RESEARCH REPORTS

Volume LXXXII

December 2021

published by
AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

RESEARCH REPORTS

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BUSINESS CONDITIONS MONTHLY

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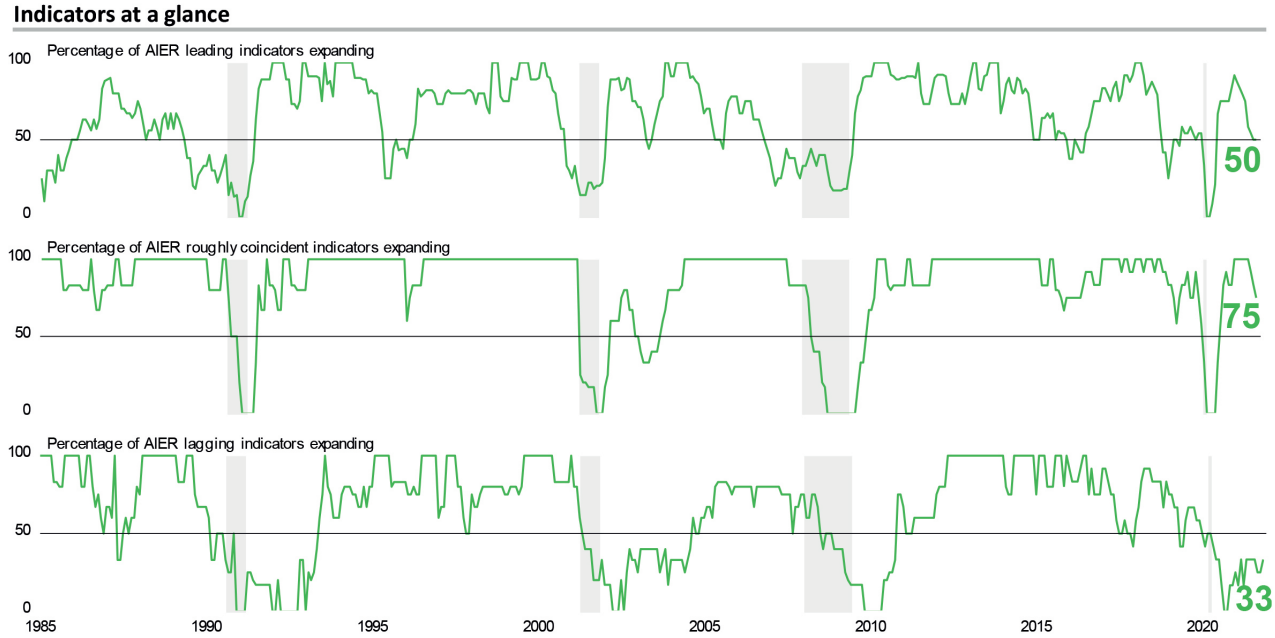
AIER Leading Indicators Index Holds at the Neutral 50 Mark



Note: Shaded areas denote recessions. A score above 50 indicates expansion.
Source: AIER.

Summary

AIER's Leading Indicators Index was unchanged in November, holding at the neutral 50 mark. November and October were the weakest readings since August 2020. The Roughly Coincident Indicators Index fell for a third consecutive month while the Lagging Indicators Index posted a slight gain but remains well below neutral.

The string of declines in the Leading Indicators Index that began in April suggests that risks remain elevated and that some caution is warranted. While the neutral results for October and November are still a long way from signaling a significant risk of recession, the resurgent waves of Covid and difficulties hiring employees are prolonging ongoing materials shortages, production constraints, and logistical and transportation bottlenecks. These issues are sustaining significant upward pressure on prices.

Sustained upward pressure on prices and continued waves of new Covid cases are weighing on consumers' attitudes. Despite the impacts, retail sales remain strong and suggest consumers remain resilient. That resiliency is supported by a tight labor market. Overall, the outlook is for continued economic expansion but with elevated risks from sustained upward price pressures and waves of new Covid cases.

AIER Leading Indicators Index Was Unchanged in November

The AIER Leading Indicators index held steady in November, holding at the neutral 50 level. However, the index is still down 42 points from the recent high of 92 in March. November is the fifteenth consecutive month at or above the neutral 50 level, but it is also the lowest reading over that period and the lowest since

August 2020 when the index was just 21. Breaking the string of declines since March and holding steady in the latest month is a positive sign. However, two months at the neutral 50 mark still suggests caution.

Among the 12 leading indicators, six were in a positive trend in November and six were trending lower with none trending flat or neutral. Initial claims for unemployment benefits, real retail sales, manufacturing and trade sales to inventory ratio, real new orders for core capital goods, real stock prices, and debit balances in margin accounts were the six indicators maintaining favorable trends while the average workweek in manufacturing, the University of Michigan Index of Consumer Expectations, real new orders for consumer goods, total heavy truck unit sales, the Treasury yield spread, and housing permits all remained in unfavorable trends.

Continued waves of new Covid cases continue to challenge businesses as they remain focused on improving supply chains and expanding production. Ongoing disruptions to labor supply and production, rising costs and shortages of materials, and logistics and transportation bottlenecks continue to exert upward pressure on prices. These issues are likely to be resolved over time but each new wave of Covid cases delays a return to pre-pandemic conditions. An extended period of adjustment is likely to sustain upward pressure on prices and a somewhat elevated level of risk for the economy.

As expected with the deteriorating strength of the Leading Indicators Index, the Roughly Coincident Indicators index fell for the third consecutive month in November. Furthermore, some additional weakness over the coming months is possible. The Roughly Coincident Indicators index came in at 75 in November, down from 83 in October continuing a run of 14 consecutive months above neutral, posting an average reading of 91.7. Despite the third monthly drop, the still-solid results of the roughly coincident indicators remain a favorable sign.

One indicator changed its signal in November as the consumer confidence in the present situation indicator fell from a positive trend to a neutral trend. Overall, four indicators were trending higher while one was trending lower, and one was in a neutral trend.

AIER's Lagging Indicators index increased to 33 in November, up from 25 in October. That was the 23rd consecutive month at or below neutral. The average over the last 23 months is 28.6. One indicator – Duration of unemployment improved from a neutral trend to a favorable trend – leaving four indicators with unfavorable trends and two indicators with favorable trends; none were in a neutral trend.

Payrolls Recovery Stumbles in November

U.S. nonfarm payrolls added 210,000 jobs in November, a disappointing result. The gain follows upwardly revised additions of 546,000 in October and 379,000 in September. The November increase is the 11th in a row and 18th in the last 19 months, bringing the 11-month rise to 6.108 million and the 19-month post-plunge recovery to 18.450 million. This is still below the 22.362 million combined loss from March and April of 2020, leaving nonfarm payrolls 3.912 million below the February 2020 peak.

Private payrolls posted a 235,000 gain in November after a 628,000 increase in October and 424,000 addition in September. Both months were revised up from their original estimates. The November rise in private payrolls is also the 11th in a row and 18th in the last 19 months. The November addition brings the 11-month gain to 5.664 million and the 19-month recovery to 18.376 million versus a combined loss of 21.353 million in March and April of 2020, leaving private payrolls 2.977 million or about 2.3 percent, below the February 2020 peak.

The recovery in payroll employment continues to be erratic, with large additions in some months but small increases in other months (and a loss in December 2020; see second chart). The 235,000 increase to private payrolls in November was about half (52 percent) of the 449,000 monthly average increase over the last 12 months. Resurgent waves of new Covid cases and deviations from typical hiring patterns in some industries that throw off seasonal adjustment are both likely contributors to the volatility.

While the pace of gain has varied over the last 12 months, gains have been generally broad-based, though weakness in November was widespread. Within the 235,000 gain in private payrolls, private services added just 175,000 versus a 12-month average of 401,000 while goods-producing industries added 60,000 versus a 12-month average of 48,000.

Within private service-producing industries, business and professional services added 90,000 (versus a 12-month average of 84,000) in November, transportation and warehousing gained 49,700 (versus 27,000), leisure and hospitality added 23,000 (versus 162,000) for the month, and financial activities gained 13,000 (versus 12,000). Retail employment fell by 20,400 versus an average monthly gain of 25,000.

Within the 60,000 gain in goods-producing industries, construction added 31,000, while durable-goods manufacturing increased by 15,000, nondurable-goods manufacturing added 16,000, but mining and logging industries decreased by 2,000.

After 19 months of recovery, only two of the major private industry groups have more employees than before the government lockdowns – transportation and warehousing is 3.6 percent above the February 2020 level and financial activities is 0.3 percent above. Two industries - Leisure and hospitality (-7.9 percent) and mining and natural resources (-6.5 percent) – are still down more than five percent.

Average hourly earnings rose 0.3 percent in November, putting the 12-month gain at 4.8 percent. The average hourly earnings data should be interpreted carefully, as the concentration of job losses and recovery for lower-paying jobs during the pandemic distorts the aggregate number.

The average workweek rose 0.1 hour to 34.8 hours in November. Combining payrolls with hourly earnings and hours worked, the index of aggregate weekly payrolls gained 0.7 percent in November. The index is up 9.5 percent from a year ago.

The total number of officially unemployed fell to 6.887 million, a drop of 542,000. The unemployment rate fell to 4.2 percent while the underemployed rate, referred to as the U-6 rate, fell to 7.8 percent in November. In February 2020, the unemployment rate was 3.5 percent while the underemployment rate was 7.0 percent.

The participation rate increased by 0.2 percentage points in November, coming in at 61.8 percent versus a participation rate of 63.3 percent in February 2020. The employment-to-population ratio, one of AIER's Roughly Coincident indicators, came in at 59.2 for November, up from 58.8 in October but still significantly below the 61.1 percent in February 2020.

Weekly Initial Claims for Unemployment Benefits Rise Slightly but Remain Very Low

Initial claims for regular state unemployment insurance rose to 222,000 for the week ending November 27, an increase of 28,000 from the previous week's revised multidecade low of 194,000. Despite the rise, claims remain close to the pre-pandemic average level of 212,000 for January and February 2020.

The current four-week average fell for an eighth consecutive week, coming in at 238,750, the lowest level of the recovery. The results suggest the labor market remains extremely tight.

The number of ongoing claims for state unemployment programs totaled 1.824 million for the week ending November 13, a gain of 45,754 from the prior week. Over the last three weeks, the cumulative change in state continuing claims is just -54,378, or -2.9 percent. Before the pandemic, state continuing claims were just over 2 million.

Continuing claims in all federal programs totaled just 482,536 for the week ending November 13, a decrease of 24,190. The drop was concentrated in the Pandemic Unemployment Assistance program where claims fell 19,943. A loss of another 5,107 was from the Pandemic Emergency UC program.

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 2.306 million for the week ended November 13, a rise of 21,564 from the prior week.

Job Openings Fell Again in September but Remain Very High

The latest Job Openings and Labor Turnover Survey from the Bureau of Labor Statistics shows the total number of job openings in the economy fell to 10.438 million in September, down from 10.629 million in August. The number of open positions in the private sector decreased to 9.581 million in September, down from 9.775 million in August. Despite a second consecutive month of decline, total and private sector openings remain extremely high by historical comparison.

The total job openings rate, openings divided by the sum of jobs plus openings, fell to 6.6 percent in September from 6.7 percent in August while the private-sector job-openings rate dropped to 7.1 percent from 7.2 percent.

Four industry categories have more than 1.5 million openings each: trade, transportation, and utilities (2.031 million), education and health care (1.878 million), professional and business services (1.786 million), and leisure and hospitality (1.586 million).

The highest openings rates were in leisure and hospitality (9.4 percent), professional and business services (7.8 percent), education and health care (7.4 percent), trade, transportation, and utilities (6.9 percent), and manufacturing (6.7 percent).

The number of private-sector quits was 4.217 million, a record high, versus 4.087 million in August. Leisure and hospitality led with 987,000 quits followed by trade, transportation, and utilities with 984,000 quits and professional and business services with 706,000.

The total quits rate rose to 3.0 percent from 2.9 percent in the prior month while the private-sector quits rate rose to 3.4 percent versus 3.3 percent; both are at a record high (see third chart).

The quits rates among the private-sector industry groups is still dominated by leisure and hospitality with a rate of 6.4 percent, well ahead of the number two, trade transportation, and utilities, with a 3.6 percent quits rate and number three, professional and business services, with a 3.3 percent rate.

From the worker perspective, labor market conditions remained very favorable in September. The number of openings per job seeker (unemployed plus those not in the labor force but who want a job) ticked down slightly to 0.770 in September from 0.776 in August and a record high 0.782 in July.

Consumer Confidence Edged Lower in November

The Consumer Confidence Index from The Conference Board declined slightly in November but remains at historically moderate levels. The overall index fell 2.1 points or 1.9 percent to 109.5. From a year ago, the index is up 17.9 percent.

Both major components of the index fell for the

month. The present-situation component decreased 3.0 points to 142.5 while the expectations component lost 1.4 points, taking it to 87.6. The total index and both components remain well above typical recession lows but also remain below record highs. The details of the report suggest that inflation fears and new Covid cases were the primary reasons for the decline.

According to the report, ""Expectations about short-term growth prospects ticked up, but job and income prospects ticked down. Concerns about rising prices—and, to a lesser degree, the Delta variant—were the primary drivers of the slight decline in confidence." The report adds, "Meanwhile, the proportion of consumers planning to purchase homes, automobiles, and major appliances over the next six months decreased."

Inflation expectations rose to 7.6 percent in November, up from 7.1 in October and 5.7 percent in November 2020; expectations were 4.4 percent in January 2020. While price increases have been seen across a variety of consumer goods and services since the onset of the pandemic, historically, gasoline prices and grocery prices have likely had a substantial influence on consumers' inflation expectations.

Among the other details in the report, consumers' view of current business conditions weakened, the index for consumers saying business conditions are good fell 1.3 points while the index for consumers saying business conditions are bad rose 3.3 points, putting the net index down 4.6 points. On the positive side, consumers' views of the labor market remained strong as the jobs hard to get index rose just 0.1 point while the jobs plentiful index rose 3.2 points, putting the net up 3.1 points.

Among the details of the expectations views, there were decreases in the net index for expected income (-1.3 points) and expected employment conditions (-2.5 points) while the net index for expected business conditions gained 2.6 points. Indexes for plans for purchases of a home, car or vacation all fell in November.

