

As in 1992, Democrats are poised to win big based on mistaken perceptions that times are difficult.



EDITOR AT LARGE

It's the Economy, Stupid—but How Stupid?

The economy, stupid.

Since long before James Carville pinned his famous epigram to the wall of Bill Clinton's campaign headquarters in 1992, the reductive formula for success or failure in elections has been obvious: the material condition of the people.

Mr. Carville's maxim was only the second of a triplet (the others were about change and healthcare), but it resonated for the timeless reliability of its psephological predictiveness. When the economy sucks, incumbents lose.

It is the primary pre-explanation for the drubbing Republicans expect next month. But now as then, it may be that a flawed perception of the economy rather than economic reality is driving voting behavior, and that now as then the U.S. is in the early stages of an economic golden age.

By the time Americans voted that November, the recession Gov. Clinton had rhetorically exploited was long over. During the second half of 1992, gross domestic product expanded at an annual rate of 4%. Unemployment peaked that summer and was falling sharply by the time the new president took office.

It's invidious to tell voters that what they believe isn't true; but today, as then, there can be no other explanation for the level of popular dyspepsia with an economy that, in macro terms, is in robust health.

The best sense of how big a disconnect there is between polling and economic facts can be had by comparing President Trump's current ratings with his immediate predecessor's at the nadir of America's recent economic performance.

The latest Quinnipiac poll gives Mr. Trump a 31% approval rating on the economy. In June 2022 Joe Biden enjoyed—if that's the word—a higher rating, 33%.

That month consumer prices were up 9.1% from a year earlier, the highest inflation in 40 years. In the first half of that year, the economy had contracted at a rate of just over 1%. Real wages were falling: Between January 2021, and June 2022, hourly earnings adjusted for inflation had fallen by 4.1%. The rate on a 30-year mortgage had almost doubled, from 2.65% to 5.1%. Average gasoline prices had more than doubled, from \$2.39 a gallon to more than \$5. The S&P 500 index of leading stocks increased just 1% in the first 18 months of the Biden term. The unemployment rate was the one bright spot, at 3.6%.

Contrast that with today. Consumer price inflation is at 3.4%, up since the beginning of Mr. Trump's term but well below where it was four years ago. Gasoline prices and interest rates are up, but not by as much as they had increased under the Democrats. Gasoline is up about 65% since Inauguration Day, at around \$5 a gallon. Mortgage rates are at 7%, just about where they were when Mr. Trump took office.

In the first half of this year growth averaged more than 2.4% a year. The Atlanta Federal Reserve estimates third-quarter growth at 3.6%.

Real wages are up. The S&P 500 is up about 35%. Unemployment is higher than it was four years ago, but at 4.1% still historically low.

In the 1960s Arthur Okun invented the "misery index," the sum of the inflation and unemployment rates, as a gauge of economic success. On that, Mr. Biden scored 12.7 in June 2022; Mr. Trump 7.5 now. Even if we create an augmented misery index, adding gasoline prices, diesel prices and average mortgage rates, Mr. Biden still comes out "ahead," 29 to Mr. Trump's 25.

By just about any measure, the economy is in much better shape today than it was four years ago, yet the incumbent gets lower marks.

There are several plausible explanations. Voters care less about the relative softening in inflation in the past two years and more about the continuing cumulative increase in prices. After decades of almost no inflation, prices have risen by 25% since 2020. The incumbent is paying the price. Voters may also see a clearer link between Mr. Trump's policies and their current challenges than they saw with Mr. Biden. Tariffs and a war that has pushed up energy prices both directly feed higher costs. There is also the sense that the benefits of the current economic strength are distributed even less equally than usual.

Yet as Mr. Clinton's election in the midst of misperceived misery coincided with the start of a long economic boom, so Americans may come to look back on 2026 as the early stages of a period of prolonged prosperity.

Growth is accelerating. Underlying inflation pressures are easing—consumer prices minus food and energy rose by 2.4% during the year ending in August, down from 3.3% when Mr. Trump took office. The artificial- intelligence investment boom is the primary driver of growth, and if the productivity increases investors expect from it materialize, growth may be about to exceed anything we have seen for decades.

Which would give a whole new meaning to "the economy, stupid."

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