

EconoFact Chats: Is There an Affordability Crisis?

Jason Furman, Harvard Kennedy School

Published on 1 February 2026

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I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

James Carville, the manager of Bill Clinton's successful 1992 presidential campaign, famously posted a hand-written sign that read "it's the economy, stupid." More than thirty years later, Donald Trump promised during the 2024 campaign to "Make America Affordable Again" and, if elected, to bring down prices, in his words, "very, very rapidly." This promise has come back to haunt the President as prices have not, in fact, come down, and inflation remains above the Federal Reserve's 2% target. Now the President says that concerns with affordability are a "hoax." But affordability remains a deep concern among Americans. Is there, in fact, an affordability crisis? If so, among whom, and for what goods and services? And how do perceptions of affordability feed into politics? To address these questions, I'm very pleased to be joined in this episode of EconoFact Chats by Jason Furman. Jason is a Professor of the Practice of Economic Policy at Harvard University. He spent eight years as a top economic adviser to President Obama, including serving as the Chairman of the Council of Economic Advisers from August 2013 until the end of the Obama Administration. Prior to that, he was the Director of the Hamilton Project at the Brookings Institution and, before that, he served on both the Council of Economic Advisers and the National Economic Council during the Clinton administration. Jason, welcome back to EconoFact Chats.

Jason Furman

Good to be with you.

Michael Klein

Jason, affordability is a pretty broad term. How would you define it?

Jason Furman

You know, there's a part of me that does not like it, because I, as a term, because it's not some economic measure. With GDP, I know if it is going up and down. With real wages, I know if it is going up or down. With affordability, I don't quite know what it is, and don't quite know whether it's going up or down. But broadly, the generous interpretation would be an agenda that was focused on lowering the real cost of a number of discrete items, some of which are things

like groceries, where we could debate whether or not there is a real thing to be done there. Some are areas like housing and health care, where there almost certainly is something to be done.

Michael Klein

As I mentioned in the introduction, President Trump had promised to bring down prices, but there is typically a severe economic downturn in deflationary periods when prices fall. Was there any merit to the promise to bring down prices?

Jason Furman

Yeah, there is a part of me that feels bad for President Trump around the affordability crisis, because inflation, while it is high, has come down a little bit. Real wage growth in 2025 was 1.1%. That's exactly the same pace as real wage growth was in 2024, and so I can't really tell you that things have gotten much, much worse. But the reason I don't feel particularly sorry for Donald Trump is, number one, he set an incredibly unrealistic expectation where he said he was going to actually lower prices. And for people, that sounds like something they could imagine and that's because it is hard for people to think about the price level. For individual prices, we see that all the time. If gasoline prices are incredibly high, they tend to come down. If egg prices are incredibly high, they tend to come down. That's true in micro. It is not true in macro, absent, as you said, either a massive recession, or just a very, very different policy regime around expectations and the like. And so in that sense, I don't feel bad for Donald Trump. He set a very unrealistic expectation. And then there's a second sect, which we could explore, which is that I think insofar as there is a problem, he has made it worse, not better.

Michael Klein

So you mentioned eggs and gasoline, and this aggregate measure of affordability that's captured in the Consumer Price Index can mask very different changes in prices across different categories of goods and services. What prices have gone up the most?

Jason Furman

So grocery prices have gone up well faster than their pre-COVID trend. Goods prices started 2025 going down, as they had in 2024, but they reversed and went up. So not an unusually huge amount, but a lot more than one would have expected, and that certainly is related to tariffs. And then there is the sort of Baumol's cost disease, things that are primarily provided by the services of people that tend to cost more in relative terms year after year after year, like health care. And then finally, there is a reason why housing has become such a big issue. There has been a big run-up in house prices. While rent growth has slowed, it's slowed less than many people expected, and the level remains really quite high.

Michael Klein

So we've talked about things that have already gone up in price. Looking forward, what goods and services do you anticipate prices going up a lot?

