RESEARCH REPORTS

Volume LXXXIII

January 2022

published by
AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

RESEARCH REPORTS

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 11 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including *Seeking Alpha*, *Intellectual Takeout*, *Mises Brasil*, and dozens of other outlets. To read all of them, go to

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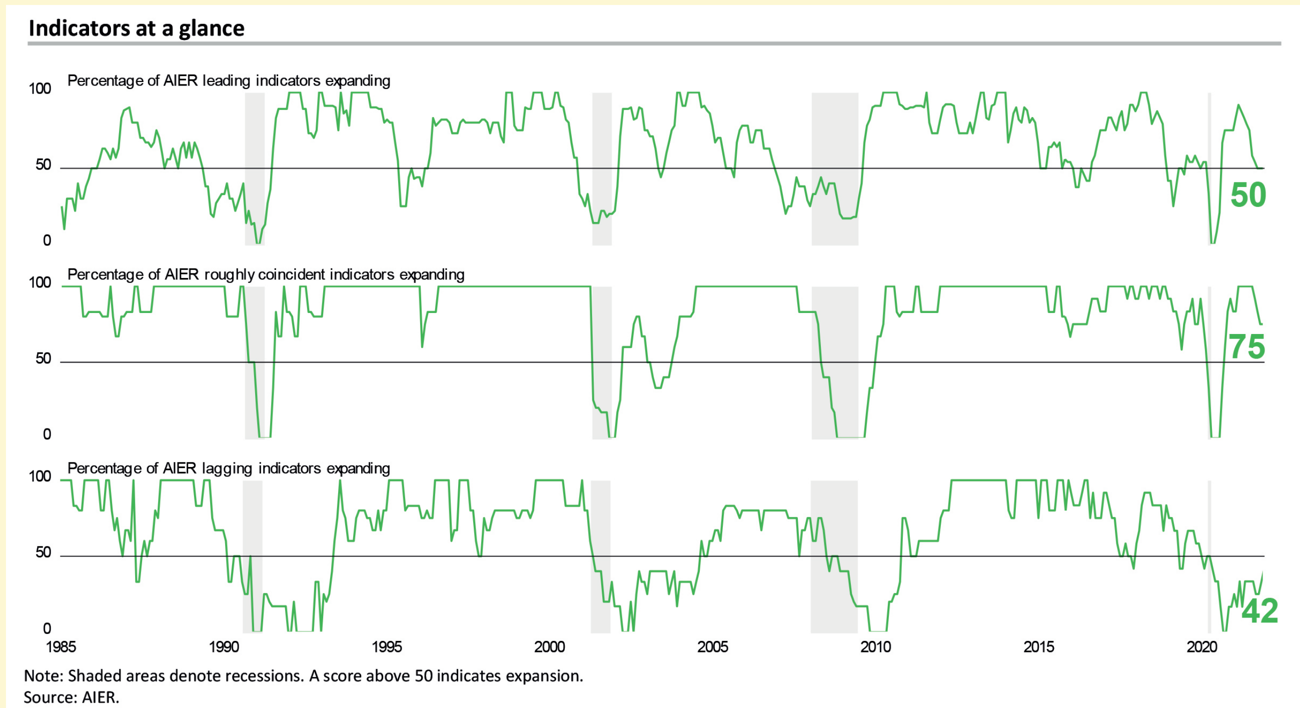
BUSINESS CONDITIONS MONTHLY

Robert Hughes
SENIOR RESEARCH FELLOW

AIER Leading Indicators Index Remains Neutral for a Third Consecutive Month



Summary

AIER's Leading Indicators Index was unchanged again in December, holding at the neutral 50 mark for a third consecutive month. The three-month run joins three other periods of weakness in the Leading Indicators Index over the last decade: a five-month run associated with the 2020 lockdown-induced recession, a seven-month run from January through July 2019, and a six-month string in mid-2016. The Roughly Coincident Indicators Index was unchanged in December while the Lagging Indicators Index posted a second consecutive gain but remains below neutral.

The string of neutral readings for the Leading Indicators Index suggests that a somewhat slower pace of growth may be coming. That slower pace could potentially ease some of the upward pressure on prices. The critical issue will be whether any deceleration in activity comes from softer consumer demand or from production. Some recent data suggest it may be the former while the latter continues to strengthen. Overall, the outlook is for continued economic expansion but with elevated risks from current upward price pressures as well as the recent wave of new Covid cases.

AIER Leading Indicators Index Holds at 50 in December

The AIER Leading Indicators index held steady in December, posting a neutral 50 reading for the third consecutive month. The index is still down 42 points from a reading of 92 in March. Holding steady at the neutral 50 mark may be foretelling somewhat slower economic growth in coming months; caution is still recommended.

Two indicators had offsetting changes in December: real retail sales weakened from a positive to a neutral trend while the treasury yield spread improved from an unfavorable trend to a neutral trend. Among the 12 leading indicators, five were in a positive trend in December and five were trending lower with two trending flat or neutral. Initial claims for unemployment benefits, 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 five 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, and housing permits all remained in unfavorable trends.

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. Furthermore, continued waves of new Covid cases have the potential to exacerbate these problems. However, businesses remain focused on improving supply chains and expanding production and are likely to be successful eventually. Some recent data reports suggest there may be some progress being made on the production side while somewhat slower consumer spending could help bring supply and demand back to balance more quickly and help reduce price pressures.

The Roughly Coincident Indicators index was unchanged in December, holding at 75 as two indicators changed signals. The consumer confidence in the present situation indicator fell for a second month, dropping from a neutral trend to a negative trend while real manufacturing and trade sales improved from a negative trend to a positive 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 42 in December, up from 33 in November and 25 in October. That was the 24th consecutive month at or below neutral. The average over the last 24 months is 29.2. One indicator – Commercial and industrial loans outstanding improved from a negative trend to a neutral trend – leaving three indicators with unfavorable trends, two indicators with favorable trends, and one with a neutral trend.

Manufacturing-sector Demand Remains Strong Amid Early Signs of Supply Chain Improvement

The Institute for Supply Management's Manufacturing Purchasing Managers' Index fell to 58.7 in December, off 2.4 points from 61.1 percent in November. December is the 19th consecutive reading above the neutral 50 threshold but is the lowest reading since a similar result in January 2021. The survey results suggest that the manufacturing sector continues to expand but at a slightly less robust pace.

Demand measures remained strong overall despite a slight pullback in the New Orders Index. The index fell 1.1 points to 60.4 percent in December. It has been above 50 for 19 consecutive months and above 60 for 17 of the last 18 months. The new export orders index, a separate measure from new orders, fell slightly to 53.6 versus 54.0 in November. The new export orders index has been above 50 for 18 consecutive months.

The Backlog-of-Orders Index increased in December, coming in at 62.8 versus 61.9 in November. This measure has pulled back from the record-high 70.6 result in May but has been above 50 for 18 consecutive months and above 60 for 11 consecutive months. The index suggests manufacturers' backlogs continue to rise at a rapid pace but slower than in early 2021.

The Production Index registered a 59.2 percent result in December, a drop of 2.3 points from November. The index has been above 50 for 19 months and has been trending sideways at a high level, averaging 60.0 over the last nine months.

The Employment Index rose again in December, posting its third consecutive increase and fourth consecutive reading above the neutral 50 level, rising to

54.2 percent. That is the strongest result since April. The run of increases and results above neutral may be an early indication that some of the labor issues plaguing production could start to ease in coming months.

The Bureau of Labor Statistics' Employment Situation report for December is due out on Friday, January 7th. Consensus expectations are for a gain of 400,000 nonfarm payroll jobs including the addition of 35,000 jobs in manufacturing. Manufacturers have added 49,389 workers per month over the last 18 months for a total gain of 889,000, putting payrolls at the highest level over the recovery, but they are still down about 253,000 compared to pre-pandemic levels.

Customer inventories in December are still considered too low, with the index coming in at 31.7. That is up 6.6 points from November and matches the highest level since February (index results below 50 indicate customers' inventories are too low). The index has been below 50 for 63 consecutive months. Insufficient inventory is a positive sign for future production.

The index for prices for input materials fell sharply in December, dropping 14.2 points to 68.2 percent versus 82.4 percent in November. The index is down from a recent peak of 92.1 in June and is now at the lowest level since November 2020. Meanwhile, the supplier deliveries index registered a 64.9 result in December, also down sharply, falling 7.3 points from the November result. The drop suggests deliveries slowed again in December but at a significantly slower pace. While both of these indexes remain elevated by historical comparisons, the significant declines over the last few months are likely early signs that some of the issues restraining supply may be easing. Progress is also reflected in some of the comments made by respondents to the survey.

> "Chemical supply chains are filling very slowly. Still not full, but (my) gut feeling says it's getting easier to source chemical raw materials." [Chemical Products]

> " Price increases appear to be slowing. Lead times are shrinking slowly, and inventories are growing. I hope we have reached the top of the hill to start down a gentle slope that lets us get back to something that resembles normal." [Fabricated Metal Products]

> "We are still seeing shortages with various metals. Plastic resins seem to be slowly improving. Electronic component lead times are still moving out." [Electrical Equipment, Appliances & Components]

> "Costs for steel seem to be coming down some. We have seen a little relief on steel prices, but they are still very high. Overall performance by suppliers has improved. On-time deliveries have improved." [Machinery]

There were also several comments about continuing materials shortages, labor issues, and transportation and logistical problems, but the possibility of easing in some industries is a positive sign. Overall, demand for the manufacturing sector remains robust as labor difficulties, materials shortages, and logistical problems continue to hamper the ability to meet that demand in many areas. While there are early signs of some easing, new waves of Covid threaten to extend the period of normalization and sustain upward pressure on prices.

Services-Sector Growth May Have Slowed in December

The Institute for Supply Management's composite services index fell to 62.0 percent in December, falling 7.1 points from 69.1 percent in the prior month. The index remains above neutral and suggests the 19th consecutive month of expansion for the services sector and the broader economy. However, the decline in the latest month suggests

that growth may have been somewhat less robust. Compared to the manufacturing sector, the decline was more severe though the level of the index remains above the manufacturing-sector index.

Among the key components of the services index, the services new-orders index fell to 61.5 percent from 69.7 percent in November, a drop of 8.2 percentage points from November. New orders have been above 50 percent for 19 months and above 60 for the past ten months – a strong performance overall. For December, 13 industries reported expansion in new orders in December while three reported drops. Manufacturing new orders ticked down in December and was trending near 60 percent, a still-healthy level but down from readings around 65 from August 2020 through September 2021.

The nonmanufacturing new-export-orders index, a separate index that measures only orders for export, increased to 61.5 percent in December versus 57.9 percent in November. Six industries reported growth in export orders against five reporting declines.

Backlogs of orders in the services sector likely grew again in December though the pace may have slowed as the index remained above the neutral 50 level but decreased to 62.3 percent from 65.9 percent. Backlogs of orders have grown for 18 of the past 19 months. Eleven industries reported higher backlogs in December while six reported a decrease.

The business-activity index (comparable to the production index in the ISM manufacturing report) decreased to 67.6 percent in December, down from 74.6 percent in November, a decline of 7.0 points. This measure has been above 50 percent for 19 consecutive months. For December, 15 industries in the services survey reported expansion versus three reporting contraction. For the manufacturing sector, the production index ticked down in December and remains in a sideways trend around 60, a strong reading but down from the 62 to 68 range from August 2020 through April 2021.

The services employment index remained above the neutral 50 percent level, coming in at 54.9 percent in December, down from 56.5 percent in November, and a generally healthy level by historical comparison. Eleven industries reported growth in employment while three reported a reduction.

The manufacturing employment index posted a 0.9-point increase to 54.2, also a solid reading by historical comparison. Improvement in these indexes could be a sign that companies are attracting and retaining needed employees.

Supplier deliveries, a measure of delivery times for suppliers to nonmanufacturers, came in at 63.9 percent, down sharply from 75.7 percent in the prior month. It suggests suppliers are falling further behind in delivering supplies to services businesses, but the slippage has decelerated significantly from the prior month. Still, the index remains elevated. Fifteen industries reported slower deliveries in December while none reported faster deliveries.

There was also a sharp decline in the manufacturing supplier deliveries index, falling 7.3 points to 64.9 percent. The sharp declines in both could be early favorable signs that some of the upward price pressures may start to ease.

The nonmanufacturing prices paid index rose slightly to 82.5 percent, up from 82.3 percent in November, a very high level. Seventeen industries reported paying higher prices for inputs in December while none reported lower prices. However, the manufacturing prices paid index fell sharply, losing 14.2 points to 68.2 percent.

The December report from the Institute of Supply Management suggests that the services sector and the broader economy expanded for the 19th consecutive month in December. Respondents to the survey continue to highlight robust levels of activity and strong demand but also continued price pressures, materials shortages, logistics, and transportation issues, and challenges hiring and retaining workers, but the

declines in some of the survey indexes suggest some of the issues may be starting to ease.

Unit Auto Sales Fell in December but Assemblies Rose in November

Sales of light vehicles totaled 12.4 million at an annual rate in December, down slightly from a 12.9 million pace in November and 13.1 million in October. The December result was the seventh consecutive month below the 16 to 18 million range, beating the six-month span from March through August 2020. Weak auto sales are largely a result of component shortages that have limited production, resulting in plunging inventory and surging prices.

Breaking down sales by origin of assembly, sales of domestic vehicles decreased to 9.9 million units versus 10.4 million in November, a drop of 4.9 percent, while imports rose to 2.56 million versus 2.51 million in November, a rise of 1.8 percent. Domestic sales had generally been in the 13 million to 14 million range in the period before the pandemic, averaging 13.4 million for the five years through December 2019. The domestic share came in at 79.4 percent in December versus 80.5 in November.

