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RESEARCH REPORTS

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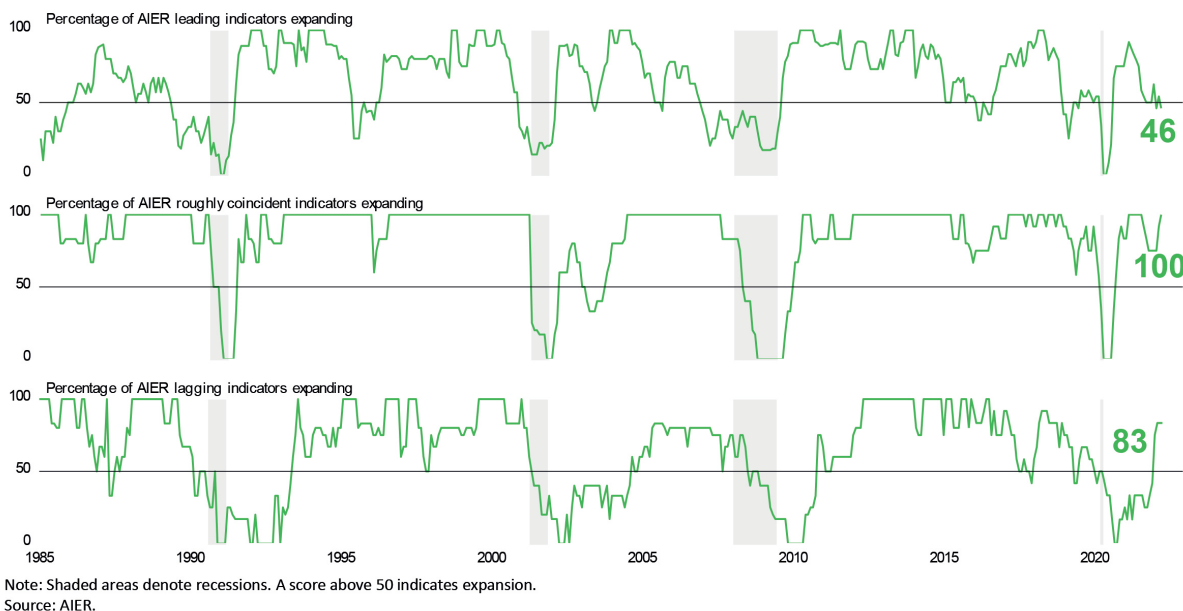
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BUSINESS
CONDITIONS
MONTHLY

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AIER Leading Indicators Index Dips Back Below Neutral

Indicators at a glance



Summary

Volatility continues to impact the AIER business cycle indicators. AIER's Leading Indicators Index fell back in April, posting an 8-point drop following an 8-point gain in March. The Leading Indicators Index continues to fluctuate around the neutral 50 threshold, with the average over the last seven months coming in at 51 (see chart).

Despite a weak headline from the GDP report, domestic demand in the economy grew at a decent pace in the first quarter and the outlook is for continued growth, but risks remain elevated. Persistent upward pressure on prices, labor shortages and turnover, fallout from the Russian invasion of Ukraine, and new lockdowns in China in response to outbreaks of COVID-19 are among the most significant forces impacting the domestic and global economies and represent potential risks. A new Fed tightening cycle has begun in response to elevated rates of price increase, raising the risk of a policy mistake. While the strong labor market provides support for consumer attitudes, incomes, and spending, it also has the potential to fuel a wage-price spiral.

Increased volatility should be expected to continue in capital and commodity markets, the economy, and economic statistics over coming months. Also expect continued volatility for the AIER business cycle indicators. Caution is warranted.

AIER Leading Indicators Index Falls Back in April

The AIER Leading Indicators index reversed course yet again in April, losing 8 points to 46 after gaining 8 points in March. The April level of 46 is back below the neutral 50 threshold following a 54 in March. Over the last seven months, the Leading Indicators index has been above neutral twice, below neutral twice,

and exactly neutral three times, putting the average reading over that time at 51.

Four leading indicators changed signal in April, with three weakening and one improving: the manufacturing and trade sales to inventory ratio indicator moved from a neutral trend to an unfavorable trend as did the real new orders for core capital goods indicator while the real stock prices indicator dropped from a positive trend to a negative trend. The total heavy-truck unit sales indicator offset the drop in the real stock prices indicator, improving from a negative trend to a positive trend. Among the 12 leading indicators, five were in a positive trend in April while six were trending lower and one was trending flat or neutral.

The Roughly Coincident Indicators index improved for a second consecutive month in April, rising to a perfect 100 following a 92 in March and four consecutive months at 75. One indicator showed improvement in April. The Conference Board Consumer Confidence in the Present Situation indicator improved from a neutral trend to a positive trend. Overall, all six indicators – nonfarm payrolls, employment-to-population ratio, industrial production, the real manufacturing and trade sales, real personal income excluding transfers, and The Conference Board Consumer Confidence in the Present Situation – were trending higher in April.

AIER's Lagging Indicators index was unchanged for the third consecutive month, holding at 83 in April. February through April was the best three-month run since a four-month run at 83 from July through October 2018. No individual indicators changed trend for the month. In total, five indicators were in favorable trends, one indicator had an unfavorable trend, and none had a neutral trend.

Lingering materials shortages, labor shortages and turnover, and logistical problems continue to slow the recovery in production across the economy and are sustaining upward pressure on prices. Upward

price pressures have resulted in a new cycle of Fed policy tightening, raising the risk of a policy mistake. Furthermore, the Russian invasion of Ukraine and recent lockdowns in China in response to a new wave of COVID-19 have launched a new wave of potential disruptions to global supply chains.

The outlook is for continued economic growth, but risks remain elevated. Additionally, 2022 is a Congressional election year. Intensely bitter partisanship and a deeply divided populace could lead to turmoil as confidence in election results come under attack. Contested results around the country could lead to additional economic disruptions and government paralysis, again testing the durability of democracy. Caution is warranted.

Weak Headline Masks Underlying Resilience in First Quarter GDP

Real gross domestic product fell at a 1.4 percent annualized rate in the first quarter versus a 6.9 percent rate of gain in the fourth quarter. Over the past four quarters, real gross domestic product is up 3.6 percent, putting the level almost exactly on trend.

Real final sales to private domestic purchasers, a key measure of private domestic demand, rose at a more robust 3.7 percent annualized rate in the first quarter following a 2.6 percent pace in the fourth quarter. Over the last four quarters, real final sales to private domestic purchasers are up 4.4 percent, keeping the level slightly above trend. The trend growth in real final sales to private domestic purchasers is 2.6 percent since mid-2009.

Among the components, real consumer spending overall rose at a 2.7 percent annualized rate, beating the 2.5 percent rate in the fourth quarter, and contributing a total of 1.83 percentage points to real GDP. Consumer services led the growth in overall consumer spending, posting a 4.3 percent annualized rate, adding 1.86 percentage points to total growth while durable-goods spending rose at a 4.1 percent

pace, contributing 0.35 percentage points. However, nondurable-goods spending fell at a -2.5 percent pace, subtracting 0.38 percentage points. Within consumer services, growth was broadly strong, led by financial services (6.3 percent growth rate), recreation (5.5 percent), and food services and accommodation (5.0 percent).

Business fixed investment increased at a 9.2 percent annualized rate in the first quarter of 2022, contributing 1.17 percentage points to final growth. That gain was led by a 15.4 percent jump in business equipment investment (adding 0.79 percentage points) while intellectual-property investment rose at an 8.1 percent pace (adding 0.40 points to growth). Those gains were partially offset by a decline in spending on business structures where spending fell at a 0.9 percent rate, the fourth decline in a row, and subtracting 0.02 percentage points from final growth.

Residential investment, or housing, rose at a 2.1 percent annual rate in the first quarter compared to a 2.2 annualized gain in the prior quarter. The first quarter was the second gain in a row following drops in the second and third quarters of 2021. The gain in the first quarter added 0.10 percentage points.

Businesses added to inventory at a \$158.7 billion annual rate (in real terms) in the first quarter versus accumulation at a \$193.2 billion rate in the first quarter. The slower accumulation reduced first-quarter growth by 0.84 percentage points. The inventory accumulation helped boost the real nonfarm inventory to real final sales of goods and structures ratio to 4.00 from 3.87 in the fourth quarter; the ratio hit a low of 3.75 in the second quarter. This is still below the 4.3 average for the 16 years through 2019.

Exports fell at a 5.9 percent pace while imports rose at a 17.7 percent rate. Since imports count as a negative in the calculation of gross domestic product, a gain in imports is a negative for GDP growth, subtracting 2.53 percentage points. The fall in exports subtracted 0.68 percentage points. Net trade, as used

in the calculation of gross domestic product, subtracted 3.2 percentage points from overall growth.

Government spending fell at a 2.7 percent annualized rate in the first quarter compared to a 2.6 percent pace of decline in the fourth quarter, subtracting 0.48 percentage points from growth.

Consumer price measures from the National Income and Product Accounts showed another sharp rise in the first quarter. The personal-consumption price index rose at a 7.0 percent annualized rate, up from a 6.4 percent pace in the fourth quarter. From a year ago, the index is up 6.3 percent. Excluding the volatile food and energy categories, the core PCE (personal consumption expenditures) index rose at a 5.2 percent pace versus a 5.0 percent increase in the fourth quarter. From a year ago, the core PCE index is up 5.2 percent.

Real Retail Sales Are Trending Flat

Retail sales and food-services spending rose 0.5 percent in March following an 0.8 percent gain in February. However, today's retail sales data are not adjusted for price changes. In real terms, total retail sales were down 0.7 percent (adjusted using the CPI). Still, total retail sales are up 6.9 percent from a year ago while real retail sales are down 1.5 percent.

Core retail sales, which exclude motor vehicle dealers and gasoline retailers, rose 0.2 percent for the month, following a 0.1 percent decline in February. The decline leaves that measure with a 6.2 percent gain from a year ago. After adjusting for price changes, real core retail sales fell 0.2 percent in March and are down 0.3 percent from a year ago.

Categories were mostly higher for the month with ten up and three down in March. The gains were led by an 8.9 percent rise in gasoline spending. However, the average price for a gallon of gasoline was \$4.40, up 19.8 percent from \$3.68 in February. General merchandise sales followed with a 5.4 percent increase while electronics and appliance

store sales and sporting goods, hobby, and bookstore sales each gained 3.3 percent for the month.

Nonstore retailers led the decliners, down 6.4 percent, followed by motor vehicles sales, off 1.9 percent, and health and personal care store sales, down 0.3 percent.

Overall, total nominal retail sales rose in March, lifted by rising prices, especially for gasoline. However, in real terms, total and core retail sales fell. Furthermore, real total and real core retail sales are essentially unchanged from a year ago.

Durable-goods Orders Posted a Broad-based Rebound in March

New orders for durable goods increased 0.8 percent in March, rebounding from a 1.7 percent drop in February. Total durable-goods orders are up 11.9 percent from a year ago. The March gain puts the level of total durable-goods orders at \$275.0 billion, the third highest on record.

New orders for nondefense capital goods excluding aircraft, or core capital goods, a proxy for business equipment investment, jumped 1.0 percent in March after falling 0.3 percent in February. Orders had risen for 11 consecutive months from March 2021 through January 2022 and have increased 21 of the last 23 months since April 2020. The results put the level at \$80.8 billion, a new record high.

However, accelerating price increases have an impact on capital goods. In real terms, after adjusting for inflation, new orders for nondefense capital goods excluding aircraft – one of AIER’s Leading Indicators – were \$41.2 billion in March, measured in 1982 dollars, a high level by historical comparison but well shy of the record high \$49.2 billion in June 2000. The March result was a 0.8 percent gain for the month and is a 2.3 percent increase from a year ago. However, it is below the recent high of \$41.5 billion in October 2021,

putting the recent trend on a downward trajectory, resulting in a negative contribution to the AIER Leading Indicators index.

In nominal terms, every category in the durable-goods report showed a gain in March. Among the individual categories, electrical equipment and appliances led with a 3.9 percent increase, followed by computers and electronic products with a 2.6 percent rise, primary metals with a 1.5 percent gain, fabricated metal products, up 0.8 percent, and machinery orders, up 0.7 percent. Transportation equipment added 0.2 percent with motor vehicles and parts were up 5.0 percent, but nondefense aircraft was down 9.9 percent, and defense aircraft plunged 25.6 percent. From a year ago, every major category shows a gain.

Durable-goods orders continue to be strong, particularly the core-capital goods components, though a significant portion of the gain in nominal-dollar orders is due to price increases. Demand remains robust for the manufacturing sector, and the tight labor market creates incentives to substitute capital for labor. The pandemic may have accelerated structural changes to the economy, affecting labor, housing, manufacturing, and services.

Home Construction Remained Robust in March but Headwinds Are Gaining Strength

Total housing starts rose to a 1.793 million annual rate in March from a 1.788 million pace in February, a 0.3 percent increase. From a year ago, total starts are up 3.9 percent. Total housing permits also rose in March, posting a 0.4 percent gain to 1.873 million versus 1.865 million in February. Total permits are up 6.7 percent from the March 2021 level. Both categories were led by multifamily housing.

Starts in the dominant single-family segment posted a rate of 1.200 million in March versus 1.221 million in February, a drop of 1.7 percent and are off

4.4 percent from a year ago. Single-family permits fell 4.8 percent to 1.147 million versus 1.205 million in February.

Starts of multifamily structures with five or more units increased 7.5 percent to 574,000 and are up 28.1 percent over the past year while starts for the two- to four-family-unit segment fell 42.4 percent to a 19,000-unit pace versus 33,000 in February. Combined, multifamily starts were up 4.6 percent to 593,000 in March and show a gain of 26.2 percent from a year ago.

