Financial Crisis in American Households

The Basic Expenses That Bankrupt the Middle Class

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CHAPTER FIVE

Runaway Spending

When contemplating the causes of U.S. households' financial problems, attentions often turn to the topic of real income stagnation. Although income problems are often the focus of discussions about households' financial difficulties, they are only part of the puzzle. Income stagnation means that incomes aren't growing quickly—not that they are falling. As long as people's spending also stagnates, their savings, debt, wealth, and financial security need not deteriorate.

The problem is that Americans do not seem to be reigning in their spending. This observation provides an important basis for opposition to the implementation of public assistance programs in response to household financial problems. Cheap imports, razor-thin-margin retailers, and technological advancement have made many products—including essentials such as food and clothes—very affordable. The idea that people have not seized on our era's immense opportunities to save money lends credence to the belief that people are causing their own problems.

More broadly, the idea that runaway spending is causing financial ruin feeds a very prevalent—and unflattering—narrative depicting U.S. culture as materialistic, frivolous, gluttonous, wasteful, and consumeristic. Americans are said to have been brainwashed by marketing. They are said to live in malls. Their capacity to control their consumption impulses is questioned. In essence, they are portrayed as consumption addicts. People's purported failure to manage money well suggests that extending aid to the financially distressed is tantamount to pouring money down a black hole. There are no limits to the amount of money that people can waste. Critics of social assistance programs argue that people need to learn self-discipline and that shielding them from the natural consequences of their excesses prevents them from learning necessary lessons about thrift.

While there may be some kernels of truth in this line of argument, it misses some important aspects of Americans' runaway spending and sows misunderstanding that might ultimately prevent us from developing effective responses to household financial problems. This chapter presents an analysis of how household spending has changed during this long deterioration in household finances. Since the early 1980s, households appear to be spending less on the kinds of frivolities that we often associate with consumerism, such as restaurant meals, clothes, cars, beauty products, or entertainment, in proportion to incomes. Instead, four types of products—healthcare, child care, education, and housing—seem to be driving rising household spending. These are not frivolous things. People's basic well-being is affected by their access to these kinds of products. Moreover, it is not so clearly the case that rising spending is the product of people buying quantitatively more of these things. Prices have also gone up, both in relation to incomes and general prices.

These results are reminiscent of earlier arguments advanced by Elizabeth Warren,[1] whose earlier work on household bankruptcy found that the financial burden of select products that are, arguably, essential to well-being—such as housing, education, healthcare, or child care—were reported to have weighed on family finances. These findings suggest that households' failure to tighten their belts may not be a product of wasteful consumerism but may instead be a product of the rising personal burden of securing access to products that are essential to well-being. The economy is failing to contain the cost of products that households cannot easily—or even advisably—forgo. We examine Warren and her colleagues' view in greater detail in the following section.

Spending Is Part of the Problem

During this long deterioration in household finances, the growth in household spending has slightly, but steadily, outpaced that of incomes. This slow change led to the creeping deterioration in household savings described in Chapter One. Figure 5.1 shows changes in per capita disposable income and consumption expenditures, adjusted for inflation, from 1970 to 2013. The gap between the blue and red lines—between income and consumption—roughly represents household savings. Note that the space between these lines has been steadily shrinking over time.

Over the 33-year period depicted in the figure, per capita expenditures generally grew about one-half of a percentage point faster than incomes. During the boom years, households would collectively raise their spending by slightly more than their incomes rose. During bad years, they often

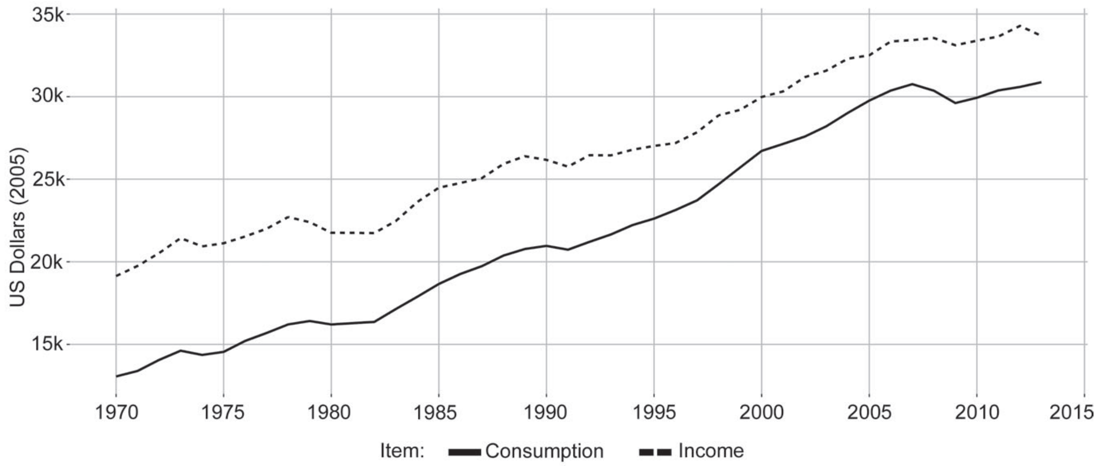

Figure 5.1 Real per Capita Household Disposable Income and Consumption Spending over Time, United States, 1970–2013.
Sources: Bureau of Labor Statistics (2015). Consumer Price Index—All Urban Consumers [Online database]. Retrieved from http://www.bls.gov/data/; U.S. Census Bureau. (2015). Table H-6: Regions—by Median and Mean Income [Data table]. Retrieved from https://www2.census.gov/programs-surveys/cps/tables/time-series/historical-income-households/h06w.xls

collectively maintained their consumption levels, even when their incomes were falling. Rising spending left households with less money to save, and lower savings made it harder for households to accumulate wealth. This suggests that household finances may be strengthened by initiatives that encourage households to cut spending.

Spending is likely part of what is causing people to save less and accumulate less wealth. In and of itself, this observation does not tell us enough to make sense of the problem. The character of this rise in spending has important implications on the means by which we try to encourage spending cuts. If spending is being fueled by wasteful or nonessential endeavors, then containing spending probably involves finding ways to press people to stop wasting money. Voters and taxpayers are bound to have little pity for someone who has gotten into financial trouble for overspending on hedonism, impulse, social jockeying, gluttony, or some other ignoble motive. They might see the pains of financial problems as justified—perhaps even necessary—to impress the value of thrift.