Jason Furman

I can see more areas where I expect moderation relative to the pace we've had lately. If you look at the flow of new leases, rent growth there is slower. You expect that to spill over into all leases eventually. The grocery prices, there has to be some form of mean reversion there. There is a big wild card on tariffs. I think a lot of companies haven't fully passed them through. They've partly passed them through, which is why consumers are paying higher prices. They haven't fully passed the tariffs through. If tariff rates come down, either because of the Supreme Court or because Donald Trump chooses it, then companies won't need to pass them through. If tariff rates stay at 12% on average or go up, I think goods prices will see some more inflation.

Michael Klein

One price that you have already mentioned is housing, and something that affects housing affordability is the mortgage interest rate – but this isn't included in any official price statistics like the Consumer Price Index. Does that mean that the housing costs in the CPI understate the cost of housing?

Jason Furman

Yeah, there's, you know, good research. Judd Cramer and Larry Summers did a paper a year or two ago that found that mortgage interest rates really almost should be thought of, at least psychologically, like a price. It's the price of money, and it is one that is very visible to a lot of people. Now in the US economy, it's interesting, because people tend to have fixed-rate mortgages. So in a country like Australia, when they change the interest rate, you know, not the next day, but maybe the next month, everyone has a different interest bill. Here in the United States, it's a long, gradual process of resetting. And what's important about that is, even though mortgage rates have come down a little bit in the last six months, for a lot of people, if you are resetting, because you got your mortgage five years ago, ten years ago, you're still resetting to a higher rate. So that will play out...the higher mortgage rate, and the frustration associated with that...potentially for some time to come.

Michael Klein

I guess it is also very important for first-time homeowners who are trying to get a mortgage, right?

Jason Furman

Yeah, absolutely. And the mortgage rate is where it is in part because we have run large budget deficits. And Joe Biden ran large budget deficits. Donald Trump has locked in and continued those large budget deficits.

Michael Klein

But some prices have come down, or at least have had relatively small price increases, like gasoline, correct?

Jason Furman

Yeah. And as a matter of political science, it's sort of curious to me. Certainly whenever I was in the White House, there was no price people were more obsessed with than gasoline prices. It would just cause panic throughout the White House if they were going up, and a certain amount of like, positivity and enthusiasm and, you know, extra sort of bounce in your stride when they were going down. Gasoline prices have actually gone down under President Trump. Part of that's causal, because he has weakened the global economy with tariffs, which is not exactly the best thing. I don't think his deregulation and increases in supply have played much of a role, but, you know, he could certainly argue that if he wanted to. Yet if you look at public opinion surveys, people rate the cost of gasoline as an issue very, very low. So it's not that they think it is important and give him credit. They have just crossed it off the list. And psychologically, there just seems to be something right now where the mental CPI is like the max of all the increases. You look at meat prices going up but not egg prices going down, rather than averaging across everything and saying, you know, hey, it is working out for some things, not for others. And on balance, I can buy 1.1% more of my wages this year than last year. So, you know, I'm happy. You just don't hear about it.

Michael Klein

Yeah. The thing about gasoline prices is that they're advertised in very big letters on many roads, and they change very frequently. So it seems like that has been, as you mentioned, something that people use to gauge overall prices. But it's interesting, like you said, now that that's not the case, or doesn't seem to be the case. You did also mention the issue of services, and you talked about the Baumol disease. Can you describe a little bit what that is and why things like child care or higher education or recreational services have been going up when the price of goods may have been more tempered?

Jason Furman

Yeah. So education, health, child care, those are all produced by people. They all take roughly the same number of people to educate or look after or treat the same number of people as one hundred years ago. Child care, especially for younger children, just technology, machinery, capital has barely changed it today relative to the way it was done one or two hundred years ago.

As a result of that, it has a relative price that rises relative to things like manufacturing or agriculture, where we're vastly, vastly more productive and it takes many, many fewer people to produce something in those places. Basically, you need similar wages in different sectors over time because people can move between them. You have very different productivity in different sectors, and the only way to reconcile and make that work is if relative prices are changing.