As with some other recent economic reports, there may be some early signs of easing supply chain issues. Domestic assemblies increased for a second consecutive month in November, coming in at 9.3 million at a seasonally adjusted annual rate. That is up from 9.0 million in October and 7.6 million in September, but still well below the 11.2 million pace for the five years through December 2019.

However, component shortages, especially computer chips, continue to disrupt production for most manufacturers, creating a scarcity for many models, leading to lower inventory and higher prices. Ward's estimate of unit auto inventory came in at 109,300 in November, near the all-time low. The Bureau of Economic Analysis estimates the inventory-to-sales ratio was a record low 0.242 in November.

The plunging inventory levels have pushed prices sharply higher over the last two years. However, prices did tick down in November (another possible sign of easing conditions) with the average consumer expenditure for a car falling to $32,241 in November while the average consumer expenditure on a light truck fell to $47,875. The November levels represent 12-month gains of 17.6 percent and 12.5 percent, respectively.

As a share of disposable personal income per capita, average consumer expenditures on a car came in at 58.9 percent versus just 41.6 percent in March 2021 while the average consumer expenditure on a light truck as a share of disposable personal income per capita was 87.4 percent versus 64.5 percent as recently as March 2021.

Retail Spending Posted a Modest Gain in November

Retail sales and food-services spending rose 0.3 percent in November following a 1.8 percent gain in October. Retail sales have posted gains in four consecutive months but November is the slowest pace of the four. The increases put total retail sales up 18.2 percent from a year ago and at a new record high; they remain well above the pre-pandemic trend.

Core retail sales, which exclude motor vehicle dealers and gasoline retailers, posted a modest 0.2 percent increase for the month, following a gain of 1.6 percent in October, leaving that measure with a 16.5 percent gain from a year ago. Core retail sales are also at a new record high and well above the pre-pandemic.

Most categories were up in November though breadth was weaker than in October. Six categories posted gains while five showed declines and two were essentially unchanged. The gains were led by a 1.7 percent increase in gasoline stations, followed by sporting goods, hobby, and bookstore sales (up 1.3 percent) and food and beverage store sales (up 1.3 percent). Gasoline sales often reflect large price movements; the average price for a gallon of gasoline rose 2.8 percent in November. Electronics

and appliance store sales led the decliners, down 4.6 percent, while general merchandise store sales fell 1.2 percent and health and personal care stores sales were off 0.6 percent.

While retail sales are running well above the recent eight-year trend, measured as a share of disposable income, retail sales are returning to the range that persisted for much of the 1992 though 2007 period. As a share of income, sales were typically in the 35 percent to 38 percent range, well above the 10-year average of 32.3 percent through the end of 2019. This suggests that if the sales share were to stabilize, then retail spending growth should be roughly in line with growth in disposable income. If the share were to fall back to the more recent pattern, then retail spending would slow to a pace below the growth in disposable income.

Furthermore, slowing sales may help the demand/supply imbalance that has been putting upward pressure on prices. Retail inventories have improved for several industries in recent months. Motor vehicles continue to be the laggard with regard to inventories, coming in at about 63 percent of the December 2019 level. Beyond motor vehicles, only clothing and accessories and department stores show lower inventories relative to December 2019.

Overall, total and core retail sales posted modest gains in November and remain well above recent trends. However, as a share of disposable income, sales are returning back to their 1992 through 2007 range. Retail sales growth may slow over coming quarters, more in line with the rate of growth in disposable income. This could help alleviate upward pressure on prices, particularly if production/supply continues to make gains. The economic outlook is for continued growth and upward pressure on prices is likely to continue for a while longer, but progress towards easing pressures may be accelerating.

CAPITAL MARKET PERFORMANCE

(Percent change)

	December	Latest 3M	Latest 12M	Calendar Year 2020	2019	2018	Annualized 3-year	5-year	10-year
Equity Markets									
S&P 1500	4.4	10.3	26.7	15.8	28.3	-6.8	23.5	15.8	14.1
S&P 500 - total return	4.5	11.0	28.7	18.4	31.5	-4.4	26.1	18.5	16.6
S&P 500 - price only	4.4	10.7	26.9	16.3	28.9	-6.2	23.9	16.3	14.3
S&P 400	4.9	7.6	23.2	11.8	24.1	-12.5	19.6	11.4	12.5
Russell 2000	2.1	1.9	13.7	18.4	23.7	-12.2	18.5	10.6	11.7
Dow Jones Global Large-Cap Index	3.8	6.5	16.2	14.7	23.8	-10.4	18.1	16.1	9.6
Dow Jones Global Large-Cap ex-U.S. Index	3.9	1.5	4.9	8.8	18.2	-15.7	10.5	9.9	4.6
STOXX Europe 600 Index	5.4	7.3	22.2	-4.0	23.2	-13.2	13.0	6.2	7.1
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-2.2	2.7	-6.0	16.4	11.5	-4.2	6.8	4.5	2.0
IiShares AAA - A Corporate Bond Fund	-0.6	-0.5	-4.2	7.1	9.1	-5.2	3.8	1.8	NA
Commodity Markets									
Gold	2.4	3.5	-4.0	24.8	18.7	-1.7	12.5	9.5	1.5
Silver	1.0	7.2	-12.8	46.8	16.7	-8.3	14.3	7.3	-2.0
Refinitiv CoreCommodities CRB total return index	6.0	1.5	38.5	-9.3	11.8	-10.7	12.0	5.0	-2.1

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

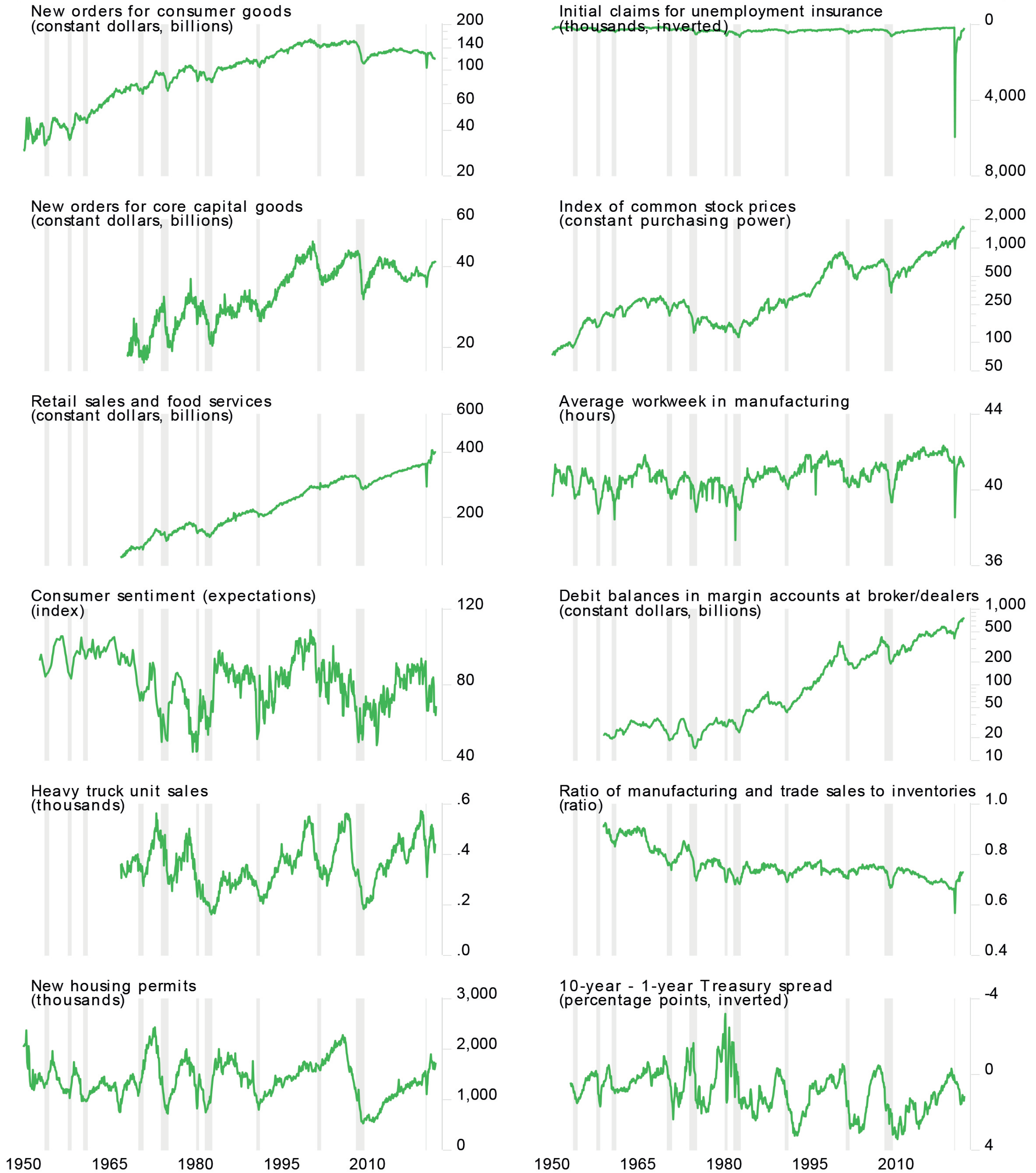
CONSUMER FINANCE RATES

(Percent)

	December	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	3.0	2.9	3.1	3.9	4.5	3.4	3.7	3.8
15-yr. fixed mortgage	2.4	2.3	2.3	2.6	3.4	4.0	2.8	3.1	3.1
5-yr. adjustable mortgage	2.5	2.5	2.6	3.1	3.6	3.8	3.1	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

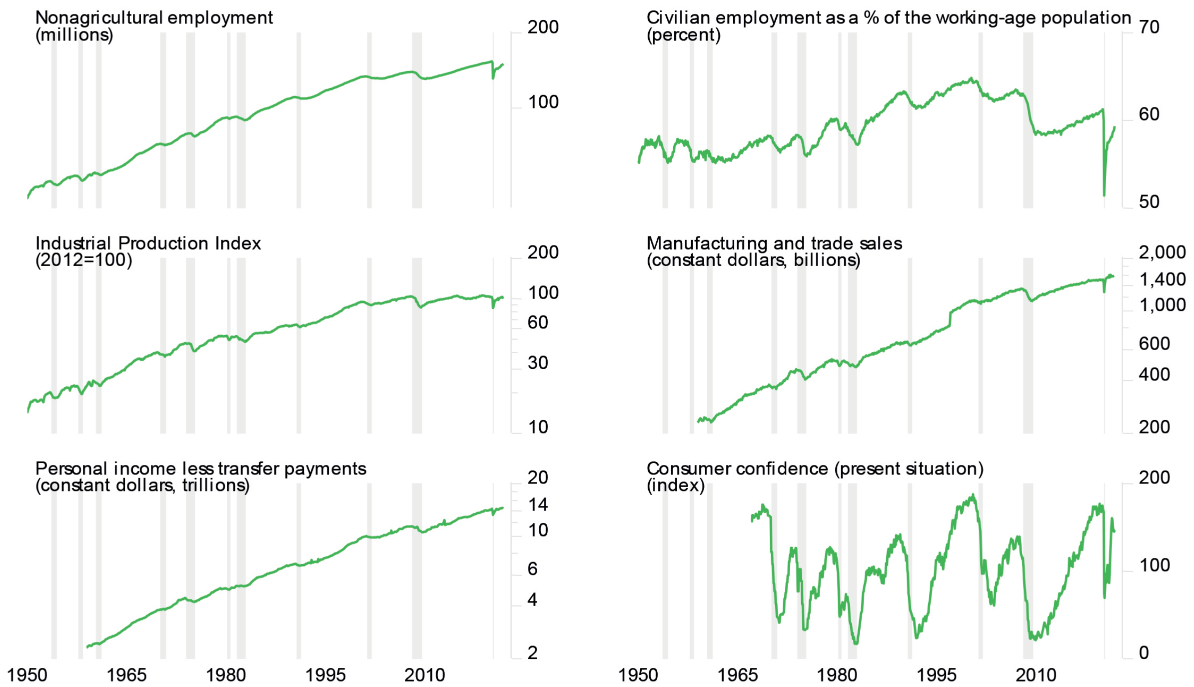
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (1950-2021)



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

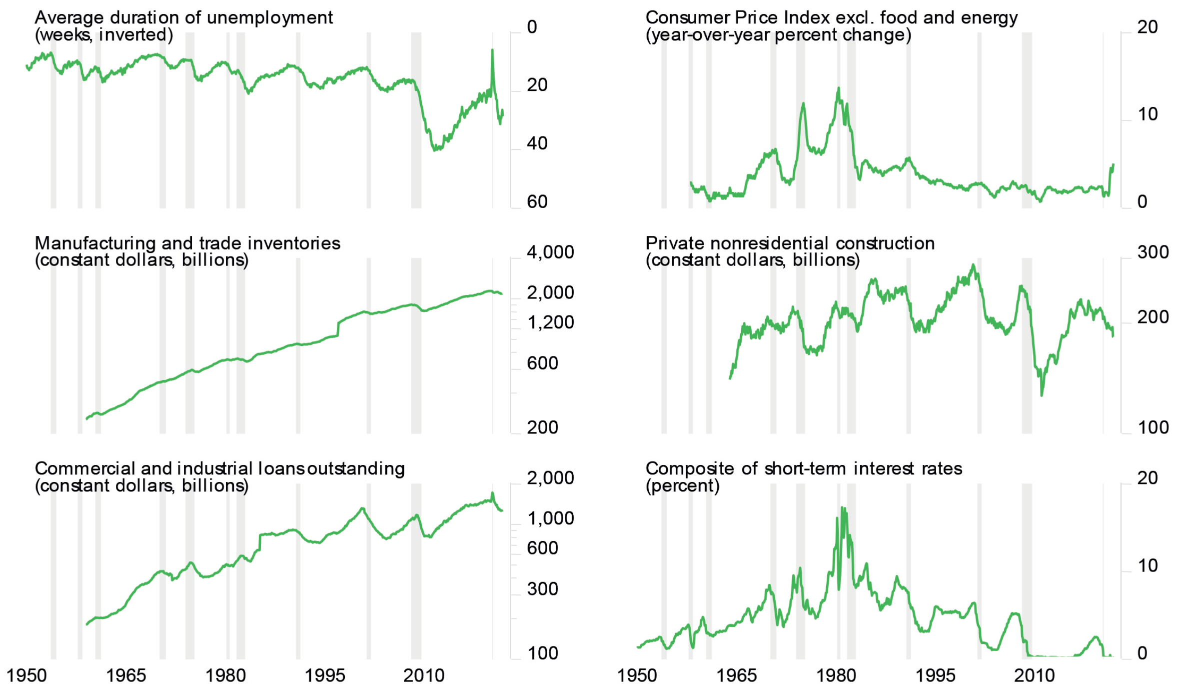
ROUGHLY COINCIDENT INDICATORS (1950-2021)



Note: Shaded areas denote recessions.

