# Financial Crisis in American Households

## The Basic Expenses That Bankrupt the Middle Class

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CHAPTER EIGHT

# The Choice

We conclude the study with a brief review of its findings and some reflection on their broader implications. These findings suggest that the middle class's struggles with money are at least partly driven by the U.S.'s market-oriented, neoliberal approach to organizing its education, healthcare, and housing markets. This organizational scheme is underwritten by a widespread presumption that laissez-faire, business-oriented policies are society's best bet for prosperity, jobs, and material enrichment. Whatever its merits in other spheres of economic life, the U.S.'s comparatively fervent embrace of neoliberal policies has failed to deliver an abundance of high-quality and affordable healthcare, child care, education, and housing. Other highly developed societies appear to have succeeded in organizing these markets in ways that make high-quality products affordable, if not universally accessible. Although emulating Europe might not ease all of the economic pressures that strain the middle class's finances, doing so might at least buffer families from the multitude of headwinds that exacerbate their personal economic hardships.

Could Americans enjoy British- or Canadian-style socialized medicine, German- or Dutch-style subsidized higher education, or French- or Swedish-style support for the care of young children? The United States certainly has the resources and expertise to develop and deploy such systems. There are clear reasons to believe that these kinds of programs are practically possible and could help staunch the spending pressures that press regular Americans into financial difficulty. The main question is whether the country truly wants to strengthen social policies and has the political will to see these kinds of reforms happen. If the years of political fallout that followed the passage of the Affordable Care Act—policies that probably strike people from other highly developed countries as quite modest—are any indication, there are powerful constituencies and cultural narratives that oppose strengthening social policies.

Absent a strong political push to strengthen social programs, U.S. households are probably left on their own to carry these heavy burdens. Maybe they can do so with conscientious budgeting, coupon-clipping, skipping restaurant meals, and similar efforts to cut corners. However, the rapid pace at which these essential costs are escalating suggests that these kinds of penny-wise saving tactics will only last for so long. To borrow from finance journalist Helaine Olen,[1] the system is pressing families into pound foolishness. They face a heavy—and, more importantly, fast-escalating—cost of purchasing access to basic necessities. Increasingly, middle-class people's ability to save, accrue wealth, and manage debt involves their willingness to forgo preventative and therapeutic healthcare, regulated and institutionalized child care, or advanced postsecondary training. It might involve a willingness to raise one's family in a community whose school quality, commuting time, crime levels, or social problems would be seen as patently unacceptable to people in northwestern Europe or Canada.

Major structural economic and social changes are probably needed to help U.S. households achieve firmer financial footing. These kinds of reforms require overcoming strong political opponents and deep-seated commitments to neoliberal policies and neoliberal thinking.

## Review of Study's Key Findings

Let us begin with a review of the preceding study's key findings. We began with a discussion of U.S. households' long descent into their present state of financial precariousness. Overall, U.S. household finances look considerably worse than they did 30 or 40 years ago. People have stopped getting secure jobs with regular raises. They save much less, borrow much more, and go bankrupt more often. The majority of the country lives paycheck to paycheck, and only a minority of people have a demonstrated ability to accumulate enough money to sustain a livelihood into old age.

Debates over what to do about these deteriorating finances tend to gravitate toward one of three generic strategies: doing nothing, developing government initiatives to solidify household finances, or redoubling the U.S.'s forty-some-year-long commitment to neoliberal reform. Satisfaction with or belief in the ultimate benefit of the status quo is a good reason to advocate for doing nothing. Doing nothing often rests on faith that society's economic system is ultimately sound and that problems will eventually self-correct. Such a view seems difficult to maintain here because the deterioration of household finances seems to be an enduring problem that has festered for decades. This problem does not seem to be sorting itself out.

