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RESEARCH

The 2023 Cost-of-Thriving Index

Tracking the Catastrophic Erosion of Middle-Class Life in America

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EXECUTIVE SUMMARY

While many economists argue that America's working families are more prosperous than ever before, families themselves feel that they have come under increasing economic pressure. The families are right.

Economists rely on inflation-based adjustments to compare costs of living over time, but this method measures the cost of buying the same set of things in different eras. Perhaps a family could more easily afford a 1985 quality of life in 2015 than in 1985, but being in the middle class in 2015 means affording a 2015 quality of life.

The Cost-of-Thriving Index (COTI) offers a better way to understand the challenge for working families. It avoids reliance on inflation adjustments by instead focusing on the ratio of nominal costs to nominal wages in each year. The Index measures the number of weeks a typical worker would need to work in a given year to earn enough income to cover the major costs for a family of four in the American middle class in that year: Food, Housing, Health Care, Transportation, and Higher Education.

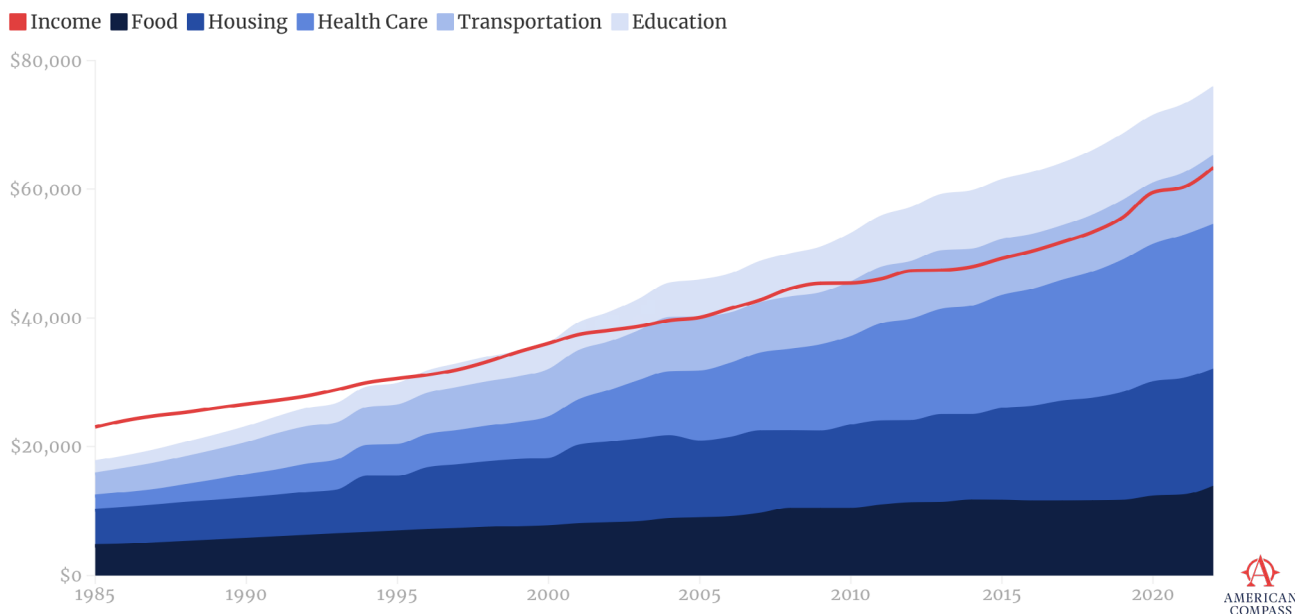
In 1985, COTI was 39.7. Costs totaled \$17,586, while median weekly income for a man aged 25 or older working full-time was \$443 (\$23,036 per year).

In 2022, COTI was 62.1. Costs totaled \$75,732, while median weekly income for a man aged 25 or older working full-time was \$1,219 (\$63,388 per year).

In other words, while the typical man working full-time in 1985 could support a family on 40 weeks of income and then still have income from roughly 20% of the year left to cover other expenses and save, a comparable man working full-time in 2022 would work the whole year and still come up ten weeks short. This is not the prosperity that was promised, or that economists try to claim has been delivered.

FIGURE 1. Major Costs for a Middle-Class Family of Four vs. Median Male Income

All figures in nominal dollars



Source: American Compass Cost-of-Thriving Index

INTRODUCTION

One of the easiest questions in economics turns out also to be one of the hardest: In 1985, an American man working a typical full-time job earned \$443 per week. In 2022, the comparable modern man took home \$1,219. Who was better off?

The grade-school answer, in a lesson about greater-than and less-than, is that our modern man earned nearly three times more. Many adults, having experienced rising prices in their own lives, and at least casually familiar with “inflation,” would ask to have the figures adjusted accordingly. The wage increased by 175%, but the closely watched “Consumer Price Index” increased by 172% over the same period. Or, put another way, the 2022 man would have needed to earn \$1,205 per week in 2022 to afford the same things the 1985 man could afford with his weekly income of \$443. With his earnings of \$1,219, the 2022 man is in roughly the same place as his predecessor.

