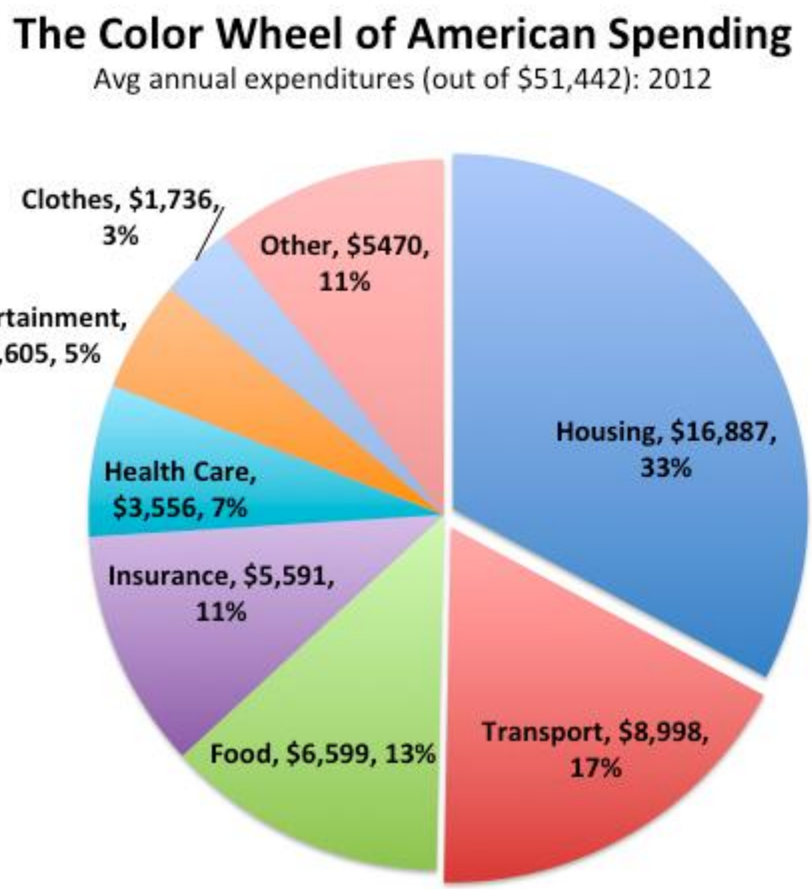
The Atlantic

America's Weird, Enduring Love Affair With Cars and Houses

$1 of every $2 Americans spend is on real estate and transportation. It doesn't have to be that way.

Houses and cars. They fatten the economy and thin our wallets. Without them, recoveries don't feel like recoveries. The real estate and auto industries account for $1 in every $2 spent by the typical U.S. family, according to the Bureau of Labor Statistics. Here's your color wheel of spending...