Retail Spending Hits a New Record High in October

Retail sales and food-services spending rose 1.7 percent in October following a 0.8 percent gain in July and a 1.2 percent increase in August. The three-month annualized growth rate over that span is a very strong 15.8 percent. The increases put total retail sales at a new record high and well above the pre-pandemic trend.

Core retail sales, which exclude motor vehicle dealers and gasoline retailers, posted a strong 1.4 percent increase for the month, following gains of 0.5 percent in September and 2.2 percent in August, leaving that measure with a 17.6 percent annualized growth rate over the past three months. Core retail sales are at a new record high and well above the pre-pandemic trend.

Most categories were up in October with ten posting gains, two showing declines, and one essentially unchanged. The gains were led by a 4.0 percent increase in nonstore store (primarily online) retailers, followed by gasoline station sales (up 3.9 percent) and electronics and appliance retailers, up 3.8 percent. Gasoline sales often reflect large price movements; the average price for a gallon of gasoline rose 3.5 percent in October.

The two categories showing drops in October were clothing and accessory stores, down 0.7 percent, and health and personal care stores (off 0.6 percent). Food services and drinking places (restaurants) were essentially unchanged for the month.

Nonstore retailers had been growing at a strong rate prior to the pandemic (9.1 percent annualized over the ten years through December 2019).

However, over the past 18 months, the annualized growth rate accelerated, hitting an extraordinary 12.7 percent as of October. The strong performance has pushed the nonstore sales share of core retail sales from 17.2 percent for December 2019 to 20.0 percent for October.

"The AIER Leading Indicators index held steady in November, coming in at a neutral 50 for a second month. The result suggests continued economic expansion, but with elevated risks due to sustained upward pressure on prices and recurring waves of new Covid cases."

– Robert Hughes

CAPITAL MARKET PERFORMANCE

(Percent change)

	November	Latest 3M	Latest 12M	Calendar Year 2020	2019	2018	Annualized 3-year	5-year	10-year
Equity Markets									
S&P 1500	-1.0	0.8	26.2	15.8	28.3	-6.8	17.8	15.3	13.7
S&P 500 - total return	-0.7	1.3	27.9	18.4	31.5	-4.4	20.4	17.9	16.2
S&P 500 - price only	-0.8	1.0	26.1	16.3	28.9	-6.2	18.3	15.7	13.9
S&P 400	-3.1	-1.6	24.9	11.8	24.1	-12.5	13.0	10.7	11.9
Russell 2000	-4.3	-3.3	20.8	18.4	23.7	-12.2	12.8	10.7	11.5
Dow Jones Global Large-Cap Index	-2.4	-1.7	17.0	14.7	23.8	-10.4	13.9	15.3	9.2
Dow Jones Global Large-Cap ex-U.S. Index	-4.7	-5.5	6.3	8.8	18.2	-15.7	7.4	9.1	4.1
STOXX Europe 600 Index	-2.6	-1.7	18.9	-4.0	23.2	-13.2	9.0	6.2	6.8
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	2.6	1.9	-5.3	16.4	11.5	-4.2	9.5	4.7	2.5
IiShares AAA - A Corporate Bond Fund	-0.1	-1.4	-4.0	7.1	9.1	-5.2	4.5	1.8	NA
Commodity Markets									
Gold	0.2	-1.5	0.3	24.8	18.7	-1.7	13.5	8.7	0.2
Silver	-4.8	-4.9	3.2	46.8	16.7	-8.3	17.1	6.5	-3.1
Refinitiv CoreCommodities CRB total return index	-7.8	0.5	37.0	-9.3	11.8	-10.7	7.4	4.1	-2.9

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

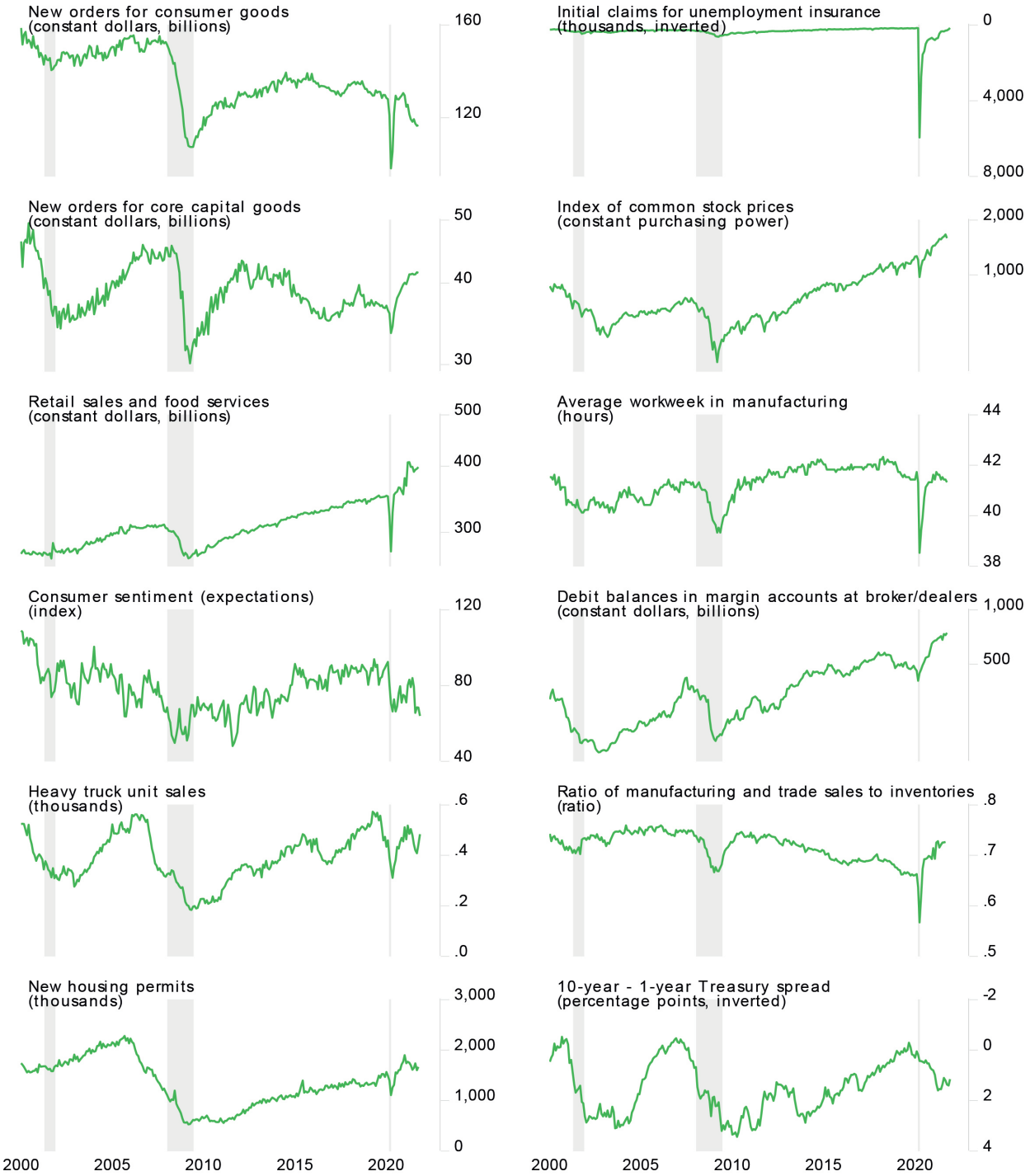
CONSUMER FINANCE RATES

(Percent)

	November	Latest 3M	Latest 12M	Average for Year 2020	2019	2018	Average over Period 3-year	5-year	10-year
30-yr. fixed mortgage	3.1	2.9	2.9	3.1	3.9	4.5	3.4	3.7	3.8
15-yr. fixed mortgage	2.3	2.2	2.3	2.6	3.4	4.0	2.9	3.1	3.1
5-yr. adjustable mortgage	2.5	2.5	2.7	3.1	3.6	3.8	3.2	3.3	3.1
48-month new car loan	5.1	5.1	5.2	5.1	5.4	5.0	5.2	5.0	4.7

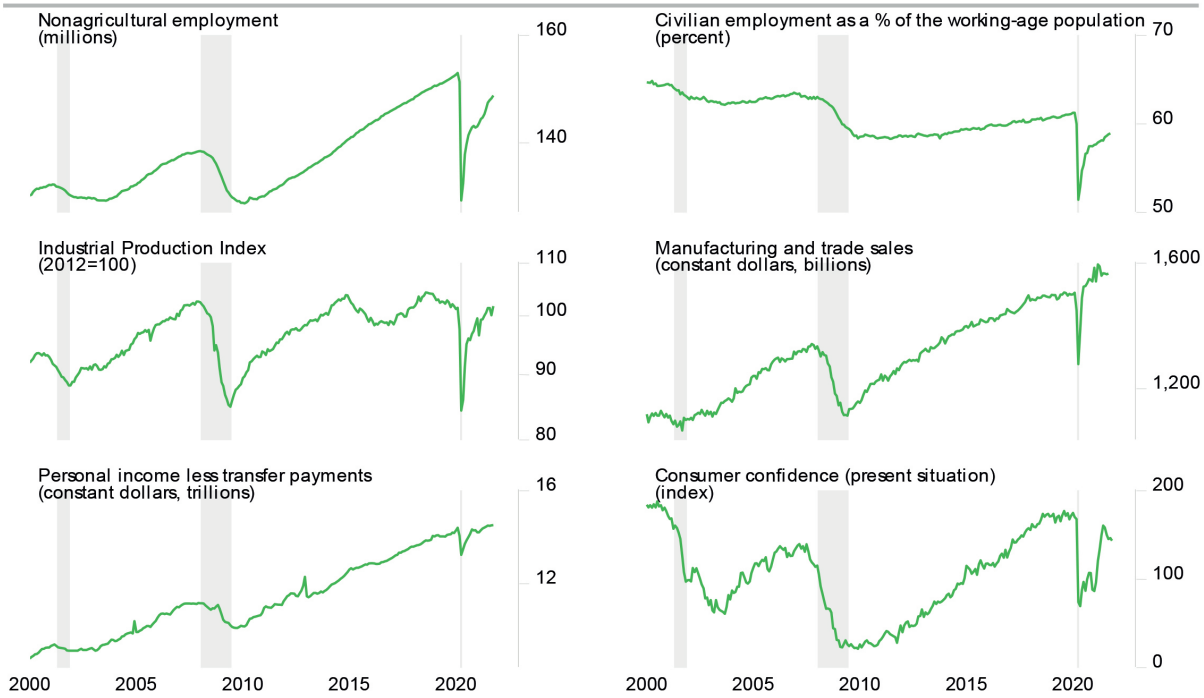
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (2000-2021)



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 (2000-2021)



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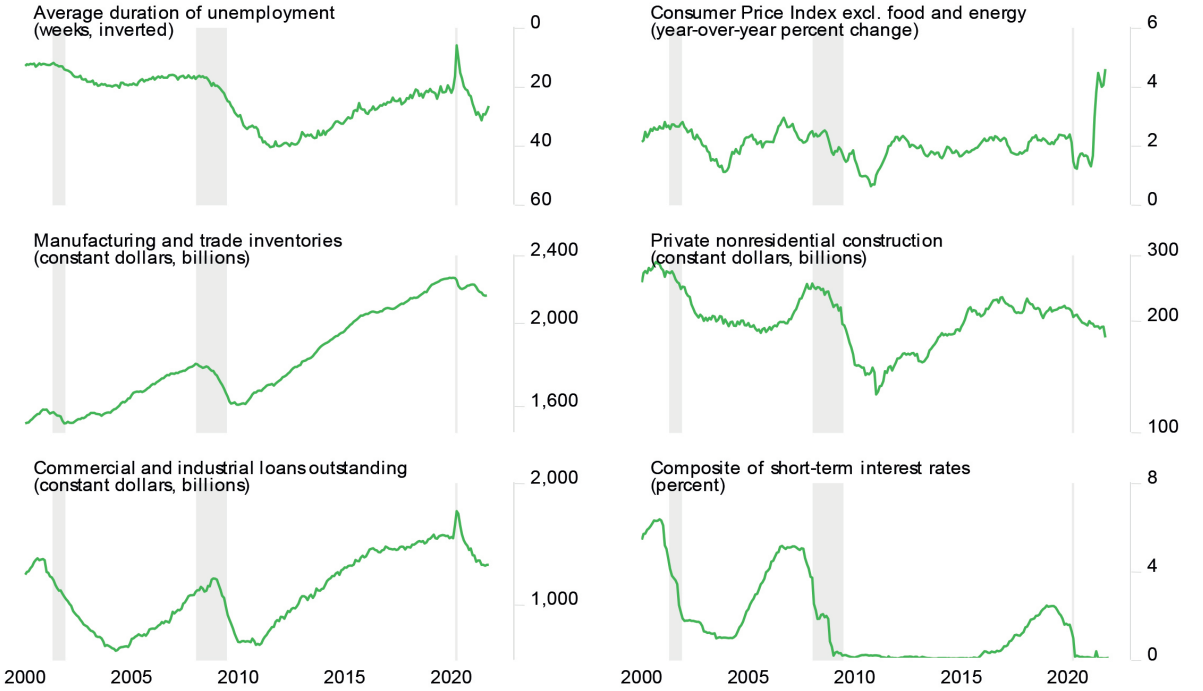
LAGGING INDICATORS (2000-2021)



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).

A Series of Miracles

JAMES R. HARRIGAN
Senior Editor

On October 3, 1789 George Washington signed the first Thanksgiving Proclamation of the newly constituted American Republic. He called upon the American people to enjoy "a day of Public Thanksgiving and Prayer, to be observed by acknowledging with grateful hearts the many and signal favors of Almighty God." It had been a long and difficult road to Independence, and America was still reeling from the failed Articles of Confederation and the fight to adopt the new Constitution. Washington had seen the struggle first-hand, and he knew, perhaps more than anyone, that America was nothing less than a series of miracles. And he saw to it that the nation gave thanks.

This was not the first celebration of Thanksgiving in America; the Pilgrims' 1621 celebration with the Wampanoag in Plymouth holds that honor. Nor was this even Washington's first Thanksgiving; he had proclaimed a Thanksgiving in December 1777 in the wake of the Continental Army's victory over the British at Saratoga. This was, though, the first Thanksgiving of the American Republic. It was the first national Thanksgiving.

