

Misery Amidst Splendor: Why Are Americans So Negative about the Economy and What It Means

Jason Furman · 2026 Homer Jones Memorial Lecture · Federal Reserve Bank of St. Louis · July 15, 2026

Lightly edited for readability.

Welcoming Remarks

Alberto Musalem: Thank you, Ken. Welcome to the St. Louis Fed and to the 34th Homer Jones Memorial Lecture. Thank you for joining us this evening. I'm really pleased to see all of you, friends and colleagues.

The Homer Jones Memorial Lecture has featured many distinguished speakers over the years. Today is no exception. Before I introduce our speaker, I did want to share about the person for whom this lecture is named. Homer Jones was a transformational leader for the St. Louis Fed and for the Federal Reserve System. Homer Jones served as director of research of the St. Louis Fed from 1958 to 1971. Under Jones and the Bank presidents that he served, the St. Louis Fed became known as a powerhouse of monetary policy analysis and thought leadership.

Homer Jones was a close associate of Milton Friedman and other leading economists in the monetarist tradition of the time. Friedman was a student of Jones as an undergraduate at Rutgers, and Friedman credited Jones with sparking his interest in economics. Later, Jones was a graduate student of Friedman at the University of Chicago. Like Friedman and other monetarists, Jones believed in the power of monetary policy and viewed price stability and free markets as important underpinnings of a strong and prosperous economy.

Jones was ahead of his time. He believed one of the most important things we could do was make economic data widely available. Today, we all have so much information about the economy available at our fingertips. Well, Homer Jones was part of making that happen.

He was an empirical economist at heart. For Jones, careful measurement and analysis of data were crucial for providing the evidence required to guide policy. Because of his leadership, the St. Louis Fed published key data in monthly reports so other researchers could conduct their own analysis and reach their own conclusions. Over time, the Bank expanded its reports to include other important monetary and macroeconomic data.

Today, the St. Louis Fed's internationally recognized FRED database holds hundreds of thousands of economic data series. FRED and its family of information services garnered nearly 500 million page views over the past year. And FRED is recognized by

economists, journalists, and policymakers as a top source of economic data. Well, it all began with Homer Jones.

Shortly after his death in 1986, several colleagues and friends in the St. Louis community organized the first Homer Jones Memorial Lecture. Over the years, the lecture has featured prominent speakers from academia, central banks, and other policy institutions. Tonight, we are honored to be joined by another in this distinguished series of economists, Jason Furman.

He is the Aetna Professor of the Practice of Economic Policy, jointly at the Harvard Kennedy School and the Department of Economics at Harvard University. He serves as the Weil Director of the Mossavar-Rahmani Center for Business and Government at the Kennedy School, and he is also a senior fellow at the Peterson Institute for International Economics. Jason received his bachelor's degree in 1992 from Harvard University, where his freshman roommate was none other than Matt Damon. Or, said differently, Matt Damon's roommate was none other than Jason Furman.

He subsequently received a master's degree from the London School of Economics, where, as it happens, we missed each other by about a year. Jason later returned to Harvard, where he wrote a dissertation under the direction of Greg Mankiw and received a PhD in 2004. From 2013 to 2017, Jason served as the 28th Chairman of the Council of Economic Advisers, acting as President Obama's chief economist and as a member of his cabinet. Jason is the author of numerous articles on economics and public policy and the editor of two books on economic policy.

On a personal note, I listen very attentively to Jason because his insights about the economy and policy are always a learning opportunity. Please join me in welcoming Jason Furman to the St. Louis Fed.

Now, Jason, before you start, I want to express my gratitude and appreciation to you. I know you're a FRED enthusiast, so we wanted to give you a FRED hoodie, so you can wear it in Cambridge in the cold winter and remember us for this visit. Thank you very much.

Jason Furman: Thank you. Let me take a look at it. If you're an economist, this is the most exciting gift you can possibly get. I would say 90% of what I know about the economy is from FRED, and the other 10% I've just made up on the spot.

Lecture

Jason Furman: Really honored to be here. This is just a tremendous lecture series that this bank has organized for Homer Jones, who, in the process of it, I learned some about, and I learned about the role that he's played in that extraordinary provision of public goods that the Federal Reserve Bank of St. Louis has done for decades now, benefiting all of us and helping to make economic policy better.

I teach the largest class at Harvard College. It's a principles of economics class. And I'm very deeply convinced that if people just understand the economy better, we'll get better answers. Better might be gradations of less stupid. It might be fantastic. It won't necessarily be my answer. It's not my job to impose on people my own values and my own perspectives. But it is my job to help people understand trade-offs and budget constraints. And so if you have a different perspective, your numbers still need to add up and still need to connect to reality. And let's just say not everyone's ideas always do.