However, if people's budgets are pressured by essentials, then the situation might seem different. This suggests that the economy is failing to make basic essentials accessible and is forcing people to choose between the risk of personal financial distress and the risks of forgoing health insurance, medical treatment, quality child care, education, quality emergency services, and other things that probably affect a family's well-being. Under these circumstances, the morality and practicality of public programs to help defray people's living costs looks more like a corrective measure to a failure in the system. In general, U.S. households' rising spending is presumed to be motivated by ignoble purposes. The most prominent perspective of this sort might be characterized as the "culture of consumerism" narrative. We examine that narrative next.

The "Culture of Consumerism" Narrative

Why might U.S. families overspend on products, even if it damages their long-term financial well-being? Many scholars explain household overspending as the product of *consumerism*, a cultural mind-set or ideology that hyper-valorizes the acquisition and accumulation of consumer products. Collectively, Americans are said to equate the acquisition of consumer goods with well-being, personal fulfillment, or moral rectitude.[2] We are said to forge our personal identity through products we acquire.[3] We shop recreationally, and sometimes knowingly bury ourselves in unmanageable debt.[4] Our daily lives are described as bombarded by advertising, and public spaces have become replete with opportunities to consume. Technological innovations such as the credit card[5] or online shopping are said to have made it easier to buy on impulse without fully contemplating the wider implications of our spending.

Consumerism is often described as an ideology cultivated to service capitalism and the economic interests of businesses by encouraging perpetual streams of unnecessary sales. It is said to cement the political economy's conformity to capitalist ideals by pushing people to fetishize consumer products and sacrifice things of true value in order to get them. This mind-set is said to be propagated through the tools of modern marketing and media,[6] fostered through a distorted, product-centric worldview. This culture of consumerism is linked to rising anxiety, poor health, distress and other ailments, or other forms of malaise.[7] Some argue that it helps perpetuate the impoverishment or disempowerment of middle and lower classes.[8]

The Narrative's Implications

The culture of consumerism argument imparts a particular diagnosis of overconsumption: a culture-wide inability or unwillingness to restrain spending on frivolous, nonessential purchases. It sees overspending as the product of cultural pressures that press people to fetishize the acquisition of goods and services. Often, those who subscribe to this narrative propose resolving consumerism's ills by reshaping this cultural mind-set to displace pro-consumerism with anti-consumerism cultural traits (e.g., schema, values, habits, worldviews, etc.). This can be broadly characterized as an attempt to inculcate enlightened asceticism. Interestingly, their solution shares common premises with arguments from popular conservative politics, which stress the utility of allowing market forces to whip people into shape.

Those who advocate for the inculcation of nonmaterialist worldviews and austere lifestyles as a solution offer many proposals to address high spending. Most of these proposals involve some form of reverse-cultural engineering, which tries to help people unlearn their product-centric worldviews, value systems, and practical habits. For some religious scholars, society's emancipation from consumerism can be achieved by fortifying the sway of traditional religious values, such as self-restraint, self-mastery, temperance, and so on.[9] Secular movements offer similar remedies. For example, there is the "voluntary simplicity" movement, a social movement that stresses the free-will choice "to cultivate nonmaterialistic sources of satisfaction and meaning."[10] There is also the "culture jamming" movement, which seeks to debase brand icons and marketing campaigns with the intent of sullying their luster and influence.[11] Noted consumption scholar Juliet Schor argued that resolving the strains of consumerism might involve inculcating a sense that time has value that is lost in the cycle of working and spending, so that people realize exactly what they are sacrificing when they make their trip to the mall.[12] There are many other concrete programmatic lists of potential initiatives, including educational programs, organized public movements to repudiate materialism and consumerism, and policy-based disincentives such as consumption taxes.[13] The main point of these redresses is to try to engineer culture to deemphasize the materialistic, acquisitive mind-sets that are thought to lead to overspending.

Interestingly, these types of correctives draw from a perspective that shares much common ground with more politically conservative views, which are more amenable the use of "market discipline" to press the financially imprudent to develop better financial habits. This group also sees people as gluttons for products that they do not need and cannot afford, but they see this gluttony as the result of a failure of self-restraint that people must cultivate to resist their natural acquisitiveness. Such views see it is as natural for people to want mountains of products, and see the basic mathematics of personal finance as providing the ultimate constraint on people's consuming impulses. Where people's impulse control fails, the market is supposed to impose natural consequences: people go bankrupt. The fear of bankruptcy is assumed to push people toward frugality. If fear of bankruptcy is not sufficient to contain imprudent spending, then the pains of personal bankruptcy and being cut from consumer credit is expected to press the point. Thus, the market "disciplines" people to exert the self-control that economic realities require. Insulating people from these threats is taken to sow immoderation, enabling people's consuming ways.

Although they may at first appear as opposing diagnoses and solutions, both views share common premises. Both viewpoints' underlying premise that rising spending is principally fueled by the acquisition of nonessential goods is important. If households are wasting their money on McMansions, "extra VCRs, cashmere sweaters and an SUV,"[14] then it seems entirely reasonable to expect them to exercise restraint. Through this lens, consumerism seems like an addiction, and it seems reasonable to demand that families exert more willpower.

Criticisms of the Perspective

The culture of consumerism narrative has many proponents but also its critics. One point of criticism questions whether this diagnosis is really capturing a definitive societal change that feeds into households' recent financial problems, as opposed to being just another reincarnation of an old, generic genre of social criticism. Complaints about people's shallow materialism and lack of virtue have been a mainstay of social criticism for centuries. Lest the vintage of these arguments be questioned, consider the following quote from Adam Smith, well over two centuries ago:

> The poor man's son, whom heaven in its anger has visited with ambition, when he begins to look around him, admires the condition of the rich. He finds the cottage of his father too small for his accommodation, and fancies he should be lodged more at his ease in a palace. He is displeased with being obliged to walk a-foot, or to endure the fatigue of riding on horseback. He feels himself naturally indolent, and willing to serve himself with his own hands as little as possible; and judges, that a numerous retinue of servants would save him from a great deal of trouble. He thinks if he had attained all these, he would sit still contentedly, and be quiet, enjoying himself in the thought of the happiness and tranquility of his situation. Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices a real tranquility that is at all times in his power, and which, if in the extremity of old age he should at last attain to it, he will find to be in no respect preferable to that humble security and contentment which he had abandoned for it. It is then, in the last dregs of life that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquility of mind than the tweezer-cases of the lover of toys. (Adam Smith (*Theory of Moral Sentiments* IV.I.8, 1792))

There is a long history of argument bemoaning the shallow, materialistic acquisitiveness of popular culture. Are those who attribute rising household spending to such a culture of consumerism reaching these conclusions based on a deeply contemplated diagnosis of contemporary U.S. culture, or are they merely pulling out an old, tried-and-true generic line?

