The Great Affordability Crisis Breaking America

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In the 2010s, the national unemployment rate dropped from a high of 9.9 percent to its current rate of just 3.5 percent. The economy expanded each and every year. Wages picked up for high-income workers as soon as the Great Recession ended, and picked up for lower-income workers in the second half of the decade. Americans' confidence in the economy hit its highest point since 2000, right before the dot-com bubble burst. The headline economic numbers looked good, if not great.

But beyond the headline economic numbers, a multifarious and strangely invisible economic crisis metastasized: Let's call it the Great Affordability Crisis. This crisis involved not just what families earned but the other half of the ledger, too—how they spent their earnings. In one of the best decades the American economy has ever recorded, families were bled dry by landlords, hospital administrators, university bursars, and child-care centers. For millions, a roaring economy felt precarious or downright terrible.

Viewing the economy through a cost-of-living paradigm helps explain why roughly two in five American adults would struggle to come up with $400 in an emergency so many years after the Great Recession ended. It helps explain why one in five adults is unable to pay the current month's bills in full. It demonstrates why a surprise furnace-repair bill, parking ticket, court fee, or medical expense remains ruinous for so many American families, despite all the wealth this country has generated. Fully one in three households is classified as "financially fragile."

Along with the rise of inequality, the slowdown in productivity growth, and the shrinking of the middle class, the spiraling cost of living has become a central facet of American economic life. It is a crisis amenable to policy solutions at the state, local, and federal levels—with all of the 2020 candidates, President Donald Trump included, teasing or pushing sweeping solutions for the problem. But absent those solutions, it looks certain to get worse for the foreseeable future—leaving households fragile, exacerbating the country's inequality, slowing down growth, smothering productivity, and putting families' dreams of security out of reach.

The price of housing represents the most acute part of this crisis. In metro areas such as the Bay Area, Seattle, and Boston, severe supply shortages have led to soaring prices—millions of low- and middle-income families are no longer able to purchase centrally located homes. The median asking price for a single-family home in San Francisco has reached $1.6 million; even with today's low interest rates, that would require a monthly mortgage payment of roughly $6,000, assuming that a family puts down the standard 20 percent. In Manhattan, listings for sale now ask an average of nearly $1,800 per square foot.

The housing cost crises in the Bay Area and New York might be the country's most obscene. But the problem is national, driven by a combination of stagnant wages, restrictive building codes, and underinvestment in construction, among other trends. Home prices are rising faster than wages in roughly 80 percent of American metro regions. In 2018, housing affordability declined in every one of the 160-some urban areas analyzed by the National Association of Realtors, save for Decatur, Illinois. Rising prices and housing shortages are squeezing families in Reno, Minneapolis, and Phoenix.

The problem now even extends to *rural* areas, where income growth has lagged in the post-recession period. A recent report by the Pew Charitable Trusts found "sizable" increases in the

number of households spending half or more of their income on housing in rural counties across the country. The housing crisis is hitting Bertie County, North Carolina, and Irion County, Texas, too.*

One central effect of the housing-cost crisis has been to turn the United States into a country of renters. The homeownership rate has fallen from a peak of nearly 70 percent in the mid-aughts to under 65 percent today; the numbers are more acute for Millennials, whose homeownership rate is 8 percentage points lower than that of their parents at the same age. Unable to buy, roughly 3.5 million younger families have kept renting—delaying the Millennial and Gen X cohorts' wealth accumulation, thus consigning them to worse net-worth trajectories for the rest of their lives. And renting, for many families, is not affordable, either: Nearly half of renters are facing uncomfortable monthly bills, and the cost of renting has risen faster than renters' incomes for a full 20 years now.

The cost-of-living crisis extends beyond housing. Health-care costs are exorbitant, too: Americans pay roughly twice as much for insurance and medical services as do citizens of other wealthy countries, but they don't have better outcomes. In the post-recession period, premiums, deductibles, and out-of-pocket costs in general just kept rising, eating away at families' budgets, casting millions into debt, and consigning millions more to bankruptcy.

