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RESEARCH REPORTS

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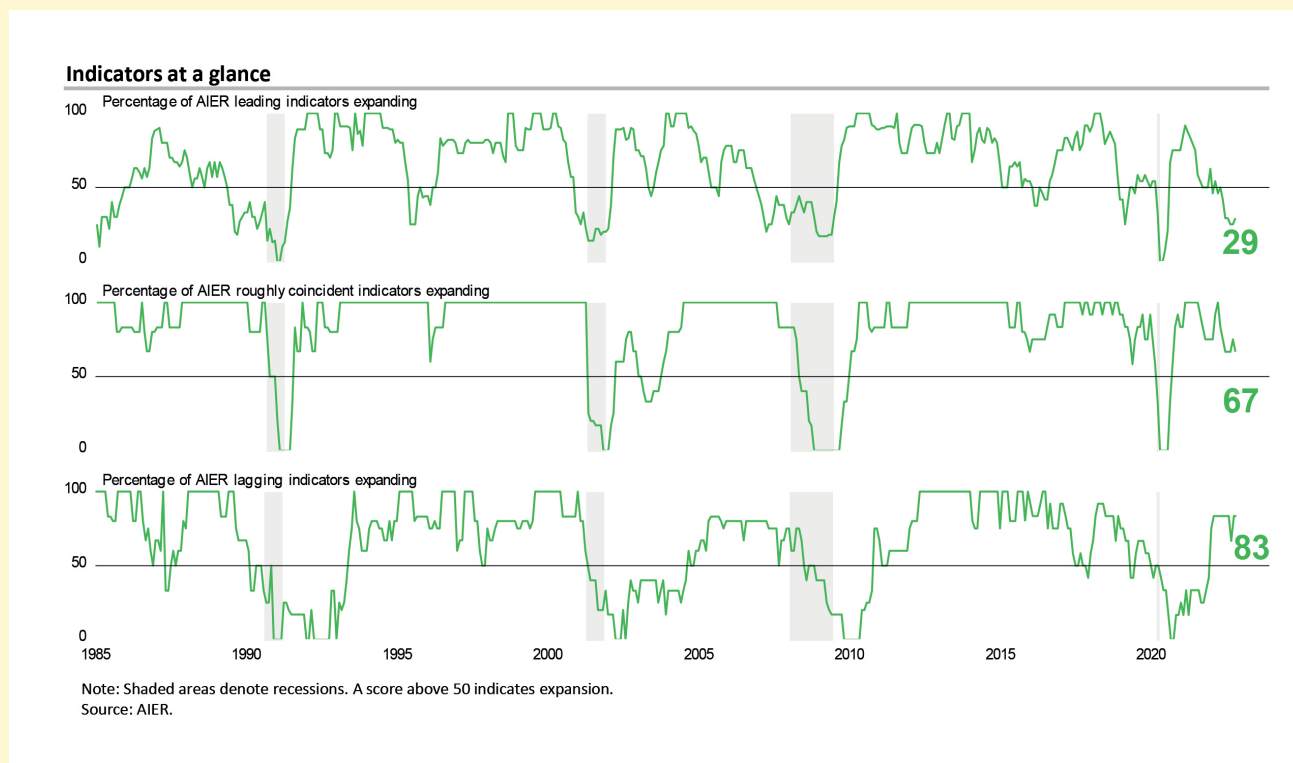
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BUSINESS
CONDITIONS
MONTHLY

Robert Hughes
SENIOR RESEARCH FELLOW

AIER Leading Indicators Index Posts Sixth Consecutive Month Below Neutral



Summary

AIER's Leading Indicators Index rose to 29 in November versus 25 in October. Despite the slight improvement, the latest result is the sixth consecutive month below the neutral 50 threshold. The low readings are consistent with weakness in the economy and significantly elevated risks for the outlook.

Payrolls continue to expand, and consumer price increases continue at an elevated pace, both in the face of an aggressive Fed tightening cycle. The strong job market boosts consumers' views of current conditions while rising interest rates and elevated rates of price increases depress consumers' expectations for the future. With interest rates already taking a toll on housing, consumer spending and business decisions on hiring and investment remain critical to the economic outlook.

The longer elevated rates of price increases continue and the higher the Fed raises interest rates, the higher the probability that consumers and businesses retrench. Overall, the outlook remains highly uncertain. Caution is warranted.

AIER Leading Indicators Index Rises to 29 in November, But Still Signals Significant Risks

The AIER Leading Indicators index improved slightly in November, rising to 29 from 25 in October. The November result is still down 63 points from the March 2021 high of 92. With the latest reading holding well below the neutral 50 threshold for the sixth consecutive month, the AIER Leading Indicators Index is signaling economic weakness and significantly elevated outlook risks.

One leading indicator changed signal in November. The real retail sales indicator improved from a negative trend to a neutral trend. This indicator has been volatile recently, changing signals seven times

in the last twelve months. The indicator showed a positive trend in three months, a negative trend in two months, and flat trend in seven months. Indicators often become volatile around inflection points.

Among the 12 leading indicators, three were in a positive trend in November – real new orders for consumer goods, heavy truck unit sales, and the ten-year - one-year treasury spread, nine were trending lower – initial claims for unemployment claims, the average workweek in manufacturing, manufacturing and trade sales to inventories ratio, the University of Michigan Index of Consumer Expectations, real new orders for nondefense capital goods excluding aircraft, housing permits, real stock prices, and debit balances in margin accounts, and one - real retail sales and food services - was trending flat or neutral.

The Roughly Coincident Indicators index weakened in November, falling back to 67 after a 75 in October and three consecutive months at 67 from July through September. Before the three-month run at 67, the indicator posted a 75 in June, 83 in May, and a perfect 100 in April. The Roughly Coincident Indicators Index has been above the neutral 50 threshold since October 2020.

One indicator changed signal last month. The employment-to-population ratio indicator weakened to a neutral trend from a positive trend in the prior month. This indicator had been in a positive trend for 22 consecutive months.

In total, three roughly coincident indicators – nonfarm payrolls, real personal income excluding transfers, and industrial production – were trending higher in November while the real manufacturing and trade sales indicator and the employment-to-population ratio indicator were in neutral trends, and the Conference Board Consumer Confidence in the Present Situation indicator was in a negative trend. Given the poor performance of the AIER Leading Indicators Index, it would not be surprising to see

declines in the Roughly Coincident Index in the coming months.

AIER's Lagging Indicators index held at 83 in November. The Lagging Indicators Index has been relatively steady, posting a reading of 83 for nine of the last ten months. The exception was a dip to 67 in September. In total, five indicators – the duration of unemployment indicator, the real manufacturing and trade inventories indicator, the composite short-term interest rates indicator, the 12-month change in the core Consumer Price Index indicator, and the commercial and industrial loans indicator – were in favorable trends. One indicator, real private non-residential construction, had an unfavorable trend.

Overall, the AIER Leading Indicators Index remained well below neutral in the latest month, signaling economic weakness and sharply elevated risks for the outlook. The economy continues to face significant headwinds from elevated rates of price increases and an aggressive Fed tightening cycle. With rising interest rates already hitting the housing market, the strength of the labor market becomes an even more critical component of the economic outlook. Continued jobs gains provide support for consumers' positive views of current economic conditions and help sustain consumer spending. However, elevated rates of price increases and rising interest rates weigh on consumer expectations for the future. If significant declines in payrolls begin to occur, support for consumer spending would likely fade, resulting in an economic contraction. If price increases slow and the Fed eases back on policy, domestic demand growth would likely reaccelerate.

Fed policy is likely to be a key variable in the progression of price pressures and the labor market. Furthermore, the fallout from the Russian invasion of Ukraine and periodic lockdowns in China continue to boost uncertainty. Caution is warranted.

Housing Market Outlook Darkens

Total housing starts fell to a 1.425 million annual rate in October from a 1.488 million pace in September, a 4.2 percent drop. From a year ago, total starts are down 8.8 percent. Total housing permits also fell in October, posting a 2.4 percent drop to 1.526 million versus 1.564 million in September. Total permits are down 10.1 percent from the October 2021 level.

Starts in the dominant single-family segment posted a rate of 855,000 in October versus 911,000 in September, a drop of 6.1 percent. That is the fourth consecutive month under one million and the slowest pace since May 2020. Starts are down 20.8 percent from a year ago. Single-family permits fell 3.6 percent to 839,000 versus 870,000 in September, the fifth consecutive month under one million and the slowest pace since May 2020.

Starts of multifamily structures with five or more units decreased 0.5 percent to 556,000 but are up 17.3 percent over the past year, while starts for the two- to four-family-unit segment fell 22.2 percent to a 14,000-unit pace versus 18,000 in September. Total multifamily starts were off 1.2 percent to 570,000 in October but still showing a gain of 17.8 percent from a year ago.

Multifamily permits for the 5-or-more group dropped by 1.9 percent to 633,000, while permits for the two-to-four-unit category increased 10.2 percent to 54,000. Total multifamily permits were 687,000, down 1.0 percent for the month but up 10.6 percent from a year ago.

Meanwhile, the National Association of Home Builders' Housing Market Index, a measure of homebuilder sentiment, fell again in November, coming in at 33 versus 38 in October. That is the eleventh consecutive drop and the fourth consecutive month below the neutral 50 threshold. The index is down sharply from recent highs of 84 in December 2021 and 90 in November 2020.

All three components of the Housing Market Index fell again in November. The expected single-family sales index dropped to 31 from 35 in the prior month, the current single-family sales index was down to 39 from 45 in October, and the traffic of prospective buyers index sank again, hitting 20 from 25 in the prior month.

Input costs and supply delivery problems are still concerns for builders though lumber prices have declined sharply from recent highs. Lumber recently traded around \$430 per 1,000 board feet in mid-November, down from peaks around \$1,700 in May 2021 and \$1,500 in early March 2022.

Mortgage rates continue to surge, with the rate on a 30-year fixed rate mortgage coming in at 7.08 percent in mid-November. Rates are up more than 400 basis points, more than double the lows in early 2021.

Retail Spending Was Strong in October, but the Trend Is Flat

Total nominal retail sales and food-services spending rose 1.3 percent in October after being unchanged in September. From a year ago, retail sales are up 8.3 percent and remain well above the pre-pandemic trend.

Nominal retail sales excluding motor vehicle and parts dealers and gasoline stations – or core retail sales – rose 0.9 percent in October following a 0.6 percent gain in September. From October 2021 to October 2022, core retail sales are up 8.0 percent. As with total retail sales, core retail sales remain well above the pre-pandemic trend.

However, these data are not adjusted for price changes. In real terms (adjusted using the CPI), real total retail sales were up 0.8 percent in October following a 0.4 percent decrease in September and declines in five of the last eight months. From a year ago, real total retail sales are up 0.5 percent versus a ten-year annualized growth rate of 2.5 percent from 2010 through 2019. As with nominal retail sales, real

retail sales remain well above their pre-pandemic trend, but since March 2021, they have been trending flat.

Real core retail sales posted a 0.6 percent rise in October after being unchanged in September. Over the last twelve months, real core retail sales are up 1.6 percent versus a ten-year annualized growth rate of 2.2 percent from 2010 through 2019. While real total retail sales are still below the March 2021 peak, real core retail sales have been trending higher at a rate of 1.6 percent per year.

Categories were generally higher in nominal terms for the month, with nine up and four down in October. The gains were led by gasoline spending, with a 4.1 percent jump following a 3.7 percent drop in September. The average price for a gallon of gasoline was \$4.13, up 3.5 percent from \$3.99 in September, suggesting price changes more than accounted for most of the rise. Food services and drinking places (restaurants) rose 1.6 percent followed by food and beverage store sales (groceries) up 1.4 percent, motor vehicles and parts retailers, (1.3 percent), nonstore retailers (1.2 percent), furniture and home furnishings (1.1 percent), and building materials, gardening equipment and supplies (1.1 percent). Declines came in electronics and appliance stores (-0.3 percent), sporting goods, hobby, musical instruments, and book stores (-0.3 percent), and general merchandise stores (-0.2 percent).

Overall, nominal total and core retail sales remain well above trend. However, rising prices are still providing a significant boost to the numbers. In real terms, total and core retail sales posted solid gains in October, but the trends are much weaker. Retail spending measured as a share of personal income remains well above the average shares seen in the 2010 through 2019 period and the 1992 through 2007 period.

Payroll Gains Beat Expectations, but the Pace Is Slowing

Total nonfarm payrolls posted a 263,000 gain in November versus a 284,000 rise in October (revised up by 23,000), while September had an increase of 269,000 (revised down by 46,000). The November result easily beat the consensus expectation of 200,000. However, the gain is still the slowest since April 2021.

Excluding the government sector, private payrolls posted a gain of 221,000 in November following the addition of a net 248,000 jobs in October. The average monthly gain over the 23 months since January 2021 was 449,000. However, the monthly increases appear to be slowing. Over the 14 months from January 2021 through February 2022, the average monthly rise was 535,000; for the five months from March 2022 through July 2022, the average was 376,000; and over the last four months, the average has dropped to 239,000. Despite beating expectations, the trend in payroll gains is slowing.

Furthermore, the results among the various industries were mixed in November, with just two industry groups, healthcare and leisure, accounting for 70 percent of the net gain for the month. Four industries had payroll declines in November.

Within the 221,000 increase in private payrolls, private services added 184,000 versus a 12-month average of 322,300, while goods-producing industries added 37,000 versus a 12-month average of 60,400.