Multifamily permits for the 5-or-more group jumped 10.9 percent to 672,000 while permits for the two-to-four-unit category were unchanged at 54,000. Combined, multifamily permits were 726,000, up 10.0 percent for the month and up 29.4 percent from a year ago.

Meanwhile, the National Association of Home Builders' Housing Market Index, a measure of homebuilder sentiment, fell again in April, coming in at 77 versus 79 in March, but still at a somewhat favorable level. Overall sentiment remains positive, but rising mortgage rates, elevated home prices, and higher input costs are major concerns.

Two of the three components of the Housing Market Index fell in April. The expected single-family sales index rebounded slightly, rising to 73 from 70 in the prior month, but the current single-family sales index was down to 85 from 87 in March while the traffic of prospective buyers index fell six points to 60.

Input costs are a concern for builders, with lumber coming in at around \$915 per 1,000 board feet in mid-April, down from peaks around \$1,700 in May 2021 and \$1,500 in early March 2022 while copper was holding at just over \$10,000 per metric ton. The high input costs will pressure profits at builders and may lead to more price increases for new homes.

Furthermore, mortgage rates have rocketed higher recently, with the rate on a 30-year fixed rate

mortgage coming in at 5.00 percent in mid-April, nearly double the lows in early 2021. Higher home prices and higher mortgage rates are likely to be significant headwinds for future housing activity.

After a pullback in activity in the first three quarters of 2021, single-family construction has shown renewed strength. While the implementation of permanent remote working arrangements for some employees may be providing continued support for housing demand, ongoing home price increases combined with the recent surge in mortgage rates will likely work to cool activity in coming months. Threats to future demand combined with elevated input costs are weighing on homebuilder sentiment. The outlook for housing is becoming more guarded.

New Single-Family Home Sales Fell Again in March as Prices and Mortgage Rates Continue to Rise

Sales of new single-family homes fell in March, declining 8.6 percent to 763,000 at a seasonally-adjusted annual rate from a 835,000 pace in February. The March drop follows a 1.2 percent decline in February and a 3.0 percent drop in January. The three-month run of decreases leaves sales down 12.6 percent from the year-ago level. New home sales surged in the second half of 2020 but then slowed sharply in the first three quarters of 2021, hitting a low of 667,000 in October. Following the October low, sales posted two strong gains in November and December but have reversed some of those gains in the first quarter of 2022. Meanwhile, 30-year fixed rate mortgages were 5.11 percent in late April, up sharply from a low of 2.77 percent in August 2021.

Sales of new single-family homes were down in all four regions of the country in March. Sales in the South, the largest by volume, fell 10.2 percent while sales in the West dropped 6.0 percent, sales in the Midwest decreased 8.7 percent and sales in the Northeast, the smallest region by volume, sank 5.4

percent for the month. From a year ago, sales were up 12.8 percent in the Northeast and up 21.0 percent in the West, but are off 13.8 percent in the Midwest and off 24.7 percent in the South.

The median sales price of a new single-family home was \$436,700, up from \$421,600 in February (not seasonally adjusted). The gain from a year ago is 21.4 percent versus a 16.5 percent 12-month gain in February. On a 12-month average basis, the median single-family home price is still at a record high while the gain from a year ago in the 12-month average is 19.3 percent.

The total inventory of new single-family homes for sale rose 3.8 percent to 407,000 in March, putting the months' supply (inventory times 12 divided by the annual selling rate) at 6.4, up 14.3 percent from February and 52.4 percent above the year-ago level. The months' supply is at a relatively high level by historical comparison and is substantially higher than the months' supply of existing single-family homes for sale. The relatively high months' supply and surge in mortgage rates may be among the reasons for slowing gains in the median home price. The median time on the market for a new home remained very low in March, coming in at 3.0 months versus 2.9 in February.

CAPITAL MARKET PERFORMANCE

(Percent change)

	April	Latest 3M	Latest 12M	Calendar Year			Annualized		
				2021	2020	2019	3-year	5-year	10-year
Equity Markets									
S&P 1500	-8.7	-8.3	-1.8	26.7	15.8	28.3	11.6	11.3	11.3
S&P 500 - total return	-8.7	-8.2	0.2	28.7	18.4	31.5	13.9	13.7	13.7
S&P 500 - price only	-8.8	-8.5	-1.2	26.9	16.3	28.9	11.9	11.6	11.5
S&P 400	-7.2	-5.1	-8.3	23.2	11.8	24.1	8.3	7.6	9.7
Russell 2000	-10.0	-8.1	-17.8	13.7	18.4	23.7	5.4	5.9	8.6
Dow Jones Global Large-Cap Index	-8.3	-9.4	-7.0	16.2	14.7	23.8	7.6	7.6	7.1
Dow Jones Global Large-Cap ex-U.S. Index	-6.6	-9.0	-12.3	4.9	8.8	18.2	2.0	2.6	2.5
STOXX Europe 600 Index	-1.2	-3.9	3.0	22.2	-4.0	23.2	4.8	3.1	5.8
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-9.6	-16.1	-13.8	-6.0	16.4	11.5	-1.1	-0.5	0.2
iShares AAA - A Corporate Bond Fund	-5.5	-9.8	-12.4	-4.2	7.1	9.1	-2.0	-1.2	NA
Commodity Markets									
Gold	-1.7	6.2	7.8	-4.0	24.8	18.7	14.2	8.5	1.4
Silver	-5.5	4.2	-9.4	-12.8	46.8	16.7	16.1	6.1	-2.8
Refinitiv CoreCommodities CRB total return index	4.5	21.0	54.6	38.5	-9.3	11.8	19.5	12.4	0.7

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

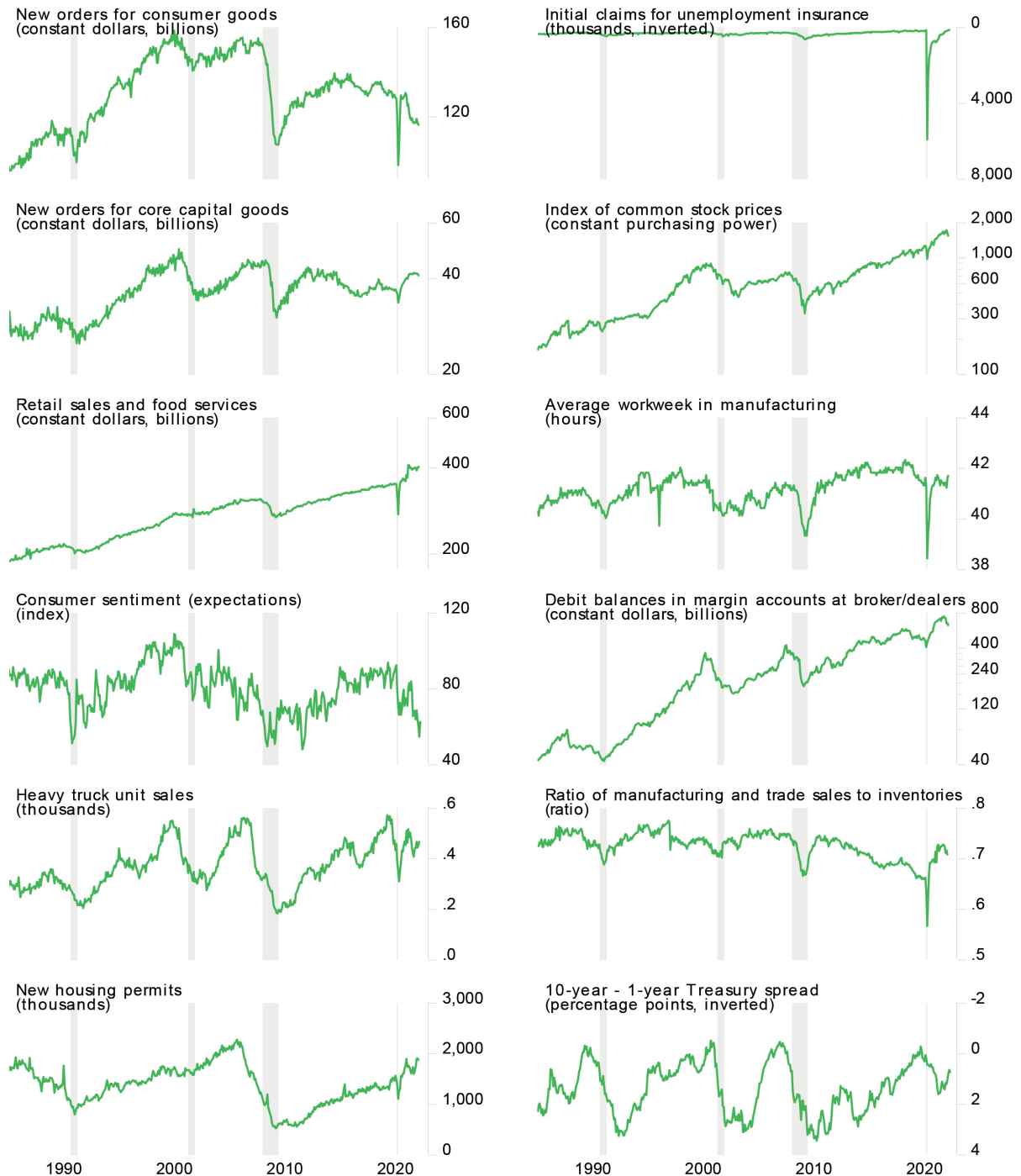
CONSUMER FINANCE RATES

(Percent)

	April	Latest 3M	Latest 12M	Average for Year			Average over Period		
				2021	2020	2019	3-year	5-year	10-year
30-yr. fixed mortgage	4.2	3.8	3.2	3.0	3.1	3.9	3.3	3.7	3.8
15-yr. fixed mortgage	3.4	3.0	2.5	2.3	2.6	3.4	2.7	3.1	3.1
5-yr. adjustable mortgage	3.2	2.9	2.6	2.6	3.1	3.6	3.0	3.2	3.1
48-month new car loan	4.9	4.9	5.0	5.1	5.1	5.4	5.1	5.1	4.7

Sources: Bankrate, Federal Reserve.

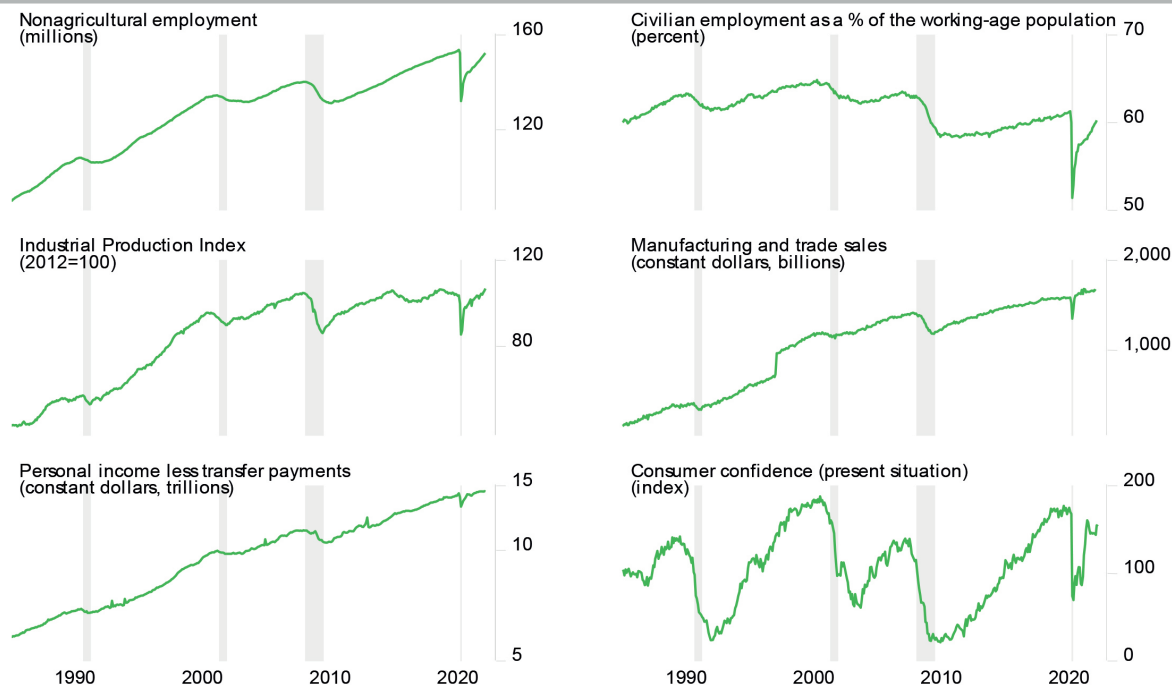
LEADING INDICATORS (1985-2022)



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).

