Economic Security Project

Dual Drivers: Broken Markets and Broken Incomes

The affordability crisis is everywhere. People feel the pinch in grocery aisles, rental applications, daycare waitlists, medical costs, and energy bills. Headlines announce strong economic growth, yet for millions of families, the essentials remain stubbornly out of reach.

This year, Congress passed an enormous tax package, the One Big Beautiful Bill Act (OBBBA), which will deepen the affordability crisis and move families even further away from baseline economic security. The impacts will be severe: health insurance premiums are set to skyrocket by 500% or more in some states.[1] In the next 10 years, households will spend $170 more on energy costs annually.[2] People with student loan debt will typically pay lenders over $3,000 more per year.[3]

A Framework for an Affordable Future

Our affordability framework identifies **broken markets** and **broken incomes** as the dual drivers of the affordability crisis. Markets are broken because gatekeepers and predatory pricing strategies drive up costs and limit supply. Even when markets function at their best, incomes must keep pace with the rising costs of basic goods and services. When incomes stagnate and ultimately break, essentials remain out of reach, continuing to make life unaffordable for millions of people. Fixing markets alone will not be enough for Americans to thrive. We must also address widening inequality for impacted communities and the fact that most people's paychecks simply do not line up with rising costs.

This Affordability Framework illustrates the complexity and scale of the affordability crisis to equip policymakers with a diagnostic tool to better understand existing dynamics and inform future policy solutions. The affordability crisis is not the result of a single policy failure or moment of market volatility. It is a decades-long, deeply entrenched challenge hurting American families and workers. This framework draws from the best thinking from experts across schools of thought when it comes to tackling our current challenges. The framework also shows the disconnect between seemingly strong headline economic numbers and the widespread economic frustration, angst, and disenfranchisement felt by millions of people today.

Why Are Things Unaffordable?

Driver 1: Broken Markets

Too many Americans are unable to access basic necessities because the markets that should deliver them are broken, unwilling or unable to produce enough to meet society's needs. There are three key reasons for this: 1) private and public gatekeepers, 2) fragmented markets, and 3) manipulated signals.

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[1] Andrés Argüello and Andrea Ducas, "Young Adults with Lower Incomes Would Face Sharp ACA Premium Cost Increases Under the Big Beautiful Bill Act," Center for American Progress, June 27, 2025, https://www.americanprogress.org/article/young-adults-with-lower-incomes-would-face-sharp-aca-premium-cost-increases-under-the-big-beautiful-bill-act.

[2] Robbie Orvis, Megan Mahajan, and Dan O'Brien, "Updated: Economic Impacts of U.S. 'One Big Beautiful Bill Act' Energy Provisions," Energy Innovation, July 1, 2025, https://energyinnovation.org/report/updated-economic-impacts-of-u-s-senate-passed-one-big-beautiful-bill-act-energy-provisions/.

[3] Mike Pierce to Chairman Bill Cassidy and Senator Bernie Sanders, Washington, D.C., June 11, 2025, https://protectborrowers.org/wp-content/uploads/2025/06/Economic-Analysis-of-Senate-HELP-Recon-Framework-6_10.pdf.

Reason #1: Gatekeepers

Both private and public actors act as gatekeepers across our economy, controlling the flow of goods and services families need to survive. By "gatekeep," we refer not just to the range of practices stemming from the dominance of a particular company or firm, but also how weak regulatory structures shape markets, constricting the supply of goods and services and increasing prices.

Wealthy homeowners and corporations use administrative processes to curtail investment and reduce supply below levels that most benefit society, especially when it comes to housing. Market concentration in the U.S. costs American households an estimated $5,000 on average;[4] Meanwhile, expanding housing supply in high-productivity areas would increase national income by nearly $3,700.[5] These are just two of the ways gatekeepers are raising costs for consumers.