Within private service-producing industries, leisure and hospitality added 88,000 (versus a 90,300 twelve-month average), education and health services increased by 82,000 (versus 77,700), information added 19,000 (versus 13,400), and financial gained 14,000 (versus 12,300).

Within the 37,000 addition in goods-producing industries, construction added 20,000, durable-goods manufacturing rose by 11,000, nondurable-goods manufacturing expanded by 3,000, and mining and logging industries added 3,000.

While a few of the services industries dominate actual monthly private payroll gains, monthly percent changes paint a different picture. Gains and losses were more evenly distributed, as three industries gained at least 0.5 percent, but four had declines.

Average hourly earnings for all private workers also had a bigger gain than expected, rising 0.6 percent in November, the third consecutive acceleration in growth. That puts the 12-month gain at 5.1 percent, down from a recent peak of 5.6 percent in March 2022. Average hourly earnings for private, production and nonsupervisory workers rose 0.7 percent for the month and are up 5.8 percent from a year ago, down from 6.7 percent in March.

The average workweek for all workers fell to 34.4 hours in November from 34.5 in October while the average workweek for production and nonsupervisory workers dropped to 33.9 hours versus 34.0 in the prior month.

Combining payrolls with hourly earnings and hours worked, the index of aggregate weekly payrolls for all workers gained 0.5 percent in November and is up 7.6 percent from a year ago; the index for production and nonsupervisory workers rose 0.6 percent and is 8.7 percent above the year ago level.

The total number of officially unemployed was 6.011 million in November, a drop of 48,000. The unemployment rate was unchanged at 3.7 percent, while the underemployed rate, referred to as the U-6 rate, decreased by 0.1 percentage points to 6.7 percent in November. Both measures have been bouncing around in a flat trend over the last few months.

The employment-to-population ratio, one of AIER's Roughly Coincident indicators, came in at 59.9 percent for November, down 0.1 from October, the second consecutive drop and still significantly below the 61.2 percent in February 2020.

The labor force participation rate also fell by 0.1 percentage point in November to 62.1 percent. This important measure has been trending flat recently but is still well below the 63.4 percent of February 2020.

The total labor force came in at 164.481 million, down 186,000 from the prior month and nearly matching the February 2020 level. If the 63.4 percent participation rate were applied to the current working-age population of 264.708 million, an additional 3.34 million workers would be available.

The November jobs report shows total nonfarm and private payrolls posted additional albeit slower gains than recent prior periods. Despite beating expectations in November that some might interpret as a "strong labor market," the data show the trend in payroll gains is decelerating. Furthermore, concerns about future payroll gains persist in light of aggressive Fed interest rate increases, a modest upward trend in initial claims for unemployment insurance, and an increase in job cut announcements. Still, the level of open jobs remains high, and the number of available workers is low, suggesting the labor market remains tight.

Weekly Initial Claims Continue to Trend Higher

Initial claims for regular state unemployment insurance fell by 16,000 for the week ending November 26th, coming in at 225,000. The previous week's 241,000 was revised up from the initial estimate of 240,000. The four-week average of weekly initial claims rose to 228,750, up 1,750 for the week. That was the fifth increase in the last seven weeks and the highest level since September 3rd.

When measured as a percentage of nonfarm payrolls, claims came in at 0.140 percent for October, up from 0.136 in September and above the record low of 0.117 in March. While the level of weekly initial claims for unemployment insurance remains very low by historical comparison, the rising trend is a concern. Furthermore, job-cut announcements have started to increase recently, adding to the concern over the rising trend in initial claims.

The number of ongoing claims for state unemployment programs totaled 1.338 million for the week ending November 12th, an increase of 111,080

from the prior week. State continuing claims are at the highest level since August 27th but remain within the 1.2 million and 1.5 million range.

The latest results for the combined Federal and state programs put the total number of people claiming benefits in all unemployment programs at 1.368 million for the week ended November 12th, an increase of 115,477 from the prior week.

While the overall low level of initial claims suggests the labor market remains tight, the upward trend in claims and rising job-cut announcements are concerns. The tight labor market is a crucial component of the economy, providing support for consumer spending. However, persistently elevated rates of price increases already weigh on consumer attitudes, and if consumers lose confidence in the labor market, they may significantly reduce spending. The outlook remains highly uncertain.

Private-Sector Job Openings Remain High Despite Falling in October

The latest Job Openings and Labor Turnover Survey from the Bureau of Labor Statistics shows the total number of job openings in the economy decreased to 10.334 million in October, down from 10.687 million in September.

The number of open positions in the private sector decreased to 9.412 million in October, down from 9.627 million in September. October was the fifth decline in the last seven months since hitting a record high in March.

The total job openings rate, openings divided by the sum of jobs plus openings, fell to 6.3 percent in October from 6.5 percent in September, while the private-sector job-openings rate decreased to 6.7 percent from 6.9 percent in the previous month. The October result for the private sector is 1.0 percentage points below the March peak.

The industries with the highest openings are education and health care (2.172 million), professional

and business services (1.794 million), trade, transportation, and utilities (1.644 million), and leisure and hospitality (1.578 million). The highest openings rates were in leisure and hospitality (9.0 percent), education and health care (8.1 percent), and professional and business services (7.4 percent).

The number of private-sector quits declined for a second consecutive month in October, coming in at 3.792 million, down from 3.819 million in September. Trade, transportation, and utilities led with 904,000 quits, followed by leisure and hospitality with 869,000 quits, and by professional and business services with 655,000.

The private-sector quits rate held steady at 2.9 percent in October. The private-sector quits rate is the lowest since March 2021 and 0.5 percentage points below the record high of 3.4 percent in November 2021.

Private-sector layoffs and discharges rose in the latest month, rising to 1.314 million, up from 1.247 million in September. The trend in layoffs and discharges may be higher since hitting a low of 1.183 million in December 2021. The private-sector layoffs and discharge rate held steady in October, coming in at 1.0 percent, above the 0.9 percent low in December 2021.

The number of job seekers (unemployed plus those not in the labor force but who want a job) per opening ticked up slightly in October, rising to 1.095 from 1.083 in September. Before the lockdown recession, the low was 1.409 in October 2019.

Today's job openings data suggest the labor market maintained resilience through October. While the low number of available workers per opening implies the labor market remains tight, some deterioration at the margin is a warning sign. Caution is warranted.

CAPITAL MARKET PERFORMANCE

(Percent change)

	November	Latest 3M	Latest 12M	2021	Calendar Year 2020	2019	3-year	Annualized 5-year	10-year
Equity Markets									
S&P 1500	5.4	3.4	-10.3	26.7	15.8	28.3	9.1	8.8	11.1
S&P 500 - total return	5.6	3.6	-9.2	28.7	18.4	31.5	10.9	11.0	13.3
S&P 500 - price only	5.4	3.2	-10.7	26.9	16.3	28.9	9.1	9.0	11.2
S&P 400	6.0	6.0	-4.8	23.2	11.8	24.1	8.6	6.3	9.9
Russell 2000	2.2	2.3	-14.2	13.7	18.4	23.7	5.1	4.1	8.7
Dow Jones Global Large-Cap Index	7.8	2.6	-13.7	16.2	14.7	23.8	4.7	4.5	6.5
Dow Jones Global Large-Cap ex-U.S. Index	11.8	3.2	-13.5	4.9	8.8	18.2	-0.4	-0.7	1.8
STOXX Europe 600 Index	6.8	6.0	-5.0	22.2	-4.0	23.2	2.6	2.6	4.8
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	6.9	-8.2	-32.2	-6.0	16.4	11.5	-9.9	-3.9	-1.9
iShares AAA - A Corporate Bond Fund	5.3	-1.5	-16.4	-4.2	7.1	9.1	-4.9	-2.2	NA
Commodity Markets									
Gold	7.0	1.9	-1.6	-4.0	24.8	18.7	6.2	6.5	0.2
Silver	12.5	20.1	-5.7	-12.8	46.8	16.7	8.3	5.4	-4.5
Refinitiv CoreCommodities CRB total return index	2.4	-2.8	29.8	38.5	-9.3	11.8	17.4	9.5	0.1

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

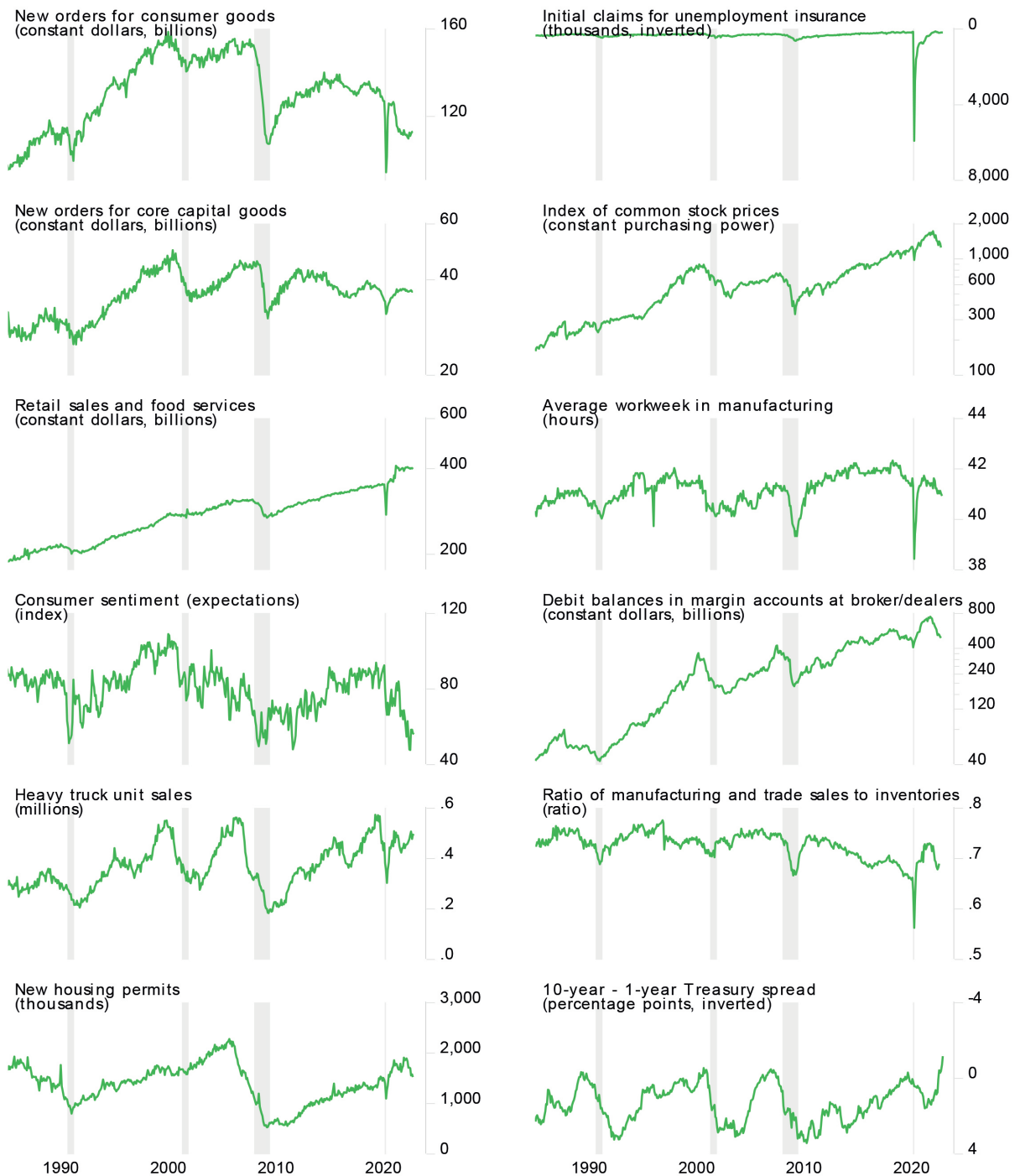
CONSUMER FINANCE RATES

(Percent)

	November	Latest 3M	Latest 12M	2021	Average for Year 2020	2019	Average over Period 3-year	5-year	10-year
30-yr. fixed mortgage	6.9	6.1	4.7	3.0	3.1	3.9	3.6	3.9	3.9
15-yr. fixed mortgage	6.2	5.4	4.0	2.3	2.6	3.4	3.0	3.3	3.2
5-yr. adjustable mortgage	5.7	5.0	3.7	2.6	3.1	3.6	3.2	3.4	3.2
48-month new car loan	5.5	5.5	5.0	5.1	5.1	5.4	5.1	5.1	4.7

Sources: Bankrate, Federal Reserve.