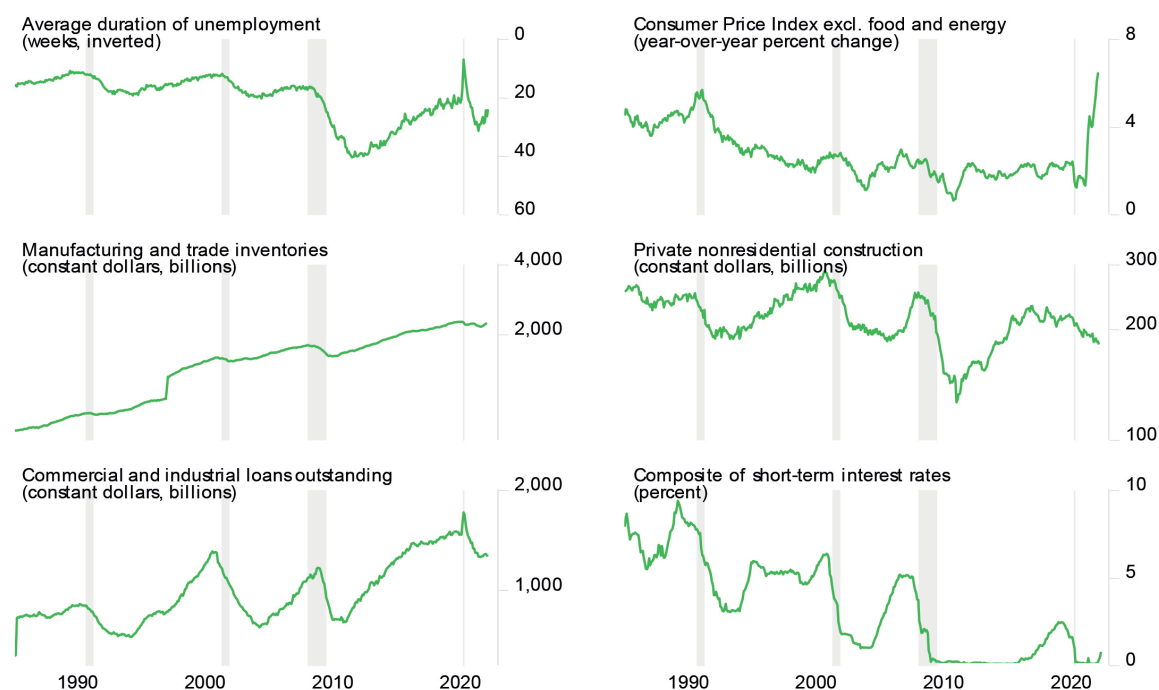
ROUGHLY COINCIDENT INDICATORS (1985-2022)



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 (1985-2022)



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).

Lessons From America's First Great Inflations

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New England first experienced significant inflation in the first half of the 1700s, and got out of it by banning fiat paper money, returning to a commodity money standard and forcing fiscal restraint on the region's governments through the bond market. That does not mean that America must return to gold or adopt a Bitcoin standard to get out of its current inflationary and fiscal messes. Federal Reserve Chairman Paul Volcker proved that raising interest rates to the moon to induce recession can squelch inflation too. Colonial South Carolina also experienced a period of rapid inflation that ended when its government slowed new money issuance until it suffered recession. The colonial New England episode offers a potentially less jarring way out, although the details require some background knowledge to understand.

The money supply of British North America consisted of book credit, country pay, fiat paper bills of credit, and various full-bodied gold, silver, copper, and vellon (copper and silver mixed) coins (collectively known as specie), most of foreign manufacture. Though seemingly chaotic, the colonial payments system worked because economic value was standardized through a duodecimal (base 20) *unit of account* nominally identical to that used in Great Britain: 20 shillings to the pound, 12 pence in a shilling, and 4 farthings in a pence.

In Britain, the pound sterling was merely a unit of account as there was no pound coin in circulation in the 18th century. Instead, a gold guinea coin rated at £1 and 1 shilling (21 shillings) sterling unit of account circulated. A shilling coin did circulate, conveniently worth a shilling sterling unit of account (.05 pound sterling). In the colonies, British shilling

coins were rarely seen, but when they did enter circulation they were worth more than a shilling in the local unit of account. That did not break any of the laws of economics because although colonial units of account nominally and denominationally resembled those of Britain, they were not sterling British pounds, just as Canadian or Australian dollars today are not the same as US dollars.

The colonial units, usually termed the "money" or "currency" of a given colony, were invariably worth less than sterling. So, for example, in the late colonial period a New York merchant needed about £NY170 to buy £stg.100 (1.70 pounds New York currency to buy 1.00 pound sterling), just like a Canadian merchant today needs about 1.25 CAD to buy 1.00 USD. That exchange rate prevailed because New York merchants valued gold and silver coins higher in nominal terms than British merchants did. For example, New Yorkers considered a French guinea (a gold coin) worth 36 shillings in New York's unit of account, while in England the same coin passed at 21 shillings in Britain's unit of account. Do a little math ($36/21 = 1.71$) and the New York-sterling exchange rate makes economic sense.

In domestic transactions, colonists reckoned value in their local unit of account and made economic decisions accordingly. Coins were seldom seen because they were seldom needed. Over the course of a year, a farmer in the Massachusetts countryside might buy 10 shillings (120 pence or £.5 Massachusetts money) worth of booze from a local tavern keeper on credit. The farmer might repay her (yes, her) with labor or farm produce at a market rate. Or, he might tender

beef, maize, pork, or other items of “country pay” at a rate decreed by the colonial government. Or, he might tender foreign coins at the rates decreed by the colonial government or, later in the colonial period, by local custom. Or, he might pay off his tab entirely and even establish a credit balance through a combination of those means of payment.

Even in Philadelphia and other colonial port towns, most retail transactions, and of course most wholesale transactions, were done on credit, not cash. Prices were not posted and part of the negotiation process included discussion of the terms of payment, with those offering good coin receiving lower prices than those who promised to pay on “short credit,” and much lower prices than those offering to pay only “on account,” like the Massachusetts farmer mentioned above. But good coins did not abound because their highest valued use was in international payments, not clinking about the colonies.

Ingenious as the colonial “bookkeeping barter” system described above was, it could not raise large sums quickly or efficiently. Private banks attempted to fill the void by issuing paper notes but Imperial and colonial governments squelched them, the latter to monopolize the market with their own paper money, which took three forms: tax anticipation script, loan office bills, and warehouse notes.

Colonists called both loan office bills and tax anticipation script “bills of credit,” though their legal and economic basis differed considerably. Loan office bills were issued to individuals as loans backed by significant collateral, typically improved real estate. In the event of default, the government could seize and sell the collateral. Warehouse notes were also backed by collateral, the deposit of merchantable commodities, typically tobacco, in a government warehouse. (British government bonds backed one issue of bills of credit by the

colony of Maryland.) Note that all of those forms of paper money enjoyed flexible legal limits but also hard economic constraints linked to the value of the collateral assets backing the emissions.

Bills of credit issued as tax anticipation script faced a flexible legal limit, but no clear economic one. The issuers promised only to redeem the bills for taxes but were under no obligation to redeem them for specie, or anything else of value. The issuing governments controlled both tax rates and bill redemption periods, which they often extended to keep taxes at a politically palatable, which is to say low, level. (In economic jargon, they suffered a time inconsistency problem.)

In 1690, Massachusetts became the first colony to issue paper bills of credit. They took the form of tax anticipation script because they were needed to finance a military expedition gone bad. By 1710, the other New England colonies (then only Connecticut, New Hampshire, and Rhode Island as Maine was still part of Massachusetts and Vermont remained unincorporated) also began to issue bills of credit to finance yet more wars. Because the eastern part of the region was small enough and economically tied to Boston closely enough to constitute a common currency area, bills of each colony circulated promiscuously across colonial boundaries.

When peace returned, a recession ensued and businessmen sought relief in the form of loan office bills lent at low rates of interest. Additionally, Rhode Island soon discovered that it could earn seigniorage rents by serving as a money pump, gleefully exchanging cheaply printed bills of credit for costly goods in Massachusetts, Connecticut, and New Hampshire. Its politicians deftly left the bills in circulation instead of raising taxes to retire them. People in the other New England colonies also were happy to let their bills continue to circulate rather than suffer higher taxes, procrastinating until another war forced them to issue yet more bills of credit.

Eventually, bills of credit displaced all the coins in domestic circulation throughout New England's common currency area.

Unsurprisingly, New England suffered a big bout of inflation, which the colonists perceived as a depreciation of their bills of credit vis-a-vis real money, i.e., gold, silver, or foreign exchange. In other words, it took more than the face value of the bills to purchase a coin of the same nominal rating. Similarly, when merchants purchased foreign exchange, like sterling denominated deposits in Britain, they had to pay more in bills of credit than in coins. When negotiating price, retailers would ask for more in immediate payment in bills of credit than they would for immediate payment in good coin.

The spot market price of silver in Boston is one way to track the depreciation of New England's bills of exchange. It went from 8 shillings per ounce in 1707 to almost 57 shillings per ounce in 1747. An identical basket of goods composed of a chicken, a goose, a turkey, butter, cheese, eggs, beef, mutton, pork, veal, corn, rye, wheat, milk and beer, candles, and one pair of men's and women's shoes cost almost 7.5 times more in bills of credit in 1747 than in 1707. Plagued by thin, rocky soil and rock-headed policies, New England remained the poorest region in British mainland North America.

On their own, the New England colonies could do little to redeem the mass of paper money in circulation. Massachusetts legislator Thomas Hutchinson, however, saw an opportunity to return to a silver standard when Britain promised to reimburse the New England colonies for some of their military expenses. As part of the monetary reforms pushed by Hutchinson and applauded in London, Massachusetts rated the Mexican silver dollar at 6 shillings and established the lawful unit of account in terms of silver at 6 shillings 8 pence per ounce for all contracts entered into after 31 March 1750. Importantly, it also shut down the Rhode Island money pump by

making the circulation of the bills of credit of other colonies illegal. A British warship carried 650,000 ounces of silver and some copper coins for small change to Massachusetts in late 1749. Redemption of the colony's bills in silver was largely completed by June 1751 when the remaining outstanding bills became legal only for payment of taxes. Prodded by Britain and the need to do business in Boston, the other New England colonies soon implemented similar reforms.

Importantly, when British policymakers summoned Massachusetts into the French and Indian War later that decade, instead of issuing bills of credit Massachusetts financed its war effort by selling bonds serviced with silver. Owners of Massachusetts bonds wanted to be repaid, with interest, as promised. So unlike holders of bills of credit, they pressed policymakers for higher taxes and greater expenditure discipline instead of low taxes and a profligate public purse.

At the other end of British mainland North America, South Carolina also fought many wars and began funding them with tax anticipation script in 1703. Although it did not have to contend with a money pump in its midst because its neighbors remained economically stunted throughout the colonial period, South Carolina still managed to inflate away much of the real value of its bills. By 1730, one needed £700 of South Carolina bills of credit to purchase £100stg. A decade later, one needed £810. By slowing the issuance of new bills while the population was expanding thanks to increased international demand for two of its major exports, rice and indigo, however, it managed to appreciate its currency modestly, to £710 by 1749, and lure some specie coins back into domestic circulation. When the commodities markets softened, as they always do, businessmen in South Carolina began to push for a loan office, just as their compatriots in Massachusetts had done a generation

earlier. But by the late 1740s, British policymakers were too disgusted by what was going on in New England to assent. In fact, over the next fifteen years, British policymakers would wrest control of monetary policy away from the colonies in ways that sparked the Imperial Crisis that led to revolution and independence.

Ironically, New England's economy waxed strongly enough after its currency reform to enable it to lead the colonists' fight for independence. More ironically still, instead of sticking to their increasingly robust capital market and specie standard, New England's policymakers during the early stages of the American Revolution jettisoned what they had learned and joined the rest of the new states, and the new national government, in the issuance of fiat bills of credit. Only after those rebellious bills became worthless did the nation return to a specie standard and modern capital market instruments. Aided by reforms implemented during George Washington's first term, that potent combination spurred a long wave of prosperity marked by agricultural, transportation, and industrial revolutions that transformed the New England countryside and made it one of America's richest and most economically developed regions.

Today, the Federal Reserve and federal government serve as America's Rhode Island, the money pump that keeps the money supply rising faster than money demand. The longer it waits to act decisively to combat inflation, however, the more it risks having to stop the inflationary spiral by inducing a recession and causing joblessness. Or, it will need to find some other credible mechanism to slow new money growth and returning to some sort of commodity standard, like gold, is a tried-and-true way to do that.

– April 26, 2022

A Note on the New Russian “Gold Standard”

PETER C. EARLE

Research Faculty

After ten days of offering to purchase gold for a fixed number of rubles, the Russian central bank has announced that going forward it will pay negotiated rates in future purchases of gold in rubles.

On Friday, March 25, 2022, the Bank of Russia announced that it would set a fixed price for gold purchases made with rubles beginning on Monday, March 28th through June 30th, 2022. (Also on March 28, the Russian government further announced that international commodity purchases may no longer be made in dollars or euros, but rather that everything from oil and natural gas to grains and industrial metals must be transacted in rubles.)

At that time, the Bank of Russia stood willing to purchase gold from Russian banks at a fixed 5,000 rubles per gram, which set an effective “floor” on the ruble. At 31.1 grams per troy ounce, with the Russian central bank bidding for gold at 5,000 rubles per gram, one ounce of gold would be purchased for 155,500 rubles.

The Kremlin’s goals are obvious: They seek to force nations to transact in their currency which, owing to a comprehensive and growing array of Western sanctions, had been steeply devalued. They also, by demanding payment in rubles, are attempting to increase demand for their currency while spurning trade in the familiar medium of US dollars.

London markets have refused to accept Russian bullion for some weeks now. Nevertheless, the ruble has recovered from its lows of 138.93 to \$1 on March 7, 2022 to between 78 and 82 to the US dollar over the last few days. The exchange rate now sits roughly where it was when the invasion of Ukraine began on February 24, 2022. Demand for the ruble to consummate energy and grain purchases,

battlefield losses (most notably the Russian forces’ inability to seize Kyiv), and the growing improbability of NATO intervention are moderating rates of exchange for the ruble as well.

RUBUSD exchange rate (2020 – present)



(Source: Bloomberg Finance, LP)

The Bank of Russia’s decision to hike interest rates to over 20 percent, stemming the flow of savings out of Russian banks, has additionally stabilized the financial system.

