EPISODE 1447

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1447, the true cost of living for middle and lower income families today, with Gene Ludwig, Chairman of the Ludwig Institute for Shared Economic Prosperity.

> "**GL:** *When I go around the United States and I talk to people, what they most want is that living wage job to basically live a full life."*

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. Happy Monday. Our cost of living series continues, and we actually have tons of new features for you to pour through on cnet.com right now. I'll put the link in our show notes. But our team has been working tirelessly for many months now, putting together important stories on the cost of health care and childcare, the unemployment rate, all of these stories that illuminate the reality of living in America today and trying to make ends meet. If you ever wonder like how are people affording anything these days, we have some important stories that we're telling right now on CNET and on this podcast. We're having critical conversations about the state of the economy.

Today, we're exploring the true cost of living. Gene Ludwig is here. He's an American business leader and expert on banking regulation, risk management, and fiscal policy. He's a former Comptroller of the Currency. Today, he's Chairman of the Ludwig Institute for Shared Economic Prosperity. There, he and his team are looking at the economic reality for families through the creation of a cost of living metric called TLC or True Living Cost. It takes into account housing, food, transportation, healthcare, childcare, technology, categories that are missing from the CPI, the Consumer Price Index, for example, which comes out this week. It's a measure of inflation. He talks about the challenges with trying to raise interest rates to bring down inflation. Will it

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work? Yes, but there will be repercussions. He offers his insights into what may happen with the economy in 2023 and why Gene is hopeful. Here's Gene Ludwig.

[INTERVIEW]

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FT: Gene Ludwig, welcome to So Money.

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GL: Farnoosh, I'm pleased to be with you today.

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FT: It's been a year. It's been a couple of years for Americans, as we have been struggling with everything from inflation to layoffs. As my team at CNET tries to like kind of pour through the economic data, and try to get a real sense and snapshot of the true household pain, economic pain out there, it can be a little challenging to just trust sort of the regular data that we look at, which is, for example, the CPI data, the unemployment rate, etc. So we're leaning on really experts like you, Gene, to give us maybe a more holistic look at what's happening in the world, a truer picture.

Before we begin, I would love to give you the floor to talk a little bit about your work and your specific interest in exploring the true living cost for Americans, this TLC Index that you have designed.

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GL: Well, Farnoosh, I grew up in a small town in Pennsylvania, really Middle America. If you go back to my small town and you see a deterioration in the wellbeing, who's just through your eyes, see the paint peeling and the people on the street and how they're dressed. You see a deterioration in the wellbeing of middle and low-income Americans. If you're living in a big city,

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and I live in Washington, DC, you walk around the city. You see the same thing in terms of ten cities all over the place. You see that in many American cities.

So what really got me going was you see these circumstances getting worse for people you care about. On the one hand or on the other hand, the CPI and other numbers don't suggest there's that bigger problem, if I could even suggest things would be better. So something's got to be wrong, and we set up an institute called the Institute for Shared Economic Prosperity in order to examine the state of the American economy for middle and low-income Americans. That's our focus, middle and low-income Americans.

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FT: What do you think is problematic about the current ways, the current metrics that we use to measure economic wellbeing in this country, particularly for the cohorts you're interested in, which you say is low and middle-income Americans? What's the issue?

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GL: Well, there are a variety of issues, but suffice to say that the headline statistics, which are based on concepts that were locked in stone in the 1930s, are based on ideas of the 1890s and 1870s. So they're way out of date, and that's problem one. Problem two is that they are about huge national aggregates. For example, the CPI is based on a basket of goods that is 80,000 different goods. For middle and low-income Americans, given their pocketbooks, they can't buy 80,000. They can buy a very, very small subset of things they need to survive. If you analyze the reality of that versus the theory, you get to a very different place.