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

LAGGING INDICATORS (1950-2021)



Note: Shaded areas denote recessions.

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

Fauci, Emails, and Some Alleged Science

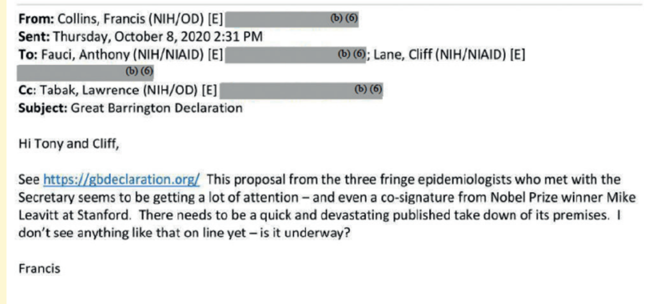
PHILLIP W. MAGNESS (Senior Research Faculty) & JAMES R. HARRIGAN (Senior Editor)

From October 2-4, 2020, the American Institute for Economic Research hosted a small conference for scientists to discuss the Covid-19 lockdowns. Just four days later, Dr. Francis Collins, the retiring Director of the National Institutes of Health (NIH), would call the three of the scientists in attendance "fringe epidemiologists," in a directive he sent to Anthony Fauci and other senior staff of his agency. They were "fringe epidemiologists" because they had the temerity to ask whether the lockdowns of 2020 were effective. Those three, Martin Kulldorff of Harvard, Sunetra Gupta of Oxford, and Jay Bhattacharya of Stanford were simply doing what any good scientist would do: They were following the evidence.

They wrote the Great Barrington Declaration [GBD] as they parted company at AIER, posting it for all to see.

So why was Dr. Collins so intent on impugning these three scientists? It's hard to know exactly, mostly because any scientist worth his salt should have been happy to see further research being done. That is, after all, how ignorance is replaced by knowledge. But Collins was clearly in no mood to replace his own possible ignorance with any kind of knowledge. He was pretty sure he knew all he had to know; and this is one of the most dangerous positions a scientist can take.

In an email obtained by AIER through a Freedom of Information Act request, Collins told Anthony Fauci, CCing Lawrence Tabak, Deputy Ethics Counselor at NIH, that he wanted "a quick and devastating published take down (sic)" of the Great Barrington Declaration's premises.



From: Collins, Francis (NIH/OD) [E] (b) (6)
Sent: Thursday, October 8, 2020 2:31 PM
To: Fauci, Anthony (NIH/NIAID) [E] (b) (6); Lane, Cliff (NIH/NIAID) [E] (b) (6)
Cc: Tabak, Lawrence (NIH/OD) [E] (b) (6)
Subject: Great Barrington Declaration

Hi Tony and Cliff,

See https://gbdeclaration.org/ This proposal from the three fringe epidemiologists who met with the Secretary seems to be getting a lot of attention – and even a co-signature from Nobel Prize winner Mike Leavitt at Stanford. There needs to be a quick and devastating published take down of its premises. I don't see anything like that on line yet – is it underway?

Francis

One wonders why he would CC the Deputy Ethics Counselor on this, given the trouble these people seem to have with ethics, but here they were in October of 2020. Fauci wrote that same night to let Collins know that there was already a devastating take down of the Great Barrington Declaration…in that august scientific publication *Wired*.

"Francis," Fauci wrote, "I am pasting in below a piece from *Wired* that debunks [the GBD]." There, science reporter Matt Reynolds told us there was no "scientific divide" over herd immunity, but that's not the funny part. The funny part came when Reynolds declared quite confidently that we no longer had anything to worry about, as lockdowns were – as of October 2020 – a thing of the past.

"The problem [with the GBD] is that we aren't in lockdown," Reynolds explained. "[I]t's hard to find people who are advocating for a return to the lockdown we saw in March. When the Great Barrington Declaration authors declare their opposition to lockdowns, they are quite literally arguing with the past."

This Fauci-endorsed passage may be one of the worst takes of the entire pandemic. Less than a month later, lockdowns came roaring back with a vengeance.

Fauci wrote to Collins again the next day, this time referencing a breathless op-ed by Gregg

Gonsalves, a public health professor at Yale, in *The Nation*. And here we arrive at yet another funny part. Gonsalves' article was not exactly a critique of the Great Barrington Declaration. Instead, Gonsalves went after Martin Kulldorff, who in an interview with the leftist magazine *Jacobin* quite reasonably pointed out that the lockdowns hurt the poor more than most talking heads were willing to admit. Gonsalves's grievance was that by interviewing Kulldorff, Jacobin had broken the lockdown "solidarity" of other far-left websites including *the Nation* and the *Boston Review*.

By October 10, the lines were well drawn, and Fauci thrust himself into the middle of the media hootenanny that was clearly emerging. Collins emailed again to boast about calling the three scientists "fringe" in the Washington Post, although he told Fauci that their ongoing campaign to take down the GBD "will not be appreciated in the W[hite] H[house]." The White House, Fauci retorted, was "too busy with other things to worry about" the GBD. There was an election to deal with, after all.

As the bedfellows became more strange, Gregg Gonsalves wrote directly to Collins, thanking him for his undiplomatic approach. For his part, Gonsalves became ever more hostile and profane, in his remarks on the GBD. "This f*****g Great Barrington Declaration is like a bad rash that won't go away," Gonsalves tweeted, shortly before reaching out to Collins. A day earlier, the Yale professor also began promoting unhinged conspiracy theories about the GBD and AIER that traced to the blog of a former 9/11 Truther movement activist.

Some of the emails between Collins and Fauci sent in response to AIER's FOIA request have been redacted, but surrounding context makes it pretty clear that they were looking for a way to impugn the GBD further if it came up at the White House Covid Task Force meeting on October 16. That morning, Fauci emailed Deborah Birx, the White House Coronavirus Response Coordinator. He pressed the need for her to oppose the GBD, and set the stage for an attack on Scott Atlas, who was the most friendly champion of the GBD on the Task Force.

Fauci, it turns out, had to miss the October 16 task force meeting, though he likely breathed a sigh of relief when Collins emailed him two days later. "Atlas did not take part in the [task force] meeting on Friday," Collins wrote, "and the Great Barrington Declaration did not come up." Another partially-redacted email hints that Fauci celebrated this outcome. Atlas's opposition to the lockdown faction on the task force "is driving Deb [Birx] crazy," he continued.

Fauci and Collins were not done, though, in their campaign to "take down" the GBD scientists.

Our story picks up again in earnest on November 2, when Fauci's chief of staff Greg Folkers replied to an email that was not made public in pursuance to AIER's FOIA request. It seems pretty clear, though, that Fauci asked Folkers for a list of sources that would allow him to argue effectively against the GBD. The email's subject line references a previous correspondence from Fauci "as discussed," noting that Folkers had "highlighted the three i found most useful" (sic).

Multiple sources, and particularly Scott Atlas's recently-published account of his time on the task force, have noted that Fauci often relies on aides to curate lists of sources in advance of his many media appearances. He seldom reads the scientific literature on Covid-19 himself, and instead arrives at meetings with staff-prepared talking points. It appears that Folker's email was an answer to one such request for talking points to attack the GBD scientists.

Note that Fauci frequently portrays himself as a staunch defender of science who stays above the political divide and remains outside of partisan debates. In light of that, you might expect that Folker's response to Fauci's request would yield

a small sample of scientific analysis on the logic behind lockdowns, even if only in a format bullet pointed by his staff. But you'd be wrong. Folkers sent Fauci a list of seven political op-eds and articles opposing the GBD from popular media outlets.

So yeah. Science.

– December 19, 2021

The Unity of Knowledge

ROBERT E. WRIGHT
Senior Research Faculty

Weary I grow of people's asking if this or that is "really" economics or history or evolutionary psychology or whatever. Those are just arbitrary labels slapped onto university departments and courses that do not help humans to ascertain the *ding an sich*, the thing-in-itself, a.k.a. reality or, if not Truth, then a usable claim about the real world.

Those who would help to improve the world should seek out not arbitrary disciplinary boundaries but what biologist E.O. Wilson calls consilience, or the unity of knowledge. They should seek not to fill lacunae in academic "literatures" but to enlighten or illuminate through insight. 'Tis best not to assert expertise where none exists,' as economist Thomas Sowell warns, but one should also not fear to ask questions when important problems arise and to wonder if expertise is not lacking in others, especially when responding to *rapidly evolving novel* threats.

As I pointed out early in the pandemic, people tend to view their tiny bit of the world very clearly, but remain as oblivious to the rest of the world as a racehorse wearing blinders. Such specialization works just fine in an economy with a finely-grained division of labor, but creates some real embarrassment whenever a problem, like Covid or the global climate, requires a broader view of the world.

For decades, universities have claimed to foster interdisciplinary or multidisciplinary investigation, but few have made any real strides as money and professorships still go to departments, divisions, or schools, not to every scholar addressing a particular question or problem. As a result, administrative conveniences have become reified, existing only to satisfy their own internal needs rather than more general enlightenment.

It is difficult to find, say, a law professor willing to read or cite relevant history books, or articles in economics, because they are incentivized to cite law review articles, substandard as most of those articles are in terms of consilience. And don't get me started on schools of public health, where six departments, two centers, and an institute all work on the same problem without knowing about, much less collaborating with, the others. Merely inefficient most of the time, such silos can cause big problems when emergencies strike in the real world.

Everything, you see, is interconnected, often directly and via several indirect routes, sometimes in one direction but often bidirectionally. For example, there exist economic analyses of religious institutions and religious analyses of economics. Moreover, religions impact economic activity in multiple ways, like through mourning rituals, dietary prohibitions, and Sabbath observances, while economic activity influences religions through the volume of donations, the price of land for churches and cemeteries and such, and the alacrity of acolytes.

Ditto books, charities, communication, computers, criminality, education, fiction, fishing, healthcare, hobbies, hunting, movies, music, sex, sports, transportation, and indeed every aspect of human life. In fact, there exists an economics (chemistry, history, literature, philosophy, psychology, sociology, physics) of every single human thing you can think of, even if you wear too many blinders to know what it is. And every single human thing you can think of affects the economy in ways large and small.

In short, consilience demands no out-of-bounds, only more or less salient topics of investigation. What matters is not the topic per se, but the way a

writer or researcher approaches it.

Consider, for example, criminal justice. It is often considered an interdisciplinary, though highly specialized or niche field of inquiry. Yet its Overton window of acceptable policies is so little open that I was the first to suggest that prisoner recidivism could be reduced by incentivizing nonprofits to find ways to keep individual ex-cons out of jail, an insight that grew out of my study of the economics of slavery.

If the connection between slavery and prisoner recidivism isn't immediately clear, think Thirteenth Amendment, which outlawed slavery in the US, except for those duly convicted of a crime. The point is, no person or group should be allowed to hold a monopoly on understanding complex medical, social, or technological issues, especially during putative emergencies.

Even the study of something as seemingly irrelevant to modern life as dueling ("pistols at ten paces") need not prove a merely antiquarian or whimsical affair. As Christopher Kingston and I showed in "The Deadliest of Games: The Institution of Dueling," two men trying to slaughter each other rested on a rational basis even when it seemed as if only "honor" was at stake. The point of the paper was that although their rationality is to some extent constrained, people are not as dumb as they sometimes seem to be.

Moreover, our game theory model of dueling could easily be applied to other types of social interactions where people risk loss, if not necessarily death, in order to signal possession of some valuable, directly unobservable quality. Climate virtue signaling anyone?

So ask not if this or that article belongs to this or that reified academic discipline, ask instead how they may enlighten human understanding of the world. To avoid groupthink and, worse still, bellyfeel, humans need to foster more creative, independent thought, not hackneyed beliefs possible only within the confines of a pinhole view of the world. Intellects of the world unite and break loose all the many arbitrary disciplinary chains inhibiting understanding!

– December 17, 2021

Transferism, Not Socialism, Is the Drug Americans Are Hooked On

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

The United States has never had a meaningful socialist tradition or even a semi-serious socialist party. Socialism in the United States is a fringe movement at best and always has been. This makes the sudden acceptability of socialism all the more surprising. But with one avowed socialist, Bernie Sanders, campaigning for the presidency for a second time, and another, Alexandra Ocasio-Cortez, rising to national prominence from her post in the House of Representatives, American socialism is more mainstream now than at any point in our history.

Socialism Is a Response to Capitalism

Complicating matters, socialism exists entirely as a response to capitalism, as has been the case from the time Marx first put pen to paper. And as if that weren't enough, the very usage of the terms "capitalism" and "socialism" has evolved past the point of clear meaning.

