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Paul Krugman

The Matrix of Consumer Discontent

July 9, 2024



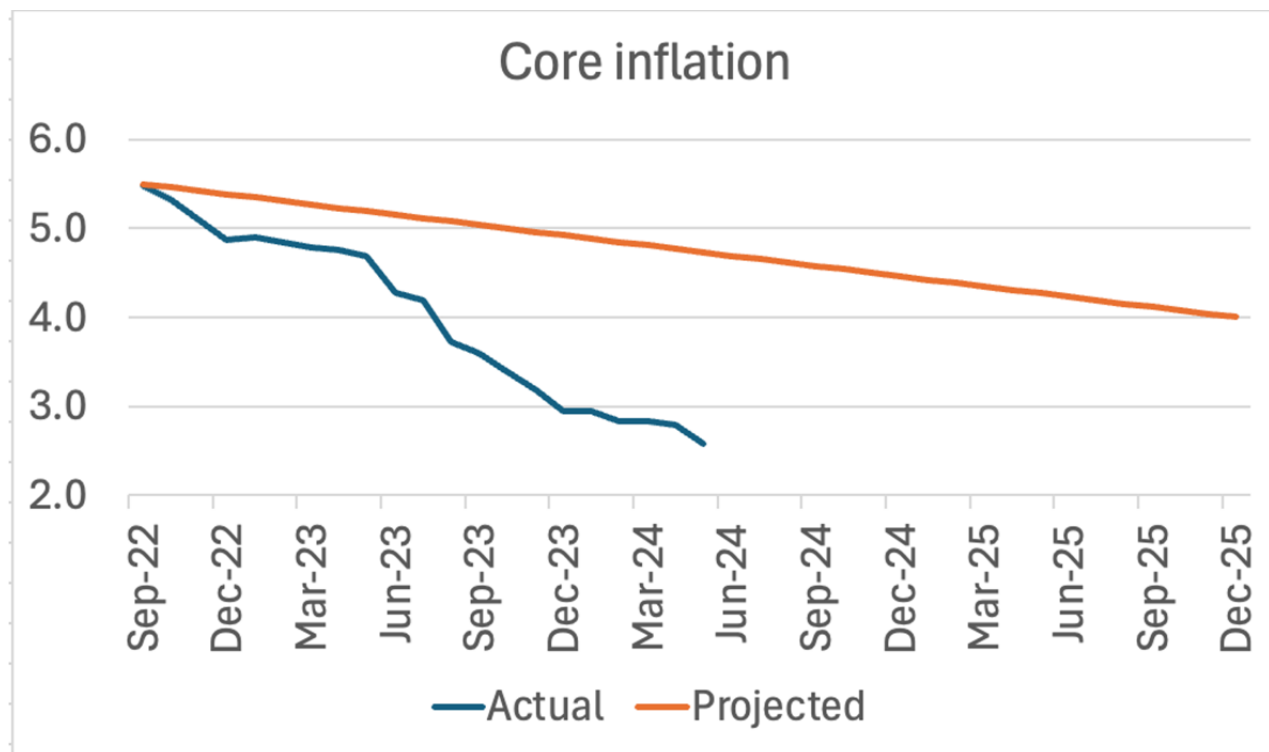
By Paul Krugman
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The past two years have been very good for the U.S. economy. Unemployment has crept up a bit, but not by a lot, and the employed share of Americans in their prime working years is higher than, to make a random comparison, it was at any point during the Trump years. At the same time, inflation has come way down, defying the pessimistic predictions of many economists.

Here, for example, is a comparison of the Federal Reserve's preferred measure of underlying inflation with a September 2022 prediction from Harvard's Jason Furman — a widely respected economist whom I single out

only because he was both very mainstream and admirably explicit (no good deed goes unpunished), predicting that if unemployment remained low, inflation would still be around 4 percent at the end of 2025:



Jason Furman, Bureau of Economic Analysis

Yet Americans on average remain very negative on the economy. I've written about this puzzle many times, and today's letter isn't an effort to persuade people that they're wrong. It is, instead, more of a forensic exercise. There have been many attempts to explain bad feelings about the economy but, as far as I can tell, fewer efforts to compare what, besides poor consumer sentiment, these different stories predict — and how good they are at doing so. So I thought I'd lay out those comparisons in a simple matrix.

