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Sunday extra: More families are struggling as the economic divide widens

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By Lois M. Collins , Deseret News
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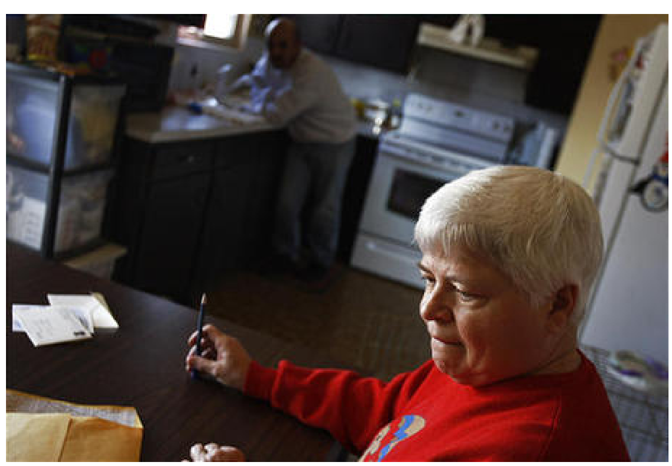
Bertha and Ron Torrez walk their dogs. The couple has begun to feel the economic pinch. (Mike Terry , Deseret News)

Miranda Uribe, 10, is not going to be on a baseball team this year. It isn't in the family budget. And her little sister Emma turned 8 yesterday without the party fanfare that usually accompanies birthdays.

The economy has forced a rethinking of how the family spends money, says their mom, Tillie Uribe, a grade-school teacher and single parent who has always considered herself distinctly middle class. When her husband died last year, she and her four daughters — the "giggle of girls" also includes Analisa, 11, and Eva, 4 — had to make some adjustments. The economic crisis has made things worse.

Theirs is the story of the middle class for the past few decades, not just now in an economy pocked by rising unemployment, failing businesses, plummeting home values, more bankruptcies and fewer retirement dollars. The rich have been getting richer. The poor became a tad less poor. And the middle class has gone, well, nowhere.



Uribe divides life into "still-do" and "can't do" and "scaled down": Tae kwon do, church activities and grief-support group are in. Ice skating, baseball, birthday parties and restaurants are out. They reduced cable TV to the most basic package, eat fewer fresh fruits and vegetables and wear warmer clothes so they can turn the furnace down. Haircuts and family outings happen less often, and dinner is a "whole lot of chicken and hamburger when I can find it on sale," Tillie Uribe says.

Ron and Bertha Torrez, seated, go through bills and paperwork in preparation for tax season at their home in West Valley City on Wednesday. (Mike Terry, Deseret News)

She can't escape her housing costs or the several hundred dollars a month she pays for the family's medications. Her teacher's salary is not likely to go up anytime soon, she says. "We're hanging in, but we're slowly losing ground."

For more than three decades now, the middle class has not fared well, at least compared to the groups that book-end it, says University of Utah economist and finance professor Scott Schaefer. The country's been heading toward "haves" and "have-nots" for some time, and those in the shrinking middle know it. So do public officials. Vice President Joe Biden recently announced he's making the middle class and its advancement a priority.

Tillie Uribe serves dinner as daughters Miranda, Eva, Emma and Analisa (clockwise from right) do their homework in West Jordan Monday. (Tom Smart, Deseret News)

In a survey released last April by the Pew Research Center, middle-class respondents said they believe they have stopped making economic progress. The numbers say they're right. They believe they're doing better than their parents. Also true. But it's getting harder to maintain a middle-class standard of living, they say. And the numbers, again, agree.

Men who work full-time now make on average $800 less than their dads did at the same age, says Elizabeth Warren, a law professor at Harvard Law School and a noted authority on economic trends. Her comments came in a 2007 lecture at the University of California at Berkeley that is widely available online. Her lecture compared inflation-adjusted data from 1970 to that in 2005.

Family income rose solely because women entered the work force, usually of necessity. Savings dropped from 11 percent of take-home pay then to nothing now. Credit-card debt totaled 15 percent of annual income for the median family in 2005, compared with 1.4 percent in 1970.