Economists argue constantly about that conclusion as well. Some prefer a different measure of inflation, which would say prices have increased less and so our modern man can buy more. Others note that while his wages may have stagnated, technological progress means his life is better in many other ways, and more generous government programs help bring more resources to his household.

But all this misses the point too, as badly as the grade-schooler did. Measures of inflation try to detect the change in cost for the exact same set of things. That’s enormously important data if you are trying to assess the broader economy’s behavior. But it tells you little about the cost of living as experienced by someone trying to support a family, who cannot simply continue to buy the same

things, and who would not remain in the middle class if he did. When inflation-adjusted figures report that a 2022 earner could afford roughly what a 1985 earner could, that assumes the 2022 earner still plans to drive a 1985 car, live in a 1985 house, watch a 1985 television, and receive 1985 medical care. That's not possible, nor is it what being "middle class" in 2022 means. Consider instead the costs of a 2022 car, a 2022 house, a 2022 television, and 2022 medical care—the things a 2022 middle-class family should be able to afford—and the picture looks quite different.

Americans intuitively understand this problem, because they are living it. In its [2023 Family Affordability Survey](#), American Compass asked parents how they felt about the fact that, "After adjusting for inflation, young men earned roughly the same wages in 2019 that they did in 1969." Respondents were offered two views:

A. This is a big problem and helps to explain why men are leaving the workforce and marriage rates are declining. We should not expect people in 2019 to be satisfied with a standard of living from 50 years earlier.

B. This is not a big problem, because we know that men were eager to work and able to start families on a 1960s wage in the 1960s. We should expect them to feel the same way about the same wages today.

Respondents were then asked to choose which they agreed with more. Among those with an opinion, 74% chose "big problem" (including 67% of Republicans). Among those with a strong opinion one way or the other, 85% chose "big problem."

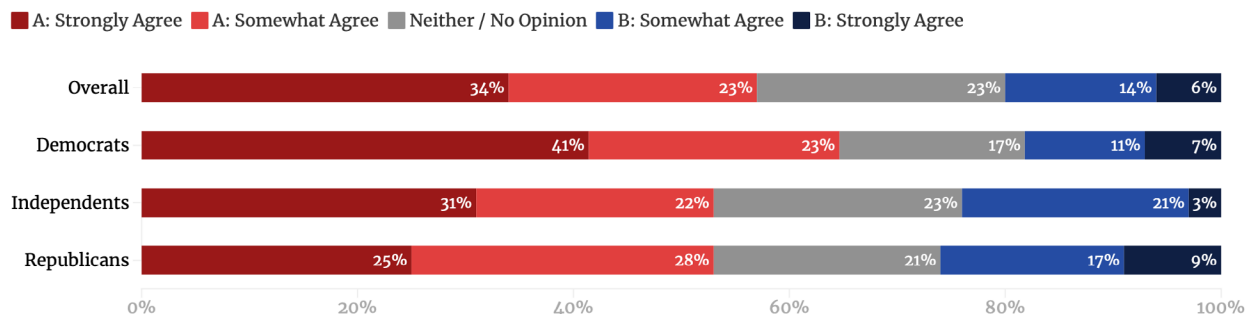
FIGURE 2. Are Stagnating Wages a Big Problem?

Parents, by political party

Respondents were presented with the fact that "after adjusting for inflation, young men earned roughly the same wages in 2019 that they did in 1969" and asked to choose between two views:

A. This is a big problem, and helps to explain why men are leaving the workforce and marriage rates are declining. We should not expect people in 2019 to be satisfied with a standard of living from 50 years earlier.

B. This is not a big problem, because we know that men were eager to work and able to start families on a 1960s wage in the 1960s. We should expect them to feel the same way about the same wages today.



Source: American Compass Family Affordability Survey (2023)
N=1,000 parents with child under the age of 18 in the household

COTI explains what economists cannot: Why are people frustrated by an ever-wealthier world? Why do so many families have two parents working full-time although they say they would prefer to have a parent at home with young children? Why isn't everyone "moving to opportunity" in big coastal cities? It confirms what everyone knows though some analysts try to deny—that raising a family on one income used to be much easier, and that for all the celebration of growth and efficiency and technological progress, something important has been lost.

METHODOLOGY

The American Compass Cost-of-Thriving Index builds upon a methodology first introduced in *The Cost-of-Thriving Index: Reevaluating the Prosperity of the American Family*, published by the Manhattan Institute in 2020. That Index included only Housing, Health Care, Transportation, and Education. Methodology and rationale for those categories remain similar, and any updates are noted below. COTI now includes Food as well, as a fifth major cost category.