A second issue with the culture of consumerism narrative is that it examines the issue of consumption in a strongly negative, moralistic way. The British anthropologist Daniel Miller argues that many analysts see consumerism through strong "anti-materialism ideologies" that paint a particularly unflattering picture of consumers.[15] Consumption is broadly portrayed as wasteful and frivolous, divorced from " 'true' needs" and "bound to express negative values such as status competition or insatiable greed."[16] These analysts characterize present-day popular consumption as quite similar to how Thorstein Veblen saw society's *nouveaux riches* at the turn of the century: "Consumption is still conspicuous consumption, and vicarious consumption based on emulation and the desire to deny labour. It's just that the examples used to illustrate the arguments have shifted by a century." A core part of Miller's critique, and one upon which this study follows up, is the notion that some forms of consumption are integral to people's well-being. Paying for a child's day care or college education, buying a car with important safety features, getting medical diagnostic tests and treatments, hiring a nurse or senior care facility to take care of an aging parent, or eating a diet with more fresh fruit and vegetables all register as consumption in official statistics. These things are not frivolities, rooted in the "negative values" Miller describes, are they?

We can quibble about the genuine novelty or value-influenced nature of this narrative, but perhaps the more compelling—and researchable—question is whether this narrative accurately portrays household spending behavior. If the character of household spending does not resemble the narrative, then the preceding questions are of little consequence. While the overall growth in household spending attests to the idea that overconsumption could be a problem, the types of products that Americans are buying are not those featured in the culture of consumerism literature.

A Look at the Data

The culture of consumerism narrative casts a particular light on household financial issues. Does the view faithfully characterize the reasons that households have failed to tighten their belts? This question can be probed empirically by looking at data from the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey, a nationally representative survey that tracks people's spending behavior.[17] A closer look at these data suggests that household budgets are being principally strained by four types of products: healthcare, child care, education, and housing. These types of expenditures are not so easily identified as being as frivolous as those typically featured in the culture of consumerism literature.

Changes in Household Spending, 1984–2014

Figure 5.2 depicts changes in mean household expenditures from 1984 to 2013, both overall and across six product categories that exemplify many others in the data. Each figure expresses average spending levels in proportion to their 1984 levels. Note that the y-axis differs across individual figures.

These data suggest that, over this 30-year period, overall household spending has risen by about 6 percent in inflation-adjusted terms.[18] This is hardly the kind of spending boom suggested earlier. Some of this stability is the product of post-2008 spending cutbacks. Right before the crisis, in 2007, household spending was up 13 percent from its 1984 levels. Moreover, some of this appearance of stability is a result of the fact that the data in Figure 5.2 are different from the data of Figure 5.1, and the former data are taken to have difficulty capturing the spending behavior of society's wealthier households.[19] We have many indications that the boom in household spending is substantially a result of higher spending at the top of the income pyramid.

If we unpack average spending levels by income levels, differences emerge. For example, spending among the bottom 20 percent of income earners was about 5 percent lower than in 1984. In fact, household spending among the country's bottom quintile was lower during most of this 30-year period. While the country as a whole may have been spending more, society's lowest earners were spending less. In contrast, the data suggest that most of this rise in household spending has been fueled by rising spending among the top 20 percent, whose spending was up 16 percent in 2007. These households on average consume about four times as much as a bottom-quintile household and about three times as much as a middle-quintile household, so their rising spending disproportionately affects overall average spending levels. This boom in household spending seems to have been fueled by those at the top of the pyramid. By 2014, it was the only group that continued to spend more (+9 percent) than its 1984 inflation-adjusted levels. The middle 60 percent spent about as much as it did in 1984. Their spending levels had also risen during the 1980s through early 2000s but had since reverted to levels maintained thirty-some years ago.

Areas of Falling Spending

Figure 5.2 depicts two spending areas where Americans have made substantial cuts. By 2014, food expenditures had fallen by 10 percent, a substantial savings on the third-largest item on household spending budget (after housing and transportation). The spending cuts to apparel are even more remarkable: down over 40 percent from 1984 levels. The magnitudes of these changes are roughly similar across income groups.

This pattern of falling spending was seen across many other product categories, including home furnishings, home appliances, personal care goods and services, alcohol and tobacco, and reading materials. In addition, household spending was roughly unchanged for utilities, medical supplies, and entertainment products. Again, these cuts occurred across the income scale.

These falling expenditures stand as examples of the economically beneficial effects of globalization and technological advancement. They are not so much a product of the fact that people are consuming less food, clothing, appliances, so on, but rather that the cost of these goods is lower. These price changes are illustrated in Table 5.1, which describes the average annual inflation rate overall and across product categories. The table divides historical inflation rates into three columns. The first column represents a period of generally higher inflation, when inflation was coming down from its stagflation era highs and the world economy was transitioning out of the Cold War. The mid-1990s to 2007 represents a period in which globalization and the information technology revolution were underway. The post-2008 era gives us a sense of what happened after the crisis.

The table demonstrates not only how much inflation has come down over the past several decades but also which products have generally not risen in price. Falling spending in apparel, recreational products, personal care products, purchased (as opposed to leased) motor vehicles, home furnishing and utilities, and intercity transportation are all examples of products that have become cheaper, and household spending on these products have generally fallen relative to wages. These low prices have helped many households weather the effects of their slow income growth. However, not all products have become less expensive.

