

RESEARCH REPORTS

Volume LXXXII

October 2021

published by

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

RESEARCH REPORTS

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 12 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including *Seeking Alpha*, *Intellectual Takeout*, *Mises Brasil*, and dozens of other outlets. To read all of them, go to

www.aier.org

Contents

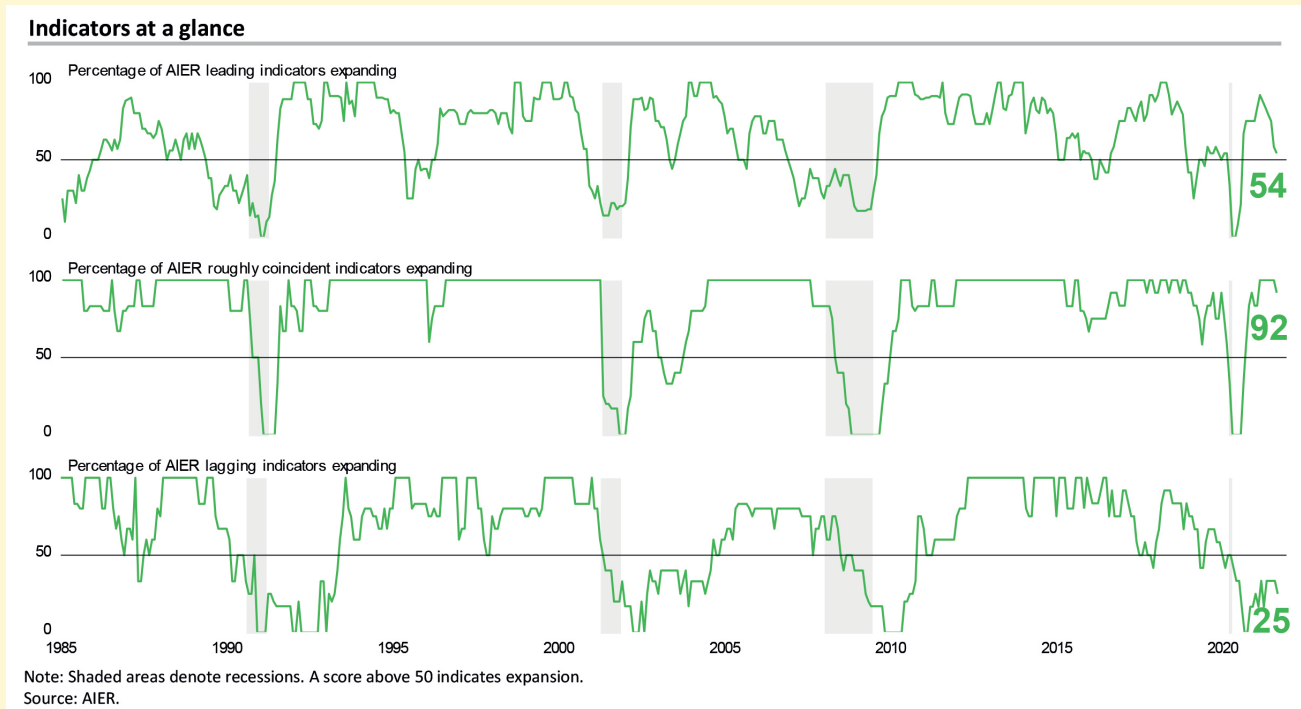
Business Conditions Monthly ROBERT HUGHES	1
After Lockdown COLIN LLOYD	10
The Great Reconsideration PETER C. EARLE	15
How the Fed Can Improve Financial Stability and Reduce Inequality THOMAS L. HOGAN & AMELIA JANASKIE	19
Government Opposition to Bitcoin WILLIAM J. LUTHER	21
The Silver Lining of the Afghanistan Withdrawal: Afghanistan is No Longer Simply a US Problem DOUG BANDOW	25
Stronger, More Robust Natural Immunity Thwarts Any Case for “Vaccine Passports” JON SANDERS	28
The Inevitable Failure of Socialism DONALD J. BOUDREAUX	31
Will We Accept Nuclear Fusion When It Comes? JAMES E. HANLEY	33
Biden’s Tax Plan Is a Middle-Class Death Tax Dressed as a Capital Gains Tax on the Rich JAMES R. HARRIGAN & ANTONY DAVIES	35
The Costly but Deliberate U.S. Labor Shortage RICHARD M. SALSMAN	37
Treason and Its Misprision ROBERT E. WRIGHT	41
How Activist Academia Destroyed Scholarly Peer Review PHILLIP W. MAGNESS	43

BUSINESS
CONDITIONS
MONTHLY

Robert Hughes

SENIOR RESEARCH FELLOW

All Three AIER Business Cycle Indicators Weaken in October



Summary

AIER's Leading Indicators Index fell for a sixth consecutive month in September and was joined by declines in the AIER Roughly Coincident Indicators Index and the AIER Lagging Indicators Index. The across-the-board declines in the AIER Business Cycle Indicators were the first since May 2020. The Leading Indicators Index fell to 54 from 58 in August and is down 38 points since hitting a high of 92 in March. Continued declines in the Leading Indicators Index are raising the likelihood that breadth of growth could narrow in the future. For now, the September result remains slightly above neutral and suggests continued economic expansion in coming months, but caution is recommended.

The Roughly Coincident Indicators index fell for the first time following a run of six consecutive months at 100. Despite the decline, the strength of the roughly coincident indicators is a positive sign for the current expansion but given the deteriorating strength of the Leading Indicators Index, some additional setbacks for the Roughly Coincident Indicators Index over the coming months would not be surprising. The Lagging Indicators Index fell to 25 in September and has been below the neutral 50 level for 17 consecutive months (see chart).

The resurgence in Covid cases has become a significant headwind and is compounding difficult labor conditions, shortages of materials, and lingering logistical issues. These issues continue to exert upward pressure on prices. Furthermore, outbreaks of the Coronavirus combined with rising prices are having an impact on consumers and may result in a retrenchment in consumer spending. Risks to the outlook are substantial, but for now, continued economic expansion, albeit at a slower pace, remains the likely path.

AIER Business Cycle Indicators Post Across-the Board Declines

The AIER Leading Indicators index posted a sixth consecutive decline in September, coming in at 54 versus 58 in August. The index is now down a total of 38 points from the recent high of 92 in March. September is the thirteenth consecutive month above the neutral 50 level, but it is also the lowest reading over that period and the lowest since September 2020 when the index was just 21. The index is slightly above the neutral 50 threshold and suggests continued economic expansion, but the string of declines and close-to-neutral reading also suggests that sources of growth will likely start to narrow in coming months and that the pace of growth could slow as well.

Among the 12 leading indicators, six were in a positive trend in September with five trending lower and one trending flat or neutral. Just one of the 12 leading indicators changed direction in September. The University of Michigan Survey of Consumers Consumer Expectations Index turned from a neutral trend to a negative trend. The index dropped from a positive trend to a neutral trend in August. The back-to-back declines were significant in magnitude and broad in coverage. The August drop was entirely attributable to the fears associated with the resurgence in Covid cases while the September decline was associated with rising prices and declining perceptions of future economic prospects (see more below).

The four other leading indicators with unfavorable trends are: the Treasury yield spread, real new orders for consumer goods, total heavy truck unit sales, and housing permits. The average workweek in manufacturing was the lone indicator with a neutral trend while initial claims for unemployment benefits, real retail sales, manufacturing and trade sales to inventory ratio, real new orders for core capital goods, stock prices, and debit balances in margin accounts were the six indicators maintaining favorable trends.

Overall, the Leading Indicators index posted another drop in September but remained slightly above the neutral 50 level. It was the thirteenth consecutive month above 50 but the lowest level over that period. The results suggest continued expansion is likely but the breadth of sources of growth are likely to narrow in coming months and the pace of growth could slow. Over the last 13 months, the leading indicators index has averaged 75.3 but the 38-point drop over the last six months from the recent high of 92 in March is a troubling sign. The ongoing disruptions to labor supply and production, rising costs and shortages of materials, and logistics and transportation bottlenecks are putting upward pressure on prices and impacting consumer sentiment. These issues are likely to be resolved over time and are unlikely to result in a 1970s-style price spiral, but the extended period of adjustment is likely to sustain an elevated level of risk for the economy.

The Roughly Coincident Indicators index fell eight points to 92 in September following six consecutive months at a perfect 100 reading. The Roughly Coincident Indicators index has been above the neutral 50 level for 12 consecutive months, posting an average reading of 91. The solid performance of the Roughly Coincident Indicators index since the government-induced recession of 2020 reflects the broad-based economic recovery but the continued weakness in the Leading Indicator Index raises the likelihood of some additional setbacks for the Roughly Coincident Indicators Index in coming months. Real manufacturing and trade sales was the one indicator to weaken in September, going from a positive trend to a neutral trend, and leaving five others with positive trends and none with a negative trend.

AIER's Lagging Indicators index fell to a weak reading of 25 in September. That was the 21st consecutive month at or below neutral. The average over the last 21 months is 28.6. Composite short-term

interest rates fell from a positive trend to a neutral trend in the latest month leaving four indicators with unfavorable trends, one indicator with a favorable trend and one in a neutral trend.

Consumer Sentiment Improved in September but Remains Low

The final September results from the University of Michigan Surveys of Consumers show overall consumer sentiment rose slightly in September following back-to-back declines in July and August. The August plunge was largely a result of growing fears of the recent surge in Covid. According to the report, “Consumer sentiment edged upward in late September, although the overall gain still meant the continuation of depressed optimism, initially sparked by the Delta variant and supported by persistent inflation and unfavorable long-term prospects for the national economy.”

Overall consumer sentiment increased to 72.8 in September, up from 70.3 in August, a 3.6 percent gain. From a year ago, the index is down 9.5 percent.

The current-economic-conditions index rose to 80.1 from 78.5 in August. That is a 2.0 percent rise and leaves the index with an 8.8 percent decrease from September 2020.

The second sub-index — that of consumer expectations, one of the AIER leading indicators — regained 3.0 points or 4.6 percent for the month, rising to 68.1.

With regard to the economic outlook, the report adds, “Consumers do not view economic conditions as conducive to establishing an inflationary psychology, a self-fulfilling prophecy. Instead, consumers have favored postponement due to what they still consider a transient spike in prices. While this reaction may well fade in the months ahead, the shift toward postponement of purchases has been so significant that it could not be quickly reversed.”

The weaker readings in consumer sentiment reflect the one-two punch of the sharp rise in

new Covid cases and the sticker shock of higher consumer prices. The surge in new Covid cases may be easing already. However, the higher prices for many consumer goods, resulting from shortages of materials, a tight labor market, and logistical issues, are likely to linger for a while. Deferring purchases under the belief that price pressures are transient will help reduce pressures more quickly.

Consumers’ Views of the Economy Fell in September

The Consumer Confidence Index from The Conference Board fell again in September, falling 5.9 points or 5.1 percent to 109.3. September was the third decline in a row and puts the index 19.6 points below the June 2021 peak. From a year ago, the index is up 8 points or 7.9 percent.

Both major components of the index fell for the month. The present-situation component decreased 5.5 points to 143.4 while the expectations component lost 6.2 points, taking it to 86.6. The details of the report suggest that consumers have become less optimistic about current economic conditions as well as future growth prospects.

According to the report, “Concerns about the state of the economy and short-term growth prospects deepened, while spending intentions for homes, autos, and major appliances all retreated again.” The report adds, “Consumer confidence is still high by historical levels—enough to support further growth in the near-term—but the Index has now fallen 19.6 points from the recent peak of 128.9 reached in June. These back-to-back declines suggest consumers have grown more cautious and are likely to curtail spending going forward.”

Views of current and future business conditions as well as expectations for income were all lower in September. Regarding current general business conditions, the percentage of consumers saying present business conditions were good fell 0.9 points

to 19.3 while the percentage of those saying business conditions were bad rose 1.3 percentage points to 25.4. Those results left the net business conditions percentage at -6.1, down 2.2 from the prior month.

Regarding consumer expectations, consumers' expectations for business conditions in six months, the percentage expecting better conditions fell 1.9 points to 21.5 while the net percentage expecting worse conditions rose 0.2 points to 17.6. The net percentage for business conditions six months ahead was down 2.1 points to 3.9.

Expectations for future income deteriorated as well with 17.3 percent expecting an increase, down from 18.2 in August, while 11.5 percent expect a decrease, up from 9.9 in August. Those results put the net percentage expecting an increase at 5.8 percent, down 2.5 points from 8.3 in August. As noted earlier, future buying plans softened as percentages for buying a home, auto, or major appliance all fell in the latest month.

Views of the labor market were also off in September though confidence still suggests a favorable view overall. The percentage of consumers saying jobs were plentiful rose 0.3 points to 55.9 while the percentage saying jobs were hard to get rose 2.2 points to 13.4. Both of these measures are at historically favorable levels. The net percentage for the labor market fell 1.9 points to 42.5 but is still close to a record high.

Consumers are growing more concerned about economic conditions and growth prospects, largely due to the recent surge in new Covid cases. While the outlook is for continued expansion, uncertainty remains elevated. Lingering effects of the pandemic including shortages of materials, labor difficulties and logistical problems are sustaining upward pressure on prices as demand outpaces restrained supply. Repeated waves of new Covid cases could disrupt economic activity in the future.

Weekly Initial Claims for Unemployment Benefits Rose for the Third Consecutive Week

Initial claims for regular state unemployment insurance totaled 362,000 for the week ending September 25, a rise of 11,000 from the previous week's tally of 351,000. Initial claims have risen for three consecutive weeks and four of the last six weeks, putting the latest week at the highest level since August 7.

The four-week average rose 4,250 to 340,000, matching the number from September 4th and breaking a string of six consecutive declines. The recent surge in new Covid cases continues to be a setback for some parts of the economy.

The number of ongoing claims for state unemployment programs totaled 2.501 million for the week ending September 11, a rise of 134,295 from the prior week and the first increase since August 14. State continuing claims have risen just twice in the last nine weeks and have been below 3 million for eight consecutive weeks.

Continuing claims in all federal programs totaled 2.527 million for the week ending September 11, a drop of 6.357 million as two Federal emergency programs, Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation, both plunged.

The latest results for the combined Federal and state programs put the total number of people claiming benefits in all unemployment programs, including all emergency programs, at 5.028 million for the week ended September 11, a fall of 6.223 million from the prior week.

The labor market remains tight with the number of open jobs hitting a new record high in July. However, the recent surge in new Covid cases creates uncertainty and may be resulting in some additional layoffs despite the tight market. Businesses and consumers are adapting to the new Covid world, but the waves of new cases will continue to create uncertainty for the economic outlook.

Everyday Price Index Rises at a Slower Pace in August

The AIER Everyday Price Index increased by 0.4 percent in August, half the pace of the 0.8 percent gain in each of the prior three months and the first month with less than a 0.5 percent rise since November 2020. The most recent rise puts the 12-month gain at 6.8 percent, the fifth month in a row above 6 percent and the fastest pace since September 2011.

The positive contributors were again widespread in August outnumbering negative contributors three to one. Positive contributors were led by increases in food and energy categories. The largest contributors to the August increase in the Everyday Price Index were household fuels and utilities, up 0.8 percent for the month and contributing 10 basis points, food away from home (a.k.a. restaurants), up 0.4 percent for the month and contributing 8 basis points, motor fuels prices, up 0.7 percent and contributing 7 basis points, and food at home (a.k.a. groceries), up 0.3 percent and also adding 7 basis points.

Small negative contributors include intracity transportation (-1 basis point), housekeeping supplies (-1 basis point), and nonprescription drugs (-1 basis point).

The Everyday Price Index including apparel, a broader measure that includes clothing and shoes, rose 0.5 percent following three consecutive 0.7 percent monthly gains. Over the past year, the Everyday Price Index including apparel is up 6.6 percent, the fourth month in a row above 6 percent. Apparel prices jumped 1.8 percent on a not-seasonally-adjusted basis in August. Apparel prices tend to be volatile on a month-to-month basis, posting six increases and six decreases ranging from -2.2 percent to 2.9 percent over the last 12 months. From a year ago, apparel prices are up 4.2 percent.