I've been preoccupied with this question, which may be slightly overstated in my title. I usually try to be understated, but I made an exception because I thought maybe St. Louis was an overstated sort of place: "Misery Amidst Splendor: Why Americans Are So Negative about the Economy and What It Means."

Just to give you a little bit of a roadmap of where I'm going: I want to talk a little bit about some of the things that really are quite good in the economy that we often forget on a day-to-day basis. Then document the level of negativity that people have. Talk about some of the economic explanations. Then something economists hate doing—we love models, we love equations, we don't love to actually listen to people—but we'll do a little bit of that, or at least listen to surveys of people. Talk about political explanations, and then why it matters. My hope is to wrap this up with a lot of time to talk about whatever you want to, which could be more questions on this. Or if you want to know what the Fed should do in July, just ask me, I'll tell you. What fiscal policy should do in July, ask me—no one really cares about my view or any rational person's view on that question, but I'm happy to do it too.

Splendor

So let's start with splendor. The way economists measure the economy, which you could look up on FRED, is GDP. And GDP generally goes up and up and up, except if you're in a recession. Some people say, oh, well, the problem with GDP is it just doesn't capture so much of what actually matters to people. It's this very narrow economic concept. It's not what's important.

So I've tried to put together an awful lot of what I could think about in the economy. The blue things are the standard economic-type things that you could get on FRED: real durable goods per person since 1970, up 902%. Consumption up a lot, disposable income up a lot. Real wages up some as well. But there are a lot of other things here. Green is health. Child mortality is down. Infant mortality is down. Heart disease is down. Life expectancy is up.

Housing: the majority of houses now have a spare bedroom. The majority of houses now have at least one bedroom for every child. That didn't used to be the case. Lacking plumbing is almost nonexistent. Overcrowding is way down. And then other things: poverty down, high school completion up, college attainment up, air cleaner, et cetera.

I think we all sort of know this, and it's not a complete surprise. But what's important here is that we're looking at two of the things that people are actually most upset about, which are housing and health care, and the cost and affordability of housing and health care. And there's, I think, some good reason to be upset about that. There are some policies that could make that better. So I don't want to say it's all perfect.

But ultimately, what you really care about is what you're buying for your money. And you're buying better houses. You're buying better health outcomes. You're buying more of all of that. And it's not just 1970 to the present. If we did line graphs for these—I couldn't fit them all on a page—most of them are going straight up for 50 years. So over the last five years, almost all of these have gotten better. Over the last 10 years, almost all of these have gotten better. Over the last year, almost all of these have gotten better.

The unemployment rate over the last 10 years has averaged 4.5%. The last time it was that low was in the 1960s. Next month we are going to, absent a dramatic economic deterioration, reach a tie for the longest amount of time the unemployment rate has been at or below 4.5%. And the month after, we'll break the record for the longest amount of time the unemployment rate has been at or below 4.5%.

Look at real wage growth. The dots, I should have said, aren't labeled. This is a 10-year average, but I also wanted to give you a sense of what happened in the last year. So the dots are just the last year, and the lines are the average of the last 10 years. If you look at the 10th percentile, it has actually had the fastest wage growth in 50 years over the last decade. It's come down a little bit in the last few years, but it's still been pretty respectable. This is all adjusted for inflation.

Median wage growth is nearly the fastest it's been in 50 years, and last year it kept up that pace. And at the 90th percentile, not too shabby, but not quite as high relative to its history. And in fact, one thing you can see there is that the 10th percentile, over the last decade, has grown faster than the 90th percentile, which is to say wage inequality has actually been narrowing over the last decade.

Finally, for anyone thinking about the U.S. economy who travels abroad, every single conversation you have in Europe, Japan, other rich countries is: What could we do to be more like the United States—to have the living standards you have in the United States, the economic growth, the cutting-edge technology, et cetera? This is just GDP over the last year, but you could look at this lots of different ways and come up with something similar.

Now, there are some elaborations and nuances on this. People do find things increasingly unaffordable, and I think there is something to that. Some of that is relative prices. There are things like health care that are very dependent on services. Services are subject to something called Baumol's disease: they rise in relative price. Things that are goods fall in relative price. All the numbers we're looking at are the

average of how much it costs you for everything, but some of the pieces get cheaper and cheaper, and some get more expensive.

GDP and economic measures aren't everything, but as I said, when you look at everything, in some ways it gets better. Most of the improvements are monotonic. Inequality has been falling for the last decade, but it's higher than it was in 1970. Not everyone has shared in what I've shown you. And then finally—and I'm sure Alberto is on the case—inflation is too high.

Misery

So now let's talk about misery. This is the University of Michigan's consumer sentiment data. They've been collecting it since 1952. And in the month of April, Americans were more negative in this survey than they had ever been in the history of the survey. Since then, it's bounced back up. This dotted line is where it is in the last month. And it's no longer that Americans are the most miserable they've ever been. They're the second-most miserable. They're just a little bit less miserable than they were in April.