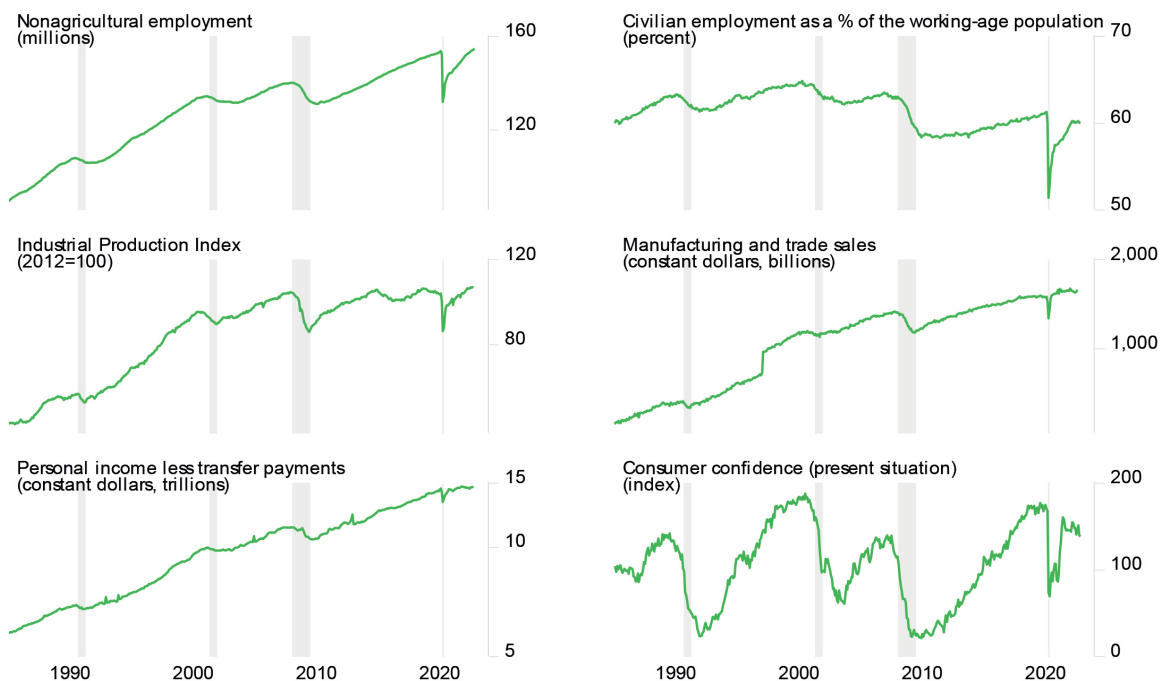
LEADING INDICATORS (1985 - 2022)



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).

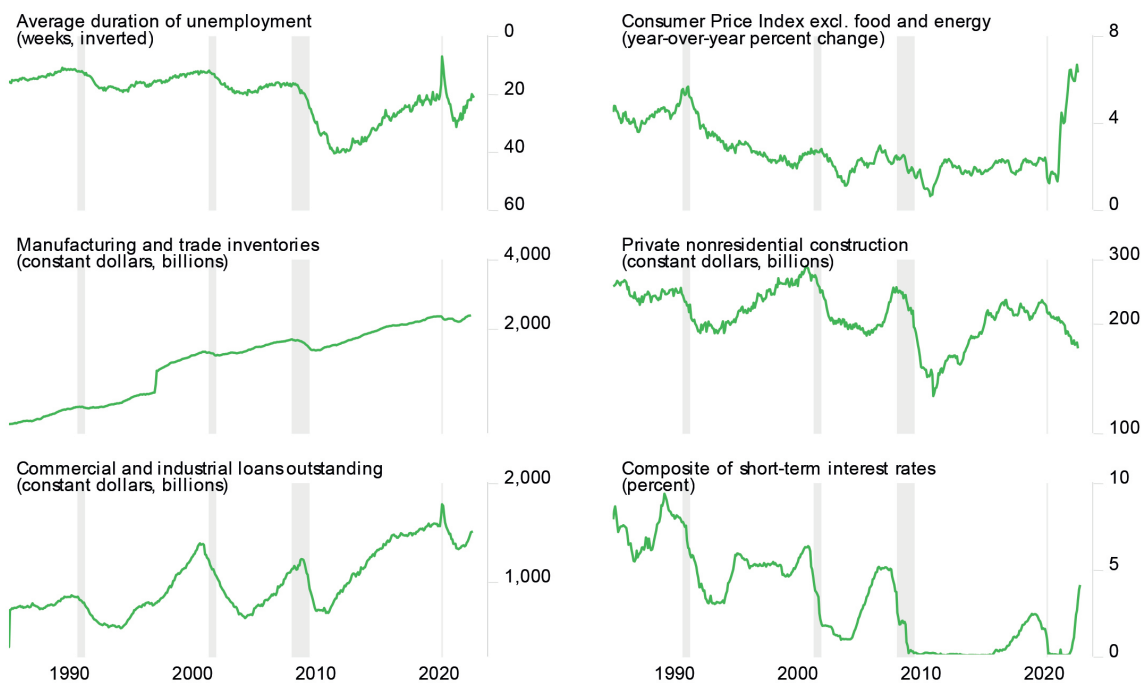
ROUGHLY COINCIDENT INDICATORS (1985 - 2022)



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).

An Inflationary Thanksgiving, Revisited

PETER C. EARLE

Research Faculty

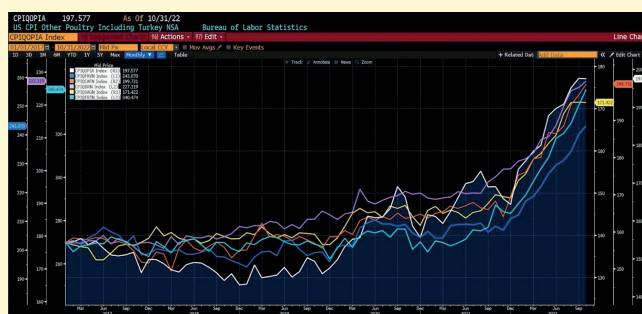
Last year around this time I wrote an article entitled “The Horrors of a Noninflationary Thanksgiving.” In it I showed that consumers seeking traditional holiday fare but choosing only foodstuffs which had not increased in price over the previous year (from 2020 to 2021) would’ve faced a lackluster selection of goods. Between November 2020 and November 2021, the only foods which hadn’t increased in price were hot dogs (without buns or condiments), processed cheese, fresh lettuce (without other vegetables or salad dressing), and a very general category of “cookies.” Without paying up, there would’ve been no turkey, gravy, breadstuffs (rolls, buns, or stuffing), nor cranberry sauce. And to drink, the only stably-priced beverage at that point was water.

Yet in November 2021, the US Consumer Price Index (headline, year-over-year) had only reached 6.2 percent. The Personal Consumption Expenditure Price Index (year-over-year) stood at 5.2 percent. Mostly notably, the Federal Reserve was still referring to the nascent inflation as ‘transitory.’ In a sense they were correct. The general price level within the United States was *transitioning* from high to much higher levels.

Given policy lag, prices continued their upward march for months after the start of contractionary monetary policy measures in March, 2022. At present, there are hints of disinflation in some goods, but prices of services and for shelter continue upward. Where one year ago the yield on a generic 10-year US Treasury was 1.58 percent, on November 18 it was 3.79 percent.

The five-year trend in prices of a Thanksgiving dinner is shown here. All are based upon Bureau

of Labor Statistics (BLS) index values, and are not seasonally adjusted. In the below data series white tracks prices of turkey (“and other poultry”); pink for bread; yellow for sauces and gravies; blue for frozen vegetables; orange for canned fruits; and teal for frozen and refrigerated bakery goods.



(Source: Bloomberg Finance, LP)

Below, the percentage changes from 2020 to 2021 and 2021 to 2022 are shown. Because the November index values are not released until mid-December, year-over-year values are based upon the October BLS releases.

	Oct	Oct	Oct
	2020 to 2021	2021 to 2022	2020 to 2022
US CPI Other Poultry Including Turkey	1.68%	16.89%	18.86%
US CPI Bread	2.29%	14.78%	17.40%
US CPI Biscuits, Rolls, and Muffins	4.76%	13.57%	18.97%
US CPI Potatoes	1.66%	15.19%	17.10%
US CPI Frozen Vegetables	-0.30%	16.74%	16.39%
US CPI Fresh Vegetables	1.69%	8.28%	10.11%
US CPI Canned Fruits	2.87%	18.68%	22.08%
US CPI Sauces and Gravies	1.76%	14.57%	16.58%
US CPI Food Away from Home	12.04%	8.59%	21.67%

As also shown, individuals opting to outsource Thanksgiving dinner to restaurants will nevertheless face sharply higher prices this year. And underscoring ubiquitous difficulties in economic measurement, using bread as a proxy for stuffing is misleading. In fact, the US Farm Bureau reports that the price of a 14-ounce bag of stuffing has increased 69 percent since the start of 2022.

In all, the American Farm Bureau Federation estimates that the:

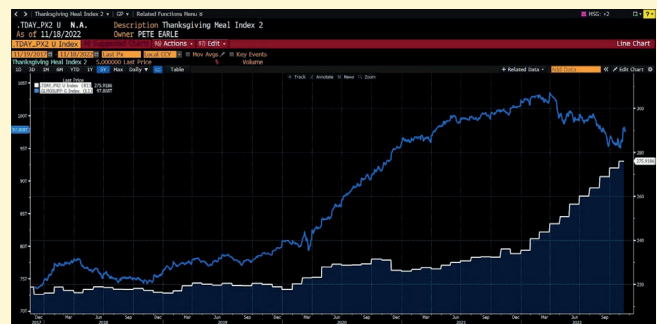
cost of buying a turkey and the trimmings to feed a family of 10 is the highest it's been in years ... The[ir] 37th annual survey puts the average cost of a classic Thanksgiving feast at \$65.04 this year, which is a \$10.74, or 20 percent, increase over last year's average \$53.31 tab.

But costs associated with Thanksgiving go well beyond comestibles. Many Americans will travel to celebrate the holiday with family or friends, and thus gasoline prices are relevant. Some will travel via bus or train, and others will fly, all of which have seen rising prices. Haircuts, dry cleaned clothes, and pet care are additional expenses. One- and two-year price changes associated with those additional costs are shown below.

	Oct	Oct	Oct
	2020 to 2021	2021 to 2022	2020 to 2022
AAA Gasoline (average, US)	51.64%	20.00%	81.97%
US CPI Gasoline, Regular Unleaded	51.28%	17.07%	77.11%
US CPI Airline Fare	-4.63%	42.89%	36.27%
US CPI Other Intercity Transportation	4.60%	4.07%	8.85%
US CPI Haircuts and Personal Care Services	4.31%	5.59%	10.15%
US CPI Pet Services Including Veterinary	3.93%	10.67%	15.02%
US CPI Laundry and Dry Cleaning	6.92%	7.19%	14.61%

As always, price increases have numerous causes: supply problems caused by the war in Ukraine (especially where grains are concerned), an outbreak of bird flu, etc. But those are relative changes which the price system acts to mediate, signaling shortages to producers and entrepreneurs domestically and worldwide. The massive upward trend in the general price level has to do with one factor alone: the massive, expansionary monetary policy efforts pursued throughout 2020 and 2021.

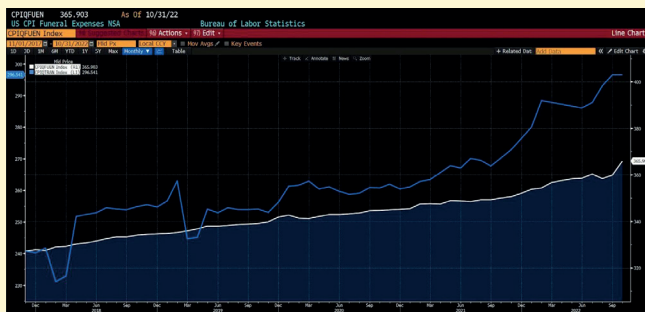
The below chart tracks a proprietary Thanksgiving Meal Index composed of turkey, gravy, bread, frozen vegetable, canned fruit, and frozen/refrigerated bakery goods prices (white) versus the global M2 money supply (blue, in USD) over five years. The stepwise appearance of the Thanksgiving Meal Index owes to its composition of monthly data releases.



(Source: Bloomberg Finance, LP)

Americans face another costly holiday season owing to the heavy-handed and arguably unnecessary monetary and fiscal programs early in the COVID pandemic. Despite recent attempts to frame inflation as inevitable or even beneficial, both the rise of the price level and the delay in combating it lay squarely at the feet of the Federal Reserve.

US CPI Funeral Expenses & US CPI Tax Preparation (5 years)



(Source: Bloomberg Finance, LP)

And with respect to traditional notions of inevitability, prices of both “death and taxes” have increased as well. The costs associated with funerals and tax preparation have risen just under 5 percent and 10 percent, respectively, over the last twelve months.

— November 24, 2022

Economic Growth Doesn't Cause Inflation. Here's Why.

ALEXANDER WILLIAM SALTER

Senior Fellow, Sound Money Project

Is economic growth inflationary? Many economic and political commentators think so. Nick Timiraos of the *Wall Street Journal*, for example, writes that “easier financial conditions [loose monetary policy] stimulate spending and economic growth.” Some monetary policymakers agree. Mr. Timiraos later describes the views of a Fed official who “prefer[ed] to find a rate level that restricted economic growth enough to lower inflation.”

This is a two-part argument: Loose monetary policy causes prices and total spending to increase, which in turn causes economic growth. While I dispute that we should think about monetary policy in terms of interest rates, I agree that loose monetary spending causes prices and total spending (nominal income, NGDP) to rise. But it does not follow that higher inflation is associated with greater economic growth. In fact, the opposite is true: Economic growth puts downward pressure on prices, all else being equal.

Let's start with the equation of exchange, $MV=PY$. The money supply (M) multiplied by its average rate of turnover (V) equals nominal GDP (PY). Nominal GDP is itself the product of the price level (P , the inverse of the dollar's purchasing power) and real GDP (Y , actual goods and services). In growth rates, this becomes $gM+gV=gP+gY$. When nominal income growth ($gP+gY$) is positive, it must be the case that the money supply is growing ($gM>0$), that money is changing hands faster ($gV>0$), or both.