Bank of Russia key interest rate (2020 – present)



(Source: Bloomberg Finance, LP)

But neither today’s shift nor the original ‘5,000 ruble per gram’ purchase measure constitutes a gold standard despite the enthusiasm of certain media pundits. A *bona fide* gold standard would require the Russian central bank to both purchase *and* sell

(which is to say, exchange) gold and rubles; and to do so according to a fixed weight or quantity of gold per unit currency.

In the previous arrangement, the effective gold purchase price was at times lower than the world (dollar) price of an ounce of gold, according to Shanghai Metals Market, China's leading integrated internet platform provider of nonferrous and ferrous metals.

Two weeks ago, Russia's central bank announced that it would stop buying official gold from local banks because of a surge in demand from ordinary consumers. Russia's central bank said on Friday [March 25] that it would pay a fixed price of 5000 roubles (\$52) per gram from March 28 to June 30, starting this week. This is lower than the current market value of about \$68.

Most entities selling gold to the Russian central bank at those prices would only have done so if they were desperate for rubles or unwilling/unable to access above-board gold dealers offering the prevailing world gold price in dollars. Meanwhile Russian citizens have been far more interested in purchasing gold.

One imagines that the new, negotiated gold purchase rates will permit Russian authorities to set rates in line with the motivation of sellers, discounting for immediacy. Further, that nations which are politically friendlier to the Kremlin will receive more favorable purchase terms. It additionally seems likely that among the gold sellers will be entities taking advantage of a rare opportunity for confidential liquidity provision, including elements of organized crime, terrorist groups, individuals with hidden assets and rogue states in particular. There are already indications that Russia is increasingly organizing certain commercial affairs in line with the operation of other pariah states.

Despite the clamor of incorrect headlines regarding Russia's embrace of gold, it remains a positive step. Gold is tangentially being utilized to make an existing money more sound. It is most unfortunate that these measures are tied to an event as awful as the Russia-Ukraine War, but it may give other nations in less dire circumstances the motivation, and indeed the courage, to shore up their battered currencies.

– April 8, 2022

Big Tobacco, Small Minds

PHILLIP W. MAGNESS

Research and Education Director

Is your retirement account invested in the stock market through a common S&P 500 indexed mutual fund? Does your company's 401K hold shares in any large, publicly-traded corporation? Well guess what. If you opposed lockdowns, you're guilty of cynically profiteering off of the deaths of hundreds of thousands of COVID-19 victims. You're also likely a dupe of the fossil fuel industry, and a financial agent of Big Tobacco – which means that your opinions on the harms of lockdowns should be discounted and you should probably just go ahead and exile yourself from polite society.

Or at least that's the claim of a series of recent commentaries in a leading medical journal, *The BMJ*.

Last month this journal, which is published by the British Medical Association, published a deranged smear against AIER over our involvement in the conference that produced the Great Barrington Declaration. Authored by Professors Gavin Yamey and David Gorski, along with graduate student Gideon Meyerowitz-Katz, the commentary asserts that "AIER is funded through an investment fund that itself owns shares in tobacco companies and many organizations that stood to lose enormous amounts of money if the United States were to have enacted further lockdowns in 2020." "This represents a large intellectual and financial [Conflict of Interest] for the AIER," the authors continue, implying that our principled stance against lockdowns was really just a greedy ploy to increase the bottom line of tobacco companies. Far from an aberration caused by lax editorial oversight, the BMJ has now repeatedly published attacks by this same trio of authors, or some combination thereof,

as they advance similar allegations of financial conspiracy by AIER and the GBD.

On what basis, then, do Yamey et al stake their claim? It comes from an intentional misrepresentation of AIER's finances. Our assets are invested and independently managed by our financial subsidiary. Some of those assets are invested in market-indexed mutual funds which, in turn, contain stocks in a diversified array of companies. Just like your company's 401K or your Roth IRA, those assets include small percentages of stocks of large publicly traded firms like Chevron, Exxon-Mobil, and Philip Morris. And that, apparently, makes us "funded" by Big Oil and Big Tobacco in the eyes of the BMJ authors.

The claim that simple stock ownership through a mutual fund somehow places you on the payroll of Big Tobacco and Big Oil would be risible in any other circumstance.

Indeed, it is the BMJ's own published policy to specifically exclude "mutual funds or other situations in which the person is not in a position to control investment decisions" from its financial conflict of interest reporting requirements in published scientific research. This exclusion stems from a longstanding convention in the scientific community. The fact that you have a standard retirement account is not disqualifying of your research, because these instruments are specifically designed to maintain diversified and independently managed investments. The National Institutes of Health and most other agencies involved in medical research have similar exemptions for mutual funds and related investment vehicles. Stated differently,

a mutual fund is specifically designed to ensure the long-term stability and growth of the portfolio as a whole – not to induce and manipulate short-term gains for a couple of individual stocks among the hundreds of companies that it holds.

In publishing the attacks on AIER’s finances by Yamey, Gorski, and Meyerowitz-Katz, *The BMJ* accordingly violated its own policy standards for financial conflict of interest reporting. When I contacted one of its editors, Adrian Aldcroft, to express concerns about this blatant disregard of scientific norms and publishing ethics in his journal, he responded dismissively. Disregarding his own journal’s policy, Aldcroft reiterated Yamey et al’s charge: “you do not deny that AIER is funded via an investment fund that holds shares in many corporations including tobacco companies.” When I pointed out that it was both absurd and patently offensive to accuse us of profiteering on behalf of tobacco companies over our criticism of the COVID-19 lockdowns, he answered that this was simply the “the opinion of the authors” even though the trio had explicitly characterized them in their published commentary as statements of fact.

In addition to shirking their own policies, the BMJ’s actions have made it clear that its editors countenance and even encourage the brand of scurrilous conspiracy-mongering that has come to typify Yamey, Gorski, and Meyerowitz-Katz’s COVID-19 commentary. Unfortunately, the underlying reasons may include a classic case of academic nepotism. Yamey is a protégé of Kamran Abbasi, the editor in chief of *The BMJ* and an outspoken advocate of the Covid-19 lockdowns. When one of Yamey and Gorski’s earlier attacks in *The BMJ* came under scrutiny for falsely describing the GBD as being “funded” by “billionaires aligned with industry” last fall, Abbasi rushed to his defense on Twitter and described it as “well argued and courageous comment.” Around the same time, *The BMJ* was

forced to issue a retraction to Yamey and Gorski’s allegation about billionaire funding.

This curious situation is further compounded by a stunning hypocrisy. *The BMJ* appears to only selectively exempt its contributors from its own financial standards, because it turns out that one of the authors of the attack on AIER has a far more direct connection to Big Tobacco than minor and indirect stock market investments.

Professor Yamey is currently employed at Duke University. Duke was famously founded out of the fortune of its namesake, tobacco baron James Buchanan Duke. Mr. Duke’s tobacco fortune provided the seed money that turned the university into a renowned research center. Duke’s tobacco-fueled endowment grew with the campus, and is now worth over \$12 billion dollars.

While we should not begrudge Professor Yamey’s employer for its strong fiscal situation, we may legitimately ask: Is it not true that what’s good for the goose is also good for the gander?

I replied to Aldcroft and his co-editors with a simple inquiry. If *The BMJ* was willing to impugn the integrity of AIER on account of common and tangential investments in an indexed stock fund, would it also be willing to hold Professor Yamey to account as a beneficiary of a far more substantial and direct link to Big Tobacco?

One might even go so far as to point out a tangible link between lockdown advocacy and tobacco industry profits. Aside from failing to stem the tide of COVID-19, lockdowns imposed immense public health harms on society at large. Among the best-documented of these harms was a pronounced rise in tobacco consumption among youths and in vulnerable and low-income communities. Whether through depression, despair, or even boredom, people responded to the lockdowns by smoking more – a fact that is now attested in dozens of scientific studies, newspaper accounts,

and even published papers in the BMJ. It is not difficult to discern that the lockdown-induced uptick in smoking rates will have deleterious public health consequences for decades to come.

In light of these facts, would it be fair to suggest that Professor Yamey's own medical ethics are financially compromised by his employer's direct and substantial financial connections to one of the largest tobacco fortunes in United States history? Would it be fair to similarly impugn the ethics of Professor Gorski and Mr. Meyerowitz-Katz by association, seeing as they have collaborated extensively with Yamey on issues related to COVID-19? Is this same trio's aggressive, public advocacy of lockdowns in academic journals, popular outlets, and social media really just a cynical cover for a quest to drive cigarette sales? I suspect that all three would object to this characterization, even though it employs the same logic that they have used to defame AIER through much weaker and smaller financial connections to tobacco.

In a peculiar turn, *The BMJ's* editors had no answer to my query. Neither do Yamey, Gorski, or Meyerowitz-Katz. Medice, cura te ipsum indeed.

– April 9, 2022

Zero COVID Horror Show in Shanghai

DAVID WAUGH

Managing Editor

Shanghai, the financial capital of China with a population of 25 million people, currently faces its third week of steep increases in cases of COVID-19.

In response, the Chinese Communist Party (CCP) implemented harsh COVID-19 restrictions in Shanghai, sending an army of healthcare workers to enforce them. Citizens cannot leave their homes. They can only receive medical care upon presenting a negative COVID test. Healthcare workers are forcing COVID-positive individuals into quarantine camps and stripping children from their parents. Government officials are even executing pets in the street when the pet owners test positive for COVID. People are running out of food, screaming from their windows, and jumping out of buildings in protest.

These measures follow the CCP's "zero COVID" pandemic policies. These policies use extensive government intervention to "control" the coronavirus, disregarding all costs. During the past two years, the strategy gained admirers throughout the Western world, including Australia and New Zealand, each implementing similar zero COVID policies.

Zero COVID is a failed strategy. Data does not support it. Lockdowns, mass quarantines, strict border closures, and other policies do not stop COVID. New Zealand and China are experiencing increases in COVID cases. The societal and economic carnage severely outweighs any potential benefits of Zero-COVID policies.

Horrific Hubris

Unfortunately, the CCP refuses to recognize that zero COVID is ineffective, and the starving, trapped, exasperated people are using social media to share their stories.

Individuals across the city are audibly screaming from their windows in protest.



On Weibo, the highly censored social media platform, the following comment went viral: "We are not killed by Covid, but by the Covid control measures." A tweet from a lawyer trapped in his home also went viral:



Further, NPR reports that citizens created makeshift indoor grass mats for their dogs to defecate on.

I've talked with friends who have created these – they call them DIY nature toilets inside their homes. So they, like, bought a patch of grass. They collected some old leaves as a place for their dogs to...Do their business.

The CCP's response uses militarism and media gaslighting. The CCP-controlled media claims citizens should "be confident, trust the policy, not to panic or be overly anxious, and not to make up and believe rumors."

Drones fly throughout Shanghai, telling citizens, "Please comply with covid restrictions. Control your soul's desire for freedom. Do not open the window or sing."



The zero-COVID measures in Shanghai ought to be recognized for what they are: human rights abuses. The policy ends (zero COVID) are not possible, so they cannot justify the means (locking down a city of 25 million). Similar to its abuse of the Uyghurs in China, the CCP's national socialist policies are causing significant harm to the Chinese people. Like all national socialist policies, they result in human suffering rather than human flourishing.

State Capacity Hurts

China's zero COVID approach is yet another example of the devastating risk introduced when totalitarian regimes implement centrally planned policy via brute force. Under the classical liberal ideal, governments are formed to protect individual rights. Nothing could be further from this in Shanghai. A city of over 25 million people is being dehumanized because of a spike in largely asymptomatic COVID-19 cases.

We were dangerously close in the United States to implementing zero COVID adjacent policies, particularly in our larger cities. Admirers of this

approach are still with us in the Western world, even if they are in apparent retreat.

The experience in Shanghai permanently discredits their opinions with respect to COVID-19 policy. The rest of the world should take note and ensure "zero COVID" ideas are placed squarely in the past.

– April 12, 2022

Social Capital Mediates COVID-19 Vaccinations

BYRON B. CARSON, III

Project Fellow, Public Choice and Public Policy Project

In our COVID-era efforts to malign conservatives for not vaccinating, and liberals for disrespecting liberty, we miss the mark. We ignore how our own communities reinforce normative values and encourage something that is uniquely American, namely the freedom to associate.

Social capital—as Alexis d’Toqueville, Glenn Loury, James Coleman, Robert Putnam, and others have argued—refers to the bonds of trust and networks that people develop with other people in and out of their communities. It often encourages people to be trusting, to lend at lower interest rates, and to form firms. Social capital also has a dark side as criminals and mafiosi use it to pursue illicit activities.

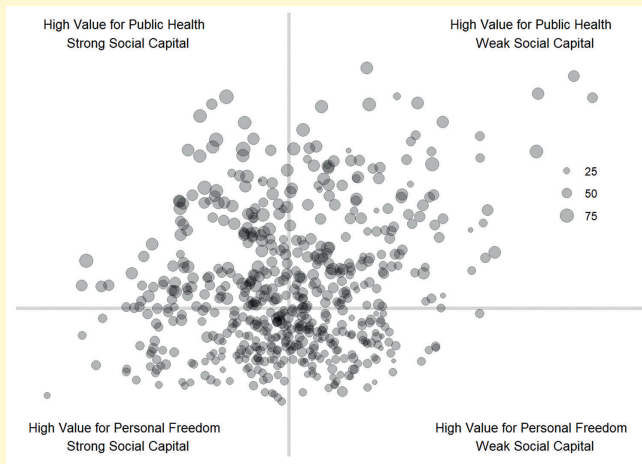
Social capital can encourage people to be healthier too. Higher levels of social capital can encourage people to eat more salads or refrain from eating too much. Higher levels of social capital might also encourage vaccinations and mask wearing. Scholars have studied how this relationship works during the time of COVID-19. For example, Bartscher et al. (2021) suggest that areas with a one-standard-deviation increase in social capital have 14-34 percent fewer COVID-19 cases per capita and 6-35 percent fewer deaths per capita.

