. According to the February 25 news release for a Kaiser Family Foundation survey, in the past 12 months more than half (53 percent) of American households say they have cut back on health care due to cost concerns.

The survey showed: "The most common actions reported are relying on home remedies and over-the-counter drugs rather than visiting a doctor (35%) or skipping dental care (34%). Roughly one in four report putting off health care they needed (27%), one in five say they have not filled a prescription (21%), and one in six (15%) say they cut pills in half or skipped doses to make their prescription last longer."

When medical care cannot be postponed, however, the consequences of health care outlays can be devastating. Nineteen percent of people reported "serious financial problems recently due to family medical bills." Spending for health care means other bills are put off, and families must cut back on basic necessities like food, housing and utilities. "Specifically, 13 percent say they have used up all or most of their savings trying to pay off high medical bills in the past 12 months," according to the Kaiser study.

A recent Bank of America Retirement Savings Survey also found that economic conditions have caused 18 percent of respondents to withdraw money from their qualified retirement accounts prematurely. In spite of having to pay income tax and, in most cases, a

10 percent early withdrawal penalty on this money, 25 percent of respondents withdrew the funds because they needed it to make credit card payments, 22 percent needed it to make mortgage payments, and 22 percent because they had lost a job.

Reports indicate pawnshop business is booming in the US, Canada and Britain. In addition to an influx of new customers, many of those who used to shop in pawnshops are now going there to sell items to get cash to pay bills.

Reports also indicate a marked increase in the number of people donating their blood, semen, hair, and eggs. Donations of blood can earn $20 to $35, semen can earn up to about $200, a yard of hair up to about $2,500, and eggs up to $10,000. "The Center for Egg Options in Illinois has seen a 40 percent increase in egg donor inquiries since the start of 2008," according to Reuters.

A recent survey by Feeding America, formerly America's Second Harvest, finds a 30 percent average increase in people seeking help at food banks across the nation, twice the increase seen six months ago. More than 70 percent of food banks are unable to meet the demand and are being forced to cut back on the food they provide to soup kitchens, food pantries and emergency shelters.

After a request for $300 million in emergency assistance was left out of the recent economic recovery package, Vicki Escarra, president and CEO of Feeding America, said, "It is tragic that this legislation ignores the emergency food needs of millions of people affected by the faltering economy."

"Many of the people we see are recently unemployed and do not currently qualify for food stamps, or are waiting for benefits to be approved," she said. "Our food banks are seeing unprecedented numbers of people coming to food pantries across the country, and their shelves are becoming emptier by the day.

Escarra added, "We cannot continue to feed millions of additional men, women and children who are turning to us, often for the first time, without more support from the federal government. Americans are going hungry, and we are in a crisis."

More and more people are also looking to payday lending companies for needed cash. In some states, these legalized loan-shark operations can charge over 400 percent interest annually on loans. While several states have passed laws putting a cap on the interest rates these companies can charge at far lower levels, 35 states have not.

Even in those states where interest rates have been capped, payday lenders are finding ways around usury laws. Ohioans voted in the last election to cap payday lending rates at 28 percent, to limit the amount a person can borrow from such firms to $500, and to allow a consumer to take out no more than four loans per year. To get around the law, when payday lenders give a customer a $500 check, they then charge the customer $75 to cash it.