These terms were once very clearly defined. Socialism is state control of the means of production. The intent is that these means are to be used for the public good. By contrast, capitalism is simply private ownership of the means of production. The intent is that these means are to be used to advance the interests of those who own them, which will in turn create conditions of general prosperity that can be enjoyed by all.

When polled, Americans express relatively well-defined views on both. And while nowhere near a majority of the American electorate favors a completely socialist system, a recent Gallup poll indicates that more than four in ten Americans think "some form of socialism" is a good thing. But what is "some form of socialism?" A society is either socialist or it isn't. The state either owns the means of production or it doesn't. There is no middle ground. Even our openly socialist politicians rarely advocate anything near as drastic as government control of the means of production.

It appears that what Americans really have in mind when they think about socialism is not an economic system but particular economic outcomes. And their thoughts seem to focus most often on the question of what people should have. The answer they arrive at most often? More than people typically get in a system based on the pursuit of profit. Capitalism, they believe, is immoral because it is a system in which some do without while others have more than they could hope to use in multiple lifetimes.

Transferism Is a More Accurate Term

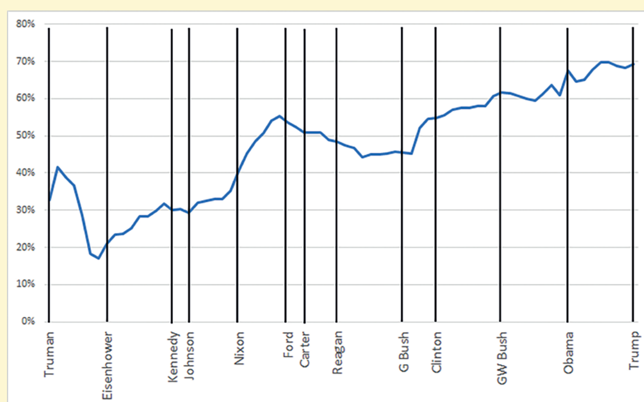
These four in ten Americans, and the politicians who speak for them most vocally, are not advocating socialism at all; they are advocating what we should really call "transferism." Transferism is a system in which one group of people forces a second group to pay for things that the people believe they, or some third group, should have. Transferism isn't about controlling the means of production. It is about the forced redistribution of what's produced.

Federal transfers are money the federal government gives directly to people or to state and local governments. These are not purchases. To be a transfer, the money must be given in exchange for nothing. The earned income tax credit, income assistance, and payments from various welfare programs are transfers. So, too, are Social Security benefits. While workers tend to regard Social Security benefits as returns on their Social Security

taxes, legally, Social Security taxes are simply part of the government's tax revenues. Workers are not entitled to Social Security benefits. Who says so? The Supreme Court in *Flemming v. Nestor* (1960). In reality, Social Security benefits are simply transfers—gifts—from the federal government to retirees.

Federal transfers to persons have risen from 11 percent of federal spending in 1953 to 53 percent today. As with persons, the federal government also sends transfers to state and local governments. Federal transfers to persons and state and local governments have risen from 17 percent of federal spending in 1953 to 69 percent today. As of today, almost 70 percent of what the federal government does involves simply taking money from one group of people and giving it to another. Less than one-third of the money Washington spends is spent in the name of actual governance.

At least at the federal level, our government has fully embraced transferism. And both parties are responsible. Among the four presidents under whom transfers were greatest, two were Democrats (Obama and Clinton) and two Republicans (G.W. Bush and Trump). Transfer payments increase steadily over time. Partisan differences are a matter of rhetoric and public perception, not a reflection of any underlying reality.



Federal transfers as a fraction of total federal spending.

Contrary to type, politicians speak in very clear terms about the benefits they would like to finance by transferring money from one group to another, and they have had predictable success with it. Most Americans cannot imagine a country without Social Security, Medicare, and the Earned Income Tax Credit. And politicians never seem to run out of new ideas regarding what they might be able to achieve with even more transfers of wealth. New ideas are typically well-defined, at least on the benefit side. Student loan forgiveness, universal basic income, Medicare for All, and every other piece of proposed redistributive legislation offers an obvious benefit for an equally obvious group of people.

The lack of clarity comes when the politicians get around to explaining who will pay for all of it. Their answer is inevitably some form of "the rich," who will finally, we are told, pay "their fair share." None of this is ever defined, which explains the United States' present $23 trillion debt. Transfers are tricky political business because politicians need to point to who benefits and by how much while at the same time hiding who will actually be paying.

Cronyism vs. Capitalism

And just as transferism is not actually socialism, the system against which transferists rail isn't capitalism, either. When they think of "capitalism," transferists imagine a monied class that defrauds customers, pollutes the environment, and maintains monopoly power, all because the monied class is in bed with government. But capitalism is simply the private ownership of the means of production. What people are actually describing is something more appropriately called "cronyism," which can manifest in a socialist system as easily as in a capitalist one. Cronyism isn't a byproduct of the economic system at all; it is a byproduct of politics.

For current examples, one need look no further than North Korea, Cuba, and Venezuela. Socialists

say these aren't examples of "real socialism," and they're not. There was a time when these countries were indeed socialist, just as there was a time when the United States was capitalist. But cronyism has overtaken these countries' economic systems, just as it did in humanity's grandest socialist experiment: the Soviet Union. Life was simply different for inner-party members than it was for workers. This is the real danger that all countries face, regardless of the animating principles of their economic and political structures.

And this is where the dangers of transferism should become manifestly clear, because transferism is simply another form of cronyism. In the United States' current iteration, the cronies are not a monied elite who buy off powerful politicians for their own benefit (although that still happens, too). They are voters who reward the politicians who promise them a growing list of benefits year after year.

The obvious question that never gets asked, almost entirely because of our increasingly confused understanding of the words socialism and capitalism, is how much transferism we actually want. The intellectual shorthand that socialism and capitalism allow turns out to be broadly inapplicable to our present circumstances, but our insistence on the categories virtually guarantees that we will get nowhere with the present discourse.

How Much Transferism Do We Want?

We need to answer the core question: how much transferism do we want?

In order to figure this out, we need to come to terms with the fact that any transfer is a confiscation of wealth from the people who created it. That confiscation will decrease wealth creation in the long term by decreasing an important incentive to take the risks necessary for creating wealth. Second, we have to recognize that transferism is addictive. No matter how much we transfer, people will always want more. The United States' $23 trillion debt, the largest debt the world has ever seen, has come about because of American voters' voracious appetite for transfers combined with politicians' obvious incentive to provide them.

The solution politicians have found is to pass off the cost of the transfers to taxpayers who haven't yet been born by borrowing the money, thereby leaving to the next generation the problem of repaying the debt or enduring unending interest payments. It's a house of cards to be sure, but from their perspective, it will be someone else's house of cards.

In the end, we have polluted our political discourse with two words that no longer have much meaning: socialism and capitalism. In the process, we don't call the animating principle of modern American politics what it actually is: transferism. The only winners have been the politicians who manage to gather votes by keeping the electorate in a near-constant state of friction. And they keep winning if people keep thinking in categories that ceased to have any real meaning years ago.

– December 24, 2021

Stuck in Neutral: Trucking And the Pandemic

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On October 25, 2021, about one month before the detection of the Omicron variant of Covid-19 in South Africa, the Biden Administration released an announcement entitled "A Proclamation on Advancing the Safe Resumption of Global Travel During the COVID-19 Pandemic." More an adjustment of restrictions than a lifting of them, it specified that

> [b]eginning in January 2022, all inbound foreign national travelers crossing into the U.S. from Canada or Mexico via land or ferry ports of entry — whether for essential or non-essential reasons — must be fully vaccinated for COVID-19 and provide proof of vaccination. This delayed implementation is intended to provide ample time for essential travelers such as truckers, students, and health care workers to get vaccinated.

And, as trade disputes tend to go, reciprocity was swift. On November 21,

> Canada announced that it will require truck drivers–both Americans and Canadians–to be double vaccinated against the COVID-19 virus by Jan 15. When crossing into Canada. The announcement comes weeks after the Biden Administration proposed a mandate requiring all Canadian cross-border truck drivers to be vaccinated by January 2022 … Up to this point, truck drivers, defined as essential workers, had been permitted to cross the border for work while it has been closed to non-essential traffic.

The announcements went mostly unnoticed outside of financial and transportation news sources, but carry significant consequences for the economies of both the US and its neighbors.

Some 70 percent of the nearly $650B (2020) in trade between the US and Canada travels on trucks driven by over 150,000 truckers. Over $600B (2019) of goods are imported to and exported from Mexico on the backs of trucks. Within the United States, in fact, 68 percent of cargo is transported via trucks of various sizes, whether cross-country or locally ("last mile").

Truck driving as an occupation, especially long-haul trucking, has been under siege for some time. Most of its problems weren't caused by the arrival of Covid or the political response to the pandemic, but as with so many other areas of business and finance long-standing issues were both exposed and exacerbated by them.

Spending Dollars to Earn Pennies

It's a difficult business. There's a weighty capital expenditure component, exposure to commodity price fluctuations, a high degree of seasonality, federal and state regulations, and intense competition both within and outside the sector. Long-haul trucking, generally denoted by shipping which requires at least one night (and usually more) on the road, carries additional challenges. Among other aspects are the requirements made of drivers.

> The lifestyle is rough. You barely see your family, you rarely shower, and you get little respect from car drivers, police, or major retailers. [One interviewed driver] said he has been divorced twice because of trucking.

> [Another] said she gained 60 pounds her first year from sitting all day and a lack of healthful food on the road.

Remuneration could compensate for those hardships to some extent, but trucking pay varies widely across corporate versus owner-operated driving, different types of freight, and various routes. While some drivers can and do earn over $100,000 per year, median annual pay has been reported as between $42,000 and $51,000. Signing and distance bonuses are called a "joke" owing to the fine print associated with them. Truckers frequently incur significant personal expenses on the road, and are subject to electronic monitoring. Perhaps most impactfully and unbeknownst to most of the public, many truckers are ineligible for overtime owing to New Deal-era regulations.

> Section 213(b)(1) of the Fair Labor Standards Act states the law's overtime requirements do not apply to those "with respect to whom the Secretary of Transportation has the power to establish qualifications and maximum hours of service."…For someone in trucking to be exempt from overtime, three factors must be present:
>
> 1. Their employer is a "motor carrier" according to DoT regulations
> 2. Their regular job duties affect the safety of a motor vehicle used on public highways in interstate and foreign commerce
> 3. Their commercial vehicle weighs at least 10,000 pounds

The regulation goes beyond truck drivers, extending to support roles (driver's assistants, loading dock workers, and even truck mechanics). It can also be extended further, to jobs and roles which do not have an intrinsic safety component, at the direction of the Secretary of the Department of Transportation.

Wages are the price of labor, and in a truly free market would be the product of negotiation between employees and employers. Government intervention in labor markets, whether in the traditional form of minimum wages or here, in the form of a *maximum wage* (essentially a price ceiling), create distortions. The result of this particular intervention, though, is obvious; to no one more than truckers themselves.

> According to ZipRecruiter, as of May 2021, the average annual pay for a truck driver in the United States is $50,909 a year. That works out to be approximately $24.48 an hour. But the math is just as flawed as the [overtime] exemption. That $50,909 figure assumes only 2,079 hours in the year, which is a normal 52-week year at 40 hours per week. When a driver works 70 hours in eight days (assuming two weeks off) that driver is actually working 3,071 hours, which reduces their hourly pay to $16.58 – barely above many states' minimum wage. When measured against Walmart, McDonald's, and Amazon, there's little to no economic incentive for anyone to drive as a company driver, and that's before the other externalities such as benefits, living accommodations, [and missing] friends and family are considered.

Drivers must also be 21 to drive commercially across state lines. But by 21 years of age, most young people have cast their lot in a certain trade or toward a particular degree. (Under the previous administration, the Federal Motor Carrier Safety Administration proposed a pilot program to lower the minimum age to 18.)

Neither does it help the understrength profession that on January 6, 2020–exactly two weeks before

the first case of Covid was reported in the US–the Federal Drug and Alcohol Clearinghouse database went live. At a point where it is estimated that the industry is short in excess of 80,000 drivers,

> Chris Pappas, CEO of Chef's Warehouse, which provides ingredients to restaurants, told the New York Post he was short about 1,000 drivers. The number of candidates being turned away due to drug tests was "a big enough number that it hurts," he said, without giving more detail … According to Clearinghouse's monthly report for September 2021, 72,444 drivers had "prohibited" status. About 54,000 of these were yet to start the reassessment process required before they can return to duty. Of these people, 11,922 were eligible to be reassessed.

It would be edifying to determine how many of the 72,444 were listed within the clearinghouse (and unable to drive) owing to cannabis-related violations, even as more and more US states legalize or decriminalize its use.

Thus in trucking, employee retention is low and there are formidable barriers to entry. Artificially low pay (on the basis of hours worked) rooted in Great Depression-era policies, austere working conditions, and a variety of regulatory fetters explain why, for decades, there has been a large and growing shortage of truck drivers. In particular, a paucity of long-distance truckers.

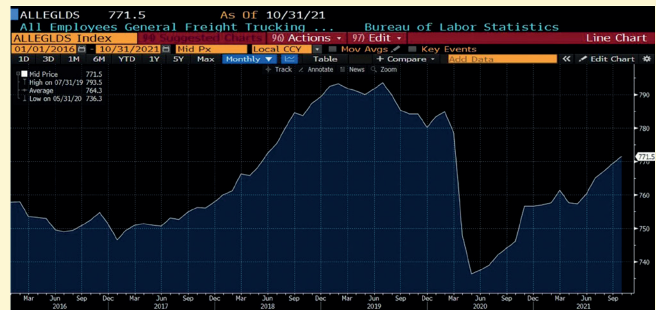
Early Pandemic Policy Effects

Statistics reveal that pandemic policies levied in March 2020–lockdowns, stay-at-home orders, travel restrictions, and limits on occupancy–foist an extinction-level event upon owner-operators and small trucking firms. In an industry chronically understaffed,

> [US] trucking company failures nearly tripled in 2020 … as fallout from the pandemic deepened pressure on smaller operators while well-capitalized bigger truck[ing firms] held on and found stronger footing[.] … Some 3,140 fleets shut down last year, a 185 percent jump from 2019, according to transportation industry data firm Broughton Capital LLC. Roughly half of the 2020 failures came in the second quarter, when freight volumes plummeted amid widespread shutdowns aimed at limiting the spread of Covid-19. "We had a record number go out of business in the second quarter and a record number in the month of May," said Donald Broughton, Broughton Capital's managing partner.