Washington went on to declare another observance in 1795, and his successor, John Adams, followed suit in 1798 and 1799. But as America's position in the world was steadily established, and as the debate on the separation of church and state began to take shape, Thanksgiving was all but forgotten on the national stage. A condition of peace and plenty resulted not in a grateful America but in a complacent one. The War of 1812, though, reminded Americans that their collective place in the world was more tenuous than they had realized. And at the close of the war in 1814 James Madison proclaimed "a day of public humiliation and fasting and of prayer to Almighty God for the safety and welfare" of the United States. Madison declared another Thanksgiving in 1815.

And then nearly half a century passed.

Once again things were calm, and once again national Thanksgiving observances fell by the wayside. The Founding Generation, America's finest generation, had passed, and with them the possibility of a national gratefulness seemed to pass as well. Just as the War of 1812 had reminded the nation of its precariousness, though, the Civil War shattered the illusion of American harmony. Abraham Lincoln had warned the nation in 1858 that "A house divided against itself cannot stand," and by 1863 the divided country was indeed in danger of falling.

Americans turned to Lincoln, and Lincoln turned to God. Even in the midst of the bloodiest war ever fought on American soil, Lincoln saw America's blessings. "The year that is drawing toward its close" he said "has been filled with the blessings of fruitful fields and healthful skies. To these bounties, which are so constantly enjoyed that we are prone to forget the source from which they come, others have been added which are of so extraordinary a nature that they can not fail to penetrate and soften even the heart which is habitually insensible to the ever-watchful providence of Almighty God."

At America's lowest ebb, the nation's most dedicated servant chose to give thanks rather than bemoan his own, and America's collective, lot, and there were indeed reasons to be thankful. As Lincoln said, "peace has been preserved with all nations, order has been maintained, the laws have been respected and obeyed, and harmony has prevailed everywhere, except in the theater of military conflict,

while that theater has been greatly contracted by the advancing armies and navies of the Union."

And this was the birth of Thanksgiving as we have come to know it. In the worst of times, in conditions so dire that the continued existence of the Republic was unsure, Lincoln taught us to look beyond ourselves…to be truly thankful for the blessings that we have received. And so it has been for 143 years.

As we celebrate Lincoln's holiday on the last Thursday in November, take a moment to contemplate the series of miracles that brings and keeps us together. Take a cue from Washington and sense the magnitude of the achievement of the generation that built this country, oftentimes through little more than force of will. Take a cue from Lincoln and appreciate the blessings that we do enjoy rather than pining for things we don't. Take a cue from the best America has produced and say a prayer of thanks.

Happy Thanksgiving.

– November 25, 2021

Getting Real About Taxes

ROBERT E. WRIGHT
Senior Research Faculty

As AIER Research Director Phil Magness recently pointed out, a wealth tax on unrealized capital gains like that recently proposed by the Biden administration would be blatantly unconstitutional. Because the Constitution's checks and balances have looked tattered of late, and a constitutional amendment allowing such a tax could be ratified, just as the Sixteenth Amendment rendered a federal income tax constitutional, it is important to point out that the suggested tax would also be bad policy because it would increase Americans' real (inflation-adjusted) tax burden.

The Sixteenth Amendment took effect in 1913, the same year that the government chartered the Federal Reserve System, which went into operation in 1914. Twenty years after that, the US moved off the gold standard and onto a gold exchange standard that ended about forty years after that, ushering in the current free-floating exchange rate regime and a dollar that by design loses value every year. (For details, see AIER's *The Gold Standard*.)

The timing of those seminal events is important. America remains under a nominal income tax regime because the supporters of the Sixteenth Amendment were creatures of the gold standard and hence long-term price stability. While they knew that the price level might increase or decrease for a few years, they expected a return to the mean. Had they foreseen a future where the dollar would lose value, never to regain it, they may well have insisted on adjusting income taxes for inflation.

When income taxes are not marked-to-market, by which I mean the price level, major problems result. One, well understood, is called bracket creep. That occurs when taxpayers get bumped into higher tax brackets, or in other words when they must pay a higher percentage of their incomes in taxes solely because the price level went up.

For example, maybe taxpayers had to pay a 10 percent tax when they made $20,000 per year when a liter of Diet Mountain Dew cost $1. In other words, their real salary was 20,000 liters of Diet Dew (20,000/1) and their real tax was 2,000 liters (20,000*.1). But maybe next year, due to inflation and bracket creep, they will have to pay a 20 percent tax on $40,000 even though a liter of Diet Dew now costs $2. In other words, their real salary remained 20,000 liters of Diet Dew (40,000/2) but their real tax jumped to 4,000 liters (20,000*.2).

Ad valorem excises, tariffs, and, most importantly today, sales taxes also creep when inflation hits. With a 7 percent sales tax, a $100 grocery bill costs consumers an extra $7 (100*.07). When consumers have to pay $120 for that same bag of groceries, government suddenly wants an extra $8.40 (120*.07). Yes, government costs have increased too, so its nominal revenues "must" increase, but it takes the extra $1.40 regardless of real incomes, which often lag inflation by months or even years. Social Security and many union contract cost-of-living adjustments, for example, are annual and backward looking, as are many private employment contracts. That is why average real incomes fell in America in October of this year despite the large number of unfilled jobs.

Fixed-income savers are also hard hit by unexpectedly high inflation. In the 1970s, many savers had to pay income taxes on bond or certificate of deposit interest that was less than the rate of inflation. "What good is 8% and even 9% interest

on your money on which you have to pay taxes," one financial broadcaster queried, "when the price of food is going up 20%?" That same journalist, the spunky Wilma Soss (1900-1986), repeatedly called for an inflation tax credit to soften the blow. The Great Moderation in inflation and macroeconomic instability more generally, however, rendered such sentiments seemingly irrelevant.

Inflation, nonetheless, has returned to front page news. Whether transitory in any sense, or the start of something horrific, prices definitely increased much faster than expected in 2021. Government policies — monetary, fiscal, and covidic — undoubtedly caused the price increases. If Wilma Soss were still around, she would wonder aloud why the government should be allowed to benefit from its own mistakes, especially those that fall disproportionately hardest on the poorest.

Now imagine that a tax on unrealized capital gains is in place such that taxpayers owe the IRS two percent of the increase in *nominal asset* prices. Imagine that a portfolio of stocks worth $100,000 at the beginning of the year is worth $110,000 at the end not because the companies comprising the portfolio are more productive or profitable but solely because inflation is running at 10 percent. A tax of $200 ([110,000-100,000]*.02) would be incurred solely due to inflation. Worse yet, imagine if a portfolio of stocks would have decreased in price due to decreased earnings but increased in nominal terms due to inflation, turning a loss/deduction into a tax liability.

For better or, more likely, worse, our government has chosen not to constrain its ability to increase the money supply faster than money demand, forcing all Americans to live with a unit of account that constantly declines in value vis-a-vis goods and services. The power of compounding means that even small annual losses soon become quite large and periodic bouts of rapidly rising prices, like the present, will certainly recur.

It is high time, therefore, that the federal government recognizes the creepy tax effects of inflation and gets real about taxes. It should forget about taxing unrealized capital gains, compensate victims of its inflationary policies, and begin to inflation-index everything, except of course government salaries and pensions and the federal minimum wage. If Americans must lower their expectations, so too must Washington.

– November 26, 2021

Biden's Plan to "Tax The Rich" Will Cost the Middle Class

RANDALL G. HOLCOMBE
Contributor

Many readers will be aware that President Biden has proposed new taxes on the rich to help fund his expenditure plans. As this article explains, a big part of his tax proposal is to tax the unrealized capital gains of people who have assets exceeding $1 billion, which is about 700 people.

Despite objections from both Democrats and Republicans, two things that can help promote the proposal are that (1) it would only tax a very few people, and (2) the rich are not all that popular, as a group, among most Americans. Working against the proposal is that "money talks" and the people who would be subject to those new taxes have money.

Given the nature of the proposal, most Americans would think that the proposal would not apply to them, but ultimately they would be mistaken. President Biden's proposal would be a foot in the door to extend that same tax to everyone.

When the federal income tax was created in 1913, the highest marginal income tax bracket was 7% and the standard deduction was high enough that most Americans did not owe any tax. People who had factory jobs or office jobs would not meet the income threshold. It was a plan to tax the rich.

By 1921, less than a decade after the tax was implemented, the highest marginal income tax bracket had risen to 73%, and while rates did fall between the World Wars, the highest marginal tax rate eventually went up to 92% in 1952. Meanwhile, with the onset of World War II, the standard deduction was dropped, making most income earners liable for the tax, and withholding was implemented to facilitate the government's tax collections.

Once a tax is implemented for some, it becomes easier to extend it to everyone. Nobody should think that a tax, once placed on the rich, will not eventually apply to them. And, it can happen very fast, as the income tax experience during World War I showed.

It appears unlikely that this tax will be implemented, but just having been suggested increases the danger that it will be implemented in the future. With huge budget deficits, all it would take would be some future crisis for this tax to look like a good option to policy makers. And once the rich are subject to the tax, you will be next.

– November 10, 2021

A Three-Pronged Blunder, or, What Money Is, and What It Isn't

GEORGE SELGIN
Contributor

"The fateful errors of popular monetary doctrines which have led astray the monetary policies of almost all governments would hardly have come into existence if many economists had not themselves committed blunders in dealing with monetary issues and did not stubbornly cling to them."
— Ludwig von Mises, *Human Action*.

Iwas chatting on the phone last week with Peter Coy, who was working on an article about money for *The New York Times Magazine*, when he mentioned the old, three-pronged textbook definition of money: you know, the one that says money is a medium of exchange, a store of value, and a unit of account. It's the first thing most econ students learn about money. For many, I suspect, it's all they remember.

Which is a shame, because it's wrong.

In this post, I explain why it's wrong. I trace the mistaken definition to past economists' careless reading of that definition's locus classicus, in William Stanley Jevons' great work, Money and the Mechanism of Exchange. I next show how Jevons' actual understanding of the meaning of "money" was shared by Carl Menger and later Austrian-school economists. I conclude with a plea for dispensing, once and for all, with the three-part textbook definition of "money," in favor of the definition Jevons favored all along.

Money's "Three Functions"

In his *Principles of Economics* textbook, Ed Dolan writes that "Money is an asset that serves as a means of payment, a store of purchasing power, and a unit of account." Greg Mankiw likewise says, in his *Principles of Macroeconomics* text, that "Money has three functions in the economy: It is a medium of exchange, a unit of account, and a store of value. These three functions together distinguish money from other assets in the economy." I might supply any number of similar examples of this conventional way of defining money.

Nor does the tripartite definition of money only occur in textbooks. According to a St. Louis Fed publication, although "Money has taken different forms through the ages," all of them "share the three functions of money:"

- First: Money is a store of value. If I work today and earn 25 dollars, I can hold on to the money before I spend it because it will hold its value until tomorrow, next week, or even next year. In fact, holding money is a more effective way of storing value than holding other items of value such as corn, which might rot. …
- Second: Money is a unit of account. You can think of money as a yardstick—the device we use to measure value in economic transactions….
- Third: Money is a medium of exchange. This means that money is widely accepted as a method of payment.

Money Isn't "A Store of Value"

What's wrong with the standard definition? The trouble is that it often happens, even in indisputably "monetary" economies, that no single good or asset performs all three functions that, according to it, "money" is supposed to perform. In all such instances, the conventional definition raises the question: when nothing performs all three functions, how can "money" possibly exist? If it does exist, it

must be the case that not all of the three supposed "functions" of money are actually functions money must perform, let alone perform well.

Take the store of value function. Of course something that is of no value at all, or of only very ephemeral value, is unlikely to serve any of the three supposed monetary functions, and many things that have served as money in the past were also reasonably good stores of value. For this reason it's not hard to understand the temptation to assume that, whatever other functions it might perform, money must serve as a store of value.

But while it's true that a spectacularly bad store of value—like ice cream cones in summertime—isn't likely to ever serve either of the remaining two supposed functions of money, it's quite common for stuff that everyone considers "money" to be a mediocre if not a poor store of value. Fiat monies, for example, always tend to depreciate, and it's notorious that they sometimes lose value quite rapidly. Yet even in extreme cases of hyperinflation, such fiat currencies continue to be regarded as "money," and continue to serve as both media of account and generally accepted exchange media. (It is, after all, only when prices are expressed in terms of some fiat unit, where the number of representatives of the unit being spent in any given period is rising rapidly, that hyperinflation can take place.) To insist that money must serve as a "store of value" in such cases raises the question: in what meaningful sense could Papiermarks be said to have served as a "store of value" in Germany during the autumn of 1923? And if they were an abysmal store of value, weren't they money nonetheless?

If something can be money despite being an abysmal store of value, the opposite is also true: something can be an exceptional store of value without being, or ever becoming, money. To his credit, in the original (1948) edition of his famous textbook, Paul Samuelson assigns money only two functions: it is, he says, a medium of exchange and unit of account. Although he recognizes that "a man may choose to hold part of his wealth in the form of cash," Samuelson notes that "in normal times a man can earn a return on his savings if he puts them into a savings account or invests them in a bond or stock. Thus it is not normal for money to serve as a 'store of value'."

So Samuelson improved upon the conventional three-part definition of money. Yet he still assigned "money" one function too many.

Nor is It a Unit of Account

While it's relatively easy to point to things serving as both generally-accepted exchange media and media of accounts that were crummy stores of value, it's not so easy to find instances in which an economy's unit of account didn't consist of a standard unit of its preferred medium of exchange. There's a perfectly good reason for this: it just makes good sense for people to price things, and keep accounts in units based upon the stuff they prefer to receive, or insist upon receiving, in payments.

Still, it sometimes does happen that an economy's unit of account is not based upon, or is "separated from," its most popular exchange media, and in such cases we are again compelled to ask, which thing is "money?" Is it the unit of account, or whatever stuff defines it, or is it the medium of exchange? The answer to this question takes us one more step closer to answering the question, "What is 'money,' *really?*"

High inflations once again come to the rescue here, for these often lead to the separation of accounting units from prevailing exchange media. Consider the case of Brazil in 1992. In that year alone, prices expressed in Brazil's official currency unit, the cruzeiro, rose more than tenfold. But rather than express prices in cruzeiros, which would have meant changing them daily, if not more than once a day, hotels, restaurants, and many other businesses

switched to posting prices in dollars. Many also kept accounts in dollars. Cruzeiros nevertheless remained Brazil's most widely used medium of exchange. So which was Brazil's "money"—dollars or cruzeiros? And, if it was dollars, what exactly were cruzeiros?

