



HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

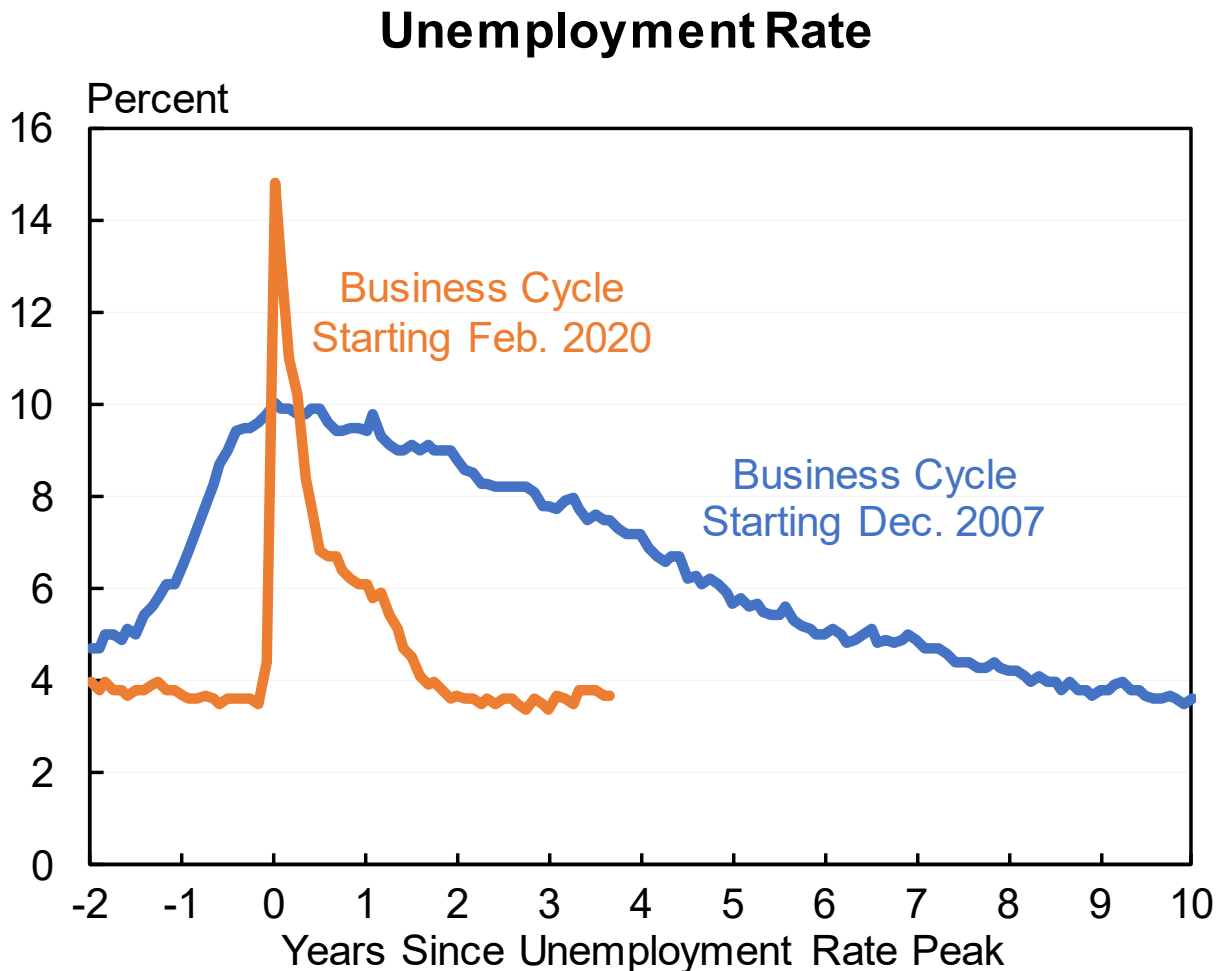
Why do Americans feel down on the economy despite its apparent strength?