COSTS

Food: COTI uses the U.S. Department of Agriculture's "Official Food Plans," taking the average of its "Low-Cost" plan (which USDA defines as falling within the second quartile of food expenditures) and "Moderate-Cost" plan (third quartile) as an estimate of the median cost of a nutritious diet for a family of four, a standard that it updates over time. In 1985, this cost was \$4,550. In 2022, this cost was \$13,667.

Housing: COTI uses the U.S. Department of Housing and Urban Development's "Fair Market Rent" (estimated at a local market's 40th percentile as of 1995 and at the 45th percentile in earlier years) for a three-bedroom unit in the Raleigh, North Carolina MSA, where rents approximate the national median. In 1985, this cost was \$5,560. In 2022, this cost was \$18,204.

Health Care: COTI uses the Kaiser Family Foundation's estimate of the average premium for a family health insurance plan offered through a large employer. In 1985, this cost was \$2,152. In 2022, this cost was \$22,463. Note that data for imputing historical costs are available only from 1987 and the 2020 COTI therefore used the 1987 value in both 1985 and 1986, implying no cost growth in those years and thus overestimating the 1985 cost. The 2023 COTI estimates the 1985 cost as the midpoint between the 1987 cost and an estimate derived by extending backward from 1987 the average 1987–90 growth rate.

Transportation: COTI uses the U.S. Department of Transportation's estimate (derived from the American Automobile Association) for total cost of ownership for a vehicle driven 15,000 miles per year. In 1985, this cost was \$3,484. In 2022, this cost was \$10,729.

Education: COTI uses the U.S. Department of Education's estimate for the total in-state cost (tuition, fees, room, and board) of attending a public, four-year college. This total is divided by two to estimate an annual amount that a family would need to save over eight years to put one child through college and thus over 16 years to put two children through college. In 1985, this cost was \$1,841. In 2022, this cost was \$10,669. (Note that the Department of Education has not yet released 2022 data, so 2021 data are used for 2022.)

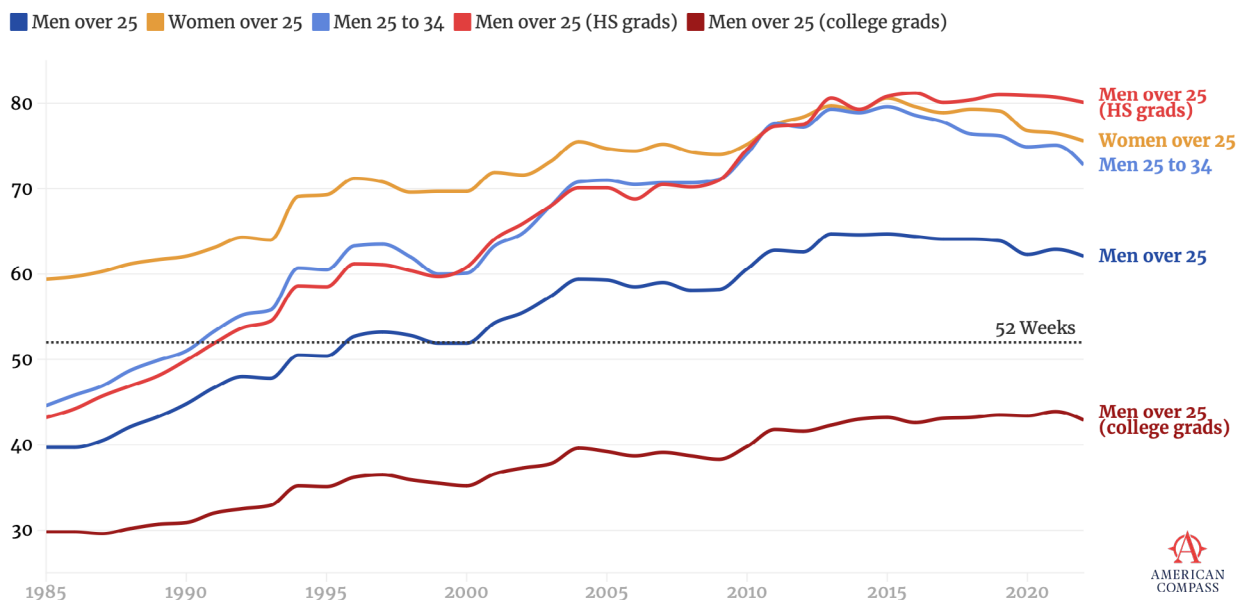
INCOME

COTI uses data from the U.S. Department of Labor's Current Population Survey (CPS), which reports median full-time weekly earnings for men over the age of 25. In 1985, this wage was \$443. In 2022, this wage was \$1,219.

The COTI specification allows for alternative wage measures—for instance, a COTI for women rather than men, or for workers of particular ages or levels of educational attainment. The same CPS data reports that women's wages were \$296 in 1985 and \$1,002 in 2022, yielding COTIs of 59.4 and 75.6, respectively. For men aged 25 to 34, years key to family formation, wages were \$394 in 1985 and \$1,040 in 2022; COTI rose from 44.6 to 72.8. And for men with only a high school degree, COTI rose from 43.2 to 80.1. This confirms what working families have been insisting: a generation ago, a high school graduate was well positioned to attain middle-class prosperity, today that goal is largely out of reach.