The Consumer Price Index, which includes everyday purchases as well as infrequently

purchased, big-ticket items and contractually fixed items, rose 0.2 percent on a not-seasonally-adjusted basis in August. Over the past year, the Consumer Price Index is up 5.3 percent versus 5.4 percent for the 12 months ending July.

The Consumer Price Index excluding food and energy rose 0.1 percent for the month (not seasonally adjusted) while the 12-month change came in at 4.0 percent, down from 4.3 percent in July. The 12-month change in the core CPI was just 1.3 percent in February.

After seasonal adjustment, the CPI rose 0.3 percent in August while the core increased 0.1 percent for the month. Within the core, core goods prices were up 0.3 percent in August and are up 7.7 percent from a year ago while core services prices were unchanged for the month but are up 2.7 percent from a year ago.

Among the notable increases in the core goods category were new vehicles (up 1.2 percent in August and 7.6 percent from a year ago), household furnishings and supplies (up 1.2 percent for the month and 3.3 percent from a year ago), televisions (up 2.8 percent for the month and 13.3 percent from a year ago), and sporting goods (up 2.3 percent for the month and 7.6 percent from a year ago).

Used car and truck prices fell 1.5 percent for the month but have increased 31.9 percent over the past year. Used cars and trucks prices had been one of the goods that have seen prices surge during the pandemic.

Among core services, gainers include household operations (up 0.7 percent and 7.3 percent from a year ago), and hospital services (up 0.8 percent and 3.7 percent from a year ago), while decliners include lodging away from home including hotels and motels (down 3.3 percent in August), health insurance (off 0.6 percent), motor vehicle insurance (-2.8 percent), and airline fares (-9.1 percent).

Prices for many goods and services in the economy continue to be distorted by lingering effects from government restrictions on consumers

and businesses including shortages, logistical and supply chain issues, and labor problems. As activity returns to normal, supply and demand will adapt and likely lead to slower price increases, but it may take some time before the economy completely returns to normal functioning. Nevertheless, a 1970s-style upward price spiral remains unlikely.

Overall Outlook: Risks continue to mount as Covid and rising prices threaten consumer spending

The AIER Leading Indicators index posted a sixth consecutive drop in September, coming in at 54 versus 58 in August. The September result remains slightly above the neutral 50 threshold and suggests continued economic expansion in the months ahead. However, the string of declines since the March high also suggest that sources of growth may narrow in coming months and the pace of growth could slow as well.

The Roughly Coincident Indicators index fell in September but has been above the neutral 50 level for 12 consecutive months. The solid performance of the Roughly Coincident Indicators index since the government-induced recession of 2020 reflects the broad-based economic recovery but the continued weakness in the Leading Indicator Index raises the likelihood of some additional setbacks in coming months.

AIER's Lagging Indicators index remained weak, falling further below the neutral 50 level. September was the 21st consecutive month at or below neutral. Overall, four indicators remained in an unfavorable trend, with one in a favorable trend and one in a neutral trend.

The combination of the recent surge in new cases and rising consumer prices continues to impact consumer attitudes and economic activity. For now, the outlook is for continued economic expansion, but the risks to growth are significant. Though

a 1970s-style price spiral remains unlikely, the resurgence in Covid is exacerbating ongoing labor difficulties (including a lack of qualified workers, absenteeism, temporary shutdowns, and inability to retain talent), materials shortages, and logistical and transportation bottlenecks, sustaining upward pressure on prices. Fading consumer sentiment may lead to a retrenchment in spending, putting growth at risk. Caution is warranted.

CAPITAL MARKET PERFORMANCE

(Percent change)

	September	Latest 3M	Latest 12M	2020	Calendar Year 2019	2018	3-year	Annualized 5-year	10-year
Equity Markets									
S&P 1500	-4.7	0.0	29.5	15.8	28.3	-6.8	13.5	14.4	14.2
S&P 500 - total return	-4.7	0.6	30.0	18.4	31.5	-4.4	16.0	16.9	16.6
S&P 500 - price only	-4.8	0.2	28.1	16.3	28.9	-6.2	13.9	14.7	14.3
S&P 400	-4.1	-2.1	41.9	11.8	24.1	-12.5	9.4	11.2	13.0
Russell 2000	-3.1	-4.6	46.2	18.4	23.7	-12.2	9.1	12.0	13.1
Dow Jones Global Large-Cap Index	-4.2	-1.5	23.9	14.7	23.8	-10.4	10.6	14.7	9.6
Dow Jones Global Large-Cap ex-U.S. Index	-3.1	-3.6	20.9	8.8	18.2	-15.7	5.7	9.6	4.8
STOXX Europe 600 Index	-3.4	0.4	26.0	-4.0	23.2	-13.2	5.9	5.8	7.2
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-3.0	0.0	-11.6	16.4	11.5	-4.2	7.2	1.0	1.8
iShares AAA - A Corporate Bond Fund	-1.5	-0.9	-2.6	7.1	9.1	-5.2	3.8	1.0	NA
Commodity Markets									
Gold	-2.5	-0.3	-7.3	24.8	18.7	-1.7	13.9	5.9	0.9
Silver	-10.5	-16.5	-9.3	46.8	16.7	-8.3	14.6	2.2	-3.4
Refinitiv CoreCommodities CRB total return index	4.9	7.3	54.2	-9.3	11.8	-10.7	6.6	5.4	-2.0

Sources: Barrons, Dow Jones, Frank Russell,
iShares, Standard & Poor's, STOXX Europe 600, Refinitiv.

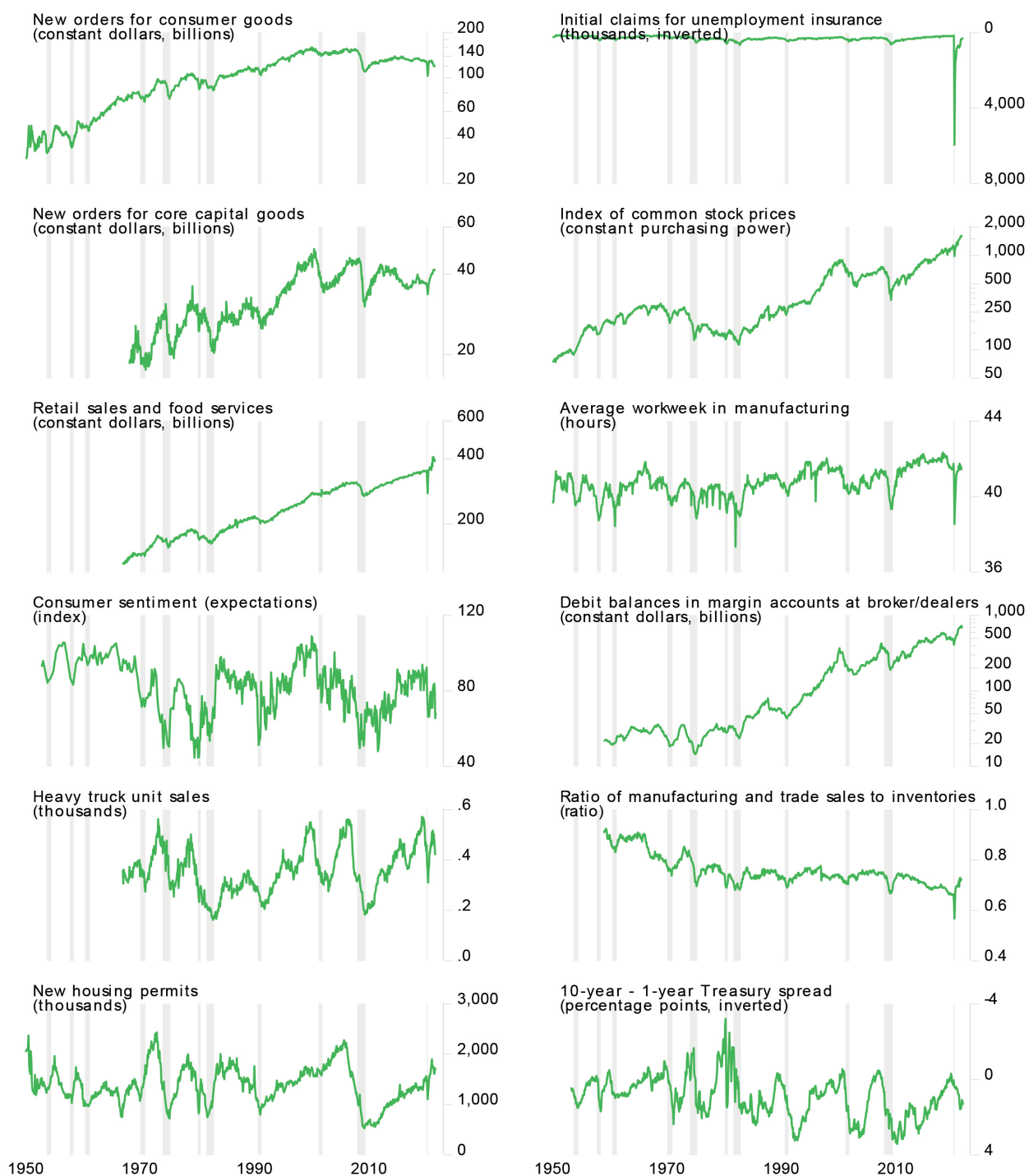
CONSUMER FINANCE RATES

(Percent)

	September	Latest 3M	Latest 12M	2020	Average for Year 2019	2018	Average over Period 3-year	5-year	10-year
30-yr. fixed mortgage	2.8	2.9	2.9	3.1	3.9	4.5	3.5	3.8	3.8
15-yr. fixed mortgage	2.2	2.2	2.3	2.6	3.4	4.0	3.0	3.2	3.1
5-yr. adjustable mortgage	2.4	2.5	2.8	3.1	3.6	3.8	3.3	3.3	3.1
48-month new car loan	5.3	5.3	5.1	5.1	5.4	5.0	5.2	5.0	4.8

Sources: Bankrate, Federal Reserve.

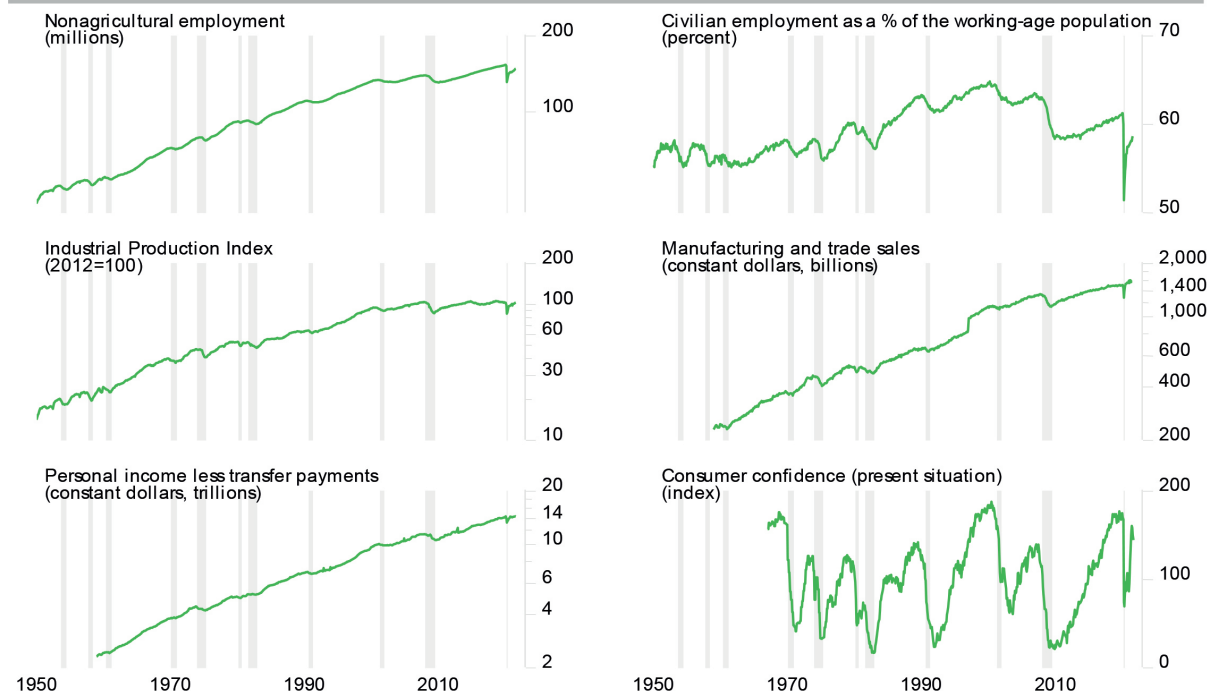
LEADING INDICATORS (1950-2021)



Note: Shaded areas denote recessions.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

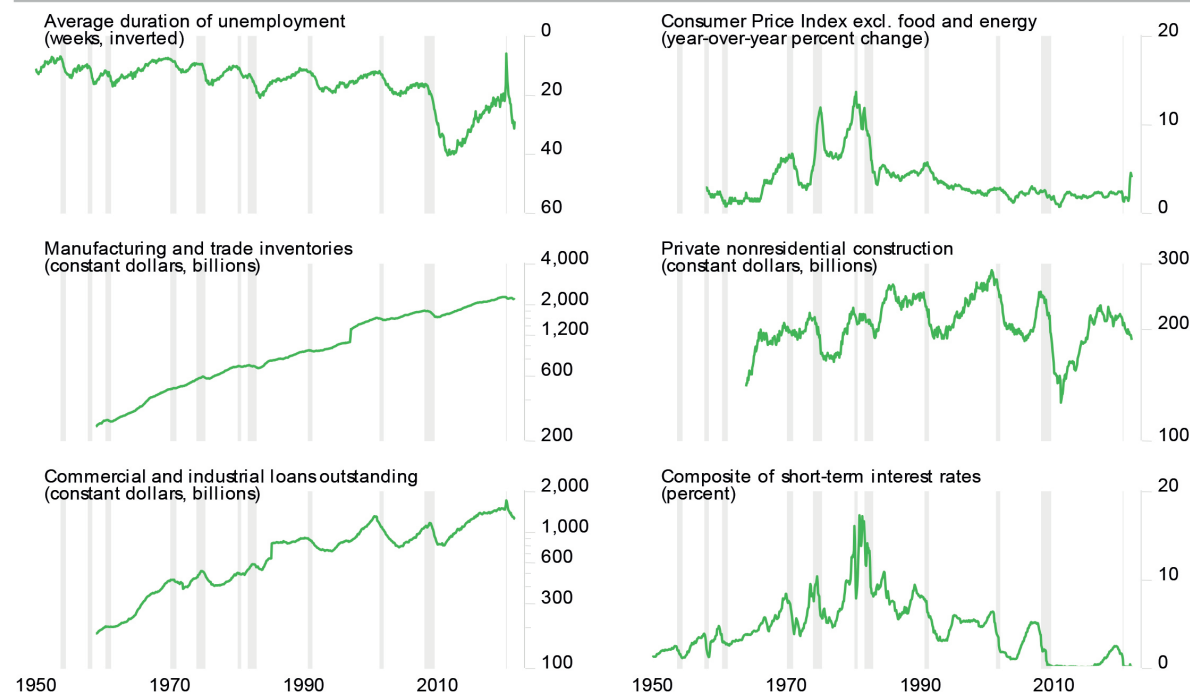
ROUGHLY COINCIDENT INDICATORS (1950-2021)



Note: Shaded areas denote recessions.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

LAGGING INDICATORS (1950-2021)



Note: Shaded areas denote recessions.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

After Lockdown

COLIN LLOYD

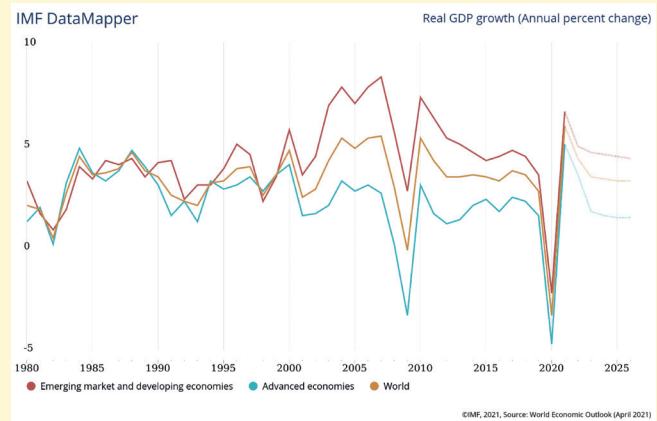
Contributor

'...this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.'