Jason Furman

The Brookings Institution

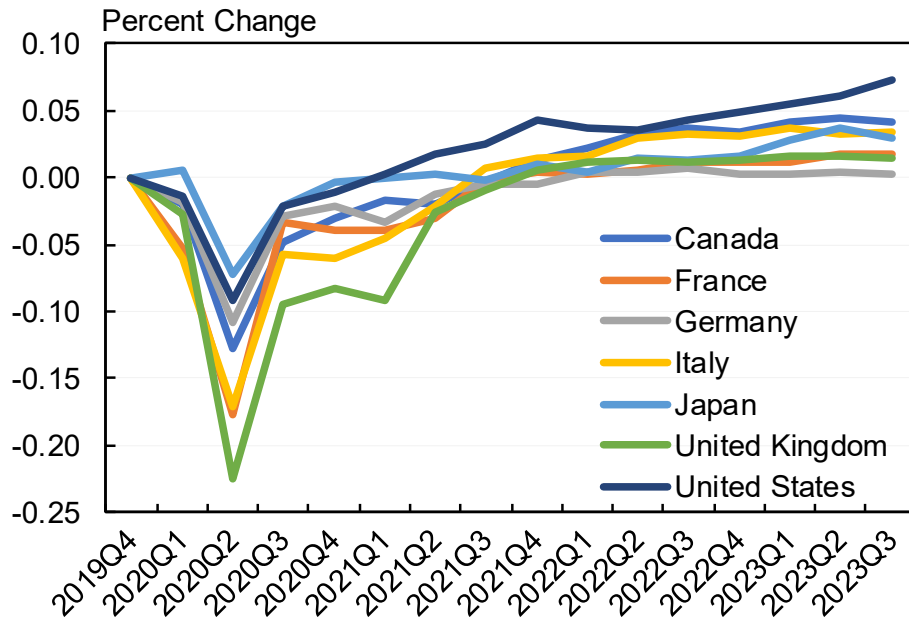
January 10, 2024

U.S. recovery has been spectacular

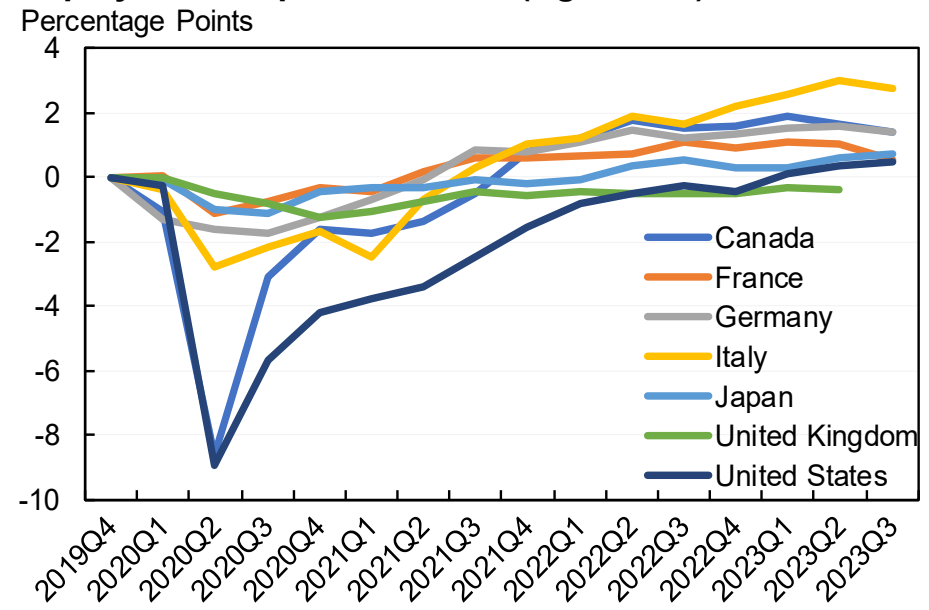


Strong GDP recovery compared to peers but slower employment recovery

Real GDP (Growth Since 2019Q4)

