

# Center for American Progress



## **Pushing the Limit: Credit Card Debt Burdens American Families**

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### **Introduction**

During the past few years, the United States has experienced an unprecedented boom in household debt. For the first time on record, families have outstanding debt that is greater than their incomes. To a large degree, this rise in debt is a consequence of rapidly rising costs for large ticket items such as housing, medical care, and education, amid flat or declining incomes.

Although most household debt is in the form of mortgages and home equity lines, credit card debt often receives particular attention. This is usually due to the costs associated with credit cards rather than because of the amount owed on credit cards. Credit card debt, of course, tends to carry high interest rates, large fees, and a number of hidden costs. These factors disproportionately affect lower income families, who are disproportionately renters, and thus, cannot borrow funds against their homes via home equity lines of credit, which is a significantly less costly form of debt.

A closer look at credit card debt shows the following:

- Credit card debt has become more widespread. A larger share of families (46.2 percent in 2004) than ever before carried credit card balances, up from 39.6 percent in 1989. Typical credit card debt has grown to its highest level on record. By 2004, the typical family with credit card debt owed \$2,150 (in 2004 dollars), up 62.9 percent since 1989.
- Credit card debt levels relative to income are highest among low-income families. Low-income families owed the equivalent of 9.5 percent of their income on credit cards, while middle-class families owed 5.2 percent, and high-income families owed 2.3 percent.
- Typical credit card payments pose a small but disproportionate burden on families' incomes. Typical credit card payments relative to income rose faster than total payments from 1989 to 2004.
- Credit card debt contributes to families' financial struggles. The share of families with high credit card payments — above 10 percent of income — rose from 13.5 percent in 1989 to 23.0 percent in 2004.

- Delinquency rates are greater for families with high levels of credit card debt than for families with high levels of overall debt. While 9.9 percent of families with high credit card debt were 60 days late on at least one payment, 7.5 percent of families with high overall debt were 60 days late on at least one payment.

### **Credit card debt grows particularly among low- and moderate-income families**

A number of regulatory changes have increased access to credit, especially in the form of mortgages and home equity lines. The standardization of mortgages and the introduction of mortgage-backed securities has reduced the costs of consumer debt. Changes in the tax code have also given rise to financial innovation, reducing the costs of particular forms of credit.

The Tax Reform Act of 1986, for example, phased out the deductibility of most non-mortgage interest and introduced new marginal tax rates that reduced the tax advantage of all types of debt, leading to a shift of consumer debt toward mortgages, including home equity lines. Many households, though, do not have access to these lower cost forms of credit, mainly because they do not own a home that they could offer as collateral.

Renters, though, tend to be disproportionately low-income families (Loewentheil and Weller, 2005). Their incomes have grown slowly for much of the past decade, and have fallen more than for higher income families in recent years (Weller, 2006). Thus, lower income families are caught in a bind. Their need to borrow in the face of falling incomes has gone up, but they only have access to more costly credit card debt.<sup>1</sup> This economic bind between the need to borrow and access to credit is reflected in a disproportionate share of credit card debt among low-income families.<sup>2 3</sup>

Over time, the use of credit card debt has become more widespread, especially among low- and moderate-income families. The share of households with credit card debt among 20 percent of the lowest income families, for example, grew by 10.9 percentage points from 18.2 percent in 1989 to 29.2 percent in 2004, and it expanded by 9.5 percentage points from 34.7 percent to 44.2 percent for families on the next 20 percent rung of the income ladder.

During the same period, the share of families with credit card debt among all other families expanded much slower or even declined (Table 1). Between 1989 and 2004, the share of families with credit card debt also grew faster among non-union families, minority families, young families, single women, and families with a high school education.

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<sup>1</sup> See Weller (2006) for a summary of the relevant literature.

<sup>2</sup> See Weller (2006) for a description of the data.

<sup>3</sup> Another alternative is less regulated, but even more costly credit, such as payday lending. Unfortunately, the data do not provide information on these forms of credit.