In many corners of the economy, economic production and distribution has been driven down by ultrafast productivity gains and fast-falling profit margins. Presumably, these declining prices give people the opportunity to save money that can be spent elsewhere. The problem is that spending has

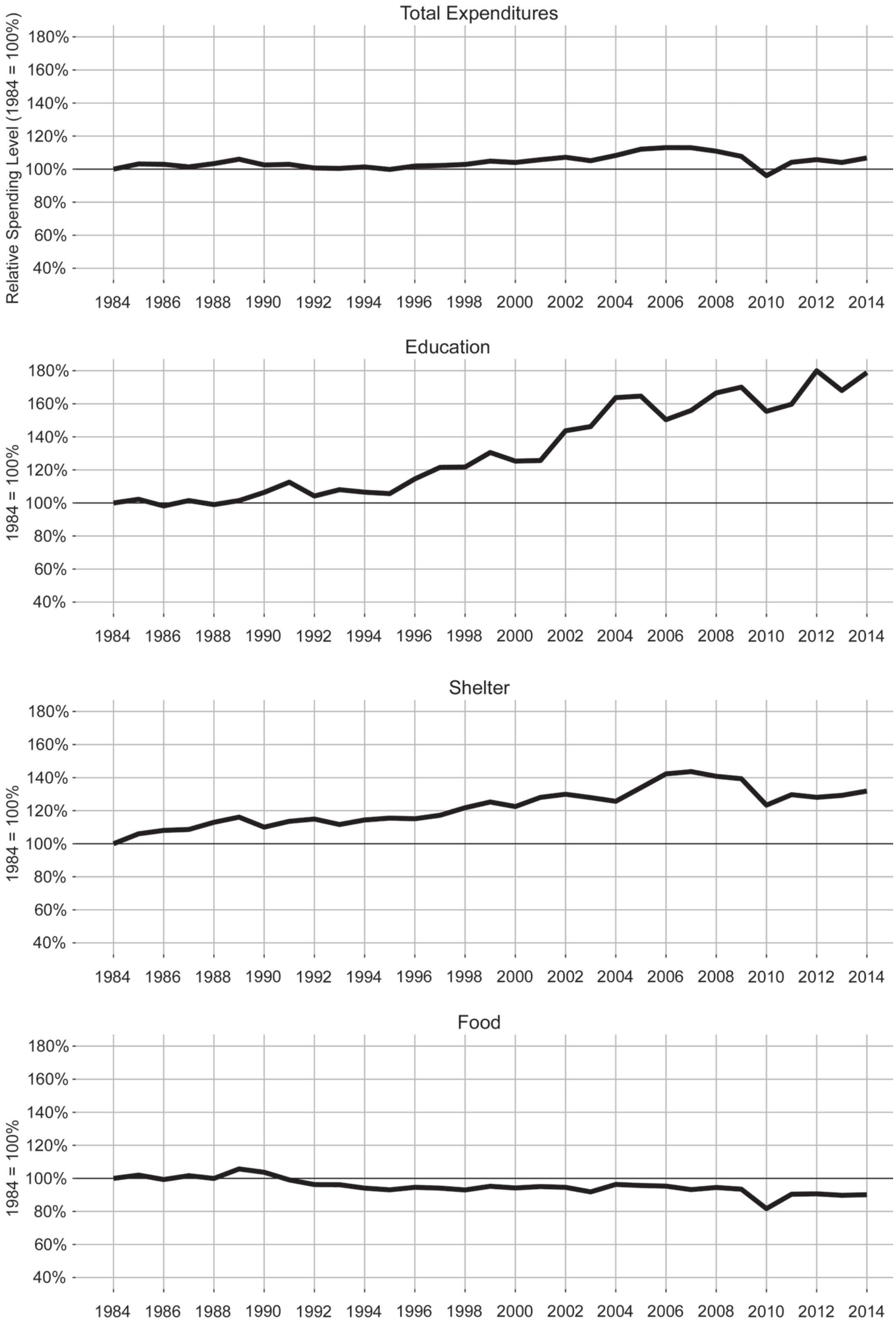

Figure 5.2 Mean Household Spending, 1984–2014.

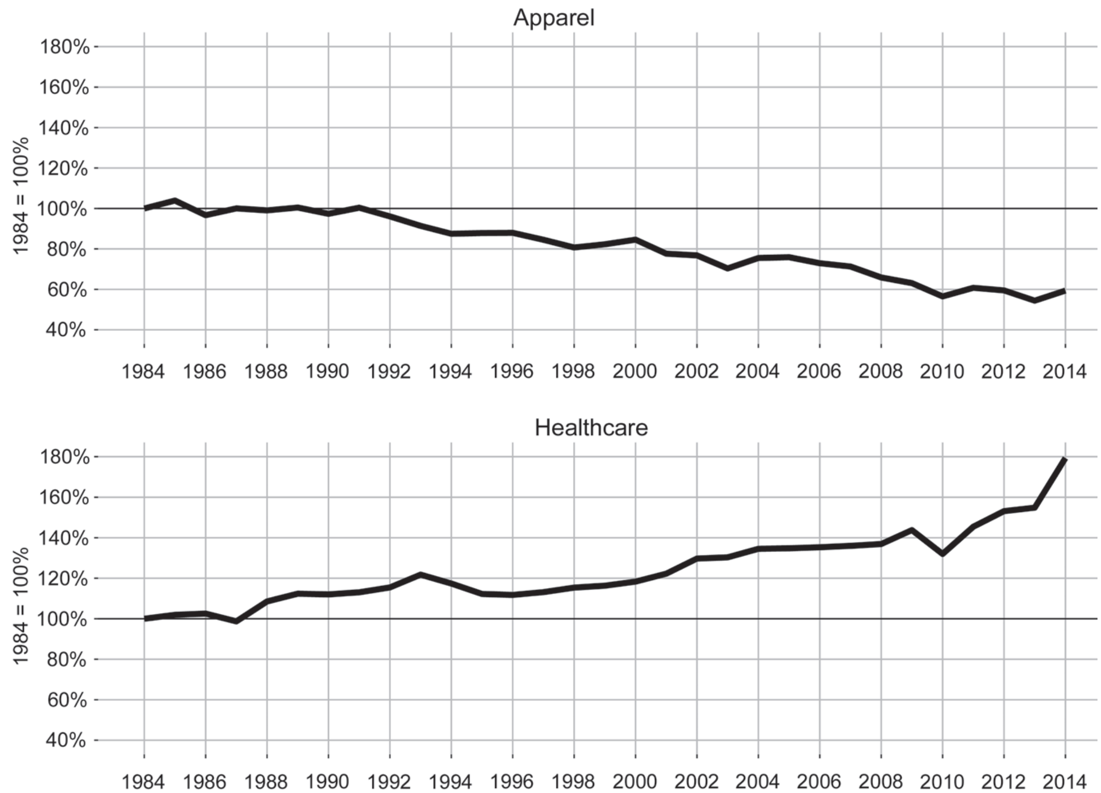

Figure 5.2 (Continued)
Source: Bureau of Labor Statistics (2015).

been buoyed by very rapidly escalating prices in other markets. The momentum of these rising prices are crowding out the benefits of these price cuts, and it seems likely that there may come a point at which clothing, food, and so on cannot keep falling fast enough to contain overall spending.