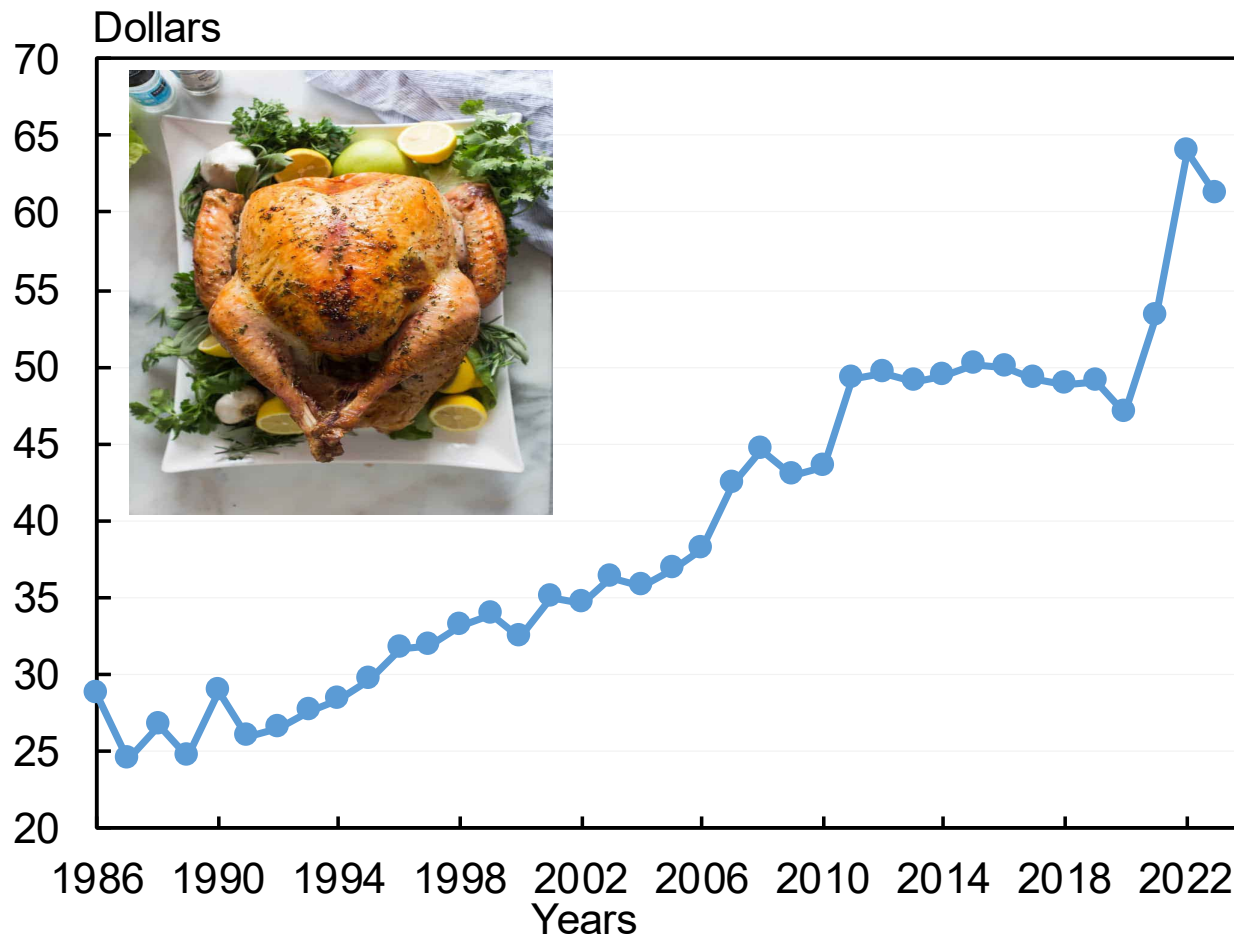


Employment-Population Ratio (Age 25-54) since 2019Q4

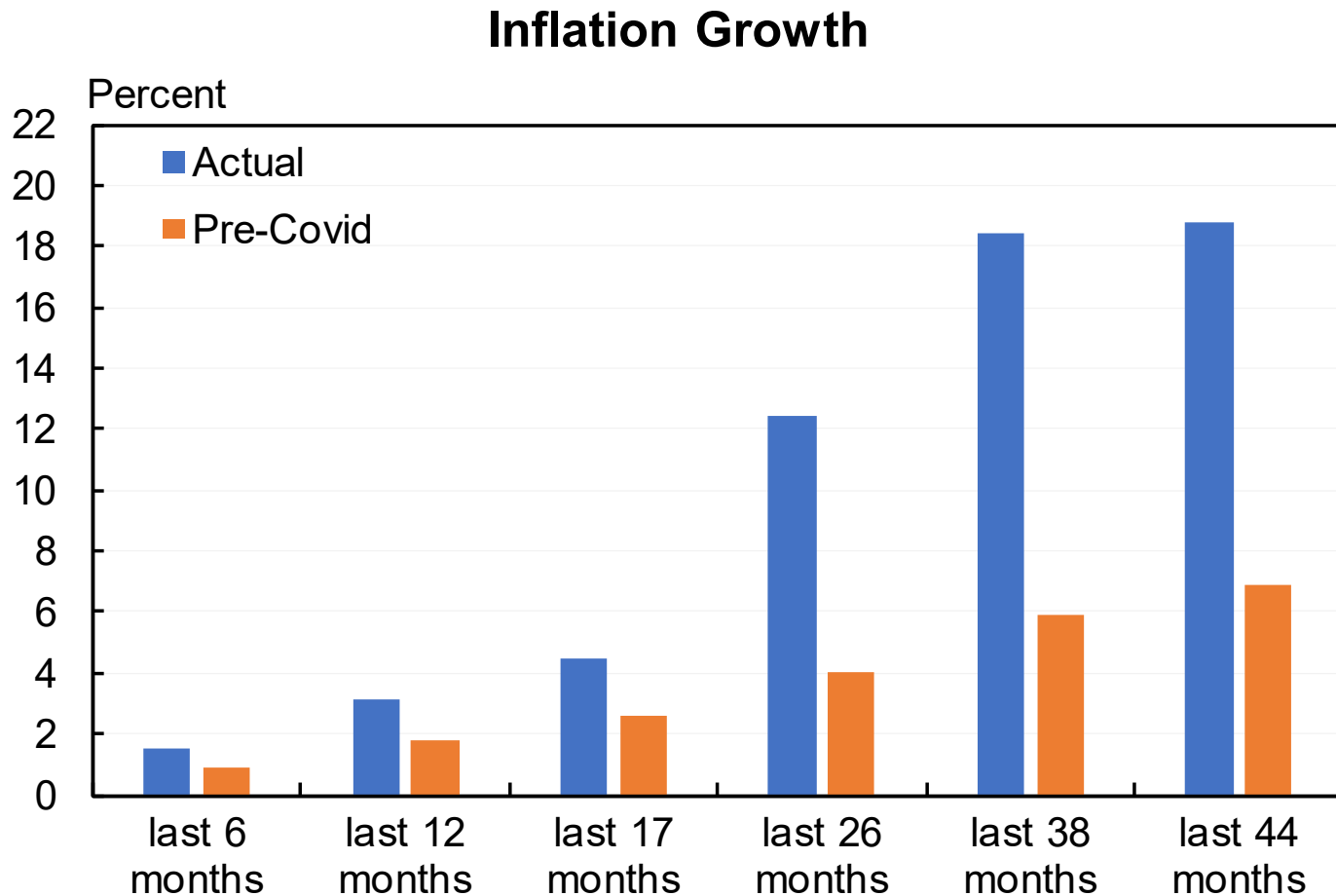


What about inflation?

Average Cost of a Classic Thanksgiving Dinner



What period do people use for inflation?



Note: Pre-Covid uses period from Q42014 through Q42019 to get a monthly average which is then applied to the different periods.
Source: U.S. Bureau of Labor Statistics (BLS) via Macrobond.