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FT: Now, as of this recording, Gene, I looked at the CPI number before we began recording. It's up 7.7%. Inflation is up 7.7% for the year, over the last 12 months. It went up, actually, in October, as the cost of housing and gas and food all continue to go up. Would you say it's more like double this in the real world?

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GL: It is. It is. It dramatically understates the situation for middle and low-income Americans over a considerable period of time. For middle and low-income Americans, inflation is nothing new. So their inflated costs, the things they can buy has been 50% more, 50% more, and they can at least afford it over the last 20 years, and CPI would tell you. Why is that? The reason is because the things that they have to buy to survive, housing, medical care, food on the table, transportation to work, advancements, dentals, clothing to go to work. If you take that basket, it's inflated much more. As I just said, 50% more than CPI.

Another good example in terms of where they are today is take housing costs. Housing costs for middle-income Americans have gone up much more rapidly than the CP. I think the CPI is in the 70% increase. But in reality, it's more like 190%. Why is that? Let's just take somebody who is well off, owns their own home, has paid their mortgage. They don't have any more payments. For them, housing costs haven't gone up very much, and that's aggregated in the big aggregate CPI.

But for middle and low-income Americans, number one, it's unlikely they paid off their mortgage. They're probably still paying on a mortgage. If they're looking for a mortgage, it's way up. Housing, to buy a house, is way up. Furthermore, a much higher percentage of middle and low-income Americans rent, and that's way up. So for the population that we care about, which is middle-income Americans and below, housing costs have inflated much more rapidly than the population as a whole, and the CPI understates that.

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FT: So is it to say that it's really not realistic to create the sort of overall household wellbeing metric? That assumption is problematic and fraught that, as you must say, every household experiences different wages, family sizes, childcare needs. So this idea of trying to approach this from an aggregate is the first problem.

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GL: That is a big problem. But we've taken into account in the work we've done at the institute differences in geography and differences in family size. So we have put eight different buckets of different family types together, and that accounts for, basically, 90% of American families. The one thing you can tell in terms of that aggregate for middle and low-income Americans is that things have gotten worse for middle and low-income Americans, not better. But as you said, there's no doubt the more specificity one can give to this, the better off one is. For example, if you're a single mom with one or two children, you are worse off than if you're a single person earning the same amount of money, and you don't have any childcare expenses. You don’t have any children.

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FT: So let's transition a little bit, Gene, to exploring the True Living Cost Index that you and your team have devised and how you come up with it, how you calculate it, and why you think it's a better reflection of the reality of economic life for Americans today.

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GL: Well, Farnoosh, what we did is we looked at the things you have to have to survive. What is a subsistence – What everybody have to have. You have to have a roof over your head, you have to have food on the table, you've got to have some medical costs paid for if people get sick, you've got to have transportation to work, and you've got to have some incidentals. If you look at that, middle and low-income Americans can't afford much more, given median income and below. So that's a basket that is really just a subsistence basket. Sadly, that's, as I mentioned, inflated more. So things have been getting worse for you besides. But there's not much else you can buy.

Now, if you're, say, a single person, and you have no childcare expenses, and you have a little bit left over beyond the subsistence, you have money you’ve got to spend, we've looked at – A nice way to use this is recreation, but it's a minimal amount of outside the apartment activities that you'd like to engage in. Go to a ballgame, a minor league ball game once a year. Go out to dinner once a month and just – We've looked at that, and that's inflated dramatically and more than the CPI. That’s a stretch for most people. So there's very little excess disposable income for middle-income Americans and below and even for a single person. It’s getting worse, not better.

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FT: You touched on partly why it's getting worse, and you talk about how housing has gone up significantly. For those who are low and middle income, rent has gone up significantly. From a macro standpoint, what are some of the reasons for why the cost of living has gone up so much compared to wages? I mean, one is just that maybe wages have not been fairly calculated over the years and that they've been pretty stagnant, depending on your industry, of course. But what are some of the reasons for why there is such a gap now between those who are “well-off” and everybody else?