FIGURE 3. COTI Values for Different Demographic Groups

Weeks of wages needed to afford middle-class essentials



Source: American Compass Cost-of-Thriving Index (2023)

Note: Income is median income for full-time workers



LONG-TERM TRENDS

COTI's historical data depict the catastrophic erosion of middle-class life in America. Charts favored by some economists showing “real” household income climbing ever higher, deployed as evidence of ever-rising prosperity, are likely to perplex American parents of the past generation, for whom the data would bear little relevance to their experiences trying to make ends meet. COTI's picture, by contrast, is a familiar one.

In 1985, COTI stood at 40 for the median male worker; at 43 for one with only a high school degree. Over the next 25 years, those values exploded. By 1992, COTI for the high school graduate had crossed the crucial 52-week threshold. By 2000, the typical worker with some college had hit the 52-week mark. By 2014, even the typical worker with a bachelor's degree or higher had reached a COTI of 43—that is, similarly situated to the high school graduate a generation earlier.

The trend shown in this historical data underscores an important point: One might debate what set of costs a middle-class family should be able to afford, but it is indisputable that the set used in COTI is one that a middle-class family could afford a generation ago on one income and cannot afford any longer without having two incomes or significant government support. (For more information on how Americans do define the middle class, see the 2023 Family Affordability Survey.)

COTI historical data also identify an interesting inflection point in the mid-2010s. After peaking in the 2013–15 range, at the tail end of the painfully slow recovery from the Great Recession, COTI stabilizes and then even begins to fall—from 65 in 2015 back down to 62 in 2022. This is thanks in large part to dramatic slowdowns in the rates of growth for health care and education, two categories that get short shrift in most inflation measures but loom large in household budgets.

But stabilizing is not enough. For America to restore middle-class prosperity, COTI will have to return to its historical level, at which a typical worker could comfortably support a family. That will require sustained wage growth coupled to further policy reforms that rein in costs. Recent years offer hope, and a useful reminder that no law of economics dictates that family life should become continually less affordable as an economy develops. But likewise, COTI reminds that middle-class prosperity should not be taken for granted and can all too easily fade away.

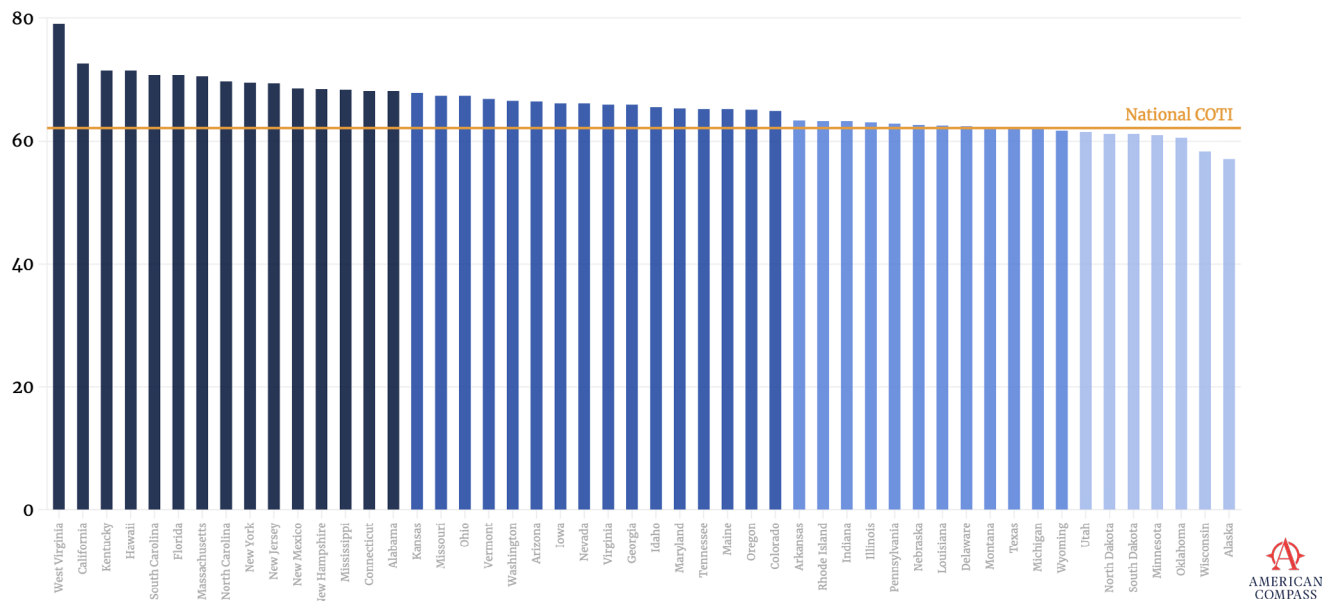
REGIONAL ANALYSIS

An important update in the 2023 COTI is the addition of state and local estimates of costs and wages, highlighting the variation in middle-class affordability across regulatory environments and labor and housing markets. State and local data are for 2021. (For details of state and local calculations, see the Appendix.)