**Table 1**  
**Share of Families with Credit Card Debt Levels by Demographic Groups, 1989 to 2004**

	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	39.6%	43.7%	47.3%	44.1%	44.4%	46.2%	6.6%	1.8%
<b>By income</b>								
Bottom quintile	18.2%	26.5%	27.8%	27.1%	30.8%	29.2%	10.9%	-1.7%
Second quintile	34.7%	43.4%	46.0%	44.5%	45.4%	44.2%	9.5%	-1.2%
Middle quintile	52.0%	53.9%	55.4%	50.2%	53.0%	55.4%	3.4%	2.4%
Fourth quintile	59.3%	56.2%	63.4%	58.7%	53.5%	54.8%	-4.4%	1.3%
Top quintile	47.3%	43.8%	50.9%	45.5%	40.5%	48.6%	1.3%	8.2%
<b>By union membership</b>								
Union	57.7%	55.6%	60.5%	55.7%	57.5%	58.9%	1.2%	1.3%
Non-union	45.8%	51.1%	51.1%	50.9%	49.5%	50.9%	5.1%	1.4%
<b>By race/ethnicity</b>								
White	41.3%	44.2%	47.1%	44.3%	43.3%	46.1%	4.7%	2.7%
Black	33.4%	43.3%	45.3%	42.3%	52.1%	47.0%	13.6%	-5.1%
Hispanic	34.7%	39.8%	56.1%	46.3%	43.5%	46.9%	12.2%	3.5%
<b>By age</b>								
18 to 24 years	30.1%	44.3%	45.8%	41.6%	45.3%	42.8%	12.6%	-2.6%
35 to 44 years	50.5%	50.9%	55.9%	51.3%	54.1%	58.8%	8.4%	4.7%
65 and older	20.0%	27.0%	24.6%	20.6%	24.3%	27.7%	7.6%	3.4%
<b>By marital status</b>								
Married couples	46.7%	49.3%	52.9%	49.9%	46.6%	49.9%	3.2%	3.3%
Single men	27.1%	33.2%	40.2%	34.3%	39.8%	35.7%	8.5%	-4.2%
Single women	30.9%	37.6%	39.0%	36.8%	41.6%	43.9%	13.0%	2.3%
<b>By education</b>								
Less than high school	23.4%	27.4%	32.4%	28.5%	30.0%	29.5%	6.1%	-0.5%
High school	40.8%	46.7%	49.8%	43.0%	46.4%	48.2%	7.4%	1.8%
Some college	50.8%	49.4%	54.9%	53.1%	55.3%	54.4%	3.5%	-0.9%
College	46.0%	48.1%	48.9%	47.9%	43.4%	47.0%	1.0%	3.6%

Notes: All figures are in 2004 dollars. Authors' calculations are based on the Board of Governors, Federal Reserve System, various years, Survey of Consumer Finances, Washington, D.C.: BOG. See Weller (2006) for a detailed description of the data.

Not only has the share of families with credit card debt increased, but also the typical amount of credit card debt. In 2004, the last year for which data are available, the outstanding credit card debt for the typical family was \$2,150 (in 2004 dollars)<sup>4</sup>, an increase of 6.2 percent more than the level in 2001 and 62.9 percent greater than in 1989, the first year for which data are available (Table 2).

The absolute amounts of credit card debt have expanded especially for middle- and moderate-income families. For instance, from 2001 to 2004, the amount of credit card debt grew by 40.8 percent for the 20 percent of families with incomes above those families at the bottom of the income scale. Among families with incomes in the middle 20 percent, credit card debt grew by 3.3 percent, and by 19.3 percent for the 20 percent of families just below those at the top of the income scale.

In comparison, credit card debt declined by 6.1 percent from 2001 to 2004 for the typical family among the 20 percent of families at the bottom of the income scale. This is the case even though credit card debt levels relative to income are highest among low income families.

Many demographic groups saw record high levels of credit card debt. This was true for middle-income families, for non-union households, for white and Hispanic families, for families with a high school education, and for those with at least a college degree. The picture, though, changes when credit card debt is set in relation to family income (Table 3). Now, the relevance of credit card debt declines with credit. In line with the observation that lower income families may have the largest need to borrow on credit cards, the ratio of credit card debt to income rose fastest from 1989 to 2004 for low-income families and actually declined for high-income families.