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GL: Farnoosh, I honestly think it comes down to the availability or lack thereof of living wage jobs. What we've found when we've looked at the unemployment calculation is this. If you look at the unemployment numbers, you'd think things ought to be pretty good, 3.7 or 3.8%. Now, it's reported unemployment. But, in fact, unemployment numbers calculate you being employed, even if you're working 10 minutes over the last two weeks. You want a full-time job, but you just can't get it. You find more and more Americans aren't having the full-time job they want. They're getting part-time work. We call it nicely the gig economy. But it's tough out there to get full-time work at living wage numbers. So that's become a greater and greater problem.

In addition, the fact of the matter is that the costs of living, the basic life, has gone up. They've just gone up over a long period of time, more than one would like, so less good jobs, less good full-time work. Indeed, when we calculated the unemployment number, the other thing I might mention is that it calculates you as being employed, not only if you have a part-time job, and you want a full-time job, but also if you can’t earn above a poverty wage. So if you're earning below a poverty wage with a part-time job, your **[inaudible 00:13:21]** is employed.

Well, functionally, you're not really employed as we think about it. So it is that kind of reality that Americans, middle income and below, are facing. I think it comes down to their inability to have a full-time living wage employment. When I go around the United States and I talk to people, what they most want is that living wage job to basically live a full life.

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FT: So first step, you raise the federal minimum wage?

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GL: Well, Farnoosh, sadly, the minimum wage was raised to the number of people we're talking about, which is $15 an hour, is pathetically below what is needed here to give people a real living wage environment. Indeed, if it was $15 an hour, it's actually in real terms below what it was 20, 30 years ago. But in any case, it's not enough. Of course, as you pointed out, things vary both by family size and also, importantly, geographic area. So $15 an hour in San Francisco, where the housing costs are enormous, is just not going to be very meaningful for you.

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FT: Gene, who do you think needs to pay attention to your index, the True Living Cost Index, and what are you hoping it will help to change? At CNET, we've written about, for example, the unemployment rate and how it is not a true depiction of the labor market out there. You read that, and you go, "Okay. What's next? What can the average American do about this?" Or really is this just for people who work in policy and government to take to heart and to actually use to implement new laws, policies? Like I want to know what your hope is in terms of getting the word out about this new way of measuring economic wellbeing in this country.

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GL: Farnoosh, what you're doing is very important. The more people who know the facts, the better off we are. Of course, that is, in particular, policy leaders. We don't want people to be able to hide behind headline statistics that inaccurately measure the wellbeing for middle and low-income Americans, and they don't either. This is not a partisan. Left, right, everybody ought to have the facts on the table to be able to make decisions on the basis of reality, not numbers that were invented years ago and that just don't apply adequately today, and getting the word out to everybody. So people understand how they're being affected by inflation in reality, by the employment availability, etc. is of enormous importance, and that's why we're doing this work.

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FT: Also, there are many social programs that rely on just the CPI index, for example, to determine whether households will get services, access to resources, and that's problematic, right?

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GL: Well, Farnoosh, it’s very well said. This is very important because those social programs apply typically and I think almost exclusively to middle and low-income Americans. The fact that they're tied to CPI, which understates the impact of inflation on middle and low-income Americans means that programs like food stamps, in veterans payments, they're increasing slower than reality should say they shouldn't increase, and that means that they're getting worse off. The payments they're getting, which are maybe up by CPI, are less than they should be up in terms of what they need to continue to live a decent life.

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FT: I want to go back to the TLC, the True Living Cost metric, and to remind, again, listeners. This includes factors such as housing, food, transportation, health care, childcare, technology, and some miscellaneous categories. As the world evolves and as you kind of look through your crystal ball, Gene, how do you anticipate this index evolving over the years? Will we see weights shift or new categories evolve? Or some categories maybe less in their weight in the index because you do believe that there's going to be reform, whether it's regards to health care or child care in this country. I'm just curious. As you and your team look ahead, where do you see the TLC moving?