State-level COTIs vary by roughly 20% from the national level, with highs approaching 80 and lows near 50. The largest variations are in housing prices and wage levels, followed by in-state college tuition prices. Health insurance premiums and operating costs for vehicles vary less and differences are in many cases attributable to state-level regulatory choices.

FIGURE 4. COTI Values by State

Weeks of wages needed to afford middle-class essentials



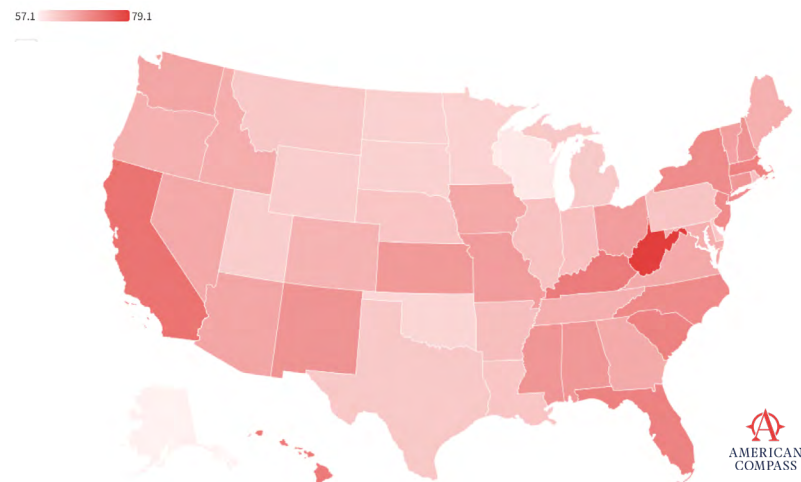
Source: American Compass Cost-of-Thriving Index (2023)

California has the second highest COTI, at 73, but the highest COTI is West Virginia's, at 79. Those two states are usually at opposite ends of a list, but what they share is an unsustainable economic trajectory, whether driven in one case by high wages unable to keep pace with higher costs, or in the other by wages so low that even low costs become unaffordable.

Conversely, those states that still offer some plausible prospect of supporting a family in the middle class on a typical wage are ones that have stayed closer to the middle of the road, generally in the upper Midwest: Wisconsin, Oklahoma, Minnesota, the Dakotas, and so on.

FIGURE 5. COTI Across the Country

States shaded relative to COTI values



Source: American Compass Cost-of-Thriving Index (2023)

With the 2023 edition of COTI, American Compass has released the [full data-set](#) used in its calculations. Analysts can work from original source data to identify all assumptions underlying the COTI calculations, test alternative specifications for the Index, and create further research products.

CONCLUSION

Of course, most families do still find a way to make ends meet. One partial solution is to accept a long commute—living in a lower-cost, lower-wage area while working in a higher-cost, higher-wage area. Another is to have both parents work, even with young children at home, though of course this often brings the added cost of paid child care. Public programs have also stepped in with subsidies to cover health care and education costs.

But notice how different that definition of the middle class looks, than the one that was achievable on a single wage in a prior generation: stretched for both time and money, stripped of any cushion, lacking in choices, and dependent on government. Regions that supposedly enjoyed the most “growth” and “dynamism” in recent years are experiencing among the worst outcomes.

In defense of economists and the policymakers who quote their statistics, the televisions are bigger, the cars now have heated seats, and the university student centers are architectural wonders. In defense of the American people, the tradeoff has been an awful one, and anyone celebrating it will rightly lose credibility in public debates.

