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The US Economy and the Election

John Maynard Keynes wrote:¹

The classical economists are like Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight, as the only remedy for the unfortunate collisions which are occurring.

So it is between mainstream economists and American voters. Unemployment is low. Inflation has come down. Real earnings are rising. GDP growth has held up. But for some reason the voters are not happy! It must be their own ignorance and obtuseness (so says Paul Krugman).² Perhaps a college degree – with at least a minor in neoclassical economics – should be a requirement for voting.

The other possibility, though horrible to contemplate, is that perhaps the voters are sensible and the economists are obtuse. In that case, perhaps the indicators on which economists rely no longer mean – if they ever did – what economists suppose them to mean, at least in their relation to human welfare and economic well-being.

Take the unemployment rate. It is a ratio of those seeking work to the whole active labor force. In past times, most households depended on a single earner, for whom holding a job was a make-or-break proposition. If unemployment was high – say 7% or 8%, typical in recessions – then even though 93% or 92% of the labor force was still working, fear of unemployment spread the woes of those actually out of work. But if unemployment was low, most workers felt reasonably secure. The unemployment rate, back then, was a reasonable indicator of distress or well-being.

Those days are long gone. Today's typical American working household has several earners, sometimes in multiple jobs; it relies on several income streams to make ends meet. But if one earner loses a job, while the others keep theirs, she may not return urgently to the workforce; there is the option of making do with less, and for some there is early retirement. She will not, in that case, count as unemployed. A low jobless rate can mask a great deal of stress in such households. The employment-to-population ratio is still a bit below where it was in 2020, and far below where it was in 2000.

Next, consider inflation. Inflation is the rate of price change measured month-to-month or year-to-year. But what matters to consumers is prices in relation to household incomes over several years. In 1980 Ronald Reagan asked, "Are you better off than you were four years ago?" Today, there is no doubt that millions of American households – perhaps not most, but many – are worse off than they were in 2020. Basic living costs, such as gasoline, utilities, food and housing, have risen more than incomes have. Real median household income peaked in 2019 and fell at least through 2022.

Yes, but did real wages not go up sharply in 2023? According to the Biden-friendly Center for American Progress, real wages (for those continuously employed) have now recovered roughly to where they would have been had no pandemic occurred.³ But there is a great

¹ Keynes, J. M. (1936), *The General Theory of Employment Interest and Money*, Harcourt Brace and Company, 1936, 16.

² Krugman, P. (2024, 22 February), Bidenomics Is Still Working Very Well, *NYTimes*, <https://www.nytimes.com/2024/02/22/opinion/biden-economy.html> (21 March 2024).

³ Duke, B. (2024, 3 January), Workers' Paychecks Are Growing More Quickly Than Prices, *AmericanProgress*, <https://www.americanprogress.org/article/workers-paychecks-are-growing-more-quickly-than-prices/> (21 March 2024).

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distinction between steady progress and a sawtooth down-and-up. The former breeds confidence; the latter does not.

Then there is the deep question of job security. In the golden years during which today's older generation of economists learned their textbook tools, a worker's job was often a lifetime affair. Autoworkers (and their associates in rubber and glass) might suffer periodic layoffs, but they could expect to be called back; their skills and experience remained useful. That was all over by the 1980s.

Since then, factories have closed and have not returned, and practically all new jobs have been in routine services, with mediocre wages and high turnover. The pandemic drove home the fragility of these jobs to everyone, even those who had never lost a job before.

Interest rates are another big problem. Long ago Joe Biden kicked the can of "fighting inflation" over to the Federal Reserve. The Federal Reserve then did the only thing it knows how to do: it hiked interest rates. Mortgage rates were around 3% in 2021; today they are at least twice that. High interest rates hit young families looking for their first house, and they hit established households, often older, looking to sell their homes. The capital wealth of the middle class falls, to the benefit of those with cash to spare. The second group is much smaller and far richer than the first.

For the politically and economically alert, high interest rates bring other anxieties. Although conditions may have changed, they are traditional harbingers of financial crisis and recession. And in the peculiar world of budget projections, they blow up forecasts of future federal budget deficits and debt, provoking scare stories and stoking campaigns to cut Social Security, Medicare and Medicaid – the bulwarks of middle American social insurance.

And what about the growth of GDP? That once-reliable icon of prosperity has also lost much of its meaning. The concentration of gains in an economy dominated by finance and technology is one reason. Another has to do with the nature of government-supported investments in chips, in renewable energy and in military hardware, all of which have been contributing to GDP growth and to massive corporate profits. Such investments do create jobs. But they add nothing visible to living standards. The politics of electricity are asymmetric: consumers expect the grid to work and they only react – negatively – when the power goes off or the bills go up. Even Biden's infrastructure bill was largely a conventional roads program, notoriously likely to foster suburban sprawl and to enrich developers, rather than visibly to repair the decaying core of most American cities and towns.

Then there is the simple ending of COVID-19 relief. Pandemic programs gave millions of Americans a financial cushion for a time; early on, the payments were often larger than previous paychecks and, while they lasted, poverty and food insecurity went down. Most Americans were prudent with the support, but they often used it, not unwisely, to achieve a touch of independence from dreary jobs. With that support gone, the cushions erode, savings decline, debt rises – and families feel the pressure to go back to work on the terms their employers offer. They do not like that very much.

Finally, what are Biden's priorities these days? They are to get money for Ukraine, Israel and Taiwan – that is, for distant, disagreeable and prospective wars. Biden's big domestic achievements, which came early on, lie in the distant past. Declining prospects in Ukraine and the war in Gaza only add to the war-weariness that many Americans feel, after 23 years of fruitless fighting.

In short, Biden's economists and their acolytes in the press appear locked into a statistical and cognitive paradigm as old as the president himself. It shows. Dire consequences may follow, come November.