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GL: Well, the first thing is to give an accurate picture of how costs are affecting middle and low-income Americans. Of course, as you say, Farnoosh, wisely things do evolve and not just at the margins. Technology, for example, was something that people didn't have to take into account, say, 40 years ago. If you had to make a telephone call, and you were in low-income circumstances, you got a quarter. You put a dime originally, and put in the phone box, and you made a call. Phone boxes don't exist pretty much in America today. You've got to have your own personal assistant, and those things cost money. Even more, you got to pay a monthly fee so that they operate.

Those are costs that are significant, and it impacted middle and low-income Americans. That did not impact middle and low-income Americans at all 40 years ago, 20 years ago even. So we've got to evolve with the times too, and we certainly don't want to be criticized for having, and certainly the CPI and the other headlines to this used to, measurements that are locked in time. In the case of our headlines, **[inaudible 00:19:04]** in the 1930s. We want to evolve with the realities that affect middle and low-income Americans.

But for the next so often or I would say the next certainly 5 to 10 years, the items that we are measuring for purposes of the TLC are pretty much the items that one ought to be looking at in terms of what people can afford and the best way to understand wellbeing of middle and low-income Americans.

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FT: And maybe even a shorter lens, looking at the next year, many, most perhaps economists, business leaders are forecasting a real recession, where the job market will then truly reflect where they can call it a recession. So in that environment, what are your predictions as far as the economic pain that is yet to come? The struggle has only begun.

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GL: The struggle has only the gun. Farnoosh, I'm really quite worried. The Fed, in terms of trying to slow inflation, sadly believes in probably the case that it only has one weapon, and that's raising interest rates. That's sort of like putting chemotherapy on top of the economy. It will probably bring down inflation, but it is going to basically have toxic effects. Sadly, the toxic effects felt by a downturn are felt more poignantly, more significantly by middle and low-income Americans.

Numbers for decades are the same. Middle and low-income Americans lose their jobs first and get them back fast, particularly black Americans. That means that their hopes for the future, the house maybe that they just got into and wanted to build, it goes down in value. They don't have their jobs. They can pay the mortgage. Not because of their own imprudence but because of the reality that is imposed upon them because of the Fed's need to control inflation. We don't have the support programs in place to basically rectify that.

Now, that's really terrible, really terrible because these are people who are caught up in a circumstance, not of their own making. For whatever reason, I'm not in a position to criticize who exactly caused the inflation. It doesn't matter. But we really need the support programs for people to get through these difficult periods, particularly at the low end of the economic spectrum.

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FT: The stimulus is partly what some economists identify as a reason for why we are in a place we are today with inflation. The stimulus that was created during COVID-19, which I think was very necessary. So as I hear you talking about sort of these programs and supports that we need to provide, how does it fit into sort of the economic ledger of this country? If you were, say, Treasury Secretary, what are some things that you would move around to ensure that the low and middle-income households in this country are getting the proper support that they need?

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GL: Well, several things, Farnoosh. First of all, I am dubious that the COVID era stimulus measures are really the fundamental cause for the inflation we're living through. At the end of the day, controlling inflation is the responsibility of the Federal Reserve. Had the Fed acted sooner and could have acted more gently early on, sort of given the direction pulling stimulus out of the market by way of its monetary stimulus that are provided really starting back in 2008, post those 2007 crisis, that would have helped a great deal. So laying the blame simply on the stimulus, I think, is a mistake.

Secondly, if you're going to deal with the realities today, I think one has to deal with the wellbeing of middle and low-income Americans more aggressively than has been true in the past. But secondly, I think we really have to look hard at what we can do to support American business, particularly American businesses that, say, go into opportunities out. Or otherwise, if they're going to pay people a living wage salary. So it's a two-handed approach. One is to support people who are in trouble. Not by their own misdeeds or foolishness, but are in trouble because of the macroeconomic circumstance. Two, we've got to basically support American business, so it can create real middle-class jobs.