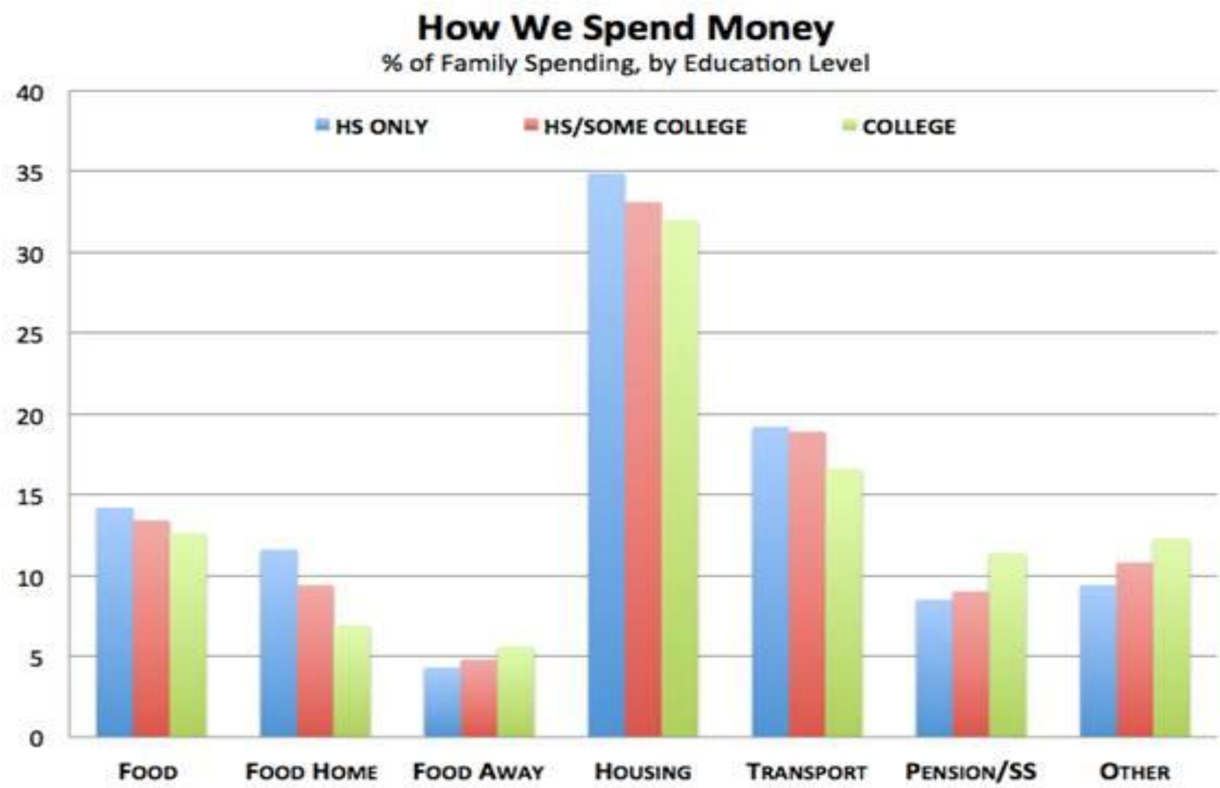


A more detailed recent report shows how families with different education backgrounds—a common and useful proxy of income level—divide their cash between movies, mortgages, and dinners at restaurants.

Families led by somebody with a BA makes about 2X more than families without a college graduate. But their spending breakdowns are familiar:

- **Housing**: About a third of all family budgets: families with a bachelor's spend 32 percent of their income on housing; for families without a degree, the figure is 33.7 percent
- **Transportation**: About one-sixth of all family budgets: 17.1 percent for the college-grad family; 18.9 percent for non-grad families
- **Food**: About one-eighth of all family budgets: 13.8 percent for college-grad families; 12.6 percent for non-grad families

Families led by HS-grads average about $35k in annual expenditures. For the next group up, high school-plus-some college, average income rises to $43k. For families led by a college-grad who doesn't have an advanced degree, it's $63k. As you can see, richer families need a *slightly* smaller share of income to eat, live, and get around, leaving more for insurance, dinners out, and luxuries (other). But the division of spending is pretty similar across seriously different income levels.