This leaves the United States with the latter two options. Disagreements over the benefit of government action versus pro-business and pro-investor "free market" policies are a major partisan dividing line in contemporary politics. Our appraisal of either side's merits is steered by our view of what is causing household finances to deteriorate, and our understanding of the practical strategies available to us to reverse or buffer the effects of these causes. Over the past several decades, policy-makers have leaned toward addressing economic problems with "free market" or neoliberal policies, but the continued importance of government programs should not be underestimated. In this age of neoliberalism, most Americans are either dependent on public aid in the present or seem poised to rely on public assistance in the future. U.S. living standards—and in fact all modern, highly developed capitalist countries' living standards—are highly reliant on government programs. The question is not whether or not to have extensive social welfare programs, but whether or not a country's portfolio of social programs renders desirable outcomes.

Analysts often cite income stagnation as having caused household finance problems. There is no doubt that income problems are a major part of the problem, but it is not the sole cause. People have to keep on spending more for a stagnant income to convert into falling savings and rising debt. People's failure to restrain spending is part of the problem. Many cultural critics cast rising spending through the prism of some type of deficient or nonadmirable quality ascribed to U.S. culture: unrestrained acquisitiveness, materialism, status obsession, vanity, and some other character flaw. Many of these criticisms are new incarnations of a generic, centuries-old criticism that always finds a market. However, a closer look at the data suggests that spending is buoyed by a process that was advanced by Elizabeth Warren and her colleagues over a decade ago, which maintained that households' overspending, and the financially damaging consequences of this overspending, are substantially driven by the spiraling cost of necessities.

More specifically, a closer look at household spending data suggests that, in proportion to incomes, spending on the types of products typically featured by proponents of such "culture of consumerism" explanations—such as clothing, cars, home appliances, home furnishings, personal care products, or food—have roughly paced incomes, if not fallen relative to incomes. It is not necessarily that people are purchasing less in these product categories, but rather that the twin engines of technology and foreign outsourcing have driven down costs in these areas. These costs savings are arguably one way in which neoliberal policies have succeeded in strengthening household finances. However, the data suggest that spending on education, healthcare, and shelter have exerted a strong and often growing strain on household budgets. In these product markets, prices have been escalating very rapidly, in comparison to both incomes and general consumer prices.

Arguably, healthcare, education, and housing are products that are, to some degree, essential for well-being. The relationship between healthcare and education may be straightforward, but perhaps not housing. In the United States, many essential public services—primary and secondary schooling, emergency services, transportation infrastructure, libraries, welfare services—are financed and disbursed by local-level governments. In a society with high levels of inequality and residential segregation, getting a foothold in as "good" a neighborhood as possible may mean spending to the limits of one's ability to afford housing. Moreover, the heavy cost of housing means that households have to channel inordinate amounts of their personal wealth into their housing, and housing in more expensive and exclusive neighborhoods may be more conservative investments.

The implications of seeing rising spending as a product of rising costs of necessary products, as opposed to unrestrained consumerism, are quite profound. We tend to blame people for their financial misfortune and may even see the pains of their financial failure as a form of productive justice, which teaches people lessons about their excesses. The problem with a system that makes healthcare, child care, or education expensive is that, at best, we are punishing people for spending money on things that they really need. In some respects, these people are acting as altruistic parents who sacrifice their own financial well-being to safeguard and edify their children's future. An even worse scenario would be that this kind of "market discipline" works, and people start to forgo these basics.

Rather than seeing household financial struggles as wholly the result of a personal failure, Warren's explanations point to systemic failure. Economic policy-makers have failed to create an environment that makes high-quality essentials easily available to everyone. They have presumed that an unregulated market would press those who produce and supply healthcare, education, and housing to innovate and raise productivity to compete with each other. Market forces were supposed to press suppliers to cut costs and profit margins, and/or deliver substantially better products, a scheme that has worked well in many product markets. They do not seem to work that way in these particular markets.

What is going on? In part, education, child care, and healthcare have not been amenable to two of the primary vehicles upon which modern business relies to cut costs: foreign outsourcing and automation. There are some efforts—think illegal foreign nannies, Massive Open Online Courses (MOOCs), or WebMD—but, for the most part, the standard strategies that have helped push down consumer prices have not succeeded in these markets. Other highly developed countries have resisted this impulse to privatize, deregulate, and/or underfund education or healthcare, or dismantle the economically redistributive programs that keep wealthy communities from monopolizing high-quality essentials. To a German, Dutch, Brit, Swede, or Canadian, it might make sense to make serious investments in public programs that make quality essentials universally accessible, or at least much more affordable. Yet Americans seem to say no.