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FT: This has been such a great conversation, and I would love to – As a parting question for you, Gene, because you have such an incredible career that has spanned various economic cycles and periods in our history, if you could provide us with a little bit of context. I know that for younger listeners, especially, who might be are entering into what may be their first recession or like their first period of high inflation, it can feel as though the sky is falling. We're never going to get beyond this.

I just would love for you to provide some contextual insights as to where this all fits into kind of the overall way that the economy works and has worked over the decades, where there are periods of decline. Then there are periods of growth. Maybe if we could shed some optimism if possible before we leave, as we try to get back to work and try to stay focused because this can be very emotionally draining and overwhelming. I always say I think that context can be helpful to just give perspective and maybe even a little bit of a light at the end of the tunnel.

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GL: Well, Farnoosh, there is a light at the end of the tunnel here, and I think this is really important for people to understand. We are the wealthiest country on Earth, the way wealthiest

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country on Earth. America has the kind of robust economy and still robust businesses and creative spirit innovation that we will come out of this and come out of it well and go to higher plateaus in terms of the economic engine here in the United States, provided I might say that we can get our political house in order. There, we've got to stop bickering, and we've got to get back to working together to do things in a civilized fashion.

If we can get the political mechanism to start addressing problems and stop yelling at each other, we can solve our economic problems, and we will. I might say you were overly nice in terms of to comment about me, but I couldn't be doing what I'm doing if I didn't have a brilliant chief economist in Philip Cornell and a brilliant Executive Director of LISEP in Stephanie Allen. So it's teamwork. The young people out there who are listening, they'll find that they've got great people to work with. They already know that they've got great friends and opportunity, and this is a strong and vibrant country with huge economic pluses.

So time is of economic difficulty or, in a lot of ways, the best times to take stock and look to the future. One time, things were looking dire in the United States, and I was talking to a very famous former Comptroller of the Currency, John Hyman. I said, “My, God. What's going to happen? Things look terrible.” He looked at me in his wise way and said, “It's time to invest and move forward. It's going to be fine.” I think that's true today too.

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FT: Yeah. It's hard to think back to, for example, the 2008, 2009 recession, and just how every day, it was like another shoe was dropping, and it just felt like, “This is it. You know what? Hold on to your clothes and your family, and say a prayer.” But we – Not to say that it was an easy way out, but it was looking back. It’s good sometimes to look back and have those reflections and think, “Okay. Well, if we did it, then we can do it again.”

But you're absolutely right, the alignment between politics and economics. We need to find more alignment because, especially folks in my field, reporters, sometimes financial journalists, or even folks who are out there giving advice, they don't want to this “get political.” It’s like you can't ignore policy and give advice, but then not be thoughtful or mindful of current policy and not have an opinion about reform or what have you because that all goes hand in hand. So thank you for bringing that up. I think that's always important to remind everybody of.

Gene Ludwig, thank you so much, and I would love to invite your team back on So Money, as I know the economy is going to be the number one news story as we go into 2023, as it has been this year but I think will continue to be in the New Year. We thank you and hope you have a great rest of 2022.

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GL: Well, thank you, Farnoosh. Honored to be on the show. I'd love to come back whenever you're ready to hear from us. Bring the whole team back.

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FT: Yeah. I'm always ready. Gene. Thank you so much. Have a great weekend.

[END OF INTERVIEW]

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FT: Thanks to Gene Ludwig for joining us. We'll have his links in our show notes, if you'd like to follow up with him or learn more about his work and his team's work. Stay tuned for Wednesday's episode. We'll be talking about the shrinking middle class, with Alissa Quart, who's the author of *Squeezed: Why Our Families Can't Afford America*. Thanks for tuning in, and I hope your day is So Money.

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