APPENDIX: STATE AND LOCAL ESTIMATES

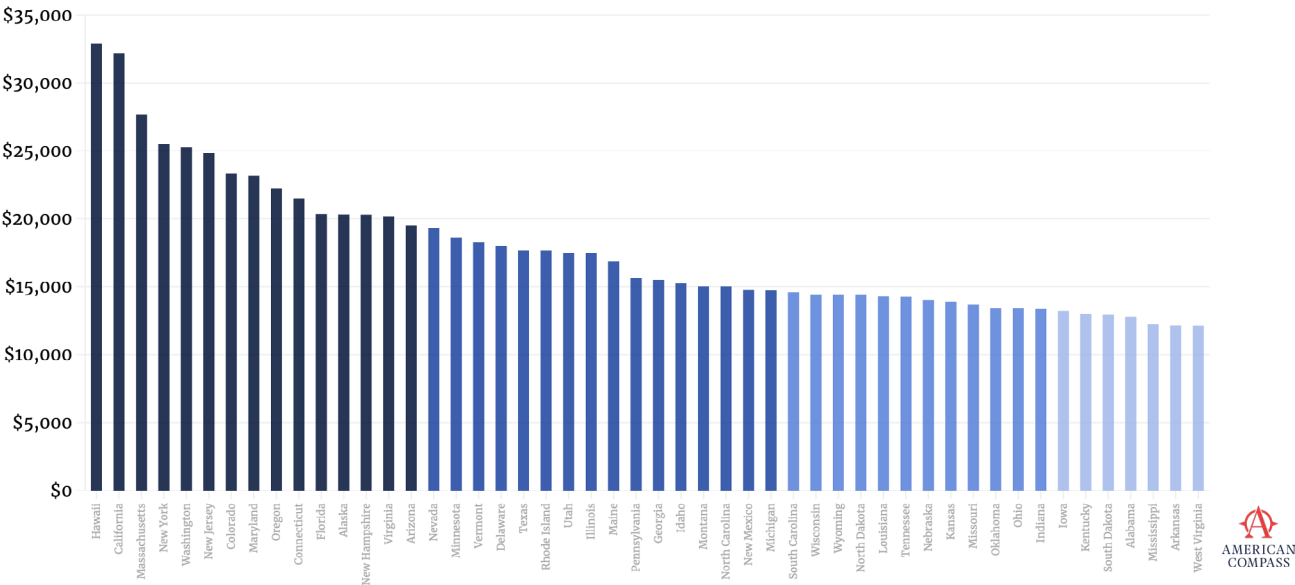
COTI estimates are available for all 50 states, using the following methodology:

Food: The U.S. Department of Agriculture’s “Official Food Plans” are available only at the national level. Food costs for all states are therefore set equal to the national value. In 2021, the cost for the median food plan was \$12,293.

Housing: COTI uses the U.S. Department of Housing and Urban Development’s estimate for “Fair Market Rent” for a three-bedroom unit in the 40th percentile of each local market. An estimate for each state is calculated by taking the 2017 population-weighted average of rent estimates for all locations within each state. In 2021, the cost for housing ranged from \$32,909 in Hawaii to \$12,132 in West Virginia.

FIGURE 6. Housing Costs by State

Fair Market Rent for a three-bedroom unit (2021)

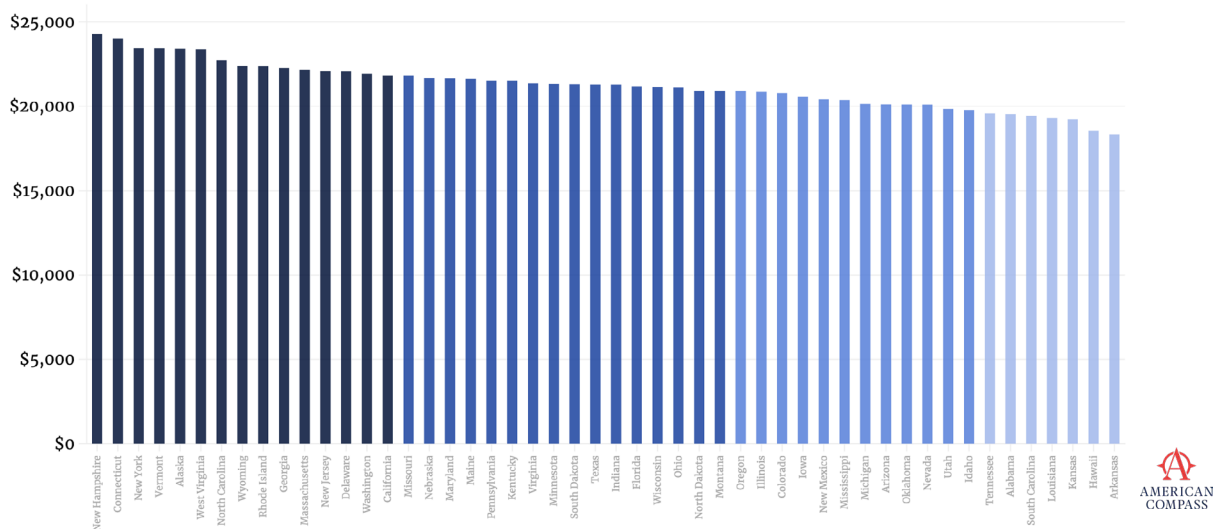


Source: U.S. Department of Housing and Urban Development

Health Care: COTI uses the Kaiser Family Foundation’s estimate of the average premium for a family health insurance plan offered through an employer. In 2021, the cost ranged from \$24,297 in New Hampshire to \$18,339 in Arkansas.