The last question is meant to be rhetorical. Cruzeiros no longer supplied Brazil with a useful unit of account, and they were certainly nobody's idea of a decent store of value. Yet they were still that nation's most widely-accepted medium of exchange; and few doubt that they, not dollars, were *therefore* Brazil's "money."

Or consider another case: the British pound sterling. Long before Great Britain ever had such a thing as a pound coin, the pound sterling had served as its principal accounting unit. On the other hand, the gold "guinea," which for most of its existence was worth 21 shillings, or one pound and 1 shilling, was an actual coin that circulated, along with fractional counterparts, in Great Britain between 1663 and 1814 (when it gave way to sovereigns). Yet it saw only very limited use—in contracts between "gentlemen"—as an accounting unit. Yet who doubts that guineas were British "money?"

Going back even further, to medieval times, we find still more compelling grounds for rejecting the "unit of account" definition of money, for the motley condition of coins in those days caused merchants to resort to accounting units that had no actual coin counterparts. In some cases these units were based on what the late John Munro called "ghost" monies—past coins that no longer circulated. It should be obvious that such "ghost" monies could not be actual money. That is, there was no longer any countable stuff to which they referred. They were "pure" accounting units, and as such completely separated from any actual exchange media. The medieval situation therefore supplies an especially clear case in which the term "money" might refer either to the actual exchange media in use, or to the media upon which prevailing accounting units were based, but could not refer to anything that was both. So, which was it?

Once upon a time, few economists would have hesitated to say that "money" meant the coins actually in use, not the "ghost" coins no longer extant. Many today will think so as well. But if some aren't so sure, you can blame it on some past economists' careless reading of William Stanley Jevons's great work.

What Jevons Really Said

Chapter III of William Stanley Jevons's *Money and the Mechanism of Exchange* (1875) is generally understood to be the locus classicus of the treatment of "money" as something that serves several distinct functions. In fact, Jevons refers not just to three but to four functions of money: the three now referred to in most textbooks, plus a fourth "standard of deferred payments" function.

By 1919, Jevons's treatment had already become so popular that it was summed up in a then-popular couplet:

Money's a matter of functions four,

A Medium, a Measure, a Standard, a Store.

Eventually, "Measure" (of value) and "Standard" (of deferred payments) were combined into "Unit" (of account), giving rise to the now-standard three-function definition, though one still sees occasional references to money's four functions.

But while the various functions of money Jevons identified have given rise to today's conventional wisdom, his appraisal of each function's significance has been all but forgotten. A close look at that appraisal reveals that Jevons actually considered only one of money's functions essential, hence definitive.

In fact, Jevons makes clear from the onset of his discussion that he considers only two of money's

four functions to be of "high importance." "We have seen," he writes,

> that three inconveniences attach to the practice of simple barter, namely, the improbability, of coincidence between persons wanting and persons possessing; the complexity of exchanges, which are not made in terms of one single substance; and the need of some means of dividing and distributing valuable articles. Money remedies these inconveniences, and thereby performs two distinct functions of high importance, acting as—
>
> 1. A medium of exchange.
> 2. A common measure of value.

Money's remaining two functions are for Jevons of secondary importance only. The "standard of value" function, he says, develops only as an offshoot of money's other roles. As for the "store of value" function, although a country's money may be a useful means for storing and conveying value, "diamonds and other precious stones, and articles of exceptional beauty and rarity," might serve the same purpose. Jevons also recognizes the link between non-monetary stores of value and early monies:

> The use of esteemed articles as a store or medium for conveying value may in some cases precede their employment as currency. Mr. Gladstone states that in the Homeric poems gold is mentioned as being hoarded and treasured up, and as being occasionally used in the payment of services, before it became the common measure of value, oxen being then used for the latter purpose. Historically speaking, such a generally esteemed substance as gold seems to have served, firstly, as a commodity valuable for ornamental purposes; secondly, as stored wealth; thirdly, as a medium of exchange; and, lastly, as a measure of value.

Finally, in a subsection specifically addressing the "separation of [monetary] functions," Jevons explicitly recognizes the inadequacy of any definition of money that insists on its serving all four of the functions he names. It is, he says, only because people are "accustomed to use the one same substance in all the four different ways" that they

> come to regard as almost necessary that union of functions which is, at the most, a matter of convenience, and may not always be desirable. We might certainly employ one substance as a medium of exchange, a second as a measure of value, a third as a standard of value, and a fourth as a store of value. In buying and selling we might transfer portions of gold; in expressing and calculating prices we might speak in terms of silver; when we wanted to make long leases we might define the rent in terms of wheat, and when we wished to carry our riches away we might condense it into the form of precious stones.

But didn't Jevons nevertheless say that money has not one but two functions of "high importance?" He did. But if we look at how the paragraph in which he says this continues, we find that only one of those two important functions is really important—that is, important enough to be essential or decisive. "In its first form," Jevons says,

> money is simply any commodity esteemed by all persons, any article of food, clothing, or ornament which any person will readily receive, and which, therefore, every person desires to have by him in greater or less quantity, in order that he may have the means

> of procuring necessaries of life at any time. Although many commodities may be capable of performing this function of a medium more or less perfectly, some one article will usually be selected, as money par excellence, by custom or the force of circumstances.

In other words, money is, first and foremost, a generally recognized medium of exchange. The use of a standard money unit as a common measure of value, though it, too, is ultimately of "high importance" in the sense that it further helps to simplify and expedite exchange, is yet another offshoot of its one, fundamental role. Whatever first comes to serve as a generally accepted medium of exchange

> will then begin to be used as a measure of value. Being accustomed to exchange things frequently for sums of money, people learn the value of other articles in terms of money, so that all exchanges will most readily be calculated and adjusted by comparison of the money values of the things exchanged.

It follows that, in those relatively rare instances in which the two functions commonly performed by the same stuff are instead performed by different things, the stuff that is generally accepted in exchange alone qualifies as "money."

That the man who coined the expression "double coincidence of wants," and who first represented money as something capable of making up for the lack of such "double coincidences" in barter economies, should have given pride of place to money's medium of exchange function, should not surprise us. But Jevons was hardly unique in this regard. The same view was held by other outstanding monetary theorists of the late 19th and 20th centuries, including Carl Menger.

Menger on Money's Functions

Anyone familiar with Menger's famous theory of the evolution of money will know that he identifies it with the most readily accepted or "saleable" of an economy's goods or assets. Like Jevons, Menger recognizes that money typically performs other functions, but these he regards as secondary. Thus, when Menger observes in his *Principles of Economics*, that "Under conditions of developed trade, the only commodity in which all others can be evaluated without roundabout procedures is money," he isn't defining money as a medium of account: he's merely observing, as Jevons does, that an established money will also tend to be an economy's most convenient medium of account. Menger recognizes, furthermore, that

> this outcome is not a necessary consequence of the money character of a commodity. One can very easily imagine cases in which a commodity that does not have money character nevertheless serves as the "measure of price" … The function of serving as a measure of price is therefore not necessarily an attribute of commodities that have attained money character. And if it is not a necessary consequence of the fact that a commodity has become money, it is still less a prerequisite or cause of a commodity becoming money.

As if anticipating the present critique, Menger goes on to note how "[s]everal economists have fused the concept of money and the concept of a 'measure of value' together, and have involved themselves, as a result, in a misconception of the true nature of money."

Menger disposes of the "store of value" view of money in much the same fashion:

> The same factors that are responsible for the fact that money is the only commodity in terms of which valuations are usually made are responsible also for the fact that money is the most appropriate medium for accumulating that portion of a person's wealth by means of which he intends to acquire other goods (consumption goods or means of production). …But the notion that attributes to money as such the function of also transferring "values" from the present into the future must be designated as erroneous. Although metallic money, because of its durability and low cost of preservation, is doubtless suitable for this purpose also, it is nevertheless clear that other commodities are still better suited for it. Indeed, experience teaches that wherever less easily preserved goods rather than the precious metals have attained money-character, they ordinarily serve for purposes of circulation, but not for the preservation of "values."

Later Austrian economists were, if anything, even more emphatic on these points than Menger. According to Ludwig von Mises, "Money is the thing which serves as the generally accepted and commonly used medium of exchange. This is its only function. All the other functions which people ascribe to money are merely particular aspects of its primary and sole function, that of a medium of exchange." Murray Rothbard likewise observes that, although "Many textbooks say that money has several functions…it should be clear that all of these functions are simply corollaries of the one great function: the medium of exchange."

Money is a Generally Accepted Medium of Exchange

So, can we please junk the stupid three-function definition of money? So what if textbook writers keep repeating it? It's incoherent. It's based on some earlier economists' sloppy reading of Jevons's classic treatment. It encourages people to say silly things. In short, it's good for nothing but confusion and mischief.

Yet there's a perfectly sensible alternative definition—the one that heads this section. It's been endorsed by many of the greatest monetary economists of all time, including the one who is wrongly understood to have given us the silly three-part alternative. It avoids all the shortcomings of the three-part definition. And it's easier to remember.

Show me someone who doesn't find these arguments persuasive, and I'll show you someone who badly wants to call something "money," that isn't.

– November 13, 2021

Vaccine Authoritarianism Explained

MAX BORDERS
Contributor

"This is behavior that picks and chooses precepts from both syndromes [taking and trading], creating monstrous moral hybrids."
– Jane Jacobs, from *Systems of Survival*

Disclosure: I am vaccinated against Covid-19. So allow me to inoculate myself from any charges that I am an 'anti-vaxxer.' I am not. Yet, I join millions of people worldwide who are unsettled by vaccine mandates like those issued from the Biden Administration and from states like California. First, we should ask whether the mandates make sense from a public health perspective. Then, if not, we want to try to make sense of why authorities would double down on measures with such weak public health justification.

Mandates Make No Apparent Sense

Before we get into the political economy of that which slinks from the coital bed of government and pharma, we need briefly to get into the reasons why the current "public health" case for mandates and passports makes no sense.

1. **Schoolchildren currently have negligible risks from Covid-19.** Subjecting kids to risks such as myocarditis, pericarditis, and thrombosis, however small, is not based on any rational assessment of the current data on Covid disease risks to children. So the main argument for mandatory child vaccination is that it protects *adults*. Not only do Covid vaccines have diminished effectiveness through time, but they also do precious little against *transmissibility* after only two months, especially against the variants currently raging worldwide. Breakthrough cases are legion, and *waning* vaccine effectiveness is well-documented. (Disclosure 2: Despite being vaccinated, I contracted Covid and passed it to my vaccinated partner and unvaccinated children.) Of course, no one has studied the long-term effects of mass mRNA vaccination on either adults or children, and even the clinical trials on children are dubious. So it's strange to hear the usual boosters (no pun) of a more expansive regulatory state want to move full-throttle in forcing experimental therapies on kids.

2. **Vaccine mandates introduce unnecessary risks to the scores of millions of Americans who are Covid recovered.** Study after study (after study) demonstrates that people who have recovered from Covid-19 have robust, durable immunity, which is as good or better than vaccine immunity. There is no reason people with natural immunity should be compelled to undergo any therapy whose long-term effects are unknown. Never mind that the magnitude of the known risks is still being studied. (One Covid recovered law professor sued his university for just such a mandate.)

3. **Vaccine mandates are questionable even for those who have not yet contracted Covid-19.** Why? It's pretty simple: adults ought to weigh the known and unknown risks of any medical decision for themselves and seek proven early treatment if they contract the virus. As I pointed out above, the case for vaccine-based community

protection is weak and growing weaker by the day. It's frankly bizarre that we are living in such a time that authorities fancy it's okay to force *anyone* to undergo therapies that are still considered experimental. Such is not to argue that riskier experimental therapies shouldn't be an option for people in a pandemic; it is simply to argue against compulsion.

The good news is that millions of people around the world are in open rebellion against these mandates and the authorities who issue them. And the rebel alliance is not just a covey of anti-vaxxers. People of conscience, both vaccinated and unvaccinated, think these mandates are wrong. Mainstream media apparatchiks will continue to peddle talking points to justify these authoritarian measures, but the great unvaxxed aren't having it. Current scientific findings and 13,000-plus physicians support their intransigence.

Given that extensive research militates against purported rationale for vaccine mandates, we have to ask: Why then? The answer might have something to do with the dynamics of political economy.

Follow the Money

At the risk of oversimplifying, I'm going to tell a story. I will use readily available information to form a rough timeline and a hypothesis that evokes traditional Public Choice Theory. For the uninitiated, Public Choice Theory is a branch of economics that deals with the behavior of actors operating in a matrix outside of normal market conditions, such as within the political realm.

Our story begins in Wuhan, China: December 2019. Or so it would seem. There, a mysterious virus had begun claiming lives. (As you'll see, we'll have to go back a little further than that.) Still, in December 2019, the world had started to notice. The virus soon spread beyond China, and by February 2020, the pandemic raged globally.

In January 2020, a little-known company called Moderna developed their mRNA vaccine with a grant from BARDA (a sub-agency of the U.S. Dept. of Health and Human Services) but *in close collaboration with* NIAID, the federal infectious disease agency headed by Anthony Fauci. Indeed, the NIH *shares* the patent with Moderna. All told, government officials spent $2.5 billion to bring Moderna's vaccine to market, with almost $1 billion going to research and development. Moderna/NIAID entered clinical trials for its mRNA vaccine on March 15, 2020, which means this research had begun, or been accelerated, at a pace unknown to most bureaucracies.

Readers will note that just six weeks before the start of Moderna/NIAID's clinical trials, NIAID director Anthony Fauci maintained close contact with key stakeholders involved in a multi-year program that included risky gain-of-function research. The exchanges culminated in a now-famous Saturday conference call on February 1, 2020. That call included Scripps Research microbiologist Kristian G. Andersen who had warned Fauci by email a couple of days prior that "Some of the features (potentially) look engineered." Scripps Research is no stranger to using and allegedly misusing NIH largesse, so it's no surprise that Andersen would refer to any theories of lab leaks or engineered viruses as "crackpot theories."

Also present in that teleconference was NIH director Francis Collins who, amid increased calls to fire Fauci, recently resigned his own post.

Along with Fauci, at the center of questions surrounding dangerous gain-of-function research is Peter Daszak. His non-profit, Ecohealth Alliance, directed $600,000 in NIAID grants to the Wuhan lab between 2014 and 2019 as part of a grant to study bat coronaviruses. Daszak wrote Fauci in the days after the Saturday teleconference to thank him for using his gravitas to dismiss the lab-leak theory and

propagate the SARS-CoV2 natural origins theory. Daszak was also behind publishing a letter to the venerable Lancet in which signatories denounced the lab-leak theory and boosted the notion of a natural origin. Before the letter's publication, Daszak had written to a co-conspirator thus:

"We'll then put it out in a way that doesn't link it back to our collaboration so we maximize an independent voice."