So this includes COVID—it's more miserable than COVID—the financial crisis, the double-dip recession, and stagflation in the 1970s. Just an extraordinary series of events. And people are more negative than they were at any of those times, at least in this survey.

If you break it down by age, education, and income groups—and I'm going to do another breakdown later in the talk—for these three, the main thing you should be seeing is that all these lines look the same. You can read stories about here's why young people are upset and being left out of the economy, but they look just like middle-aged people and—well, 55 and up includes me, so—older people.

Education: you can tell stories about, oh, people graduating from college are having a hard time finding jobs in the job market, but they look just like some college or high school or less. And income is largely similar across the income groups as well. So there's not really any interesting demographic breakdown. As I said, I will come to another one in a bit.

This is how the United States compares to other rich economies. On the left, you see the change in consumer confidence from 2019 to 2025. And just so you could really easily see the United States, I put it in red. It's minus 4.2. On the right—I've been going back and forth with my computer, because it swears to me that the United States is in red, but I'm having a hard time seeing it—this is where economies were in 2025 as a percentile of where they were from 1980 to 2019. So the United States is the worst it's ever been over that period. This is in comparable OECD data. Typical countries are more like not

miserable, but they're not that happy. They're at, like, the 25th percentile. Only in a few countries, like Czechia and Korea, were they above median.

But the United States is just a very, very extreme outlier in terms of how negative we are compared to where we were historically, how quickly that has happened, and how disconnected that is from the economy, which is doing better in the United States than in almost any of those other blue bars above it.

Another way to visualize all of this is the misery index, which is adding inflation and unemployment. The black lines are every year prior to 2020. And there's pretty much a negative relationship. In 1980, you had the record misery index of 18, and people were quite negative. I didn't label those years, but in other years where you had a low misery index, people were quite positive. Now we have a misery index that's toward the bottom of its historical range, but you still have quite a lot of negativity.

I should say a lot of the analysis I'm going to show you is based on the end of 2025. And the reason for that is because in the last couple of months there has been quite a lot of inflation. We had the biggest single month of gas price increases in March. There's a lot of global instability. So I get why people are more negative now than they were back in February. But in some ways what I'm really especially puzzled by is why the baseline they started from was so negative to begin with. So, in some ways, it's trying to isolate and take out the recent events. And I should also say, about the recent events: this isn't the first war in the Middle East. This isn't the first gasoline or oil price spike. The single-month jump was extraordinarily high, but the level was still not nearly as high as people experienced in the past, plus there were no shortages or any of the other things that we experienced in 1980.

I'm going to, just for simplicity, be showing you data from the University of Michigan. Just to put a little bit of context on it, the 51% decline is in their main measure. On the present situation, people are even worse. On expectations, they're pretty bad. The Conference Board, the New York Fed's job-finding and unemployment fear—those are down too.

For those of you that are businesses, you're super cheerful, and you should tune yourselves out now. The Business Roundtable CEO index is positive, the OECD is in the middle, and the NFIB has been a bit more negative. And that's what you generally tend to see: small business attitudes are a little bit between big business attitudes and consumer ones.

I did want to just do a very brief methodological aside. There are some issues in the Michigan data. They switched from telephone polls to internet polls. People are much more negative to the internet than they are to humans. They also sample too many Democrats, and Democrats, as I'll come to in a bit, are quite negative about the economy right now.

I would just note that these things go back to 2024. Everything that I'm talking about today was also true in 2023. People were shockingly negative in 2023, and that was before these methodological changes. Moreover, a wide range of measures show this. So there's some nuance you could do around methodology and measurement, but it doesn't really change anything that I'm talking about.

Economic Explanations

So let's start by asking the question: Can you explain this with economic variables and what's going on in the economy? In the first thing I'm showing you here, the black line is what's actually happened to consumer sentiment. The blue line is a very simple model that has three variables: the unemployment rate, the inflation rate, and stock returns.

Those three variables combined have an R squared of 0.54, which is to say more than half the variation is explained. And for those of you that are familiar with statistics: if you run the model on the whole time period, it's going to find a way to make it work somehow, but it might not be a way that really worked. So this is done in a rolling way. It uses five years, then it uses that to predict the next five years, and then it updates again. So it's not really cheating by using future data to figure out what things were in the past.

So with this pretty simple model, if you look at the black and blue lines, up until about six years ago, this model worked quite well. If you told me the unemployment rate and the inflation rate and the stock market, I could pretty much tell you how people felt about the economy, and could tell you quite accurately. But now this gap has emerged. It's now a gap of 50 units. And 50 units is six standard deviations. And if you know six standard deviations in statistics, the probability of that happening is like the closest thing to the number zero that we know about.