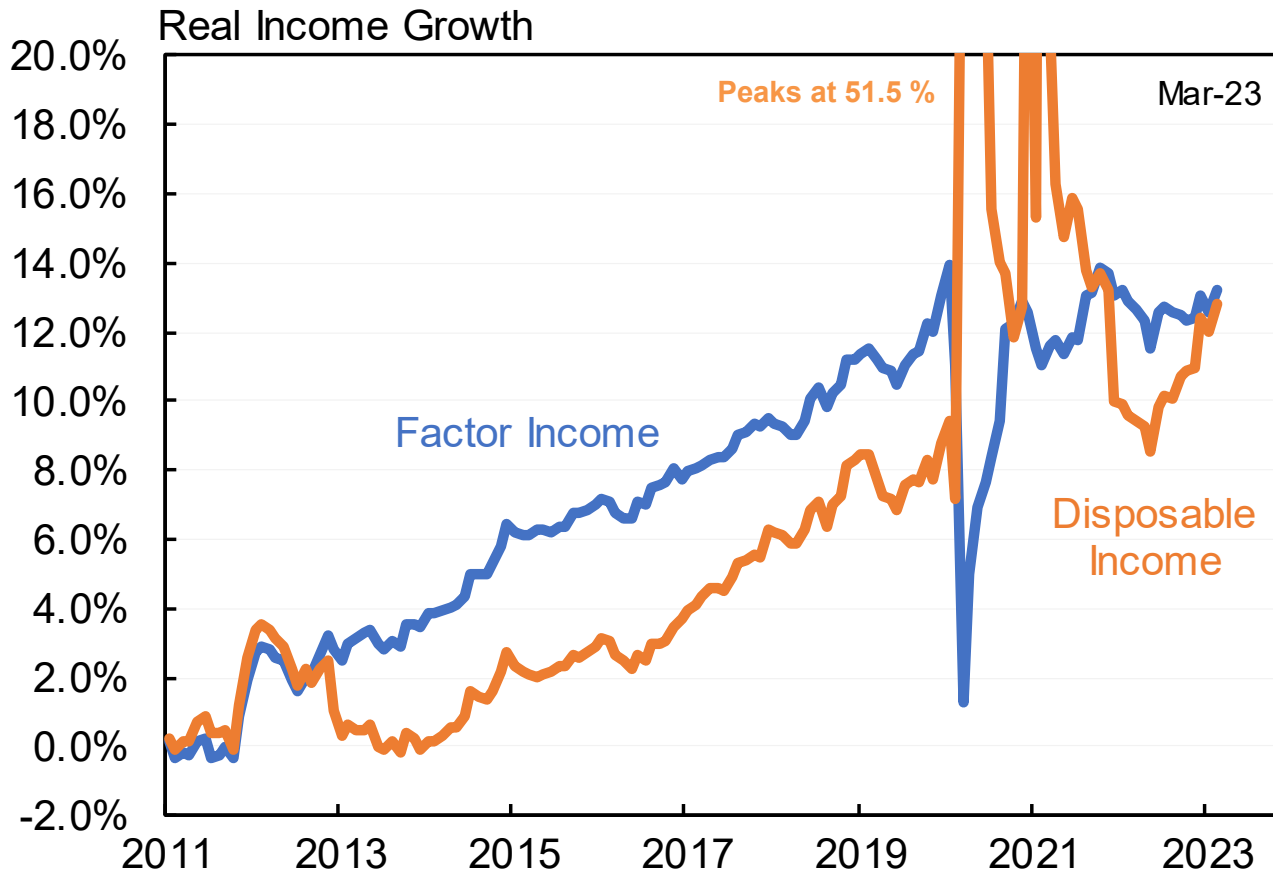
Real wage gains come from 2020 & 2023

Real Wage Growth		
	Actual	<i>Pre-COVID Pace</i>
2020	2.3%	<i>1.7%</i>
2021	-1.9%	<i>1.7%</i>
2022	-1.1%	<i>1.7%</i>
2023	1.7%	<i>1.7%</i>
<u>Cumulative</u>		
4 years	0.9%	<i>6.8%</i>
3 years	-1.4%	<i>5.1%</i>

Note: Unsmoothed Atlanta Wage Tracker deflated by CPI. Years defined by November to November (given most recent data). Pre-COVID pace based on 2014 through 2019.
Source: Atlanta Wage Tracker and Bureau of Labor Statistics.

How about incomes—before and after taxes and transfers?