There are two ways to model looser monetary policy. If the Fed is printing more money, gM will rise. If the Fed lowers interest rates by cutting interest paid on reserves, money turnover will increase, implying gV will rise. Either way, nominal

income ($gP+gY$) goes up, too. But what's the balance between inflation (gP) and economic growth (gY)?

In the short run, gY may increase. Businesses will observe sales growth. Laborers will see their nominal wages rise. The increase in nominal spending makes producing look more attractive. But this effect is temporary. Once the economy discovers the monetary origins of the boom, things will start to cool off. In the long run, gY depends on productivity. If we want to produce more real goods and services, we need to get better at turning inputs into outputs. One way to do this is to acquire more labor, capital, and natural resources. A better way is to come up with new ideas: better recipes for turning inputs into outputs. These can be complemented by investments in human capital, which make a given labor supply more productive. Notice that none of these factors depend on money, interest rates, or inflation. It is all about the supply side of the economy. We can't consume goods and services that haven't been produced.

The long-run effect of looser monetary policy is higher inflation (gP), not higher economic growth (gY). This is an important result in economic theory. You can't make a nation richer by printing money. The best you can do is prevent the economy from falling into a recession caused by a spike in liquidity demand (fall in gV). Keeping the economy along its trend growth path, however, is not the same thing as setting the growth path itself. Monetary policy isn't about economic growth.

Given supportive supply-side policies (moderate taxes, predictable regulation, and a general legal environment supportive of private property and freedom of contract) innovation will cause growth

to rise independently of monetary policy. In the growth-rates version of the equation of exchange, higher productivity manifests as faster real output growth (gY) without any corresponding change in money growth (gM) or velocity growth (gV). But the equation still must balance: $gM + gV = gP + gY$. Thus, if gY rises while gM and gV stays the same, it must be the case that gP falls. At minimum, economic growth is disinflationary. And if the productivity increases are big enough, it may even be deflationary!

We have nothing to fear from supply-side disinflation or deflation. This is the benign effect of comparatively less money chasing comparatively more goods and services. A general slowdown in price hikes sends a valuable signal: Money goes further because the economy is more productive.

The conventional wisdom is wrong because it neglects the supply side. If your theory of monetary policy begins and ends with aggregate demand, you'll mistakenly think growth is inflationary. A realistic appraisal of the determinants of economic productivity shows that growth eases, not intensifies, pricing pressures.

This doesn't mean that economic growth is a strategy for fighting inflation, of course. We should want more growth regardless of what's happening to gP . Nevertheless, it's important we should get the basic economic relationships right when discussing monetary policy. Economic growth isn't inflationary. Journalists and central bankers should stop saying otherwise.

– November 10, 2022

Das Karl Marx Problem

PHILLIP W. MAGNESS (Director of Research and Education)

MICHAEL MAKОВI (Contributor)

In his classic book the *Logic of Collective Action*, Mancur Olson observed a peculiar feature about socialist political organizing. Marxist theory envisions itself as a manifestation of collective class interests, with the proletarian class being the most numerous. Yet as Olson noted, “the ‘Marxian’ revolutions that have taken place have been brought about by small conspiratorial elites that took advantage of weak governments during periods of social disorganization.” Marxist revolutions, it seemed, were not an inevitable result of a basic numbers game once class consciousness had been awakened. They emerged from Lenin and his many copycats staging violent coup d’états to place themselves in power.

Marxist intellectuals have long struggled with this implication, as it points to political actions – including actions involving insurrection, subterfuge, and mass bloodshed – as the primary mechanisms for bringing their desired socio-economic system into existence. Perhaps understandably, they wish to retain the theoretical framework of Marx but strip it of the violent legacies of Lenin, Stalin, Mao, Pol Pot, Castro, and other discrediting political figures.

In a new article, we examine a related question: to what degree is Marx’s own reputation as an intellectual dependent on the political “successes” of his followers in the early 20th century? The answer, it turns out, is quite a lot. Our full paper recently appeared online in the *Journal of Political Economy*, and presents an empirical investigation into the role of the Soviet Revolution of 1917 in “mainstreaming” Marx’s intellectual reputation.

It’s admittedly a complex question, but to answer it we start by looking at a scholarly conundrum. For the sake of simplicity let’s call that conundrum ‘Das Karl

Marx Problem’ as an homage to the socialist thinker.

‘Das Karl Marx Problem’ boils down to a paradox surrounding his academic reception. In decades following his death in 1883, Marx’s theories were thoroughly scrutinized by other economists and almost universally rejected. Marx’s 1867 masterwork *Capital* constructed its central argument upon a flawed theory of value – the Labor Theory of Value. Starting with a pair of books by Carl Menger and William Stanley Jevons in 1871, economists began to dissect problems with the Labor Theory of Value, finding that it simply couldn’t explain many observable real world scenarios. Instead, they realized that economic value derives from individual subjective preferences exercised on the margin of decision-making.

There was another problem with Marx’s system as well. The math of constructing an economy around labor-derived “surplus value” simply didn’t add up, because it struggled to convert labor – an important input of economic production – into a functional price. Marx’s theory in *Capital* vol. 1 assumes that exchange values (prices) derive from labor performed. But vol. 3, in attempting to explain how market rates of profit are equalized, posits instead that exchange values differ from labor costs. But if inputs are purchased at market prices too, an empirical circularity emerges in Marx’s reasoning. Marx’s own unpublished works struggled to get around this contradiction, mostly by playing semantical games. In 1896, Eugen von Böhm-Bawerk highlighted this internal contradiction – which is independent of the marginalist critique of the labor theory of value. And writing in 1907, mathematician Ladislaus Bortkiewicz conclusively

illustrated that Marxist “Transformation Problem” could not be solved as Marx intended.

The dual onslaught of these challenges to Marx’s system rendered it impotent. Within a few decades of his death, the “Marginal Revolution” had won out in the economics profession, where it remains the accepted basis of a theory of value today. By the time Lenin came along in 1917, Marx’s economic theories were already considered outdated and impractical. No less a source than John Maynard Keynes would deem Marx’s *Capital* “an obsolete economic textbook . . . without interest or application for the modern world” in a 1925 essay.

Yet our conundrum continues after the early demise of Marx’s economics. While Marx’s economic theories faltered by the early 20th century, Marx’s intellectual reputation has continued to rise into the modern era. Today, Marx consistently ranks among the most heavily cited figures in history as measured by academic journal references. His works are also among the most frequently assigned readings in U.S. college course syllabi. Curiously, Marx’s reputation grew and solidified in fields that largely ignored him in his own time: the humanities, arts, and soft social sciences.

Thus we arrive at ‘Das Karl Marx Problem:’ how do we reconcile the decisive and early rejection of Marx’s economic theories after the Marginal Revolution with the high acclaim that those same theories enjoy among intellectuals today, albeit almost entirely outside of the economics profession?

To answer this question, we must turn to political events.

Historians have long wrestled with the slow uptake of Marx’s theories in the decades after his death. As Alan Ryan observed “Marx’s economics were not taken seriously other than on the Marxist left” in the early 20th century. Kirk Willis, in a classic study of Marx’s reception in Britain, similarly notes the “inescapable fact” that “the

Marxist alternative was rejected by an overwhelming majority of late nineteenth century Englishmen – whether economists, labour leaders, workers, politicians, or intellectuals.” By the 1920s and 30s, Marx had emerged from this position of relative obscurity in the wake of a geopolitical event, the Soviet Revolution.

That event makes for an intriguing thought experiment, proposed many times but seldom investigated. Did the political successes of Lenin and the Soviets serve a simultaneous purpose of rescuing Marx’s doctrines and elevating them into wider prominence? Frederick Charles Copleston hinted as much in his celebrated multi-volume history of philosophy. So does Loren Lomasky, who ponders but for Lenin that Marx might enjoy “roughly the same number of textbook footnotes enjoyed by other defunct nineteenth century economists of similar stature – Nassau Senior, for example.”

In more recent years, economist Branko Milanovic has proposed the same thought experiment. If not for World War I, he speculates, “It is not impossible to think that Marx’s influence would have steadily gone down as the social-democrats in Germany moved toward reformism and ‘revisionism.’ His picture would have probably been displayed among the historical ‘maîtres à penser’ of the German social-democracy but not much of his influence would have remained, whether in policy or in social sciences.” So what changed? Milanovic continues: “But then the October Revolution and Lenin came.” The result “‘catapulted’ Marx’s thought and fame.”

To investigate these questions empirically, we turn to the latest advances in econometrics. Using Google’s Ngram tool, we assembled a list of over 225 prominent historical thinkers from the intellectual canon. They include economists, philosophers, political theorists, socialists and non-socialists, literary figures, and even a few scientists of note, all of whom lived either roughly contemporary to Marx

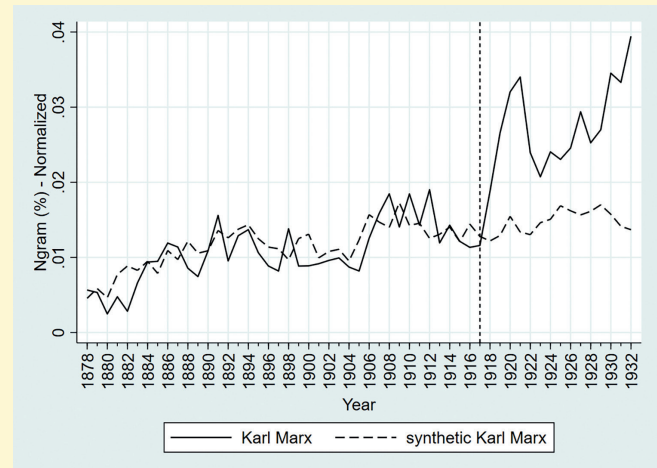
or who preceded him. This allows us to tabulate and track the rates at which various authors' names appear in printed books over time, and compare them with each other.

Marx's Ngram patterns are intriguing. Throughout his lifetime and the next three decades after his death, they are relatively flat. Late 19th century writers do reference his work as with the aforementioned Marginalist critiques of Marx, but the rate is relatively low and unchanging. Although we have difficulty measuring the absolute level of Marx's citations (for reasons detailed in our paper), nevertheless, the level of Marx's citations grows at the same relative rate as those of fellow socialists such as Johann Karl Rodbertus and Pierre-Joseph Proudhon. Beginning in 1917 though, Marx's citations turn sharply upward, unlike nearly any other author in our dataset, including figures such as Adam Smith, Herbert Spencer, and John Stuart Mill. In just a few years, they triple in frequency and continue on that trajectory until the present. Our hypothesis, then, is that Lenin and the Soviets are likely candidates for this sudden spike in Marx references – both in the interest they generated around the relatively obscure Marx's ideas, and in their subsequent promotion of Marx as the primary theorist of the revolution and Soviet state.

To test this hypothesis, we used an econometric technique called a Synthetic Control. This approach takes the 225+ author dataset we assembled and finds a weighted composition of other authors whose own citation patterns “fit” those of Marx up until 1917. The weighting is done by algorithm to minimize biases, essentially allowing the computer to pick the authors that most closely track Marx's pattern. This allows us to generate a “synthetic Marx” counterfactual for the years after the suspected treatment effect of the 1917 Soviet Revolution. We take the pre-1917 weights from the other authors and extrapolate them forward to see how they performed after 1917. If the real Marx diverges from the synthetic

counterfactual, we have our first sign of a causal relationship. It would show that the Soviet outcome boosted Marx, but not the authors who comprised the weighted synthetic measure.

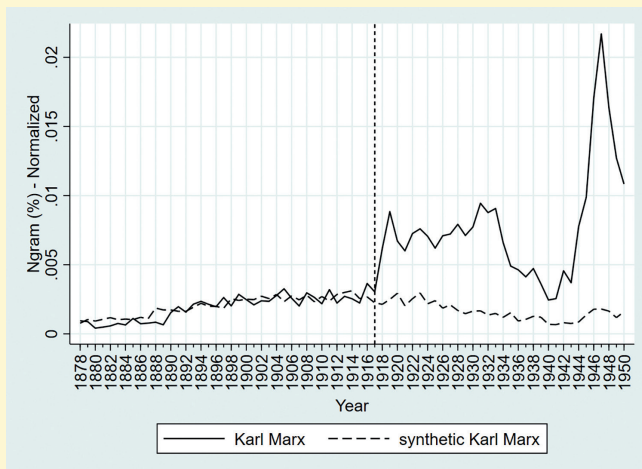
As we suspected, our results point to a profound and statistically significant divergence after 1917.



With our theory now validated by this finding, we then subject it to a series of robustness tests to identify and eliminate other possibilities. In perhaps the most important question for further testing, we wanted to determine whether our findings held up in languages other than English. Marx wrote most of his works in German, and many Marxists hypothesize that his ideas took root in the German-speaking world before it filtered over into English. Marx attained something of a following in several German labor movements and leftist political parties before 1917, and also inspired the failed Spartacist uprising of 1919 in Germany. To test whether Marx took root at an earlier date in Germany, we repeated our analysis through several additional iterations that focused only on German-language Ngrams and German-speaking authors.