OK. So what could possibly explain it? Well, some people talk about food inflation, gas inflation. Pocketbook inflation—that's my own concept—is things that you buy frequently out of pocket and notice. So it includes food and gas, but more than that. Wage growth, the prime-age employment rate—these are all things. This graph's a little bit complicated, but one question is: What fraction of the pre-COVID unexplained portion—I said the model explained 54%—what fraction of the 46% it didn't explain is explained by these variables? And the answer is 1, 2, 3, maybe 6%. So the variables work a little bit in the previous sample.

The second thing is: What fraction of the mystery—that 50-point gap we're trying to explain away—is explained away by them? Well, gas inflation explains minus 2% of it. Food inflation, minus 2% of it. Pocketbook inflation, minus 1% of it. Why is that? Remember, I'm doing this for the end of 2025, because I don't want to worry about the recent epicycle of negativity. And back then, gas prices were falling. That was one of

the politically popular talking points a year ago. Food inflation was about typical. Wage growth and pocketbook inflation were about typical as well. And so it really does not appear, at least as of the end of last year, to have been that. And to be clear, the reason people have gotten more negative recently is in part because of those. But just in general, there's also an important lesson here, which is that almost everything that matters for how people think is the overall inflation rate.

As much as we hear about the salience of gas, and everyone passes the gas station signs, and everyone's obsessed with it, statistically, if you just look at overall inflation, you get almost all of the way, even in the historical data, to explaining people's feelings.

OK, so what else? I just gave you gas price inflation. What about the level of gas prices? That explains 27% of history and 20% of the shortfall. That's a lot. The Gini coefficient, which is a measure of inequality, also explains a lot. Maybe people are really negative because they hate climate change: the atmospheric concentration of carbon keeps increasing, and people are so upset about climate change that they're upset. That one, maybe people are a little bit more suspicious about.

So let me show you two more variables worth taking a look at that actually do a better job of explaining people's negativity than these three. They are the cumulative number of James Bond films and the population of Iceland. Why is that? It's because there's a trend. There's a negative trend in people's sentiment. So any variable you can find that has a trend is going to statistically look like it explains it. And this is a well-known time series statistical problem.

And I should say, by the way, I did a bit of data mining here, to be honest with you. Originally I did the cumulative number of Marvel and Star Wars films, and that didn't work as well, because the growth started slower and then there was a big explosion of them recently. So James Bond works better.

Another way of seeing this: the baseline model I didn't detrend. If you run the model detrended, where you add in a time trend so you don't get to attach all this extra explanatory power to other stuff, the percent of history goes to—you should call that basically zero. And the percent of the shortfall also goes to something that rounds to zero.

I did want to show you, though, the one variable that seemed much more important, at least in the data, than any of the gas, food, et cetera, and that does survive this detrending test. And that's the level of negativity of the news. This is an index that the San Francisco Fed put together. It explains about 29% of what you're missing historically, and the same thing in the detrended model. And it gives you about 13% of the gap. So if people are too negative by 50 points, maybe about 8 points of it is that the media itself has been unusually negative about the economy in recent years. And this, by the way, has been under Biden and under Trump. This isn't something that just

started a year and a half ago. So I think there is something to this, and we'll come back to talking about it a little bit more.

And this, by the way, is what I was saying about the negative trend in sentiment. This is the gap from fundamentals. There's a negative trend in that gap, but we're still 31 points below the trend. So if you wanted to adjust for that, there's still just a huge mystery that's left.

Just to partly summarize and add a few bits of nuance here: the simple model with unemployment, inflation, and stock prices is shockingly good. It explains about 55%. Other than news, almost any other combination of things you throw in just doesn't get you much more explanatory power.

The second is that the trending variables you have to be quite suspicious of. It's possible they're true, and we just don't know. We just couldn't really tell the difference between a James Bond film and inequality in terms of explaining. That being said, I'm a little bit skeptical of the gas price level and inequality. Part of that is that gas price inflation doesn't really help very much.

Moreover, we actually have a very good measure of inequality that's published every single day, which is that when stock prices go up, wealth inequality goes up, and when stock prices go down, wealth inequality goes down. And no one is happy when stock prices go down. No one's saying, isn't it great inequality is lower? It's the exact opposite. When stock prices go up, sentiment goes up.

What People Say

OK. So now let's look quickly at what people actually say. The first thing they say is that the problem is that prices are higher. That's the blue line at the top. "Income is lower" is basically flat. And if you look, nominal incomes have actually risen quite quickly in recent years if you don't adjust for inflation. If you do adjust for inflation, they've actually risen decently, as I was showing you before. But nominal prices are rising quite a lot. And then "income higher" is the other line.

One thing that's really striking: they ask people about how upset they are about high prices for cars, for houses, and for consumer durables. It peaked at 60%, but right now it's still 40% who cite at least two of them. And 18%, I think, cite all three of them. And we've never, in the history of the series, seen anything like that broad-based concern across so many different categories.