These lines are taken from a 1942 speech by Britain's then Prime Minister, Sir Winston Churchill, but they seem an oddly appropriate description of the current state of the war on Covid. The global response to the pandemic has been very variable, with developed nations spending more aggressively whilst poorer countries have been held back, by budgetary constraints, from carrying out mass vaccination to the same extent.

It is now becoming clear that new variants of the virus will continue to emerge, but unlike SARS this virus seems intent on plaguing us for the foreseeable future. What does this mean for economies and financial markets?

Before attempting to answer this question it is worth looking back at the economic collapse and rebound in the wake of the disease. The chart below shows the path of World GDP, together with the performance of emerging and developing economies, and advanced economies. The economic contraction was the largest since the Depression of the 1930s – the subsequent rebound has been simply unprecedented: –



Source: IMF

The price of risk assets, for which global equities are a reasonable proxy, have followed a similar trajectory. Below is the MSCI World Index since 1993: –



Source: MSCI, Business Insider

Of course, the spectacular rebound in equity prices has been driven, at least in part, by a massive increase in fiscal spending by governments, combined with a reduction of interest rates and the implementation of even more aggressive asset purchase programmes by their beneficent central banks. Now that economies are beginning to reopen, however, fiscal spending

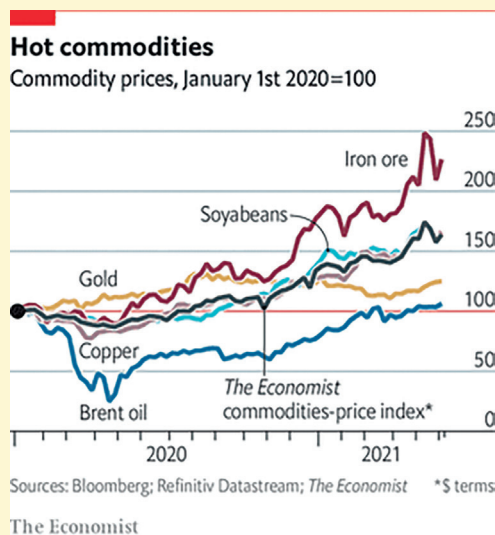
is likely to moderate. Also, the spectre of consumer price inflation has reared its ugly head for the first time in a generation, prompting markets to ponder the prospect of central bank tapering of quantitative easing. Should this tapering prove insufficient to dampen the *animal spirits* of economic resurgence, there is even the prospect of an actual tightening of US monetary policy in the offing.

The release of the minutes of the July 27-28 Federal Open Market Committee meeting suggest that the Federal Reserve (Fed) will start to reduce the quantum of its asset purchase programme in the autumn. However, federal fund futures contracts imply that short-term interest rates will remain near the zero bound until the autumn of 2022, rising to the giddy heights of 50 basis points by mid-2023. Despite pressing to new highs this week equity (and bond) markets remain nervous.

Even the recent gentle change in the emphasis of Fed forward guidance has come as a surprise to some observers, since the official line for most of 2021 has been that any uptick in inflation is likely to be *transitory*. The sources of this new bout of inflation have many origins, some of which may prove more structural in nature than the Fed would care to admit. Aside from the expansion of money supply – which is the effective debasement of our fiat currencies most of us have known for the majority of our working lives – economies are faced with the prospect of adjusting to both a supply and demand-side shock on a scale not seen in most of our lifetimes.

With the arrival of Covid-19, spending on services collapsed as many sectors of the economy were forced to shut down. Consumer demand switched from services to goods, putting pressure on already creaking global supply chains. Demand for products, such as lumber for home improvements (and even chairs for home offices) became severely supply-constrained. Bottlenecks have appeared

across multiple industries. In many instances, such as the global shortage of microchips, these constraints remain even as consumer demand has started to swing back towards services. The chart below shows the increases in the prices of some of key commodities: –



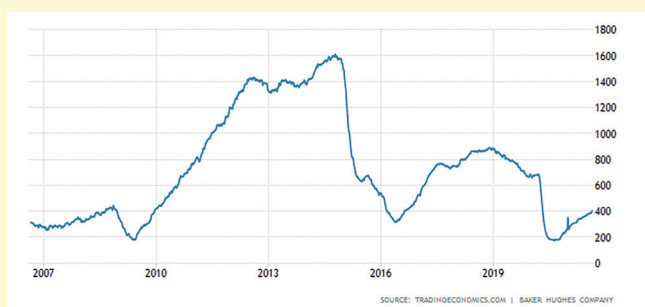
Source: The Economist, Bloomberg, Refinitiv

Commodity prices may have risen rapidly but they are rising from a low long-term base, as the next chart reveals; this poses a challenge to the *transitory* rhetoric to which central bankers have clung, with almost religious zeal, thus far: –



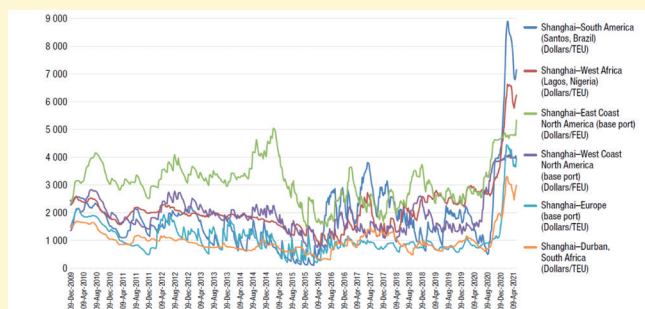
Source: S&P, Trading Economics

It is unwise to generalise about commodity markets, as they are incredibly diverse and the GSCI Index (shown in the chart above) has a 54% weighting to energy. However, with geopolitical risk in the ascendant (Afghanistan, China, Taiwan etc.) it is unlikely that oil prices will stage a collapse as they did in the initial aftermath of the pandemic. Higher oil prices will see the US oil rig count rise in response, but as you can see from the chart below, new wells still take time to come on stream even with the improvements of drilling technology seen over the past decade: –



Source: Baker Hughes, Trading Economics

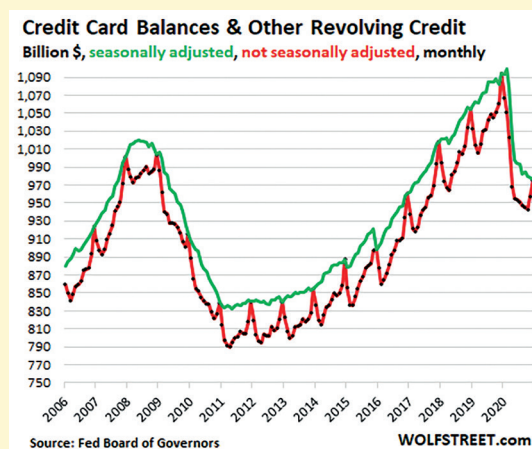
Oil prices may have moderated somewhat of late, but freight rates remain elevated as logistics networks struggle to respond to the dramatic changes in consumer demand: –



Source: UNCTAD calculations, based on data from Clarksons Research, Shipping Intelligence Network Time Series

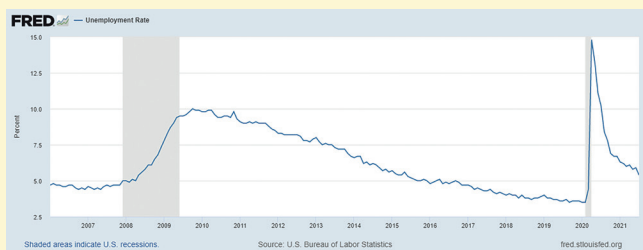
Without an easing of supply-chain constraints, scarcity of product will drive prices higher, regardless of global manufacturing capacity. A recent McKinsey video highlights some of the issues; sustained household demand for goods driven by increased savings; subdued demand for services, especially transportation; reduction in freight capacity and the long lead time required to deliver new vessels – whilst production methods are more efficient than in the past, as a container ship still takes around 18 months to complete. These factors will dominate well into 2022.

Another factor driving inflation has been the generosity of government furlough schemes. These programmes have seen many workers paid more to remain at home than they previously received from employment. Whilst the schemes remain in place, staff shortages, especially in sectors such as hospitality, will underpin the rising trend in wage settlements. Of course, once the furlough schemes end, workers will return to fill vacancies, but during the pandemic household savings has also risen dramatically. Some of the most expensive types of debt have been reduced. Financial pressure on the previously employed to rapidly return to the workforce remains subdued. The chart below shows credit card and other revolving credit to Q4 2020 : –



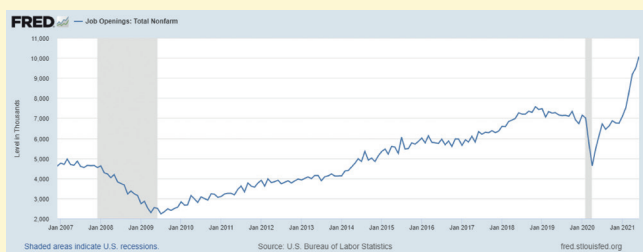
Source: Federal Reserve, Wolf Street

Those who still expect the current inflationary phase to be transitory focus on US unemployment. Although the rate has fallen from the double-digit levels of the initial outbreak – it rose from 3.5% in February 2020 to a high of 14.8% in April of that year – at 5.4% it remains 50% above its pre-Covid level: –



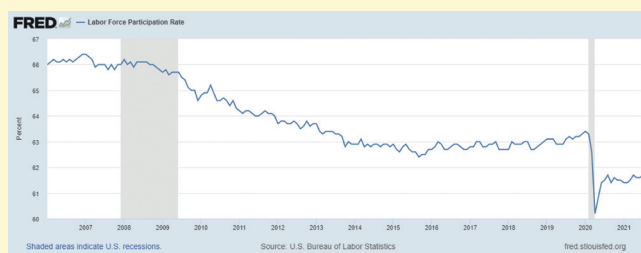
Source: Federal Reserve

The inflationists, meanwhile, point to the elevated level of Job Vacancies. At more than 10 million, they are not only at their highest level since records began in 2001, but up 40% from the 7 million openings advertised on the eve of the lockdown: –



Source: Federal Reserve

The shortage of workers is partly a result of government welfare programmes but a more structural factor is at play – an acceleration in the downward trend of labour force participation: –



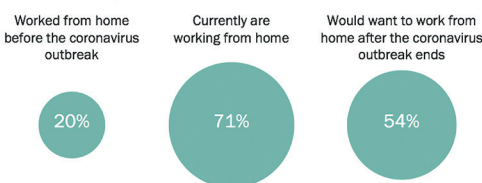
Source: Federal Reserve

Structural change

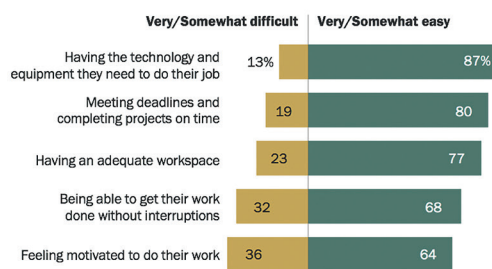
The pandemic has accelerated many economic trends, not just the decline in the participation rate. Some of these trends may now reverse, but the world of work has changed forever. According to a Pew Research study from December 2020, prior to the crisis, of those who could work from home, only 20% did. After the outbreak this rose to 71%. More importantly, 54% now wish to continue: –

Many workers would like to telework after the pandemic is over; transition to working from home has been relatively easy for many

Among employed adults who say that, for the most part, the responsibilities of their job can be done from home, % saying they _____ all or most of the time



Among employed adults who are currently working from home all or most of the time, % saying that, since the coronavirus outbreak, each of the following has been _____ for them



Note: For bottom panel, share of respondents who didn't offer an answer not shown.
Source: Survey of U.S. adults conducted Oct. 13-19, 2020.
"How the Coronavirus Outbreak Has – and Hasn't – Changed the Way Americans Work"

PEW RESEARCH CENTER

Source: Pew Research

Similar patterns have been evident in other developed countries; however, a doubling or tripling of the numbers working from home has had profound effects. These have included a reduction in demand for commercial office space and a concomitant increase in the price of larger and more geographically dispersed residences, together with the associated increased demand for home working services such as broadband, laptops, printers and office furniture. Demand for builders of extensions and loft conversions has never been stronger.

For many global corporations the zenith of their global supply-chain infrastructure was undermined by the great financial crisis; *robustness* rather than *efficiency* was already the objective prior to the viral outbreak. The US-China trade war has lent impetus to corporate initiatives to establish relationships with multiple suppliers of raw materials, semi-manufactured, manufactured and even finished products. *Robustness* is expensive; its cost must be swallowed by corporations or passed on to consumers in the form of higher prices.

The aftermath of Lockdown will not prove entirely negative for the global economy; whilst supply-chain costs have increased and product shortages will be with us for some time, the advances in technology, fuelled in part by plentiful venture capital and near zero interest rates, will bring lasting benefit for the consumer and wider economy. Measuring these productivity enhancements will, as always, prove challenging, especially in the services sector. The next decade may prove disappointing for public equity market investors, as earnings growth is likely to disappoint given the high plateau upon which it already stands. However, the seeds of new industries have been sewn in a rapid and concentrated manner. The entire world has been in a state akin to a war footing; one of the only positive side-effects of wars is the windfall of technological advancement.

It is difficult to imagine inflation of the type seen in the 1970s and 1980s taking root again unless fiscal policy runs wild and central bank attempts to reign in inflationary excess are overruled by their elected governments. However, risks remain and the prospects for the global economy *After Lockdown* remain uncertain. Much of the private wealth accumulated over the past few decades will probably be socialised in order to recompense the public purse. Taxes are likely to rise and debt will be rescheduled, but the alternatives to higher taxes or debt jubilees is even less palatable.

Government bond yields are likely to remain below inflation for the foreseeable future, pushing investors begrudgingly into otherwise expensive stocks. Fiat currencies will continue their race to the bottom and commodities, coming from a low base, should provide some protection from the ravages of inflation and debasement. Honest valuation remains difficult when markets are so hampered. The next decade is likely to favour the tactical investor.

– September 1, 2021

people would be eager to return to familiar routines and the concomitant financial security. But a significant and perhaps growing portion are not.

Environmental Influences

Baby Boomers and Generation Xers frequently have anecdotes about the views and behaviors of older relatives who lived through the Great Depression. While they vary, a few characteristics were dependably seen. One was an inveterate propensity to save money, always keeping some portion in physical cash. They also tended to fix or salvage broken items, mend torn clothes, stretch foodstuffs, and otherwise squeeze every cent's worth out of items that would otherwise have been discarded. And they expressed near-reverent attitudes toward work, with the memory of despondent, jobless years burned into their minds.

Although still in development, young adults who experienced the housing market collapse and recession between 2007 and 2009 have common perspectives as well. They were, to some extent, forged in an economic environment which saw brief but sharp increases in unemployment, home foreclosures, and the consequent vilification of the entire financial sector. And while that has been one explanation for a seeming predilection toward collectivist ideologies, they are also characterized by being adaptive to change.

The Great Reconsideration

As always, it is essential to severalize what is all too frequently combined. The detrimental effects of local, state, and Federal policies put in place to address the pandemic are increasingly being blamed on the spread of the virus itself. There was certainly a small portion of the population who, in early March 2020, opted to stay home and limit their social and commercial interactions. But the widespread implementation of lockdowns between March 15th

and mid-April 2020 which were imposed, at times lifted and reimposed over the subsequent twelve to eighteen months are the proximate cause of the economic breakdown which followed and, in the form of shortages, price spikes, and other consequences, continue.