The results confirm our English-language findings, and belie the oft-speculated earlier influence of Marx in Germany. What's more, they also revealed two successive treatment events that altered the

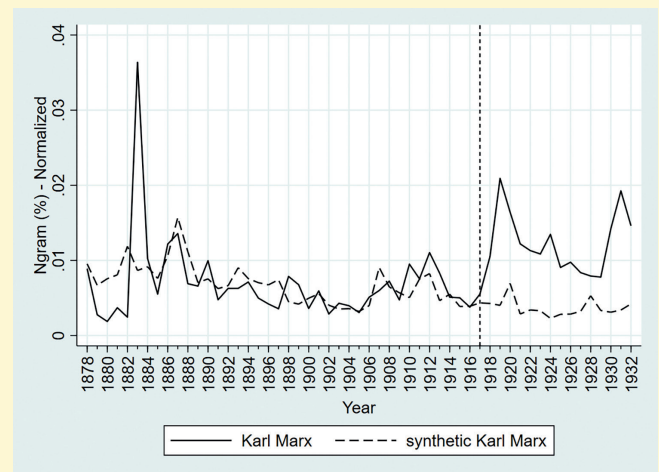
subsequent reception of Marx in German-language sources. After spiking in the wake of the 1917 Soviet Revolution, German Ngrams of Marx suddenly plummeted in 1933. This is an obvious effect of the Nazi regime taking power and censoring socialist works, including Marx. The pattern changes again with a sharp spike after 1946, as the Soviet Union sets up an explicitly Marxist state in East Germany. In each case, the German-language results show that Marx's citation patterns are highly responsive to a succession of political events that promoted, suppressed, and again promoted his work.



We also asked the question of whether our results would hold up if we used a different measure than the Ngram database. Ngram statistics are calculated from scanned books that are part of the Google corpus. While the data contained therein are massive, they only reflect the contents of printed books. Shorter form publications such as newspapers and magazines are not included.

To see if our thesis held up elsewhere, we turned to the online scanned newspaper database from the subscription service Newspapers.com. Using a subset of our author pool, we constructed an original newspaper database of author mentions to parallel the Ngram series for books. We then ran the same synthetic

control test, and found independent confirmation of our results. As with books, newspaper mentions of Marx sharply spiked after 1917. The only major difference was 1883 when Friedrich Engels paid for a telegram broadcast of Marx's obituary after his funeral, causing a temporary spike in newspaper mentions that dissipated the next year.



Our empirical investigation continues with additional robustness checks to see if our main results hold. For example, we run a series of tests to determine if the findings from 1917 are a spurious coincidence by varying the year of the treatment (it isn't). We also looked at other surrounding events such as the failed Russian Revolution of 1905 to see if it triggered an earlier surge of attention to Marx (any signs of this are dwarfed by the effects of 1917). We tried limiting our study to only socialist writers to see if something unique emerged in their citation patterns (it didn't). With these and other factors taken into consideration, we are confident that we've identified the single most important cause for Marx's citation surge. The Soviet Union played a primary role in elevating Marx into the intellectual mainstream, and likely caused his relatively low and relatively flat Ngram pattern to skyrocket in its immediate aftermath.

‘Das Karl Marx Problem,’ it would appear, is resolved by studying the intellectual fallout after Lenin seized control of a major world power’s government in a time of chaos and forcibly imposed a Marxist state on its population.

These results are, expectedly, controversial in some quarters. And in no place is this more evident than among the followers of Marx today. Curiously, the initial reactions we’ve seen from Marxists reveal an internal schism in their ranks. About half of the Marxist respondents consider our finding obvious, even questioning why we would go to such lengths to “prove” that which they already knew. Indeed, following the materialist view of history, Marx himself might have trumpeted evidence that intellectual ideas are largely determined by political events. The answer is the other half, who adamantly deny the role of Lenin’s government in mainstreaming the Marxist intellectual tradition. Eager to dissociate themselves from the baggage of the Soviet Union’s legacy, they cast about for other and more palatable explanations for Marx’s citation spike. The favored candidates so far are Marx-adjacent political parties in pre-1917 Germany, and the founding of the western Marxist Frankfurt School in the 1920s, although the empirical evidence for these theories is underwhelming compared to the Bolshevik effect in 1917.

With one Marxist faction insisting that our results are too “obvious” to warrant attention, and the other denying their validity altogether, the need for an empirical resolution to the question is inadvertently highlighted.

Suffice it to say that any such empirical investigation would need to use tools that minimize the introduction of human bias. It doesn’t suffice to cherry-pick a few citations of Marx in a work from 1905 and insist that they trump aggregated empirical data patterns across millions of pages of text. Nor can we simply discern Marx’s influence by eyeballing where his ngram patterns parallel other

authors. The synthetic control technique helps to get around these problems by letting the computer identify and pick the composite figures.

The result is an entirely plausible counterfactual Marx, composed primarily of his socialist competitors such as Ferdinand Lassalle and Johann Karl Rodbertus.

Note that we do not claim that Marx would have disappeared from relevance in the absence of 1917. Nor do we suggest that Marx’s work received no attention before 1917, as some of our lazier critics have contended. Plainly, Marx attracted attention – albeit harshly critical – from other economists in the late 19th century, who went to work dissecting and rebutting his theories. He also had followers, albeit mostly among radical labor activists. Our question, though, concerns his place in mainstream scholarly discussions.

The “what if?” story of our counterfactual suggests that, absent the events of 1917, Marx would have continued to be an object of niche scholarly inquiry and radical labor activism. He likely would have continued to compete for attention in those same radical circles as the main thinker of one of its many factions. After the Soviet boost to Marx, he effectively crowded the other claimants out of socialist-world.

Of course, academic specialists also noticed Marx both before and after 1917. Alfred Marshall assessed his economic doctrines in an 1890 textbook by describing them as an exercise in circular reasoning disguised in “dense Hegelian language.” Later, in a 1907 article in the *Economic Journal*, Alfred Marshall mentioned Marx alongside Adam Smith and J. S. Mill – but crucially, in the same breath as Ferdinand Lassalle too, who – despite his historical importance – is not cited anywhere near as frequently as Marx is today. Others had a more favorable view, and still more engaged Marx through his successors and later claimants.

But the events of 1917 provided a remarkable boost to Marx’s salience in intellectual discussions.

The sociologist Max Weber had known Marx's work for some time, having jousting with his Marx-influenced contemporary Werner Sombart over the theory and meaning of capitalism. Yet Weber's classic 1905 study *The Protestant Ethic and the Spirit of Capitalism* almost entirely avoids Marx's name, save for a single passing footnote.

Shortly before his death some 15 years later, Weber spoke to a small group of students about the philosophical landscape of the time. "The world in which we live as intellectuals," he explained, "bears largely the imprint of Marx and Nietzsche." It was a world in which the doctrines of both thinkers were ascendant and in tension, directly paralleling the political developments that had made them so.

– November 16, 2022

A New Concern: Falling US Treasury Demand

PETER C. EARLE (Research Faculty),

ZACHARY SHUTER (Research Intern) & ZHEZHENG ZHANG (Research Intern)

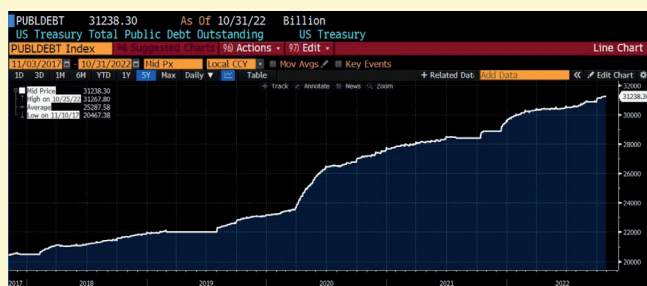
Media coverage of inflationary effects primarily focuses on the impact of rising price levels upon consumers and producers, but there are clearly effects beyond those. As monetary authorities initiate policies intending to stem the upward trend of prices, financial markets may become more volatile than normal. Should inflation prove stubborn, or particularly unpredictable and thus difficult for contractionary monetary policy to counteract, financial markets may become excessively volatile. High levels of volatility dissuade investment, and at very high levels, careening markets may pose a threat to financial stability. In either case, the prices that guide economic calculation become less reliable. Supply- and demand-driven changes in relative prices, which provide information to entrepreneurs and seasoned managers alike, can be completely masked by broad moves in the general price level.

Early in the pandemic, the Federal Reserve undertook one of the fastest quantitative easing campaigns in its then-107 year history, under conditions ostensibly necessitating such actions. But like all major government programs, unintended consequences are likely; we may be experiencing some early effects at present.

For both the US and the UK, inflation is taking a toll on sovereign (government-issued) bond markets. For several reasons, the typical purchasers of US Treasury bonds have been stepping away from the market. Treasury bond yields are used as the global proxy for the “risk free rate,” a variable that impacts countless financial and economic calculations all over the world. If the market for US government bonds were to soften materially, the pricing of countless other instruments could be impacted. A loss of confidence in the reliability of bond prices could have massive ripple effects with negative implications for the entire world’s financial system. There have already been warnings that this risk “poses one of the greatest threats to global financial stability today, potentially worse than the housing bubble of 2004-2007.”

In the quest to determine causes, the most fundamental consideration is the prevailing forces of supply and demand. The massively expansionary fiscal programs of the past few years show clearly that the supply of US Treasury bonds has been torrential. As has been pointed out elsewhere, it may well be that the global appetite for US government securities has been sated, at least for the moment. Whether we are discussing ice cream cones or US Treasury bills, demand curves (almost) universally slope downward. As the cost of a good increases, the quantity demanded decreases. Moreover, there are potential buyers all along the curve. Those beneath the equilibrium price would be willing to consume should the price fall to lower levels, while those above would continue to purchase the good even if the price were to increase.

US Public Debt (5 years)



(Source: Bloomberg Finance, LP)

Federal Reserve balance sheet (5 years)



(Source: Bloomberg Finance, LP)

There are likely potential buyers (other governments and major financial institutions) that would acquire treasuries if yields were higher. But with inflation (CPI, headline year-over-year) over 8 percent, and the 10-year US Treasury yielding 4.065 percent, purchasers would essentially be losing 400 basis points (4 percent), for a real return of negative 4 percent. And because the Fed took over a year to respond to the start of the updraft and seems to be struggling to get the price level under control, long-term investments of the type that major bond market participants undertake are particularly risky at the present time. While many otherwise would be willing to purchase treasuries, they will only do so if yields are high enough.

This fall in market demand was precipitated by major outflows of US sovereign debt from foreign buyers, Japan chief amongst them. Japan's central bank and numerous Japanese pension funds sold \$2.4 billion dollars worth of US treasuries last May alone, after six months of persistent sales that constituted the "longest streak of outflows in data going back to 2005." Japan's efforts had been undertaken to deal with its own currency problems, but also due to wariness over continued US inflation. The People's Bank of China also sold US bonds, and the IMF estimates that central banks in emerging markets have reduced their holdings of U.S. debt by a cumulative \$300 billion so far this year.

The biggest drop in demand has come from the Federal Reserve, which "plans to offload Treasuries from its balance sheet to \$60 billion a month." This transition, called the balance sheet "runoff," constitutes a massive change in US monetary policy. For the past few decades, the Federal Reserve has been a major buyer of US Treasuries (and other instruments), and after essentially supporting that market for years, the reversal of the policy is being felt acutely. For conditions to remain as they were, the withdrawal of demand previously provided by the Fed must now be made up by other buyers. But high debt loads, rising inflation, and the slowing of growth globally has foreign governments and large international financial firms wary of buying US debt. As a result, Bloomberg reports that the "Bloomberg US Treasury Total Return Index has lost about 13 percent this year, almost four times as much as in 2009, the worst full year result on record for the gauge since its 1973 inception." This has prompted some analysts to warn of an illiquidity spiral, in which "volatility creates more illiquidity, which leads to more volatility," which in turn causes yet more illiquidity.

And this is not the first time waning interest in Treasuries has caused concern. Six months before anyone knew what COVID was, a crisis in the market for repurchase agreements (repos) had its roots in a similar dissipation of appetite for government securities. As McCormick and Mohsin wrote in Bloomberg, reprinted in Financial Advisor Online,

on Wall Street, bond dealers provided a small, but pointed reminder that, just maybe, debt and deficits do matter after all. It came in the form of a sudden spike in interest rates for repurchase agreements, or repos, a normally obscure part of finance that keeps the global capital markets spinning. Plenty of factors helped cause liquidity to dry up, but one

that's getting more attention is concern that dealers are starting to choke on Treasuries as the U.S. government goes deeper into the red ... Primary dealers, which are obligated to bid at U.S. debt auctions, have absorbed more and more Treasuries to finance the Trump administration's tax cuts as investor demand has waned. Typically, they rely on repos to fund those purchases by putting up the debt as collateral. The problem is that with the financial system already inundated by over \$16 trillion of Treasuries, banks constrained by crisis-era rules have fewer incentives to participate in repo. Simply put, there was too much new debt flooding the financial system and not enough money, causing lenders to jack up repo rates.

At that time, the outstanding US public debt was roughly \$22 trillion dollars. Now, with the total almost \$10 trillion higher, real concerns regarding the financing of massive budgets should be a topic of preeminent importance.