People don't like inflation. Unfortunately, they don't like the cure for inflation either. The negativity about it being a bad time to buy a house is as much about prices as it is about interest rates. And it's very little about an uncertain future. And I have a hard time understanding what "can't afford" means, when I would have thought that was about prices and interest rates.

Finally, to get back to the news theme one more time, people report—and this is, again, the Michigan survey—hearing unfavorable economic news. And in particular, that government policy one, the orange one, really spiked last year around Liberation Day. And people reported, if you look, way, way, way more hearing of negative news about the government than they had ever heard before.

So, finally, outside of these data, this is a long-standing thing that researchers have discovered. But I actually remember discovering it with my grandfather, when I was, I think, in high school, maybe middle school—maybe I was a precocious five-year-old when we had this conversation; no one can check me. He's like, "Jason, it's just so terrible. I used to be able to buy hot dogs for 5 cents, and now they're 50 cents. Isn't that awful?" I'm like, "Grandpa, how much did you used to make back when the hot dogs were 5 cents?"

And he explained to me that he had worked hard, and that's why he'd gotten all his raises, and then the damn government had made the hot dogs more expensive. And one was all a credit to him, and the other was a horrible thing that policymakers had done to him. Anyway, Shiller and my colleague Stefanie Stantcheva have basically found that: wages are felt to be earned; prices are felt to be a thing that happens to you. I think that's an important part.

Political Explanations

So now let's do what we're not supposed to do here at the Federal Reserve, which is to talk about politics. I should warn you that if you're an extremely partisan person, there's a chance you're going to be offended by what I have to say. So you'll just have to live with that risk.

This is consumer sentiment by party of the respondent. Under Bush—which is when they started asking it regularly in the survey, only in 2008; I wish we had regular data earlier—Republicans were more positive. Then the election happened, and Democrats became more positive. Trump, at least as far as Republicans were concerned, fixed the economy instantly upon his election. And then when Biden was elected, he fixed the economy instantly as far as the Democrats were concerned, and then once again for Trump too. So you just see this extraordinary partisan reversal.

To look at it another way, this is the same chart I showed you before. I want you to keep your eyes on this 2026 year to date. This includes everyone. Let's now split it out into Republicans, Independents, and Democrats.

And it looks like this. By at least this statistical model, Republicans in the year 2026 were exactly on what you would have predicted from the equation. So if you want to call that rational, between friends, you're welcome to. But who knows? All sorts of

things. Democrats were just incredibly, incredibly negative relative to what you would have predicted.

In fact, for Democrats—in order to get a number like 40, normally you'd need something like an unemployment rate of 15%. You'd need something much worse than we've seen since the Great Depression in this country. And that makes sense, because that dot is so far below, say, 1980, when the misery index was 18%. So I'm now going to do a little bit of analysis that basically uses those gaps—the gap between what Democrats think and the line, which is what they “should” think.

And just to be clear, the line is a model. There are other things that matter. There are things that it's missing. So I was only being tongue-in-cheek when I said it was rational. I'm not saying you should feel the way the line tells you you should feel, but it's a decent benchmark for us to use for the analysis.

And so we're going to look at the residuals. Here it would be: Democrats should feel 90; instead they feel 40, so we'll call that minus 50. And Republicans should feel 90; instead they feel 92, so we'll call them plus 2. And those will be the residuals. Although I'm actually going to do it for 2025, not 2026.

So let's look at those residuals. Under Reagan—and there was very little data under Reagan and Bush II, so I wouldn't 100% trust those—Democrats were a little bit more negative than you would have predicted from the model. Republicans were a decent amount more positive, and the gap was 20 points between them. Under Bush II, no one was that happy, especially by the end, which may have been why we got Obama.

With Obama, the blue and the red reverse, but it's still 18 points. So Reagan, Bush II, Obama: all pretty steady. And then Trump comes along, and Democrats become minus 19. In the first Trump term, you could argue—at least, again, based on these models, and you can debate these models—that you really had a lot of faith in Trump, that plus 20, the likes of which you hadn't seen before.

Then Biden comes along, and Republicans aren't exactly giving him a break when it comes to some of his economic policies, fairly or unfairly: minus 41 and minus 6, a gap of 34. Now we're just in an extraordinary place. Democrats are 49 points below what you would expect them to be. Republicans are 1 point above. The gap is 50.

So what could explain this? Well, I've been working on this, and I'm planning to write a paper, but today is the dry run, so any feedback is most helpful. You're the guinea pigs for it, rather than this being the final, polished thing.

