A Little Too Ironic

Most everyone knows the song *Isn’t Ironic* by Alanis Morissette and a large fraction who do cannot only sing along but can quote the various scenarios verse-by-verse, even after the song is over. Fewer of us seem to know or care that Morissette’s song, as catchy as it may be, is far from being semantically correct. Each of the vignettes she covers are really instances of bad luck. Rain on your wedding day is only ironic if you’re marrying a weatherman who predicted earlier in the week clear skies for the nuptial day. And finding 10,000 spoons when all you need is a knife sounds more like a common problem usually encountered in the dying hours of a picnic with store-bought plastic dinner wear. And the internet is virtually no help in this department either as the word ‘[ironic](https://en.wikipedia.org/wiki/Irony)’ is, perhaps ironically, one of the most misused words.

Now before any despair sets in that somehow this column has switched from matters economic to matters ironic, let me just assure everyone that a recent exchange on the state of the US economy between Chris Hayes and Bernie Sanders could very well be the poster boy for how irony should work. According to Wikipedia, Eric Partridge writes that “irony consists in stating the contrary of what is meant” and the ridiculous exchange between Hayes and Sanders as to why the American Dream is more out of reach for the middle class than ever certainly meets the bill.

\*\*video\*\*

To summarize the speech, Hayes opens with the ‘paradox of capitalism’: that while so many things have gotten cheaper (cell phones and TVs) the ‘pillar core of the middle-class life’ – 1) owning a home, 2) securing health care, and 3) sending one’s children to college – have become much more expensive. Bernie retorts that the reason that US lifespans have gone down, even before COVID, is the ‘enormous stress’ middle class households are under trying to afford these basic ingredients. The pair, in both the lead up and in the follow-on to the clip above state in both word and tone, in explicit and implicit content, that the obvious thing is for government to step in and make these ‘pillars’ affordable again (e.g., Biden’s attempt at student loan forgiveness, a new nominee for Labor Secretary, etc.). And here is where the irony attaches. Each of the three pillars mentioned have become much more expensive because of, not in spite of, government intervention.

The simplest way to illustrate this assertion is by looking at the cumulative inflation by economic sector plot produced by the American Enterprise Institute (AEI).

\*\*image\*\*

Chart

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The curve labeled ‘Average Hourly Wages’ (hereafter wages) is the yardstick against which we measure standard of living of the middle class as follows. In approximately 2011, wages had risen by 40% from their levels in January of 2000. Likewise, by approximately 2020, wages had risen 80%. In those same years ‘Hospital Services’ were approximately 95% and 195% higher than their January 2000 values. The ratios of these two values show that hospital services were approximately 2.3 times more expensive than wages. Since the hospital curve both curves were roughly linear, this means that over this 20-year span, the middle-class standard of living versus a stay in the hospital remained always around a constant 2.4-to-1 ratio. Assuming linearity (well supported on the ‘Hospital Services’ curve but not so much on the ‘Average Hourly Wages’ curve), we can conclude that the middle class neither found a stay in the hospital to become more or less expensive of these 20 years, all other things being equal. Of course, all other things are not equal, so the impact of an expensive hospital stay when other things are going up in relative price is important but not something that is easily teased out of the plot.

Armed with this way of mining data from the plot above, let’s note a few global things. First, any curve with a local slope that is growing relative to the slope of the wages curve over the same time span means that the middle class is losing ground in that sector – in other words middle-class purchasing power is decreasing for that good and the middle-class standard of living is decreasing. Second, one can find reflections of recent current events in the data. For example, one can see that from January 2000 to late 2008 the wages curve and the curve labeled ‘Housing’ sat on top of each other. After that point, housing took a sharp dive and a gap between wages and housing was established. At around mid-2011, housing again began growing at the same rate as wages but with a constant offset. Of course, these patterns reflect the tumultuous events in the housing market after the whole sub-prime lending debacle.

Returning to Hayes and Sanders, we can see that they were factually correct but wrong in diagnosing the cause and the cure.

For their first pillar, we can see that the steady offset that persisted for over a decade between wages and room & board (‘Housing’ and ‘Food and Beverages’) has recently narrowed with the slope of the latter two curves becoming greater since early 2021 with the onset of the ‘transitory inflation’ (perhaps another irony) caused by the Fed expanding the money supply. This last statement is strongly supported by the sharp uptick in the ‘New Cars’, ‘Household Furnishings’, and ‘Clothing’ curves, which otherwise show decreasing cost over the plotted time span.

For their second pillar, health care (considered as the aggregate of ‘Hospital Services’ and ‘Medical Care Services’), much of the analysis was already done above. The middle class has held a roughly steady offset against these curves of about 2.4-to-1 and 1.8-to-1, respectively. Note that both health care curves are very nearly linear despite the passage of the [Affordable Care Act](https://en.wikipedia.org/wiki/Affordable_Care_Act) in 2010.

For their third and, thankfully final pillar, education of children there are several ways we can aggregate the data. The middle class has, until recently, held the same ground relative to college (the ‘College Tuition and Fees’ curve) as it did to hospital services; namely in a 2.4-to-1 ratio. Starting around 2015 the slope of the college curve seems to have dipped while the wages curve has increased slightly suggesting that, while still very expensive, a college education is starting to become slightly more affordable. Likewise childcare (the ‘Childcare and Nursery School’ curve) has, until recently, held itself in a 1.8-to-1 growth ratio relative to wages, similarly to ‘Medical Care Services’. (Side note: leveling of and wild fluctuations in the ‘College Textbooks’ curve starting in the mid-2010s is due to students now being able to buy Pearson international editions on the grey market or finding PDFs of the textbooks online and so that particular sector is in a lot of churn.)

All the red curves that contribute to the three pillars, so marked increase in costs as a function of time and all fall within highly regulated sectors of the economy in which the government limits, either by action or inaction, strong competition. In those sectors largely unregulated by government, we find the blue curves showing marked decrease in cost, in an absolute sense, creating an increase in middle-class purchasing power in these sectors. This is why a family of four may have problems getting health care but can have a TV streaming Netflix in every room.

So, there you have it. Two stuffed shirts babbling on, without any sense of irony, about how more government is the cure to illness caused by government. Perhaps we can convince Ms Morissette to revise her iconic song with a new verse reading

*An old man, socialist by name,*

*Talked to a pundit about US shame*

*Government they said would fix all our woes*

*Never admitting that their ideas were our foes*

*Isn’t ironic…*