Yet, there seems to be a limit as to how quickly low- and moderate-income families can expand their credit card debt relative to income. From 2001 to 2004, credit card debt relative to income fell for the 40 percent of families with the lowest incomes. While families at the bottom may have had the greatest need to borrow, they may have also experienced restricted access to credit card borrowing.

### **Credit card payments rise faster than payments for other forms of credit**

To see if credit card debt places a measurable burden on some families, three different measures are used: (1) the payments on credit card debt relative to income; (2) the share of families with disproportionately high levels of credit card debt payments; and (3) the share of families with delinquencies. In each case, the three metrics are calculated for families with low, typical, and high levels of credit card debt relative to income. These three groups are defined, so that there is the same number of people with any amount of credit card debt for each in any given year.

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<sup>4</sup> The term “typical” is used interchangeably with median.

**Table 2**  
**Credit Card Debt Levels by Demographic Groups, 1989 to 2004**

	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	\$ 1,319	\$ 1,318	\$ 1,847	\$ 1,971	\$ 2,024	\$ 2,150	62.9%	6.2%
<b>By income</b>								
Bottom quintile	\$ 660	\$ 738	\$ 923	\$ 1,159	\$ 1,065	\$ 1,000	51.6%	-6.1%
Second quintile	\$ 1,041	\$ 1,120	\$ 1,477	\$ 1,623	\$ 1,385	\$ 1,950	87.3%	40.8%
Middle quintile	\$ 1,217	\$ 1,344	\$ 1,847	\$ 2,319	\$ 2,130	\$ 2,200	80.8%	3.3%
Fourth quintile	\$ 1,466	\$ 1,845	\$ 2,154	\$ 2,608	\$ 2,514	\$ 3,000	104.6%	19.3%
Top quintile	\$ 2,932	\$ 2,504	\$ 3,078	\$ 3,246	\$ 3,195	\$ 3,020	3.0%	-5.5%
<b>By union membership</b>								
Union	\$ 1,466	\$ 1,318	\$ 2,093	\$ 2,435	\$ 2,663	\$ 2,400	63.7%	-9.9%
Non-union	\$ 1,466	\$ 1,516	\$ 1,970	\$ 2,087	\$ 2,130	\$ 2,400	63.7%	12.7%
<b>By race/ethnicity</b>								
White	\$ 1,466	\$ 1,384	\$ 1,847	\$ 2,319	\$ 2,130	\$ 2,500	70.5%	17.4%
Black	\$ 880	\$ 923	\$ 1,231	\$ 1,043	\$ 1,598	\$ 1,350	53.5%	-15.5%
Hispanic	\$ 1,466	\$ 2,240	\$ 1,724	\$ 1,391	\$ 1,704	\$ 1,750	19.4%	2.7%
<b>By age</b>								
18 to 24 years	\$ 1,070	\$ 949	\$ 1,354	\$ 1,275	\$ 1,172	\$ 970	-9.4%	-17.2%
35 to 44 years	\$ 1,466	\$ 1,582	\$ 2,339	\$ 2,319	\$ 2,130	\$ 2,500	70.5%	17.4%
65 and older	\$ 748	\$ 791	\$ 776	\$ 1,159	\$ 959	\$ 1,800	140.7%	87.8%
<b>By marital status</b>								
Married couples	\$ 1,466	\$ 1,502	\$ 1,970	\$ 2,319	\$ 2,237	\$ 2,400	63.7%	7.3%
Single men	\$ 1,026	\$ 1,318	\$ 1,354	\$ 1,971	\$ 1,704	\$ 2,000	94.9%	17.4%
Single women	\$ 1,026	\$ 988	\$ 1,477	\$ 1,623	\$ 1,385	\$ 1,900	85.1%	37.2%
<b>By education</b>								
Less than high school	\$ 894	\$ 949	\$ 1,231	\$ 1,333	\$ 1,033	\$ 1,200	34.2%	16.1%
High school	\$ 1,319	\$ 1,318	\$ 1,477	\$ 1,623	\$ 1,811	\$ 1,901	44.1%	5.0%
Some college	\$ 1,173	\$ 1,186	\$ 1,847	\$ 2,377	\$ 2,130	\$ 2,150	83.3%	0.9%
College	\$ 1,569	\$ 1,845	\$ 2,462	\$ 2,319	\$ 2,663	\$ 2,700	72.1%	1.4%

Notes: All figures are in 2004 dollars. Changes are in percent. Authors' calculations are based on the Board of Governors, Federal Reserve System, various years, Survey of Consumer Finances, Washington, D.C.: BOG. See Weller (2006) for a detailed description of the data.