The Lancet later condemned that letter, citing conflicts of interest.

As mentioned, Daszak's Ecohealth Alliance had also been a recipient of research funding over which Fauci had oversight. Not only did Daszak fail to disclose an Ecohealth Alliance grant proposal to DARPA — denied because its research posed dangers eerily similar to that of the current pandemic virus — but Daszak allowed himself to be installed as one of the *principal investigators for the WHO*, commissioned to look into the Wuhan Lab as a potential origin.

The riff-raff commonly refer to this as the fox guarding the henhouse.

The Moderna Connection

Now, excuse the interruption, but what on earth does all of the above have to do with vaccine mandates?

In one of the email exchanges uncovered by a Judicial Watch FOIA request, a January 20, 2020 email initiated by NIH officials included a "Wuhan Pneumonia Report" along with a timeline of the initial outbreak in China to that point. The report also details a portfolio administered by none other than Peter Daszak of the non-profit EcoHealth Alliance.

> Peter Daszak (R01A|110964-06) is funded for work to understand how coronaviruses evolve and jump to human populations, with an emphasis on bat CoVs and high-risk populations at the human-animal interface. Main foreign sites are in China (including co-investigators at the Wuhan Institute of Virology)."

Said "co-investigators" included researcher Fang Li of the WIV, who was to carry out research that sounds conspicuously similar to what lay folk now refer to as "gain of function." But the exchange also describes another grant to "a team of investigators using mouse models of SARS and MERS to investigate CoV pathogenesis and develop vaccines and therapeutics." Chimeric or "humanized" mice used in the Wuhan/EcoHealth Alliance research are now coming under greater scrutiny as potential pandemic vectors, belying Fauci's statements before Congress.

Then, under a section of the report simply called "Vaccines," NIH authors write:

> The VRC [Vaccine Research Center] and collaborators have stabilized the MERS-CoV spike protein in its prefusion conformation. The stabilized spike protein is potently immunogenic and elicits protective antibodies to the receptor binding domain, n-terminal domain and other surfaces of the spike protein. The stabilized coronavirus spike protein, and mRNA expressing the spike protein through collaboration with Moderna Therapeutics, is currently being evaluated in the humanized DPP4 mouse model at UNC. (Emphasis mine.)

Needless to say, it is odd that the startup Moderna had been at the center of all this parallel research on bat coronaviruses for years leading up to the Wuhan outbreak, and was thus joined at the hip with Fauci's NIAID.

The Fatal Conceit and Monstrous Hybrids

To be fair, the "gain of function" vision, which Anthony Fauci has always supported with a full

throat, was to figure out how to develop an arsenal of therapeutics to combat any given virus that might leap from an animal to a human. The whole idealistic premise had been that researchers would collect viruses and find likely candidates for zoonosis in the lab. Then authorities would be able to fund drugmakers to create vaccines. As Fauci writes in 2012:

> Scientists working in this field might say—as indeed I have said—that the benefits of such experiments and the resulting knowledge outweigh the risks. It is more likely that a pandemic would occur in nature, and the need to stay ahead of such a threat is a primary reason for performing an experiment that might appear to be risky.

A more cynical interpretation of the above might be that these stakeholders would benefit from a grave warning shot like the Covid-19 pandemic. But a more charitable understanding of events is that Fauci's desire to save the world from pathogens had been vindicated, indeed accelerated, by a freak accident in Wuhan only they could clean up. That latter interpretation would only fly if the virus was thought to *emerge naturally.* Otherwise, the political equivalent of *'Hey, we dropped a match in the forest, so we firefighters are going to get our hoses out now.'* would land with the public like a lead balloon — and for reasons Fauci had anticipated long ago.

They knew they had better get their stories straight.

Thus, in the minds of Moderna executives like the allegedly vicious Moderna CEO Stéphane Bancel and his partners at NIAID, including Fauci, the vaccine train had already left the station. It was a technocrat's dream, a public-private partnership for all humanity. The credulous, pious media continued to fawn over Fauci throughout 2020 and well into 2021. Remember, up to this point in the story, no mRNA vaccine had ever been rolled out to the masses. Yet Fauci's reputation as public-health papa put him squarely in the position of Technocrat-in-Chief when it came to the pandemic and how to control it. Moderna stood to make a metric ton of money on top of the investment largesse Fauci had already directed to the start-up in the years leading up to the pandemic. But who could begrudge a life-saving hero becoming a billionaire?

Bootleggers, Baptists, and Vaccine Mandates

I would not go so far as to speculate that Anthony Fauci might be playing out Munchhausen by Proxy on a societal scale, though some have gone there. Still, I don't think it's a stretch to say that Fauci and his functionaries have behaved in a way that lends plausibility to orthodox Public Choice Theory, specifically the theory of Bootleggers and Baptists.

In 1983, economist Bruce Yandle developed the Bootleggers and Baptists framework to explain his belief that durable government action tends to come about with the support of two types of interest groups: those with *moral* interests and those with *financial* interests. Yandle appeals to early twentieth-century blue laws, which prohibited the sale of alcohol on Sundays. Baptists, the moralists, were motivated by their beliefs that Sundays should be respected as a day of prayer and rest, not drinking. The Bootleggers supported the ban, too, but only because they would enjoy a thriving black market on those days and profit from illegal alcohol sales. Durable government action, according to Yandle, tends to emerge with the support of coalitions that share a common goal even if they don't share common motivations.

In a global pandemic, it has not been difficult to find a plethora of public health pieties. Nor has it been hard to find profiteers, especially pharma. I doubt that Anthony Fauci has any financial interests in the Moderna/NIAID vaccine — though investigators should look. He's in it for the glory. Still, the

Moderna/NIAID partnership puts the Bootleggers and Baptists on the same team.

Fauci, President Biden, and all the MSM sentinels are the moralists in this equation, that is, if Prof. Yandle will permit a not-so-bright line between moralism and savior complex. They want to be known as the ones who beat the pandemic. One might even say Fauci has been planning for this his whole career. Now he graces us with his presence daily on SAHM programs such as *The View*, basking in the lamps, reminding us to wear our masks and get our vaccines.

The decrepit Biden, though he needs help getting up on that high horse, once bestride it, holds his mighty executive pen aloft and commands the multitudes to get the jab or else. Waiting in the wings are shadowy corporate figures, such as Moderna's Bancel, prepared to execute these technocratic plans using billions of dollars inked in red. Though howls against Big Pharma were once prominent in the Progressive Playbook, those have mysteriously been redacted like Anthony Fauci's FOIA'd emails. When one stops to think that these billions will have to be repaid by the very children who won't have a choice but to get these vaccines, much less likely Covid, she might find the idea nauseous. A considerably more disturbing thought, though, is that Fauci probably suspected all along that NIH funding led to the creation and (accidental) release of a virus that has killed 5 million people as of this writing.

Anthony Fauci is a monopsony on funding for infectious disease research. He clearly does not want to be known as the guy in charge of funding the pandemic, even inadvertently. His defensiveness, his untruths before Congress, and his moth like draw to camera lights — all seem to reveal a man who, in his moralism, refuses to acknowledge that his agency had any hand in the damage Covid dealt. He wants to be America's doctor, and his grand plan has always been to vaccinate the world. In his favored scenario, he would not be viewed not as a negligent bureaucrat but a savior. And he wants to keep it that way. The researchers? The intermediaries? The pharma execs? They're in it for the money upon which their careers depend.

My hypothesis, therefore, tentative but bold, is that economist Bruce Yandle must have seen this coming a mile away. The vaccine mandates of 2020-2021 is a story of Bootleggers colluding with Baptists. The only question that remains, then, is whether we're going to let them get away with it.

– November 6, 2021

Resisting Tyranny Depends on the Courage to Not Conform

BARRY BROWNSTEIN
Contributor

Social psychologist Roy Baumeister begins his book *Evil: Inside Human Violence and Cruelty*, with a proposition that will be counterintuitive to many: "Evil usually enters the world unrecognized by the people who open the door and let it in. Most people who perpetrate evil do not see what they are doing as evil."

Dismissing evildoers as "insane" is an attempt to absolve both them and you of responsibility. Baumeister observes, "People do become extremely upset and abandon self-control, with violent results, but this is not insanity." If only "insane" people commit "evil" acts, you might reason there is no need to strengthen spiritual and moral muscles. You might skip the reflection, study, and practice that builds spiritual and moral strength.

Would you, Baumeister asks, "obey orders to kill innocent civilians? Would you help torture someone? Would you stand by passively while the secret police hauled your neighbors off to concentration camps?" Baumeister writes, "Most people say no. But when such events actually happen, the reality is quite different." Today, to the point, will you obey orders to fire upon people who refuse to comply with mandates?

In one of the most instructive books about Nazi Germany, *Ordinary Men: Reserve Police Battalion 101 and the Final Solution in Poland*, historian Christopher Browning explores why most people say yes and commit heinous acts even when given latitude to say no.

The men of Police Battalion 101 were not specially selected psychopathic killers. Initially, the Battalion was set up to enforce Nazi rule in occupied Poland. Eventually, their mission changed, bringing them to be the genocidal murderers of Jews they were charged with rounding up. Browning explains, "The bulk of the killers were not specially selected but drawn at random from a cross-section of German society, and they did not kill because they were coerced by the threat of dire punishment for refusing." Mostly they were "middle-aged reserve policemen." Battle had not driven these men to depravity, "they had not been fired on nor had they lost comrades."

Browning explores one of their initial murderous actions, "shooting some 1,500 Jews in the Polish village of Józefów in the summer of 1942." Major Wilhelm Trapp addressed his men before the shooting began: "Pale and nervous, with choking voice and tears in his eyes, Trapp visibly fought to control himself as he spoke. The Battalion, he said plaintively, had to perform a frightfully unpleasant task. This assignment was not to his liking; indeed, it was highly regrettable, but the orders came from the highest authorities."

Trapp provided a "justification" for the coming slaughter—Jews were damaging Germany and threatening German troops—but then Trapp "made an extraordinary offer: if any of the older men among them did not feel up to the task that lay before him, he could step out." The task, Trapp outlined, was the immediate killing of all women, children, and the elderly.

Only twelve of the approximately 500 in the Battalion initially took Trapp's offer to "step out." Browning estimated "10 to 20 percent of those actually assigned to the firing squads" extricated themselves "by less conspicuous methods or asked to be released from the firing squads once the shooting had begun." Yet for most of the police,

killing became second nature: "Many reserve policemen who were horrified in the woods outside Józefów… subsequently became casual volunteers for numerous firing squads and 'Jew hunts.'"

Browning's research provides insights into the mindsets that fueled obedience: "Who would have 'dared,' one policeman declared emphatically, to 'lose face' before the assembled troops." Another said, "No one wants to be thought a coward."

Not all who followed orders lacked moral consciousness: "Another policeman—more aware of what truly required courage—said quite simply, 'I was cowardly.'"

Some rationalized their atrocities: "It was possible for me to shoot only children. My neighbor then shot the mother and I shot the child that belonged to her, because I reasoned with myself that after all without its mother the child could not live any longer."

To escape moral culpability, others offered the excuse of what difference could they make: "Without me [shooting] the Jews were not going to escape their fate anyway." How many managers are saying today, what difference can I make? *If I don't fire the unvaccinated, someone else will*.

Browning explains, "The men's concern for their standing in the eyes of their comrades was not matched by any sense of human ties with their victims. The Jews stood outside their circle of human obligation and responsibility." Today, hospital administrators are firing workers with robust natural immunity who faithfully served during the pandemic and refuse the vaccine. Like the men in the Battalion, these administrators are just following orders.

What would have happened that terrible day in 1942 if more policemen recognized the humanity of the "other" and had the courage to not conform? Today, what would happen if more businesses, like In-N-Out Burger, refuse to obey government edicts? In October, Stephen Davis, a Florida fire battalion chief, "was fired for refusing to discipline department employees listed as unvaccinated." What would happen if more managers had the courage of Chief Davis? Without obedience, tyranny fails.

During this time of Covid, we can learn lessons from Browning's book about how we treat people who make choices different from our own. We can notice when we fail to see the humanity in others. We can become aware when we justify an us vs. them mindset. We can question our perceptions. To wait for Biden or Fauci to change first is to ignore our power of choice.

Lessons Learned

Browning reflects on the actions of the Battalion and asks, "If obedience to orders out of fear of dire punishment is not a valid explanation, what about 'obedience to authority' in the more general sense used by Stanley Milgram?"

Browning wonders if there is "a 'deeply ingrained behavior tendency' to comply with the directives of those positioned hierarchically above, even to the point of performing repugnant actions in violation of 'universally accepted' moral norms." Browning explains,

> The notions of 'loyalty, duty, discipline,' requiring competent performance in the eyes of authority, become moral imperatives overriding any identification with the victim. Normal individuals enter an 'agentic state' in which they are the instrument of another's will. In such a state, they no longer feel personally responsible for the content of their actions but only for how well they perform.

Browning recounts, "Milgram made direct reference to the similarities between human behavior in his experiments and under the Nazi regime. He concluded, 'Men are led to kill with little difficulty.'"

Importantly, "Milgram himself notes that people far more frequently invoke authority than conformity

to explain their behavior, for only the former seems to absolve them of personal responsibility." Yet, in the Battalion case, "Many policemen admitted responding to the pressures of conformity—how would they be seen in the eyes of their comrades?—not authority." Based on his research, Browning concludes, "Conformity assumes a more central role than authority at Józefów."

The Covidocracy demands we all conform and shames those who make different choices. Browning explains the dangers of a culture of shame: "The shame culture, making conformity a prime virtue, impelled ordinary Germans in uniform to commit terrible crimes rather than suffer the stigma of cowardice and weakness and the 'social death' of isolation and alienation vis-à-vis their comrades."

The segregation of Jews was an enabler of evil actions. Browning points to pervasive banishment of Jews from German society "and the resulting exclusion of the Jewish victims from any common ground with the perpetrators made it all the easier for the majority of the policemen to conform to the norms of their immediate community (the battalion) and their society at large (Nazi Germany)."