Why? Part of the problem is that the problem is not clearly apparent to much of society. Another part involves deeply rooted beliefs about the relationship between governments, private enterprise, and living standards. In other words, they either do not see the problem, or they do not believe that strengthening government programs will solve the problem. These may not explain the totality of this resistance, but they are likely contributors.

## A Process That Hides in Plain Sight

Part of the reason Americans do not confront the rising burden of basic necessities with a strong, concerted collective initiative is that they do not see household financial problems as a serious societal issue, or they do not see its links with weak social programs. Some believe that households' financial problems are temporary or simply a matter of people complaining because they have inflated lifestyle expectations, impulse control problems, or class envy. Some believe that society need not concern itself with people's personal problems or that no one has a right to complain if they are living indoors with basic heat, electricity, and plumbing; maintaining a subsistence diet; and enjoying access to a library, emergency room, and public school.

Over the previous chapters, this study tries to confront these presumptions. It shows how households save less, borrow more, and go bankrupt more often. It shows that these problems materialized over multiple economic cycles and continued to deteriorate instead of self-correcting during economic boom times. It finds that overspending is clearly part of what was hurting household finances, even though incomes were stagnating and becoming more precarious. While one can almost always find ways to shave a dollar here and there off of people's spending, and the idea that a dollar saved here and there eventually adds up to something, these folksy truths overlook the problem that much of this runaway spending is driven by the rapidly escalating costs of products so essential to well-being that people cannot—and arguably should not—forgo them.

These are the broad, macro-level machinations of the process driving household financial problems, but it may be difficult to develop a sense of how these more abstract trends manifest themselves concretely in everyday life. The process by which these strains damage finances may not be obvious at first glance, but they are not hard to grasp once pointed out. Households do not save enough money, and they do not accrue enough wealth to independently secure their access to (often costly) basics. Why don't they save enough? The process materialized in what seems like a serious of unrelated, temporary shocks, but they are all manifestations of a system that fails to make essentials cost-accessible.

The process may begin with the choice to attend college. One can choose to forgo college and sacrifice the employability and income benefits afforded by higher education. As the march of technology and global outsourcing advances, these sacrifices seem likely to rise. If one does decide to pursue advanced training and lacks the good fortune of either being in a community or coming from a family that subsidizes these costs, higher education may mean debt. The early career savings used to pay down educational debt is money that is not being saved for a home down payment, child's college fund, or retirement.

Presumably, children eventually come. This might be another person who needs food, clothes, and health insurance. It might necessitate child care, which "costs" a family in the form of either bigger expenses or lost income. It might also involve an eventual relocation to a community without substandard schools or other problems. Typically, communities with these resources fight to keep affordable housing out, so getting a foothold in these communities requires people to buy as much housing as they can afford. Purchasing an expensive home not only entails higher spending but perhaps also an aggressive channeling of one's savings into residential housing—a historically poor-performing asset.

If a family has the good fortune of weathering these storms without unforeseen calamity, the data suggest that they are likely to get a bit of a financial breather between the moment their youngest starts public school and their oldest starts postsecondary schooling (if they plan on helping their children). Of course, there are still some burdens. The public school day ends long before standard work hours end, and many parents are going to need some child care until their kids are old enough to watch themselves. By the time this breather arrives, any lost college or retirement savings will have forgone the benefit of compounded returns.

By the time a household hits its fifties, and children's higher education costs start to be incurred, healthcare costs can also start escalating. This is also typically the moment in which those who are under-saved for retirement begin their desperate struggle to catch up. These savings begin quite late and have missed much opportunity for compounded returns. Households may try to compensate by engaging in very aggressive (risky) investments, which is not what a person is supposed to do in the years leading up to retirement.