Few scholars recognize, however, that the dark side of social capital might not always positively influence health. People in groups with higher levels of social capital might not like salads or eating healthy. If people and groups value behaviors that have little to do with health, or if those values deteriorate their own health or the health of others, higher levels of social capital can be pernicious.

These ideas suggest that the level of social capital plays a nuanced role in how people and their communities vaccinate. If we are in groups and communities that value personal and public health and preventing the spread of disease—and we have higher levels of social capital—we might be more likely to vaccinate. However, if we are in groups and communities that value other goals—just as legitimate—like being religious or developing personal freedom, etc., and we have higher levels of social capital, we might be less likely to vaccinate.

In new work with Justin Isaacs and Tony Carilli, we find just that. Social capital mediates and reinforces the normative values people have regarding public health and personal freedom. Social capital encourages vaccinations in places where people value public health, and it discourages vaccinations where people value personal freedom.

The figure below shows how social capital influences vaccine uptake in an interesting way. Each circle represents a county in the United States, and its size refers to the magnitude of vaccination on Nov. 30, 2021. As the level of social capital rises (a leftward movement) and as people place a higher value on public health (an upward movement), their counties tend to experience a higher rate of vaccination. As the level of social capital falls (a rightward movement) and as people place a higher value on personal freedom (a downward movement), their counties tend to experience a lower rate of vaccination.



These results point to something uniquely American. When people are free to associate with each other, they pursue their normative values, and they tend to reap the benefits according to their values. We shouldn't bemoan such outcomes. People who value public health are able to pursue such things, and people who value personal freedom are able to act in kind.

In Tocqueville's visit to America, he is struck by an "equality of conditions"—his approach to social capital. To Tocqueville, social capital "... creates opinions, engenders sentiments, suggests the ordinary practices of life, and modifies whatever it does not produce." Perhaps we should pay more attention to the equality of values people hold dear. Public health is important, but so is personal freedom.

– April 20, 2022

Understanding the CPI

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Senior Fellow

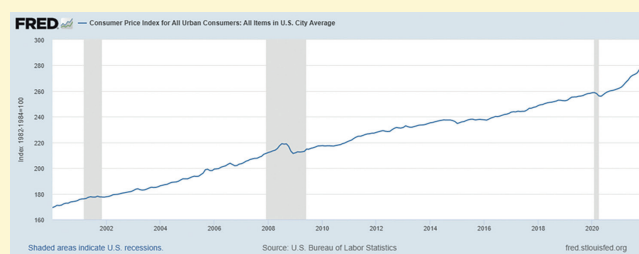
The Consumer Price Index (CPI) is the best known and most widely used measure of prices for the US. This index is prepared monthly by the Department of Labor for the 32 largest cities in the US. Although it ignores rural prices, it still covers 90% of the US population. The annual percentage change in the CPI is the most widely used measure of inflation. Until recently, inflation has been under control in the United States, but it is very high in some other countries. For example, in Zimbabwe in 2008, prices doubled every day. More recently, Argentina, Turkey, Russia, and Venezuela also experienced severe depreciation of their currency. High inflation can significantly impair an economy's performance, to the extent that economic policymakers claim a low and stable rate of inflation as one of their chief objectives.

The origin of the CPI was a conference among Labor Department researchers in 1919. Although the Labor Department had collected data on food prices since 1888, high inflation during and after World War I convinced them of the need to include a broader range of consumer goods. The Labor Department wanted a measure of consumer prices to interpret the wage data they already collected. The initial choice of what food items to include in 1888 was decidedly unscientific, as the researchers simply went home and asked their wives what they bought every month. The 1919 basket of goods was chosen based on surveys that determined what kinds of consumer goods were purchased most regularly. Each month, Labor Department researchers priced the survey basket in the 32 cities included in the CPI. Every ten years, the CPI basket is adjusted based on a new

survey to reflect changes in consumer behavior and preferences, the introduction of new goods, and the discontinuation of other goods.

Figure 1 shows the fairly steady upward march of the CPI since 2000, with short periods of deflation during the 2007-2009 Great Recession and the 2020 Covid-19 recession. Note that since the last recession, the CPI has grown notably faster than average—this is how we are currently experiencing 7.5 percent inflation.

Figure 1. Consumer Price Index for All Urban Consumers 2000-2022



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; February 5, 2022.

Another adjustment the Labor Department has to make is called hedonic adjustment. To some extent, technological progress is captured by adjusting the composition of the basket of goods, adding new products and removing obsolete ones. Hedonic adjustment estimates the impact of very rapid technological progress which may combine falling prices with improving quality. For example, in 1948, the largest TV you could buy was part of an RCA Berkshire Festival Series combination radio tuner, phonograph, and television in

a mahogany breakfront made for RCA by Baker Furniture. These retailed for about \$4,000 at a time when that would purchase a new Cadillac. The TV was a 29-inch diagonal rear-projection black-and-white set. This was especially notable because the largest conventional cathode-ray-tube sets that could be manufactured at that time had a tiny 4-inch diagonal.

Today you can buy a much larger HDTV, providing a dramatically higher-quality color picture, for far less. Similarly, the first PCs retailed for around \$20,000 in 1985, and by today's standards were about as useful as doorstops. Not only has the price fallen below \$1,000, but computing power, speed, and storage space have increased exponentially. As with the TVs, we're now paying much less for a much better product. Hedonic adjustment attempts to capture the full impact of these improvements, which are greater than what the price decrease alone would suggest. Though car prices have gone up over the years, newer cars are safer, and are generally better made, more durable, and provide better fuel economy, and hedonic adjustment attempts to capture these kinds of quality improvements as well.

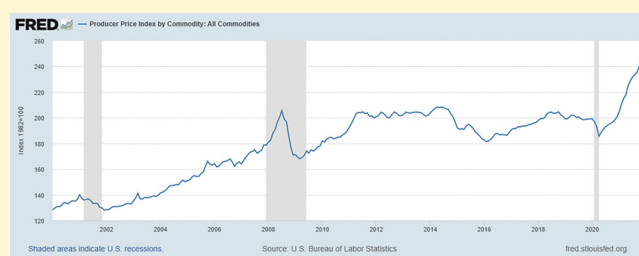
The CPI is currently based on an index of 1982 = 100, so its current value of 280 indicates that consumer prices, on average, are about 2.8 times what they were in 1982. Since 1982, M2 has increased by a factor of more than 10, M1 by a factor of almost 50, and the monetary base by a factor of over 36,000! With the way the Federal Reserve has managed the money supply, what really calls for an explanation is why prices are not already dramatically higher.

The annual percentage change in the CPI is the principle and most commonly used measure of price inflation. The major alternative is the GDP price deflator, which includes non-consumer goods, but excludes imports, because they are not

part of US GDP. The main difference between the CPI and the GDP deflator is that the CPI is an index of representative prices of consumer goods, whereas the GDP deflator attempts to estimate the cumulative effect of any price changes in any domestically-produced goods and services, including investment goods or capital equipment. Imported goods are not included in the GDP deflator because they are never part of US GDP. Some import prices are included in the CPI.

The Labor Department also collects data on producer prices, because with a time lag, these eventually factor into future CPIs. The Labor Department publishes a broad Producer Price Index (PPI) for all commodities, as well as specialized PPIs for different industries and commodity groups. Looking at the broad PPI for all commodities in Figure 2, we can see more pronounced deflation in commodity prices during each recession, because as businesses scaled back, their demand for commodities declined. There is also a notable deflation in 2014-2016, which may be attributable to increased oil production.

**Figure 2. Producer Price Index,
All Commodities 2000-2021**



Source: U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: All Commodities [PPIACO], retrieved from FRED, Federal Reserve Bank of St. Louis; February 6, 2022.

Because the producer prices captured in the PPI are later reflected in consumer prices captured in the CPI, the PPI can be taken as an early warning signal of what may be in store for the CPI with

a probable lag of about six months to one year. If we calculate PPI inflation over the preceding 12-month period, we get a PPI inflation rate of 24 percent for all commodities. When we look at some of the more focused PPIs the picture is even more dire. For example, PPI inflation for metals-producing industries is an incredible and frankly quite alarming 45 percent over the last year. Before long, some of this will translate into higher consumer prices.

However, one shortcoming of both the CPI and PPI is the fixed basket of goods methodology built into these price indices. Using a fixed basket of goods ignores substitution. When the prices of some goods go up, our normal response is to substitute cheaper goods to stretch our budget. Firms and consumers both do this. However, many manufacturing firms or construction activities will be limited in the extent they can substitute alternative materials for steel or aluminum, especially in the short run. No matter how much substitution businesses attempt, they have to use some commodities to produce their output. With PPI inflation for all commodities at 24 percent, though that does not necessarily forecast a future CPI increase that high, it strongly suggests CPI inflation will continue to rise.

– April 15, 2022

Why the Money Supply Should (Sometimes) Change

ALEXANDER WILLIAM SALTER

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What's the point of monetary policy? Why does the money supply ever need to change? After all, money is just a tool for making trade easier. Provided there's enough money to make transactions, it's not clear why we would ever need more of it. An economy's wealth depends on natural resources, labor, capital, technology, and legal institutions, not the green pieces of paper in our wallets.

Although this view is correct in the long run, having too little or too much money in the economy results in all sorts of mischief in the short run. While economic growth might have little to do with money, the business cycle has lots.

The most important insight of price theory is that market prices convey information about relative resource scarcities. Markets are a vast communication network, with signals in the form of prices transmitted by supply and demand. Prices help consumers budget prudently and businesses produce profitably. Because their actions are coordinated by the price mechanism, the plans of producers tend to mesh with the plans of consumers.

But the market price system requires a few things to work. One of them is money, which is the common denominator for comparing lines of consumption and production. In fact, money has a "market" of its own—in addition to the money supply, it's meaningful to talk about money demand. Be careful, though. Money demand really means how much of our income we want to hold in the form of money, or near-money substitutes such as checking accounts or debitable mutual funds. It's not how much money we'd like to have. Think portfolio allocation, not consumption flows.

If money supply and money demand match, all is well. Prices do their job of communicating the opportunity costs of consumption and production.

But what if money supply and money demand don't match? Now we have a problem. The "price" of money, which is really just its purchasing power, must adjust to "clear" the money market, bringing supply and demand back into equality. Because money is roughly one-half of all exchanges, adjustments in the money market spill over into goods and services markets.

Think of an economy like a wheel. Various markets are spokes. The money market is the hub. A wheel can work with a few, or even many, broken spokes. But if the hub is busted, the wheel is useless. Likewise, if the money market is turbulent, market prices won't accurately reflect real supply and demand conditions. Consumers and producers will get false signals about how valuable some resources are compared to others. And when market prices generate bad information, people make bad decisions.

We call this mismatch between demand and supply in the money market a monetary disequilibrium. Too much money creates inflation, as individuals try to spend down their excess cash balances. While the end result is a permanently weaker dollar, along the transition path, resources may get misallocated as prices rise at differential rates. Suppose, for example, that wages rise by 10 percent but the price of steak only rises by 2 percent. If these changes are driven by money supply problems, rather than real supply and demand changes, people will likely purchase more steak than they would in a well-functioning economy. And, given the cause, mispricings are likely occurring in other markets as well. The new pattern of economic activity resulting from monetary disequilibrium is an error. We'll have to pay for that eventually, in

the form of costly readjustments in wages, prices, and supply chains.

Likewise, too little money causes an unnecessary recession. As households seek to rebuild their cash balances, businesses experience falling sales. Misinterpreting this as decreased demand, they lay off workers and reduce output. The dollar eventually strengthens, the adjustment process ends, and the economy returns to “full employment.” But we had a costly and unnecessary recession in the meantime.

The whole point of monetary institutions, meaning the rules and processes we use to govern the money supply, is to prevent monetary disequilibrium. It’d be nice if those institutions would increase the money supply when money demand rises, and decrease the money supply when money demand decreases. That way we can stay as close to monetary equilibrium as possible, avoiding the nasty consequences of both excess supply and excess demand in the money market.

Of course, how well our monetary institutions function is an empirical question. Historically, the US Federal Reserve has been quite bad at its job. However, the Fed’s poor performance doesn’t invalidate the desirability of having some institutions that can do the job well.

In the long run, the money supply isn’t that important. But in the short- to medium-run, it’s pretty important. There are good reasons for the money supply to change. Don’t let the Fed’s ineptitude distract us from the fundamental economic tension created by money.

– April 4, 2022

Supply Disturbances Do Not Explain High Inflation

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The Biden administration continues to cite temporary supply disturbances as the cause for high inflation. Following the Consumer Price Index (CPI) release earlier this month, which reported a breathtaking 8.5 percent increase in prices from March 2021 to March 2022, Press Secretary Jen Psaki was asked the extent to which the White House was concerned. Psaki reiterated her comments from the previous day, telling reporters “we expected it to be elevated because of Putin’s invasion; because of the impact on energy prices.”

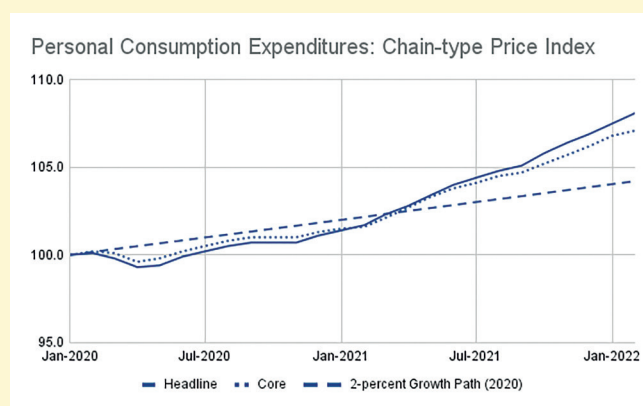
Do temporary supply disturbances explain the high inflation we have experienced over the last year? There is no denying that supply chains were severely disrupted by the pandemic and corresponding restrictions on economic activity. Similarly, Russia’s invasion of Ukraine has reduced the supply of oil and threatens to reduce agricultural output, as well. On their own, such disturbances would push prices up.