The Bureau of Labor Statistics estimates total long-haul trucking employment monthly.

All Employees, General Freight Trucking Long Distance (2016 – present)



(Source: Bloomberg Finance, LP)

In April 2020 alone, over 88,000 truckers lost their jobs. So at the precise moment that the movement of critical goods and service inputs was of paramount importance–getting medical supplies, protective equipment, comestibles, and factor inputs where they were most needed–federal and state edicts suffocating freight transportation were imposed. (It

certainly seems that if lockdowns were intended to "slow the spread" and prevent hospitals and other significant health facilities from being overwhelmed, ensuring the rapid transfer and delivery of goods would be nearly as important.)

The month that tens of thousands of truckers wound up unemployed, and over 3,000 trucking operations collapsed, Marketplace reported another government-industry divide. This one, in the pipeline for new truckers:

> Dylan Francis, in Kansas City, Missouri, is ready to get out on the road. He has a job as a commercial truck driver waiting for him–once he gets his commercial driver's license. But the DMV is closed indefinitely. "I wanna be out there doing something," Francis said. "This was supposed to be a means of not just resources for my family, but providing resources for our country. DMVs are shut down in 27 states. And that's not the only holdup for the trucking industry. Commercial driver training schools are shut down too … "You don't flick a light switch and produce a driver overnight," [one CEO] said. "We're talking upwards of three months to get a driver trained."

And that description is for the basic Commercial Driver's License; more specialized types of trucking require more, and therefore longer, training periods.

Cascades

Smaller trucking interests play a critical, unheralded role in the domestic freight ecosystem. Large trucking firms tend to pursue long-term contracts with major corporations, capitalizing upon economies of scale. But smaller fleets and owner-operators tend to ply their trade in the overland spot market where odd-sized loads, freight with unique requirements, and last-minute shipping decisions take place. Rates in the spot market tend to be volatile, making the nature of that particular business one of relative feast or famine.

Lockdown and stay-at-home orders quickly sent spot market rates down 12 percent in a market where pennies per mile matter. Absent those policies, rates would likely have risen: shippers bidding per mile prices up, with small firms and independent drivers seeking the more profitable, risk-adjusted rates.

> [The drop in rates] squeezed truckers like Tony Singh, owner of Richmond, VA-based Sam Trucking LLC. "April was really tough," said Mr. Singh. At one point he feared he might have to close the business as diving shipping rates left him struggling to cover the pay for drivers, fuel, and other costs for his seven truck fleet.

Market concentration deriving from government responses to the pandemic occurred in many industries, largely owing to smaller freight operators having tighter margins and less if any cash reserves. Accordingly, smaller trucking concerns were disproportionately culled by Covid policies and their secondary effects, with "the average size of failed fleets…40 percent smaller than in 2019."

Knock-on Costs

On top of all of this were rising insurance rates and huge fluctuations in fuel prices.

Gasoline prices (broadly) fell 25 percent between early January and late April 2020. As seen in the negative close of the May WTI contract in late April 2020, the cratering of demand coupled with a price war between Saudi Arabia and Russia led to a world awash in oil and gasoline. Unfortunately, capitalizing upon what should have been a most fortuitous development was largely prohibited in both the US and around the world; again, just when it was most needed.

Average US Gasoline & Diesel Prices
(per gallon, June 2019 – present)

(Source: Bloomberg Finance, LP)

As trucks got back on the road throughout the remainder of 2020 and the first half of 2021, gasoline prices began rising sharply. From June 2020 to June 2021, per gallon prices of gasoline rose 37 percent, from $2.48 to $3.39; diesel rose in lockstep, from $2.43 to $3.30 per gallon. Diesel prices followed a similar path over the same time period. By May 2021, 14 months after the OPEC+ price war, shortages began appearing.

> "I start to freak out when it hits $4 a gallon, and I'm paying almost $1,000 to fill up a 240-gallon tank," said [one trucker] … The gasoline crunch has added a new layer of difficulty to what was already considered a difficult job … Higher prices and fuel shortages, even temporary ones, make it a lot harder for truckers to deliver goods. And as consumer spending heats up, the economy needs more truck drivers, not fewer, especially to help alleviate the current gasoline shortages.

The volatility in fuel prices, along with the precipitous drop and sudden explosion of freight volume after stimulus payments began taking effect, led to a whipsaw in the structure of overhead costs.

Freight Rates Take Off

Over the first half of 2021, freight rates continued to rise, a combination of both rising demand and limited supply; the latter where drivers, trucks, and vehicular capacity are concerned.

Cass Truckload Linehaul Index (2019 – present)

(Source: Bloomberg Finance, LP)

The index "isolates the linehaul component of full truckload costs from other components (e.g. fuel and accessories) providing reflection of trends in baseline truckload prices." A look at the recent increase in light of the entire history of the index, starting in 2005, makes the size and pace of the uptick in freight shipping rates over the last fifteen months clearer:

Cass Truckload Linehaul Index (2005 – present)

(Source: Bloomberg Finance, LP)

A recent report in Bloomberg, citing senior analyst Lee Klaskow, describes the impact of escalating freight rates just prior to Thanksgiving 2021:

> "We expect trucking supply will be constrained beyond historical norms from restocking, economic recovery, and limited driver availability." Increased shipping costs are adding to concerns that inflation across the US economy will be slow to dissipate. Walmart shares sagged Tuesday [November 16] by the most since May on a percentage basis after the retail giant said gross margins eased and that it's bracing for more pressure from global transportation snarls.

In November of 2021, freight shipping data was released showing that on a year-to-year basis, rates had risen by over 36 percent.

New Armors Conspired

It is at this point that the next leg of the ongoing shipping and port crisis begins. As reported two weeks back:

> Despite recent reports that congestion issues are easing on the water at California's major ports, drayage truckers claim this isn't the case for them – as long wait times, a flawed appointment system, and other efficiency issues continue to plague marine terminal operators in the state…An unreliable appointment system has drayage companies checking day and night to find open slots and vessel changes – which [one trucking company president] compared to playing musical chairs – have truckers concerned they won't be able to handle a container volume increase if some of [the] issues aren't resolved.

It's worth noting that many of the ports are government-run. In the case of the Port of Oakland (at which on November 24th a communications director claimed "operations are normal and wait times are normal," a view that truckers disagreed with), the facility is run as a public agency.

> The City of Oakland Charter gives the Board of Port Commissioners exclusive control and management of the Port of Oakland. Our Board consists of seven members nominated by the Mayor and appointed by the City Council for four-year terms. Members must live in Oakland during their term and at least 30 days prior to their appointment. Port Commissioners donate their time to the Board as they serve without salary or compensation.

It would be presumptuous to cast aspersions blindly upon the undoubtedly hardworking and diligent political appointees at this and other ports. But if other government agencies and political boards are any guide, the incentives that appointees face are vastly different than those that confront for-profit, competitive enterprises. In the latter case, inducements are toward lowering costs and speeding up processes in order to deliver more products and services for incrementally lower prices, thereby increasing revenue and profit. In the former, actions are largely guided by the promise of future, higher political offices and accumulating coercive power over private individuals and firms.

Are Trucking Problems Frictional or Structural?

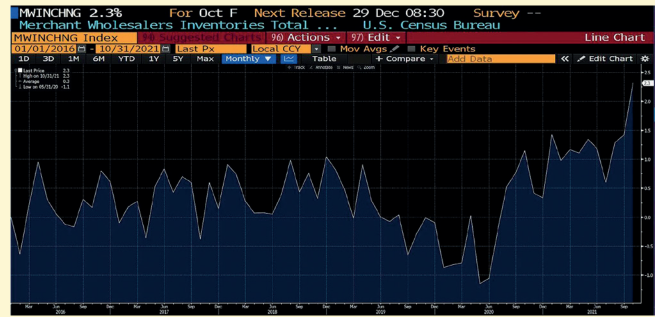
Trucking at ports is the newest chokepoint, and a number of solutions have been proposed to arrest the incremental growth of container stacks on and around ports. In October 2021, President Biden vaguely suggested deploying the National Guard, a questionable proposition at best: what, in light of the nature of current setbacks, would citizen-soldiers do behind the wheel that private citizens can't or couldn't?

In California, where the aforementioned Port of Oakland, the Port of Los Angeles, and other congested sites are located, state transportation officials have proposed increasing vehicular weight restrictions. But the plan, which would involve issuing permits raising the permissible gross vehicle weight from 80,000 to 88,000 pounds, has notable flaws.

> Since there's no way to add cargo to shipping containers that were weighed and sealed overseas to comply with US highway weight limits… [the] effectiveness [upon containers which left foreign ports months ago is questionable] … The California Department of Transportation order would [also] require truckers to ensure the gross weight of 88,000 pounds is distributed properly across the axles, which would mean adding additional axles to the truck and trailer in order to remain legal … "This would require specialty equipment – and adding an axle on 40-foot chassis that are already in high demand to handle these overweight containers would be a challenge," [a trucking executive said]. "Chassis makers can't build them fast enough and now you're asking for specialty equipment."

Yes, it would help to encourage adventurous, fit senior citizens to consider trucking as a second or late-in-life career. And yes, self-driving vehicles may alleviate some of the hindrances – eventually. And further back in the chain of causality: better ports, more competition along coasts, and dealing with other problems would in time bring greater efficiency and reduce single points of failure at each individual link in the supply chain.

Merchant Wholesalers Inventories, Percentage Monthly Change (2016 – present)



(Source: Bloomberg Finance, LP)

But the trucking muddle is fundamentally structural in nature. Until or unless federal exemptions on overtime, age limitations, and unwarranted puritanical restrictions on entering the profession are addressed, it is likely immedicable.

Commercial viability and public health in market economies depend upon functional, integrated means of production and consumption. Transportation systems–trucking, foremost of all–comprise the circulatory system of a market economy, tying together production and consumption by facilitating distribution and exchange. Free market economies provide for higher standards of living and longer lives than more centralized, controlled ones. Barriers to trade, such as the Biden Administration's vaccine mandate for foreign truckers, endanger the lifeline of goods and services brought by comparative advantage.

All of this began with disease mitigation policies which on the eve of initiation were doomed to fail. Twenty months after the arrival of Covid, the domino effect of the political choice to occlude economic activity continues to permeate and negatively impact significant aspects of lives, domestic and beyond. Omicron is upon us and a Pi variant is coming, heedless of science or superstition. It would be best for the US, Canada, and the rest of the world to face the coming waves with robust, unfettered trade in operation.

– December 14, 2021

Why China Behaves the Way it Does, and What to Do About It

DOUG BANDOW
Contributor

America remains the world's most powerful nation, but foreign crises appear to be a constant for the Biden administration. Although Russia and Ukraine have grabbed the spotlight, before that the crisis-du-jour was China and Taiwan. And Beijing will pose the greater challenge over the long term.

The "China problem" is complicated. At least the regime's behavior is evident to all. Divining its intentions is far more difficult.

The People's Republic of China mixes ideological, national, and practical motives. That makes addressing its behavior more difficult. Nevertheless, the PRC is not an unstoppable colossus set on global domination with America doomed to eternal submission. To paraphrase Aragorn in *The Lord of the Rings*, there is a time when the age of Western liberalism may come crashing down, but it is not this day! This day we fight! And we do so more effectively the better we understand what we face.

Nationalism might be the most powerful force in the PRC today. Although the PRC is equated with China, for many people CHINA is something very different than whoever or whatever rules the mainland at any moment or another. Ethnic Chinese the world over celebrated Hong Kong's retrocession to CHINA, not the PRC. The Chinese believe Taiwan is part of CHINA, not necessarily the PRC. So, too, are their territorial claims made throughout Asia-Pacific waters. The PRC might be the immediate beneficiary of Beijing's attempted resource grab, but the issue is rooted in the weakness of CHINA during the "Century of Humiliation" before the Communists drove out the foreign oppressors.

History weighs heavily on the Chinese people and plays an integral role in this narrative. Hong Kong ended up a British colony because it was the spoils in the two Opium Wars, basically waged by London to force Imperial China to allow the sale of opium (and make additional commercial concessions). In the mid-19th century, British (primarily) and French troops looted and then destroyed the Summer Palace, the ruins of which are on display in Beijing. The episode still rankles in modern China.

Western concessions in China spread over time; in Shanghai the Bund, or waterfront, sports numerous 19th century European-style buildings which were part of the Western zone from which unauthorized Chinese were barred. In 1895 Japan defeated China in war and seized Taiwan. Moreover, the weak, ever-declining empire and chaotic successor governments were unable to pursue territorial claims in nearby waters. Many Chinese see the PRC's current assertiveness as a long overdue effort to reclaim what was legitimately CHINA's.

Like most countries, Beijing is quite concerned about security. The US is perhaps the most secure nation on earth, at least when it isn't attempting to run the world. America enjoys vast oceans east and west and pacific neighbors north and south. Other than geopolitical pinpricks—the 9/11 terrorist attacks, Japan's release of balloon bombs against the Northwest, occupation of some Aleutian Islands, and bombing of Pearl Harbor—the last war on American soil was the Civil War. The last conflict with a foreign nation, which Washington initiated, was the Mexican-American War.