FIGURE 7. Health Care Costs by State

Annual family premium for employer-based health insurance (2021)

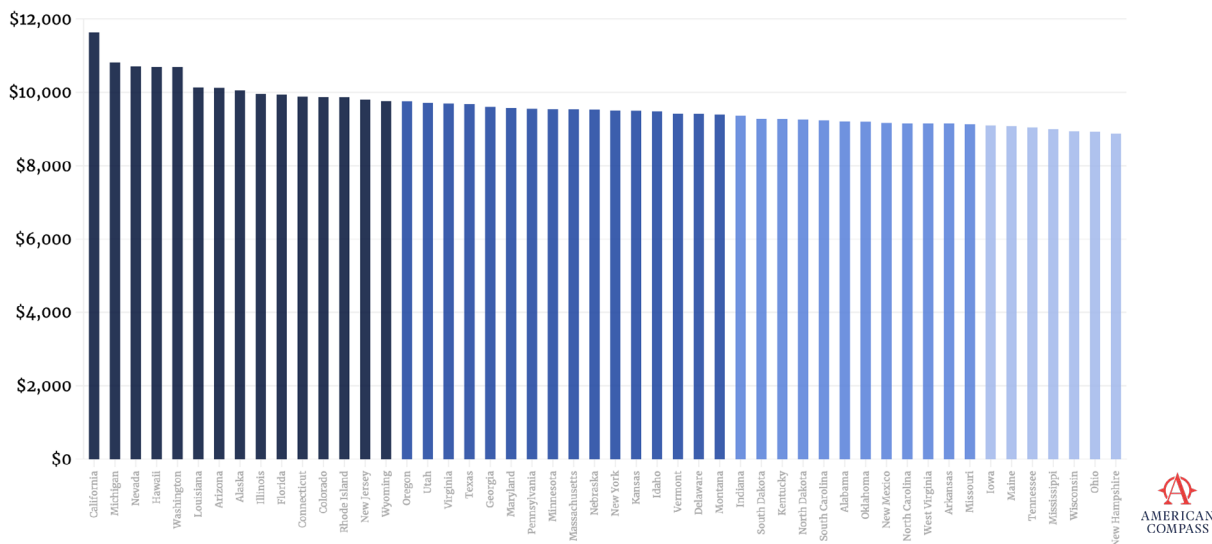


Source: Kaiser Family Foundation

Transportation: COTI uses the American Automobile Association's (AAA) estimate for total cost of ownership of a vehicle driven 15,000 miles per year. Specifically, it uses the estimate for a (used) 2018 Ford Explorer Base 4D SUV FWD, driving 55% of the time in cities and 45% of the time on highways with regular gas. This configuration was chosen as one appropriate to the needs of a middle-class family and generating an annual cost estimate comparable to that generated by the mix of vehicles used by the U.S. Department of Transportation for its aggregate, nationwide cost estimate. AAA's estimates were available only for 2023, so cost estimates for each state are adjusted from 2023 to 2021 using the ratio of AAA's nationwide 2023 estimate to the 2021 estimate reported by the Department of Transportation. In 2021, the cost ranged from \$11,629 in California to \$8,870 in New Hampshire.

FIGURE 8. Transportation Costs by State

Total cost of ownership for a used Ford Explorer driven 15,000 miles (2021)

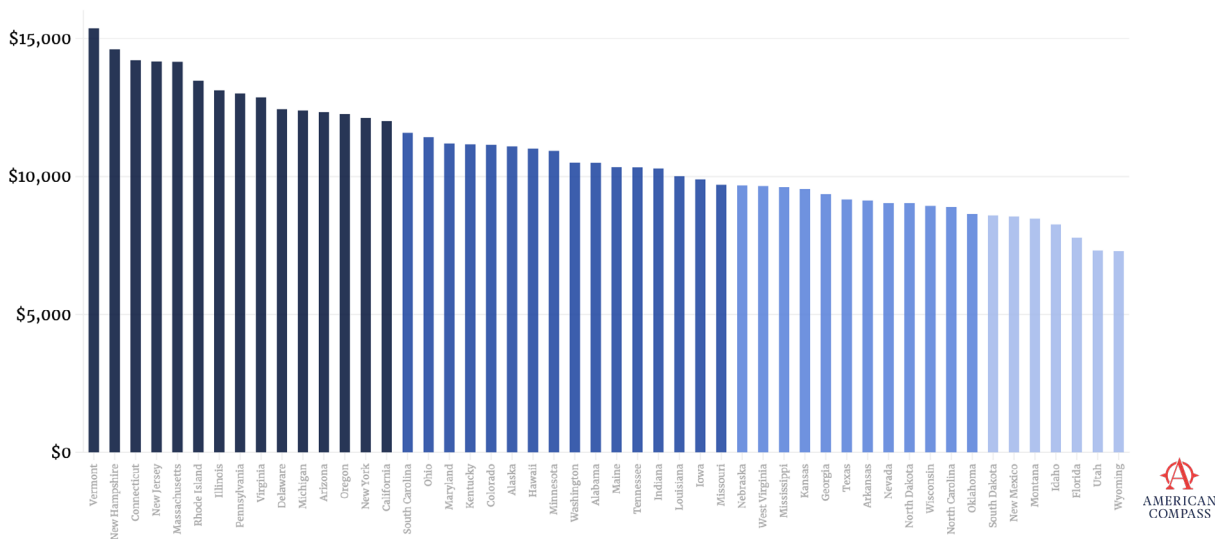


Source: American Automobile Association

Education: COTI uses the U.S. Department of Education's estimate for the in-state cost of tuition, fees, room, and board at a public, four-year college in each state. This total is divided by two to estimate an annual amount that a family would need to save over eight years to put one child through college and thus over 16 years to put two children through college. In 2021, the cost ranged from \$15,376 in Vermont to \$7,292 in Wyoming.