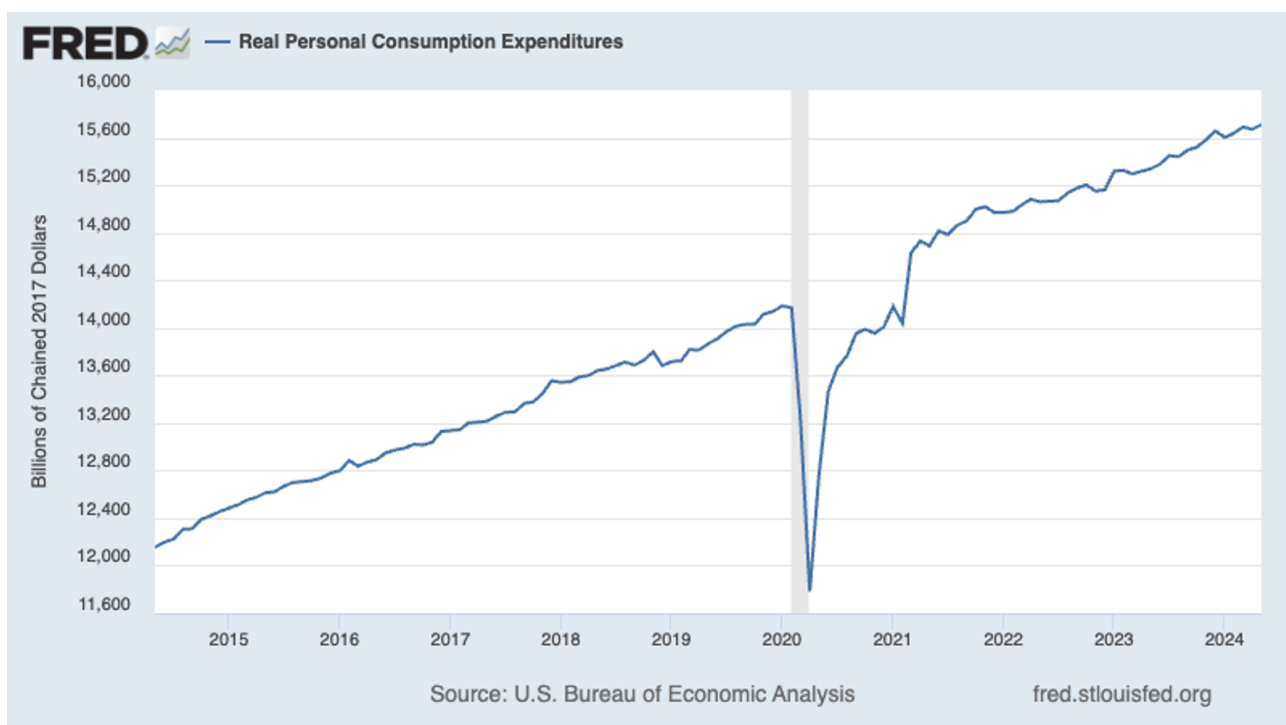
As I see it, people trying to explain consumer pessimism basically tell one of three stories:

- The economic data is misleading: Americans are doing much worse than the usual numbers imply.

- Although inflation is way down lately, people are still angry about the 2021-22 surge in prices.
- When asked about the economy, people respond based on narratives they get from social media, cable TV and so on rather than from their own experience.

What, then, are the facts that a story about economic perceptions should explain beyond poor consumer sentiment? I'd single out four observations.

First, while consumer sentiment is weak, consumer spending has remained strong, essentially in line with its prepandemic trend:



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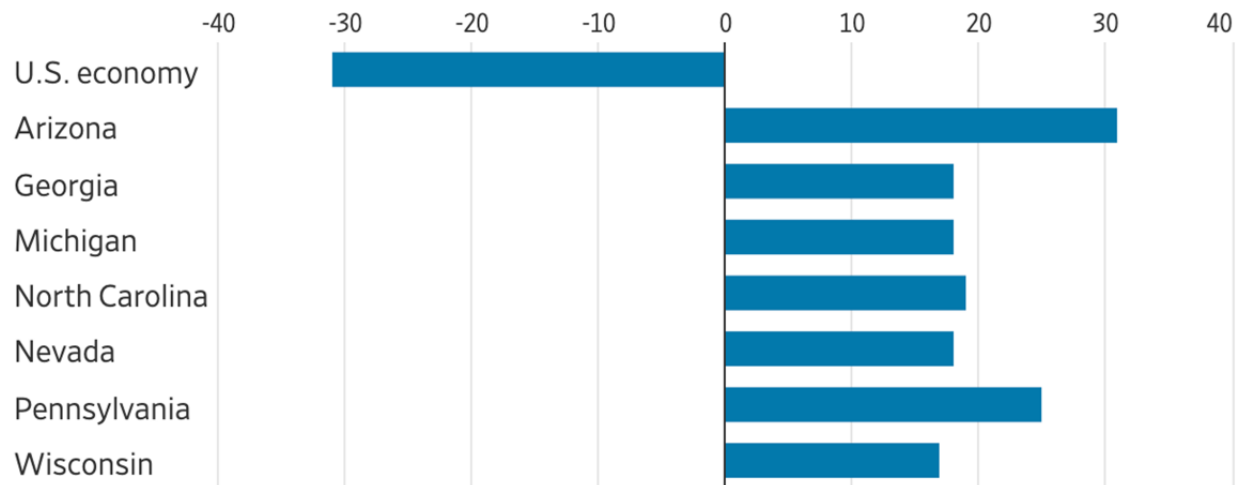
Second, Americans are vastly more positive about their personal financial situation than they are about the economy as a whole. Here, for example, are results from a Quinnipiac poll of Wisconsin:

	State of economy	Personal finances
Excellent or good	34	65
Not so good or poor	65	34

Quinnipiac College

Third, Americans are much more positive about their state or local economy than they are about the national economy. You see this in the Federal Reserve’s survey of household well-being and also in a Wall Street Journal poll of swing states:

Has the U.S. economy, or your state’s economy, gotten better or worse in the last two years? *Net share answering ‘better.’



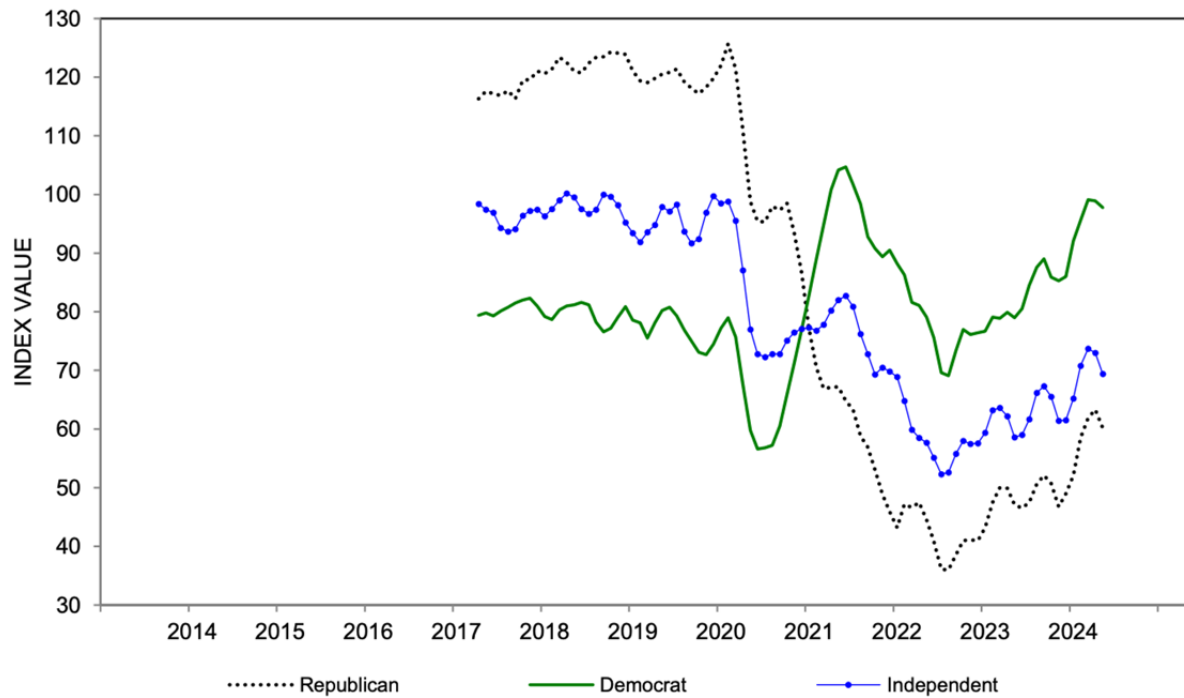
*Share saying better minus share saying worse. Negative indicates greater share said worse.