Headline CPI (year-over-year),
Personal Consumption Expenditure (year-over-year),
and Generic 10-year US Treasury yield (5 years)



(Source: Bloomberg Finance, LP)

Instead, Treasury Secretary Janet Yellen has hinted that the US Treasury may buy back Treasury bonds, and earlier this month the Treasury called

primary dealers to discuss the details of those repurchase operations. In the past, repurchases of treasuries tended to occur during periods of fiscal surplus. But this time the situation is fundamentally different, and it is still uncertain how these goals will be achieved. The Treasury may use a variation of Operation Twist, which the Fed employed in 2012, by essentially injecting liquidity into the market by raising short-term Treasury debt and lowering long-term Treasury rates. The reputation of that program is controversial, however, and there is concern that this policy would clash with the Fed's deflationary efforts. The path forward is unclear, as the rise in yield rates necessary to induce greater demand could also mean higher costs of lending for both private and public actors.

Though a central tenet of the Fed's mission is price stability, its recent performance has been sharply dissonant with that principle for several reasons: additional mandates, political pressure, and more recently DEI distractions. The Federal Reserve is inarguably culpable for the current inflationary dilemma, first due to its expansionary monetary policies, and then for not arresting the consequent upward trend in prices in a timely manner. Americans would do well to recognize that in the midst of a fight against inflation, a sudden turn to expansionary monetary policy is an unlikely (but not impossible) policy shift. If, on top of that, global demand for US Treasuries remains low and financing the existing debt becomes increasingly costly, taxation is essentially the only available means by which the US government can finance its insatiable expansion. Hopefully, a path forward becomes clear and a lesson is learned, as to the knock-on effects that attend not only excessively loose monetary policy, but fiscal profligacy as well.

— November 8, 2022

Progressive Politics Prevail Over Economic Freedom

ROBERT E. WRIGHT

Senior Research Faculty

Although some elections remain to be called, the overall picture is clear. American voters did not clearly repudiate the illiberal, progressive collectivist policies adopted at the state and national levels since March 2020. While the media focuses on the Red Ripple, however, it is important to note that Bidenomics has not been vindicated. The nation remains deeply divided over many key economic and socioeconomic issues.

Some thirty years ago, Yale law professor Bruce Ackerman argued that what I call the Great New Deal Reset became constitutional because voters kept FDR and his minions in office over numerous election cycles in the 1930s. I show in a book-in-progress that such a notion is deeply flawed because relative popularity at the polls is insufficient to overturn republican checks and balances.

The converse, however, jibes well with the notion of limited government held by all of the Framers and Founders. When “We the People” proclaim policies abhorrent by exercising our speech and voting rights, policymakers must take heed, at least if democracy is to retain its essential Lincolnian meaning of rule of, for, and by the people.

Polling indicates that most Americans want little to do with policies that privilege the feelings of favored groups over the hallowed rights of individuals. People who feel frightened by a virus can stay at home, but should never again be allowed to impose work, school, and travel restrictions or mask and vaccine mandates on those who believe the virus is less costly than the putative means of its control. People who feel that firearms are too dangerous can avoid them, but should not be allowed to restrict their use by law-abiding citizens who see them as valuable tools.

Americans also generally reject policies that privilege equality of outcome over equality of opportunity. It’s a crying shame that people live in poverty here and abroad, but that doesn’t mean that authorities should allow anyone to break US or state laws with impunity. If America’s immigration and drug laws are too punitive, public officials should change, not flout them. Lawmakers, not members of the executive branch, need to do the hard work of reforming a system that provides no “justice” for criminals or their victims. Amplifying the signal sent in Virginia’s 2021 elections, most parents believe that they at the very least should be able to veto ideological or sexualized “educational” curricular content.

Americans have also expressed concerns about illiberal attempts to change America’s constitutional order. Many realize that mere laws or gimmicks should not be allowed to make Washington DC a state or to end the Electoral College. Mere executive orders should not be sufficient to redistribute billions of dollars from people who did not attend university, or who have paid for it already, to graduates who remain indebted. Operational coal plants and pipelines in progress should not be shut down by fiat on the basis of dubious causal climate claims. Government bureaucrats should not be able to force private companies to restrict speech nor engage in other activities that the government itself cannot do. Most importantly, Americans know that the law must apply to all equally, and that law enforcement agencies should not be weaponized to protect or punish people on the basis of party affiliation or ideology.

Why the disconnect between those views and the election results? Most importantly, perhaps, Americans vote for candidates, not policies.

Americans who do not trust candidates to keep their campaign promises tend not to vote at all. While voter turnout has been increasing, four out of ten eligible voters cast no ballots, even in presidential elections. Incumbents tend to win, in part, because they are at least known entities. For some reason, candidates will not credibly commit through a bonding mechanism to support a suite of policies, or to consult their constituents should a new issue arise, as America's first elected officeholders did.

Unlike the election of 1800, which repudiated the Alien and Sedition Acts and certain other Federalist policies of dubious constitutionality, the election of 2022 did not clearly repudiate lockdowns and mandates, the uncritical educational use of Critical Race Theory, the partisan weaponization of law enforcement, and other illiberal Progressive attempts to radically change America. But it fell far short of endorsing them.

Policy rollbacks in the next two years appear unlikely, but the pace of policy change and new spending may slow considerably, which at least should help the Fed to fight inflation. But America is not yet poised to again unleash its full economic potential by restoring the expectation of high levels of economic freedom.

– November 16, 2022

Public Health Amidst a Smart Pandemic

RYAN M. YONK (Senior Research Faculty)

APRIL LIU (Research Intern)

The COVID-19 pandemic is the first truly global pandemic where personal phones and devices are “smart” enough to make mass surveillance of the population possible. This technological reality led to the rapid recognition by governments around the world that these devices could be used to identify and track case trends of the disease. As the pandemic grew, the most common public policy approach to controlling its spread was to mandate health status reporting and limit personal movement. As a result, throughout the developed world, rapid increases in the use of these technologies led to the evolution from manual contact tracing to Digital Contact Tracing (DCT), in the form of voluntary apps.

Apple and Google (“Gapple”) collaborated to design the first wave of DCT systems in the spring of 2020. Their technology, announced on April 10, 2020, “promised to scale to cover entire populations automatically rather than just small disease clusters – a distinct advantage for tracking a fast-spreading disease.” Over a year later, the so-called “Gapple” system was adopted by the vast majority of US States and EU members. Shortly after, a group of 300 international scientists published a joint statement arguing for a decentralized data storage approach (DP-3T) to DCT systems, publicly endorsing “Gapple’s” decentralized Exposure Notification system. By May 2020, only about ten percent of the total US population had voluntarily opted into DCT technologies. Later, in September 2020, Apple released a system update that automatically installed DCT into users’ phones, allowing them to opt in or out.

The mass governmental adoption of DCT systems prompted concern amongst privacy experts and consumers. Not only was DCT largely ineffective, it

also reinforced citizens’ existing lack of trust toward government, big tech companies, and public health organizations. The lack of transparency in DCT app implementation and deployment reinforced the view that consumer data is seen as a commodity in the US, and that privacy concerns are at best secondary considerations when digital technologies are used.

DCT App Implementation and Digital Health Privacy

The implementation of COVID-19 DCT apps provides a useful case study of today’s digital health tracking-centered landscape. One of the realities consumers are concerned with when they engage with the digital world is the question of privacy. While there are other factors that impact technology use, privacy concerns are the most dominant of these factors and consistently impact consumers’ willingness to use digital products, as was the case with contact tracing apps. A June 2020 survey found that 71 percent of respondents said they wouldn’t use contact tracing apps, citing privacy as the primary reason.

To overcome those concerns, consumers would have to view the risk to privacy as lower than the risk of failing to download an app they perceived to be released by the government. That’s a difficult standard in any time, but doubly so when that government is implementing lockdown and isolation measures.

Citizens have to engage in a Privacy Calculus, deciding between the tradeoffs of providing access to their personal data and losing out on benefits from using the technology. In this instance, that calculus led to uptake rates that varied heavily across states. Arizona and North Dakota saw uptake rates of 1.2 percent and 1.4 percent, respectively, while

Connecticut and Hawaii saw uptake rates of 37.8 percent and 45.7 percent.

To convince citizens to download the DCT apps, the government would have to take the right steps to maximize trust. This would include complete transparency regarding how apps would be implemented, consistency, interoperability of apps, and data minimization, little of which occurred.

This more centralized attempt to develop a single DCT by “Gapple” not only led to resistance by individuals, but also gave birth to a set of alternatives that all attempted to enter the market place. A overwhelming number of DCT apps were circulating in different institutions, such as private and public universities, and these were often developed to mandate or encourage DCT among a constituent population. For example, California implemented its own state app, CA Notify, whilst the UC public institutions created a UC App Consortium. Columbia University also piloted its own campus-based app in partnership with Tech:NYS despite the state of New York’s releasing its NYS ENX app. The University of Pennsylvania introduced its PennOpenPass COVID-19 symptom tracker, while the state of Pennsylvania implemented its COVID Alert PA app (which has since been deleted as of July 27, 2022). These are only a few examples of attempts to create hyper-localized DCT Apps.

The privacy concerns of these apps mirrored, or in some cases exceeded, those of the “Gapple” app. UCSF reportedly donated location data and health history through the Eureka app. DCT apps like MassNotify were simply downloaded into individuals’ phones and turned on without prior notice. This new innovation, called Exposure Notification Express (ENX), reportedly “made it much faster for states to spin up apps, and... invited millions of iPhone users to avoid downloading anything at all” by simply giving them the option to activate notifications by flipping a switch in their phone settings.

States that effectively implemented ENX saw a huge boost in participation rates, notwithstanding whether this was voluntary. Hawaii, for example, saw its users more than double following ENX execution.

DCT apps and their deployment reinforced Americans’ lack of trust towards the government. In a 2021 survey by the Harvard T.H. Chan School of Public Health, only 52 percent of Americans expressed high levels of trust in the CDC. Similarly, a Washington Post and University of Maryland survey conducted after the DCT app announcement showed that 56 percent of Americans didn’t trust big tech companies on data privacy. The lack of trust and reluctance to provide information are evident in the results of both manual and digital contact tracing. In 2020, over 50 percent of Americans who tested positive in some parts of the US gave no details for close contacts when asked.

Gaining Trust is Easier Said Than Done

An October 2019 report by the Johns Hopkins Center for Global Health Security and the Nuclear Threat Initiative concluded that the US was the country best prepared to handle a pandemic. In reality, 23 percent of the world’s recorded COVID cases have occurred among Americans, despite the US accounting for just over 4 percent of the world’s population.

The US’ faulty response and poorly implemented technological “solutions” to COVID-19 is not a surprise. The competing incentives faced by elected and public officials leave open many opportunities for misinterpreting how citizens view their digital privacy, as a result failing in their overall policy goals. Policy makers like the NIH and CDC, and a host of elected and appointed officials, viewed tracking COVID-19 spread as the primary policy goal, and focused on that goal to the exclusion of virtually everything else, forgetting the privacy concerns of citizens. As a result, responses to those concerns were stilted, haphazard, and condescending.

Consumer trust isn't gained by simply saying, as Apple did, that "what happens on your iPhone, stays on your iPhone." Instead, government officials and big tech alike should take seriously that with the rise of big data comes a corresponding concern about privacy and transparency. Both would do well to remember President Ronald Reagan's admonition about the nine most terrifying words in the English language. "I'm from the Government, and I'm here to help."

– November 14, 2022

Poverty's End?

JAMES R. HARRIGAN (Senior Editor)

ANTONY DAVIES (Contributor)

In 1964, President Johnson declared an “unconditional war on poverty in America.” Two decades later, Ronald Reagan declared that poverty had won. But had it?

Worldwide, the fraction of humans living in extreme poverty (defined by the U.N. as less than \$1.90 per day) declined from more than 80 percent in the early 1800s to less than 10 percent today. This, despite a six-fold increase in the world population. Since the 1990s, the absolute number of people living in extreme poverty has fallen 60 percent, while the population increased almost 40 percent.

So something good is clearly happening globally, but what? And what of the United States?

Since 1967, the United States has spent more than \$20 trillion (adjusted for inflation) fighting poverty, an amount more than five times the inflation-adjusted cost of World War II. What has the United States gained for such a sum? By the official numbers, a relatively constant 15 percent poverty rate, year after year, for more than half a century. Maybe Reagan was right. This is what losing a war on poverty would look like.

Of course, we can't know that the trillions were wasted, because we don't know how bad poverty would have been otherwise. What we do know is that the US could have completely eliminated poverty more than a half-century ago simply by cutting a check each year to each poor person for (in today's dollars) around \$10,000. That would have cost the same \$20-plus trillion.

And the government could have achieved this solution with zero additional bureaucratic infrastructure. All Americans report their incomes to the IRS annually, and each year, the IRS cuts checks to

millions of Americans for tax rebates. A couple of lines of code in the IRS's software would have been all that was needed to implement this plan.

Why didn't we do this? Because with \$20 trillion on the table, politicians, bureaucrats, and entrepreneurs come out of the woodwork to find ways to get some of that money for themselves. And so today we have over one-hundred separate federal programs aimed at fighting some aspect of poverty, each of which is supported by political, bureaucratic, and entrepreneurial constituencies who thrive on that federal money. Worse, these constituencies benefit from poverty because, when poverty persists, so too does the taxpayer money to fight poverty.

Plainly, massive government spending didn't work. But what did work is also plain to see.

