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The field fails to attend to the problems that most interest most voters. Tuesday attests to that.

POLITICAL ECONOMICS

The 2024 Election's Other Loser: Economists

It's ungenerous, but only a little, to point out that only an economist could be surprised by Donald Trump's presidential victory this week. After months during which the economics pundit class professed astonishment that the Biden-Harris administration wasn't getting enough credit for a good economy, what is there to learn from the voters' contrary verdict?

The simple but incomplete answer is that many prominent economics commentators missed (or chose to overlook) those parts of the economy that matter most to most voters.

It's true that gross domestic product growth in the latter stages of the Biden administration was surprisingly strong—averaging around 3% (on an annualized basis) each quarter. Also true: The labor market has proved remarkably resilient as the Federal Reserve increased interest rates to combat inflation. Inflation itself has slowed to within spitting distance of the Fed's 2% annual target. Inflation-adjusted weekly earnings are increasing again. Consumption has held up well despite the inflation/interest-rate double whammy, and households' expectations of future inflation have cooled.

Yet it should be clear by now that these aren't the economic metrics that matter most to the most voters. Plenty of alternative data paint a very different picture of how the average American experienced the economy in recent years.

Examples I think are more significant, although you may have your own list: Employment growth was concentrated in government and government-adjacent industries such as healthcare, implying that most private-sector workers weren't benefiting from a hot job market and may even have worried about the stability of their employment. It could be significant in this regard that the business-investment component of those strong quarterly GDP releases never achieved sustained expansion. You can see whether your employer is investing in its future, and this can influence your overall sense of economic well-being.

And above all there's inflation, which economists have gotten spectacularly wrong in its causes, cures and political consequences. Academics and commentators have become too focused on the inflation rate as an input into political prognostications. What matters to voters are the levels of prices and wages. The important fact of this election was that inflation-adjusted median weekly earnings rose nearly 7% between January 2017 and December 2020— President Trump's first term—and fell 0.5% across President Biden's term (and had fallen as much as 3.8% at the height of the Biden inflation).

You can certainly lose an election despite strong real wage growth, but if you intend to win an election after a real-wage decline, you'd better have a darn good story about what's gone wrong and what you plan to do to fix it. Kamala Harris couldn't muster such a story, and here we are.

Note that this is a bigger story than punditry gone awry. The failure of economists to see Trump 2.0 coming despite these obvious factors speaks to a brewing crisis within the economics field.

Economic analysts and commentators relied so heavily on factors such as headline GDP growth and the inflation rate for their political arguments and predictions because those are the variables that matter most in the dominant economic theories in academia. To cite an example, the Fed targets a given inflation rate rather than a given price level because the current conventional wisdom holds that a stable, positive rate of price increases can be an input into economic growth—the price level itself doesn't much matter.

Voters obviously have other economic concerns, and mainstream New Keynesian economists seem to have too few ideas for what to do about those. Take real wage increases. This manifestation of expanding prosperity arises from productivity growth, but economics as a field is surprisingly short on ideas for how to generate productivity other than to hope for the next dot-com or artificial-intelligence thunderbolt.

So too with employment, where the field focuses on aggregate data and their perceived political significance. This is why Keynesian-style spending sprees that juke employment by boosting government payrolls can seem like such a good idea to an economist. If voters see a difference between government and private employment, economists will need a better answer for how to encourage the kind of job creation voters want.

You can say the same about consumption. Economists cheer when consumption increases in aggregate. Voters care about granular data. You get no political credit if consumption among wealthier households grows while lower-income households struggle at the gas pump and grocery store.

This columnist once argued that in the midst of faulty and contradictory statistics, the only two economic data points that matter are prices and votes. Voters have delivered a big data point about the true state of the Biden economy, and now we'll see if economists are capable of learning from the collateral embarrassment to their field.

By Joseph C. Sternberg