Areas of Rising Expenditures

While the prices of consumer products generally fell in proportion to incomes, spending rose in a selected set of product categories. For example, educational and healthcare have risen considerably. These expenditures, which are depicted in the middle of Figure 5.2, rose by almost 80 percent. By comparison, these surveys suggest that real disposable income has risen by about 20 percent during the same period. In addition, these data suggest that housing costs have outpaced income growth. While this difference is less striking than in education and healthcare, the housing expenditure is the largest item in household budgets, so it has an outsized impact on households' overall spending levels. We will discuss these spending areas in greater detail below.

One tie that binds these three spending areas is that the primary engines of living cost containment—importation and automation—have not succeeded in driving down costs in these markets. The effects of these primary engines of spending may have been compounded by economic policy changes. As we will see in Chapter Seven, the public sector's presence in U.S. higher education and healthcare is comparatively light relative to other highly developed countries.

Education Costs

Although education costs have risen substantially, their direct impact on the average U.S. household's overall living costs is limited. The BLS assumes that education costs on average about 3 percent of U.S. households' overall living costs.[20] This is due to the fact that only part of society incurs these costs, and only a minority incurs heavy costs. To develop a clearer sense of the education costs borne by households, we have to drill down past overall inflation figures presented in Figure 5.2 and examine the microdata. We can do so using the BLS Survey of Consumer Finances.[21] Unfortunately, high-quality publicly accessible microdata only goes back to 1996, so we are unable to take a close look at the 1980s and early 1990s. However, we can use the data to get a view of what has happened to living costs since the mid-1990s.

The data suggest that, in 2014, only 18 percent of U.S. households incurred educational costs. Most of them incurred limited expenses. Usually, these expenditures involve materials, supplies, or lessons that supplemented the fully socialized primary and secondary educational system in the United States. Among households with any education expenditures, median spending was $750, or about 1.4 percent of their disposable income. Mean spending figures from Figure 5.2 suggest that education costs have been escalating rapidly. This is not the result of a broad-based rise in education spending. The heavy costs were borne by childless households and households with adult children—those who are more likely to be pursuing postsecondary training, where educational costs are not socialized.

The cost of college is considerable, and, as suggested previously in Table 5.1, it has been rising quickly—more than double the rate of overall prices or median wages. In 2015, the average published tuition for in-state students at public universities was $9,410, and the total cost (including supplies, room and board, books, etc.) net of tax credits and aid stood at $24,061.[22] This is a considerable sum, particularly in comparison to other highly developed countries (see Chapter Seven). At private schools, the net total cost stood at $30,300 per year;[23] the public system's average costs are not altogether different. In addition, college attendance rates are increasing,[24] meaning more people will be exposed to these potential costs. A degree is

Table 5.1 Mean Inflation Rates, Overall and by Product Class, 1984–2013

Product Category	1980–1995	1995–2007	2007–2013	Overall
General Prices	**3.5%**	**2.6%**	**1.9%**	**2.9%**
Education	**NA**	**5.7%**	**4.6%**	**NA**
Child Care and Nursery School	NA	4.7%	3.2%	NA
College Tuition and Fees	9.2%	6.1%	5.3%	7.3%
K–12 Tuition and Fees	8.9%	6.3%	4.3%	7.1%
Tuition, Fees, and Child Care	8.8%	5.7%	4.5%	6.9%
Educational Books and Supplies	7.6%	5.8%	6.0%	6.6%
Medical Care	**7.5%**	**4.0%**	**3.2%**	**5.4%**
Hospital and Related Services	9.2%	5.7%	5.8%	7.3%
Prescription Drugs	8.2%	3.8%	3.1%	5.6%
Dental Services	6.6%	4.7%	3.2%	5.3%
Physicians' Services	6.9%	3.2%	2.6%	4.8%
Eyeglasses and Eye Care	NA	1.9%	0.9%	NA
Housing	**4.1%**	**2.9%**	**1.4%**	**3.2%**
Shelter	4.9%	3.2%	1.5%	3.6%
Fuels and Utilities	3.4%	4.1%	1.9%	3.4%
Furnishings and Operations	2.4%	0.3%	−0.3%	1.1%
Food and Beverages	**3.7%**	**2.6%**	**2.6%**	**3.1%**
Transportation	**3.5%**	**2.4%**	**2.8%**	**3.0%**
New and Used Motor Vehicles	NA	−0.4%	1.1%	NA
Motor Vehicle Parts and Equipment	0.5%	1.5%	3.2%	1.3%
Motor Fuel	0.2%	7.5%	4.1%	3.5%
Maintenance and Repair	4.3%	3.1%	2.7%	3.6%
Public Transportation	6.4%	2.3%	3.3%	4.3%
Airline Fare	7.1%	2.4%	3.7%	4.7%
Intercity Transportation	5.1%	0.0%	0.0%	2.3%
Intracity Transportation	5.6%	3.2%	4.1%	4.5%
Personal Care	**4.0%**	**2.4%**	**1.6%**	**3.0%**
Recreation	**NA**	**1.4%**	**0.6%**	**NA**
Apparel	**2.5%**	**−0.9%**	**1.2%**	**1.0%**

NA = Data not available during 1980–1995 period.

Sources: Bureau of Labor Statistics. (2015). Consumer Price Index—All Urban Consumers [Online database]. Retrieved from http://www.bls.gov/data/; U.S. Census Bureau. (2015). Table H-6: Regions—by Median and Mean Income [Data table]. Retrieved from https://www2.census.gov/programs-surveys/cps/tables/time-series/historical-income-households/h06w.xls becoming less exclusively the domain of the wealthy over time, in part because college is seen as increasingly critical to remaining employed and out of poverty.[25] Those without advanced training face greater difficulty finding a place in the U.S.'s increasingly high-skill economy (see Chapter Four). Advanced training is becoming more of a necessity in finding a role in the economy.