But supply disturbances play a bit part in the overall inflation story. The composition and timing of the price hikes, the Federal Reserve’s projections of inflation, and the observed increases in real variables all suggest that today’s inflation is largely the result of excessive nominal spending, not temporary supply disturbances.

Let’s start with the claim that prices are elevated due to Russia’s invasion of Ukraine. Oil prices are higher today than they would have been in the absence of the invasion. But we must consider the magnitude. The pass through from oil to other goods just isn’t big enough to explain much of the inflation observed today.

The Personal Consumption Expenditures: Chain Type Price Index, which is the Fed’s preferred

measure of inflation, is presented in Figure 1. I include both headline and core price levels, the latter of which excludes food and energy prices. I also include a 2-percent growth path projected from January 2020, which shows how prices would have evolved had the Fed hit its average inflation target over the course of the pandemic.



The data in Figure 1 clearly show that food and energy prices have risen more rapidly over the last year than the prices of other goods and services. But they also show that prices are very high *even after excluding these prices*. Whereas all prices have grown at a continuously-compounding annual rate of 3.7 percent since January 2020, all prices excluding food and energy have grown nearly as fast, at 3.3 percent. The core price level is 2.9 percentage points higher today than it would have been had the Fed hit its 2 percent average inflation target. The headline rate, which includes food and energy, is just 1 percentage point higher.

The timing of the price hikes also suggests there’s much more to the story than mere supply disturbances. Inflation began accelerating in October. Obviously, that was months before Russia invaded

Ukraine. Moreover, many of the supply disturbances associated with the pandemic and corresponding restrictions on activity had eased up or were in the process of easing up by that point, which should have put *downward* pressure on prices. Why did prices rise more rapidly as supply constraints eased up?

Nor are the Fed's projections of inflation consistent with a temporary-supply-disturbance story. Temporary supply disturbances are temporary. The pandemic and corresponding restrictions reduced our ability to produce. But they will not reduce our ability to produce forever. The lifting of restrictions, vaccine rollout, and gradual acceptance that a mild version of the virus is endemic will *eventually* permit production to return to normal, even if it has not done so already. Likewise, the war in Ukraine will end at some point—and, at that time or sometime thereafter, food and energy production will return to normal. When production returns to normal, so too do prices. But that is not what the Fed is projecting. Instead, the Fed is projecting that prices will remain permanently elevated. Why would a temporary supply disturbance cause a permanent increase in the level of prices?

Consider further what else one would expect to observe in the data if supply constraints were driving prices higher. When supplies are constrained, real (inflation-adjusted) incomes are lower. People respond by reducing their real consumption. We see this over the course of the pandemic. Real personal consumption expenditures fell and then remained below trend in 2020. But it has since recovered. Today, people are consuming more or less what they would have been consuming had the supply disturbances never occurred.



Jason Furman, who served as Chair of the Council of Economic Advisors under President Obama, accurately describes the tension between two conflicting narratives offered by the White House and others:

The first is that the economic rebound has been surprisingly rapid, outpacing what forecasters expected and setting this recovery apart from the aftermath of previous recessions.

The second argument is that inflation has reached its recent heights because of unexpected supply-side developments, including supply-chain issues like semiconductor shortages, an unexpectedly persistent shift from services to goods consumption, a lag in people's return to the workforce, and the persistence of the virus.

Obviously, both of these arguments cannot be true. Like me, Furman finds the first to be more convincing. "Strong real (inflation-adjusted) GDP growth suggests that economic activity has not been significantly hampered by supply issues, and that the recent inflation is mostly driven by demand," he writes.

Why, then, are prices so high today? In brief, the Fed has failed to stabilize nominal spending.

The equation of exchange is a useful identity that reminds us $MV = PY$, where M is the supply of money, V is the income velocity of money, P is

the price level, and Y is real output. When the Fed stabilizes nominal spending (MV), changes in real output (Y) coincide with offsetting changes in the price level (P). That's the supply disturbance story: reduced real output has pushed up prices. But that is not what has happened.

In fact, the Fed has not stabilized nominal spending. We do not observe velocity directly. But, since the equation of exchange is an identity, we can measure nominal spending (MV) as the product of P and Y —that is, nominal gross domestic product. From 2010 to 2020, nominal GDP grew at a continuously compounding annual rate of 3.9 percent. It has grown much faster in the time since, at 5.1 percent. Unlike supply disturbances, faster nominal spending drives up both prices and real output, which is what we are seeing today.

Understandably, the Biden administration wants to deflect blame for today's high inflation. They've suggested the pandemic, greedy corporations, and now Russian President Vladimir Putin are responsible for higher prices. Unfortunately for the administration, their politically-convenient supply-side stories explain far too little. Today's inflation is primarily the result of excessive nominal spending, which the Fed could have and should have offset.

– April 25, 2022

Yes, the High Inflation Rates Will Continue in 2022

JAMES D. GWARTNEY & DAVID MACPHERSON

(Contributors)

When do government spending and budget deficits cause inflation? Answer: When the government spending is financed by borrowing from the Federal Reserve. The Fed is the great money creator. When the Fed purchases assets, it does not have to check its bank account. It can merely write a check and thereby create money out of thin air. When a substantial share of government spending is financed by this method, the money supply will increase, and soon thereafter the inflation rate will rise. This linkage between rapid money growth and inflation is a basic law of economics, something like the law of gravity in physics.

This is precisely what has happened during the past two years. Regardless of supply chain challenges, monetary policy is primarily responsible for the current inflation. Between March 2020 and March 2021, Congress passed and the president signed three COVID-related bills totaling \$5.5 trillion. These bills caused federal expenditures to increase from \$4.8 trillion in 2019 to \$6.8 trillion in 2020 and \$7.0 trillion in 2021. This \$4.2 trillion *increase* in federal spending over the two years was financed entirely by borrowing from the Fed. Fed holdings of financial assets, mostly Treasury bonds and mortgage-backed securities of federal housing authorities, increased from \$4.2 trillion in February 2020 to \$8.8 trillion in December 2021. Thus, the Fed has funded all of the increase in federal spending during the past two years, and even a little more.

During 2020, the M2 money supply, a broad measure of money flowing through the economy, increased by 25 percent. This expansion is far greater than both the annual money growth of 6 percent during 2010-2019 and the economy's long-term annual real

growth rate of 3 percent. Given this huge 2020 expansion in the money supply, forecasting the surge of inflation in 2021 was an easy call. In February of 2021, AIER published an article by one of the authors of this paper (Gwartney) "Yes, this time there will be inflation." Of course, events confirmed the analysis of the article.

The situation for 2022 is similar. In 2021, the Fed provided the financing for the American Rescue Plan of the Biden Administration and the \$2.2 trillion increase in federal spending. Reflecting this financing of government with money creation, the M2 money supply increased by another 13 percent in 2021. Again, this expansion in the money supply is far greater than the growth of output and it is sure to cause inflation in 2022.

Monetary expansion exerts an impact on output and prices with a lag. Historically, the initial observable effects appear in the form of rising prices of commodities and real assets. Output and employment are generally affected with a lag of 6 to 18 months. We are currently experiencing the impact of the money growth on the prices of real assets (houses and stocks) and output. The lag between monetary expansion and the general level of prices is typically longer, 12 to 30 months. Thus, the inflation rate in 2022 and 2023 will reflect not only the 13 percent money supply increase during 2021, but to a lesser degree the 25 percent money growth of 2020. Unfortunately, these high rates of money growth make continuation of the current high inflation rates in 2022-2023 a virtual certainty.

Inflation is a regressive tax that hits those with low and middle incomes the hardest. The inflation tax harms these households disproportionately because they spend a larger share of their income on food, transportation, and other basic necessities that are more expensive as a result of the inflation. And these

households own only a small share of assets, such as houses and stocks, that increase in value as a result of the inflation. In contrast, the higher asset prices actually benefit those in upper-income categories who own most of these assets. Most politicians, particularly those favoring big government, constantly let everyone know how they despise income inequality. Nonetheless, their spending policies, financed via money creation, generate more of the income inequality they say they abhor.

The Fed is mandated to pursue the twin goals of price stability and full employment. These goals are complementary. If Fed policies achieve price stability, they reduce uncertainty and provide the foundation for full employment. Beginning with the tenure of Paul Volcker, the Fed has done a reasonably good job of keeping the inflation rate low and maintaining full employment. Tragically, this hard-earned stable price credibility has been squandered during the past two years by the Jerome Powell-led Fed. Rather than focusing on Fed responsibilities, the Powell Fed has pandered to members of Congress and presidents seeking to conceal the true cost of spending increases.

The actions of the Powell Fed during the past two years have been both puzzling and disastrous. It is unbelievable that any member of the Board of Governors could think that the Fed could finance a \$4 trillion increase in federal spending without causing inflation. Chairman Powell agreed to use money creation to finance the big spending increases of President Trump during 2020 and those of President Biden in 2021. Even after the inflation rate had already soared to 5 percent during the summer of 2021, the Powell Fed continued pouring gasoline on the inflationary fire with its monthly purchases of \$120 billion of Treasury and mortgage-backed securities for another nine months.

Astonishingly, the Fed chair does not believe that money matters, even though the inflationary

effects of his monetary expansion provide evidence to the contrary. In the Fed's Semiannual Monetary Policy Report to Congress in 2021, Chairman Powell stated, "The growth of M2 . . . doesn't really have important implications for the economic outlook." Later he argued that the connection between money and inflation "ended about 40 years ago." He believes that we need to unlearn the idea that money is an important determinant of inflation. Instead, we would suggest that the Fed chairman and other members of the Board of Governors need to look at the evidence and recognize that rapid monetary growth always leads to inflation.

The intended insulation of the Fed from political pressures has been undermined. The Treasury has co-opted the Fed and used it to make it easier for politicians to hide the cost of government spending. Then, when the money expansion leads to inflation, the politicians blame the inflation on supply-chain problems, corporate greed, or foreigners. All of this highlights the importance of rules that will make monetary decision-makers more accountable.

We need to adopt something like the monetary arrangements of New Zealand, which may dismiss monetary decision-makers if they fail to keep the inflation rate low, for example, with price increases in the 1 to 3 percent range. A rule of this type would provide monetary policy-makers with a strong incentive to stand up to politicians and maintain price stability.

Unfortunately, it is much easier to get inflation started than to bring it under control. Now the Fed faces another dilemma: a shift to a more restrictive monetary policy to control inflation is likely to result in a recession. One can only hope that the Fed is able to handle this transition better than it has handled the monetary policy of the recent past.

– April 24, 2022

Washington Blob Wreaks Death and Destruction Abroad, Avoids Accountability and Responsibility at Home

DOUG BANDOW

Contributor

The United States sees itself as the world's leader. Yet America is in near crisis. The results have not been pretty.

The President and Vice President are manifestly not up to their responsibilities, the first deficient in mental acuity, the second in policy gravity. Next in line for the presidency is the 81-year-old speaker of the House, locked in the past mentally while accommodating a fractious loony left faction. The Senate Majority Leader, who represents a perverse fusion of corporatism and progressivism, is a relative youngster at 71. He might be replaced after the November election by the 80-year-old Minority Leader.

Popular political divisions are even worse. Much of the Republican Party doubts the legitimacy of the 2020 election and significant numbers seem open to using violence. A new nationalist conservatism views liberty as one of many enemies for government to restrict.

The Democratic Party is awash in enthusiasts of a bizarre, almost neo-fascist leftist philosophy, determined to forcibly reorder society and make dissent a punishable offense. Activists have targeted schools, hoping to turn them into arenas for indoctrination rather than education, with a special emphasis on deciding who uses which bathroom. Even the usual establishment solons care more about gaining and retaining power than meeting the country's serious challenges.

Yet the American colossus has deteriorating feet of clay. The US is essentially bankrupt, courtesy the irresponsibility of both parties. The national debt (held by the public) to GDP ratio is nearing the record of 106 percent set as World War II ended; absent spending restraint, it will be 200 percent

mid-century. Yet Democrats and Republicans alike treat the federal budget as a never-ending soup-line for clamorous clients and well-connected interests.

Atop wild fiscal and monetary policies, inflation has hit a 40-year high. And Washington has responded to Russia's attack on Ukraine by further weaponizing the dollar. Although doing so will assuredly hurt Moscow's finances and the Russian people's living standards, it also will accelerate the world's move away from the dollar and US financial networks. Even Europeans have tired of Washington legislators who believe they have been anointed from on high to dictate policy to the entire planet.

America's bizarre gaggle of underachieving "leaders" increasingly occasions nervous laughter even by allied governments. For the US is not only the one nation capable of intervening in every other nation. Its leaders are determined to do precisely that, with often disastrous consequences. Indeed, if there is a defining characteristic of the Washington Blob—America's foreign policy establishment—it is that the US must *act*, exhibiting "global leadership." Just as God cares about a single sparrow falling to earth, so does Washington. Uncle Sam therefore must *do something*, no matter how foolish and counterproductive, *about everything*.

Ironically, to Washington elites it doesn't much matter what. Nor are the consequences of acting important. Indeed, contra the common mantra that "failure is not an option," for the Blob failure is a constant reality, but that doesn't matter. After all, as a superpower, America rarely pays the cost of its failures. Other nations might be ruined and peoples might be killed, but Americans barely notice.