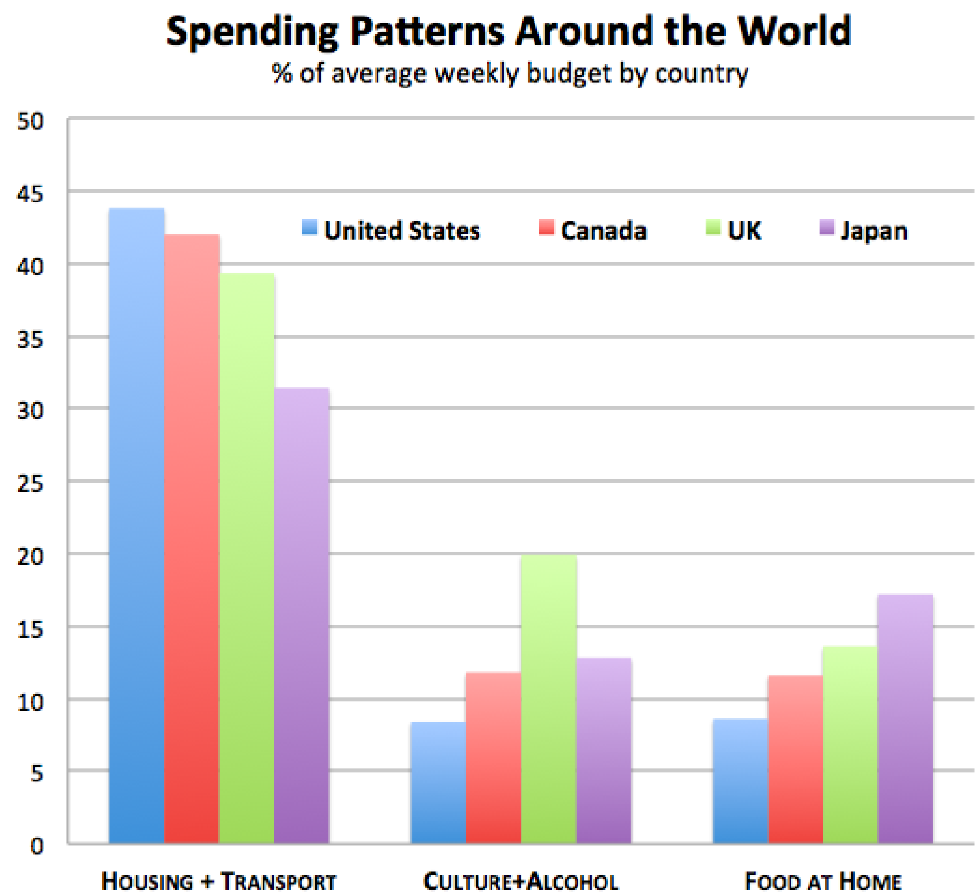


What can we draw from this? Two broad observations.

1. America's house/car love affair is enduring and weird.

Families with radically different incomes—from lawyers and doctors down to high-school dropouts—all spend about half of it on homes and getting around, which suggests an historically tight relationship between marginal income growth and marginal spending growth on real estate and transportation. You get a raise, you shack up with roommates. You get another raise, you get nicer studio. A bigger raise and you move out to the suburbs and buy a house—commensurably increasing your spending on transportation (bigger car + gas).

This monopoly of housing/transit dominance is sticky for many reasons—America is big and has space for houses but zoning often limits development, leaving us with high relative housing prices and rents; suburban sprawl invites car ownership; infrastructure supports a car culture; our gas taxes are low and mortgage interest deductions are high; the list goes on—but it doesn't *have* to be this way. Not every country spends half its income on homes and cars. They have other priorities, like the UK, where the typical family spends a walloping 20 percent of its income on the super-category of "fun stuff": culture, entertainment, sports, alcohol, and tobacco. Or look at Japan, which spends more than twice as much as us on food consumed at home.



2. The post-suburban economy could be a huge deal.

Imagine what would happen if we didn't spend $1 in $2 on houses and cars. It would be rocky for the real estate and auto industries who have come to rely on a steady stream of spending. But it would leave a lot of money left over other stuff—like smartphones, and dinners out with friends, and shoes whose fanciness belies our income level. This isn't a vision of the future. It's a description of the way a lot of young people live today, particularly educated twentysomethings who've moved to urban light areas (e.g.: newer subrubs within commuting distance of the city proper, like Arlington, Va.) where they can save on real estate, take public transit, and preserve enough of their lowish salaries to cobble together a connected and fairly social life outside work, if they have it. Maybe these trends are recession-era fads that will fade with the recovery. If not, it'll be a big deal.