In contrast, China has land boundaries with 14 countries and several close water-bound neighbors, most importantly Japan. Over the last century China has been at war with Japan, Russia, Korea, Vietnam,

and India. Today the PRC appears more threatening than threatened, but like in Russia, people remember the vulnerabilities of the past and vow never to allow them to recur.

Equally, if not more important is internal security, upon which Beijing spends more than on traditional "defense." The evolving empire faced sporadic revolts as well as invasions. Instability increased as the empire weakened. The most famous 19th century conflagration was the Boxer Rebellion, which triggered international intervention. Earlier resistance to imperial authority included the Taiping Rebellion, Nian Rebellion, Du Wenxiu Rebellion, and two Dungan Revolts. In 1911 the Xinhai Revolution against the monarchy erupted, leading to a weak republic and decades of conflict highlighted by warlords and Japan's invasion. Some of these conflicts lasted years and cost tens of millions of lives. Chinese don't want a repeat performance, even for a theoretically good cause.

Economic growth also is a priority. China, both CHINA and the PRC suffered from immiserating poverty which lasted for centuries. Raising people out of poverty is a goal for its own sake, but especially to create a stronger nation state and to solidify political support for the current regime. The Chinese Communist Party was vulnerable to attack in 1989 because prosperity did not yet counterbalance tyranny. The PRC was developing more quickly but had started at a very low base.

Since then the CCP has taken credit for the rapid economic growth, providing an important source of legitimacy that otherwise was lacking. However, growth has created rising expectations. Even an economic slowdown creates discontent, especially for younger Chinese stuck working long hours and facing high living expenses. A serious reversal, which seems increasingly likely given the system's significant flaws—banks overloaded with bad debts, inefficient state enterprises, aging and soon shrinking population, rising political interference in private firms, rising antagonism from major trading partners—would pose a greater challenge to the regime's political legitimacy.

Given the PRC's dependence on trade and overseas energy supplies, it remains highly vulnerable to foreign interference and pressure. In response, Beijing is constructing a globe-spanning navy and expanding its port and other commercial access through the Belt and Road Initiative. Both these efforts reflect political objectives as well, and a large navy obviously can be used offensively to advance territorial claims against neighbors, assault Taiwan, and combat the US in any conflict. Nevertheless, China's objectives naturally come with growth, and are not so different from those of America on its rise to global influence.

Access to oil and other energy resources remains an important concern, especially as the government attempts to reduce dependence on coal. This requires trade, and mostly based on ocean transit. As noted earlier, that creates greater uncertainty and especially vulnerability. These mattered little when economic growth and environmental interest were low. The concern also was minimal so long as Beijing's relationship with the US was largely positive. However, as ties move competitively and perhaps towards confrontation, the PRC's fears about access understandably increase. These days China is more dependent on the Middle East than is America.

The PRC also acts out of ideology, though exactly how much of that is genuine principle and how much is practiced cynicism is difficult to discern. The party is Leninist, with mostly a veneer of Marxism. A hardline Maoist faction has pushed the regime to return to something closer to real socialism and all that comes with that, but this group's influence has mostly been peripheral. Xi Jinping's ongoing crackdown on business appears more practical than ideological, to appeal to Chinese who feel left out of

or badly served by past growth. Moreover, he wants to ensure the CCP's ability to use even nominally private businesses for its, and his, own purposes.

Ultimately, Xi made his mark by greatly strengthening party and personal authority. His strongest constraint likely will be whatever he believes weakens or risks his control. For instance, regaining Beijing's authority over Taiwan would be a great victory. However, failing in the attempt would be a major disaster. Fear of the latter is likely to constrain the PRC's policy, if not its rhetoric, toward Taipei. The regime's willingness to open its economy, compromise on territorial issues, and more will reflect the same consideration. As Xi prepares to seize a third term as president, he simultaneously stands at the summit and the abyss, seemingly beyond challenge yet having filled his country with enemies.

All these factors come together powerfully in a country that is increasingly repressive and aggressive. How to respond? The US should plan on playing the long game. That should start with America's doing better. The US needs an educational system freed from today's government monopoly which actually educates and an economic system freed from financial rent-seeking and ideological woke-imposing. Immigration and trade need to again be understood as sources of economic growth, even as social and political concerns are assuaged. The free or cheap security ride for allied states must be ended: countries that claim to fear for their safety should fund their own defense.

Most importantly, Americans should realize that they are acting from a position of strength and the future is not decided. The US is wealthier and more influential than the PRC. America has both friends and allies, while China has virtually none of either. And Beijing's future is not set. Absent the Japanese invasion starting in 1937, the CCP likely would have been defeated and its campaign remembered as one more failed rebellion. After Mao Zedong's death in 1976 the remnants of his rule were quickly swept aside. When Xi leaves the scene China could change again equally swiftly.

China is a complex challenge, not an unstoppable enemy. The goal should be not so much victory over but transformation of the PRC into a different, truly liberated China. And keeping the peace is an essential goal, since war between the two countries most likely to dominate this century would be a disaster for both—and well beyond. None of this will be easy. However, instead of responding with fear, Americans should have confidence in themselves and the free society, however imperfect, which they have created.

– December 1, 2021

The Myth of “Adjunctification” and Disappearing Tenure in Higher Ed

PHILLIP W. MAGNESS

Senior Research Faculty

Is higher education being “adjunctified,” with long-term tenure track faculty facing replacement by low-paid part-time professors? A recent editorial from the Foundation for Individual Rights in Education (FIRE) asserts as much. Writing on the organization’s website, Jordan Howell and Adam Steinbaugh advance an alarming claim:

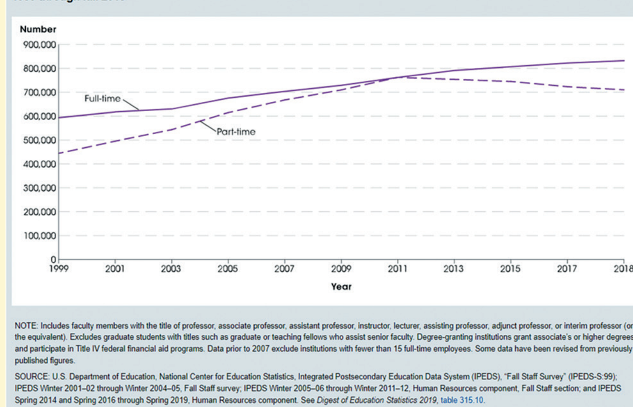
> Today, three out of every four faculty are employed off the tenure track, and more than half are part-time faculty, often known as “adjunct” professors, who work on short-term contracts with no guarantee of renewal.

By implication, they maintain that the majority of the academic workforce faces precarity on the job, including the lack of basic protections for academic freedom and academic speech. Similar arguments have been bantered around for over a decade by groups such as the American Association of University Professors, but FIRE’s entry into adjunct activism marks a new and unusual shift for the organization away from its historical strengths as a defender of academic freedom and into the hyper-politicized world of academic labor activism.

There’s an even more pressing reason however to question Howell and Steinbaugh’s claims though. Their statistics are unambiguously false.

Let’s consider the assertion that “more than half” of U.S. university faculty qualify as adjuncts. The U.S. Department of Education actually tracks this number, and publishes data on an annual basis. According to the most recent numbers (2019), almost 844,000 college and university faculty qualified as full time. Part-time faculty accounted for 705,000, although this number also likely includes some double-counting as some adjuncts teach at more than one institution.

The Department of Education numbers also reveal another surprising trend. While FIRE and similar accounts from adjunct activist organizations often speak of growing “adjunctification,” the overall trend in adjunct faculty use is in marked decline. The adjunct workforce has shed almost 60,000 jobs since its peak in 2011, while full-time faculty ranks have grown by 80,000 jobs in the same period. The pattern displayed in these data is the exact opposite of what Howell and Steinbaugh claim:



If we dig a little deeper into the data, we quickly find that many “adjunct” faculty do not fit the description of employment precarity that FIRE assigns to them. The term “adjunct” itself is an employment rank used by most colleges to classify professors who teach part-time and get paid on a per class basis. This category does incorporate some underemployed academics who wish to convert their positions into full-time jobs. But it also includes working professionals with jobs outside

of academia who only moonlight in the classroom on the side. It also includes numerous retirees and grad students who only wish to teach part time. While stats on the exact breakdown between each group are hard to come by, a 2012 survey of over 9,000 adjuncts revealed a surprising finding: the majority of adjuncts only teach one or two courses, and only do so at a single institution. Only 4 percent of the adjunct workforce fits into the stereotype of a "freeway flier" who attempts to string together a career by teaching classes on a part-time basis at three or more institutions.

These data paint an unambiguous reality that collides with FIRE's narrative: far from facing an "adjunctification" crisis, higher education has been moving away from the adjunct model for almost a decade. Associated stories of extreme employment circumstances on the adjunct market are largely anecdotal and unrepresentative of the empirical trend.

Turning to Howell and Steinbaugh's next statistical assertion, we find another error. The pair maintains that three-fourths of the faculty workforce is off the tenure system, implying that they have been stripped of basic protections for faculty speech. But this too is a misleading claim, because a sizable minority of colleges and universities do not use the tenure system at all.

According to the latest Department of Education numbers, only 57.4 percent of colleges and universities use tenure in their hiring and employment systems. The remaining 42.6 percent simply do not offer this benefit. This does not mean that their faculty are all under imminent threat of firing, as most institutions have other contractual guarantees of academic freedom – even if schools sometimes fall short of these goals, and do so with warranted scrutiny from FIRE and other organizations. At the same time however, the fact that a little under half of all colleges do not use a tenure system means that all of their faculty are, by definition, non-tenure track. When you consider that reality, FIRE's claim about a 75 percent non-tenured workforce suddenly looks much less dire. It's an apples-to-oranges comparison that calculates the percentage of tenured faculty by counting institutions where tenure is not even an option.

The FIRE writers do call attention to a handful of anecdotal cases where adjunct and non-tenured faculty have faced employment penalties over political and other types of speech. In such cases, a tenure system may have afforded stronger protections for similar types of speech. At the same time however, we must consider the unseen detriments of the tenure system for academic freedom and weigh them against the more visible benefits.

Even when it affords some protection to faculty speech, tenure also creates a barrier to faculty hiring and promotion. It raises the stakes of new faculty hiring and introduces multiple opportunities for other faculty to veto or obstruct a potential candidate's progress through an academic career. Ideological bias and discrimination are well-documented features of the higher education job market, particularly as academia has shifted sharply to the political left in the last 15 years. In these circumstances, tenure can also become a weaponized tool for excluding minority political perspectives from the hiring and promotion process.

We hear about faculty speech controversies when a currently employed professor – whether tenured or not – loses his or her job for saying something that makes them a target for punitive action. What we do not see, however, are the faculty who never get hired in the first place because the tenure system allows the dominant political faction within a department to veto any applicant from a minority viewpoint. Nor do we see the faculty who find ideological roadblocks to career advancement due to the tenure system's many chokepoints, and political uses of them by a left-leaning majority to reward allies and penalize opponents. As a result, tenure is at best a

mixed bag – sometimes it protects the already-employed, but at other times it means that candidates with unpopular views are never offered employment or promotion in the first place.

While tenure warrants careful attention for the effects it has on faculty speech and academic freedom, these causes are ill-served by academic labor activism that misrepresents the empirical realities of the faculty workforce, or that paints a distorted picture of what tenure can afford. The adjunctification of higher ed is an empirical myth, and the benefits of tenure are exaggerated in relation to its unseen costs.

– December 7, 2021

Fed Officials Think Inflation Should Remain High Through 2024

WILLIAM J. LUTHER

Director, Sound Money Project

Most people think inflation is too high today, and the Federal Reserve (Fed) should take steps to reduce it. The Personal Consumption Expenditures Price Index (PCEPI), which is the Fed's preferred measure, grew at a continuously-compounding annual rate of 5.6 percent from November 2020 to November 2021. It has grown 3.4 percent per year since January 2020, just prior to the pandemic. If the PCEPI had merely grown at 2 percent, consistent with the Fed's average inflation target, the price level would be 2.8 percentage points lower today. The PCEPI is presented in Figure 1, along with a 2-percent trend projected from January 2020.

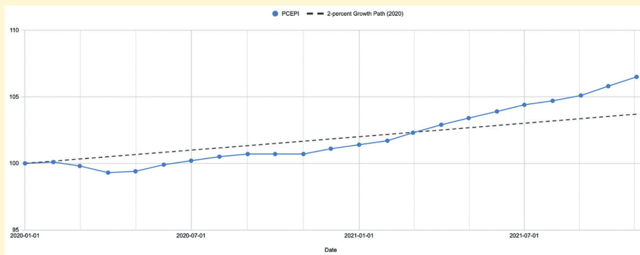


Figure 1. Personal Consumption Expenditure Chain-type Price Index

Fed officials recognize that inflation is high. Testifying before the Senate Committee on Banking, Housing, and Urban Affairs on November 30, Chair Powell acknowledged that "overall inflation is running well above our 2 percent longer-run goal." "We will use our tools [...] to prevent higher inflation from becoming entrenched," he said.

Last week's statement from the Federal Open Market Committee (FOMC) echoes Powell's remarks.

> In light of inflation developments and the further improvement in the labor market, the Committee decided to reduce the monthly pace of its net asset purchases by $20 billion for Treasury securities and $10 billion for agency mortgage-backed securities. [...] The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook.

This suggests that the Fed recognizes that inflation is too high, and is prepared to take steps to bring inflation down, in line with its price stability mandate.

Two questions remain unanswered by the FOMC's statement.

1. How long will the Fed permit inflation to remain above its 2-percent target?

2. Will the Fed reduce inflation to some rate below 2 percent for a period, in order to make up for the above-average inflation experienced over the last eight months?