Increasingly, college is being financed by student debt. The proportion of households with student debts is small (about 2.8 percent of households), in part because not everyone goes to college, and those who do incur debt for college often manage to pay it off while they are relatively young (so it does not appear in their balance sheets later in life). Nevertheless, these obligations can be considerable. In 2014, the median student debt obligation was $20,000, and about 10 percent owed $90,000 or more. Despite stories about people graduating with $200,000 in debt, the event is quite rare—only 1 percent of student debtors owe this much or more. This debt may lead to problems for those who incur it. For example, it is often argued that the need to service student debt pushes student to take work that is more immediately rewarding but less beneficial in the long term. Student debts may also interfere with students' ability to start saving for retirement or a home down payment early. Nevertheless, many—though by no means all—of those with debt are relatively well off. Student debtors earn considerably more than the general population (with a median income of $64,000, and one-quarter earning more than $107,000)—a situation in which someone seems capable of servicing the typical education debt. The six-figure student debts that are often described in stories about the crushing effects of student debt are rare.

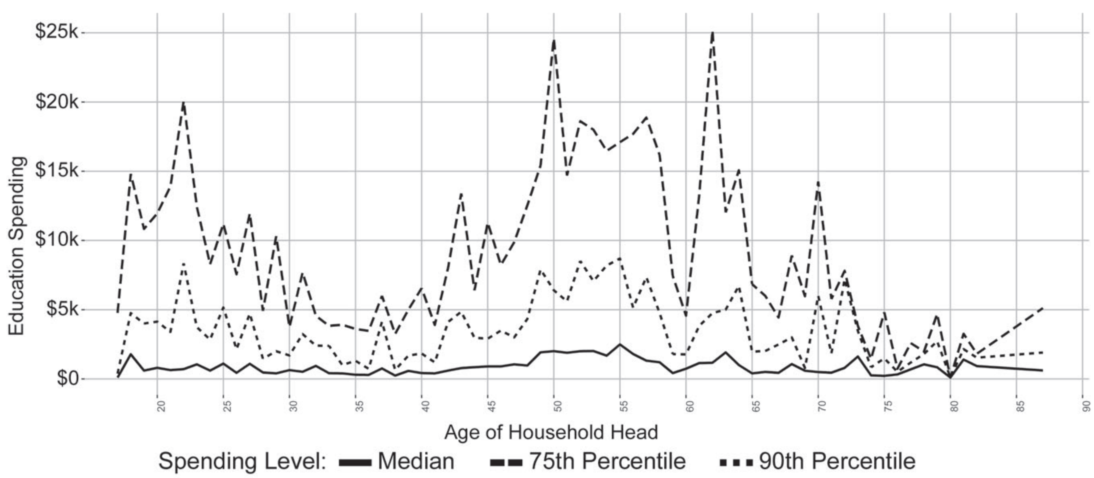

Figure 5.3 Education over the Life Cycle, Education Expenses, and Age of Household Head, 2014.
Source: Bureau of Labor Statistics (2015).

Even if we grant that postsecondary education is expensive, its negative impact on household finances is time-limited. Households generally incur substantial education costs in two waves, depicted in Figure 5.3. These two waves seem to occur in households' college years—either their own or that of their children.

Heavier costs materialize when people pursue a university degree, college diploma, or job training certificate, but these expenditures are temporary and are generally expected to result in higher earnings (things are more complicated than this, as discussed in Chapter Six). Most households do not precipitously fall into financial ruin from devastating education expenditures. Instead, it is probably fairer to characterize the effects of higher education as a temporary, nontrivial financial hit that occurs once or twice in a lifetime. The effects are temporarily damaging, but the cumulative effects of these and similar temporary shocks may be larger.

Perhaps more serious are the college expenditures that never materialize in spending data, for example, those who forgo postsecondary training that would benefit their future employability and personal finances. This might involve someone failing to enroll in or complete advanced training, or someone settling on inferior training, for financial reasons. We engage that issue in the next chapter.

Child Care

Child care is often treated as a personal household service, rather than an educational expenditure. This is probably a legacy of the days in which child care was a luxury—people with nannies probably also had maids, drivers, or other servants. Today, child care is economically critical for parents. A large majority of the country's children are parented by a single parent or working couple. Many of these households do not have the benefit of a relative who is able to babysit, so they need commercial child care. Some other highly developed countries have socialized child care, making it akin to K–12 education here.[26]

In 2014, about 6 percent of households reported child care costs, including 20 percent of households with children aged 2 to 15 and 30 percent of those with children aged 2 or less. These figures seem like low estimates that may exclude things such as "black market" child care, periodic babysitting, or interpersonal payments associated with unpaid care done by a relative, but we will not detain ourselves on these issues.[27] Among families reporting child care expenses, the average family spends $2,812 annually. The typical household that incurs these costs generally dedicates about 2 percent of their disposable income to child care, although a tenth dedicate 7 percent of their income or more. Many households keep these costs down by limiting one parent's work time, relying on relatives for free child care, or by relying on black market care providers. For those who want to place their children in regulated, institutional care, these prices can be considerable. State averages for institutionalized infant care range from an average of $22,000 in Washington, DC, to just under $5,000 in Mississippi.[28] Typically, child care costs are lower where people earn less money and poverty is higher. These are nontrivial sums of money, which can weigh heavily on a household's financials.

Do these expenses represent an increase over historical levels? Unfortunately, our microdata only goes back to 1996, when society's transition from stay-at-home married parents to divorce and dual incomes was taking place in the 1970s and 1980s. The data suggest that the proportion of households with child care expenditures is roughly the same since 1996.

Like education, child care costs generally weigh on family finances over a limited part of a household's life cycle. Typically, people will weather these costs from their late twenties through mid-forties—the period in which they tend to have children who are in need of care. They are burdensome when they occur but are presumed to pass eventually, leaving households to make up for lost ground.

Healthcare

Like education, healthcare expenditures are mostly borne by only part of the population. While most households (79 percent) incur *some* healthcare costs, healthcare is a minor budget item for many of them. About one-quarter of all households spent about $130—or just over $10 a month—on healthcare during 2014. The median household spent about $100 a month out-of-pocket. About 10 percent spent more than $400 a month—roughly what an apartment rental costs in much of the country. Finally, 1 in 10 households are spending the equivalent of a second (modest) home on healthcare.

The biggest ticket item in healthcare budgets is insurance. About 67 percent of households spent money on health insurance, and the median outlay was $1,475. This is not the total cost. Many of these expenses are in addition to employer-sponsored plans, which are reported to be absorbing a smaller proportion of fast-rising insurance costs.[29] This represents a considerable increase from 1996, when only 61 percent of households paid for health insurance out of pocket, and median costs were about half as much in inflation-adjusted terms. Health insurance costs have doubled at a minimum, and more people have had to bear these costs.