Tillie Uribe serves dinner as daughters Miranda, Eva, Emma and Analisa (clockwise from right) do their homework in West Jordan Monday. (Tom Smart, Deseret News)

Warren's examination of federal data shows debt is not being driven by people living the high life. A family of four spend 32 percent less on clothes, 18 percent less on food, 52 percent less on appliances, 24 percent less per car, she says. But housing costs 76 percent more, and lower interest rates don't make it up. The cost of employer-sponsored health insurance rose 74 percent.

Two-earner households have two cars and now pay child care. Finally, tax rates have gone up 25 percent, because the second wage raises the bracket.

It boils down to this: A middle-class family in 1970 made about $32,000 a year, compared with 2005's $73,000. But that 1970s family spent half its income on big expenses it couldn't cut. Now, the average family spends three-fourths of its income on basics. And if a disability or other catastrophe hits one parent, what happens to the rest of the family?

The growing gap

Between 2000 and 2006, real annual income for the median American family fell 2.7 percent, according to "The Middle Class Squeeze," a report prepared for the U.S. House Committee on Government Reform in 2006. In working-age families, median income dropped more than 5 percent.

There may be a small spot of comfort for some families who are worrying their way through this recession, Schaefer says, although economists have not had time to study it carefully. While Americans have lost a whopping half-million or more jobs a month recently, the middle class has not borne all the pain.

"One of the hard-hit sectors has been the financial sector, and some of those are very high-paid jobs," he says.

Meanwhile, gas prices have dropped — a huge plus for low- and middle-income consumers who spend a good chunk of their income on fuel. Inflation has been nonexistent, and grocery prices have slipped from last year's highs. So while the economy spells disaster for those who are laid off, for those who have their jobs, wages haven't gone up, but they also haven't declined. "Just in terms of money in and going out, things may have actually gotten a little easier recently," Schaefer says.

Still, when your 401(k) has lost one-third of its value and your home one-fourth of its worth, you feel poorer. And you are.

One of the trickiest parts of examining how the middle class is doing involves defining it. "Middle class" is to some degree a state of mind, researchers say. The Pew study found that more than half of Americans see themselves as middle class, including 4 in 10 of the people with household incomes less than $20,000 and one-third of those with incomes over $150,000.

"There's no precise definition of middle class," Schaefer says.

To see what's happening to those in the middle, he says, economists might look at someone in the top 10 percent of wage earners, someone smack in the middle and someone in the bottom 10 percent and see what happened to their incomes. You pick a couple of points in time, say 1980 and 2005.

Such a look back right now, he says, shows the top 10 percent have done really well. And the lower 10 percent have been gaining a little, though they're still poor. The middle guys seem to be stuck right where they were, hammering away to stay even. "In our economy, there's a growing gap between the rich and middle class and a closing gap between the poor and middle class," Schaefer says.

Losing ground

Why aren't middle-class earnings keeping up? Some experts point to rising gasoline and food prices, health bills including insurance, child care and increased education costs. Schaefer says the "why" debate among economists is mostly theory, since you can't say with precision what would have happened in other circumstances. Capital-gains tax cuts certainly benefit the wealthy, but you can only guess what would have happened without them, for instance.

Clearly, though, people right now feel poorer, and consumption is fueled largely by how you perceive your wealth. When your retirement savings tanks and your home equity plummets, it's natural to cut back spending, Schaefer says. You start saving and stop buying.

But that ripples down. If you don't buy gewgaws, gewgaw-makers lose their jobs. Then they stop eating lunch next door, and that diner lets people go, too. Consumer spending, that economic driver, has been down consistently since mid-2008.

Bertha and Ronald Torrez don't need an economist to tell them that they're losing ground in their middle-class lifestyle. About nine months ago, they both left semi-retirement. She'd put in 20 years at the phone company and another decade at UPS and had two small pensions, but she's now working part-time at a fabric store to make ends meet.

Recently, she has cut back on her diabetes medicine. "I don't take it exactly the way it's prescribed," she says. "We don't eat a whole lot of groceries, but we've cut back on how much we do eat. We don't eat steaks, that's for sure."