The effects of stay-at-home orders, business closures, and the like were, for uncountable millions and their families, existential in nature. Statistics about widespread declines in mental health, of suicidal ideation, and drug overdoses in 2020 intimate as to both the depth and extent of emotional duress experienced throughout the population. Assuming that the level of stress and anxiety were felt more widely without such dire consequences seems secure. And that is at the root of the Great Reconsideration, from which in some part the hiring difficulties stem.

Jonathan Caballero made a startling discovery last year. At 27, his hair was thinning. The software developer realized that life was passing by too quickly as he was hunkered down at home in Hyattsville, Md. There was so much to do, so many places to see. Caballero envisioned a life in which he might end a workday with a swim instead of a long drive home. So when his employer began calling people back to the office part time, he balked at the 45-minute commute. He started looking for a job with better remote work options and quickly landed multiple offers. "I think the pandemic has changed my mindset in a way, like I really value my time now," Caballero says.

And others,

Carol Tompkins' weekdays used to look very different. Before the pandemic, the 38-year-old business-development consultant woke

up around 0630[am], commuted to her job at an accounting software firm in London and worked 10-to-12 coffee-fuelled hours before going to bed after 0100[am]. “The pandemic helped me realise I was not as happy, fulfilled or healthy as I want to be,” says Tompkins. So, in the past nine months, Tompkins has halved her working hours, doubled her sleep, reduced her migraines – and even increased how much she accomplishes in a day.

Clearly, millions of others are reaching similar conclusions. A recent Prudential poll found that

Half of workers say that the pandemic has made them reevaluate their career goals and given them more control in deciding the direction of their career...Forty-eight percent are rethinking the type of job they want moving forward...What’s driving the talent migration? A quarter of workers (24%) are planning to look for a new job post-pandemic[.]

The reasons for seeking new employment include seeking a better work-life balance (38%), being tired of working on the same things (24%), and lack of learning opportunities (23%). Asked what they value in a job, respondents indicated stability (68%), work-life balance (62%), and a sense of purpose (50%) among others as “very important.” And while these may be long-expressed preferences, both the difficulty firms are having hiring people and widespread, voluntary quitings suggest that eighteen months of impulsive, disorienting pandemic policy making may be turning sentiment into action.

Still Unfolding

What has and is being observed may simply be a short-lived, emotional purgative that dissipates over time. Alternatively, a tectonic shift in views on the

work-life balance, or more aptly toward the pursuit of a leisure-focused balance, may mark the acceleration of the Europeanization of the American workforce.

Neither of these will necessarily result in negative outcomes. American workers are, by some accounts, more productive than their counterparts elsewhere in the Western world; having said that, productivity is extremely difficult to measure. A move toward shorter workweeks, more time off, and other such changes doesn’t necessarily mean that overall productivity will decline, but that outcome is well within the scope of possibility. Because productivity is a major input into the prevailing standard of living—because increasing output per unit time tends to lead to both rising incomes and relative decreases in price level—the ramifications of this Great Reconsideration are worthy of close attention.

US Total Quits Rate (Jan 2000–present)



(Source: Bloomberg Finance, LP)

On the other hand, the Prudential poll indicates that 82% of respondents “support efforts by policymakers to encourage employers to offer job training to their employees” and “71% of workers want Congress to pursue policies that provide career training and development.” To the extent that, as part of their post-pandemic revelation, a growing portion of the workforce wants the government to either provide skill programs for workers or force employers to provide such, business owners and

entrepreneurs may find themselves footing yet another expense.

(One implication is that the notion of people not employed after two years being labeled as “no longer seeking work” – a definition that incenses economists and economic watchers alike – may now carry a seed of truth.)

If not merely a cathartic response to the cessation of what has been a confusing, stressful, and financially challenging year-and-a-half for tens of millions, the Great Reconsideration of work, life, and self-actualization is likely to resonate vastly beyond the coming months. The net of the costs and benefits, as well as the minutiae of such changes in views towards work, will have to be assessed over time. And among other contexts, one within which it must be scrutinized is the weighty impact of unintended, while clearly foreseeable, consequences of stay-at-home orders, lockdowns, and other pandemic countermeasures.

– September 6, 2021

How the Fed Can Improve Financial Stability and Reduce Inequality

THOMAS L. HOGAN (Senior Research Faculty) & AMELIA JANASKIE (Research Associate)

One of the most important economic questions facing President Biden is whom to appoint as chair of the Federal Reserve. While many consider current Fed Chair Jerome Powell to be the leading candidate, some have criticized Powell for allegedly reducing the strictness of U.S. bank regulations.

As the nation's central bank, the Fed is charged with managing the money supply in a way that best accomplishes its dual goals of stabilizing the price level and maximizing employment. The Fed is also charged with stabilizing the financial system through its roles as the "lender of last resort" and the primary regulator of U.S. banks. President Biden has also called for the Fed to address problems of racial and income inequality, presumably by adding regulations and pursuing a more accommodative monetary policy.

However, there is a better way to accomplish the tasks of improving financial stability and reducing inequality: Reduce the number and complexity of regulations on U.S. banks. Research shows that eliminating unnecessary regulations can help improve bank stability. Simplifying regulations also lowers banks' costs of compliance, which reduces the cost of credit for businesses and increases the hiring and wages of low-skilled and minority workers.

Regulation and Financial Stability

Research shows that more complex rules can reduce the effectiveness of bank regulations and decrease financial stability. This is true for several reasons.

First, simple rules can often be more effective than complex rules for identifying bank risk. The Fed's main measure of bank risk is risk-based capital ratio, which requires the regulators to rate

the riskiness of every category of bank assets. But this causes problems because regulators *don't know* the riskiness of every asset.

Like loopholes in the tax code, a complex regulatory system gives banks a way to evade the burden of regulation and increase their risk-taking activities. Simple capital ratios, therefore, may be better at identifying bank risk. In fact, researchers at institutions such as the Federal Reserve Bank of New York, the Bank of England, the World Bank, the International Monetary Fund, and New York University, including Nobel Prize winner Robert Engle, have all found that simple capital ratios are better predictors of risk than the complex risk-based capital ratios.

Second, simplifying bank regulations is not a threat to financial stability. Economist Richard Herring has argued that the number of bank capital regulations "could be reduced by 75% with no loss of rigor." The main obstacles to deregulation are not economic but political. As Herring describes, "Regulators, lawyers, accountants and industry consultants have invested large amounts of their human capital in understanding (and often contributing to) complexity and may see no clear personal advantage in simplification."

Third, complex regulations often have the unintended effect of encouraging banks to increase their holdings of risky assets. Prior to the 2008 financial crisis, for example, regulators greatly underestimated the riskiness of mortgage backed securities (MBSs), which incentivized banks to hold more MBSs. In retrospect, that was a very bad policy since MBSs were a major contributing factor to the financial crisis. The complex risk-based capital

regulations increased banks' exposure to MBS risk and decreased the stability of the banking system.

Regulation and Income Inequality

Just as well-meaning regulations can inadvertently increase bank risk, they may unintentionally increase income inequality, as well. Reducing regulatory complexity, on the other hand, can reduce income inequality by increasing bank lending and lowering businesses' costs of borrowing, resulting in more jobs and higher wages for low-skilled workers.

The process of "redlining" is the classic example of the unintended consequences of regulation, this time being income inequality. In the wake of the Great Depression, the Federal Home Loan Bank Board (FHLBB) restricted lending in a way that prevented low-income and minority borrowers from obtaining mortgage financing. A study by Fed economists found that redlining led to reduced credit access and higher borrowing costs in low-income neighborhoods.

Rather than forcing banks to monitor and eliminate inequality, a better strategy is simply to remove barriers that prevent more equal outcomes. Reducing regulatory complexity, for example, could allow banks to lend more cheaply. This, in turn, lowers the costs for businesses, which are then able to expand and hire more workers.

Such was the case in the 1990s when many states repealed their prohibitions on interstate banking. An article by Thorsten Beck, Ross Levine, and Alexey Levkov in the *Journal of Finance* found that even these limited bank deregulations resulted in higher wages for low-skilled workers. In a similar study, Levin, Levkov, and Yona Rubinstein found that bank deregulation boosted minority wages so much that it "eliminated about one-quarter of the racial wage gap after five years."

Bank Deregulation is a Win-Win

If we want to promote equality and financial stability, more regulation is not the solution. There is clear evidence that bank deregulation can improve financial stability while also shrinking inequality. By lowering the costs of doing business, strong but simple regulations improve job opportunities for low-skilled and minority workers.

– September 13, 2021

Government Opposition to Bitcoin

WILLIAM J. LUTHER

Director, Sound Money Project

Editor's Note: The following excerpt is adapted from The Gold Standard: Retrospect and Prospect edited by Peter C. Earle and William J. Luther.

The network effects problem is not the only obstacle caused by the widespread use of incumbent monies. Since the vast majority of incumbent monies are issued by governments, those considering the extent to which bitcoin is likely to gain widespread acceptance must also be concerned with government opposition.

Those in favor of government monies offer a host of justifications to privilege their preferred monies at the expense of private alternatives. By issuing its own money, a government can raise revenue, called seigniorage. It can conduct monetary policy to influence the level of output and employment. It can designate specific kinds of transactions as illegal and, in some cases, prevent users from employing its money in those transactions. And, at least for digital money, it can collect information on transactions to assist in monitoring individuals.

Reasonable people might disagree with respect to whether a particular government is likely to wield any of these powers responsibly; or, whether such powers contribute to overall human flourishing. But it would be hard to deny that governments seem keen to wield these powers. A broad sweep of monetary history would show governments debasing coins, monopolizing the issuance of redeemable notes, suspending convertibility, and then devaluing the irredeemable notes in circulation. Perhaps this history has been good for the average person. Perhaps it has been bad. But it has almost certainly been good for the average person in power. As such, it seems likely that governments will continue to

wield these powers when available and attempt to preserve them when possible.

There are several steps a government might take to encourage acceptance of its own money and, correspondingly, discourage acceptance of alternatives like bitcoin. For starters, it might commit to accepting and spending its own money. In the academic literature, this is known as public receivability or government transaction policy.

Using standard models, where trading partners meet each other randomly, S. Rao Aiyagaria and Neil Wallace and Yiting Li and Randall Wright show separately that a government can typically determine which money people will use in private transactions if the government is sufficiently large—that is, involved in enough transactions with private agents—and committed to using its own money. The logic of the result is easy to see if one thinks about the network effects problem discussed above. People want to use the same money as their trading partners. A government committed to accepting its own money creates a lower bound for demand. Suppose the government is only involved in one percent of transactions. In that case, we might be happy to use a marginally-superior money in private transactions because most transactions are private transactions. Suppose, instead, that the government is involved in ninety-nine percent of transactions. In that case, we would likely use the government's money in all transactions, as the potential gain from employing some alternative money in so few transactions is unlikely to warrant the cost. Somewhere between these two extremes there is a threshold size of government, where the government is involved in just enough transactions to ensure its money is

used in private transactions, as well.

Building on these earlier works, Joshua Hendrickson, Thomas Hogan and I show that the conclusion in the literature is not driven by the assumption that trading partners meet each other randomly. We employ a similar model where agents choose their trading partners prior to being matched. As with the earlier works, we find that government transaction policy works so long as the government is sufficiently large.

In addition to committing to use its money, a government might also designate it as legal tender. Typically, legal tender status means that a money must be accepted if offered in payment of a debt. It need not (but might) require acceptance in spot market transactions. Exclusive legal tender denotes that it is the only money that can be accepted.

Legal tender status works in much the same way as government transaction policy. By removing legal recourse to those who would prefer not to accept the privileged money for debt settlement, legal tender status leaves them in a take-it-or-leave-it position and, as such, effectively increases the lower bound for demand. If that lower bound is sufficiently high, people will choose to accept it in other transactions, as well.

Exclusive legal tender laws, which ban all alternative monies, go further. A ban not only prevents settlement with an alternative money when only one party is willing to use it. A ban also prevents settlement with an alternative money when both parties are willing to use it. Merely removing legal recourse in the latter case is insufficient, as both parties are content to use the alternative money and, hence, are not interested in resorting to legal recourse. For exclusive legal tender laws or more narrow bans to be effective, the government must commit to punish those who flout the prohibition.

Can a government successfully ban an alternative money like bitcoin? To consider this question, Joshua Hendrickson and I employ a model similar to

those considered above, where trading partners meet in pairs, though the people in our model also have access to a common market. Government agents commit to accepting the government's preferred money, as they did in the earlier works. However, government agents in our model also commit to punishing any person they encounter offering to use an alternative money. Whereas the earlier literature maintained that a sufficiently big government could determine the medium of exchange, we find that a government of any size can determine the medium of exchange so long as it is willing and able to mete out sufficiently severe punishments. More generally, our work suggests that both the size of government and the expected severity of punishments matter for determining which money will be used.

Some reject the view that governments can effectively ban alternatives like bitcoin. Jon Matonis, the Founding Director of the Bitcoin Foundation, claims "a government ban on bitcoin would be about as effective as alcohol prohibition was in the 1920s." "The demand for an item, in this case digital cash with user-defined levels of privacy, does not simply evaporate in the face of a jurisdictional ban," Matonis writes. "One could even make the case that it becomes stronger because an official recognition that Bitcoin is not only a 'renegade' currency but a 'so-effective-it-had-to-be-banned' currency would imbue the cryptographic money with larger than life qualities."

Since the bitcoin blockchain is distributed and its users are pseudonymous, a government would find it difficult to successfully ban bitcoin. In May 2013, for example, California's Department of Financial Institutions issued a cease and desist letter to the Bitcoin Foundation for allegedly operating an unlicensed money transmission business, to no avail. Matonis addressed the issue in a *Forbes* column at the time:

The Bitcoin Foundation is a nonprofit corporation registered in Washington, D.C. with

mailing address in Seattle, WA. As a nonprofit, its mission is to standardize and promote the open source Bitcoin protocol and it receives generous support from individuals and corporations to advance those objectives. The foundation also boasts significant international membership.

One activity that the foundation does not engage in is the owning, controlling, or conducting of money transmission business. Furthermore, that activity would also be against the original charter of the foundation.

The California regulatory authority appears to have thought the Bitcoin Foundation was responsible for maintaining the bitcoin ledger when, in fact, bitcoin has no central entity and the blockchain is distributed over the entire network of users running the bitcoin protocol.

A government cannot levy punishments on bitcoin users if it does not know who they are. How, then, could it ban a pseudonymous system like bitcoin? For starters, it could take steps to tie an individual to his or her balance of bitcoin. The clearest path—which is also consistent with what the U.S. government has actually done—is to require on- and off-ramps to the bitcoin system to comply with know-your-customer laws. The Financial Crimes Enforcement Network (FinCEN), for example, requires exchanges to register as a money services business and collect identifying information on its customers. Then, if a bitcoin transaction can be traced through the blockchain to an exchange, the government can subpoena the information from the exchange.

Even if one were to acquire bitcoin without going through a regulated exchange, the government might still be able to discover his or her identity and levy punishments for use. Many transactions inevitably reveal one's identity. Goods purchased online are typically delivered to the buyer or the buyer's agent. Many services rendered are performed with the

buyer present or with property that is owned by, or otherwise traceable to, the buyer. That one can send or receive payment from an anonymous account is often of little help if the other party to the transaction is a government agent.

Matonis is probably correct in noting that the government cannot technically prevent every bitcoin transaction. But most routine transactions would be relatively trivial to stamp out. Most people prefer to be on the right side of the law most of the time. A ban with significant punishments for those caught sending and receiving cryptocurrencies would surely see those “bitcoin accepted here” signs disappear. It would make finding a trading partner willing to use bitcoin more cumbersome. And those nonetheless keen to use bitcoin would have to take steps to obscure their identities and vet their trading partners.

More generally, government opposition would raise the cost of transacting with an alternative money like bitcoin. The higher cost increases the threshold utility of the alternative money relative to the government's preferred money sufficient to warrant acceptance. An alternative money that would easily garner widespread acceptance without the cost of government opposition might not warrant acceptance at the higher cost. And, if enough people deem the government's preferred money to be good enough in the face of the added costs of using the alternative, network effects will persuade their trading partners to stick with the government's preferred money, as well.