The first thing is that there's something called affective polarization. This is actually a measure some economists came up with that they synthesized from a bunch of surveys, and I extended it out. What does affective polarization mean? It means that I am in my political party not because I like anything about my political party—I sort of don't—but

because I really hate the other people. And the amount of affective polarization is how much you define your identity more by disliking the other party than by liking your own party. So affective polarization when Carter was president was 30. And confidence net of fundamentals, relative to what you'd predict, was about what you'd predict.

Under Reagan, it rose to 35. Under Bush, it keeps rising. I don't have a number for Trump II, which is why it's marked differently. So one thing is, as we've become more polarized, we've got more negativity. Now, as I said before, a lot of trending things can explain a lot of trending things. So I wouldn't guarantee that this is the right answer.

But another one that I think is a helpful perspective is to look at these same data internationally. So it's the same affective polarization, based on a global survey that's administered in lots of countries. And you see two broad things from this. One is that the more affective polarization you have, the more negative people are in terms of confidence. These are the numbers for 2025.

The second thing, though, is that the United States is still a bit of an outlier. It has more affective polarization than any of the other economies, but it also has more negativity, above and beyond what you would expect from that, at least in this exceedingly simple way of looking at it. Now, I'm not saying one of these causes the other, but they do seem to go together: as people define themselves more in this way, they literally will answer questions like "How much inflation is there?" differently depending on which political party is in office.

You also see the same thing for inflation expectations. Under Obama, Republicans expected more inflation than Democrats did. Under Trump, it reversed. Under Biden, it reversed again. Under Trump II, it reversed yet again. And the gap, which you see in the gray bars, between what Democrats expect for inflation and what Republicans expect for inflation has just grown more and more.

And by the way, it's not just inflation over the next year. If you ask a question like "What is your expectation of the inflation rate starting five years from now through 10 years from now?" you get incredibly skewed views by party, even though I have a hard time understanding why anyone would think that.

Does It Matter?

The last part is: Does this matter? And in what ways does it matter?

The first thing you might wonder is: When Americans are really negative, are they going to just spend less, and is it going to reduce demand in the economy and slow economic growth? What I did here is a model that tries to predict people's consumption based on a whole set of standard things, like what your income is, what interest rates are, et cetera. And then on top of that, you add confidence. And it's done on a rolling 10-year basis, 40 quarters.

And what you can see in the blue line, which tells you the impact of people's sentiment on their spending, is that for decades it was a small positive number—just at the edge of significance, not the most important thing. But all else being equal, it actually was true in the data that if you observed people being more positive about the world, then for any given income growth and any given interest rates, they'd spend a bit more.

Now look at what's happened lately. The sign's actually negative, so when people are upset, they spend more. I would not go out and make that my main causal finding. I think it's confounded by all sorts of things. But I'd argue that it—not rules out, but lends a lot of skepticism to—sentiment being a positive in any meaningful respect.

And just even separate from the statistics, I remember in 2023, I was looking at the data with a lot of interest, because people were so negative about the economy, and I was wondering: Are they going to stop spending? Are they not going to stop spending? And they pretty much spent all the way through the first quarter of this year, when they did take a brief break.

Interestingly, there is a paper by Binder, Kamdar, and Ryngaert in the *Journal of Monetary Economics* that found some causal impact of people's inflation expectations on inflation, even when the expectations were partisan. Now, I'm not positive this is true. I would not go off and make policy based on one paper in the *Journal of Monetary Economics* from two years ago.

But they found that if you look at the Republican Party vote share in 2020, places with a higher share ended up having more inflation in 2021 to 2024. So if you were in San Francisco, you were so sure that Biden was not going to trigger inflation that inflation expectations were lower in San Francisco, and inflation was lower. In St. Louis, you were in the middle. And then in Tampa, you were so sure Biden was going to cause inflation that it actually did. That's at least what the data suggest and what this paper suggests.

As I said, part of me thinks it's a stretch, but part of me thinks it's consistent with the evidence. I actually took their results and just extended the data to the most recent period, which wasn't in their paper. I used the same 2020 vote share and looked at inflation over 2025. And it's actually the opposite. The Republican places, where people were expecting less inflation, actually got less inflation. And the Democratic places, where they were expecting more inflation, got more.

This raises a question, because inflation expectations are central to our understanding of the inflationary process. They're central to how the Fed thinks about its job. When you look at them, are you seeing a real thing—really the inflation people expect? Or are you just seeing people booing? Like, they hate the president, so they just give a high number to the surveyor, but they don't actually mean that, and they don't act that way in their own lives.

When it comes to consumer spending, it looks like people are booing when they talk to the surveyor. They're not really telling you about how they're behaving. When it comes to inflation, maybe they are telling you something. I'm not sure, but it's worth thinking about.

The next thing is, in case anyone's curious, what sentiment means for the midterms. When people are more positive, the president's party has a higher share of the midterm vote. But that doesn't actually seem to be anything independent. If you look at how much of the election is explained, economic variables explain much more of it than confidence. And if you add confidence to economic variables, it doesn't add that much more.