To answer these questions, we must look beyond the FOMC's press release.

When FOMC members met last week, each participant submitted his or her projections for inflation and other macroeconomic variables. Participants are instructed to make their projections under the assumption that the Fed conducts monetary policy appropriately, as he or she sees it, and that the economy

is not affected by any further shocks. The projections, in other words, convey how each participant thinks the series should grow if the Fed does its job well.

The Summary of Economic Projections reveals that Fed officials think inflation should remain above 2 percent through 2024. Projections of PCEPI inflation for 2022 ranged from 2.0 to 3.2 percent, with a central tendency of 2.2 to 3.0 and a median of 2.6 percent. (The central tendency removes the three highest and three lowest projections.) Fed officials projected lower inflation rates for 2023, but most still thought inflation should be above 2 percent. The inflation rates projected for 2023 ranged from 2.0 to 2.5 percent, with a central tendency of 2.1 to 2.5. The median inflation rate projected for 2023 was 2.3 percent. The range and central tendency of inflation projections for 2024 were 2.0 to 2.2 percent, with a median projected rate of 2.1 percent.

The December projections give no reason to think any FOMC member wants less than 2 percent inflation in order to make up for the above-average period experienced over the last eight months, at least through the next three years. The minimum projections for 2022, 2023, and 2024 is 2.0 percent.

Bond markets are similarly predicting inflation to remain above target, with no make-up period in the foreseeable future. Breakeven inflation, which measures expected annual Consumer Price Index inflation, is currently around 2.70 and 2.47 percent over the five- and ten-year horizons. Given that CPI growth outpaced PCEPI growth by 20 basis points on average from January 2010 to January 2020, this suggests PCEPI growth is expected to grow around 2.5 and 2.27 percent over the five- and ten-year horizons.

Strict adherence to an average inflation target requires making up for over or undershooting the target rate. Alas, it seems the Fed is not committed to hitting its average inflation target. Inflation will be transitory in the sense that the rate will eventually return to 2 percent. But the price level will likely remain elevated.

– December 23, 2021

Despite Fed Asset Purchases, Lending Remains Depressed

THOMAS L. HOGAN

Senior Research Faculty

Economists from across the political divide are worried about inflation. In May, Lawrence Summers warned about the increasing risk of inflation. More recently, John Greenwood and Steve Hanke argued that the Federal Reserve's asset purchases have expanded the money supply, which they speculate will lead to high inflation.

Fed asset purchases do often lead to expansions of bank lending and the money supply. What is unusual about its recent open market operations, however, is that they have not led to increases in bank lending, which has seen lower growth than before the coronavirus pandemic.

Fed purchases and the money supply

Greenwood and Hanke are right that the Fed's asset purchases have been associated with large increases not only in the monetary base but also in M2, a broader measure of money supply. As Figure 1 shows, M2 was growing slightly in 2019, while the Fed's assets were stable over the year. Both Fed assets and M2 jumped in the second quarter of 2020 and have been growing steadily since.

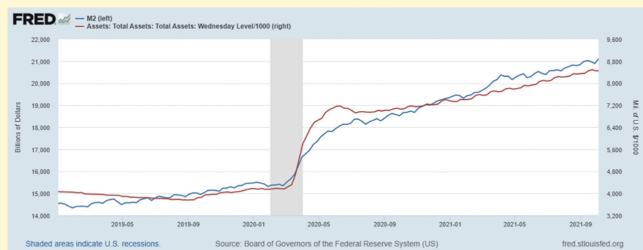


Figure 1: M2 vs. total assets of the Federal Reserve

Over the 12 months ending the first week of November, the Fed's balance sheet increased by $1.4 trillion, while M2 increased by $2.4 trillion. Greenwood and Hanke argue that these trends will lead to "Persistent, not transitory, inflation."

What about bank lending?

Prior to 2008, the Fed's open market purchases created a multiplier effect in the banking system. When the Fed added new base money to the system, banks would hold part of that new money on reserve and distribute the rest in the form of new loans. That money was then spent by borrowers and deposited into other banks that would lend it again and so on. This created effects from the Fed's open market operations that were much larger than their initial monetary injections.

This system changed in 2008 when the Fed began paying interest to banks on the reserves they hold at the Fed. One effect of this policy is that banks began holding higher reserves and lending less, especially in the years following the Great Recession. Compared to the old system, new base money created by the Fed has a much smaller effect on bank lending and the macroeconomy.

Figure 2 shows the total loans of U.S. commercial banks. Lending shot up in early 2020 as businesses borrowed to survive the Covid lockdowns. Starting in mid-2020, those loans were subsequently repaid over the following year. Lending has only started increasing again since mid-2021. While total bank loans increased by 4.1% in 2019, they have grown by only 1.6% in the 12 months ending the first week of November 2021.

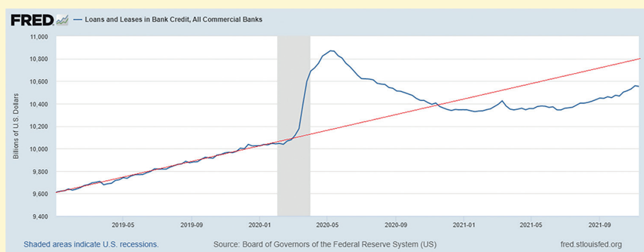


Figure 2: Total loans and leases from U.S. commercial banks

Not only is bank lending not keeping pace with the M2 expansion, but it also does not appear to have fully recovered following the pandemic crisis and lockdowns. The red line in Figure 2 approximates the trend in loan growth over 2019 extrapolated through 2021. As the figure shows, lending remains below the level of the pre-crisis trend.

Commercial bank lending was supplemented over this period by an expansion in lending by nonbank and financial technology (FinTech) companies, which may have somewhat offset the low growth in traditional lending. But that trend has been ongoing for years prior to the pandemic. Nonbank financial companies mostly have the same financial incentives as banks and therefore are likely to be similarly affected by Fed policy.

Considering the slow expansion of bank lending, it is unclear what the overall effects of Fed policy will be on inflation and economic activity. Without a large multiplier effect, the Fed's asset purchases might increase M2 directly, but they may have limited effects on the price level and the broader economy.

Should the Fed keep buying?

One interpretation might be that since its effects may be smaller than expected, the Fed should continue its asset purchase program. I think the lesson is the opposite.

The Fed's asset purchases do not appear to be having positive effects on bank lending and economic activity. They have, however, increased bank reserves, which has complicated financial regulation. Expanding the Fed's balance sheet will make it more difficult to return to the pre-2008 corridor system of monetary policy.

The Fed's recent asset purchases appear to have significantly expanded the money supply. But given the small changes in bank lending, it is not clear what their overall effects will be on inflation and the economy.

– December 2, 2021

The New Status Quo for Public Finance

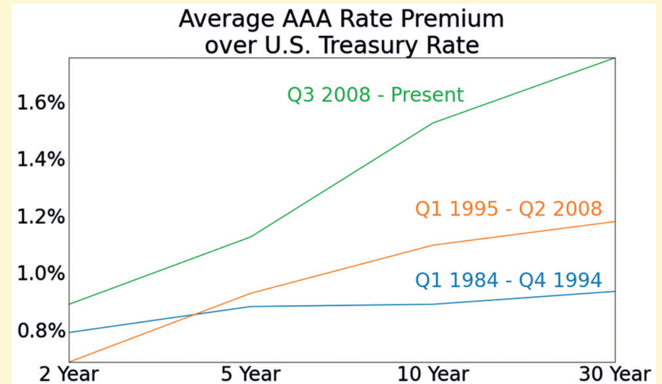
JAMES L. CATON

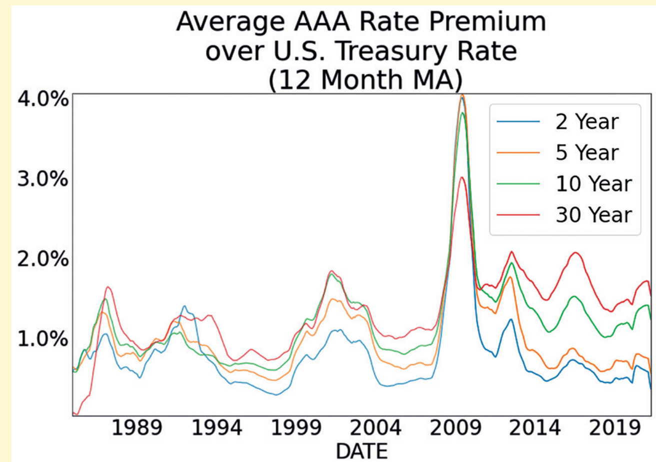
Fellow, Sound Money Project

States are traditionally thought of as reliable borrowers. This might seem ironic since a state, backed by control over the use of force, is also in a privileged position to renegotiate terms of repayment. Consider that King James I and King Charles I both delayed repayment of loans, many years failing to repay any principal or interest.

After the Glorious Revolution, however, Parliament was the dominant party in British governance, removing and replacing kings whenever its members thought it appropriate. And with the stability of this position, Parliament oversaw the largest sustainable expansion of public borrowing in history. Between 1618 and 1750, the size of the public debt increased about 100-fold, and the interest rate paid on the public debt hovered around only 3%.

The tradition of seeing the state as a reliable borrower has continued into the present. In the United States the federal debt is currently greater than the size of US GDP, even if debt owned by the Federal Reserve and federal agencies is not included in this calculation. Yet, even in spite of the size of federal debt, the federal government continues to be a favored borrower in financial markets.





Premium on Private Borrowing

One way to judge the extent to which the federal government is a favored borrower is to compare the rate paid on public debt for a given maturity to the rate paid on private debt of the same maturity. We need only compare yield curves for federal debt and high quality private debt. The more elevated the private yield curve compared to the public yield curve, the greater the premium indicated by the difference between the two curves.

After the 2008 financial crisis, the premium paid by private borrowers increased, especially for longer loan maturities. Compared to the government, quality private borrowers have paid a premium of more than 170 basis points for loans 30 years in length. Only for loans of much shorter duration (2 and 5 years) are premiums paid by private borrowers at all close to rates paid prior to the 2008 financial crisis.

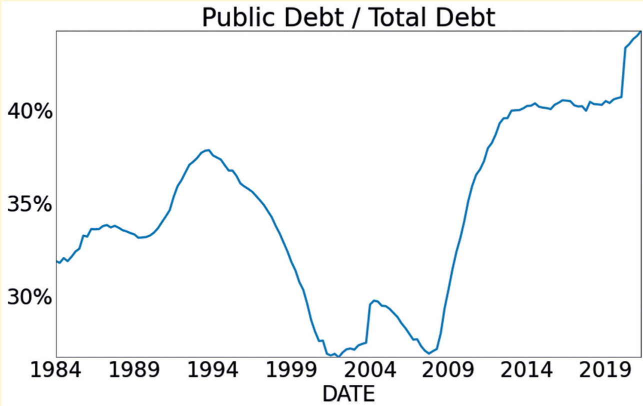
Why was there a structural shift in financial markets after 2008? There appear to be two reasons. There were two new sources of demand for US Treasuries. The first, and most obvious, was an increase in holdings of US Treasuries by

the Federal Reserve. Between 2008 and 2014, the Federal Reserve more than tripled its holdings of US Treasuries, holding nearly $2.5 trillion by the end of 2014. At present, the Federal Reserve holds $5.5 trillion in US Treasuries.

A less noticed source of demand was a change in financial regulations. In November 2010, Basel III regulation required banks to hold a minimum level of "Tier I" capital as well as a minimum level of "High Quality Liquid Assets" (HQLA). Among instruments that may serve as HQLA, sovereign debt is rated as a Level 1 asset. Banks can accumulate Level 1 assets with essentially no restriction. High quality corporate debt, on the other hand, is rated as a Level 2 asset. "Level 2 assets can only comprise up to 40% of the bank's stock" of HQLA.

New Status Quo

It should be no surprise, then, that there exists a wedge between the rate paid on private debt and the rate paid on public debt of the same maturity length, and that this wedge is elevated in comparison to earlier periods. Since the 2008 financial crisis, the discount received on borrowing by the federal government has risen to its highest level in the more than three decades of data available for comparison as banks that want to earn positive returns from their holdings of HQLAs choose to hold US Treasuries.



Since 2008, the share of all debt dedicated to public borrowing (federal debt; state and local debt) has risen significantly. Public debt currently represents over 44% of all debt in the United States. Both monetary policy and regulatory policy have favored public borrowing. With the current arrangements in monetary policy and financial regulation, it is difficult to imagine the new status quo changing. For every loan made to the private sector, banks are required to either lend to the federal government, hold reserves, or leave their funds on account at the Federal Reserve.

Increased support for federal borrowing is built into Basel III financial regulations. The result has been a massive transfer of resources from private economic activity to state-funded activity.

Public perception appears to be that our political representatives determine the level of federal indebtedness. According to this perspective, growing public indebtedness could be reversed by electing different representatives. But the data shows that a different factor changed for our democracy. The cost of public borrowing has been shifted toward private investors by requiring financial institutions to allocate a greater portion of their investment portfolio to US Treasuries than they would otherwise choose. Facing lower borrowing costs, those in charge of the federal budget have responded rationally by borrowing more.

As regulations have shifted resources away from the private sector, real economic growth has lagged. After the 2008 financial crisis, the US never returned to pre-crisis growth levels. My expectation is that unless private investors find a means of avoiding this subsidization of federal borrowing, we never will.

– December 13, 2021

How Do the Feds Get Away with That?

GEORGE LEEF

Contributor

The tentacles of federal power over the states, localities, and private institutions have been reaching further and further. Consider, for example, a case involving a small Christian school, the College of the Ozarks.