Thinking in terms of the threshold utility of the alternative money relative to the government's preferred money sufficient to warrant acceptance also suggests another strategy a government might take to dissuade people from using bitcoin: improving the quality of its preferred money. To warrant acceptance, bitcoin must be sufficiently better than the status quo. The government can reduce the difference between bitcoin and its

preferred money by making bitcoin more costly to use. But it can also reduce the difference by making its own money more attractive to users. Indeed, it might pursue both strategies simultaneously. In January 2021, for example, a bill was introduced in India's lower house, the Lok Sabha, to prohibit private cryptocurrencies in order to make way for an official digital currency issued by the Reserve Bank of India. Central bank digital currencies have been proposed in many other countries, as well.

It seems unlikely that a central bank digital currency in India or elsewhere would offer the same level of financial privacy or commitment to a tightly-specified monetary rule as bitcoin. But it would not have to do so. Remember: it is not enough for bitcoin to be superior to the government's preferred money. It must be sufficiently better to warrant the cost of switching. And what is required to be sufficiently better is much greater when a central bank digital currency is offered, even if it lacks some desirable features of bitcoin.

Government obstacles to widespread adoption take many forms, from mere transaction policy to outright bans on alternatives while providing close substitutes in the form of central bank digital currencies. Moreover, since money is subject to network effects and bitcoin aims to be a global money, a government obstacle anywhere is, in some sense, a government obstacle everywhere. China's prohibition of bitcoin exchanges, for example, means Chinese citizens find it more cumbersome to use bitcoin. When some Chinese citizens stopped using bitcoin as a result, the network size of bitcoin declined and, with it, the utility of bitcoin to those in other countries. That means bitcoin might fail to gain widespread adoption in relatively permissive countries because opposition from other governments render its network size too small.

– September 7, 2021

The Silver Lining of the Afghanistan Withdrawal: Afghanistan is No Longer Simply a US Problem

DOUG BANDOW

Contributor

Washington's tragic misadventure in Afghanistan is over. Despite the botched ending, America's withdrawal was long overdue. Central Asia never warranted so much U.S. attention.

Afghanistan first drew Washington in after the Soviets invaded. Few Americans knew where the country was. None expressed an interest in building a modern nation there. The idea was simple: arm Afghans to kill Moscow's soldiers, thereby weakening what President Ronald Reagan accurately called the Evil Empire. Spread democracy and equal rights for women? Not so much.

A decade later the U.S.S.R.'s legions fled back into the Soviet Union. A couple years after that the Soviet-supported state collapsed, which was followed by a civil war among the victorious Mujahedeen. Washington had poured torrents of cash into Afghanistan, but foolishly allowed Pakistan to dole it out. This empowered radical jihadists, including Osama bin Laden, founder of al-Qaeda, Jalaluddin Haqqani, founder of the anti-Western Haqqani Network, and Gulbuddin Hekmatyar, founder of the radical Islamist Hezb-e-Islami, the Party of Islam. Some Americans complained that Washington didn't stick around to "help" the Afghans. Had it done so, Americans would have been treated like Russians—shot at on their way out.

In 1994 a group called the Taliban arose. It enforced a 7th century fundamentalist interpretation of Islam. By 1996, it won control of most of the country by suppressing the Mujahedeen, and ending the chaotic violence which enveloped the country. The Taliban looked inward.

Taking advantage of his hosts' hospitality, bin Laden orchestrated 9/11. Afghanistan as a country was irrelevant to the plot—which was planned, funded, and manned elsewhere. The chief organizer, Khalid Sheikh Mohammed, lived almost everywhere except Afghanistan, to which he refused to relocate. In the future, transnational terrorists, in contrast to garden variety Islamist fighters, are more likely to operate outside Afghanistan than within it. However, the U.S. had to smash al-Qaeda and punish the Kabul government for hosting the terrorist group. These missions were completed within two months, and Washington could have left.

The result would have been messy, probably a fractured country with power shared by squabbling ethnic groups and warlords, but it was much that way even with the U.S.-backed Kabul government nominally atop it all. It turns out the U.S. created a political system and security force for allied governments, not the Afghan people, and the regime collapsed as soon as Western troops headed for the exits. Urban residents enjoyed the chief benefits of America's presence. Rural dwellers, in contrast, paid most of the price of the war—especially in human life—and were tired of fighting. A village elder told the *Wall Street Journal*: "Now, there is peace. And when someone doesn't feel danger, doesn't fear war, and can walk with a peace of mind, he is happy even if he is hungry."

Today Afghanistan's future is out of Washington's hands, which, contra received wisdom, is all to the good. Americans were paying, in blood and money, in the attempt to stabilize a distant

nation. Afghanistan was and is of little geopolitical importance to the U.S, and is surrounded by major foreign powers, several hostile to America. Now all of Afghanistan's potential problems—civil war, terrorism, implosion, mass refugees, humanitarian crisis, jihadist magnet—*belong to other nations*.

In theory the future is up to the Afghan people, but not really. Playing an important role will be Afghanistan's neighbors, which should have been doing so all along. The country borders six nations and is greatly impacted by two others nearby. Pakistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan share lengthy boundaries. The Afghan border with China is quite short, but militants also can enter the People's Republic of China from Afghanistan through Tajikistan. Russia and India are more distant, but as major powers have much at stake in Afghanistan.

Russia's experience is substantial and painful, highlighted by some 15,000 Soviet military personnel killed and another 35,000 wounded. Many of those casualties came courtesy of the United States, which funded and armed the resistance. Stinger missiles were particularly effective at downing Soviet aircraft and helicopters, limiting Moscow's advantage in the air.

Nevertheless, Vladimir Putin was the first foreign leader to express solidarity with the U.S. after the 9/11 attacks and in the early years provided logistical support for American forces. However, as Washington responded to Russian action against Ukraine, with military support for Kiev and sanctions on Moscow, the Putin government established ties with the Taliban. Although the claim of Russian payments to kill U.S. personnel lacked foundation, Moscow reportedly has strongly urged "the Stans," the five countries that used to be part of the Soviet Union, to deny America any base rights.

Now, however, Moscow, which has suffered both terrorism and insurgency resulting from violent Islamic radicalism tied to Chechnya, must deal with

its old Afghan enemy, fundamentalist Islam. Russia already has moved troops into Tajikistan, which borders Afghanistan. Although the Putin government does not want to get reinvolved militarily, it will respond to any export of Islamic radicalism and violence.

Even as Beijing publicly celebrated America's shambolic ouster from Afghanistan, Chinese Communist Party officials were contemplating a more dangerous future. The PRC generally values stability above all else in its neighbors, and has suffered from Islamic terrorist attacks in the western province of Xinjiang, adjoining Afghanistan, sparking the imprisonment of much of its Uyghur population in reeducation camps.

After Kabul's fall there was much official kvetching how the U.S. now had an obligation to continue pouring aid into Afghanistan to fix what was broken, an obvious nonstarter. In fact, Taliban officials made a pilgrimage to China even before they had won control of Kabul. They publicly promised to ignore the plight of Afghanistan's Islamic brethren and prevent foreign fighters from targeting the PRC while Beijing offered reconstruction aid.

Indeed, mineral development and infrastructure projects, through the Belt and Road Initiative, might beckon. Zabihullah Mujahid, the Taliban spokesman, expressed the new Afghan government's desire for Chinese investment and trade. However, China is not known for its charitable activities and will press the new regime in Kabul to fulfill its promises. Despite its current antagonism toward the U.S., Beijing does not want Afghanistan to become a locus of terrorist attacks on the West, which would spark retaliation and put at risk any BRI or other commercial projects.

Although India does not share a border with Afghanistan, it long has suffered from terrorism fostered by the Pakistani military and intelligence service, if not government. Indeed, one reason Islamabad used American money to subsidize the most radical Mujahedeen groups was to build

strategic depth against India. New Delhi had good relations with the U.S.-backed government, and now faces a more difficult situation with the Taliban, which it long viewed as Pakistan's "terrorist proxy." India particularly worries about increased terrorist threats in its majority-Muslim province of Kashmir. Gautam Mukhopadhyaya, a former Indian ambassador to Afghanistan, observed that the latter "may be poised to become a bottomless hole for all shades of radical, extremist and jihadi outfits somewhat similar to Iraq and Syria, only closer to India." India is likely to devote significant effort to containing any terrorist threats emanating from Afghanistan.

Iran, a majority Shia country, also fears the ascension of the Sunni Taliban. Tehran initially supported the U.S. intervention, changing its position only after suffering from Washington's lengthy economic war. Now, however, Iran is like the dog which catches the car and isn't sure what to do. Iran's lengthy border with Afghanistan has potentially turned hostile.

The Taliban might crack down on cross border economic ties and be less vigilant in preventing Sunni militants from entering Iran. Observed Kevjn Lim of IHS Markit, "As much as Iran has supported the Taliban in recent years, worrisome scenarios for Tehran include the Taliban turning against Iran or Afghanistan's Shiite minority as well as the specter of Sunni jihadism metastasizing westward." Islamic State-Khorasan Province, or ISIS-K, could prove particularly problematic, since its parent group has prodigiously killed Shiites as well as non-Muslims.

Although Pakistan is the neighbor that seems most likely to profit from the Taliban victory, it also has concerns. Indeed, Faiz Hameed, head of Pakistan's Inter-Services Intelligence spy agency, or ISI, which essentially backed the Taliban against the Afghan government and U.S., led a delegation to Kabul earlier this month. With the Taliban now in power and possessing a large arsenal generously provided by America, Islamabad has lost most of

its leverage over the former insurgents.

Despite past cooperation, the Taliban has never accepted the so-called Durand Line, which separates the two nations, and has objected to Pakistani plans to erect a fence along the border. Moreover, Pakistan suffers from continuing conflict with the radical Pakistani Taliban, Tehrik-i-Taliban Pakistan, or TTP, which is headquartered in Afghanistan. The Wilson Center's Michael Kugelman warned, "The TTP, like most Islamist militants in the region, was galvanized by the Taliban's victory in Afghanistan. It will be inspired to step up attacks in Pakistan." Islamabad now will have to contain terrorism emanating from its supposed friend next door.

Finally, Tajikistan, Uzbekistan, and Turkmenistan border Afghanistan. There are many ethnic Tajiks and Uzbeks in Afghanistan. As part of the so-called Northern Alliance, these groups led the resistance to the Taliban before the U.S. intervened, and they were mainstays of U.S.-backed government and security forces. The Stans, uniformly authoritarian regimes wary of the slightest increase in militant activity, likely will be vigilant in attempting to quarantine Afghanistan if they see an influx of foreign fighters.

None of this eliminates American concerns over the consequences of Afghanistan's fall. However, the Taliban is no longer just Washington's problem. Now a bevy of other governments will have to do their part to contain any threats, in contrast to relying on America to do their job for them.

Afghanistan will remain a tragedy, especially for the people living there. However, the U.S. cannot fix the world. Washington should leave Central Asia's problems to surrounding states. And Americans should focus on reviving their country.

– September 21, 2021

Stronger, More Robust Natural Immunity Thwarts Any Case for “Vaccine Passports”

JON SANDERS

Contributor

A growing body of research is making it increasingly clear that natural immunity to Covid-19 owing to previous infection is stronger, more durable, and broader than vaccine-induced immunity. Apart from not being unusual among infectious diseases, this fact has significant implications for governmental, school, employer, and business plans to harass and restrict people who aren't vaccinated.

For example, on June 4 Stanford Medical School physician and economist Jay Bhattacharya, Harvard Medical School biostatistician and epidemiologist Martin Kulldorff, and University of Oxford theoretical epidemiologist Sunetra Gupta summarized it this way (embedding several studies along the way):

It is now well-established that natural immunity develops upon infection with SARS-CoV-2 in a manner analogous to other coronaviruses. While natural infection may not provide permanent infection-blocking immunity, it offers anti-disease immunity against severe disease and death that is likely permanent. Among the millions that have recovered from COVID19, exceedingly few have become sick again.

Most recently, new research out of Israel makes the case that a prior Covid-19 infection offers far superior immunity than do the vaccinations. Gazit et al. (medRxiv preprint, posted Aug. 25, 2021) compared vaccinated people without prior Covid-19 infections with unvaccinated people who had recovered from prior infections. Matching them by infection/vaccination periods to test their “immune activation” time (16,125 people in each group; i.e.,

32,250 people), they found the vaccinated were *six to 13 times more likely* to have breakthrough infections than were the naturally immune to have reinfection. Adjusting for comorbidities, they found the vaccinated were *27 times more likely* to have symptomatic breakthrough infections than were the naturally immune to have symptomatic reinfection.

Furthermore, there is reason to believe that for the previously infected, vaccination could be detrimental to their immune response. Camara et al. (bioRxiv preprint, posted March 22, 2021) found that “COVID-19 recovered individuals do not seem to benefit from the standard regimen for COVID-19 vaccination.” As they wrote, “On the contrary, in individuals with a pre-existing immunity against SARS-CoV-2, the second vaccine does not only fail to boost humoral immunity but determines a contraction of the spike-specific T cell response.” For the previously infected, then, there is reason to believe that the vaccine poses no benefits, only costs.

George Mason law professor Todd Zywicki had several compelling reasons behind his successful challenge to his university's vaccine mandate. As seen by the July 21 letter on his behalf from the New Civil Liberties Alliance, Zywicki was previously infected, offered substantial research attesting that immunity to Covid-19 through infection was “at least as robust and long lasting as that achieved through vaccination,” had evidence to be wary of adverse reactions given his recent bout with shingles, and was also concerned that all of the vaccine trials so far had *specifically excluded survivors of prior Covid-19 infections*, citing a study in which researchers stated “we cannot exclude the possibility that the vaccination of a growing number of [individuals]

with preexisting immunity to SARS-Cov-2 may trigger unexpectedly intense, albeit very rare, inflammatory and thrombotic reactions in previously immunized and predisposed individuals” (Angeli et al., *European Journal of Internal Medicine*, June 2021).

It shouldn’t need to be said, except in this bizarre time in which things that “shouldn’t need to be said” are the very things that require clear statement, but such research and discussion is in no way meant to counsel against vaccination, which ought to be a personal decision based on a dispassionate weighing of personal benefits and costs without coercion. Nor is it to argue for deliberately contracting an infection. I have personally witnessed this presentation of facts carom around inside someone’s skull until it comes out bruised and twisted into “Oh sure, go get Covid and die, then you’ll be immune!”

These findings stand in stark contrast to the case for “vaccine passports,” the euphemism for deper-soning anyone who hasn’t taken a vaccine against Covid-19. Pres. Joe Biden has talked of banning interstate travel to the unvaccinated. Universities are barely waiting for the tuition checks to clear before imposing vaccination mandates. Hospitals, health care facilities, on down to rehabilitation facilities, are denying critical care services to the unvaccinated, who are also finding themselves in some places at risk of losing access to government services. Governments, schools, hospitals, and some businesses — egged on by politicians, public health popinjays, and media — are threatening the very jobs of the unvaccinated (with those deadlines looming, September could be a bad month for job losses). Even some retailers, restaurants, entertainment venues, and others are denying their services to the unvaccinated.

Again and again, these tyrannical edicts make no allowances for people with natural immunity. Should the people behind them get credit for caring, for trying to further public health? Their defense,

after all, is that they’re trying to pressure people to do what’s good for them; e.g., the White House considers vaccine mandates “the right lever at the right time.” How much goodwill shall we ascribe to them amid such pointless, callous behavior? The person turned away at the schoolhouse door, the person denied critical medical care, the person not allowed in your restaurant, the person forbidden from fleeing to a freer state — that person without a vaccination card could very well carry a stronger immune response against the virus than the card-carrying elite allowed to participate in your Unbrave New World.

Oh, but the response is, unlike with the vaccinated, it’s hard to know who has recovered from previous infection. Right, and that fact undercuts the case for “vaccine passports” as well. Let me explain how.