So it seems like when people were negative about the world, historically at least, that meant you had high unemployment and high inflation, and those were the things causing the negativity. Now we're out of the sample. We're in a new regime where there's a complete disconnect between sentiment and economic conditions. And so what's going to happen this year, in the next election, and in the election after that is, I think, a little bit more of an open question.

In terms of what it means, go back to the fact that people worry about prices. Shiller did a classic survey in the 1990s. One of the questions he asked was whether people agree that the government should reverse a one-time 20% price rise, which is about what we had in the first couple of years of COVID. Of the general public, 68% said we should. Of economists, 3% said we should.

So there's just an extraordinary disconnect. He had—I can't remember how many—maybe 50 questions in that survey. This was the second-largest gap between economists and the public. And this is because economists correctly understand that if you try to bring prices down 20%, the only tool they have is causing another Great Depression. And that would violate at least one half of the dual mandate.

OK. And then finally, a question I sometimes wonder about: If we had a choice between these two—and I'm not saying we do have a choice between these two—but let's say we had a choice between a world with 2% inflation and 3% nominal wage growth, so you got 1% real wage growth, or a world with 6% inflation and 8% nominal wage growth, so 2% real wage growth. I think most economists would actually pick B over A. People would probably be happier in the world of A than the world of B.

And then the question as a policymaker is: Are you supposed to do what makes people happy, or are you supposed to just look at FRED and decide what you think they should think? I think we sort of know the answer to that.

So what does it mean? People think a lot of contradictory things. They don't like inflation, but they also don't like the Fed's cure for inflation. They want higher wage

growth, but higher wage growth is very associated with higher inflation. Now, there are some tools to have higher wage growth without higher inflation, but I actually don't think the Fed has those tools.

How much should policymakers focus on subjective well-being versus objective variables? For me, the biggest takeaway is something I knew already—we all knew—which is that people just really hate inflation, hate inflation surges, and those cast a very, very long shadow. The best is to not have them in the first place, which is a little bit hard to do now. And the second best is to wait until people calm down. We don't know how long we'll have to wait.

So just to summarize: we're getting more for our money than we ever have before. Sentiment is at shockingly low levels. The price level probably explains part of that, but it doesn't explain all of it. And by the way, all the rich countries have the same price level issue as the United States, and they don't have people nearly as negative as they are in the United States.

The rise of affective polarization is closely associated with it, and I think it's one of the more promising things to try to understand better. There's no evidence that it's affecting consumption, but that could change. We don't know. And there's some evidence that it's affecting inflation. And then finally, it does really present a genuine quandary for policymakers.

Because avoiding inflation is one thing. But for some things—and this fortunately isn't the Fed's job—like controlling health inflation: my prediction is that 50 years from now, people will also be worried about health inflation. And in part that will be because they won't have taken all my great policy advice and done all the things that would have solved the problem. But even if you had taken all my great policy advice, you're always going to have higher health inflation than for everything else.

And so how do you build an economy where people, on average, are doing better, but as they look through the individual line items, they don't feel that way? And how can policymakers respond to people who want prices to go down, when one of the main tools they have is to slow the growth of prices and maybe make incomes grow a little bit more than them? And how much will this polarization really start to affect and hurt our economy, and is there anything we can do about it? Those are all questions beyond the scope of today's remarks, but things for us all to think about.

Thank you.

Questions and Answers

Jason Furman: I'm happy for on-topic questions, but I'm also happy for off-topic questions. And if they're too off topic, I'll give an on-topic answer.

Audience member: This may be a refinement or an alternative hypothesis. When I look at that plus 1 for Republicans, I think that's a mixture. And I'm thinking of approval ratings. I think there are still people at the plus 20 or plus 15, but there are also now people who would label themselves Republicans who don't approve of the president anymore, and they're on the minus side. So I wonder if approval ratings or some other device could be used to separate things out a little bit.

Jason Furman: It's not in the Michigan data that I was relying on for most of my talk. But if you look at polling on approval ratings, people have looked at what are defined as MAGA Republicans and more traditional Republicans, and the MAGA ones appear to be surprisingly positive and the more traditional ones somewhat negative. So there's other data that averages out in the way you just suggested.

Audience member: And the mix has changed over time.

Jason Furman: I would not be surprised, but I'm not sure.

Audience member: I think it's the phones and the social media algorithms that are designed to make us angry all the time. What do you think?

Jason Furman: I think that's part of it. Look, economists have this bias, which is that we think economics explains everything, and so we just go through economic explanation after economic explanation. I think there are really important things outside it. The only problem I have with that as a grand unified theory of everything is that, as far as I know, they also have phones in Czechia and Germany and the Netherlands.