For some policemen who did not shoot, their commercial ties shaped their view of human beings. One said, "Through my business experience, especially because it extended abroad, I had gained a better overview of things. Moreover, through my earlier business activities I already knew many Jews."

Harvard social psychologist Gordon Allport developed his famed contact hypothesis in the 1940s: "Increasing exposure to out-group members will improve attitudes toward that group and decrease prejudice and stereotyping." Commercial ties bring people together.

Today, politicians work overtime demonizing, mocking, and punishing "out-group members" who won't obey their dictates.

A Story of Nonconformity

Recently Tim, a reader and business owner from New Zealand, sent me his powerful testimony in an email:

> Fifty odd years ago, as a young child I went to Ranui Primary School in suburban Auckland. There were two Māori boys in my class of 9-year-olds. Sometimes through the day they would make short comments to each other in Māori.
>
> If the teacher heard them do it, he would keep our entire class in detention after school for 15 to 30 minutes. I always hated it because one of the boys was my friend, and a regular playmate of mine after school. The other one, used to walk home from school with me too, they were my friends.
>
> But most of the class blamed these two Māori boys for us all being locked in after school. The majority of the kids disliked and bullied them in my class.
>
> I couldn't do it; I couldn't dislike them because they were my friends. Perhaps even then as a boy I could see what our teacher was doing.
>
> Our teacher was using the rest of the class as a weapon against those two young boys by encouraging the spiteful and discriminating attitudes towards them.

Tim's choice to not conform to social pressure made all the difference to his Māori friends. Did Tim's ability to see the humanity in others help him become a successful entrepreneur? After all, entrepreneurs succeed when they help serve the needs of others.

Tim continued his testimony:

> Today, 50 years later, I am again feeling the same way as I did back in my Ranui Primary School class. The teacher is telling us all that we will continue to be locked in until 90% (or whatever) of the country is vaccinated. And further, we are told that it is the fault of the 20% (or so) that have so far chosen not to accept the two shots in the arm.
>
> As a country, we are all encouraged to heap blame and hate towards anyone who has decided to not vaccinate.
>
> Regardless of my own vaccination status, I have friends and family who I refuse to hate or blame.
>
> I lay the blame exactly where it belongs. At the feet of my Primary School teacher for our detentions, not my two boyhood friends.
>
> And at the feet of our Prime Minister for her lockdown rules, not my friends and family who have chosen to decline an injection that they don't trust, rightly or wrongly.

Be like Tim. Be like the 10-20% of Battalion 101 who didn't conform. Our scorn should be towards those who demand our obedience and split America into an in-group and an out-group. Become more aware when you allow your thinking to be hijacked by propaganda.

Many in the Battalion didn't understand their crimes until decades after the war ended. Don't wait to reflect until a future historian writes a book about how you supported tyranny by placing conformity above human rights.

Today Charles Eisenstein points out, "Many people trust the authorities and willingly comply with their rules. They face no dilemma, no initiatory moment, no self-defining world-creating choice point, not yet."

Conforming, lacking courage, will not spare you from choices that life will demand of you. Eisenstein challenges us: "As the authorities' narratives devolve into absurdity and their rules devolve into oppression, more and more of us face this choice: … To do what you know is right, or to cave in to the pressure, consoling yourself with words you don't believe. 'I had no choice.'"

We all have a personal responsibility for preserving freedom. The price of abdicating our responsibility is high. As Browning puts it, Germans paid a high price for "placing uncritical trust in the 'firm leadership' of seemingly well-intentioned political authority between 1933 and 1945."

– November 6, 2021

The Horrors Of A Noninflationary Thanksgiving

PETER C. EARLE
Research Faculty

Thanksgiving is one week away. There's always much to be thankful for, but this particular holiday arrives against a backdrop of worry and complaints. Inflation is a dominant concern right now, with the Bureau of Labor and Statistics' Consumer Price Index (CPI) showing prices broadly rising 6.2 percent on a year-over-year basis.

US CPI YoY (Jan 2016 – present)

(Source: Bloomberg Finance, LP)

Among other things, food prices are up. And Thanksgiving is among the most food-centric American holidays.

It's not merely hearsay that consumer fears are rising. The November 11th release of the University of Michigan Consumer Sentiment Index showed a drop from 72.5 to 66.8 between October and early November 2021. The decline was several times greater than expected, with the accompanying statement underscoring the source of the souring sentiment.

> Consumer sentiment fell in early November to its lowest level in a decade due to an escalating inflation rate and the growing belief among consumers that no effective policies have yet been developed to reduce the damage from surging inflation. One-in-four consumers cited inflationary reductions in their living standards in November, with lower income and older consumers voicing the greatest impact. Nominal income gains were widely reported but when asked about inflation-adjusted gains, half of all families anticipated reduced real incomes next year.

It seems essential to distill the matter at hand. The rapid updraft in the general price level seems to have begun in earnest in March or April of 2021, about a year after extraordinary fiscal, monetary, and social policy measures were taken in the face of the Covid pandemic. Those ultimately included a 37 percent increase in the M2 money stock, trillions of dollars in stimulus funds at a time where up to 300 million people were not working, and widespread, largely indiscriminate lockdowns/stay-at-home orders. The former policy measures disrupted supply chains, creating unanticipated stoppages in critical commercial ventures and congestion in transportation systems as well as widespread unemployment.

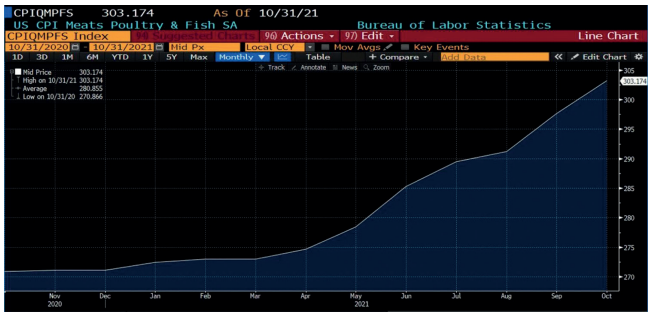
A recent article in the *Washington Post* offers some advice for concerned feast planners, one of which is to be flexible. But is that a sound, actionable recommendation with the general price level ascending and, in the case of certain items, soaring?

Indeed. In fact, there are a handful of categories in which prices not only have not risen over the last year. It's absolutely not necessary to pay higher prices to bring a perfectly serviceable Thanksgiving dinner together, and I'm happy to provide my findings to price sensitive hosts.

Let's Talk Turkey

According to BLS indices, meat, fish, and poultry prices are up by almost 12 percent over the last year.

US CPI Meat, Poultry, & Fish (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

But turkey is another matter entirely. Just a few weeks back, the *Des Moines Register*–a source which, to me, seems authoritative–informed readers that they have been warned:

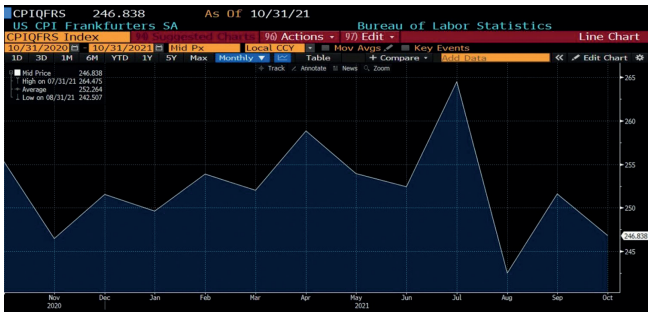
> If you're supplying the turkey for this year's Thanksgiving gathering, buy it now…Turkey production is down year-over-year, the U.S. Department of Agriculture department said in October. The supply of birds in cold storage through August, the end of the seasonal buildup to the holiday, was 20 percent below the same time a year earlier.

And the prices of turkeys have consequently burst to the upside.

> [T]he price of a 15-pound turkey has surged from $11 in 2018 to nearly $21. That's the highest in decades, after a 25 percent jump in just the past year. And just about anything else you might need to make that dinner complete is probably costlier, as well, with eggs up nearly 30 percent in a year and sugar up 12 percent.

But don't despair: your family needn't choose between a larger bill or going meatless for the holiday. As a matter of fact, there is an option which will likely save you and your family money. Don't believe me? According to the Bureau of Labor Statistics, and seemingly against all odds, the price of frankfurters has fallen over the last year.

US CPI Frankfurters (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

And, we've got our main course!

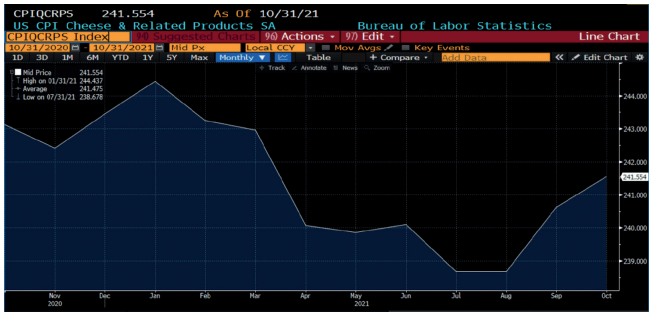
The Grain Pain

Agricultural commodities are up a tremendous amount over the last year. The price of the generic wheat futures contract, which is obviously a major component of bread, is up 29 percent since November 2020. Corn prices, by the same measure, are up 42 percent over the same period. Those factor directly into the prices of such Thanksgiving essentials as rolls and stuffings. (If we are sticking to our cost-cutting mandate, it also takes hot dog buns off the list). Gravy, made with beef or chicken broth, falls victim to the same meat price-driven increases described previously: they've seen a 1.75 percent increase over the last year. What, if anything, can be added to our bunless hot dog "feast?"

Fear not: cheeses are down in price over the last year. As I wrote earlier this year, the lumber frenzy caused by the impact of lockdowns on sawmills

and the homebound DIY craze ultimately led to a collapse in the price of certain dairy products.

US CPI Cheese & Related Products (Nov 2020 – present)



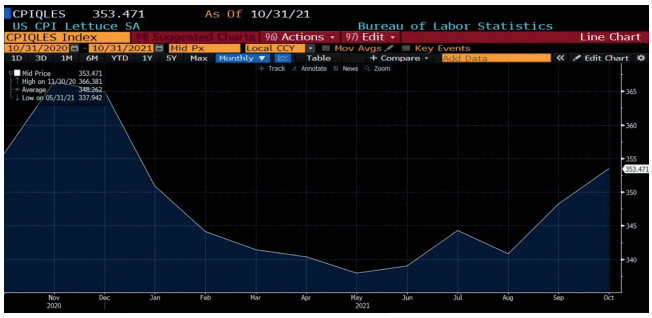
(Source: Bloomberg Finance, LP)

So sticking with a strict cost-cutting mandate, we'll have to forgo stuffing, rolls, buns, and gravy. No worries though: we've got processed cheese for our wieners.

More Green for the Greens

When it comes to vegetables, on a year-over-year price basis we're mostly out of luck – except for lettuce. A plain salad could appear amid the cut-rate Thanksgiving spread.

US CPI Frankfurters (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

But it would be an extraordinarily plain salad, since over the last year salad dressing is up 7.7 percent and tomatoes up 20 percent. (Croutons, which are a bread and therefore grain product, are already off the menu.) Pre-mixed salads and even frozen vegetable and fruit prices are up year-over-year as well, 6.8 percent and 1.6 percent respectively.

What about cranberries, for which secondary only to turkey the holiday is renowned? Sorry, no. They're up 2.8 percent since last November. According to the CEO of Ocean Spray, his firm

> has to pass on the rising production costs to consumers…"My advice is to be absolutely flexible. Whether it's jellied, whole or fresh cranberries," he added. "Plan early and make sure you get to the grocery store. It will be a happy Thanksgiving, but you have to demonstrate more flexibility than you have in the past."

And for the Sweet Tooth

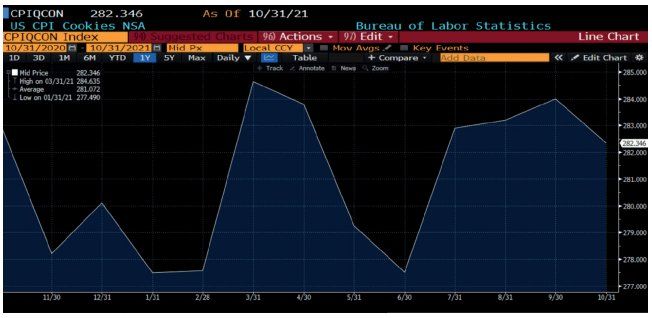
And what of the much-anticipated dessert course? Will there be pie, cake, tarts, or turnovers for dessert? Those have risen just over 4 percent since last November, so, no, no, no, and no.

Sweets or candy? Up 1.5 percent.

Whatever is included in the CPI category known simply as "snacks?" One assumes these include chips, crisps, pretzels, and so on, which have increased in price by 3.2 percent over the last year.

Can we at least, after our hot dogs, processed cheese, and undressed, plain lettuce salad, have cookies?

US CPI Cookies (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

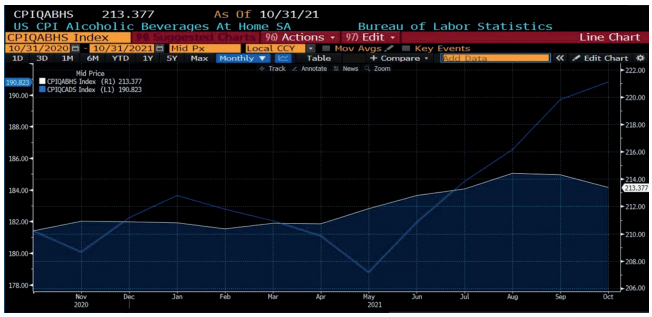
Yes. Cookie prices are down two-tenths of a percent (0.23 percent) since this time 2020.

They will not be washed down with milk, though: milk prices are up 4.3 percent over 12 months.

In Vinum Altum Pretium

And to imbibe? You're better off not asking. Your friends and neighbors will have paid 1.5 percent higher for beer, wine, and other such consumables than they did last year, and over 5 percent more for soft drinks and other carbonated products.