Corporate Power

Through mergers, anticompetitive practices, and by influencing the regulatory process, dominant firms with key ownership stakes use their outsized power to constrain supply and raise prices. For example, corporate power drives up health care costs. When hospitals buy up physician groups, those doctors end up raising prices 15% more than independent peers within two years.[6] Corporate power also traps workers in underpaid wages and hostile working conditions because of their power over hiring and labor markets.[7]

Weak Governance

A functioning government can provide public goods, mobilize capital, and deliver basic services. However, in recent years, gatekeepers – both private actors and special interest groups alike — have taken advantage of government bureaucracies and administrative processes to restrict the supply of essentials working families desperately need. These groups become the loudest voices in the proverbial room, dominating democratic processes meant to bring the public into shared governance. These groups elevate their demands over policy goals, hindering government's ability to deliver for everyday people.

Restrictive zoning and land-use requirements play a central role in gatekeeping the housing market, as exemplified by how white neighborhoods have historically used these tools to exclude Black families.[8] Empirically, when cities authorize more rental units, especially with by-right approvals and reduced parking mandates, new supply becomes available and nearby rents fall without spikes in displacement.[9]

Reason #2: Fragmented Markets

For many essential goods, affordability is determined by scale. Essential systems like child care, health care, and broadband require providers to take on large fixed costs and uncertain risks to deliver these services. These challenges are especially pertinent in rural markets. Public options — goods and services provided, authorized, or procured by the government — can address these challenges by filling gaps where there are no other providers and creating competition to lower costs of basic goods and services people need.

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[4] Thomas Philippon, The Great Reversal: How America Gave Up on Free Markets (Cambridge, Massachusetts: Harvard University Press, 2019).
[5] Chang-Tai Hsieh and Enrico Moretti, "Housing Constraints and Spatial Misallocation," *American Economic Journal: Macroeconomics* 11, no. 2 (2019), https://www.aeaweb.org/articles?id=10.1257/mac.20170388.
[6] Tina Reed, "Hospitals scoop up physician practices, driving prices up," Axios, July 21, 2025, https://www.axios.com/2025/07/21/hospital-consolidation-doctor-practice-cost.
[7] See, e.g., Suresh Naidu and Arindrajit Dube, "Monopsony Power in Labor Markets," NBER, April 24, 2024, https://www.nber.org/reporter/2024number1/monopsony-power-labor-markets.
[8] See, e.g., Richard Rothstein, *The Color of Law,* New York, NY: Liveright Publishing Corporation, 2018.
[9] For two useful overviews, see: Shane Phillips, Michael Manville, and Michael Lens, Research Roundup: The Effect of Market-Rate Development on Neighborhood Rents (Los Angeles: UCLA Lewis Center for Regional Policy Studies, 2021), https://escholarship.org/uc/item/5d00z61m and Vicki Been, Ingrid Gould Ellen, and Katherine M. O'Regan, "Supply Skepticism Revisited," NYU Law & Economics Research Paper No. 24-12, March 24, 2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4629628. On reduced displacement risk, see, notably: Kate Pennington, Does Building New Housing Cause Displacement? The Supply and Demand Effects of Construction in San Francisco (June 15, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3867764.

Lack of Scale Raises Prices

Thin or fragmented markets push costs up. Sellers face uneven overhead costs and pass those expenses onto buyers, increasing economic markups, or they fail to serve geographic markets entirely. For example, broadband requires building out physical infrastructure with long routes to connect rural households, which can be cost prohibitive for private providers. Infrastructural and administrative shortfalls in state systems create barriers that restrict people from claiming their full unemployment insurance benefits and Child Tax Credits.