Equally important, no US policymaker is ever held accountable. No matter how many deaths and how much destruction he or she causes, promotion and reward remain almost guaranteed. If the Iraq debacle proves anything, it is that the bigger the policy failure, the greater the personal success. Many of those responsible for this tragic debacle continue to offer their blood-stained advice for new interventions and wars. For Americans, wrecking a nation, destabilizing a region, and victimizing millions of people means never having to say you are sorry.

The Washington Blob also is almost uniquely high on sanctimony. That American policymakers are cynical and hypocritical is neither surprising nor upsetting. After all, that is the case for every nation. All diplomats shamelessly push the best deal for their country while resisting foreign demands for advantage. However, US policymakers almost uniquely appear to believe their own rhetoric and press releases.

For instance, Washington is filled with wailing about civilian deaths in Ukraine. To be sure, they are real and awful. However, those crying the loudest likely have supported wars killing far more civilians without shedding a single tear.

The US, which has been militarily the most aggressive nation since the Cold War ended, has shown not the least concern about repeatedly causing mass murder and mayhem. Iraq was the greatest disaster, since America's invasion triggered a sectarian conflict that killed hundreds of thousands and displaced millions of people. In Libya Washington promoted an old-fashioned low-tech civil war that killed thousands or tens of thousands.

The US lost in Afghanistan in part because it treated rural areas as a battlefield rather than a home for millions of people; every unnecessary civilian death increased support for the Taliban. Today Washington continues to provide weapons, munitions, and support to Saudi Arabia and the

United Arab Emirates, both oppressive royal dictatorships, in a war against neighboring Yemen which has killed hundreds of thousands of civilians. The same policymakers from President Joe Biden on down who enabled Saudi and Emirati war crimes are now piously denouncing Vladimir Putin as a war criminal.

Beyond shame are Blob members declaiming against spheres of influence. That concept is so 19th century, they insist! How dare Russia imagine it can thwart the desires of the Ukrainian people democratically expressed. Even more so by *invading* another nation. Why, that hasn't happened since World War II or thereabouts. And interfering with America's elections! Is there anything more outrageous? Americans routinely express their shock and sadness at these actions.

Except when the sphere of influence is the Western Hemisphere. Just a couple of years ago the Trump administration was reaffirming the Monroe Doctrine and complaining about Chinese and Russian activity in Venezuela. And remember 2003? That is when the US illegally invaded Iraq based on fraudulent claims that the Hussein government was building nuclear weapons. As for election interference, that was a US specialty during the Cold War. A Carnegie-Mellon study recorded *81 instances* through 2000. One was in Russia's 1996 election, when Washington went all out to ensure reelection of Boris Yeltsin.

Nor are American policymakers high on taking responsibility for their failures. After all, looking back is so, you know, yesterday. What policymaker was held responsible for the Iraq debacle? Did anyone suffer professionally? Who was dropped by producers as a TV talking head? What senior military officer was shunned after retirement for telling Congress how we were close to victory in Afghanistan? Do any of the Obama/Biden administration officials who endorsed aiding the murderous Saudi/Emirati war against Yemen express shame as

that conflict continues, more than seven years later, killing ever more civilians?

Then there is Ukraine. Vladimir Putin bears responsibility for invading his nation's neighbor. However, he is correct that the US and European governments offered a cascade of assurances that NATO would not be expanded up to his border. Yet the allies also shamelessly lied to, or at least knowingly misled, Kyiv.

No NATO member wanted Ukraine (or Georgia) to enter the alliance. No one wanted to defend them. No one believed they could be defended, at least at a reasonable cost and risk. But all consistently led Ukrainian officials on, causing them to put their hopes in the alliance. Which likely encouraged them to resist accommodation with their powerful neighbor and expect military support from the US. (Indeed, it appears that Washington's endless expressions of goodwill led Georgia's Saakashvili government to expect an American rescue after Russia struck in 2008.)

In short, it is difficult to believe that Russia and Ukraine would be at war today had the US not simultaneously ignored Russian security interests and inflated Ukrainian expectations. However, which Blob member has expressed regret for having helped cause yet another war? Members of the establishment never acknowledge their responsibility for anything, ever.

So far, the harm caused by US foreign policy has mostly fallen on other nations. Ukrainians, Yemenis, Iraqis, Afghans, Libyans, and more have died in prodigious numbers at least in part due to the egregious, arrogant mistakes of Washington policymakers.

However, someday Americans, too, might find themselves dying by the thousands or millions. Indeed, that is what makes the Ukraine confrontation so dangerous. Russia is a nuclear power, and the US has not fought anything approximating a peer competitor since World War II. America has never fought a full-scale war against a nuclear power. Members of the Blob usually sneer at virtues like prudence. In this case caution is vital for national survival.

The United States has demonstrated enormous resilience and resourcefulness and overcome serious challenges. America can do so again. However, policymakers must reengage the real world and be held accountable for their records.

That is especially important for US foreign policy. After two decades of costly failure, Washington policymakers need to put America—its people, territory, liberties, prosperity, and security—first. To retake its claimed role of global leader Washington paradoxically will have to relearn the value of humility. The era of “what we say goes” is definitively over.

– April 14, 2022

A Parent's Guide to Kendi's Antiracist Baby

MAX BORDERS

Contributor

Ibram X. Kendi has made a small fortune selling “antiracism,” which sounds innocuous enough. But some worry antiracism is a kind of newspeak – racism in different garb. I know. Kendi is a person of color. Your professors at Oberlin College told you that people of color *can't be racist*. So let's just say that Kendi's antiracism – like racism – is an ideology that manages to indoctrinate and segregate.

If you're not sure about such concerns, this tweet (later deleted), from Kendi offers a clue:



Not sure whom Kendi's quoting here. But I remember being horrified (though not surprised) when the infamous white nationalist, Richard Spencer, replied, “Not wrong.”

Antiracism is related to a germline of toxic social justice ideology that includes critical race theory (CRT). But many people (and public school administrators) buy Kendi's books and send him money, thinking that they will be on the side of the angels by supporting his Manichean worldview. Buying antiracist books is like buying indulgences, i.e. cheap tokens one could buy from The Church to make it more likely he could get to Heaven. But some take Kendi's book of false binaries seriously – enough to indoctrinate children with it.

So, whether you want to self-flagellate, or inculcate, you can pick up a copy of *Antiracist Baby* and read it to your kids. Before you do, I have put together a handy guide to Kendi's book. But be warned: If you happen to be white and decide to read *Antiracist Baby* to your child, make sure the child on your lap is not a child of color. Otherwise, you could be accused of being *a colonizer who uses the child as a prop in your lifelong picture of denial*.

The Parent's Guide

When writing a children's-book version of your philosophy, you have to distill your doctrine into simple terms. You'd think those simple terms would make creating a Parent's Guide a fairly low-cost proposition. Alas, it wasn't easy.

Still, I submit this handy guide for your consideration (Kendi quotes in bold):

1. “**Babies are taught to be racist or antiracist – there is no neutrality.**”

Like much of *Antiracist Baby*, this message is for you, Dear Parent, probably more than for your child. Kendi is saying you can't be Switzerland in racialized culture wars. The story of American race relations becomes a story without subtlety. Equal treatment is liberal racism. You're either with Kendi or against him. And if you disagree, you are a racist.

Okay. What is racism?

Someone asked Kendi that very question. Here was his answer:

“I would define it as a collection of racist policies that lead to racial inequity that are substantiated by racist ideas.”

Puzzling. If your baby asks you what racism is, you might run into a bit of trouble, just as your child would have difficulty understanding what cannibalism is with this definition:

I would define (cannibalism) as a collection of cannibalistic norms that lead to cannibalistic practices that are substantiated by cannibalistic ideas.

Just as the concept of ‘people eating people’ might help define cannibalism, one might think that the concept of ‘prejudice based on skin color, physiognomy, or some other irrelevant trait’ might help us define racism.

Unfortunately, readers of *Antiracist Baby* will find no such definition.

2. “Take these nine steps to make equity a reality.”

Sorry, Dear Parent. Kendi does not define “equity” either. But allow me to help.

According to RaceForward.com, equity is “the intentional and continual practice of changing policies, practices, systems, and structures by prioritizing measurable change in the lives of people of color.”

Notice that those responsible for changing policies, systems, and structures are obliged to prioritize change in the lives of *people of color*; not members of any other group. It doesn’t matter if that person is poor or has otherwise lived at the margins. She is excluded from “equity” considerations by definition. Equity policies are designed to come *at the expense* of non-people of color (whites) – even poor ones – not to mention Subcontinental- and East-Asians, too, who are summarily dismissed as

embracing “whiteness.”

According to antiracists, justice is a cosmic scoreboard of historical grievances by groups. Equity, therefore, means you need to cross a red line through the Fourteenth Amendment, which guarantees “equal protection of the laws.”

But Antiracist Baby will grow up to strike that clause!

3. “Antiracist Baby learns all the colors, not because race is true. If you claim to be color-blind, you deny what’s right in front of you.”

I don’t want to spoil it for you, Dear Parent, but later Kendi writes that “all races are not treated the same,” which we’re supposed to square with the idea that “race” isn’t “true.” If it’s confusing to you, it will confuse your baby, too. So in the interests of clarity, maybe Kendi wants you to think of it like this: People are born with different colors, which is obvious. So how on earth can you be “color-blind?”

Maybe racist-you once thought it was essential to teach children to *ignore* human characteristics or categories that are not relevant to basic questions of peaceful human interaction (also known as color-blindness). Judging someone by the “content of their character” once seemed relevant to the ends of toleration, inclusion, and peaceful coexistence. But you were wrong, according to Kendi. So was MLK. You can’t use that kind of metaphorical language with babies or anyone else. (And if you do, you’re being racist.)

4. “No one will see racism if we only stay silent. If we don’t name racism, it won’t stop being so violent.”

Be careful here. Kendi is *not* admonishing you or your child to speak up about the violent acts that people of color commit against other people of color or that people of color commit against whites. Indeed, when it comes to statistics around such

violence, ignore them. Kendi probably *does* want you to “stay silent.”

I realize that might be confusing, but to avoid “neutrality” (read: racism), you have to *get loud* about the relatively rare incidents of white violence against people of color. If your child inquires further about the issue, use the word “systemic” and wave your hand like Obi-wan. Remember: Your job is to indoctrinate your baby: Only white people are the *perpetrators* of violence and only people of color are the *victims* of violence.

5. “Some people get more, while others get less... because policies don’t always grant equal access.”

It’s certainly true that policies don’t always grant equal access. For example, certain people of color (Asians) are being denied equal access to public or tax-subsidized universities relative to other people of color (blacks). Is this what Kendi means?

Or is he talking about the trillions of dollars the Federal Reserve prints, much of which goes into the pockets of wealthy bankers? Maybe not. Inflation affects people of all races.

Maybe he’s talking about the tax dollars – from middle-class and poor people – that go into the pockets of billionaires such as Vivek Ranadivé, the Golden One arena owner in Sacramento. (Or is corporate welfare for Ranadivé cool because it’s a “measurable change” in the life of a person of color?)

There are so many examples in which *people get more while others get less*. Does it really matter if we beat our breasts?

6. “Even though all races are not treated the same, “We are all human!” Antiracist Baby can proclaim.

Kendi’s use of the passive voice here is instructive because even though we’re all human, Kendi doesn’t want all races to be treated the same. He

wants “equity,” which we discovered is “prioritizing measurable change in the lives of people of color.”

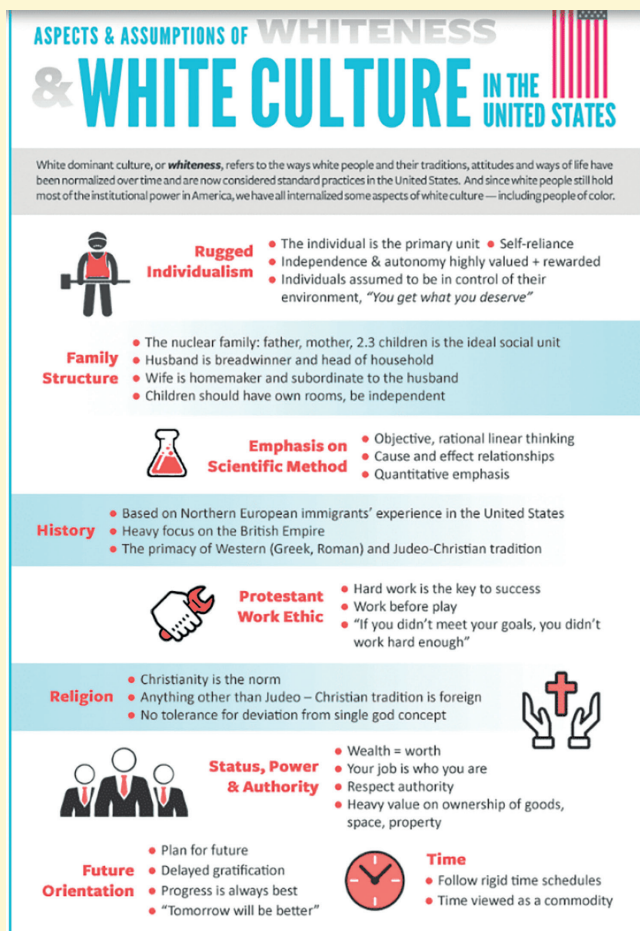
7. “Antiracist Baby appreciates how groups speak, dance, and create as they choose. Antiracist Baby welcomes all groups voicing their unique views.”

Distilling great big ideas into a baby book is hard, so maybe we can be charitable to Kendi’s turns of phrase. When he says your Antiracist Baby can appreciate how “groups speak, dance, and create as they choose,” he’s probably referring to statistics, you know, tendencies. After all, groups don’t *literally* speak, dance, create or make choices. Individuals do. Some individuals share similar patterns of speech, dance, or creativity. But some individuals will choose to speak, dance, and create in different ways from those who share their superficial characteristics.