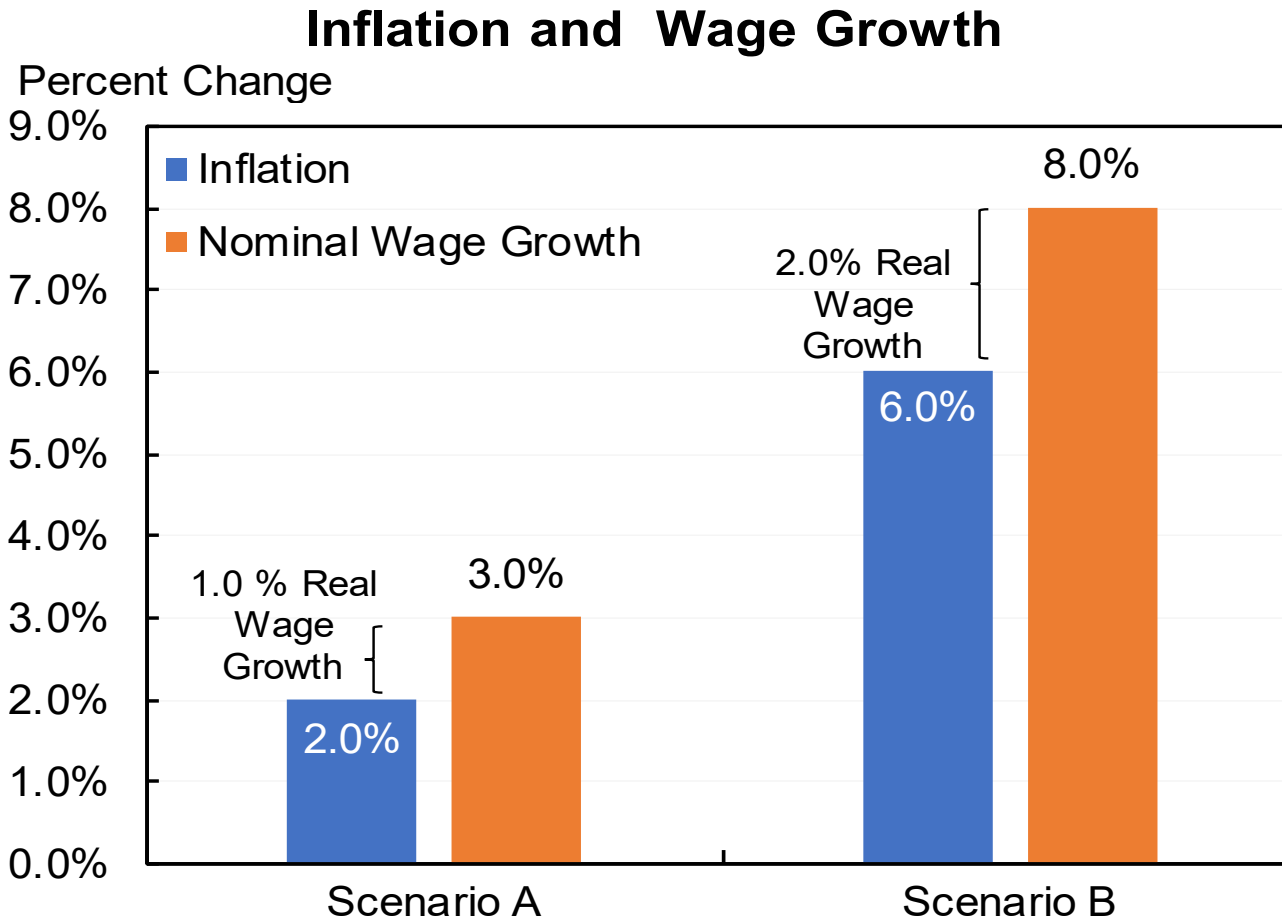
Real Income Growth for Working Age (20-64) Adults