FIGURE 9. Education Costs by State

In-state tuition, fees, room, and board at public 4-year university (2021)



Source: U.S. Department of Education

INCOME

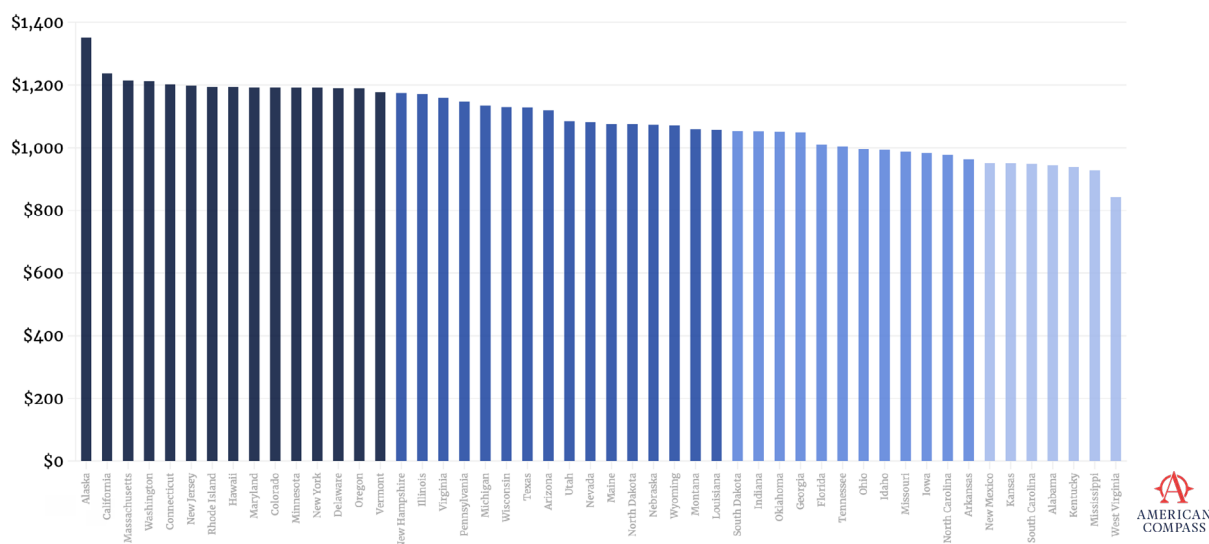
COTI uses data from the U.S. Department of Labor's Occupational Employment and Wage Statistics program (OES), which reports median wages by occupation and state or locality. However, data are not available for specific demographic groups. State- and demographic-specific estimates are calculated as a ratio of each state's wage to the national wage, multiplied by the national estimate of median full-time weekly income for a given demographic group from the Current Population Survey (CPS). The COTI estimate for weekly income in California is the ratio of California's median wage (OES) to the national median wage (OES) multiplied by the national median weekly earnings for a full-time worker over age 25 (CPS).

Note that COTI uses the state-level median wage for two specific occupations rather than for the state overall, to control for differences in regional economies that would make some appear to be "higher wage" because their mix of jobs skews toward higher-wage professions rather than because the same type of worker in the same type of job could expect to earn a higher wage. The two occupations used are "Automotive Service Technicians and Mechanics" and "Bookkeeping, Accounting, and Auditing Clerks," selected as two very different types of private-sector jobs with national median wages near the overall national median (and averaging to the national median), with data available for the full set of states and localities.

In 2021, the median weekly wage ranged from \$1,352 in Alaska to \$842 in West Virginia.

FIGURE 10. Median Weekly Income by State

For representative occupations: Automotive Mechanics and Accounting Clerks (2021)



Source: U.S. Department of Labor

Note: Income is median income for full-time male workers over the age of 25

LOCAL-LEVEL ESTIMATES

COTI estimates are also available for 382 localities, selected as those for which a similarly defined geographic area had both an Income estimate available from the U.S. Department of Labor's OES program and a Housing cost estimate available from the U.S. Department of Housing and Urban Development's Fair Market Rent database.

As noted above, Food cost estimates are available only at the national level and so are applied to all localities. COTI applies statewide cost estimates to all localities within a state for Health Care, Transportation, and Education. For localities that span a state border, e.g., "Louisville, KY-IN HUD Metro FMR Area" (HUD) and "Louisville/Jefferson County, KY-IN(0031140)" (DOL), the locality is assigned to the state listed first, which typically represents the primary state: Louisville, KY. Housing costs and Income are estimated at the local level using the same data sources and methodology described above for state-level estimates.



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