Scale Lowers Costs

The same way lack of scale makes things more expensive when it comes to social insurance and key investments, scale can also make things more affordable. In the U.S.' multi-payer health system, high insurer and provider overhead fees cost payers and providers $528 billion annually that could be largely eliminated under public options or single-payer models.[10] Medicaid funding backstops many rural hospitals, and recent cuts resulting from OBBA put nearly 1,000 rural hospitals at risk of closing.[11]

Reason #3: Manipulated Signals

In a market economy, prices communicate critical information to buyers and sellers. Prices can help convey how scarce a good is, and whether it's in high demand or low supply, but sometimes this information mechanism breaks down. Even when there appears to be strong competition in a market without a single dominant seller, opaque pricing takes advantage of information asymmetries, undermining consumers' ability to compare true prices, thereby reducing or even eliminating price competition.

Bad Information

Sellers can manipulate pricing signals by building in hidden costs to deceive consumers through junk fees and more, making it easier to extract rents by obscuring the real or total price they charge working people. Instead of innovating to bring new, better products or otherwise adding value to justify higher prices, firms compete on obfuscation by manipulating the consumer experience. By leveraging deceptive pricing strategies to charge consumers more than what things cost, predatory firms gain an unfair advantage over competitors who offer transparent pricing.

Externalities

Externalities are spillover costs or benefits that fall on people outside a specific transaction. Sellers price goods or services too high or too low if they account for, or fail to account for, positive and negative externalities. Those spillovers result in indirect costs that do not fall on the supplier or user, but instead on third parties or the broader public. For instance, future households are projected to pay an extra $70/month on their electricity bills to power AI data centers.[12] When firms set prices that fail to capture those spillovers, they steer consumers into making non-optimal choices. When firms set prices that do capture those spillovers, they drive up costs and push goods and services outside the realm of affordability for most families.

Driver #2: Broken Incomes

Even when markets work well, people still do not have the incomes they need. This stems from policy decisions over the past several decades that have weakened labor and expanded inequality, but it also is built into how a market economy functions. Despite external volatility and fluctuation, there is a simple

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[10] Matt Bruenig, "Health Care Administration Wastes Half a Trillion Dollars Every Year," People's Policy Project, December 10, 2024, https://www.peoplespolicyproject.org/2024/12/10/health-care-administration-wastes-half-a-trillion-dollars-every-year.

[11] Families USA, New Analysis Shows Cuts to Medicaid Would Force Rural Hospitals to the Brink of Closure (June 2025), https://familiesusa.org/wp-content/uploads/2025/06/Rural-Hospital-Medicaid-Analysis.pdf.

[12] Tom Rutigliano, "Building Data Centers Without Breaking PJM," September 30, 2025, https://www.nrdc.org/bio/tom-rutigliano/building-data-centers-without-breaking-pjm.

disconnect between today's costs and income.

Reason 1: Life-Cycle Mismatches

Life transitions can make things unaffordable. People's incomes fluctuate throughout their lives. Two major financial crunches are especially stark: early adulthood, when earnings trend low, and retirement, when income is fixed and capped by what they were able to save up earlier in their lives. As cashflow tightens when transitions and big needs arrive, the effective price of essentials becomes unaffordable, no matter how much supply there is. The mismatch between life and earning cycles is no accident of timing — it is baked into the nature of how incomes are earned and costs incurred in a market economy.

Early Career Earnings and Early Bills

Earnings usually climb with work experience and often peak in people's forties and fifties, but many big expenses – like the cost of starting a family, paying for childcare, earning an education or job training – hit much earlier than peak wages. These up-front investments and early career costs set up a vicious cycle as working families face difficult tradeoffs.

Retirement and Late Life Costs

The economics of aging mirror the early life crunch. Earnings are absent as health and care needs grow when people enter their golden years. This has historically caused a high rate of poverty for elderly people. Acute costs, like long-term care, rising health care costs and housing weigh heavily on senior households, many of whom are on fixed incomes.

Reason 2: Inequality

Rising inequality exacerbates unaffordability. At the bottom of the income bracket, paychecks are simply too small to cover basic needs, and being poor is expensive. Increased inequality at the top of the income distribution means more of what our economy produces goes to the very rich, who can bid up the price of select goods and steer markets to cater to those with more resources.