The college adheres to a strict biblical code of morality and among its requirements is that men and women live in separate dorms. That would never have been a problem until recently, with the advent of the notion of "gender fluidity," whereby a person who is biologically male might "identify" as female or vice versa. Once the idea that such individuals are entitled to compel others to accommodate their personal conceptions took hold among leftists, it was inevitable that the government would find ways to punish those who "discriminated" against them. College of the Ozarks did so with its housing policy.

Now, you can scrutinize the US Constitution all day long and you won't find anything saying that Congress has the power to dictate to colleges what their housing policy must be. In fact, you won't find any reference to education at all. Education was among the great many matters that the Tenth Amendment declared were "for the states or the people, respectively."

Nevertheless, the federal Department of Education has told College of the Ozarks that it must drop its housing policy or else. Or else what? Lose eligibility for federal student aid money, that's what. The school sued in federal court to have the Department's order invalidated, but the judge ruled against it. (For the details, consult this piece that I wrote about the case.)

Where does the Constitution empower bureaucrats in Washington, DC to demand that every college must conform its housing policy to their ideas of what's right? Can't we have schools that are different on that?

We certainly should. A "gender fluid" student who doesn't want to be treated according to traditional sexual binary concepts can attend a college that is accommodating. There is no harm at all in leaving colleges free to set their own rules—but officious federal bureaucrats like to throw their power around.

Back to the legalities. If the Constitution doesn't give Congress authority over colleges, how can a bureaucracy use the threat of loss of federal money as a cudgel to make them obey it?

That is the point of a new book by Philip Hamburger, a professor at Columbia Law School, *Purchasing Submission.* He observes that to a greater and greater extent, federal bureaucrats use their money, benefits, and sheer power to force state and local governments as well as non-governmental entities like College of the Ozarks to submit to them.

Hamburger has written previously about the unconstitutional spread of federal power, in his book *Is Administrative Law Unlawful?* In it, he argued that the vast administrative state—the "fourth branch" of government—is inconsistent with the Framers' concept of good governance. It harkens back to the kinds of star chamber proceedings in England that the drafters of our Constitution wanted to prevent. The people were only supposed to have to obey laws enacted by their elected representatives and face punishments by properly constituted courts of law, but "administrative law" violates both of those precepts.

In *Purchasing Submission*, Hamburger shows that the problem of unconstitutional control goes

far beyond the visible administrative state, which has to comply with statutes and is at least somewhat subject to judicial oversight. When federal bureaucrats dangle money in front of state and local governments, or private entities, in exchange for their compliance with conditions that they would have no power to impose directly, they are subverting our constitutional order. Hamburger calls it a "transactional mode of control," and declares, "It is a strange mode of governance, in which Americans sell their constitutional freedoms—including their self-governance, due process, and speech—for a mess of pottage."

The book abounds in examples that show how far the disease of control by unelected bureaucrats has progressed.

Consider the way federal highway funding has been used to pressure the states into changing their legal drinking ages, clearly a matter for them under the Tenth Amendment. But federal bureaucrats thought it would be good if all states had a drinking age of 21, and threatened to withhold money from any that didn't go along. South Dakota sued, arguing that the feds had no authority to demand that it comply. Unfortunately, the Supreme Court sided with the federal government, weakly saying that while the drinking age was properly a state concern, the condition imposed was germane.

The better argument was expressed by Justice O'Connor in dissent. She wrote that while the government is entitled to insist that the states build highways that are safe, it is not entitled to demand that they "change regulations in other areas of the state's social and economic life."

Returning to higher education, the feds have used eligibility for federal money to make college officials adopt speech restrictions and one-sided procedures for the adjudication of sexual harassment allegations. In K-12, receipt of federal No Child Left Behind funding was conditioned upon states adopting federally mandated curricula.

Nor is money always the bait when the government wants to make unconstitutional dictates. Licenses can accomplish the same thing. The FCC insists that broadcasters must comply with its edicts if they want to be able to continue to broadcast. And the tax code is also useful; churches and charities have to relinquish some of their First Amendment rights if they want donations to remain tax deductible.

Furthermore, Hamburger points out, federal agencies often use their already constitutionally dubious power as leverage to expand their power into blatantly unconstitutional domains. They do so by threats, letting regulated parties know that if they should challenge agency actions, they'll face retribution. It's sheer extortion. They usually get away with it.

This new mode of governance not only means that Americans have to obey rules that were not made by their elected representatives, but also that they will be judged by administrative tribunals rather than proper courts. The Founders' vision for the nation has been badly subverted. The problem is that the courts have been derelict in dealing with this, often permitting agencies to continue extending their power in ways that undermine freedom and federalism.

Purchasing Submission is a brilliant lawyerly attack on a grave and ongoing problem. Hamburger's thoughtful analysis will no doubt help future litigants prepare their strongest cases against it. If we are ever to get back to constitutional government in the US, we must absorb the lessons of this book.

– December 12, 2021

The 1619 Project Means Never Having to Say You're Sorry

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When Nikole Hannah-Jones published the 1619 Project in August 2019, it initially came under an unfair line of attack from historians who took issue with aspects of its discussion of Abraham Lincoln. Hannah-Jones had correctly identified Lincoln as a supporter of black colonization – a common 19th century "solution" to slavery that involved coupling emancipation with the resettlement of the freedmen abroad in locations such as Liberia or Central America.

Lincoln's speeches and writings contain dozens of unambiguous endorsements of colonization, which he intended to subsidize through the US government, albeit on a voluntary basis for the freedmen colonists. Though misguided in its aims, Lincoln's brand of colonization was also motivated by his antislavery beliefs and specifically the notion that resettlement abroad would permit African-Americans an opportunity to enjoy the rights and freedoms that were denied to them in the United States. Nonetheless, Lincoln's colonizationism has long been a sore spot for Lincoln scholars due to the complexities it introduces to the "Great Emancipator" political iconography. Several generations of historians have put their pens to work seeking a way to give Honest Abe an out where colonization is concerned. Most contend that Lincoln abandoned the scheme mid-presidency, reading an active repudiation into his public silence on the measure in the final year of the Civil War. Others even put forth the theory that Lincoln only advocated colonization as a political ruse – a "lullaby" to coax public opinion closer to the Emancipation Proclamation.

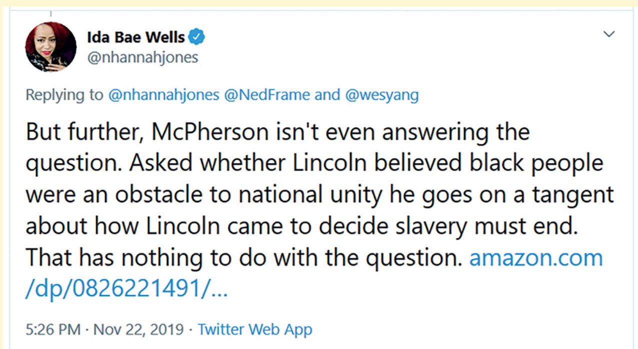
Reality is much more straightforward. In addition to being a sincere antislavery man, Lincoln was also a sincere colonizationist who meant what he said when he espoused this position. A substantial body of my own work on the Civil War era investigates this exact question, conclusively showing that Lincoln continued to pursue colonization schemes through diplomatic channels well beyond the Emancipation Proclamation, and likely into the last months of his presidency. When Nikole Hannah-Jones made similar claims in 2019, she was drawing directly on my work as a historian of that subject.

In fact, Hannah-Jones stated as much in a series of now-deleted comments as some of the other historian-critics questioned her claims about Lincoln and colonization.

On November 22, 2019 she tweeted out a link to my co-authored 2011 book on the subject, *Colonization After Emancipation: Lincoln and the Movement for Black Resettlement.*

Three days later, Hannah-Jones wrote, "For instance, recent scholarship shows Lincoln did not abandon colonization at Emancipation but worked on it until he was assassinated." In another comment, she criticized historian James McPherson's "dated scholarship on Lincoln ending his efforts to colonize black people at Emancipation" (McPherson is one of the main proponents of the above-mentioned "lullaby" thesis). Quite the contrary, Hannah-Jones continued, "recent scholarship shows [Lincoln] continued these efforts until his death."

In both cases, the "recent scholarship" that she referred to was my own work, which I summarized in a series of articles in 2012 and 2013 for Hannah-Jones's own employer, the *New York Times*.



There were certain interpretive differences between my work and the 1619 Project on this point – for example, Hannah-Jones understated the extent to which antislavery motives shaped Lincoln's support for the measure, which he saw as a pathway to wean the country away from the brutal plantation system. But the historical evidence of Lincoln's deep connections to colonization was clear, and at least on that point the 1619 Project got it right.

That is, until Hannah-Jones realized that the historian she was citing was also an outspoken critic of other aspects of the 1619 Project.

"What are the credentials, exactly of Phil Magness?" Hannah-Jones fumed in another now-deleted comment after she realized that I had offered a less-than-favorable assessment of her project's other historical claims, and particularly its error-riddled essay on the economics of slavery by Matthew Desmond. Her fury intensified in January 2020 after Alex Lichtenstein published a lengthy defense of the 1619 Project against his historian critics, attempting to invoke his authority as the editor of the American Historical Review to arbitrate the disputes over its claims about slavery in the Revolutionary through Civil War eras. At the time I pointed out that Lichtenstein – a 20th century historian – was not an expert in the antebellum United States, and was thus not qualified to assume the role of historical judge and jury on specialist claims about that era. Hannah-Jones snapped back, "Lol. You aren't a specialist in that era either yet that didn't stop you."

Setting aside the fact that only a few weeks prior Hannah-Jones herself had been explicitly touting my work on Lincoln's colonization projects to justify her own claims in the 1619 Project, I'll simply note that I've authored over two dozen scholarly works on slavery and the Civil War era. This includes my aforementioned book, the chapter on colonization in the *Essential Civil War Curriculum*, as well as multiple peer-reviewed articles on slavery in the U.S. and broader Atlantic world. Hannah-Jones, by contrast, has no known original scholarship to her name of any kind on slavery or this period of American history.

At first, I chalked this bizarre exchange up to Hannah-Jones's increasingly unprofessional approach to defending the 1619 Project. Instead of responding to substantive and factual critiques of her work, Hannah-Jones began directing personal abuse and insults at her critics.

When James McPherson offered his own less-than-flattering take on Hannah-Jones's work in November 2019, she responded dismissively: "Who considers him preeminent? I don't." McPherson is a Pulitzer Prize-winning historian of the Civil War, and author of what is widely considered the standard single-volume treatment of the subject, *Battle Cry of Freedom*. In December 2019, McPherson joined distinguished scholars Gordon Wood, Sean Wilentz, Victoria Bynum, and James Oakes in questioning Hannah-Jones's attempts to recast the American

Revolution as a fight to preserve slavery. Rather than answer them, she dismissed the group as a whole by labeling them "white historians."

Hannah-Jones saved her most brazenly abusive attacks though for African-American critics of the 1619 Project, such as Columbia University professor John McWhorter and journalist Coleman Hughes. When McWhorter, Hughes, and other African-American scholars launched a competitor 1776 Project in February 2020 through the Robert Woodson Center, Hannah-Jones lashed out on Twitter by posting photos of herself making derogatory gestures at her black interlocutors. Although she later deleted the tweets at the apparent request of her employer, Hannah-Jones made Hughes in particular a focus of her continued verbal abuse. "That Ivy League education certainly didn't do you any favors," she wrote in another comment to Hughes in August 2020. "Next time screenshot me and don't quote text me because I'd rather not read your drivel. I tried to find something to quote tweet in that profoundly mediocre 1776 Project essay you wrote, but alas, nothing was worthy."

It comes with little surprise, then, that my own experiences with Hannah-Jones followed a similar course after she realized that I was the author of the works on black colonization that she had previously been citing. Rather than engage with the evidence surrounding the disputed claims of her work, Hannah-Jones's first impulse is to insult, attack, and dismiss the critic as "unqualified" to evaluate her work. Only historians that she cherry-picks to affirm her preconceived position, such as the University of South Carolina's Woody Holton, are permitted under her credential-touting games.

Except in the case of Lincoln and colonization, Hannah-Jones even went so far as to modify her previous historical claims in order to avoid having to cite and credit a 1619 Project critic. As a result, I have the unusual distinction of having fallen from Hannah-Jones' grace after she previously invoked my scholarship to support her work back in 2019. When an extended version of the 1619 Project came out in book form in November 2021, Hannah-Jones had not only excised substantial portions of her previous arguments about Lincoln – she cast about and found a new source to justify her revised interpretation on Lincoln.

The 1619 Project book now states only that Lincoln supported "colonization schemes as late as 1862," and further implies that Lincoln abandoned the program after he issued the Emancipation Proclamation on January 1, 1863. Hannah-Jones's new source for this revised claim appeared in footnote 38 of her essay: a 2016 popular press book entitled *Stamped From the Beginning* by Critical Race Theory activist Ibram X. Kendi.

Hannah-Jones's new version of Lincoln's colonization initiative is unambiguously wrong as a matter of history. One of the many discoveries I made while researching this subject was a colonization agreement that Lincoln signed on June 15, 1863 with the colonial government of British Honduras, or modern-day Belize. This document resides in the National Archives of Belize where I discovered it in 2011, and was previously unknown to any historian.

But as a broader matter of principle, Hannah-Jones's behavior illustrates the absence of basic scholarly integrity from her approach to writing history. Rather than following the evidence where it leads, Hannah-Jones picks and chooses bits and pieces of her arguments from a secondary literature based on whether it conforms to her preconceived political narrative. She approaches citations as a tool by which she can reward other scholars who affirm that narrative. And if a previously-cited scholar runs afoul of Hannah-Jones, she is perfectly willing to alter the "history" presented in the 1619 Project in ways that excise the offending work and replace it with a completely different narrative – provided

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