Michael Klein

I guess Baumol, when he first talked about this, talked about haircuts, right? That a barber can only cut so many heads of hair in a day. And there aren't going to be technological advances that really promote that. Whereas with, you know, automobiles or lots of other things, they become much more productive and so we see lower prices. But, you know, not everybody needs a haircut. I don't need one so much. I'm bald. Not everybody can afford a car. But, the price increases can affect people very differently depending on where they are in the income distribution. Have you seen certain groups, income groups, especially affected by price rises?

Jason Furman

This is a hard one to tell. First of all, we wish...I wish, at least, that there were high-frequency official government data that broke down different statistics by income, whether that's breaking the CPI down by income, breaking wages down, breaking income, consumption. You know, there's all this talk of a K-shaped recovery, and I don't think we have the data to really be very confident one way or another. People have looked over longer periods of time, have done research and found that price increases have been larger for low-income consumers than for high-income consumers. You just look at the basket of things they buy, and it is more tilted towards things whose relative prices have gone up. If you look at the last five years, Alberto Cavallo has been tracking these types of data, and it kept reversing. Like when, you know, I can't remember, but it's like the price of gasoline was rising faster than everything else, I think that made inflation faster for people at the bottom, but then when it was rising slower than everything else, it reversed it. So the last couple of years, I would describe, at least on the price side, it being relatively messy. On the wage side, we've had a number of years now where wage growth has been faster for households at the bottom of the wage distribution than at the top. So it does appear that real wages have actually risen, you know, more quickly for moderate-income workers than for high-wage workers.

Michael Klein

Yeah, that's what I wanted to turn to next, because there are, of course, two sides to the affordability issue, not only how much things cost, but how much people earn. And as you mentioned, this is related to the economic concept of the real wage, what people get paid relative to what things cost. So wages have more or less kept up with inflation, at least for some groups?

Jason Furman

Yeah, I mean there was a huge setback in 2021 and 2022 as inflation vastly exceeded wage growth, but we have been climbing back out of that hole ever since. Real wages are definitely higher than they were prior to COVID, but not as much higher as you might have hoped. So they are a bit below the previous pace of real wage increase if you look just at the last six years as a whole.

Michael Klein

And wages relative to prices, talk about sort of what people can afford. But are there also issues with tariffs...that if tariffs are very high, some goods just won't be available?

Jason Furman

Yeah, I mean, variety matters an enormous amount. I mean, if you look at the gains from trade, to some degree it's stuff is cheaper, but to some degrees, you can, it's that you can get, like, any type of fruit you want any time of year, and just an enormous, enormous variety of stuff, which people really value. I haven't seen any quantitative data on what has become unavailable and disappeared from the shelves as a result of tariffs. I am not sure that I would predict it would be that many, but that is a knowable thing. It is just unfortunately not known by many.

Michael Klein

It's an 'unknowable knowable,' as some people might say. You use the term people's mental CPI, so maybe this is an issue of perceptions. Your colleague at Harvard, Stefanie Stantcheva, has done surveys that show that people attribute price changes to outside their control, but they see increases in their wages as an appropriate reward for their work. Do you think this is an important contributing factor to concerns about affordability?

Jason Furman

Yeah, I think that's one of two. One is one we discussed earlier, which is the price level. Prices are 25 percent higher now than they were in 2019. And while it would be a central banker's dream if we could just have prices grow at two percent a year, that basically says, you know, that high price is here to stay, and oh, and it's even going to get a little bit higher over time. So I think that's big factor number one. And then factor number two, as people evaluate the last five or six years, is wages have grown...nominal wages have grown unusually fast. Prices have grown unusually fast. As economists, we understand those two things are linked, but people, quite understandably, don't think they are linked. So I think that is a second part of it. But those two are why people are feeling so intense. The third thing is a reality, as I said, that real wage growth is below its pre-COVID trend. So I think people have a good reason to be frustrated with the progress that they have had over this period of time, but they are probably expressing it even more strongly than is merited by the data because of that price level and because of that psychological disconnect between wage and price growth.

Michael Klein

You alluded to the fact that the President's policies are not necessarily helping with affordability, and he's made efforts to bring down the price of prescription drugs. He recently talked about capping the interest rate on credit card debt, but as you already mentioned, tariffs are raising the price of imports, and more broadly, the President has also been complaining about the leadership of the Federal Reserve saying that they're not bringing down interest rates fast enough. But bringing down interest rates would be the opposite of a policy that would help with affordability, isn't it?