The Centers for Disease Control and Prevention estimates that only 1 out of every 4.2 actual infections of Covid-19 are reported in the U.S. This estimate makes sense if you consider, for example, one member of a family of four tests positive but the rest in the house feel sick, or also so many mild or asymptomatic infections that wouldn’t prompt a doctor’s visit (those are, incidentally, signs of “a highly functional virus-specific cellular immune response,” per Le Bert et al., *Journal of Experimental Medicine*, March 1, 2021).

As of this writing, there have been nearly 39,280,000 cases (i.e., *reported infections*) and nearly 639,000 deaths. Multiply the case count by 4.2 and then subtract out deaths, and that implies there are about 164.3 million people with robust natural immunity. That is nearly *half of the population in the U.S.* already (332.7 million per U.S. Census Bureau estimates as of this writing).

Without accounting for vaccination, then, roughly half of the U.S. population already has an immunity to Covid-19 that is stronger, more durable, and broader than anything from a vaccine. Only about one-fourth of them, however, would be able to

“prove” it with documentation of a reported case.

So yes, it’s “hard to know” who’s already got natural immunity. That uncertainty, however, targets half the country when it comes to denying them common human decency and the mundane privileges of traveling, attending university, receiving medical care, receiving government services, dining out, or even buying groceries.

Such acts are made with the presumption that there is no good reason not to get a vaccine. To be sure, there are several good reasons to choose vaccination, especially if you are among those in vulnerable groups such as the elderly and those with chronic disease. But as Zywicki showed, there are also good, compelling reasons that someone might decide against vaccination.

As Kulldorff and Bhattacharya wrote in *The Wall Street Journal* on April 6,

The idea that everybody needs to be vaccinated is as scientifically baseless as the idea that nobody does. Covid vaccines are essential for older, high-risk people and their caretakers and advisable for many others. But those who’ve been infected are already immune. The young are at low risk, and children—for whom no vaccine has been approved anyway—are at far less risk of death than from the flu. If authorities mandate vaccination of those who don’t need it, the public will start questioning vaccines in general...

Vaccine passports are unjust and discriminatory. Most of those endorsing the idea belong to the laptop class—privileged professionals who worked safely and comfortably at home during the epidemic. Millions of Americans did essential jobs at their usual workplaces and became immune the hard way. Now they would be forced to risk adverse reactions from a vaccine they don’t need. Passports

would entice young, low-risk professionals, in the West and the developing world, to get the vaccine before older, higher-risk but less affluent members of society. Many unnecessary deaths would result.

The right response in these uncertain times is — as always — the response that protects people’s liberty and respects their autonomy. Fight “vaccination passports” and similar mandates forbidding people from enjoying all the privileges they enjoyed as a matter of course prior to March 2020. Resist the urge to burden your employees, students, patients, and patrons. Even taken on their own merits, these prohibitions amount to nothing more than a coin flip against each and every person turned away. Considered in full, they are cruel, discriminatory, and ultimately self-defeating.

– September 9, 2021

The Inevitable Failure of Socialism

DONALD J. BOUDREAUX

Senior Fellow

Among the most important articles ever written in economics is Ludwig von Mises's 1920 paper "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen" – which is normally translated as "Economic Calculation in the Socialist Commonwealth." In this paper Mises argued that socialism will not only fail to achieve improved living standards for ordinary people, it will impoverish them. Inevitably. Socialism that is meant to outperform markets at raising living standards is destined to fail.

Mises's reasoning is not what you might expect. His argument doesn't rest on the reality that socialism dampens people's incentives to work, dims businesses' incentives to produce the array, quantity, and quality of outputs most desired by consumers, and provides poor incentives for central planners to take responsibility for their decisions. Although Mises agreed that incentives under socialism are perverse, his explanation of why socialism will fail digs deeper. The validity of this explanation stands even if the perversity of socialism's incentives is miraculously cured.

Mises's argument is that, under socialism, there is no workable means of determining how to produce outputs in ways that don't waste vast amounts of resources. And by wasting vast amounts of resources to produce some outputs – even outputs that genuinely satisfy some consumer demands – the economy loses the capacity to satisfy as many consumer demands as it would absent such waste.

The reason socialism inevitably wastes resources is rooted in the fact that, under such a regime, the state owns all means of production (or what Mises called "goods of higher order"). Without private ownership of the means of production, there is

no genuine exchange of the means of production. There is no transfer of ownership of plots of land, of factories, of commercial lathes, or of stockpiles of iron ore and bauxite. With no exchange of the means of production, there are no prices of the means of production. (Each price, after all, is among the terms on which one thing is exchanged for another.) And with no prices of the means of production, the manager of a factory that produces, say, lawn mower blades can't possibly know whether the lowest-cost method of producing these blades involves the use of steel or of aluminum or of carbon fiber.

Without prices in the means of production, this factory manager must fly blind. Her decision on which material to use is a wild guess. Suppose she decides to produce blades using steel. She requisitions some quantity of steel from the central planning bureau, and the bureau complies. A few hours later, however, the bureau receives another requisition for steel, this time from a comrade charged with the responsibility for manufacturing automobile engines. But because the bureau already shipped steel to the blade factory, there's not enough steel now to ship to the engine factory.

How is anyone to know if this quantity of steel is better used to produce blades or engines? Without market-determined prices, such knowledge is impossible.

In a market economy, blade producers and engine producers compete against each other for steel. The factory owner who offers the highest price for some amount of steel is the one who gets that steel. And the factory owner who offers the highest price for that steel is the one who expects to use that steel in the highest-valued manner – that is, to produce

outputs for which consumers are willing to pay higher prices. Also in a market economy, producers of other outputs – outputs from bird feeders to I-beams – observe the price of steel as it compares to the prices of aluminum, carbon fiber, and other materials. These other producers make their own production plans based on these prices. Producers for whom the price of steel is attractive buy steel for use; producers for whom the price of steel is unattractive buy aluminum or some substitute input for use.

Socialism, however – by eliminating prices of each of the countless different means of production – eliminates this method of determining the allocation of steel and other inputs. Steel and other inputs, not being priced, are allocated without any knowledge of which particular outputs are produced at lowest cost using steel and which outputs are produced at lowest cost using some other material.

The result is a massive waste of resources. Many outputs are produced using inputs that would have produced more output – measured in terms of economic value – had those inputs been used otherwise. The result is a systemwide, gargantuan failure to get as much output as possible from available inputs.

As Mises summarized the fate of a fully socialized economy, “As soon as one gives up the conception of a freely established monetary price for goods of a higher order, rational production becomes completely impossible.”

It's Not All or Nothing

In the 1930s, Mises's most famous protégé, F.A. Hayek, entered the debate that pitted Mises against the socialists. Hayek produced a series of brilliant essays (most of which are now contained in *Socialism and War*) explaining in greater detail the indispensable role of market prices in allocating resources in ways that promote human betterment. The culmination of Hayek's work on this front is his

most famous article, first appearing in the September 1945 issue of the *American Economic Review*, “The Use of Knowledge in Society.”

Since the collapse of Soviet-style communism three decades ago, many people today who are skeptical of free markets concede the validity of Mises and Hayek's demonstrations of the inevitable failure of full-on socialism – that is, the inevitability of failure of state ownership of all means of production and of comprehensive economic planning. Yet it's not uncommon for such people nevertheless to propose that a great deal of resource allocation be carried out by government, and that government often otherwise interfere with the operation of the competitive price system.

As I'll explain in my next column, to insist that Mises and Hayek's case against socialism applies only to full-on socialism, and is thus irrelevant in discussions of piecemeal economic intervention, is to miss the foundational lessons in these economists' virtuoso explanation of the formation of, and role played, by market prices.

– September 18, 2021

Will We Accept Nuclear Fusion When It Comes?

JAMES E. HANLEY

Contributor

In the past two months, researchers have made two significant breakthroughs towards making nuclear fusion technologically and commercially viable. In California, scientists at the National Ignition Center hit a hydrogen capsule with laser beams, creating about ten quadrillion watts of energy, although for only 100 trillionths of a second. And in Massachusetts, MIT scientists started up a new superconducting electromagnet, necessary to contain nuclear plasma for fusion. While their previous magnet used 200 million watts of energy, this one used only about 30 watts. That's less energy than your laptop uses.

But will the American public accept fusion energy when it becomes viable? The public antipathy towards nuclear power is so great that as utilities shut down aging nuclear power plants, they do not replace them. Four years ago, South Carolina gave up on longstanding plans to build the V. C. Sumner nuclear plant. Two units scheduled to begin operating this November at the Vogtle power plant in Georgia are the first new nuclear energy units built in the last thirty years.

The U.S. produces about four trillion kilowatt-hours of electricity each year, and demand continues to grow. Almost 800 billion kilowatt-hours, 19% of the total, came from nuclear energy. As existing plants shut down, we need to replace this energy production. Nuclear is the best alternative available for our long-term energy needs. It is reliable, controllable on-demand, and produces no CO₂.

Generation IV nuclear plants also promise to be walk-away safe, running down instead of running out of control if left unattended. Designed as small modular reactors, they can be placed in underground

containment units, further enhancing their safety and reducing nuclear's cost. An additional advantage is that they will not produce plutonium as a byproduct, so they cannot produce nuclear weapons materials as many existing plants do. (If Iran focused on Generation IV technology using thorium, they could alleviate our concerns about their real intentions.) And yet, public opposition to nuclear power is so strong that few people understand these advantages, and no American utility is willing to undertake the political risk of experimenting with these new models.

Fusion energy, made by fusing light-weight hydrogen atoms instead of splitting heavier elements, would make even Generation IV technology obsolete. It is the holy grail of a safe, non-polluting, reliable, and almost limitless energy source. Fusion reactors will require the continuous addition of fuel to keep up the reaction, so a runaway reaction cannot occur. In addition, the waste product is not highly radioactive, but is simply helium. Therefore, like Generation IV reactors, they also cannot be used to produce material for nuclear weapons.

But only 29% of Americans have a favorable view of nuclear energy, with almost half having an unfavorable view. And only 16% think we should continue to build new nuclear reactors. And despite nuclear power having no carbon footprint from energy production, progressives did not include it as part of their green new deal.

Nuclear power has been more environmentally friendly than most people realize. Most environmental nuclear contamination in the United States has resulted from weapons production, particularly at the Hanford Site along the Columbia River in Washington, the Savannah River Site in South

Carolina, and the recently cleaned up Rocky Flats plant in Colorado. Compared to the environmental damage from coal mining and coal ash waste, nuclear energy production is nearly pristine. Fusion energy will be even more so.

Opposition to nuclear power has been a staple of the environmental movement for decades, and NIMBYism has created persistent challenges to siting power plants. A significant portion of the enormous cost of nuclear power plants has come from fighting the legal battles associated with siting and approval. So environmentalists are gaslighting us when they cite the cost of nuclear power as a reason to oppose it.

It is true, though, that nuclear power is not currently one of the least expensive energy sources. Even Generation IV technologies, although more cost-effective, will not make it the cheapest. At present, the market favors natural gas as having the best combination of cost and reliability. Some renewables are less costly, but they are limited in potential and reliability unless we add storage capacity for times when they are unavailable. Advocates rarely factor in this cost, but an honest accounting must.

Fusion has the potential to cost only one-fourth the current price of nuclear energy, half the cost of natural gas, and be cheaper than onshore wind. All this is in addition to its safety, reliability, and lack of pollution. And by using the most abundant element on earth, hydrogen, it provides a limitless future.

The only question is whether our politics allows us to accept this good fortune.

– September 24, 2021

Biden's Tax Plan Is a Middle-Class Death Tax Dressed as a Capital Gains Tax on the Rich

JAMES R. HARRIGAN (Senior Editor) & ANTONY DAVIES (Contributor)

The federal government's insatiable appetite for spending has left politicians casting about for untapped revenue sources. Enter President Biden's tax plan, which contains a death tax on the middle class dressed up as a capital gains tax on the rich. Having squeezed from the rich about as much as they are likely to get, politicians are now gunning for the rest of us.

Bernie Sanders and Elizabeth Warren get good headlines when they call for taxing billionaires' wealth. But, even if a wealth tax were constitutional (it isn't), and even if politicians taxed 100% of US billionaires' wealth (they won't), and even if the billionaires could sell trillions of dollars in assets for full market value (they can't), politicians still wouldn't collect enough to fund their profligate spending. US billionaires' combined \$4.2 trillion wealth would fund the federal government's 2021 budget for less than eight months. And at the end of that eight months, there'd be no more US billionaires.

What politicians know, but won't say, is that the middle classes are the great untapped revenue source. What the middle classes lack in income, they more than make up for in numbers. Before taxes and transfers, the average household in the middle income quintile earned \$77,000 and the average household in the upper middle quintile earned \$117,000. Combined, those households earned \$4.8 trillion in 2018. That's twice what the top 1% earned. Meanwhile, the top 1% paid an average effective federal tax rate of 30.2 percent, versus 12.8 percent for middle income and 16.7 percent for upper middle income households.

The President emphasizes that his plan closes an arcane loophole, "stepped-up basis," that has

allowed billionaires to get away with paying less taxes. He and his supporters keep saying "capital gains," and "billionaires," but the fact is that the proposal for closing that loophole will hit middle class homes, farms, and businesses.

Under long-established law, an heir owes capital gains taxes when the heir sells, not inherits, assets. So, a family home, farm, or business, passed down from generation to generation, only creates a tax liability when the heir at the end of the line finally sells it. Even then, the heir pays tax on the increase in value from when the heir inherited the asset to when it was sold. This is "stepped-up basis," and it partially compensates for the fact that capital gains taxes don't adjust for inflation. For example, under current law, a home purchased for \$50,000 in 1980 and sold for \$150,000 in 2021 could be subject to more than \$20,000 in capital gains taxes even though, adjusted for inflation, the home was sold at a loss. Stepped-up basis attempts to eliminate this inflation bias by resetting the clock on the asset's value at inheritance.

Biden's plan would remove the stepped-up basis, meaning that heirs would pay tax on the increase in value from when the ancestor purchased the asset to when the heir sold the asset. For businesses passed down through multiple generations, this can significantly magnify the tax bill. And in a one-two punch, Biden's plan also requires that heirs pay the tax when they inherit assets, not when they sell them. So rather than the family home, farm, or business being taxed when the last heir finally sells it, it would be taxed each time it moved from one generation to the next.

The President insists on calling this a "capital gains tax," but the combination of these two pieces

- removal of stepped-up basis and pay-at-inheritance
- causes the tax to behave exactly like a death tax. It is a death tax aimed squarely at the middle classes.

To mollify farmers, the President has said that heirs can delay paying the tax provided they continue to work the farm. This is scant help as the heirs will still be subject to the increased tax. The plan merely allows them to pay later. To throw a bone to family businesses and people who have lived frugally to save for their children, Biden's plan offers a \$1 million exemption.

But passing this new tax plan will be much harder than ratcheting that \$1 million exemption down after the law is passed. Once the new plan is in place, expect that \$1 million exemption to start shrinking until the new tax hits everyone. For evidence, look at the history of the federal income tax, which politicians at the time promised would apply only to "the rich." Once instituted, it took less than a decade for politicians to extend the federal income tax all the way down to the poor.

The President's tax plan is a death tax on the working class dressed up as a capital gains tax on the rich. Say what they will about using the tax code to reduce income inequality, the fact is that multi-trillion dollar deficits have made politicians desperate for new sources of tax revenue. And, having eaten the rich, they're now turning their eyes to the middle class.