The "cost burden" of health coverage climbed through the 2010s; just from 2010 to 2016, family private-insurance premiums jumped 28 percent to $17,710, while median household incomes rose less than 20 percent. That meant less take-home pay for workers. Deductibles—what a family has to fork over before insurance kicks in—also soared. From 2010 to 2016, the share of employees in health plans with a deductible jumped from 78 percent to 85 percent. And the average annual deductible went from less than $2,000 to more than $3,000.

The country's insurance premiums and out-of-pocket health-cost burdens are just very, very high—including for people with publicly subsidized or public coverage. The average person on Medicare spends $5,460 on health care beyond what they pay for insurance every year. The average person with Medicaid forks over nearly half that. No wonder two in three bankruptcies are related to medical issues, and nearly 140 million American adults report "medical financial hardship" each and every year.

Next up is student-loan debt, a trillion-dollar stone placed on young adults' backs. Or, to be more accurate, the $1.4 trillion stone, up 6 percent year over year and 116 percent in a decade; student-loan debt is now a bigger burden for households than car loans or credit-card debt. Half of students now take on loans of one kind or another to try for a higher-ed degree, and outstanding debts typically total $20,000 to $25,000, requiring monthly payments of $200 to $300—though of course many students owe much more. Now nearly 50 million adults are stuck working off their educational debt loads, including one in three adults in their 20s, erasing the college wealth premium for younger Americans and eroding the college earnings premium.

Finally, child care. Spending on daycare, nannies, and other direct-care services for kids has increased by 2,000 percent in the past four decades, and families now commonly spend $15,000 to $26,000 a year to have someone watch their kid. Such care is grossly unaffordable for low-income parents in metro areas across the country, causing many people to drop out of the labor force. But one in four American mothers returns to work within two weeks of giving birth, so heavy are the *other* cost burdens of living in this country. The whole system is broken.

The federal government has set as a benchmark that low-income families should not spend more than 7 percent of their income on child care. But child care is generally the single biggest line item on young families' budgets, bigger even than rent or mortgage payments: Putting a kid in daycare costs 18 percent of annual income in California; home-based options equal 14 percent of family

income in Nebraska; having an infant in professional care in the District of Columbia costs more than most poor families earn.

It all adds up, and it all subtracts from families' well-being. The price tags for tuition and fees at colleges and universities have risen twice as fast as wages, if not more, in recent years. Rental costs are outpacing wage gains by a percentage point or more a year. Health-care costs have grown twice as fast as workers' wages. And child-care costs have exploded. These cost pressures are particularly acute on young Americans who have seen worse employment prospects and smaller raises than their older counterparts.

The effects are wide-ranging. High costs are preventing workers from moving to high-productivity cities, thus smothering the country's economic vibrancy and putting a drag on its GDP; economists have estimated that GDP would be as much as 10 percent bigger if more workers could afford to live in places like San Jose and Boston. High costs are forcing families to delay getting married and to have fewer children, and putting the dream of owning a home out of reach.

What is perhaps most frustrating is that the Great Affordability Crisis is amenable to policy solutions—ones most other rich countries adopted decades ago. In other developed economies, child care, early education, and higher education are public goods, and do not require high-interest-rate debts or endless scrambling by exhausted young parents to procure. Other wealthy countries have public-health systems that cover everybody at far lower cost, whether through socialized or private models. And numerous proposals would transform residential construction in this country, including one that just failed in California's legislature.

But the Great Affordability Crisis hides in plain sight, obvious to households but unmentioned in the country's headline economic numbers. It persists even as President Donald Trump rightly praises the country's growth, low unemployment rate, and rising household incomes. And though there are many nationwide policies that could end the crisis, they all seem unlikely to pass through the country's broken Congress; the brightest glimmer of hope lies in housing and health-care policy by individual states. But it is still a dim glimmer. This crisis looks sure to stay with us for the coming decade, whatever recessions or expansions it may hold.

**An earlier version of this article misstated where Bertie County is located. It is in North Carolina, not Virginia.*