Did This Dem Economist Figure Out Why Biden's Poll Numbers Are So Low?

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Democrat economist Lawrence Summers released a paper in February that could help explain Americans' current dissatisfaction with the economy and also President Joe Biden's low poll numbers.

Summers, along with two other economists, proposed that high interest rates have effectively raised prices for Americans in a way that is not captured in government inflation estimates, providing another reason why consumers are upset with the economy under Biden, according to the study. The president has consistently tried to paint the picture that the economy is doing well, pointing to high growth estimates and decelerating inflation, but former President Donald Trump is leading Biden in projections of the 2024 presidential election by 2 points as of Wednesday, with Trump having consistently held a national lead since October, according to data from Real Clear Polling.

"Today's economy is highly dependent on cheap credit and currency debasement," E.J. Antoni, a research fellow at the Heritage Foundation's Grover M. Hermann Center for the Federal Budget, told the Daily Caller News Foundation. "As soon as unrealistically low interest rates disappear, however, the music stops and lots of people are left without a chair… This is a significant part of the explanation for why people view the economy so negatively today; official metrics are not accurately capturing what most Americans are facing on a daily basis."

Interest rates are experiencing huge upward pressure from hikes in the federal funds rate, which has been put in a range of 5.25% and 5.50%, the highest range in 23 years. Particular forms of credit, like mortgage rates, are especially susceptible to rate hikes as they closely follow Treasury yields.

The average for a 30-year mortgage reached a 23-year peak of nearly 8% in October and has since moderated slightly to nearly 7%, far higher than the end of 2020, when the average was below 3%, according to the Federal Reserve Bank of St. Louis. In conjunction with high borrowing rates, home prices surged by 6.1% in 2023 compared to the previous year in the top 20 largest cities.

"This is much more in line with what the American people are feeling, given that we do not buy houses and cars with cash; we buy them on credit," Michael Faulkender, chief economist at the America First Policy Institute, told the DCNF. "Therefore, one has to take into account the much

higher interest rate environment to understand the impact Bidenomics has had on household budgets."

Biden has repeatedly touted the economy to sway voters in his reelection bid, pointing to above-trend economic growth in the past two quarters, with gross domestic product rising 3.2% and 4.9% in the fourth and third quarters, respectively.

Americans have also been taking on record levels of debt at higher interest rates to fill the gap that inflation has left in their wallets, with total household debt reaching $17.5 trillion in the fourth quarter of 2023. Cumulative credit card debt increased by $50 billion in the quarter, bringing the total to a new all-time record of $1.129 trillion.

"The monthly mortgage payment for a median-price home has doubled since January 2021 because of this, but the CPI doesn't capture that change," Antoni told the DCNF. "Instead, the proxy it uses for the cost of homeownership is up just 20% over that same time — they're off by a factor of five."

The index for consumer sentiment, which measures how Americans feel about the state of the economy and is an indicator of how much consumers are willing to spend, measured 79 index points in February, slightly higher than what has been common under Biden, but compares poorly to the average of around 90 to 100 points in the several years preceding the COVID-19 pandemic, according to data from the University of Michigan.

Summers points out that the consumer price index has been changed since the 1970s and 1980s, when inflation peaked at over 14% in 1980, incorporating the higher costs resulting from interest rates in its calculation, meaning the inflation spike seen under Biden would be far greater if the same formula were used today. Inflation under its current measurement peaked at 9.1% in June 2022 and has decelerated to 3.2% as of February, far from the Federal Reserve's goal of 2%.

"Amazingly, if the old methodology from 1983 were still used today to estimate housing inflation, then the rate of increase in the CPI during 2022 would've peaked above the sky-high rates from the late 1970s and early 1980s," Antoni told the DCNF.

Jai Kedia, a research fellow in the Center for Monetary and Financial Alternatives at the Cato Institute, cautions against comparing current market conditions to the 1970s due to rampant unemployment and stagflation and notes that the current economic phenomenon of high borrowing costs may not be able to predict future bouts of economic hardship.

"Rising borrowing costs and interest payments are clearly affecting Americans — they are responsible for the wave of defaults," Kedia told the DCNF. "I would warrant caution at looking solely to the Fed to cut rates as a fix-all for all economic problems. Cutting rates may reduce borrowing costs, but if the other components of inflation have not been brought back fully under control, the Fed risks price rises in those sectors. It cannot (and should not) conduct monetary policy with the sole aim to lower borrowing costs."

The White House did not respond to a request to comment from the Daily Caller News Foundation.