**Table 3**  
**Credit Card Debt Levels Relative to Income by Demographic Groups, 1989 to 2004**

	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	3.1%	3.8%	4.6%	4.8%	4.4%	4.9%	1.8%	0.5%
<b>By income</b>								
Bottom quintile	5.5%	8.3%	9.2%	9.4%	10.1%	9.5%	4.0%	-0.6%
Second quintile	3.9%	4.8%	6.5%	5.7%	5.3%	6.8%	2.9%	1.5%
Middle quintile	2.7%	3.4%	4.3%	4.8%	4.5%	5.2%	2.5%	0.7%
Fourth quintile	2.4%	3.3%	3.4%	3.7%	3.6%	4.4%	2.0%	0.8%
Top quintile	2.5%	2.4%	2.6%	2.6%	2.4%	2.3%	-0.3%	-0.1%
<b>By union membership</b>								
Union	2.6%	3.0%	3.8%	4.4%	4.3%	3.5%	0.9%	-0.8%
Non-union	3.2%	4.0%	4.8%	4.8%	4.3%	5.0%	1.8%	0.7%
<b>By race/ethnicity</b>								
White	2.9%	3.7%	4.6%	5.1%	4.3%	5.1%	2.2%	0.8%
Black	2.9%	3.7%	4.0%	3.3%	4.0%	4.2%	1.3%	0.2%
Hispanic	3.8%	5.5%	4.7%	3.5%	5.2%	4.7%	0.9%	-0.5%
<b>By age</b>								
18 to 24 years	3.8%	5.6%	6.8%	7.3%	6.1%	5.2%	1.5%	-0.9%
35 to 44 years	2.7%	3.8%	4.3%	4.7%	3.7%	4.5%	1.7%	0.8%
65 and older	2.9%	4.2%	3.6%	4.8%	3.9%	7.4%	4.5%	3.5%
<b>By marital status</b>								
Married couples	2.8%	3.4%	4.0%	3.8%	3.6%	4.0%	1.2%	0.4%
Single men	2.9%	5.4%	4.0%	6.9%	6.3%	5.5%	2.5%	-0.9%
Single women	3.5%	4.5%	6.9%	6.4%	6.1%	7.1%	3.6%	0.9%
<b>By education</b>								
Less than high school	2.7%	4.5%	5.0%	6.3%	4.4%	4.8%	2.1%	0.5%
High school	3.2%	3.9%	4.3%	3.7%	4.2%	5.2%	2.0%	1.0%
Some college	2.7%	3.4%	4.9%	6.1%	5.5%	6.0%	3.3%	0.5%
College	3.2%	3.6%	4.6%	4.4%	4.0%	4.5%	1.3%	0.5%

Notes: Changes are percentages point changes. Authors' calculations are based on the Board of Governors, Federal Reserve System, various years, Survey of Consumer Finances, Washington, D.C.: BOG. See Weller (2006) for a detailed description of the data.

Debt payments relative to income have grown substantially between 1989 and 2004, albeit at comparatively low levels (Table 4). During this 15-year period, the typical payment relative to income grew from 0.5 percent to 0.8 percent — an increase of 0.3 percentage points or 60.0 percent. At the same time, credit card debt levels relative to income increased by 58.1 percent, or 1.8 percentage points, from 3.1 percent in 1989 to 4.9 percent in 2004 (Table 3). That is, payments rose somewhat in proportion with debt levels.

Yet, when credit card payments are compared to total debt payments, their increase is disproportionate. While credit card payments relative to income grew by 60.0 percent, total debt payments relative to income rose from 16.3 percent in 1989 to 18.3 percent in 2004, an increase of only 12.2 percent.