Jason Furman

Yeah. I mean, the President certainly, if he had his way, would have maybe a 1% interest rate right now. We'd have more inflation, and we, ironically, could potentially even have higher mortgage rates, because mortgage rates are not set by the Fed. They're set based on longer-term interest rates, which can actually go up if people are worried about more inflation in the future and worried about more risk. So if he had gotten his way on the Fed, inflation would have been even worse. Fortunately, he has not gotten his way on that. What he has gotten his way on so far, at least, is tariffs, and there's no doubt in my mind that you can see them all over the data in terms of the increasing in goods prices, when you would otherwise have expected goods prices would have been something more like flat this year.

Michael Klein

I started off today by quoting James Carville and his handwritten sign in campaign headquarters "it's the economy, stupid." Democrats want to make affordability an issue, but they're proposing some policies like price controls on rents or preventing what is deemed as price gouging by grocery stores. How effective would these be in bringing down prices or moderating prices relative to wages?

Jason Furman

Yeah, I think there's sort of three classes of Democratic policies right now. One is increasing supply. Zoning reforms, for example, for housing. That's something I'm almost unabashedly enthusiastic about and think would work. It takes time, though, not something that happens overnight. The second set of policies are redistribution. So, for example, restoring the subsidies, expanded subsidies for the Affordable Care Act, that would lower premiums for the twenty-ish million people that get it through the Affordable Care Act, but wouldn't really have much of an impact on everyone else. That's something else where I think you tend to do redistribution, not to help a hundred percent of Americans, but to help, say, the bottom twenty percent of Americans. And then the third class of policies that Democrats are talking about now are the ones that you included in your question, which is price controls. And people have talked about that on energy, on groceries, and on housing, are the three main areas it's been discussed. In all three cases, I think it would be really counterproductive. First of all, a lot of people wouldn't even benefit from

it. Over time, you would end up with less supply, that would in the long run would actually drive up prices and make things less available to people. So to me, that's the worst class of solutions to this problem overall.

Michael Klein

Jason, how would you gauge the issue of affordability? *The Economist* magazine, one of the most influential popular periodicals for covering economic issues, has recently published an article that says "...talk about affordability mixes phantom concerns with real ones." Do you agree with this? And if so, what do you see as the phantom concerns, and which are the real ones?

Jason Furman

Yeah, I agree with that. I mean, first of all, as I said, I do not think if we had some measure of affordability, it would necessarily be worse now than it was a year ago or two years ago, let alone ten years ago or twenty years ago. Moreover, if what people want is, on average, all prices going down, that is just not possible. So that's the set of phantom stuff. But there is government policy we could do that would slow cost growth in housing. You could slow cost growth in health care, maybe in child care. You know, absolutely. And a lot of those are separate, disconnected areas, but in all of them, a common theme is what you can do to reform things on the supply side. So if politicians want to use this as a word to organize their speeches around sensible policy, that's fine with me. If they want to set impossible goals and terrible means of achieving those goals, then I get more worried.

Michael Klein

As I mentioned in the introduction, you were the Chair of the Council of Economic Advisors under President Obama – so you are well aware of the political implications of this issue. Jason, is it still true that "it's the economy, stupid"?

Jason Furman

It seems to be. I mean, first, I think that is usually the case, and it seems to be right now as well. There still is a question of what 'the economy' means. When James Carville coined that phrase, it was really about a jobless recovery and a continued high unemployment rate. That's not what anyone is talking about right now, but I think it is perfectly possible that over the course of 2026 we are going to see a rising unemployment rate. So absolutely, I think 'the economy, stupid' will continue to be with us all year. What exactly it means, whether it is about inflation, wages, jobs, or something else, I would not be surprised if it changes over time.

Michael Klein

Well, we'll see what happens. Your insights, as always, Jason, are very valuable, and I always enjoy speaking with you. So thank you very much for joining me once again on EconoFact Chats, and talking about this very timely issue.

Jason Furman

Great talking with you.

Michael Klein

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