Much of the country will approach old age with little to nothing saved for retirement, and they will hope to work well into old age. Fortunately, they have the benefit of the Medicare, Medicaid, and Social Security social welfare programs to help prevent society from sinking into a massive problem with elderly poverty. This plan to work into old age can be sustained so long as health problems and ageism do not push people out of the workforce. Eventually, however, work stops, and health costs escalate. These costs can be staggering and can wipe out a person's accumulated wealth. If the costs of old age do not completely exhaust a household's assets, they may have something to leave to the next generation.

The process is slow. It unfolds over decades, through what looks like a serious of temporary, unrelated problems—college, child care, housing, children's college, healthcare, and retirement. It is not so readily apparent that these things produce circumstances that systematically lead to chronic under-savings and a delay in savings that forgoes compounded returns. Stronger social programs may help people save money and make their well-being less contingent on having enough money.

## Questioning Neoliberal Orthodoxy

There are many sources of political or intellectual opposition to the development or expansion of public programs designed to socialize the cost of these necessities. Some of this opposition does not appear to be motivated by a principled dedication to capitalism and personal freedom, or a principled opposition to big government, regulationism, welfarism, and redistribution. For example, Skocpol and Williamson's study of the Tea Party in the United States found that, amid much of its anti-government rhetoric, there was considerable support for social welfare programs directed toward the movement's own demographics (e.g., Medicare, Social Security).[2] Indeed, many observers believe that some opposition to the Affordable Care Act was tied to older voters' concern that this new social program would water down the benefits they enjoy under Medicare.[3] There is much reason to believe that some opposition to welfare in general is often motivated by its often implicit attachment to racial minorities and a prevalent sense of racial animus.[4] These are the more facile sources of opposition to expanding government programs designed to socialize the costs of essentials. A more intellectually serious source of opposition comes from a widespread belief that, in principle, neoliberal policies build a better society.

Some argue that neoliberalism is a means of ensuring political freedom. An example of this argument might maintain that the concentration of economic power in the hands of government creates a tempting mechanism by which political elites can coerce the general population.[5] While there may be some merit to the idea that a Soviet-style command-and-control economy is a risk to democracy, good governance, and political freedom, the types of reforms being advanced here are more fairly characterized as a move away from contemporary U.S. capitalism and toward something that more closely resembles contemporary German, Dutch, British, or Canadian capitalism, or U.S. capitalism in the pre-Reagan era. We are talking about moving from a system in which the government spend about 15 percent of GDP to one in which it spends 20–25 percent. It is worth noting that international governance data suggest that northwestern Europeans and Canadians are less corrupt, more publicly accountable, more rule-bound, and generally better-governed than Americans.[6]

Another line of argumentation maintains that, in principle, government "intervention" in market forces harms prosperity and overall material well-being.[7] A nuanced application of this view might maintain that, as a rule of thumb, the economy performs better when governments leave more discretionary power to private actors and refrain from trying to draw or manipulate the resources being used in private sector activity. Private sector actors are presumed to be better informed than public officials about the businesses in which they operate. The private sector is presumed to be more responsive, nimble, industrious, and innovative. In leaving them alone, private enterprise is expected to compete with each other by creating perpetually more and better products at lower cost, all of which is supposed to enrich society materially. Government officials are presumed to know less, be less responsible, less interested in improving quality or lowering prices, and more disposed to be corrupt. While an even-handed proponent of neoliberalism might concede that, sometimes, these expectations do not materialize in fact, they are nevertheless a faithful generalization of how the economy works. As such, it seems safe to presume that free, unregulated markets are best able to sow prosperity, create jobs, and improve living standards, unless we have reason to believe that we are dealing with an exception to this rule.

Whatever the merits of these generalizations, these expectations have not materialized in U.S. housing, education, and healthcare markets. The United States maintains a strongly laissez-faire, business-oriented policy posture in these markets. The U.S.'s private healthcare sector is large and unregulated. The country has progressively privatized more of its higher educational system and has used public funds extensively to help develop a private, for-profit postsecondary schooling. There are no paid parental leave systems or serious public early educational systems to compete with its child care markets. Governments generally do not invest in the development of residential real estate for the lower- and middle classes. If there is any country that conforms to neoliberal ideals in the developed world, it is the United States. Yet the country does not enjoy that bounty of cheap, high-quality products in the areas of housing, education, and healthcare. The free market is not working as advertised. It hardly seems to make sense that doubling down on neoliberalism would improve these results.