Countries whose governments focus their efforts on crafting and enforcing clear and just laws, on ensuring impartial judiciaries, on maintaining sound currencies, and on protecting property rights and simplifying their regulatory regimes – that is, countries that are more economically free – tend to exhibit lower poverty rates. The average poverty rate among the less economically free countries is more than 50 percent. The average poverty rate among the more economically free is under 15 percent. And the pattern persists, even among the poorest countries. The average poverty rate among poor and economically free countries is 82 percent, versus 93 percent among the poor and economically unfree countries.

We fought a war on poverty in the United States, and the bureaucracy won. Yet, poverty in the United States is not extreme poverty, not by a long shot. And extreme poverty in the rest of the world is

vanishing, bit by bit, day by day. And for that, we have economic freedom to thank.

– November 22, 2022

Inflation Remains Stubbornly High

WILLIAM J. LUTHER

Director, Sound Money Project

Despite fears of overtightening and calls for the Federal Reserve to ease up, Chair Jerome Powell insists the Fed will stay the course to bring down inflation. “It’s premature to discuss pausing,” Powell told reporters following the November Federal Open Market Committee (FOMC) meeting. “It’s not something that we are thinking about. That’s really not a conversation to be had now. We have a ways to go.”

The personal consumption expenditures price index (PCEPI), which is the Fed’s preferred measure of inflation, continues to grow much faster than Fed officials would like. The price level grew at a continuously compounding annual rate of 6.1 percent from September 2021 to September 2022. It has grown at a continuously compounding annual rate of 4.2 percent since January 2020. Prices today are 6.5 percentage points higher than they would have been, had the Fed delivered on its 2-percent inflation target over the period.

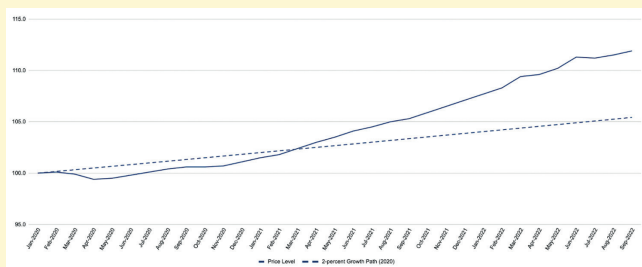


Figure 1. Personal Consumption Expenditures Price Index,
January 2020 – September 2022

Core inflation, which excludes volatile food and energy prices and is thought to be a better predictor of future inflation, has also remained high. Core PCEPI grew at a continuously compounding

annual rate of 5.0 percent from September 2021 to September 2022. It grew at an annualized rate of 5.5 percent over the prior month, 4.0 percent over the prior three months, and 4.8 percent over the prior six months. To the extent that core inflation is a good guide, it suggests that monetary policy has not been sufficiently restrictive to date.

The Fed has raised its federal funds rate target considerably over the last few months. In early March, the target range was 0.00 to 0.25 percent. Following the most recent FOMC meeting, the target range stands at 3.75 to 4.00 percent. How can one claim that six hikes totaling 375-basis points over the last nine months have not been sufficiently restrictive?

Remember the Fisher equation: $i = r + E(\pi)$, where i is the nominal interest rate, r is the real (inflation-adjusted) interest rate, and $E(\pi)$ is expected inflation. Unless the Fed’s nominal interest rate target exceeds expected inflation, the implied real interest rate target is negative. Suppose market participants set inflation expectations over the next month equal to core inflation from the prior month—i.e., at 5.5 percent. That would imply the Fed’s 3.75 to 4.00 percent nominal interest rate target is a -1.75 to -1.5 percent real interest rate target.

The neutral real interest rate is thought to be around 0.25 percent, suggesting the Fed may need to raise its nominal interest rate target another 175 to 200 basis points just to get to neutral.

Powell said as much at the recent press conference. He identified three questions:

1. How quickly should the Fed raise its interest rate target?

2. How high should its interest rate target ultimately be raised in order to be sufficiently restrictive?
3. How long should the Fed hold its interest rate target at this sufficiently restrictive level?

Powell credited the Fed with moving at “a historically fast pace” since March, which is “certainly appropriate given the persistence and strength of inflation and the low level [of interest rates] from which we [the Fed] started.” Now, Powell said, the Fed must grapple with the second question.

“We think there is some ground to cover,” Powell told reporters. “Incoming data between the meetings—both the strong labor market report and particularly the CPI [consumer price index] report—do suggest to me that we may ultimately move to higher [interest rate target] levels than we thought at the time of the September meeting.”

– November 11, 2022

How Media Bias Caused the Moral Panic Surrounding Climate Change

PETER J. WALLISON

Contributor

Reprinted from Law & Liberty

President Biden has put combating climate change at the very top of his national and international agenda, saying that military officials had told him that climate change was the “greatest threat to America,” and both he and Senator Bernie Sanders have recently called climate change “an existential threat.”

Dire statements like this on climate change have become so commonplace that the media now routinely attributes unusual weather events—heat waves, fires, floods, tornados, or hurricanes—to humanity’s insufficiently restrained release of CO₂. *The New York Times*, in particular, has continued to stoke alarm. In a recent article describing President Biden’s problems with his infrastructure bill, a *Times* reporter wrote “The impact of climate change is already being felt around the world in the form of drought, wildfires, floods, economic disruption and environmentalists say action cannot be postponed.”

However, the amazing fact is that when actual scientific sources are consulted about climate change, the story about an “existential threat”—let alone a military threat—completely falls apart. Yes, climate change is occurring, but the science says there is no evidence that it poses current dangers to mankind today or in the foreseeable future.

Indeed, the discrepancy between the claims about climate change and the actual facts is so shocking that it suggests the “climate crisis” is largely a media creation, built on sensationalistic headlines and useful solely to advancing the political agenda of the left.

Recently, two books by climate experts have pointed out that climate science does not support either the president’s urgency or the media’s

catastrophism. Michael Shellenberger’s book, *Apocalypse Never: Why Environmental Alarmism Hurts Us All*, and Steven Koonin’s *Unsettled: What Climate Science Tells Us, What it Doesn’t, and Why it Matters*, both cast doubt on what the media and the politicians-with-agendas have been telling us for years.

Shellenberger, a long-time and well-known environmentalist, has written a bit of a confessional, in which he admits he was wrong about his apocalyptic visions in the past. Today, he sees many ways that climate change can be sensibly managed: “*Apocalypse Never* explores how and why so many of us came to see important but manageable environmental problems as the end of the world, and why the people who are most apocalyptic about environmental problems tend to oppose the most obvious solutions to solving them.” His emphasis, as his book’s title suggests, is on calming the unreasoning fears provoked by the alarmism of media figures such as Al Gore, Bill McKibben, Greta Thunberg, and AOC. “The news media,” he says, “also deserves blame for having misrepresented climate change and other environmental problems as apocalyptic, and for having failed to put them in their global, historical, and economic context.”

The book is particularly strong in showing that renewables like wind and solar are a false god, popular with elites but infeasible by nature for meeting the needs of a modern industrial society. The problem, he points out, is the low energy density of renewables. “Power-dense factories and cities require energy-dense fuels because they are easier to transport and store.” He writes: “Despite the hype, the shares of global primary energy from solar and wind in 2018 was just 3 percent... One of the

largest lithium battery storage centers in the world is in Escondido, California. But it can only store enough power for twenty-four thousand American homes for four hours. There are about 134 million households in the United States.”

Koonin, a physicist who was Undersecretary for Science in the Obama Energy Department, is an experienced climate scientist who has participated in many international climate studies. More numbers-oriented than Shellenberger, he cites data to show that there is little evidence for the view that floods, fires, droughts, or hurricanes have been increasing since 1900. “The bottom line,” he writes, “is that the science says most extreme weather events show no long-term trends that can be attributed to human influence on the climate.” That statement alone deserves extensive coverage in a media that should be informing the American people rather than using unusual weather events as further support for alleged dangers of climate change theory.

On rising temperatures, regularly the focus of alarmist reports in media coverage, Koonin writes: “The annual number of high temperature records set shows no significant trend over the past century nor over the past forty years, but the annual number of record cold nights has declined since 1895, somewhat more rapidly in the past thirty years.”

In other words, summers are not getting hotter, but winters are getting somewhat milder, something no one should view with alarm, whatever the cause.

Finally, are the seas rising? Should we be prepared for coastal flooding that will inundate New York and other coastal cities? Koonin says no, and shows data that since 1900 sea levels have both risen and fallen during 18 year periods, and by some studies were higher between 1920 and 1960 than they are today.

So which is it? Steven Koonin and Michael Shellenberger, experts with deep experience in the data associated with climate, or statements in a

newspaper like the New York Times that are clearly designed to force a political conclusion.

In general, what comes from reading the Koonin and Shellenberger books is that there is simply no case as yet for alarm about the climate, or, for that matter, military preparedness. If anything, the frenzied and unnecessary effort to cut the use of fossil fuels is more likely to cause a Malthusian conflict over substitute resources such as rare earths than conflicts about oil. CO₂ is rising, but its warming effect is mitigated in part (and maybe fully) by cooling effects of such things as aerosols (fine particles in the atmosphere that reflect sunlight back into space). Koonin notes that because of uncertainty about these and other complications, none of the climate models is accurate—all are based on many untested assumptions—and they are so far apart from one another that averaging them is even more misleading.

But the media has largely driven the issue through sensationalized reporting. Koonin’s data comes from the same reports by various blue ribbon national and international groups that the media regularly follow, but he shows that the media consistently takes the numbers out of context, or reports only those portions that can be spun into an alarming story. For example, after the publication of a study that concluded it could not “precisely quantify the contribution from anthropogenic factors” in hurricane intensity, the USA Today headline was “Global warming is making hurricanes stronger.” In part, these alarmist reports are caused by the inability of media reporters to understand the reservations that scientists have about the data they are reporting, but more often the desire to sell newspapers or leftist bias overwhelms careful and accurate reporting.

In the Covid-19 crisis, Americans were told by the media to “follow the science,” and, difficult as it was, Americans did their best to comply with the views of the scientists and public officials. But the

media hasn't shown the same respect for science in the field of climate change. This isn't a difference of degree; it is a difference in kind. Medical specialists with diverging positions were given media platforms for expressing their views during the pandemic, but scientists who question the dangers of climate change are called "deniers" and get little if any media coverage. When the president of the United States tells the American people that climate change is an "existential threat" but the media suppresses contrary views by competent scientists, the future of the country is at stake. Doubts about science are fair game, but science should be heard so the public can decide.

The political aims of the climate crisis movement—the effort to limit economic growth by reducing the use of fossil fuels and changing the face of agriculture—will have a far greater long-term effect than the recent pandemic on the lives of people in the United States and around the world. US and other world leaders, who embarked on policies that scientists with relevant views do not fully endorse, are recklessly plunging ahead. Hopefully, before the US and other governments take the fateful steps that President Biden is pushing, more members of the science community will summon the courage to say that the emperor has no clothes.

– November 28, 2022

The False Face of SBF, FTX, and ESG

PETER C. EARLE

Research Faculty

In June, the collapse of Terra Luna shook the foundations of the cryptocurrency sector. The contagion that followed drove a handful of other major firms, including Celsius, Voyager, and Three Arrows Capital out of business. But assumptions that the worst had come to pass, and that the wheat had separated from the chaff, were premature. The bankruptcy filing of FTX has even more fundamentally damaged perceptions of the asset class, and sent valuations tumbling to lows not seen in several years.

Comparisons with the collapse of Lehman Brothers and Enron Corporation were inevitable, but underestimate the proportional magnitude of the disaster. While Lehman was emblematic of the impact of subprime investments on the financial sector, and Enron of off-balance-sheet financing among newfangled energy companies, the FTX fiasco calls into question the entire crypto complex. In fact, the FTX situation more closely resembles the crisis at MF Global some years ago, which involved a proprietary trading division dipping into customer accounts to meet funding requirements. Alameda Research, allegedly a crypto-trading firm, appears to have not traded, but rather made venture capital investments, allegedly transferring and using FTX customer funds for various corporate purposes.

FTX (and Alameda) founder and CEO Sam Bankman-Fried (SBF) saw a rise describable only as meteoric. The firm, started in 2019, was recently valued at over \$30 billion. SBF was a 30-year-old billionaire, quickly compared with Bill Gates, Jeff Bezos, Warren Buffett, and JP Morgan. For a time, FTX was inescapable: The logo was affixed to the shirts of Major League Baseball umpire uniforms and plastered on the Miami Heat arena. Tom Brady,

Gisele Bunchen, Steph Curry, and other celebrities had advertising and marketing deals with the firm. And with the kind of irony that only financial markets provide, a Super Bowl commercial (cost: \$30 million) in January 2022 featured actor Larry David responding to the assertion that FTX is “safe and easy” with “I don’t think so.” Life does indeed imitate art, at times. The firm is now bankrupt, assets are lost and missing, and SBF seems, as of this writing, to be in hiding.

LUNA token vs. FTT token (2021 – present)



(Source: Bloomberg Finance, LP)

The FTX implosion, on top of other debacles and hacks this year, has led some to question whether there’s “anything about crypto that is as it seems.” Indeed, SBF’s humble, geek-chic image (unruly hair, unpretentious attire, driving an unremarkable vehicle) presents a picture of guilelessness. The emergence of a simple (if highly analytical) figure using cryptocurrency trading to selflessly tackle changing the world was no doubt irresistible to an increasingly left-leaning financial establishment. A fawning article at Sequoia Capital was quickly deleted as revelations regarding FTX emerged, but has been retrieved via web archive. Printed, it runs to over 30 adulating pages.