Insufficient Incomes

Tens of millions of families are forced to make difficult choices as they try to stretch every hard-earned dollar and weigh the urgency of each pressing need. 43% of U.S. families do not earn enough to cover basic necessities like housing, food, health care, child care, and transportation.[13] These numbers are even higher for Black and Hispanic families, at 59% and 66% respectively, compared to 37% of white families.[14]

High Cost of Being Poor

The high cost of being poor is most visible in the everyday trade-offs families are forced to make. Poor families pay more for basic needs because they can't buy in bulk or afford the memberships that cut prices for wealthier households. Without good credit, renters face bigger deposits, steep late fees, or have to rely on high-interest loans when an unexpected expense hits. Low-income people also pay a hefty time tax as they navigate bureaucratic systems. Inconsistent health insurance coverage often forces people to skip preventive care, making expensive ER visits the default care for many.

Reason 3: Macroeconomic Trends

Broader macroeconomic trends, like recent recessions and inflation, and long-term productivity trends where we collectively grow richer, but key essentials get more expensive over time - also contribute to broken

[13] Jeffrey C. Fuhrer, "How Many Are in Need in the US? The Poverty Rate Is the Tip of the Iceberg," Brookings Institution, June 20, 2024, https://www.brookings.edu/articles/how-many-are-in-need-in-the-us-the-poverty-rate-is-the-tip-of-the-iceberg/.
[14] Ibid.

incomes across our economy.

Recessions and Inflation

Recessions and inflation can upend and reshape people’s lives. When recessions hit, jobs vanish and incomes fall. When inflation spikes, the value of a paycheck shrinks and everyday essentials become harder to afford. The past two decades have shown both extremes: the deep, grinding unemployment of the 2008 Great Recession was followed by the sudden collapse of work during the pandemic lockdowns, followed by the inflation surge of 2021–2022. Each episode exposed how fragile household finances are and how damaging residual economic instability can be.

The consequences of these broader dynamics are severe. New housing construction collapsed during the Great Recession, and took eight years to only partially recover.[15] The U.S. housing market still hasn’t returned to pre-crisis levels.[16] Graduating into a recession decreases earnings for 10 to 15 years.[17]

Productivity Trends

Some essentials do not lend themselves to rapid productivity growth. As increased productivity drives up wages in other sectors, time-intensive sectors like care and education also need to raise pay. This is a challenge of a country growing collectively richer while these vital services become less affordable for many households. When our economy is richer and more productive, it has the capacity to insure families against the costs that remain, particularly because services like care and education are largely what make a decent life possible. Rising service costs are not a sign of failure, but of success. A rich country spends more of its income on human services because that is the investment required to ensure stability and a good life.

Conclusion

The health and future of our democracy depend on our ability to create an economy that works for everyone. When the economic system becomes as broken and unequal as it is today, we must collectively rebuild the social contract by addressing the distress felt by millions of families.

Building an affordable economy requires intentional market-crafting: breaking gatekeeping power and building institutions that ensure universal access to essential goods and services. It also demands a social insurance system steady enough to support people across life's predictable arcs and strong enough to address long-term challenges. Together, these strategies can inform a blueprint for affordability.

[15] U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Started: Total Units [HOUST], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUST.
[16] Ibid.
[17] Steven J. Davis and Till M. von Wachter, *Recessions and the Cost of Job Loss*, NBER Working Paper No. 17638 (Cambridge, MA: National Bureau of Economic Research, first issued December 2011; revised March 2017), https://www.nber.org/papers/w17638; Hannes Schwandt, “Recession Graduates: The Long-Lasting Effects of an Unlucky Draw,” policy brief (Stanford Institute for Economic Policy Research, April 2019), https://siepr.stanford.edu/publications/policy-brief/recession-graduates-long-lasting-effects-unlucky-draw.