A similar story can be told of expenditures on prescription drugs. Although slightly fewer people spend on prescription drugs compared to 1996 (45 percent of households in 1996, compared to 39 percent in 2014), the costs faced by those who did spend on pharmaceuticals rose. In 1996, the median outlay on prescription drugs was $165, compared to $204 in 2014—a rise of almost one-third. These are roughly the costs of prescriptions for minor maladies or a temporary illness. For those who spend a lot on drugs—people with chronic or major conditions—the rise was similar (about one-third), but the bills were considerable. About 10 percent of those with drug expenditures spent almost $1,000 or more.

Health expenditures vary by age. Figure 5.4 describes how these expenditures change over the life course.

The median household headed by someone under 30 spends about $90 a year on healthcare. During the head of households' thirties and forties median expenditures rise to the $1,000 range and then slowly escalate to nearly $2,000 from their mid-sixties onward. Not only does the typical family have lower healthcare costs when it is younger, but also a larger proportion of households are able to avoid healthcare costs almost entirely. Nearly a quarter of all households spends $100 a year or less on healthcare until its heads reach their mid-forties. From age 65 onward, the 25th percentile household spends $1,000 a year on healthcare, even with socialized medicine for the elderly.

Households whose heads reach middle age and onward are more likely to experience considerable healthcare costs exceeding $5,000 or more. For middle-age households, these elevated costs are partly a matter of there being more people in the household, resulting in a higher probability that

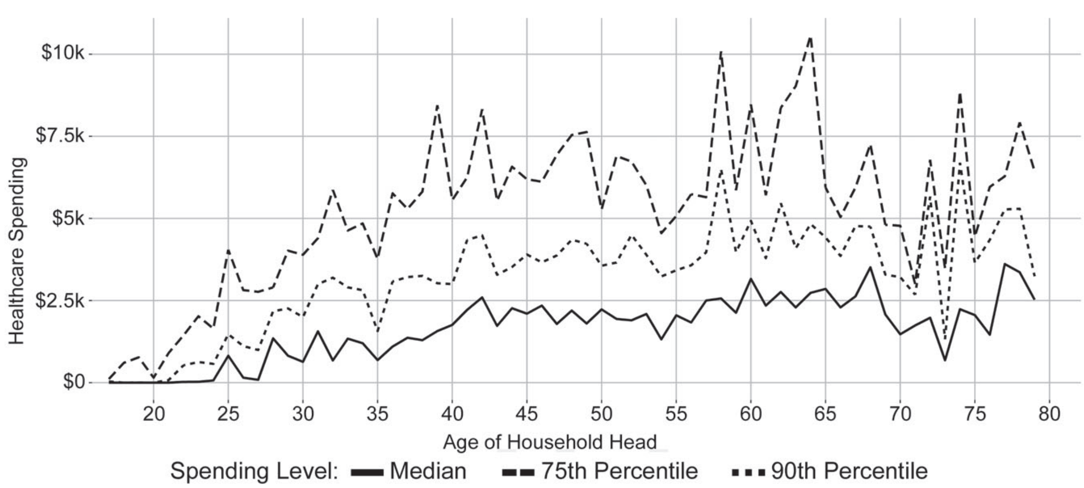

Figure 5.4 Healthcare Spending across Age of Household Head, 2014.
Source: Bureau of Labor Statistics (2015).

someone in the household will incur costs. As the heads age and the household empties, these elevated costs are more a matter of individuals facing higher prospects of encountering an expensive health-related issue. These costs rise somewhat as people enter their late fifties, but the financial impact of health problems is also buffered by the fact that the United States offers socialized health insurance to its elderly through the Medicare program.

As we will see in Chapters Six and Seven, healthcare is extraordinarily expensive in the United States. These expenses are the result of several problems, including the absence of cost controls, administrative bloat, and possible overuse of medical services.

Housing Costs

For much of the country, housing expenditures seem manageable. In 2014, the median household spent $6,596 on housing annually (about $550 a month). About one-quarter of the country's households spent less than $344 a month, and one-quarter spent more than $850. About 10 percent spent more than $1,312 a month.

These figures might strike many readers as extraordinarily low. The average is pulled down by households with unmortgaged homes, subsidized shelter costs (e.g., those receiving housing vouchers, or households whose shelter is covered by family members), and those who live in areas in which shelter is inexpensive. It is also important to remember that money paid on the principal of a mortgage is not considered an expense, but rather a form of saving—so the consumption part of people's mortgage service bills is smaller than the overall money paid out.

Since 1996, overall housing costs have risen by about 12 percent at the median, though it is slightly down from where it stood in 2007. This seemingly modest rate of increasing spending is a result of offsetting factors. For example, many types of housing costs, including home furnishings and appliances, utilities, maintenance, and operations, have not risen rapidly. In contrast, shelter costs have risen more quickly, particularly among renters of lower-cost quarters. In 2007, shelter costs were up 22 percent from 1996, but these costs have fallen 7 percent since then.

For homeowners, property taxes have risen by about 33 percent, but mortgage service costs have fallen with interest rates. Loose credit has also pushed up housing costs, as depicted in the Case-Shiller index shown in Figure 5.5. It suggests that home prices have multiplied several times in value, even while household incomes have not.