So that may be part of the background trend we're looking at. And if you look at the time series of this, it really exploded, especially in the last six or seven years—and before COVID, actually. The widening really started before it. So I think that's probably a background thing. I don't think that's the only thing, though.

Audience member: So I take it that we're a fickle species. We want our cake and we want to eat it. And of course, that's a perfect world. You mentioned—

Jason Furman: That's just because they haven't all taken my class, where we tell them they can't do that.

Audience member: You did mention that reporting was possibly one explanation. But do you see disproportionately negative reporting in America relative to other high-income countries?

Jason Furman: I don't see it, because I haven't looked, and I don't know if people have done comparable measures. My guess is—I would not be surprised if it's gotten more negative elsewhere. There's some evidence that the polarized media environment in the United States is quite different. In the U.K., for example, they have the BBC. I'm not

saying it's nonpartisan—it has its own set of biases and the like—but it's a little bit more of an anchor that a lot of people look at and trust, in a way that there's no single media outlet in the United States.

Audience member: A follow-up question to that. You said that when people were surveyed about the rate of inflation, you got different answers depending on whether they were a Republican or a Democrat. Was there a follow-up question about where people got their information or what news they watched?

Jason Furman: I don't know, but I think we know the answer to your question, even if there wasn't a follow-up question. I remember I was once on Fox News a couple of years ago, and I was very critical of President Biden's handling of the economy, very critical of the inflation that we had. It was me and a Republican guest, and the host said something about how inflation was out of control and the unemployment rate was skyrocketing. And I was very grateful that the Republican guest, who is an economist and a friend of mine, before I could even say it, was like, "Biden's ruined the economy, but the unemployment rate isn't the best case to make, because it's the lowest it's been in 50 years. So maybe you should focus on the other criticisms you have."

And MSNBC—MS NOW, or whatever it is—is filled with things too, so I'm not just picking on Fox. I happen to have experienced that one. So I have no doubt that different information sources are part of the answer. And by the way, there is a solution to this, which is that if everyone got their data from FRED, we would not have this problem.

Audience member: There seems to be concern among Wall Street economists and a lot of other people about the K-shaped recovery, where prosperous people tend to do better. Maybe that's some correlation with stock markets. There's also this phenomenon where, if I get a 10% increase in my real wages, I'm happy until I find out my neighbor got 15%. What about K-shaped inequality and the envy effect?

Jason Furman: I did research on the concept of the K-shaped recovery by looking at Google Ngrams to see how often people were mentioning it. And I discovered that people had only used the term when Trump was president. So it seemed to be a term for when the aggregate economy was doing well but you didn't want to give the person credit. This is a little bit unfair, but it actually really is true. It's sort of shocking that the term was not uttered while Biden was president.

I don't think the data is there for it at all. If you look at people's consumption patterns, you see pretty strong consumption growth across the board. If you look at wages, you see faster wage growth at the 10th percentile than the 90th. Wealth is more complicated, because the stock market boom probably has increased wealth inequality. But income and wage inequality and consumption inequality have either been flat or narrowing. Moreover, you always have some neighbor that's doing better than you. So if you want to be aggrieved, at any point in our history you could be aggrieved.

Audience member: I was impressed by the correlation of the Michigan consumer sentiment with the misery index plus stock market returns, and then the gap that blew open. But it was post-COVID, and I was wondering if you could share any guesses about what drove that gap. What changed in our world? Because it didn't seem like 2020. It felt more like '21, a little later.

Jason Furman: There was some of it before. You saw it when I showed you Trump I, where most of the data is from before COVID. It was already a larger gap than under any of the previous presidents. So I think COVID is part of it. But again, they had COVID in all these countries. So there is something—either the disease or the phones or the media or whatever it is—that's interacting with something else about America and how we process it.

Audience member: My question is about the outlook. If negative news stories directly affect public sentiment, is that increasing? And if the amount of negative news continues to increase, what does that mean for public sentiment and the economy and the variables an economist uses, if this is becoming an increasingly big variable? I'm not saying that it is, but I would imagine it's going to continue to increase. So any thoughts on this?

Jason Furman: There are economic effects and non-economic effects. As I said, on the economic effects, so far there's not a lot of evidence that it's affecting consumption—maybe some that it's affecting inflation. And by the way, if it affects inflation, it means you end up needing higher interest rates than you'd otherwise need, and more pain to bring the inflation down, so that actually translates into employment too.

Honestly, I'm personally more worried about a society where people are just this polarized, where one person thinks the color is green and the other person thinks the color is blue, and about how those differences just percolate throughout everything and may even start to get people down and make people negative. Not everything is explained by the economy, and not everything necessarily has an economic consequence. So I'm personally a little bit more worried about the non-economic consequences than the economic ones. But the economic ones are really worth keeping an eye on, because with this level of negativity, how people continue to spend, do business, et cetera, is, I do think, an open question.

Thank you.