Her husband steamed and froze vegetables to get them through winter, and they typically buy frozen or canned fruit. "We try to cut back on how much heat we use. During the day, we wear sweatshirts," she says. They travel to see the grandkids less often, as well.

Even tax policy contributes to the growing gap. It has been kindest to those who have assets, according to a 2006 report, "Subsidies for Assets: A New Look at the Federal Budget," commissioned for the Federal Reserve System. The report found that nearly half of all tax benefits went to people making at least $1 million a year.

Those making less than $80,000 shared 10.5 percent of the $367 billion in benefits available in fiscal year 2005. The bottom 60 percent of households got less than 3 percent of the benefits. "The poorest fifth got, on average, $3 in benefits from these policies, while the wealthiest 1 percent enjoy, on average, $57,673," the report says.

The effect of recent and ongoing stimulus efforts was not factored into the report.

The Paris-based Organisation for Economic Co-Operation and Development said in October that the gap between the middle class and the rich in America in 2005 (that's the latest data) was exceeded only by that of Mexico and Turkey. And the 2208-09 Measure of America report, put out by the American Human Development Project, said the richest 10 percent of households hold 71.5 percent of this nation's wealth.

It is possible, warns the report, that the middle class will lose the most ground in a bad economy. Already, "problems once the burden of the poor — vulnerability, no safety net, living paycheck to paycheck, no health coverage or retirement savings — are now shared by many in the middle class."

Trying to cope

For some people, it's already reality. Matt Minkevitch, who directs Road Home homeless services, and Jim Pugh, head of Utah Food Bank and related programs, have front-row seats to the recession's devastation. Both men have seen more working-class families who need help because of lost jobs, reduced hours, forced unpaid leave or loss of once-plentiful overtime.

But the community has created more affordable housing and services to get people out of homeless shelters, Minkevitch says. Since July 1, Road Home served an extra 523 men, but with 549 fewer nights of shelter. And Road Home is not turning people away.

Pugh says food banks statewide have seen a 30 percent increase in demand, and the clientele is changing. "We're seeing more and more of the working poor — full-time wage earners with full-time jobs" who increasingly "are choosing between medicine and rent. A few years ago, some of those same families were dropping off food." Calls to the 2-1-1 Information and Referral line for help are up 18 percent.

Uncertainty is the hardest, says Kim Jeffery, who was laid off in November from a work-at-home job processing medical claims. She quickly found home-based data entry work, but it doesn't pay as well. Her husband, Mike Jeffery, owns a landscaping business, but he is not always paid promptly. "I definitely am worried," she says. "We're cutting back."

They're trying to sell a newer car. She worries about the cost of health insurance — she and her husband have to cover the entire cost of the policy. Parents of three children — 8, 6 and 2 years old — she says that she and her husband have always been careful. They pay their bills and they save. She's just thankful they don't have chronic medical problems.

In the same Midvale neighborhood, Jared and Kiely Hanks are raising four kids, 9 months to 8 years old. She's a stay-at-home mom, and he manages a pension firm his dad owns. Although his work is apparently secure, she's being careful, too.

She watches what groceries she buys and where she buys them. Little things have dropped off the shopping list to stretch a dollar. They gave up their home phone and changed TV providers to take advantage of an offer that will save them money for a while. They sock money away "in case."

Meanwhile, prices have not yet gone up as much as she feared. Utilities are only slightly higher and gas is nowhere near what it was for a while. Mostly Kiely says she's struck by how much groceries cost. "I shop the ads more and use coupons." She keeps a mental tally of what she typically pays for commonly bought items. If she sees a good deal, she gets it.

It's going to take more than pinching pennies, though, to reverse a decades-long trend. Warren worries that we're going from three classes to two. "Those with two incomes, who don't get sick or have a tragedy, they stay with the upper group ... and the rest of us is just one long trail of underclass that stays on the constant debt treadmill" with no real security, she says. It's "not the kind of security that for the first three-quarters of a century we associated with being middle class."

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