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Cash Flow vs. Economic Well Being

Some puzzle over why Americans are so downbeat on economy. For example, Celinda Lake, a pollster for Democratic politicians, noted that "things are getting better, and people think things are going to get worse—and that's the most dangerous piece of this." The White House has said that voters are unrealistically expecting prices to decline while ignoring inflation coming down and very strong employment, confusing lower inflation with price declines.

In truth, the dissatisfaction is not irrational. Real average hourly earnings are down 2.5 percent since Election Day 2020 and real median usual weekly earnings are down 3.2 percent. That latter compares with an 8.0 percent gain over the previous four years. Even if one removes the whole COVID experience out of the data, the difference is a gain of less than 1 percent under Biden compared to a gain of 3.7 percent during the first three years of his predecessor's term.

But this ignores the fact that sentiment might be different from cash flow. Consider housing. The median sales price of houses is up 20 percent since the end of 2020, roughly in line with overall consumer prices. But every homeowner's ability to finance a move has declined sharply. Today it takes nearly 60 percent of a median family's income to cover a mortgage on a median-priced home. The standard historically has been around 30 percent, and it was in the 20s when mortgage rates were in the 3s. If I have an asset that I used to be able to sell and buy a new one but cannot today, I am unambiguously worse off regardless of its notional market value. Add to this the discomfort at the prospect of having one's children live in the basement indefinitely because they cannot afford to move out.

The negative impact on economic wellbeing is not limited to illiquidity in the housing market. The same might be said of cars, with the average interest rate on used cars now 11.6 percent. The loss of choice has an impact on economic wellbeing that reaches well beyond that of price. Those same unhappy car drivers know that their options are going to become even more limited as mandates for electric vehicle sales begin to bite. No doubt the stories about unexpected problems with EVs have sent the subjective value of owning one down. The same can be said of people who like cooking on a gas range but will only be able to buy an electric one. People were not happy being forced to take a vaccine they had questions about due to government-ordered mandates.

Public school education is not captured in inflation measures because no expenditure is made. Most goods in the CPI market basket have a "quality adjustment" in them. If a quality adjustment were applied to public education in the last few years, it would send the hypothetical market price of units of schooling through the roof. Educational quality is a very important economic concern of parents and others, and it impacts sentiment even though it is not captured in the numbers. A similar "public good" not captured in the statistics is crime, which is universally perceived as having risen. If one is in fear when riding the subway or walking through one's neighborhood at night, economic wellbeing has dropped in a way not captured by the economic statistics.

The bad news for President Biden is that restrictions on consumer choice have become a hallmark of his Administration, and these bear a cost in terms of economic wellbeing that are not captured by wage and price data. Many of those restrictions are due to concerns about climate change. Setting aside issues about whether the restrictions pass a cost-benefit test, the "benefits" to consumers are intangible and in the distant future while the costs are here today. On his first day in office, the President signed an executive order effectively ending OMB's cost-benefit test for new regulations and substituting a quite woke standard of "doing good" in its place.

Of course, one cannot run policy in a manner that maximizes well-being in the long run based on subjective assessments in polling data rather than hard economic statistics. And there is a bias among individuals to focus on things they aspire to but don't have, rather than trends in availability of things they do have. "What have you done for me lately?" is a well-established political refrain. Even the objective statistics like real incomes would answer that question with "Not much." But factor in issues of economic wellbeing not captured by the statistics and voters' unhappiness becomes rampant.