Source: Wall Street Journal Poll

Wall Street Journal

Last, perceptions of the economy have become extremely partisan. Here’s what the venerable Michigan survey says:

**CHART 5B: INDEX OF CONSUMER SENTIMENT BY POLITICAL PARTY
(THREE MONTH MOVING AVERAGES)**



University of Michigan

It's notable that Republican economic sentiment plunged after President Biden was elected, even before inflation took off.

So we have four facts about consumer behavior or sentiment that need explaining besides the fact that Americans have a negative overall view of the economy. How well do different stories about weak sentiment do at dealing with these other facts?

Well, here's a little matrix in which the rows correspond to different economic stories and the columns correspond to facts about consumers. If a story is consistent with a fact, I put a "Y" in the relevant box; if it isn't, I put an "N":

	Strong consumer spending	Favorable assessment of personal finances	Positive view of state/local economy	Extreme partisan divide
Data don't capture consumer pain	N	N	N	N
Anger over past inflation	Y	Y	N	N
Power of narrative	Y	Y	Y	Y

Author's imagination

What we see right away is that claims that Americans are much worse off than the official numbers say fail across the board. If consumers were really hurting on average, they wouldn't be spending so freely. They wouldn't be telling pollsters that their personal finances were in good shape. They wouldn't be upbeat about their own state's economy. And if things were really bad, you'd expect them to be bad for Democrats as well as for Republicans.

Anger at past inflation scores better as an explanation. Recent research by Stefanie Stantcheva confirms an old insight into why people hate inflation: Even when people's incomes keep up with rising prices, they believe that they've earned their pay increases and blame the economy for snatching away their hard-won gains.

Where we are now is that most workers have in fact seen wage increases outpacing inflation, which can explain why they have the money to keep spending and why they are positive about their own finances, yet they blame the economy for limiting their real gains.

But this story doesn't adequately explain why people are upbeat about their home states and why views of the economy are so partisan.

This leaves us with the power of narrative: Americans who are doing OK and who know that their neighbors are doing OK have somehow come to believe that bad things are happening someplace else, to people they don't know. And these narratives are most influential among Republicans when a Democrat is president.

Can a false narrative really be that pervasive? Well, we know that it can in other domains. It's a commonplace, hardly even controversial, that people's views about crime, especially crime in places they don't know, are often disconnected from reality. I live in New York City, one of the safest places in America, where homicides have fallen more or less back to their low pre-pandemic levels, and am quite often asked by people who don't live here whether I'm afraid to walk the city's streets.

Where do negative narratives about the economy come from? Many Americans get their news from Fox and other partisan sources; even mainstream media often seem to take an "if it bleeds, it leads" approach to economic reporting, highlighting bad news while giving short shrift to good news. In some cases this can be quantified: Ryan Cumming, Giacomo Fraccaroli and Neale Mahoney show on Briefing Book that there are far more TV mentions of gas prices when they're high than when they are low.

Social media platforms are also breeding grounds for false narratives. The owners of the platforms don't have to deliberately spread misinformation, although that happens too (hello, Elon Musk). Even when social media companies don't have any agenda, algorithms that make suggestions in service of higher "engagement" can produce extreme confirmation bias. Click on a few articles even hinting at conspiracy theories and you're rapidly led deep into the fever swamp; presumably something similar happens when you click on negative economic stories.

A personal aside: The only social media platform where I don't restrict my feed to people I've chosen to follow is YouTube, which I use mostly to watch musical performances. But I've learned to tame the algorithm by never, ever

clicking on videos featuring either (a) political content or (b) cute animals.

The bottom line: Widely cited explanations of negative economic perceptions are inconsistent with observations that go beyond consumer sentiment. The only hypothesis that seems to work across the board involves the narratives people hear and see rather than their own experience.

Quick Hits

Why social media platforms are a mess.

Vibes, French edition.

July 4 gas prices lowest in three years.

“Left behind” counties are doing better.

Facing the Music

I live in the city/The tower’s blue and the sky is black

Paul Krugman has been an Opinion columnist since 2000 and is also a distinguished professor at the City University of New York Graduate Center. He won the 2008 Nobel Memorial Prize in Economic Sciences for his work on international trade and economic geography. @PaulKrugman