US CPI Alcoholic Beverages and Carbonated Drinks (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

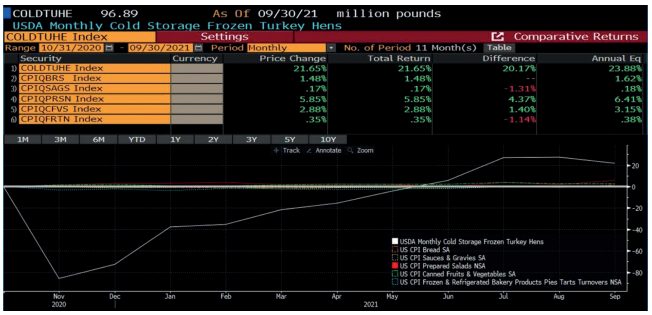
There's always good old H2O. Water is healthy. And to fully savor the flavor of Thanksgiving frankfurters wrapped in cheese slices between bites of unseasoned lettuce, water is inarguably the best possible choice. Variety may indeed be the spice of life; but in a sudden inflationary outbreak savings are garnish enough.

Look on the Less Dim Side

As I was completing this article, a television wonk said (paraphrased): "Yes, food prices are higher now than they were last year, but used car prices are up several times that!" So, in the spirit of giving thanks, we should all be grateful that..used cars..are not on the menu?

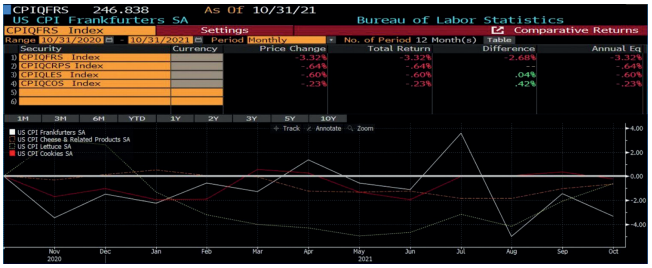
A comparison of the costs of the two meals, "traditional" versus "price sensitive," over the course of roughly one year ('price change') follows.

US CPI Frozen Turkey, Bread, Sauces & Gravy, Prepared Salad, Canned Fruit, & Pies & Bakery Products (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

US CPI Frankfurters, Cheese, Lettuce, & Cookies (Nov 2020 – present)



(Source: Bloomberg Finance, LP)

I'm guessing there will be a tiny minority of readers who'll think that hot dogs, cheese, lettuce, and cookies with lukewarm water (I'd suggest cool or cold water, but energy prices are rising too) constitute a lackluster Thanksgiving spread. Determining the degree of irony in the fact that meals very similar to that are holiday fare in prisons is an exercise left to the reader.

But one of the other tips from the *Washington Post* was, in the face of shortages and rising prices, to rethink traditions. And the policy alchemists in Washington, DC are compelling tens of millions of Americans to do exactly that, in conjunction with dissipating purchasing power and abating standards of living. With family and friends around, there's no reason why inflationary Thanksgivings can't be almost like previous Thanksgivings. Almost.

– November 18, 2021

Asia, Not the US Is the Main Source of Global Warming

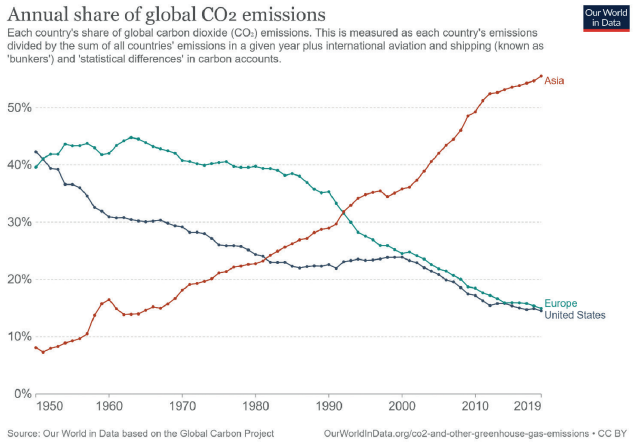
ALAN REYNOLDS
Senior Fellow

President Biden once hoped to attend the October 31 start of the Glasgow U.N. Climate Conference having signed a massive new package of climate-related spending. A *New York Times* analysis undertaken by Margot Sanger-Katz and Alicia Parlapiano estimated that $675 billion of President Biden's original $4.7 trillion "Build Back Better" plan would have been earmarked for subsidies and tax credits ostensibly intended to change the world climate. Congressional Democrats did not have the votes for such a mammoth spending spree, and many of them disliked prioritizing green subsidies over social spending during the struggle to cut the bill by nearly $3 trillion.

A few days before his trip to Europe, the President offered a new plan to shrink his $4.7 trillion plan to $1.85 trillion by discarding or gutting many social spending plans in order to leave 30% of the total ($555 billion) for "climate-related" corporate welfare.

As an explanation of Biden's priorities, The *New York Times'* Coral Davenport wrote, "The United States is historically the largest source of the pollution that is heating the planet." That is precisely the widespread misconception which leads Americans to believe the climatic fate of the entire planet is in our hands if only Congress would throw enough money at it. The trouble is the United States has not been "the largest source" of greenhouse gas emissions since 1950, when Europe overtook it for five decades. In recent decades, the U.S. has accounted for an exceedingly small fraction of worldwide increases in carbon dioxide, and an even smaller share of other greenhouse gases.

The first graph "Annual share of global CO2 emissions" shows the *U.S. share* of global CO2 emissions has been *falling* during most postwar decades – recently from 23.9% in 2000 to 14.5% in 2019. Meanwhile, carbon emissions in Asia rose from 35.8% of the global total in 2000 to *55.6%* in 2019.



Focusing on carbon dioxide overstates the U.S. share of global greenhouse gas emissions, however, because CO2 accounts for 80% of U.S. greenhouse gas emissions but only 65% for the whole world. Non-carbon greenhouse gases far more potent and long-lasting than CO2, such as methane and nitrous oxide, are a much bigger problem outside the U.S.

When *all* greenhouse gases are included, the World Resources Institute finds "Emissions from the United States contribute only *12.67%* to global emissions," while just five Asian nations –China, India, Japan, South Korea, and Indonesia– contribute three times as much –39.2%.

With only a 12.67% share of greenhouse gas emissions, U.S. political promises to change the world climate by subsidizing "green energy" companies or products is an impossible mission. The U.S. share of emissions cannot possibly keep falling fast enough to make up for rising emissions in Asia.

Passenger vehicles, for example, account for 16.4% of U.S. greenhouse gas emissions, but the U.S. accounts for 12.67% of such emissions worldwide. That means *totally banning and destroying* all American passenger cars and trucks (commute and shop only with bikes or walking shoes) could reduce global greenhouse gas emissions by only 2.1%. Spending decades and billions to gradually replace most passenger vehicles with EVs would have an immeasurably trivial effect. The small American tail cannot wag this fat Asian dog.

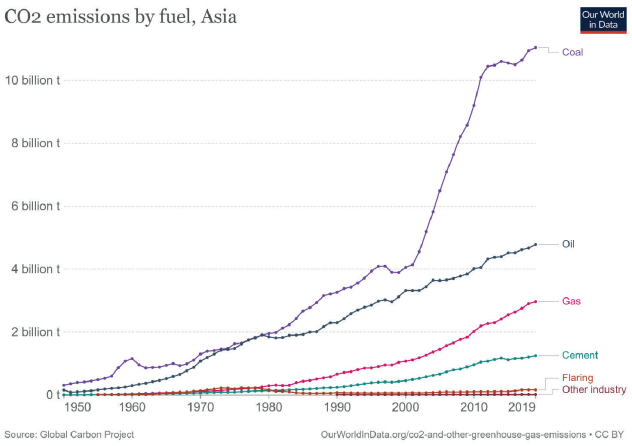
Contrast the rising red Asian CO2 trend line in the graph with the falling black U.S. line, and it becomes apparent what a trivial difference it will make to total global emissions when the U.S. line drops a few percentage points lower (as it will, regardless of federal generosity with green tax money).

The U.S. Environmental Protection Agency finds total net U.S. "greenhouse gas emissions declined 13 percent "from 2005 to 2019, mainly by replacing coal with increased production of natural gas. But extraordinarily little of the U.S. progress can plausibly be attributed to the billions spent on subsidizing green energy sources. In the first six months of 2021 U.S. energy consumption was 50,107 trillion Btu (according to the EPA's *Monthly Energy Review*) of which wind power accounted for 1,334 trillion (2.7%) and solar for 500 trillion (1%). Wind and solar data are often puffed up by adding them to assorted "renewables" to make the total appear to look more important. But biomass accounts for 39% of renewables (more than wind and solar) and burning wood, waste and corn-based ethanol is *not* carbon-free.

Asia is the overwhelmingly dominant source of rising global emissions since 2000, and there is no end in sight. Chuin-Wei Yap, Kejal Vyas and Chieko Tsuneoka wrote in *The Wall Street Journal* that "Demand for Australian coal rose in South Korea by 56% in the first half of 2021 and by 65% in Japan. . . India nearly doubled year-over-year its July imports of Australian metallurgical coal. . . China has tapped nations near and far. Coal imports from Russia roughly doubled over the first eight months. . .Coal from the U.S. quadrupled."

The second graph shows that *coal* is by far the fastest growing source of carbon dioxide emissions from Asia. Coal has long been a rapidly falling source of energy in the U.S. and E.U., but that had much less global impact than many believe because it just freed up more coal production for export to Asia.

According to Worldometers, the U.S. accounts for 8.5% of world coal consumption while Asia accounts for eight times as much – *69.8%.* China's alone accounts for 50.5% of world coal consumption, India for 11.3%, followed by Japan, South Korea, Indonesia, Taiwan, Vietnam, and Thailand.



Incredible Presidential ambitions to cool the planet are based on wildly exaggerated illusions about the U.S. role. Green Nationalists imagine the United States as such a massive source of global greenhouse emissions that the world could be cooled with another $0.5 trillion spent on subsidies and tax credits for corporations bribed to buy more Chinese JA Solar panels or Goldwind turbines, and for affluent consumers bribed to buy a Mercedes EQS or Porsche Taycan.

Excuses for subsidies rely on the pretense that we can greatly reduce the whole world's huge demand for fossil fuels by modestly boosting the domestic supply of alternatives. But the foreign demand for oil, gas and coal has nothing to do with the domestic supply of electric cars or the scale and number of unreliable solar and wind farms.

No number of subsidies for alternative U.S. energy sources could possibly offset any noticeable fraction of Asia's insatiable appetite for fossil fuels.

With so much coal and other fossil fuels being voraciously burned in Asia, spending endless billions on lucrative subsidies for electric cars, solar and wind farms, and other boondoggles could not possibly make much difference to future worldwide greenhouse gas emissions that will continue to depend almost entirely on what Asia is doing, not the U.S.

– November 5, 2021

Cryptocurrencies and the National Bank Act: Learning the Wrong Lessons from History

WILLIAM J. LUTHER (Director, Sound Money Project)

& NICOLÁS CACHANOSKY (Senior Fellow, Sound Money Project)

Policymakers have been quick to compare cryptocurrencies to historical wildcat banks. SEC Chair Gary Gensler argues that stablecoins are similar to wildcat banks, which he says resulted from the lack of federal bank regulation prior to the National Bank Act. Stablecoins are cryptocurrencies with a fixed exchange rate against a major currency, such as the US dollar. To do this, stablecoin issuers must hold enough liquid reserves to convert the stablecoins at the promised conversion rate. Gensler questions the "long-term viability for cryptocurrencies," the *Wall Street Journal* reports, "underscoring the importance of protecting investors in the market and bringing it under regulatory oversight."

Senator Elizabeth Warren has expressed a similar view:

> In the 19th century, "wildcat notes" were issued by banks without any underlying assets. And eventually, the banks that issued these notes failed and public confidence in the banking system was undermined. The federal government stepped in, taxed these notes out of existence and developed a national currency instead. And that's why we've had the stability of a national currency.
>
> So, in theory, a digital currency issued and backed by a central bank could provide the advantages of cryptocurrency without those risks. The Federal Reserve, a trusted institution, could provide a digital version of cash to the public that is secure, stable, and accepted everywhere.

The unregulated private sector failed to produce reliable claims in the past, she says; the government should step in to remedy the perceived shortcomings of privately-issued cryptocurrencies, as it did with its historical antecedents.

There's just one problem with this narrative: it is inconsistent with the historical record. The US experience does not show the dangers posed by an unregulated banking system. To the contrary, it clearly demonstrates the perils of poor regulation. Policymakers are learning the wrong lessons from history.

For starters, wildcat banking was incredibly rare. Gensler and Warren perpetuate the myth that the banking system was flooded with wildcat banks, issuing banknotes convertible into gold or silver without the sufficient reserves to honor those promises and absconding with their ill-gotten gains before noteholders wised up; and that this practice was not brought to an end until federal regulators stepped in. In fact, wildcat banking was limited to just a few states and lasted just a few years.

"The events in Michigan are spectacular," Jerry Dwyer writes in an examination of the period, "but besides not lasting very long themselves, they also did not persist in the sense that they did not reappear in other states. In 1838, while Michigan was suffering through its debacle, New York passed the free banking law that its legislature had been debating for several years. New York's free banking system is widely regarded as notably successful."

Dwyer presents the losses to New York free bank noteholders from 1842 to 1863.

> The annual loss rates on New York notes were relatively high in the 1840s—4 percent

> in 1842, 0.2 percent in 1844, and 0.4 percent in 1848—and then never again as high as 0.1 percent. Noteholders' loss rates of less than 0.1 percent in later years are not obviously more than their losses from inadvertently destroying or misplacing notes.

Perhaps 4 percent seems extraordinary. But it is not much higher than standard merchant terminal fees incurred to make payments today.

Dwyer also presents the losses to those holding notes from those New York free banks that failed.

> For a few years, noteholders' loss rates on these banks' notes are relatively high. Nonetheless, loss rates on failed banks' notes show the same pattern of declining losses over time as do noteholders' loss rates on all notes. The highest loss rate is 42 percent in 1842, within the range of estimated loss rates for Michigan a few years earlier. In the 1840s, the annual average loss rate is 9.8 percent; in the 1850s, it is 3.7 percent; and in the four years of the 1860s, it is 0.1 percent. Although the loss rate borne by those who held failed banks' notes sometimes is substantial, even this loss rate decreases over time.

Even when a bank failed, therefore, its noteholders typically suffered little.

None of this is to deny that there were very real problems in the historical US banking system. US banks were notoriously unstable. But that instability was not due to unregulated wildcat banks. Rather, it followed quite naturally from terrible state-level regulations.