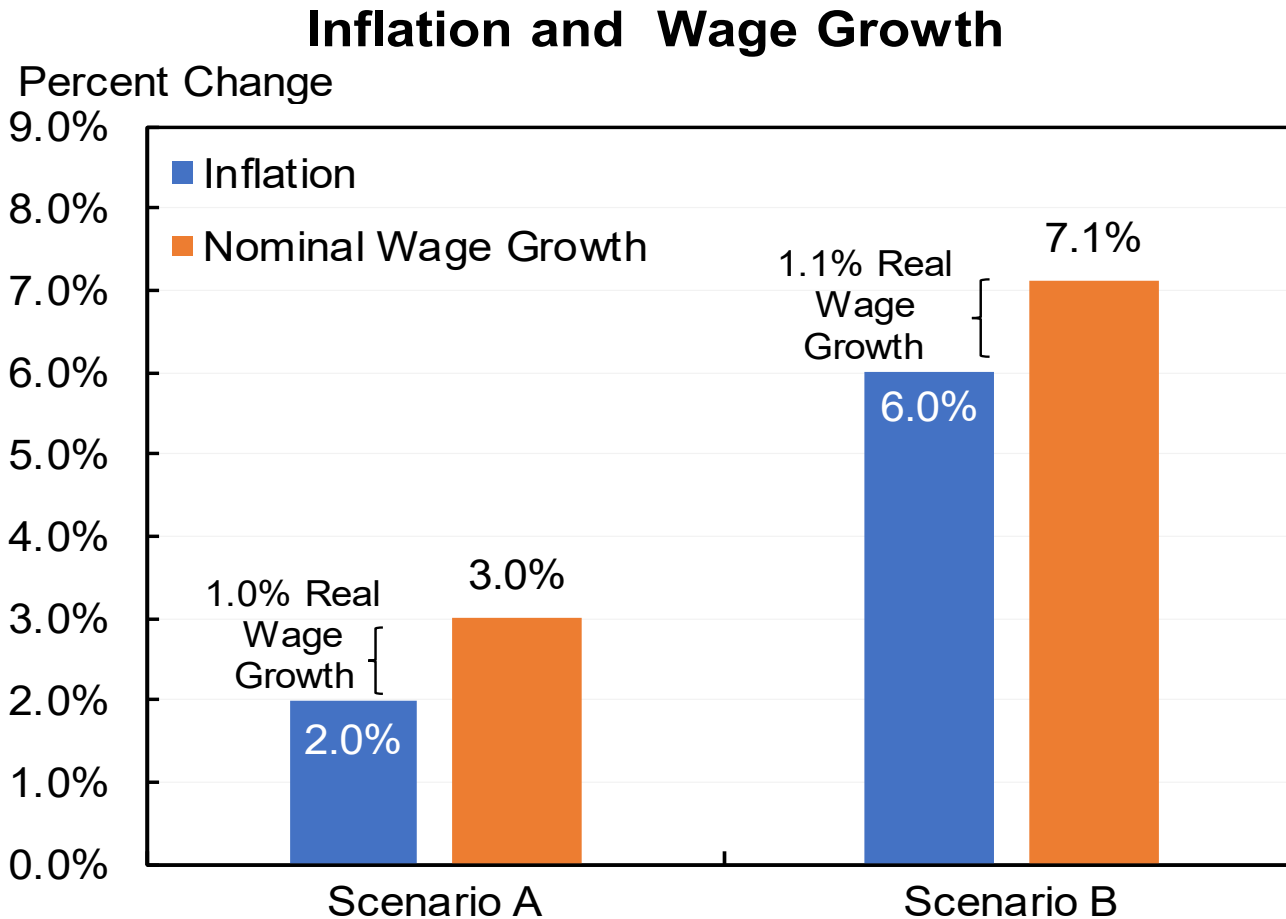
Note: Disposable Income growth peaks at 51.5% in March 2021, which is hidden to preserve scale. Latest datapoint is March 2023.

Source: realtimeinequality.org

Policy Question 1: Should policymakers care about objective data or subjective perceptions?



What if people felt better with Scenario A than Scenario B?



Policy Question 2: How should policymakers value employment gains?

Macro perspective: A person getting a job at \$40,000 a year adds \$40,000 to GDP.