This discrepancy is even more telling about the underlying costs of credit card debt — considering that credit card debt relative to income rose by 58 percent, and that total debt relative to income grew by 107.3 percent, from 52.3 percent in 1989 to 108.4 percent, in 2004. One possible explanation is that even though overall debt levels rose sharply the costs of those debts — interest rates — declined simultaneously, offsetting the rise in debt amounts. That is, with smaller increases in debt levels for credit cards than for total debt, credit card costs rose faster than total debt, highlighting the disproportionately higher costs of credit cards.

### **Share of households with high credit card payments grows sharply**

The high cost of credit card debt also becomes apparent when considering the situation for the one-third of families with the highest credit card debt levels relative to income. For these families, the typical credit card payment was 1.7 percent of income in 1989, or more than three times as much as for the one-third of families with typical credit card levels. By 2004, the debt payments for families with high credit card debt rose to 3.2 percent of income, or four times the payments level for families with typical credit card debt. In comparison, the ratio of total debt payments for families with high debt levels and for those with typical debt levels was less than twice as much in both years.

Admittedly, credit card debt plays a comparatively small role for the typical family, even though it appears to carry a disproportionate burden. This is not to say that some families don't struggle under the yoke of heavy credit card interest rates and credit card fees. Case in point: 23 percent of families with high credit card levels paid more than 40 percent of their income for debt service — interest payments and principal in 2004, up from 13.5 percent in 1989. Also, 9.6 percent of families with high credit card debt paid more than 10 percent of their income to repay their credit card debt in 2004 — the highest share during the 15-year period, for which data exist (Table 5).

The growth rate from 2001 to 2004 alone was 50 percent, from 6.4 percent of income to 9.6 percent. At the same time, the share of heavily indebted families, or families with debt payments of 40 percent of income, grew much slower among families with high levels of debt, or by only 6.4 percent from 29.6 percent in 2001 to 31.5 percent in 2004. Again, credit card debt appears to contribute disproportionately to the struggles of families with debt.

**Table 4**  
**Credit card and total debt payments relative to income, by debt levels, 1989 to 2004**

	<b>1989</b>	<b>1992</b>	<b>1995</b>	<b>1998</b>	<b>2001</b>	<b>2004</b>	<b>1989 to 2004</b>	<b>2001 to 2004</b>
<b>Total credit card payments relative to income</b>	0.5%	0.6%	0.8%	0.8%	0.7%	0.8%	0.3%	0.1%
low levels of credit card debt	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
typical levels of credit card debt	0.5%	0.6%	0.7%	0.8%	0.7%	0.8%	0.3%	0.1%
high levels of credit card debt	1.7%	2.2%	2.6%	3.2%	2.8%	3.2%	1.6%	0.4%
<b>Total debt payments relative to income</b>	16.3%	16.5%	16.5%	17.7%	16.9%	18.3%	2.0%	1.4%
low or no levels of credit card debt	5.0%	4.1%	4.7%	4.7%	4.7%	5.6%	0.6%	0.9%
typical levels of credit card debt	15.7%	16.0%	16.6%	16.8%	15.6%	16.9%	1.2%	1.3%
high levels of credit card debt	28.8%	30.8%	31.7%	31.8%	29.6%	32.0%	3.2%	2.4%

Notes: All figures are in percent, unless otherwise specified. Changes are in percentage points. Authors' calculations are based on the Board of Governors, Federal Reserve System, various years, Survey of Consumer Finances, Washington, D.C.: BOG. See Weller (2006) for a detailed description of the data.