– September 27, 2021

The Costly but Deliberate U.S. Labor Shortage

RICHARD M. SALSMAN

Senior Fellow

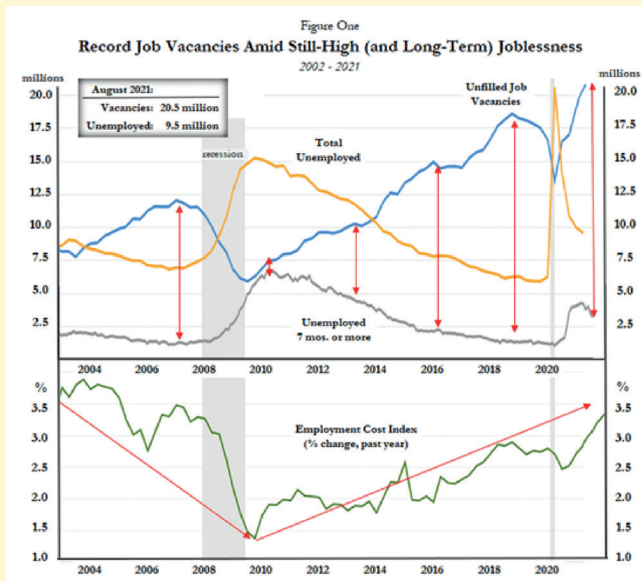
For more than a year, due mainly to illiberal policies associated with Covid-phobia and lockdowns, the U.S. has experienced various types and magnitudes of labor shortages. In short, the quantity of labor demanded by would-be employers has exceeded quantities supplied by would-be employees, especially in the service sector. The phenomenon is neither accidental nor temporary. Joblessness has been both mandated (by shutdowns of “nonessential” businesses) and subsidized (with lucrative and extended “jobless benefits”), which makes it difficult for many businesses to attract and hire labor of sufficient quantity, quality, reliability, and affordability.

People usually complain about shortages, especially if they are persistent and prove harmful to them as buyers of necessities like food, gas, or housing. Yet few people today, except for labor-begging business owners, complain about the labor shortages. Indeed, many people, being labor suppliers who disdain the greed of profit-oriented labor hirers, like the shortage. They prefer that their labor not be a necessity, so they aren't beholden to “the man” (aka, capitalist “exploiter”). They prefer more leisure (as we all do), especially when politicians pay them to engage in it. The point of state-based unemployment insurance benefits is that they ensure unemployment.

Hundreds of thousands of American businesses that have survived the year-and-a-half of Covid-based policy assaults are having a difficult time finding and keeping good, reliable, and affordable labor. Much of the labor pool—especially in services—has become a stagnant swamp. Millions of people prefer to stay home and take a government subsidy.

Figure One illustrates the extent of the current labor shortage in the U.S. Notice how job openings (vacancies) far exceed the number of unemployed workers – and the gap has widened over the past year or so. Worse, the long-term unemployed have become a larger share of the total unemployed. Vacancies are at record levels (20.5 million) even amid high joblessness (9.5 million). The gap between vacancies and the number of people living idly in long-term joblessness (seven months or longer) is also the widest on record. Figure One also shows employment costs rising, which ultimately trenches on profitability.

The unemployed depicted in Figure One are not those who've dropped out of the labor force but those who claim, while applying for and renewing their jobless benefits, that they're looking for work but somehow can't find it. How can they not find it, when job vacancies are at record highs? In truth, they can't find a job that pays more than they believe they're worth to some employer and they won't bother taking even a slightly-lesser-paying job, because they're now paid above-normal jobless benefits from Covid bailout spending and federal largess. This supplements what the 50 states pay in jobless benefits. Yes, some states are now decreasing or terminating jobless benefits, but the data still show a large labor shortage.



Basic economics teaches that when markets are left free, they “clear,” which means prices help equilibrate supply and demand. Neither surpluses nor shortages become material or chronic, for surpluses entail quantities supplied exceeding quantities demanded while shortages entail the reverse. Sellers facing surpluses and preferring sales and profits to excessive inventories will gladly reduce their stocks by lowering prices. Likewise, buyers who face shortages and prefer to obtain more product than not willingly pay higher prices.

Material or chronic surpluses and shortages reflect not “market failure” but the failure of governments to let markets clear. It is believed that “fairness” requires that certain prices be higher or lower than the equilibrium level. Politicians proceed to tax, regulate, price-set, and subsidize. In democracies, where majorities dominate, electorally astute, vote greedy politicians necessarily favor the larger population of employees versus employers (except to the extent they peddle their influence, via rent-selling, to extort campaign contributions from the latter). Instead of being seen for what they are – labor market manipulators – populist politicians can pose as benefactors aiding that quintessential

economic contradiction, the non-working worker.

As Paul Krugman put it recently, “Workers Don’t Want Their Old Jobs on the Old Terms,” so they welcome politicized, non-economic policies that use taxpayer funds to pay the voluntarily jobless to hold out for higher wage rates than they’d otherwise deserve or obtain from the perspective of marginal productivity. For Krugman and his acolytes, this is better even than a minimum wage mandate (which Krugman also supports), as it doesn’t require employers to pay the above-market wage rate (i.e., they’re not – yet – compelled to hire overpriced labor; they can use more capital instead, as occurs at banks, gas stations, toll booths, airline check-in counters, fast-food restaurants, with automated tellers, toll takers, and kiosks).

Daniel Alpert, senior fellow in macroeconomics and finance at Cornell Law School, concurs with Krugman and declares that “Americans Don’t Want to Return to Low Wage Jobs.” Alpert blithely assumes that wage rates (all wage rates?) are “too low” and will be until and unless government intervenes forcibly to rectify the “market failure.” He fails even to relate low-wage jobs to less-skilled jobs, or to acknowledge that the problem is best rectified by introducing still more and higher-quality capital (“labor-saving devices”), not by boosting “jobless benefits” or by imposing a still-higher minimum wage rate which rational, profit-maximizing employers shouldn’t bother to pay.

Labor market “experts” have recently confirmed and fueled such anti-employer biases. A recent *New York Times* Op-ed by MIT economics professor David Autor was titled: “Good News: There’s a Labor Shortage.” That was the online title; the print edition was titled “The Labor Shortage Has Empowered Workers.” This assumes workers lack bargaining power under normal conditions, as when markets “clear,” supply equals demand. How can professional economists believe such nonsense?

Why applaud market disequilibrium? Autor, a co-director of “the MIT Task Force on the Work of the Future,” has spent years reprising the undue fears of early 18th-century British economist David Ricardo (1772-1823) – a devotee of the socialist “labor theory of value” (LTV) – about machines displacing physicalist labor. Fear of all fears! Barack Obama, in his last major address as president in January 2017, echoed Autor’s (and Ricardo’s) themes, claiming that automation was deleterious and divisive because skilled workers who can operate technology are better paid. But of course they’re better paid; they have a skill not everyone has. Echoing the fears of many, President Obama suggested that this may justify slowing and impeding capital formation and deployment. But that favors the cronies no one dares mention: unskilled laborers perpetually on the public dole. Autor, Obama, and countless others are more concerned with achieving equity than prosperity.

By now it should be obvious, especially to experts and Presidents, that more and better capital increases labor productivity, real wages, and living standards; it also should be clear by now that capital isn’t the alien, alienating, or impoverishing force, but a frozen form of human labor – the embodied labor of brainiacs, inventors, engineers, and entrepreneurs. Capital isn’t “dead labor,” but vital, perpetual-motion labor, powered by energy and kept vibrant by maintenance and upgrades. Capital, and profit, its income, isn’t “blood-sucking” parasitism, but the lifeblood of a dynamic and flourishing capitalist economy.

Why is so much of this unclear even to people who should know better? It’s not because they don’t know basic economics, the meaning of equilibrium, or the problem of shortages. They are clearly, unambiguously, and ideologically anti-capitalist; only derivatively are they anti-employer, because they can’t deny that most employers are capitalists at least financially (if not always ideologically). Channeling Marx, those suspicious of employers today believe

capitalists profit by underpaying workers what they’re “really worth” and by charging customers more than what’s proper per that unicorn model in academic economics known as “pure and perfect competition.”

The many economists who emulate Marx today remain convinced that wage rates in a capitalist system are determined not by someone’s net contribution to the total market value of goods and services created by commercially-viable enterprise – i.e., by their “marginal productivity – but arbitrarily, by employers who pay whatever they wish (including bare-bones “subsistence wages”) – and by policies that sustain a vast “reserve army of the unemployed” that’s easily exploited, because starving workers are eager to accept any job on any terms. The “army” metaphor reflects the Marxist premise that workers are conscripted and regimented in a hierarchy under the thumb of capitalists.

Short of revolution – an overthrow of capitalism itself – “democratic socialists” seek first not to prevent widespread joblessness, but to ensure that joblessness exists (especially among the less skilled) where it didn’t previously exist at all, namely, in a freer, non-emergency setting (see 2019). Next, they seek to make taxpayers – which, in their “progressive” tax code of graduated rates, means mostly the rich and corporations – will pay the jobless not to work. They believe capitalists will be induced or compelled to “do the right thing” and finally raise wage rates. A “reserve army of the unemployed” still exists in this model, but is kept “off the market” by the equivalent of a public bribe. Thus, the jobless are “liberated” from “greedy capitalists” but come to depend on politicians.

Socialists, who believe that laborers are exploited by capitalists, fight to make economies unfree. Their goal is to “turn the tables” and “expropriate the expropriators,” to ensure that capitalists (employers) are exploited by laborers (employees). Socialists

accuse capitalists of paying labor next to nothing for doing something great, but their “solution” is to force taxpayers to pay greatly for labor that does next to nothing.

These themes illuminate the aims of the Biden administration and its allied Democratic socialists in the U.S. Congress; they seek to spend an additional \$3-5 trillion over the coming decade—on top of their already reckless and wasteful spending over the past 18 months—on “human infrastructure.” This entails spending on labor that doesn’t work (jobless benefits, family leave, etc.), on public schooling that doesn’t work (except to corrupt and erode human capital), and on energy that doesn’t work (more costly, less reliable “renewables”). The goal is to have as many American citizens and non-citizens alike dependent on government handouts for as long as possible, dependent on politicians directly and taxpayers indirectly. It’s a deliberate policy of subsidized parasitism. Covid “lockdowns” are the ideal policy for promoting this non-labor, anti-employer agenda. Lockdowns weren’t necessary to curb the spread of Covid; they caused more harm than good. Yet millions of people today are still compelled or induced by Covid policy to stay home, shutter businesses, and take jobless subsidies.

Today’s U.S. labor shortage is both uneconomic and unnecessary, yet nonetheless what appears to be a deliberate policy aim. Sadly, the same can be said about a wide range of other anti-capitalist policies being advanced by the Biden administration.

— September 28, 2021

Treason and Its Misprision

ROBERT E. WRIGHT

Senior Research Faculty

The U.S. Constitution defines only one criminal act, treason, and does so in such a way as to deliberately restrict its use against political opponents. While it is not easy to convict an American of treason, as recently as 2006 a grand jury indictment for treason came down on an American for participating in al-Qaeda propaganda videos. The accused was killed in a drone strike so we will never know how his prosecution would have gone down. Since the 1950s, though, prosecutors have usually found it easier to prosecute people for other crimes with less stringent evidential requirements.

Article III, Section 3, Clause 1 of the U.S. Constitution reads:

Treason against the United States, shall consist only in levying War against them, or in adhering to their Enemies, giving them Aid and Comfort. No Person shall be convicted of Treason unless on the testimony of two Witnesses to the same overt Act, or on Confession in open Court.

In one of the cases stemming from Aaron Burr's attempt to carve a new country out of some Western states and territories, called *Ex parte Bollman* (1807), John Marshall, Chief Justice of the Supreme Court of the United States (SCOTUS), argued that conspiracy alone did not constitute treason. "There must be an actual assembling of men, for the treasonable purpose," he wrote, "to constitute a levying of war." The assembly must also try to effect the "treasonable purpose ... by force." During Burr's trial, Marshall maintained a strict construction of the "two Witnesses to the same overt Act," virtually

ensuring the former vice president's acquittal.

Over one million Confederate officers and soldiers clearly committed treason during the Civil War but President Abraham Lincoln was preparing a pardon plan before his assassination. In May 1865 his successor, Andrew Johnson, pragmatically granted all but top confederate leaders and some bad guys general amnesty if they took an oath to the United States and promised to uphold slave emancipation decrees. A more stringent approach would have been administratively and economically costly and perhaps provoked desperate Southerners to keep fighting.

In *Cramer v. United States* (1945), SCOTUS ruled that to be convicted of treason short of waging war, an American has to "adhere" to the country's enemies AND (not or) give them "aid and comfort." That meant proving both action and intent but a handful of prosecutions nevertheless succeeded. In one, *Haupt v. United States* (1947), a father who had helped his saboteur son was successfully prosecuted because he had given his son an automobile and lodgings (aid) and had made comments sympathetic to Nazi Germany (adherence).

About the same time, the eccentric Jenkintown, Pennsylvania-bred poet Ezra Pound (1885-1972) was imprisoned on charges of treason for the hundreds of pro-Mussolini radio broadcasts he made in Italy during World War II. Declared mentally incompetent for trial, he languished in a DC psychiatric hospital prison from 1945 until his discharge in 1958. He returned to Italy, where he made contradictory claims about his views until his death from natural causes.

But it was the Rosenberg case that rendered treason largely moot. After evidence surfaced that

Ethel (1915-1953) and Julius Rosenberg (1918-1953) had given atomic bomb secrets to the Soviets, they were convicted under the Espionage Act of 1917, not for treason. Despite a public outcry for clemency and claims that the treason clause's strict evidentiary standards should apply to all traitorous acts regardless of their legal appellation, they were duly executed. Ever since, prosecutors have almost always indicted traitors for related felonies that are easier to prove in court.

So even if General Mark Milley actually did what he is accused of doing — telling the Chinese that he would warn them of a US attack, calling secret meetings of top military brass, and such — it wasn't treason. He may have broken other laws or military protocols but he did not command troops in the field against the government and while he adhered to China in a sense, he did not aid it. Most importantly, China technically has not been our enemy since the Korean Armistice Agreement of 1953.

What if though, hypothetically speaking, some major government official were to commit treason and not only admit to the widely-witnessed act but proclaim it a success? Something crazy, like cooperating with an enemy actively harboring other enemies by giving it intelligence on stranded American citizens and allies and gifting the enemies military equipment? Even if it proved economical to leave some heavy, low-valued military items behind, what if key components that should have been spiked or removed and destroyed were left intact, along with rifles, night goggles, and other light, high-cost equipment that could have been shipped home or sold to allies?

Some jurists seem to think a formal declaration of war against the enemy is a necessary condition for a treason charge to be brought. The Civil War and the 2006 indictment mentioned above, however, suggest that *de facto* war is sufficient if evidenced by military spending and leadership claims of fighting

a “rebellion” or a “war on terror” and suspending civil liberties in ways thought justifiable only during wartime, as with the suspension of habeas corpus or passage of the so-called Patriot Act.

Readers might recall that many mass media outlets accused former President Donald J. Trump of treason for something or other. That might have stemmed from OMBS (orange man bad syndrome) but it could also have been to protect themselves from indictment for “misprision of treason,” which makes it illegal if *anyone* “owing allegiance to the United States and having knowledge of the commission of any treason against them, conceals and does not, as soon as may be, disclose and make known the same to the President or to some judge of the United States, or to the governor or to some judge or justice of a particular State.”

All Americans had better tell POTUS or a judge right quick that they may have witnessed treason during the Afghanistan debacle or we may all need amnesty for misprision of treason! I would have done so already if I knew for sure who was calling the shots in Washington. Thankfully, there appears to be no “misprision of misprision of treason” so Americans are under no legal obligation to rat out the entire White House and Pentagon.

Seriously folks, we have too many laws and will continue to have too many until we impose a cost on our rulers for keeping them around. A law against treason is one thing but a law requiring Americans to understand the law against treason, to be on the lookout for treasonous acts, and to report any immediately is a law too far, even if it is fun to think about so many of our leaders going to prison for misprision.

– September 18, 2021

How Activist Academia Destroyed Scholarly Peer Review

PHILLIP W. MAGNESS

Senior Research Faculty and Interim Research and Education Director

The reputation of academic publishing depends upon peer review – the practice by which other experts vet submissions to scholarly journals. A properly functioning peer review process flags potential problems before they appear in print. An anonymous referee might notice complications to a thesis that an author failed to account for, prompting another round of revisions to improve the piece. If an author misrepresents evidence for a claim, an anonymous referee might alert the journal editor to the problem. Usually, the author will be asked to address the issue in a revision. If the problem is severe or intentional, the piece might be rejected outright.

