Mitchell's Musings 12-23-13: Attitude

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Some of our past musings have been devoted to polls and, more specifically, to the perils of asking people about public issues, such as ballot propositions, that they know little or nothing about. In such cases, the opinions reportedly expressed rarely include more than a handful of admitted "don't knows" when there should be lots of them. And the results are critically dependent on the framing of the question provided by the pollster, who has to explain what the issue is all about. The basic problem is that since polls in which most respondents say they don't know or have no opinion would not be interesting and would fail to keep pollsters in business.

But polls that deal with general *attitudes*, as opposed to highly specific public policy issues, can be revealing. Sometimes they can reveal truths about another element of public policy on which we have also mused: the collection of economic statistics. Let's take a widely-cited data series, the Consumer Price Index (CPI).

For many years, the CPI was described as tracking the cost of a typical basket of consumer goods. That description was never wholly accurate, since the basket was periodically changed to reflect shifts in consumer habits. But in recent years, mainly beginning in the 1990s when the index came under criticism as overstating the rate of inflation, methodological changes in the CPI occurred. At that point, efforts were made to account for such behavioral responses to varying prices as substitution (away from items that were becoming relatively expensive). Different weighting schemes and frequent changes in the "basket" were the result.

Let's put aside the many questions that arise even with the simple fixed-basket approach such as the administration of the data collection process and issues related to changes in the "quality" of the goods in the basket. The more you get away from the idea of a fixed basket being priced over time and move toward trying to account for how people behave, the more you are effectively getting into the measurement of "happiness," or at least changes in happiness related to price changes.

Note that a fixed basket has a simple interpretation. If the basket consists just of apples and I tell you that in period 1, a pound of apples cost $2 and in period 2 it cost $4, then all I am saying is that the purchasing power of the dollar in terms of apples declined by 50% from period 1 to period 2. I am not directly saying anything about how much people "enjoyed" consuming apples in period 1 relative to period 2. Suppose, for example, that between the two periods an official health report indicated that an apple a day keeps the doctor away. A consumer, believing that report, might – other things equal – obtain more enjoyment from an apple in period 2 than in period 1. Trying to take account of enjoyment or changes in enjoyment can become very complicated. In contrast, a simple statement that the purchasing power of the dollar in terms of apples fell by 50% between period 1 and 2 is straight forward.

How do polls come into this observation? The California Field Poll recently asked registered voters about what they thought about life in California.[1] More specifically, the poll asked whether California was one of the best places to live, nice – but not outstanding, about average, or a poor place to live. Let's assume that happiness is at least correlated with believing oneself to be living in a desirable place. And let's first look at responses over time.

Trend of how voters rate California as a place to live (among registered voters)

	One of the best places	Nice, but not outstanding	About average	Poor place
December 2013	**43%**	**26**	**21**	**8**
2011	39%	28	20	10
2009	41%	25	22	9
2007	50%	29	16	4
2003	47%	32	14	7
2002	49%	33	12	5
2001	40%	29	20	10
2000	54%	25	17	4
1997	46%	29	18	6
1994	44%	28	18	8
1992	33%	29	22	15
1991	51%	25	17	6
1989	58%	27	11	3
1985	78%	14	6	2
1981	70%	20	9	2
1977	75%	13	9	2
1967	73%	15	10	2

Note: Surveys prior to 1992 conducted among all adults, not just registered voters. Differences between the sum of each year's percentages and 100% equal proportion with no opinion.

There is a break in the series between 1991 and 1992 (as described in the table's footnote), but there is clearly variation over time indicated. California was particularly hard hit by the end of the Cold War, which was beginning to be felt as a decline in the aerospace industry by the late 1980s. At that point there is a notable drop occurs in the proportion of folks thinking they were living in one of the best places. Similarly, there is a drop in best-place respondents in the early 2000s (end of the dot-com boom, beginning of the dot-com bust) and again during the Great Recession. Presumably, happiness fluctuated accordingly.

