

THE IMPORTANCE OF THE COST OF LIVING AND POLICIES TO ADDRESS IT

KEY TAKEAWAYS FROM THE REPORT

- Big government doesn't equal better results:** Advocates for more government spending sometimes compare states to make the case for more government programs. They say that bigger government leads to more economic growth and income. Beware their sleight of hand. Many of those comparisons and claims of positive economic results have little or no validity. One reason is the cost of living.
- Cost of living makes “rich” progressive states not so great:** Take a look at the data in this table. If average personal income is compared across states, progressive northeast states look like they're doing pretty well. Six of the top ten states are northeastern (excluding D.C.). And the top ten also includes Virginia and California — also progressive states. But if you factor in cost of living, the personal income rankings radically change.
- The facts reveal the truth:** Do the math. Massachusetts' relatively high personal income can't buy as much as Oklahoma's seemingly mediocre income level. With cost of living considered, Connecticut is the only northeastern state that stays in the top ten. Virginia stays there, too. Meanwhile, Wyoming, Texas, Kansas, North Dakota, and Nebraska rise into the top ten, along with Illinois and Minnesota.
- Burdensome state and local policies drive up cost of living:** Fact is, though, policy at the state and local level is a primary driver of the cost of living across states. Statistical analysis for this study confirms that states with the most restrictive and arbitrary zoning laws, with higher percentages of their workforce licensed, with state minimum wages, with other forms of labor regulations, and excessive energy regulation have higher costs of living.

RANKING STATES BY INCOME: BEFORE AND AFTER ADJUSTING FOR COST OF LIVING

State	Income Rank	Personal Income/ Capita	Adjusted Income Rank	Adjusted Personal Income/ Capita
Alabama	47	\$39,917	35	\$44,058
Alaska	9	\$55,601	41	\$42,282
Arizona	43	\$40,419	45	\$41,842
Arkansas	46	\$39,960	32	\$45,461
California	8	\$57,198	43	\$41,965
Colorado	16	\$52,578	11	\$51,750
Connecticut	2	\$71,746	2	\$55,574
Delaware	22	\$49,299	26	\$48,097
D.C.	1	\$76,606	18	\$49,971
Florida	28	\$46,365	30	\$46,180
Georgia	41	\$42,559	27	\$47,288
Hawaii	19	\$51,242	51	\$27,300
Idaho	48	\$39,718	37	\$43,742
Illinois	14	\$52,745	4	\$54,320
Indiana	36	\$44,344	24	\$48,945
Iowa	27	\$46,942	16	\$50,858
Kansas	23	\$48,980	6	\$53,765
Kentucky	44	\$40,252	40	\$42,550
Louisiana	37	\$44,185	28	\$47,106
Maine	33	\$44,913	49	\$39,055
Maryland	6	\$59,393	31	\$46,005
Massachusetts	3	\$65,983	15	\$50,991
Michigan	32	\$45,484	17	\$50,820
Minnesota	15	\$52,736	8	\$52,895
Mississippi	51	\$36,490	39	\$42,929
Missouri	34	\$44,520	22	\$49,412
Montana	39	\$43,183	34	\$44,064
Nebraska	21	\$49,476	9	\$52,690
Nevada	38	\$43,863	38	\$43,172
New Hampshire	7	\$58,598	20	\$49,659
New Jersey	4	\$62,967	10	\$51,953
New Mexico	49	\$39,131	46	\$40,677
New York	5	\$61,628	29	\$47,008
North Carolina	40	\$42,833	33	\$45,326
North Dakota	12	\$54,867	3	\$55,254
Ohio	30	\$45,734	23	\$49,335
Oklahoma	29	\$45,804	12	\$51,407
Oregon	31	\$45,545	50	\$35,778
Pennsylvania	17	\$52,235	14	\$51,161
Rhode Island	18	\$52,030	42	\$42,232
South Carolina	45	\$40,179	47	\$39,979
South Dakota	24	\$48,233	25	\$48,137
Tennessee	35	\$44,351	21	\$49,444
Texas	25	\$47,958	7	\$53,051
Utah	42	\$41,346	36	\$43,985
Vermont	20	\$50,558	44	\$41,887
Virginia	11	\$54,989	5	\$54,070
Washington	13	\$54,542	13	\$51,406
West Virginia	50	\$37,812	48	\$39,677
Wisconsin	26	\$47,936	19	\$49,726
Wyoming	10	\$55,266	1	\$58,359

Read the full report “The Importance of Cost of Living and Policies to Address It” at: www.GoldwaterInstitute.org/cost-of-living

- **The cost of living impacts peoples' policy judgments:** High-cost states' residents (who tend to be more progressive) likely view the federal poverty level, which is uniform across the mainland 48 states, as paltry while low-cost states' residents more likely view it as at least enough. Thing is, they can both be right because the cost of living realities they live in are so different. Nevertheless, since these differences are brought on by local policies, the federal government should resist any pressure to adjust the federal poverty level to account of cost of living differences.
- **High pay doesn't always mean better standard of living:** The picture of income inequality that we have been getting from progressive economists like Paul Krugman is also altered by the fact that cost of living varies so much. Personal income (unadjusted) is highly correlated with the cost of living. People in high cost of living states demand higher pay, but that also helps to push up the cost of living to some extent, so this is natural. But what this means is that high pay is not necessarily associated with a higher standard of living when income comparisons are made across the nation.
- **Want income equality? Account for cost of living:** If cost of living were taken into account and inequality of purchasing power from income were measured, we would likely see much less income inequality. That is because many of the higher incomes would be adjusted downward to account for a high cost of living while lower incomes would be adjusted upward to account for a low cost of living.
- **Low-cost states, don't be fooled:** Don't be hoodwinked by the apparent prosperity of high-cost states. Federal statistics used by spending advocates do not take cost of living into account. When Oklahomans are told that Massachusetts-style government has helped Massachusetts achieve a relatively high level of personal income, it's not true. Oklahoma's personal income purchasing power is higher than Massachusetts'.



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