But what happens when academic peer review breaks down? What if an anonymous referee flags serious problems in an article such as misrepresented evidence or basic errors of fact, but the journal's editor chooses to run the piece anyway? What happens when the same problems are then noticed by other scholars after the article appears in print? Surely a formal correction of some sort would be in order.

Factual corrections used to be a regular practice of most scholarly journals, whether in the form of a short comment or a longer point/counterpoint exchange over the disputed claim. In the hyper-politicized state of academia today, a growing number of scholarly venues no longer see a need to attend to basic standards of factual accuracy in their pages. Factual errors – even egregious ones such as misrepresented evidence and manipulated quotations – are now apparently allowed to stand unchallenged, provided that the error aligns with a politically fashionable viewpoint. This was my own experience after a frustrating year and a half long effort to seek basic factual corrections to an unambiguous error

in an article in a journal published by Cambridge University Press.

The saga started in 2019 when Wellesley College historian Quinn Slobodian published a pair of articles in scholarly journals, containing an explosive charge against Ludwig von Mises. Writing for the journal *Cultural Politics*, Slobodian alleged that “race theory has an ambiguous place in Mises’s work,” which in turn has allowed modern day racists to claim inspiration from the free-market economist. Slobodian repeated and elaborated upon the charge in an article for *Contemporary European History* (CEH), stating that “libertarians who scour [Mises’s] writings to validate their divergent positions on migration can claim fairly to find confirmation of both sides of the argument.” One side of the story, he continued, derived from Mises “the realist, who saw race as a quasi-permanent category of global social organization. Despite his liberal principles the Habsburg polyglot never became the radical anti-racist.”

While Slobodian acknowledged in both articles that Mises adhered to a broad liberal philosophy that clashed with the racist and imperialist ideologies of his day, his argument held that Mises’s works contained a “parenthetical opening to the possibility of race theory” – a reference to pseudoscientific concepts that purport to link race and intelligence. That posited “parenthetical opening,” in turn, allegedly establishes Mises as a historical progenitor of later defenses of race theory and imperialism.

In his subsequent writings, Slobodian extends this argument into modern politics by crediting Mises and so-called “neoliberals” in general for inspiring the anti-immigration and race theory arguments that are found in the works of economist Hans-Hermann

Hoppe, which in turn attained popularity among various Alt-Right and Trumpian political movements in the 2010s. By implication, Mises and “neoliberalism” may be deemed blameworthy for allegedly inspiring these causes.

A Thesis Built on Textual Misrepresentation

When I first encountered Slobodian’s thesis after reading drafts of his *CEH* article in late 2018, something seemed amiss. Mises had devoted substantial energy in his 1927 book *Liberalism* to attacking the then-popular field of eugenics. His later works such as 1944’s *Omnipotent Government* contained a philosophical broadside against Nazism, singling out the errors and evils of Nazi racial theory in particular. How, exactly, had Slobodian discerned a parenthetical opening in Mises’s works for the very concepts and positions that Mises condemned?

It did not take long to find an answer to that question. In both articles, Slobodian displayed a habit of misrepresenting excerpted passages from Mises’s works by either omitting directly pertinent context from surrounding passages or, in some instances, directly removing content from the quotes themselves to change their meaning. In each case, the edits made Mises’s words appear sympathetic, or at least open to, to a variety of racist and imperialist beliefs, when in fact he was condemning them. I flagged several of these passages in my notes when reading. In the months that followed their publication, other scholars began to notice the same patterns in Slobodian’s depictions of Mises as well as his use of quotations.

I’ll summarize a few of the more egregious examples as an illustration. In his *CEH* article, Slobodian writes:

“When necessary, the opening of world markets had to be achieved through violence. Though ‘one can think only with shudders

and anger of the fearful mass murders that prepared the basis for many of the colonial settlements flourishing today’, [Mises] wrote in a book published the year after the First World War, the net gain made it worthwhile; in the end, ‘all other pages of world history were also written in blood’. Violence in the project of expanding the space of foreign investment, wage labour and commercial exchange was not only acceptable, it was necessary.”

Compare that same passage to Mises’s original text from his 1919 book *Nation, State, and Economy*. The quoted portion is underlined, but in Slobodian’s account the entire second half of the sentence is omitted:

“It is true that those colonies were not taken with smooth talk, and one can think only with shudders and anger of the fearful mass murders that prepared the basis for many of the colonial settlements flourishing today. But *all other pages of world history were also written in blood*, and nothing is more stupid than efforts to justify today’s imperialism, with all of its brutalities, by reference to atrocities of generations long since gone.”

In another example from Slobodian’s *CEH* article, he excerpts a descriptive passage from Mises’s 1944 book *Omnipotent Government* to once again ascribe him with a certain degree of toleration for racist beliefs:

“While [Mises] distanced himself from people who opposed non-white immigration in defence of ‘Western civilization,’ he conceded that:

“[W]e must not close our eyes to the fact that such views meet with the consent of the vast majority. It would be useless to deny that there exists a repugnance to abandoning the

geographical segregation of various races. Even men who are fair in their appraisal of the qualities and cultural achievements of the colored races and severely object to any discrimination against those members of these races who are already living in the midst of white populations, are opposed to a mass immigration of colored people. There are few white men who would not shudder at the picture of many millions of black or yellow people living in their own countries.”

By the 1940s Mises partially legitimised closed borders for non-white migrants as a near permanent feature of the world order.”

Slobodian repeats this charge in the second article for *Cultural Politics*, citing both Mises and his own article in *CEH*:

“And yet, in his 1944 work, Mises conceded the difficulties of racial integration, writing in a phrase, often cited by latter-day Mises Institute Austrians, about immigration barriers that “there are few white men who would not shudder at the picture of many millions of black or yellow people living in their own countries (1944: 107; Slobodian 2019)”

The problem with his claim may be clearly seen by turning to Mises’s original passage. Once again, Slobodian deleted portions of the text that disconfirmed his thesis. Rather than leaving an ambiguous opening for racism, Mises was actually describing the racist position first and then condemning it in no uncertain terms:

“We must not close our eyes to the fact that such views meet with the consent of the vast majority. It would be useless to deny that there exists a repugnance to abandoning the

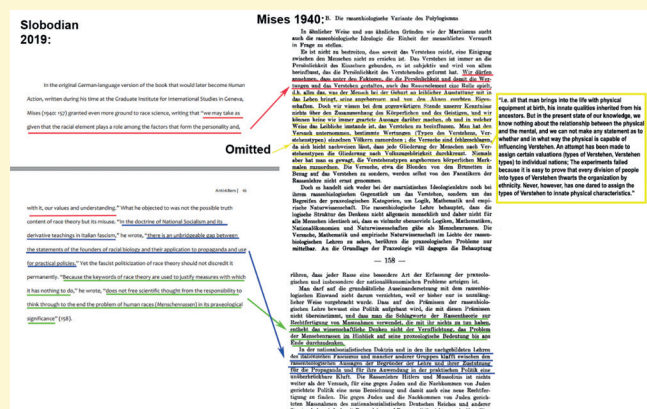
geographical segregation of various races. Even men who are fair in their appraisal of the qualities and cultural achievements of the colored races and severely object to any discrimination against those members of these races who are already living in the midst of white populations are opposed to a mass immigration of colored people. There are few white men who would not shudder at the picture of many millions of black or yellow people living in their own countries. The elaboration of a system making for harmonious coexistence and peaceful economic and political coöperation among the various races is a task to be accomplished by coming generations. But mankind will certainly fail to solve this problem if it does not entirely discard etatism. Let us not forget that the actual menace to our civilization does not originate from a conflict between the white and colored races but from conflicts among the various peoples of Europe and of European ancestry.”

Note that the omitted passage immediately after the underlined section directly contradicts Slobodian’s claim that “Mises partially legitimised closed borders for non-white migrants as a near permanent feature of the world order.” Far from extending near permanent legitimacy to the racist positions he described, Mises explicitly called on the next generation to solve the problem of racism and pointed out that, contrary to the race theorists’ recurring predictions of a civilizational war between people of different skin colors, the present war – World War II – originated from a white European state invading other white European states.

As an added bonus, Slobodian’s claim that the passage was “often cited by latter-day Mises Institute Austrians” to justify immigration restrictions is itself without evidence. The passage appears nowhere on

the Mises Institute website, save for a PDF of the original book.

Another egregious example of quote-editing may be found in Slobodian's *Cultural Politics* article, although it is more difficult to detect since it involves his own English-language misrepresentations of an untranslated German-language book by Mises from 1940. I present a textual comparison of the passages side-by-side for consideration.



As may be seen from Slobodian's depiction, he attempts to portray Mises as making only a narrowly qualified objection to eugenic theory based on its "misuse" by the Nazis. Such "misuse," Slobodian claims, did "not discredit it permanently" in Mises's eyes. To reach this conclusion, however, Slobodian engaged in substantial edits to Mises's text by rearranging the ordering of entire passages to make them fit his thesis. Slobodian once again edited out text that disconfirmed his claims, including a passage where Mises states that attempts to validate eugenic theory had "failed because it is easy to prove that every division of people into types of *Verstehen* thwarts the organization by ethnicity. Never, however, has one dared to assign the types of *Verstehen* to innate physical characteristics."

(As a curious aside, Slobodian also appears to be unaware of Mises's use of *Verstehen*, a Weberian sociological concept, and instead translates it literally as the German word for "understanding")

In another example from the *CEH* article, Slobodian writes:

“Yet Mises proved incapable of extending a similar cosmopolitan attitude to populations of colour. Even as he argued emphatically that ‘there are today no pure stocks within the class or race of white-skinned people’, he did so by pointing out the difference with black populations. ‘Negroes and whites differ in racial – i.e., bodily – features’, he wrote, ‘but it is impossible to tell a Jewish German from a non-Jewish one by any racial characteristic’. Mises’s rejection of anti-Semitism was premised on an affirmation of white–black race difference.”

Slobodian's strong insinuation here is that while Mises opposed white discrimination against other white people, most notably seen in anti-Semitism from the Nazi era, he drew a line of distinction between this form of persecution and racism against black people. To make this point, Slobodian presents several excerpted passages from Mises as if they were sequential claims, even asserting that Mises's objection to anti-Semitism "was premised on" differentiating that form of discrimination from white-against-black discrimination.

Turning to the original text of Mises's *Omnipotent Government*, however, we quickly find that Slobodian essentially manufactures this claimed link by excerpting and combining quotations from distinct passages.

The first quotation comes from a passage where Mises is dissecting and rebutting the Nazi racial arguments that were used to justify the persecution of Jewish people (including Mises himself, who was chased out of Austria on account of being Jewish). Mises's purpose in doing so was to illustrate the falsehood of the Nazis' own claim to come from

“pure” Aryan stock, whereas Jewish and other white Europeans were said to be of “impure” stock

“For more than a hundred years anthropologists have studied the bodily features of various races. The undisputed outcome of these scientific investigations is that the peoples of white skin, Europeans and non-European descendants of emigrated European ancestors, represent a mixture of various bodily characteristics. Men have tried to explain this fact as the result of intermarriage between the members of pure primitive stocks. Whatever the truth of this, it is certain that there are today no pure stocks within the class or race of white-skinned people.

Further efforts have been made to coordinate certain bodily features—racial characteristics—with certain mental and moral characteristics. All these endeavors have also failed.

Finally people have tried, especially in Germany, to discover the physical characteristics of an alleged Jewish or Semitic race as distinguished from the characteristics of European non-Jews. These quests, too, have failed completely.”

Although Slobodian presents it as an adjacent sentence in his excerpt, the second passage comes from several paragraphs later in Mises’s text where he turns to the question of how Nazi racial ideology differed from other forms of discrimination. One distinguishing factor of the Nazis was their attempt to impose discrimination on the grounds of establishing a genealogical link to Judaism.

“The Nazis have chosen a different way. They say, it is true, that they want to discriminate not against people professing the Jewish religion but against people belonging to the

Jewish race. Yet they define the members of the Jewish race as people professing the Jewish religion or descended from people professing the Jewish religion. The characteristic legal feature of the Jewish race is, in the so-called racial legislation of Nuremberg, the membership of the individual concerned or of his ancestors in the religious community of Judaism.”

Mises then turns to the second excerpted passage as a point of contrast for how discriminatory institutions operate. He uses the example of the Jim Crow era in the United States, where discrimination was based primarily on appearances and skin color:

“If Americans want to discriminate against Negroes, they do not go to the archives in order to study the racial affiliation of the people concerned; they search the individual’s body for traces of Negro descent. Negroes and whites differ in racial—i.e., bodily—features; but it is impossible to tell a Jewish German from a non-Jewish one by any racial characteristic.”

Contrary to Slobodian’s insinuation, there is no evidence that Mises condones discrimination against African-Americans. Quite the opposite – he condemns discrimination itself. Neither does his objection to anti-Semitism depend upon “an affirmation of white–black race difference,” as Slobodian claims. Rather, he is simply analyzing how the Nazi racial laws turned to characteristics other than skin color as a means of affecting their persecution of Jewish people, focusing instead upon tracing the genealogies of their victims. As Mises pointed out in the very next paragraph though, “The Nazis have claimed that they were fighting the decisive war between the Nordic master race and the human

underdogs,” yet the very existence of such a “master race” was itself a myth that the Nazis selectively invoked to rationalize their persecution of Jewish people and other disliked groups.

As with the German-language example in the *Cultural Politics* article, this depiction from the *CEH* article relies on taking liberties with Mises’s quotes to rearrange their order in a way that appears to support Slobodian’s preconceived thesis.

These examples only represent some of the most egregious textual edits in Slobodian’s articles. They are nonetheless sufficient to illustrate a recurring pattern of misrepresentation, as opposed to accidental sloppiness. In each case, Slobodian takes a passage from Mises’s works and removes text so as to completely invert the meaning of the passage. He then presents the edited text as a quasi-endorsement of the very same things – racism, imperialism, eugenics – that Mises was condemning in the unedited original.

An Attempted Correction

After first noticing some of the aforementioned textual misrepresentations in Slobodian’s article, I attempted to bring them directly to his attention and ask for a clarification or correction. This occurred in late 2018 after Slobodian hinted at the Alt-Right thesis on his Twitter feed. Whereas Slobodian identified Mises as a source for Hoppe’s anti-immigration positions and with it the Alt-Right, I suggested an alternative explanation for their intellectual origins.

Contrary to Slobodian’s insinuations, Hoppe did not appear to draw any of his immigration claims out of Mises’s texts and certainly not the passages that Slobodian misquoted. In fact, Hoppe identifies Mises as an expositor of the “classical” economic argument for open immigration – and then promptly rejects the same as an antiquated view from an earlier time. As Hoppe writes in a 2001 text, “The

problem with the above argument is that it suffers from two interrelated shortcomings which invalidate its unconditional pro-immigration conclusion and/or which render the argument applicable only to a highly unrealistic-long bygone-situation in human history.”

My alternative thesis, which I outlined to Slobodian in December 2018, called attention to Hoppe’s use of discursive philosophical reasoning to build up a theory of property rights absolutism, which he then used in turn to justify state action to exclude immigrants from a country. As I noted at the time, the intellectual genesis of Hoppe’s discursive approach did not come from Mises, but rather out of Hoppe’s own academic training under the German philosophers Juergen Habermas and Karl-Otto Apel. This realization may seem strange at first as Habermas and Apel are generally associated with Frankfurt School critical theory and the political far-left, whereas Hoppe comes from the far right. Yet Hoppe wrote his dissertation directly under Habermas, and at least in the earliest iterations of his arguments, specifically claimed to be adapting their discursive analysis in a rightward direction. No less a source than Murray Rothbard would write in 1990 that “Hoppe is a libertarian extension” of “the Habermas-Apel doctrine.”

Slobodian was naturally skeptical of my counter-thesis, and maintained at the time that he had correctly represented Mises’s texts. He nonetheless offered an interesting concession by inviting me to write a rebuttal that explored the idea and laid out the evidence against his soon-to-be-printed article in *CEH*.

– September 4, 2021



AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
250 Division Street | PO Box 1000 | Great Barrington, MA 01230-1000