So, does Kendi want the Antiracist Baby to welcome all *individuals* to voice their unique views? Admittedly, that’s a head-scratcher. If someone expresses a view about the need to judge people not by the color of their skin but by the content of their character, they are a default racist, according to Kendi. It would seem odd for Antiracist Baby to welcome racist views. So we must either conclude one of two bizarre things: that Kendi either wants Antiracist Baby to welcome those with racist views, or that he really *does* mean that *only* groups are allowed to voice their unique views. That would be strange metaphysics. After all, if a view is unique, it can’t be shared by multiple group members. (Otherwise it wouldn’t be unique.)

Mea culpa. I was trying to apply the tools of “whiteness,” such as “objective, rational, linear relationships.” To provide a truly antiracist Parent’s Guide, antiracism says I should encourage you to teach your child purely subjective, irrational, and circular relationships, such as Kendi’s definition of racism.

It's all becoming more evident now. We have this handy chart from the National Museum of African-American History and Culture to help:



8. "Nothing disrupts racism more than when we confess the racist ideas that we sometimes express."

If you buy *Antiracist Baby*, you have paid for a kind of indulgence. But you still haven't confessed your sins. So above, when I admitted I was using *rationality* to interpret Kendi, I ended up having to confess my whiteness, which normalizes systemic racism. Now I just need to keep confessing. And so do you. And you need to teach your baby to do so, too.

Parent's Postscript

If you were not dismayed by what hundreds of thousands of parents are reading to their children — and what's in government schools — I hope this guide did the job. Just know that antiracists will consider your dismay an act of racism (or false consciousness if you're a person of color.)

In the KafkaTrap down-is-up world of antiracism, everything you thought was right is now wrong. To equalize the Cosmic Scoreboard of Historical Racial-Group Grievances, liberalism must give way to illiberalism. And it is illiberal. Too many deny this, much less that antiracism is incestuously related to CRT. But it's starting to become clearer.

In a message to "Parents and Caregivers," Kendi writes that you are to "Help children understand that racist policies are the problem, not people."

Forgive my "whiteness," but there will never be a peaceful, pluralistic society if we teach children that personal responsibility is a disvalue and that the sum of human behaviors can be blamed entirely on policies. Indeed, if that were true, why would you oblige anyone to confess his racism? Would they just say "It's the policies," whether or not that's true? That sort of message lobotomizes and infantilizes people of all colors. It's the message of a cult with a will to power. And it leaves people of color with the idea that they are perpetual victims who deserve an intergenerational pity party — forever.

Far from healing history's wounds, antiracism sows disharmony.

Maybe we should go back to reading liberalism to our children. By liberalism, I mean a cluster of ideas that includes equal freedom, equal treatment under the law, and colorblindness.

Or you can help us turn *Colorblind Baby* into a free website and board book.

COLORBLIND BABY

1. Say, ‘People are different, and that’s just a fact.’

Different doesn’t mean bad or good. We might just grow up in different neighborhoods.

2. Use your words to talk about the good in others, whatever their color.

They might be black or white, yellow or brown. What matters is keeping good people around.

3. Learn about a great man who had a dream.

He wanted to see your character’s content. That we’re all free together is just what he dreamt.

4. Shout: The rules should apply equally to everyone

Rules help us keep peace and stay in our lanes, but justice says laws should treat everyone the same.

5. Celebrate differences that do no harm.

We should do what we want as long as it’s peaceful, but that doesn’t mean outcomes will always be equal.

6. Specialize and trade with others.

Some people can draw, some people can sing. That we have different strengths is a wonderful thing!

7. Find your special power.

If you see someone great, it doesn’t mean that you’re lesser. Find your own gifts to get better and better.

8. Never be a victim.

Some have more, and others have less, but that doesn’t mean we must live in distress.

9. Find your compassionate heart.

Your compassionate heart can’t see someone’s color. It treats all good people like sisters and brothers.

10. Come together in freedom.

Communities aren’t made by politics or force. We build them by coming together, of course!

– April 17, 2022

Is There Any Chance of Restoring Our Lost Freedom?

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Sometimes I think about what America was like when my grandfather was young. In 1908, when he was 22, he started a business that, I'm happy to say, thrives to this day. He was the son of Swedish immigrants and started with nothing but some mechanical know-how and a good entrepreneurial idea.

Stories like his were very common in the America of a century ago. Millions of ambitious immigrants flooded into the US because its governmental system and culture were conducive to productivity and innovation. The people overwhelmingly expected to succeed or fail on their own efforts. Almost nobody thought he had a right to live at the expense of others, or had any right to dictate how others must act or what they must believe.

Moreover, the legal system protected Americans' rights to life, liberty, and property. Theft was illegal. Acts of coercion were illegal. If someone wanted your money, he could only ask for it and had to take "no" for an answer. If someone wanted you to join a labor union, he could ask, but you were perfectly free to decline.

In those days, there were no officious bureaucrats dictating what people could and couldn't do in their businesses. Taxes were low. At all levels, government consumed less than ten percent of the GDP. Therefore, nearly all of America's resources of labor and materials were under the direction of the market's profit and loss system. Profits signaled where more investment would pay off; losses quickly put an end to ill-conceived ventures.

And – crucially – government had almost no power to reward special interest groups. It did interfere with international trade to benefit domestic producers, but aside from that, government stuck

closely to the precepts of *laissez-faire*.

The result was tremendous output of goods and services, along with innovation that propelled economic expansion at an accelerating pace. America was all about work, a point that Alexis de Tocqueville commented on in his book *Democracy in America*. Compared with his native France, where guilds and regulations and the high cost of government acted as a brake on the economy, in America he saw boundless energy.

Today's America is a very different country than the one my grandfather knew. Governments absorb roughly half of the GDP. There are innumerable laws and regulations governing our lives – more than anyone could possibly read, much less understand. There are also legions of bureaucrats who are eager to fine and punish anyone who knowingly or unknowingly violates one of those laws or regulations. Governmental licenses are frequently required before an individual is allowed to go into business or a trade and official permission must often be sought before employing an innovation.

Today, government has ample power to reward special interest groups with subsidies or other favors, which are avidly sought.

Great numbers of people now hold jobs that entail no production of goods or services, but frequently obstruct such production by enforcing the laws and regulations that get in the way of efficiency and entrepreneurship. Those jobs often pay very well and are also avidly sought.

And instead of looking to their own efforts to solve problems, Americans now want government to step in. Pleading for government to raise your income or provide you with medical care or help

you through college is now the default mode for most of the people. They don't mind at all that what they demand can only come at the expense of others because they've been taught that whatever is done democratically is all right.

As a result of this great philosophical change, in America today we have a preponderance of Takers over Makers. The Takers consume the taxes paid by the Makers and many of them have jobs that give them power over others since they are paid to enforce the rapidly multiplying number of rules and regulations. Moreover, the Takers exhibit a sense of superiority over the Makers, based on their idea that it is more noble to work for "the public interest" than to work in the morally dubious world of profit-seeking enterprise.

This dramatic change in the dominant ethos of America couldn't have happened without the persistence of people who were frustrated by the America of the Founders, with its principles of limited government, individual liberty, and the rule of law. They disliked the "chaos" of capitalism, believing that a scientifically managed economy would be much better, shorn of unseemly competition for profits and huge inequalities between rich and poor. They called themselves "progressives" and told people that if they had control, they would transform the country for the better.

The odd thing about "progressivism," however, is that it is actually regressive. It takes us back to earlier social and economic arrangements that depended upon top-down control by elites who were sure they knew how to run things. Progressivism resembles feudalism, where a few nobles dictate to everyone else how to live and work, supposedly for the overall good of society. Freedom was allowed only insofar as it didn't threaten to disturb the well-crafted order.

And while I'm on the subject of the perversion of language, I think it's important to note that while the people who insist on social and economic control

are often called "liberals," they are the very opposite of that. They are authoritarians. True liberals want to liberate people from top-down systems of domination — Adam Smith for example. Let's not call the likes of Joe Biden, Nancy Pelosi, Chuck Schumer, and other politicians who clamor for ever-expanding government "liberals." A better term would be "statists."

The statists have been extraordinarily successful in changing America's philosophy. Over the last century and especially from the New Deal on, they managed to turn much of the country away from the individualistic, Golden Rule philosophy that used to prevail, and inculcated a collectivist philosophy. Under the old philosophy, people thought that they were responsible for themselves; many wouldn't accept government welfare during the Depression, thinking it wrong and shameful to live at the expense of others. Several generations later, a great many Americans see nothing wrong with seeking government money or other favors.

Since the New Deal, government at all levels has expanded enormously and there's a huge momentum behind it. Takers now outnumber Makers. The sphere of liberty has been steadily shrinking as government power has grown. More of our earnings are seized in taxes. Increasingly, we are only allowed to use our property as officials will allow. Countless regulations hem in anyone who attempts to engage in business.

All of that has been building up for decades, but recently the Takers have launched new offensives against American traditions. They aren't content merely to siphon off some of the wealth produced by the free market, but want to obliterate the market with a "Great Reset" that means full-fledged socialism. And they now see dissent from their visions as morally illegitimate and thus have declared war on freedom of speech.

Looking at the opposing sides, the Takers currently have the White House, Congress, and

the vast federal bureaucracy. They can spend any amount of money to buy support from voters.

They control education from top to bottom. Starting in grade school, most students are fed a diet of statist ideas about society, the economy, the environment, American history, race, gender, and anything else that will shape their beliefs toward the beneficence of government and the frightfulness of liberty.

The Takers also control most of the media. With but a few exceptions, the media covers everything with the goal of slanting the story to make government look good and freedom or its defenders look bad. Alleged market failures will be trumpeted while clear government failures will be ignored.

And in philanthropy, foundations that support leftist ideas have about five times the resources of those that support free markets and voluntarism.

It seems like an unfair fight, leading one to wonder about the future. If the trend towards ever-growing government can't be stopped, what will the US be like in the future? The result of loss of freedom anywhere is the same: declining prosperity accompanied by increasing strife, as groups fight to have government give them a bigger slice of the shrinking pie.

The US is heading toward that cliff at high speed. Is there a chance to avoid the Takers' dream of omnipotent government? Can we regain the freedom we've lost?

Those questions are at the heart of my novel *The Awakening of Jennifer Van Arsdale*.

Jon Sanders recently wrote a perceptive review of the book, calling it "subtly optimistic." He's right. I am subtly optimistic about the future. For all the heavyweight advantages the Takers have, the tide seems to have turned.

For one thing, the grip the Takers have had on education is loosening. Many parents have realized during the COVID school closures that they can do much better for their children outside of the politicized system of government schools. Many others

have learned about the appalling, divisive, manipulative curricula that "woke" teachers and administrators have smuggled in and are fighting back.

Higher education is also starting to fade as Americans realize that the college degree, long touted as a sure-fire investment, is often a waste of time and money. Fewer students attending college means fewer students subjected to ideological hectoring. And as revenues fall, schools will have to cut the worst performing departments. Accounting stays, Gender Studies goes.

Even more significant is the decline in trust in government. First the Takers managed to break down the Constitution's limits on government power and then they managed to convince a high percentage of the people that such power was nothing to worry about. It was nothing to worry about, they said, because government officials are public servants, motivated to do what is in the public interest. Democracy ensures that government will do the right thing – or so the tale went. Generations of young Americans were taught to believe in government but to fear capitalism.

Wonderfully, that trust has greatly eroded. More than anything else, what caused it to erode was the way government officials reacted to COVID. Rather than "following the science," they followed their authoritarian instincts, demanding lockdowns, business closures (except for those they deemed "essential"), mask and vaccine mandates, school closures, and an end to social gatherings (unless they were for some leftist-approved purpose, like BLM protests). Instead of listening to critics, they smeared and tried to silence them. They refuse to admit making any errors, much less having wrought vast harm upon millions of the people they supposedly serve.

Nothing has done more to damage the big government "brand" than COVID. The curtain has been pulled aside so the people can see how arrogant and hypocritical our public elites are.

This gives those of us who favor a return to the liberal America of my grandfather's time a tremendous opportunity. George Washington wisely wrote that "Government is not reason; it is not eloquence; it is force." For the last two years, millions of people have learned how correct that statement is, as government officials have ruined their lives. With so many more Americans now looking upon government as a malefactor, the iron is hot.

The intellectual support for the leftist worldview is a house of cards. It depends on people blindly accepting clichés such as that government spending stimulates the economy, that inflation is caused by the greed of businessmen, that there would be widespread illiteracy if it weren't for government schools, that minimum wage laws don't lead to unemployment, that government officials are solely motivated by a desire to serve the common good, that gun control laws reduce crime, and more. Those notions are at odds with reality and any brush with reality is apt to cause the house of cards to tumble. (That's what happens to Jennifer Van Arsdale in my book.)

It won't be enough just to toss the Democrats out of office. That has happened before and the growth of our governmental leviathan was barely slowed.

What we need to do is to restore the spirit of liberty that used to animate America. Doing so will mean persuading every open-minded person that a free society, one where people may do anything that's peaceful, is best for everyone. The free, truly liberal society is the one that maximizes prosperity, innovation, and harmony. On the other hand, a controlled society ensures declining living standards, less innovation, and conflict as groups squabble for government favors.

Millions of Americans know that government power made them worse off during COVID and this gives us the opening to persuade them that it isn't just that the COVID tyranny was bad, but that

the whole agenda of the Taking cabal is bad. The government is littered with people like Dr. Fauci.

It's not too late for a pro-liberty counterattack. The authoritarian position has always been weak intellectually and now it's weak politically.

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