Prior to the National Bank Act, banks were chartered at the state level. They were not permitted to open branches across state lines. Many states went further still, preventing branch banking within the state. As a result, the US banking system was characterized by a large number of small, under-diversified unit banks. These local banks were overexposed to their small local economies. Local shocks—like bad weather, which reduced agricultural yields—took a terrible toll on their balance sheets. And, in many cases, these unit banks failed.

State banks were also prevented from backing their banknotes with the assets of their choice. Instead, they were often required to hold low-quality state treasury bonds, which provided an attractive source of credit to states but endangered the solvency of the issuing banks. And, even in cases where they were permitted to hold federal bonds, the dwindling supply of such bonds following the Civil War constrained note issues and made it incredibly difficult to meet seasonal demand for notes.

George Selgin contrasts the US banking system with that of Canada at the same time, which lacked the burdensome restrictions described above.

> Canadian banks, unlike their U.S. counterparts, were free to issue notes on the same general assets that supported their deposit liabilities. They were as a result perfectly capable of accommodating both secular and seasonal changes in the demand for currency.

The problem, in other words, wasn't a lack of regulations. Rather, it was the existence of terrible regulations!

Finally, the claim that the federal government clearly improved matters with the introduction of the National Bank Act appears to be out of sync with the historical record, as well. The National Bank Act did not permit banks to branch across state lines. Rather, it enforced unit banking on the entire country! Nor did it permit banks to back their claims with whatever assets they desired. Perhaps that is why relatively few banks swapped their state

charters for national charters when initially given the opportunity—and didn't do so until a sizable tax was levied on state bank notes.

The National Bank Act *could have* offered a better alternative. But it didn't. Instead, it strong-armed banks into going along with an *even worse* alternative.

Perhaps the cryptocurrency market would benefit from regulatory oversight. But the regulators are certainly wrong to base their case on the historical experience of the US. The lesson they should learn from history is that regulation can be detrimental.

– November 3, 2021

Adam Smith, Capitation, and the Nonsense That Is the Proposed Wealth Tax

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Awealth tax, recently redubbed a tax on "unrealized capital gains," is all the rage in Washington, D.C. these days. While the economic implications of this proposal are sufficiently flimsy to discount its claimed purpose of revenue generation, the proposed wealth tax faces a greater obstacle to its adoption: it is blatantly unconstitutional.

It is true that a number of law professors have attempted to carve out a justification for wealth taxation through a combination of legal sophistry and bad history, but the certainty of a constitutional challenge remains in the event that Congress ever passes such a measure. To understand why such a challenge would likely doom the proposal, we must turn back to the economics of wealth taxation and – specifically – a little-noticed passage by Adam Smith.

First, let's consider the constitutional issue at hand. Article I, Section 8 of the U.S. Constitution establishes the power of Congress "To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States," however this power is not absolute. A second clause constrains this power, noting that "No Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken."

The "Capitation Clause," as it is sometimes called, divides taxation into two categories: direct and indirect. Indirect taxes include those specified in the earlier clause, "Duties, Imposts and Excises." A direct tax is a different instrument, constitutionally speaking. Before we get to the definition of that term though, suffice it to say that the Capitation Clause imposes substantial constraints on the enactment of direct taxation. In order to pass constitutional muster, the burdens of a direct tax must be apportioned across the individual states according to their share of the national population. This requirement would preclude a national tax policy, as that burden would be assessed for a state as a whole. Virginia would "owe" a sum commensurate with its population, as would California, as would Idaho and so forth. The rate of direct taxation on individuals living in each state would accordingly vary to the point of making such a tax system politically impractical if not impossible to administer.

The applications of the Capitation Clause have undergone some modification in our constitutional history. In 1909 Congress passed the 16th Amendment. This measure was intended as a workaround that would exempt the direct taxation of income from the apportionment requirement of the Capitation Clause. As the amendment reads, "Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

The history of the 16th Amendment is complex, but its immediate occasion came from a revision to the tariff system – the main source of the federal government's revenue for most of the 19th century. While debating the Payne-Aldrich Tariff Act of 1909, a group of anti-protectionist Democrats proposed a revenue swap that would replace the import tariff system with an income tax and thereby alleviate the former regime's burdens on international trade.

The income taxers of 1909 recognized that they had a constitutional problem though. They previously attempted to initiate the revenue swap strategy in 1894, only to run directly into the Capitation Clause.

Within a year of its enactment, the Supreme Court invalidated a key portion of the 1894 income tax on the grounds that it imposed an unapportioned direct tax, running afoul of the constitutional requirement. The complex findings of the *Pollock v. Farmers Loan and Trust* case were controversial in their day and some members of Congress wished to press the case further by attempting another legislatively enacted income tax in 1909. To defuse the volatile constitutional situation, President William H. Taft negotiated a compromise that would allow the tariff bill to proceed without the revenue swap in exchange for a new constitutional amendment that would exempt future income taxation from the Capitation Clause and the *Pollock case*. The 16th Amendment met the ratification threshold four years later, giving us the federal income tax.

Legal arguments for wealth taxation today typically try to bring the definition under the umbrella of the 16th Amendment, or argue around the implications of *Pollock*, which technically remains a matter of standing case law. Income and wealth are two very different instruments, however, and the "unrealized capital gains tax" relabeling of the latter gives away the game. Income refers to generated earnings – usually taxed on an annual basis – whereas wealth refers to what a person owns, whether or not it increases in value from year to year. A tax on "unrealized capital gains" would thus assess a levy against the change in an owned asset's value even if it remained unsold and thus unconverted into income.

This brings us back to the definition of "indirect" and "direct" taxation. Since the 16th Amendment only applies to income earnings, it is plainly insufficient to cover unrealized gains as envisioned in the current wealth tax proposals. That means the constitutionality of the wealth tax rests on whether it is an "indirect" or "direct" form of taxation. If it is "direct," then it would still be subject to the apportionment rule of the Capitation Clause.

To answer that question, we must turn not only to legal history but to economics. The question of direct taxation came before the Supreme Court in one of its first major constitutional challenges, the 1796 case of *Hylton v. United States.* This case is something of a historical oddity as it came from the earliest days of American jurisprudence. Rather than speaking for the Court as a whole, its opinion came in seriatim – basically a succession of statements by each justice, explaining how they reached their decision. *Hylton* involved a constitutional challenge over whether a federally assessed tax on carriages fit the definition of "indirect," as per an excise tax, or qualified as a "direct" tax on property ownership in carriages. If the latter, it would have been subject to the Capitation Clause, making the measure unconstitutional.

Arguing on behalf of the government against the challenge, Alexander Hamilton's brief in the *Hylton* case argued that carriage taxes were "indirect" and thus not subject to the Capitation Clause. He did so by delineating the categories of taxation that qualified as "direct:"

> The following are presumed to be the only direct taxes. Capitation or poll taxes. Taxes on lands and buildings. General assessments, whether on the whole property of individuals, or on their whole real or personal estate; all else must of necessity be considered as indirect taxes.

Hamilton's brief would seem to have our answer. A wealth tax, or tax on "unrealized capital gains," fits the description of what Hamilton calls a "general assessment" – a tax on a person's "whole real or personal estate." As a direct tax then, it would be subject to the apportionment requirement.

The Court's ruling in *Hylton* is what matters the most though – not Hamilton's argument on behalf of the government in the case. That is where

economics, and specifically the economics of Adam Smith, enters the picture.

The most detailed investigation of the definitional issue from *Hylton* came from the portion of the opinion written by Justice William Paterson. Referring to the carriage tax at hand before the Court, Paterson writes plainly:

> All taxes on expenses or consumption are indirect taxes. A tax on carriages is of this kind, and of course is not a direct tax. Indirect taxes are circuitous modes of reaching the revenue of individuals, who generally live according to their income.

The carriage tax therefore passed constitutional muster as an indirect tax. Far less noticed, however, is where Paterson obtained this definition. His explanation continues by noting the source of the distinction: "I shall close the discourse with reading a passage or two from Smith's *Wealth of Nations*."

> The impossibility of taxing people in proportion to their revenue by any capitation seems to have given occasion to the invention of taxes upon consumable commodities; the state, not knowing how to tax directly and proportionally the revenue of its subjects, endeavors to tax it indirectly by taxing their expense, which it is supposed in most cases will be neatly in proportion to their revenue. Their expense is taxed by taxing the consumable commodities upon which it is laid out.
>
> Consumable commodities, whether necessaries or luxuries, may be taxed in two different ways: the consumer may either pay an annual sum on account of his using or consuming goods of a certain kind or the goods may be taxed while they remain in the hands of the dealer, and before they are delivered to the consumer. The consumable goods, which last a considerable time before they are consumed altogether, are most properly taxed in the one way, those of which the consumption is immediate or more speedy in the other; the coach tax and plate tax are examples of the former method of imposing; the greater part of the other duties of excise and customs of the latter.

Paterson, accordingly, got his definition of indirect taxation from its economic use in Adam Smith's taxonomy of different revenue measures. The citation of Smith is revealing, because Smith further discusses several types of indirect and direct taxation in adjacent passages. Among the items that would qualify as direct taxation, he notes, are "Taxes upon the Wages of Labour" as well as certain "Taxes upon the capital Value of Land, Houses, and Stock," provided they are not assessed upon a transaction in that asset.

Per Smith, a tax is considered to be "indirect" as a result of the instrument of its assessment. For example, an indirect tax on property and other capital assets would occur through an assessment at the point of sale. Smith gives the examples of a tax that is assessed as a percentage of the sale price on a piece of land, or as a fixed duty upon the land transaction. As a contrasting example, he notes that direct taxation might be assessed against the non-sale transfer of property (for example, between family members) in which the unrealized value of the property is recorded by deed.

In Smith's telling, "indirect" taxation arises from the means by which a tax is assessed – specifically on a type of transaction or exchange. His use of the term implicitly excludes both direct wage earnings, or income, and direct assessments on the value of an asset in the absence of a transaction. These would each be forms of direct taxation.

While Smith's writings alone do not decide the legal implications of the terms, they illustrate plainly

that Justice Paterson linked "indirect" taxation in the *Hylton* decision to economic reasoning. Paterson did not write in a vacuum, but rather turned directly to economic theory in assessing the case before him. When we look to those same writings today, we find that Smith's reasoning is consistent with the later *Pollock* case's association of income taxation with direct taxation. And while the 16th Amendment modifies the application of that case to income earnings, the same logic remains intact for any attempt to directly tax wealth or, as certain members of Congress now call it, "unrealized capital gains." Let us hope that our better legal minds continue to draw upon economists such as Smith in navigating these constitutional waters.

– November 11, 2021

Three Common Myths About Money and Inflation

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Inflation is one of the most studied phenomena in economics. We have a pretty good idea of where it comes from and how it works. Unfortunately, a large knowledge gap remains between economists and the "man on the street." There are several persistent myths that just won't die.

Let's see if we can put a few of them to rest.

1. Increasing the money supply is automatically inflationary

If there's more money in circulation, there must be inflation, right? Wrong. Not all increases in the money supply are inflationary. In order to get inflation—that is, economy-wide price increases—you need the money supply to grow faster than money demand.

In this sense, money is like any other good. If the supply of apples goes up faster than the demand for apples, the price of apples falls. Likewise, if the supply of money goes up faster than the demand for money, the price of money—its purchasing power—falls.

The concept of money demand can be confusing. After all, we'd all like more money! Doesn't this mean money demand is infinite? No, because money demand refers to something specific: the fraction of our wealth we want to hold in cash and close cash substitutes, like demand deposits. It's about portfolio choice.

Money demand can change for many reasons. We don't need to make an extensive list of them. Just keep in mind that you can't say whether changes in the money supply will put upward pressure on prices without also knowing what's going on with money demand.

2. Increasing the money supply *more than* money demand means inflation will rise

Alas, still not right. This time, we're conflating two concepts: the price level (the inverse of money's purchasing power of money) and the inflation rate.

"Price level" is a phrase economists use to describe several statistical price indexes. Track the prices of a basket of goods, transform those prices into a single index number, and you've got the price level.

The inverse of the price level is a good proxy for the price of money. When the price level is high, the purchasing power of money is low. When the price level is low, the purchasing power of money is high.

But inflation is the *percentage change* in the price level, not the price level itself. If there's a big, unexpected increase in the money supply, the price level will rise. But, as long as it is a one-time increase and the public doesn't expect more to follow, it will not result in a higher rate of inflation in the future. It is true that inflation would be *instantaneously* high—that is, at the point in time when the price level jumps. After that, however, the inflation rate will drop back down to whatever trend it exhibited before.

To get persistent inflation, you need the money supply *growth rate* to remain higher than the money demand *growth rate*. One-time money injections aren't enough.

3. The equation of exchange says inflation is solely a monetary phenomenon

Oh dear. Several errors here. First, it confuses the equation of exchange with the quantity *theory* of money. Second, it butchers Milton Friedman's famous quote, in a way that would make that great economist pretty cranky.

Let's start with the equation of exchange, MV=PY. The money supply times velocity (average rate of dollar turnover) equals the price level times real income. This is purely definitional: it follows from the fact that V is *defined* as the ratio of PY to M.

The quantity theory of money (QTM), on the other hand, is a specific economic theory that incorporates additional assumptions to make testable predictions. The QTM says that increases in the money supply cause proportionately equal changes in the price level, *provided the following assumptions hold:* (a) the velocity of money is stable, and (b) money is neutral, meaning real income is independent of the number of green pieces of paper we all pass around.

Furthermore, it's possible for non-monetary factors to drive inflation. Milton Friedman knew this well. When money is abundant relative to goods, goods get more expensive. But this means inflation can be caused by a general scarcity of goods! Even without changing the money supply, when producing stuff gets harder, prices go up. We're experiencing this now: all those supply-chain problems you've doubtless heard about are contributing to inflation.

Let's be more specific. We can write the equation of exchange in dynamic form: $gM + gV = gP + gY$, where "g" denotes growth rates. When production in general gets harder, gY declines for non-monetary reasons. When gY declines, but the growth rate of money gM and the growth rate of velocity gV are unchanged, we get higher inflation, gP.

These might seem like nit-picky objections. They aren't. If we oversimplify inflation, we won't know how to fight it, or whether we should fight it at all. Political responses to economic turmoil are bad enough without the additional complication of widespread misperceptions amongst the public.

"It's not what you don't know that kills you, it's what you know for sure that ain't true," quipped Mark Twain. When it comes to economics, this is right as right can be! Let's make sure we have a nuanced perspective on inflation, so we're not tripped up by what we mistakenly think we know.

– November 20, 2021

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