

Why Everything Feels More Expensive

di Roland Fryer

[The New York Times](#) recently profiled a family of three earning \$500,000 a year and living in a one-bedroom apartment on Manhattan's Upper West Side. The husband is a software engineer, the wife a data scientist. Their largest monthly expense—\$4,200—is daycare for their 1-year-old. Rent is \$3,900. They save \$10,000 a month. “I think we’re middle class for this area,” the husband said. “We’re doing OK.”

The internet reacted predictably: Half a million dollars is middle class? These people are out of touch. The Times is out of touch for running it.

The reaction misses the economics. A recent CBS News/YouGov poll found that 83% of Americans say it's harder to buy a home than it was for previous generations, and 77% say it's harder to raise a family. They aren't wrong. But the explanation is more complicated than either side's populists admit.

Since 1975, median family income has risen by more than half, from about \$68,000 to \$106,000 in inflation-adjusted terms—a gain of roughly \$38,000. But much of the difference comes from one of the most important social shifts of the past half-century: Labor-force participation among married mothers rose from about 45% in 1975 to 72% in 2025.

But for families with young children, much of that \$38,000 gain is spoken for before it ever hits the bank account. A year's worth of mortgage payments, adjusted for inflation, has risen from about \$16,000 in 1975 to \$25,000 in 2024, an increase of \$9,000. Workers now contribute about \$7,000 a year in premiums for family health insurance, roughly double the real cost in 1999. Full-day care for a single child typically runs \$6,500 to \$15,500, depending on age and location, a cost most families in the 1970s didn't incur. Add it up and these three expenses absorb most of the \$38,000 gain, leaving many families—especially those with young children or in high-cost

cities—with roughly the same disposable income their parents had, despite earning more.

The culprit is structural, not political: Economists call it Baumol's cost disease. Productivity gains tend to concentrate in goods—cars, clothing, televisions, food—as technology steadily drives prices down. But many services, like teaching a kindergarten class, change little over time. As incomes rise, wages must rise across the board; otherwise employees leave for higher-paying sectors. Labor-intensive services grow more expensive not because something went wrong, but because everything else became more productive.

Before indicting the economy, consider what 50 years of growth actually delivered. The car in your driveway is far less likely to kill you than its 1975 counterpart—traffic fatalities per mile driven have fallen by roughly 62%. The average American reaching 65 today can expect to live 3.6 more years than in 1975. The air is 79% cleaner by the Environmental Protection Agency's measure. Researchers at the Massachusetts Institute of Technology estimate that Americans value access to search engines, email and digital maps at roughly \$30,000 a year, none of which shows up in income statistics.

The 1975 middle-class family may have had more cash left at the end of the month. But they also faced higher risks of violent crime, breathed dirtier air, and waited for the evening news to learn what was happening in the world. The progress is real—it just doesn't pay the daycare bill.

So why, given similar discretionary income and a much better world, does the middle class feel squeezed? The answer lies in what the numbers miss: slack. When a larger share of income is committed to fixed costs, even similar disposable income feels more constrained. For many families, that means the reserve is gone.

In 1975 a second income often sat in reserve—a nonworking parent who could enter the labor force if needed. Today most parents already work. That means one job loss, one medical crisis, one divorce, and the entire structure comes under pressure.

The composition of spending has shifted to amplify the feeling. It isn't only how much families spend, but what they spend it on. A family's budget once went to things they

could see and enjoy. Today a large share of monthly spending disappears into medical premiums, deductibles and copayments that produce nothing visible unless catastrophe strikes. An \$800 insurance premium you never use doesn't feel like \$800 of middle-class life. It feels like \$800 gone—a tax on the possibility of illness rather than the consumption of anything tangible.

Geography and social comparison have done the rest. The middle class was once largely invisible to those above it—they lived in different neighborhoods and moved in different worlds. Today, social media, aspirational culture and the sorting of the professional class into a handful of expensive cities mean the middle class compares itself constantly with those doing far better. As the economist Robert Frank documented in his work on “expenditure cascades,” spending at the top resets the reference point for those just below, and then for those below them, cascading through the income distribution until a middle-class family finds itself stretching for what once lay out of reach only for the poor.

The \$500,000 family in the New York Times piece is bougie but not entirely out of touch. They save \$120,000 a year—not for vacations, but for an apartment they may never be able to afford. Their fixed costs are genuinely punishing. Some of what looks like indulgence is infrastructure; some of it is indulgence. But each additional dollar of income arrives bundled with costs required to earn it—an implicit infrastructure tax that makes the return on that last dollar far smaller than the headline number suggests. At the median family income of \$106,000, the math is simpler and worse. There is no infrastructure tax. The basic costs of middle-class life simply don't fit the income.

The middle class is simultaneously better off and more financially strained than it has been in decades. The services that define 21st-century middle-class life—healthcare, child care, education—have risen two to three times as fast as overall consumer prices since 2000. This is the structural consequence of an economy that became extraordinarily productive at making goods but not at raising children or treating the sick. Meanwhile the gains—safer cars, cleaner air, longer lives—have quietly disappeared into what we consider normal. Psychologists call this hedonic

adaptation: the tendency to absorb improvements into our baseline until they no longer feel like gains.

The antidote psychologists prescribe is mental subtraction: deliberately imagining life without what you take for granted. Try it with 1975. No air bags. A much higher risk of being robbed. Three television networks. We've adapted to these gains so completely they no longer feel like gains. The greatest threat to middle-class happiness may not be the cost of child care. It may be that they can't afford to notice how much better life has become.

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