## The Choice

Prevailing long-term personal finance trends do not look promising for the U.S. middle class. Since at least the late 1990s—but perhaps as far back as the late 1960s—regular U.S. families' finances have slowly soured, during both the economy's booms and busts. To the casual observer of U.S. economic politics, it might seem like the electorate has tried every combination of Democratic and Republican federal administrations and congresses, and, regardless of whichever party occupies whichever office, these long-term negative trends do not seem to be seriously reversing course. To many, this persistent failure to reverse the U.S. middle-class's souring economic fortunes suggests that policy-makers, the broader economy, and perhaps the larger political system are fundamentally corrupt.

There is substance to the view that corruption and generally poor governance are part of the problem, but such a diagnosis only captures part of the problem. Household finances are being hurt in part by larger forces that policy-makers cannot so easily reverse or may not want to reverse because they are integral to other important agenda items. The population is aging, and technology is rendering old jobs and skill sets obsolete. To the extent that people are not able to find a niche in the "new economy," the march of technology may be making most people obsolete to economic production and distribution. While reversing globalization may seem much more doable, the practicality of this choice is not clear-cut. Reversing globalization may save old manufacturing jobs, but it also threatens jobs and investments in major economic sectors (e.g., U.S. exporters, finance, multinational enterprises), damages economic mechanisms that help contain consumer prices and the cost of credit, and may even damage the U.S.'s international relations and prospects for international peace. Moreover, it may be that the middle-class prosperity driven by the U.S.'s trade-protected mid-20th-century manufacturing sector was a historical anomaly, and the grinding, economic gray times confronting today's middle class are more the historical norm.

All of this is to say that all of the problems facing the U.S. middle class may not easily be erased with policy changes. That said, economic policy is not necessarily buffering the U.S. middle class from the pressures of technology, trade, demographic change, and so on. A strong welfare state might both safeguard people's access to basic necessities and help strengthen people's personal finances by loosening the heavy costs that keep them from saving money. Such systems already exist in countries that are just as wealthy, economically healthy, democratic, and politically free as the United States. The United States has the resources to create a quality educational system that serves children from birth to the moment they are ready to assume a meaningful role in the economy. It has the ability to ensure that everyone has access to quality healthcare and that healthcare does not threaten to bankrupt people. It has the resources to make every neighborhood—even the poor ones—completely acceptable places to maintain livelihoods and raise children. Perhaps the main barrier is that regular Americans do not see such policies as benefiting them, and they are not sufficiently motivated to demand these policies from their politicians.

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18. These countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. For more on the metrics, see Organisation for Economic Co-operation and Development, *Better Life Index*, which is available at http://www.oecdbetterlifeindex.org.

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## Chapter 8

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3. For example, New York Times Editorial Board. (2014, March 1). Fear mongering with Medicare. *New York Times*. Retrieved from http://www.nytimes.com/2014/03/02/opinion/sunday/fear-mongering-with-medicare.html; Moorhead, M. (2012, October 3). Romney says Obama cut $716 billion from Medicare. *Politifact*. Retrieved from http://www.politifact.com/truth-o-meter/statements/2012/oct/03/mitt-romney/romney-says-obama-cut-716-billion-medicare

4. Gilens, M. (1999). *Why Americans hate welfare*. Chicago, IL: University of Chicago.

5. For example, see Hayek, F. (1994 [1949]). *The road to serfdom*. Chicago, IL: University of Chicago.

6. For more, see World Bank. (2016). *World governance indicators* [Online data set]. Retrieved from http://info.worldbank.org/governance/wgi/index.aspx

7. Such a view envisions the possibility that the modern market system is an entity that is independent and exists apart from the government. As noted in Chapter Four, the idea of a self-contained, self-managing, government-free market system exists nowhere in reality; modern capitalism relies on the payment systems, ownership systems, contract rules and enforcement mechanisms, public order institutions, and so on that governments deliver. All of these foundational institutions require that someone make a decision about the particulars of these rules and institutions.