[1]The basic media release is at http://www.field.com/fieldpollonline/subscribers/Rls2457.pdf. More detailed tabulations are at http://media.sacbee.com/smedia/2013/12/11/17/45/132xz3.So.4.pdf.

House prices fell after the end of the Cold War and in the Great Recession in California. The housing sector is not easily captured by the CPI which uses a rental equivalent measure that tends to attenuate measured fluctuations. And the dot-com bust seemed to move speculative energy away from stocks and into housing and house prices. It would be hard, therefore, to attribute movements in this proxy for happiness to home price movements. Maybe they reflect labor market opportunity.

The best-place happiness proxy can be viewed in a cross section as well as over time. From that perspective, it appears that a whole range of personal characteristics affect your perception of the goodness of where you live, as the table below shows. The various demographic cuts are inter-correlated so it is hard to isolate specific effects. But the discrepancies are quite dramatic.

How voters rate California as a place to live across subgroups of the registered voter population

	One of the best places	Nice, but not outstanding	About average	Poor place
Total registered voters	43%	26	21	8
Party registration				
Democrats	53%	26	18	3
Republicans	29%	26	25	17
No party preference/other	43%	26	21	9
Political ideology				
Conservative	32%	27	25	14
Middle-of-the-road	41%	25	23	8
Liberal	59%	26	12	2
Area				
Coastal counties	47%	27	17	7
Inland counties	34%	23	30	11
Region				
Los Angeles County	43%	25	22	9
Other Southern California	40%	31	20	7
Central Valley	33%	21	31	13
San Francisco Bay Area	54%	25	12	7
Other Northern California*	47%	15	27	10
Age				
18-39	46%	28	19	5
40-64	37%	26	24	12
65 or older	51%	21	19	7

**Small sample base.*

Note: Differences between 100% and the sum of each row's percentages equal the proportion with no opinion.

Some of the differences may reflect labor market conditions. Voters in inland areas (which tend to have higher than average unemployment) are less likely than those on the coast to think of California as one of the best places to live. But there are other elements. California has been a consistently "blue" state and in recent years state Republicans have been marginalized. There are currently no statewide Republican office holders and at the moment the Democrats have a two-thirds "supermajority" in the

legislature which means – if they vote as a bloc – they could take actions that require a two-thirds vote (such as putting propositions on the ballot). Apparently, the poll suggests, you feel less good about where you live if your politics are not in accord with those of the prevailing political outcomes. None of this attitudinal difference seems to have much to do with prices. Everyone seems to agree that the cost of living is higher in California than elsewhere, as the poll results below suggest.

	Total registered voters	Demo-crats	Repub-licans	No party pref./ Other	Coastal counties	Inland counties
Cost of living						
Higher	92%	89%	94%	96%	92%	92%
About the same	7	10	5	4	7	7
Lower	*	*	*	*	*	*
No opinion	1	1	1	*	1	1

**Less than ½ of 1%*

Since perceptions of happiness or well-being or "utility" or whatever you want to call it are quite variable over time, place, political party, etc., there may be complicated differences between how different groups experience *changes* in prices as measured by the CPI. Do you have some magical method of connecting price changes with the subjective experience of those changes by the many subgroups in the population? If not, the kinds of refinement made in CPI methodology over the last couple of decades don't capture what they purport to capture.

The more you depart from the simple and original pricing-the-fixed-basket idea, the more the making of the CPI looks political. That is not a good perception to have of economic statistics. If you want to cut back on Social Security, there is a political attraction in, say, using the chained CPI rather than regular CPI to index Social Security benefits; the chained version will rise more slowly and save money. You can always justify the decision with a veneer of economic science.[2] You can innocently claim just to be capturing how people's well-being "really" is changing. But "veneer" is the operable word.

[2] See the earlier Mitchell's musing on the chained CPI at http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%204-22-13.pdf.