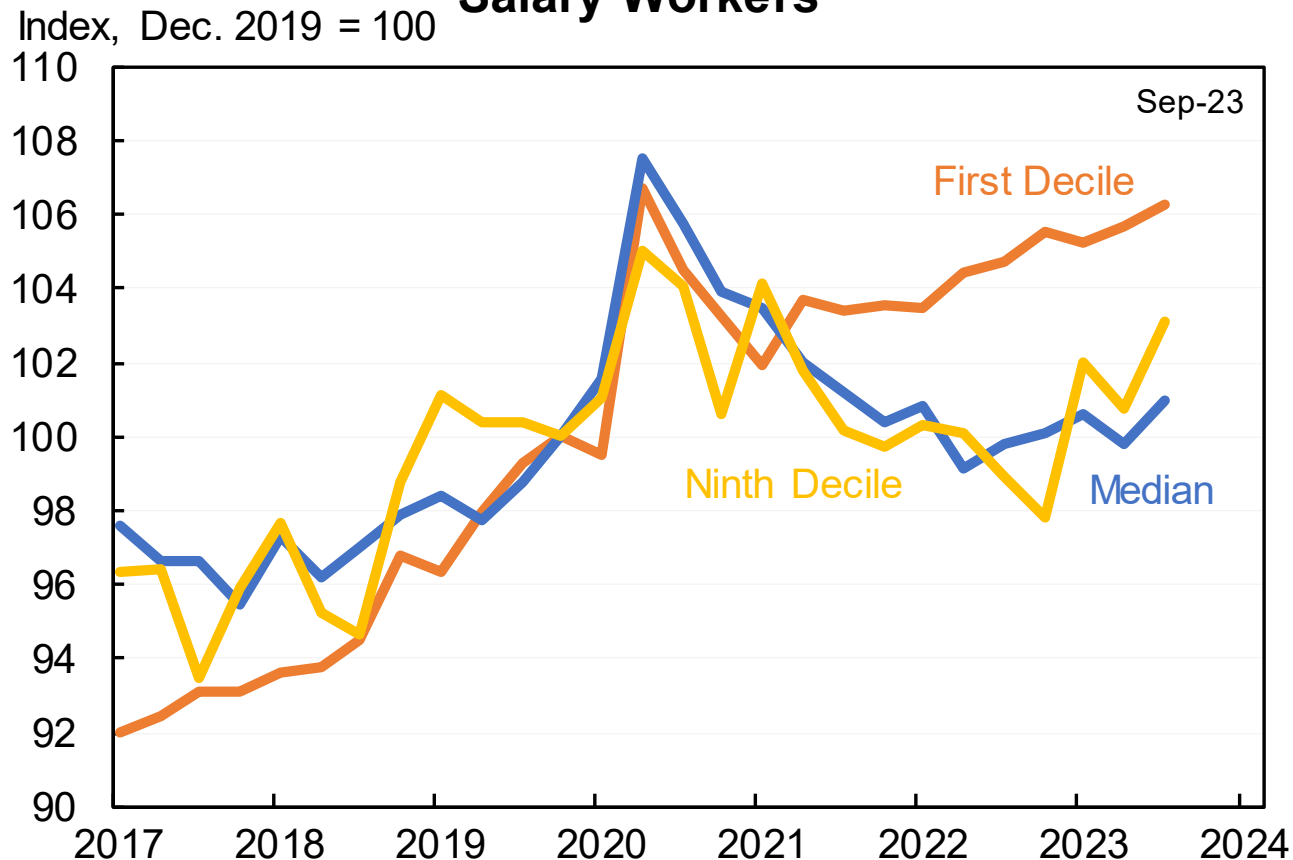
Micro perspective: A person getting a job at \$40,000 a year adds (\$40,000 – reservation wage) to welfare.

Who is the marginal person hired when unemployment falls from 4.0% to 3.5%? Is the answer different from 10% to 9.5%?

- Disabled ex-offender who could never get a job otherwise?*
- Recent retiree who is nearly indifferent between time with grandchildren and working?*

Policy Question 3: How to weigh distribution?

Real Usual Weekly Earnings of Full-time Wage and Salary Workers



Summary

- Recovery was spectacular
- Real wages / incomes still not perfect for many people—but getting better rapidly
- Whatever imperfections there are not sufficient to explain just how down Americans are in some poll questions
- Not economically relevant, maybe politically relevant?
- Raises important questions about the goals for policy



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