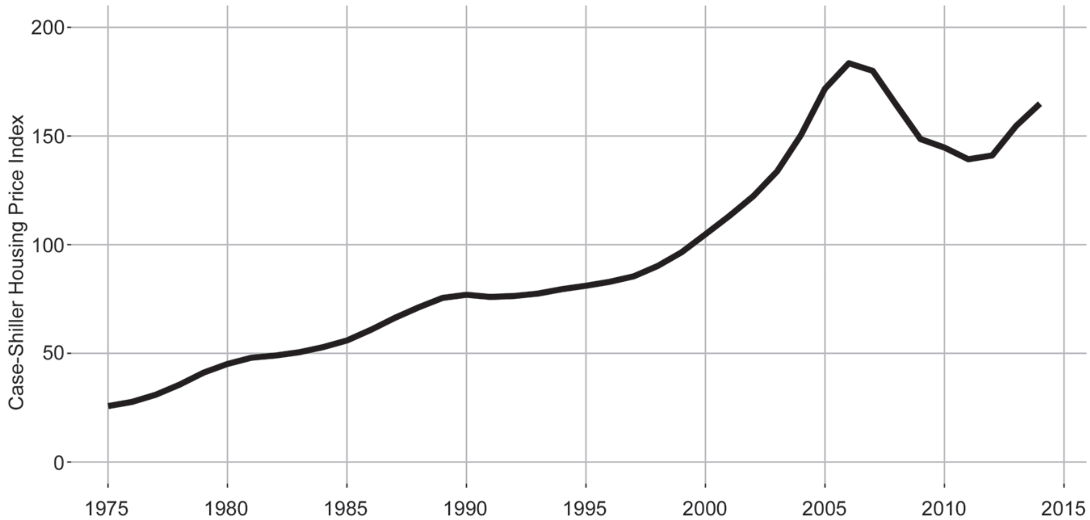

Figure 5.5 Case-Shiller Index of Housing Prices, 1975–2014.
Source: Federal Reserve Board (2015). S&P/Case-Shiller U.S. National Home Price Index©. Data series CSUSHPISA. Retrieved from https://research.stlouisfed.org/fred2/series/CSUSHPISA

The broader implications of appreciating home values are complex. For those who have owned homes over the past several decades, rising housing costs mean increased wealth. The situation is different for those acquiring homes. Cheap debt has made debt service cheaper and borrowing easier, which has in turn helped bid up housing costs. It may benefit those who own homes, but it locks new home buyers into more and longer-lasting debt, and rising home prices press people to invest more heavily in their homes.

Are we overconsuming on housing? Many observers cite the growing square footage of new home constructions to suggest that Americans have become greedy for bigger homes. Elizabeth Warren offers several pieces of data questioning this argument.[30] Data on new home constructions gloss over the fact that wealthier people may both tend to buy new homes and have larger homes. The proportion of people living in older homes jumped by nearly 50 percent, with roughly 60 percent of the country living in a home older than 25 years, and 25 percent living in homes older than 50 years. The median owner-occupied home grew from 5.7 to 6.1 rooms, which is hardly a dramatic expansion of living space. Even if Americans purchased more living space, they paid a greater premium for it; although square footage rose on new home constructions by roughly 40 percent between 1985 and 2007, home values rose approximately 250 percent.

Square footage costs, and in turn overall shelter costs, have grown as a percentage of household income, despite the rising incidence of dual-earning families.

Healthcare, child care, and education costs have clear implications on people's well-being and are thus easier to imagine as essential. The well-being implications of housing are less clear and are discussed at greater length in Chapter Six. In brief, the main well-being effect of housing—and a primary driver of housing costs—is the availability of public services that residency affords its residents. In areas with quality public services, particularly schools, housing is expensive. In places where housing is cheap, these public services fall well below first world standards.

A Series of Temporary Financial Hits

Each of these cost pressures afflict only part of the population at any given point in time for what seems like a limited time. These are economic rites of passage whose time will pass as a household progresses through its financial life cycle. The problem may be that these seemingly unrelated costs may have cumulative effects over their life cycles; that is, U.S. households are hit with a set of discrete financial shocks that cause temporary disruption but generally pass. Students weather the shock of higher education but (theoretically) eventually find work, pay down their debts and move on. Perhaps the cost delays saving money for that home down payment or birth of a child, but it eventually passes. Soon, parenthood arrives, along with the costs of childbirth, child care, and a home in a nondistressed school district. The costs can be sizable and may delay saving for college and retirement, but these costs too eventually pass. Next comes college, which parents might hope to help finance to protect their children from the potentially large burden of financing the kind of training thought to be necessary to find a meaningful role in the economy. These expenses also eventually pass. At this point, a household is probably somewhere in their mid-fifties and comes to realize that they have not saved enough to weather the costs of retirement and old age, which, even with the U.S.'s comparatively generous public pension and socialized health insurance for the elderly, can be considerable.

This loosely describes the process by which intelligent, self-aware, and nonfrivolous people find themselves under-saved and financially vulnerable. Individually, these costs seem life-cycle-specific and temporary. However, these expenditures occur across the life cycle, producing a lifetime of under-savings.

Concluding Thoughts

The idea that financial problems are caused by wasteful frivolities resonates with many people. All of us can remember that time we spent too much on a coffee or ate at a restaurant instead of eating at home. We might recall buying something new when we could have bought it used from Craigslist or a garage sale. Maybe we drove when we could have taken the bus.

In this sense, there is some kernel of truth to the idea that people's wastefulness is partly to blame for their money problems. However, these types of splurges are not as consequential in the grand scheme of things. In the words of the finance journalist Helaine Olen, "it's our Lipitor," not the lattes.[31] Even if people were to be more vigilant with their spending on clothes, food, cars, and such, the sheer momentum of education, health, and housing inflation seem likely to eventually wipe out household budgets.

The possible misinterpretation of rising household spending can lay the groundwork for ineffective policy responses. Campaigns to encourage belt-tightening—whether by market discipline or enlightenment—seem unlikely solutions. People seem willing to sacrifice financial well-being to ensure their access to basic essentials, and doing so is not an altogether senseless choice. Even worse is the possibility that such campaigns succeed, and Americans start forgoing education or healthcare to balance their books.

These observations bring to mind an insightful quote from an audience member when I presented earlier research on this topic: "America is a place where the luxuries are cheap, but the necessities are expensive." This rings very true to me. Before moving to the United States, I would marvel at the low cost of consumer products. Clothes, electronics, toys, and just about anything at a U.S. shopping mall or supermarket were much cheaper than in my native Canada (not to mention the lower sales taxes). I would imagine how, were I to live in the United States, I would be able to afford so much more *stuff*.

The ways that Americans could save money were immediately obvious as soon as you step into a Walmart or Costco. However, after living in the United States for some time, I have realized that the money saved at Walmart is more than offset by bills that a Canadian does not really consider. Being out thousands of dollars for an emergency visit—even if you have health insurance—is not something that entered my imagination when thinking about the personal finances of living in the United States. Canadians do not consider the kind of furious saving that is necessary to send one's children to college because college degree costs are more similar to buying a car than a house.

That being said, there are always questions about whether this money is being spent wisely or foolishly. Do our children's economic fortunes hinge on us overspending on housing to get a foothold in a good school district? Does it matter if our children go to an expensive or cheap college, or even college versus junior college? Are all of these spending on "necessities" really so necessary? We turn to that question next.

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