**Table 5****Share of families with disproportionate credit card and debt payments relative to income, by debt levels, 1989 to 2004**

	<b>1989</b>	<b>1992</b>	<b>1995</b>	<b>1998</b>	<b>2001</b>	<b>2004</b>	<b>1989 to 2004</b>	<b>2001 to 2004</b>
<b>Share of heavy indebted households with credit card debt</b>	9.3%	12.1%	11.7%	14.0%	13.6%	14.0%	4.7%	0.4%
low levels of credit card debt	2.9%	8.5%	6.6%	7.7%	6.3%	7.3%	4.4%	1.0%
typical levels of credit card debt	10.6%	8.7%	8.3%	9.8%	10.2%	10.2%	-0.5%	-0.1%
high levels of credit card debt	13.5%	18.0%	18.2%	22.3%	23.1%	23.0%	9.6%	0.0%
<b>Share of households with high credit card payments</b>	0.2%	2.0%	2.5%	3.9%	2.3%	3.7%	3.5%	1.4%
low levels of credit card debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
typical levels of credit card debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
high levels of credit card debt	0.7%	5.1%	5.7%	9.5%	6.4%	9.6%	8.9%	3.3%
<b>Share of heavy indebted households with any debt</b>	10.7%	12.4%	11.7%	14.4%	12.3%	13.4%	2.6%	1.0%
low levels of debt	3.2%	1.4%	1.1%	1.6%	0.7%	1.3%	-1.9%	0.6%
typical levels of debt	4.4%	6.1%	3.7%	4.3%	3.9%	3.5%	-0.9%	-0.4%
high levels of debt	23.2%	28.4%	30.4%	33.0%	29.6%	31.5%	8.3%	1.9%

Notes: All figures are in percent, unless otherwise specified. Changes are in percentage points. Authors' calculations are based on the Board of Governors, Federal Reserve System, various years, Survey of Consumer Finances, Washington, D.C.: BOG. See Weller (2006) for a detailed description of the data.

**Table 6****Share of families with at least one payment 60 days late, by debt levels, 1989 to 2004**

	<b>1989</b>	<b>1992</b>	<b>1995</b>	<b>1998</b>	<b>2001</b>	<b>2004</b>	<b>1989 to 2004</b>	<b>2001 to 2004</b>
<b>Share of households with credit card debt and delinquencies</b>	4.8%	4.9%	6.3%	8.4%	7.6%	8.8%	4.1%	1.3%
low levels of credit card debt	3.3%	2.2%	5.0%	7.0%	7.8%	9.0%	5.6%	1.2%
typical levels of credit card debt	4.5%	4.7%	6.0%	8.8%	5.6%	7.7%	3.2%	2.1%
high levels of credit card debt	6.3%	7.3%	7.9%	9.0%	9.4%	9.9%	3.5%	0.4%
<b>Share of households with debt and delinquencies</b>	6.2%	5.3%	6.6%	7.9%	6.9%	8.7%	2.5%	1.8%
low levels of debt	6.8%	5.1%	6.8%	8.5%	8.0%	10.7%	3.9%	2.6%
typical levels of debt	6.2%	4.6%	5.9%	6.5%	6.0%	8.1%	1.9%	2.1%
high levels of debt	5.0%	6.2%	7.2%	8.5%	6.7%	7.5%	2.5%	0.8%

Notes: All figures are in percent, unless otherwise specified. Changes are in percentage points. Authors' calculations are based on the Board of Governors, Federal Reserve System, various years, Survey of Consumer Finances, Washington, D.C.: BOG. See Weller (2006) for a detailed description of the data.

## **Delinquencies on the rise for households with high credit card debt**

Another indication that credit card debt may play a disproportionate role in households' financial struggles is the link between credit card debt and the share of families who are delinquent on paying at least one bill. For instance, 9.9 percent of families with high credit card levels reported that they were 60 days late on at least one bill in 2004, as compared to 7.5 percent of families with high overall debt levels — a difference of 32 percent.

More importantly, this difference has widened over time. In 1989, 6.3 percent of families with credit card debt were delinquent on at least one bill, or 26 percent more than the 5.0 percent of families with high total debt (Table 6).

## **Conclusion**

Although credit card debt is a relatively small part of the credit boom that has characterized the U.S. economy for the past few years, it can impose a disproportionate burden on many families, particularly for low- and moderate-income families. Because they are often not home owners, they have only access to more costly forms of credit, such as credit cards. The data show that families with high credit card levels, which are disproportionately lower income, have indeed seen a disproportionate increase in credit card payments, heavy indebtedness, and delinquency rates from 1989 to 2004.

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