The things we really need are getting more expensive.
Other stuff is getting cheaper. Why?

Sociologist Joseph Cohen of Queens University is fond of saying that “America is a place where luxuries are cheap and necessities costly.”

A recent chart from economist Mark Perry of the American Enterprise Institute, using data from the Bureau of Labour Statistics, illustrates this well. Since 1996, the prices of food and housing have increased by close to 60 percent, faster than the pace of inflation. Costs of health care and child care have more than doubled. The prices of textbooks and higher education nearly tripled.

On the other hand, the prices of things like mobile phone service, toys, software and televisions have plummeted over the same period.

For many Americans, in other words, that shiny new flat-screen TV is now more within reach financially than it’s ever been. But it has become harder to afford the house to put it in, food to eat in front of it, or the medical care to ensure you’ll outlive its extended warranty.

What’s going on here? Perry points out that most of the things falling in price are manufactured goods, and that prices of those goods have been falling for decades as a result of technological improvements and productivity gains.

“The ‘miracle of manufacturing’ delivers lower prices all the time, and would explain why those prices have decreased significantly over time, relative to overall price increases,” he said in an email.

Perry also pointed to trade as a factor. Many manufactured goods — like TVs and appliances — come from overseas, where labour costs are cheaper. “International, global competition lowers prices directly from lower-cost imported goods, and indirectly by forcing U.S. manufacturers to behave more competitively, with lower prices, higher quality, better service, et cetera,” Perry said.

On the flip side, things like education and medical care can’t be produced in a factory, so those pressures do not apply. Compounding it, many Americans are insulated from the full costs of these services. Private and public insurance companies pay most medical costs, so there tends to be little incentive for individuals to shop around for cheaper medical care.

In the case of higher education, the nation’s massive student loan industry bears much of the upfront burden of rising prices. To the typical 18-year-old, a $120,000 tuition bill may seem like an abstraction when you don’t have to start paying it off until your mid-20s or later. As a result, the nation’s college students and graduates now collectively owe upward of $1.3 trillion in student loan debt.

“Prices rise when [health care and college] markets are not competitive and not exposed to global competition,” Perry said, “and prices rise when easy credit is available.”

Hence, our current predicament.

We can afford the things we don’t need, but we need the things we can’t afford. Whether the 20-year trajectory in the chart above is sustainable is another question entirely.