At odds with that narrative are a private jet, a sprawling penthouse in the Bahamas, and millions upon millions of dollars spent on purchasing influence in Washington, DC. Various sources have reported that SBF's political contributions have been to both sides of the aisle, which is certifiably correct: he gave just under \$36 million to progressive candidates and \$105,000 to conservatives.

Throughout 2022, SBF's lobbying efforts focused on politicians supporting the crypto regulatory framework of the Commodity Futures Trading Commission (CFTC). That makes sense, as SBF had drawn up and promoted a regulatory plan which, unsurprisingly, favored FTX's business model. But the heavy lobbying, which led to SBF being the second-largest donor in the 2022 midterms, may have had more pressing origins. As the Wall Street Journal reported on November 9th, FTX had been under investigation by both the Securities and Exchange Commission (the alternate regulator to the CFTC) and the United States Department of Justice, since the summer.

The rules he promulgated would've, by one account, given FTX and its subsidiaries "a monopoly." It would also have done serious damage to the massive array of decentralized finance (DeFi) and other such firms built over the last few years. What is unique in this instance is the immediate response by those which the proposal would've hamstrung. SBF's regulatory proposal was so shamelessly self-dealing that it precipitated the entire unraveling of his empire – financial, technological, and political. Tory Newmyer of the Washington Post chronicled the tipping point:

Many crypto die-hards viewed [SBF's] overtures to Washington as a betrayal of crypto's founding mission. That set the stage for his most formidable adversary—Changpeng Zhao [CZ], chief executive of Binance, a rival crypto exchange—to crush him with stunning and decisive swiftness. On Sunday [November

6th] Zhao announced that he was selling off his investment in FTX: \$580 million of a crypto token FTX has been using to prop up its debts. 'We are not against anyone,' Zhao wrote on Twitter. 'But we won't support people who lobby against other industry players behind their backs.'

CZ's liquidation triggered a wider, more frantic exodus, and in turn, the discovery that withdrawal requests could not be met. An explicit attempt by an industry leader to erect insurmountable barriers to competition by commandeering legal and regulatory resources is far from unprecedented. But it certainly speaks to a sophistication that belies the 'innocent visionary nerd' role so actively marketed (see also Elizabeth Holmes of Theranos, Adam Naumann of WeWork, and Vlad Tenev of Robinhood.).

A nearly identical version of this sleight of hand has been going on in the rapidly expanding influence of the purveyors of environmental, social, and governance (ESG) philosophies. There is, as well, a direct connection between SBF and ESG: the FTX Foundation. Acting as the major conduit of his "effective altruism" donations, the list of supported causes offers few surprises. It launched in February 2022 (roughly the same time as SBF's Beltway pavement-pounding began) and planned to support selected causes to the tune of \$100 million per year, up to \$1 billion over the next decade. Climate change, animal welfare, future pandemic prevention (and other causes) were SBF's primary focus.

Bloomberg Galaxy Crypto Index (2020 – present)



(Source: Bloomberg Finance, LP)

It is impossible to square “effective altruism” with the surreptitious use of customer funds to cover costs and losses associated with personal, high-risk trading and investing activities. One use of customer funds was, evidently, a personal \$7.3 million bet that Donald Trump would lose an election in 2024. For a businessman, long before saving the whales or shrinking carbon footprints, there is no “altruism” more fundamental than treating customer deposits with probity.

More hypocritical still are SBF’s direction of cryptocurrency activities at buying influence with government officials. It is an undertaking wholly antithetical to core, founding principles of Bitcoin itself. Despite recent attempts to reframe crypto development as a component of far left, techno-utopian projects, Wendy McElroy points out the unmistakably libertarian focus of Bitcoin creator Satoshi Nakamoto:

Satoshi’s forum posts are further evidence of his politics. The remarks are anti-banking and critical of government while acknowledging Bitcoin’s appeal to libertarians:

- Anti-banking. “Banks must be trusted to hold our money and transfer it electronically, but

they lend it out in waves of credit bubbles with hardly a fraction in reserve.”

- Anti-government: “Yes, [we will not find a solution to political problems in cryptography,] but we can win a major battle in the arms race and gain a new territory of freedom for several years. Governments are good at cutting off the heads of centrally controlled networks like Napster, but pure P2P networks like Gnutella and Tor seem to be holding their own.”

- Pro-libertarian. “[Bitcoin is] very attractive to the libertarian viewpoint if we can explain it properly. I’m better with code than with words though.”

Governments, unlike markets, are neither effective nor altruistic.

The vast majority of ESG funds and firms are similarly misdirective. Freewheeling use of terms like “sustainable” obscure a wide variety of investment activities, some decidedly at odds with common public notions of “green” investing. Between 2019 and June 2022, some 65 US funds were re-branded as “sustainable,” without any consensus as to the meaning of the term. In the case of the Blackrock Sustainable Advantage Large Cap Core Fund, fund holdings included both Halliburton and Exxon Mobil stock. Financial Adviser cites Bloomberg’s Silla Brush in describing how at least one of ESG’s most indefatigable corporate virtue signalers has lobbied for broader and more malleable definitions.

Blackrock executives ... urged the SEC to avoid ‘prescriptive definitions’ for terms like ESG ... [saying that it] describes a broad investment strategy, rather than a specific type of investment ... In an October letter

about Blackrock’s broad plans, lawyers for the funds told SEC staff that the ‘sustainable’ in its fund names didn’t suggest a focus on any particular type of investment, industry, country, geographic area, or tax status. The newly renamed fund also recast its mission, telling investors it would pick companies better positioned to capture ‘climate opportunities’ relative to those in a broad benchmark.

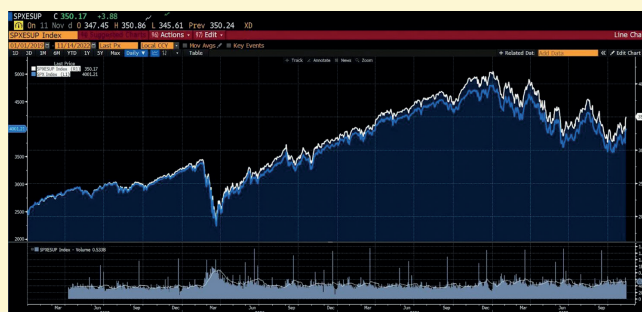
Its fourth-largest holding, in recent filings, is Chevron Corporation. Among other holdings are Exxon Mobil, Marathon Oil, Valero Energy, and Murphy Oil.

But if vacuous and opportunistic definitions of ESG and sustainability seem to diminish clarity, rest assured that the difference in fee structures between ESG/sustainable and non-ESG/”unsustainable” funds is crystalline. In mid-2021, Bloomberg reported that:

the \$4.3 billion Vanguard ESG US Stock ETF, which has had a 99.7 percent correlation to the S&P 500 since it was launched three years ago [charges a] 12-basis-point fee compared to 3bps for Vanguard’s \$222 billion S&P 500 ETF.

Investors are encouraged to consider how paying four times the normal management fee for a fund which is materially the same as the standard-weighted index combats climate change, delivers equity, or fosters inclusive governance. More recently, Harvard Business Review credited the compression of management fees (a consequence of rapidly increasing competition among asset managers) with the hasty embrace of greenness and sustainability, as ESG funds charge fees which are, on average, 40 percent higher than non-ESG funds.

S&P 500 vs. S&P 500 ESG indices (2019 – present)



(Source: Bloomberg Finance, LP)

While ESG offers countless other absurdities, this excerpt from a December 2020 Wall Street Journal editorial board piece points to a glaring issue with a corporate governance stipulation:

The more we think about the new racial, gender, and LGBTQ mandates for corporate directors that NASDAQ announced ... the more absurd they seem. How is a company supposed to find out if a board candidate is gay if that isn’t already known? Is it supposed to hire private detectives to look into it? Once that person joins the board, does the company have to broadcast his or her sexual orientation in the annual report so progressives can be satisfied that the quota is met? We could go on...

Not two months before SBF’s empire came crashing down, the aforementioned Sequoia Capital article described him as having a “savior complex,” “liv[ing] his life by a calculus of altruistic impact.” As is often the case, beneath a warm patina of virtue signaling and noblesse oblige are decidedly less-idealistic machinations: rent-seeking, influence-buying, and greenwash. FTX and its subsidiaries, guided by SBF, had as much to do with “building a flourishing future” as ESG does with “creating a livable planet.”

As a firm and ideal, respectively, both cultivated high expectations, yet generated waste and loss in their wake.

For both FTX customers and firms voluntarily suffering under the yoke of ESG compliance, it is probably too late. But more cardboard saints are sure to be anointed. Listen not to their words, nor be swept up by the promises they make, but rather watch what they do. Watch closely, with regularity, and always follow the money. For as HL Mencken wrote, the “urge to save humanity is almost always a false-face for the urge to rule it. Power is what all messiahs really seek: not the chance to serve.”

– November 15, 2022

When Lenin Read a Book on Marx

PHILLIP W. MAGNESS

Research and Education Director

I expected pushback against the thesis of my paper (co-authored with Michael Makovi) “The Mainstreaming of Marx: Measuring the Effect of the Russian Revolution on Karl Marx’s Influence” from Marxists and other followers of the socialist philosopher.

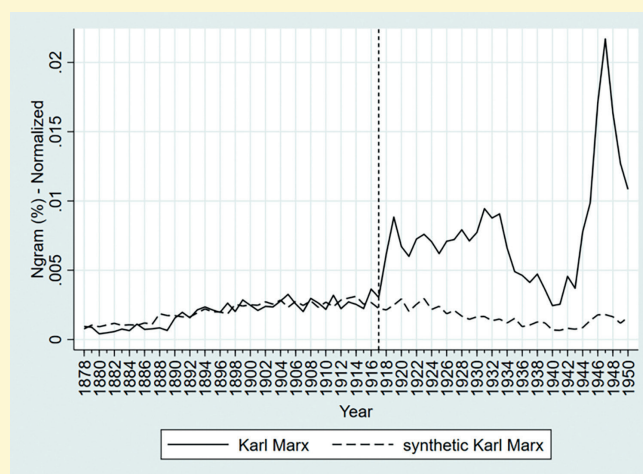
In the paper, we use Google Ngram and a separate newspaper database to track textual mentions of Karl Marx’s name over time. Our major finding is that the Soviet revolution of 1917 essentially revitalized Marx’s reputation by turning him into a household name.

By comparison to his post-1917 citations, Marx was a relatively obscure figure at the time of his death in 1883. In the decades that followed, Marx was primarily known among other radical socialist activists (usually as the leader of one of many contesting factions in the socialist world) or for when the mainstream of the economics profession rebutted his arguments about the Labor Theory of Value. For example, Philip Wicksteed, Alfred Marshall, and Eugen von Boehm-Bawerk penned marginalist critiques of Marx’s system in the late 19th century. Their dissections of his system struck a devastating blow, effectively rendering Marxian economics obsolete by the turn of the century.

After our article appeared online, several respondents invoked the history of the Sozialdemokratische Partei Deutschlands (SPD) as a counterargument, insisting that it proved Marx’s mainstream prominence before the Bolsheviks took up the cause. A large labor-centered political party in Germany, the SPD was under the leadership of Marxist theorists August Bebel, Eduard Bernstein, and Karl Kautsky (the latter something of a designated successor to Friedrich Engels) between 1891 and the outbreak

of World War I. If their argument holds, Kautsky et al. would have made Marx a household name before the Soviet revolution.

We implicitly looked at this theory in our original paper, finding little evidence of a boost in Marx’s citations in German-language Ngrams during the pre-1917 years. At the supposed peak of Marx’s influence in the SPD from 1891 to 1913, his German-language Ngrams show few signs of movement. By comparison, German references to Marx take off after 1917 just as they do in English Ngrams.



Ngram citations of Karl Marx in German-language texts
(German Ngram, 2019)

Nonetheless, a string of Twitter threads – often laced with obscenities and similar derision – accused us of neglecting the SPD’s role in the “intellectual history” of disseminating Marxism. We anticipate releasing a more detailed empirical analysis of this counterargument in the near future, but for the time being, let’s take a closer look at the argument that

Marx went mainstream in the SPD years, beating the Soviets by a decade or more.

A significant complication to the SPD counterclaim comes from Karl Kautsky himself. In his late-life memoirs, the SPD's in-house theorist of all-things-Marx penned a fascinating concession: "In the party I was made aware of Marx's *Capital*, the Bible of Socialism as it was known. Only a few had read it, and even fewer were those who understood it."

The implications of Kautsky's statement do not bode well for the SPD counterargument. If anything, it confirms why Marx's Ngram patterns in German-language texts were relatively flat before spiking sharply in 1917. Kautsky and his colleagues may have been writing explicitly Marxist works of high-minded socialist theory, printing and translating Marx's books, and developing a system of Marxist political philosophy among their intellectual circles. Still, the SPD's rank-and-file membership didn't read or take an interest in the same.

Evidence for our interpretation and against the SPD counterargument comes from an unlikely source: the late Marxist historian Eric Hobsbawm (1917-2012). In addition to his historical writings, Hobsbawm is well known for writing the scholarly introduction to one of the most widely used editions of Marx and Engels's *Communist Manifesto*. He gives a detailed historical background of how the *Manifesto* was published and disseminated over the decades after its composition in 1848. Hobsbawm also looks specifically at the SPD leadership's role in failing to spread Marx's theories to their rank-and-file membership. He writes:

This uneven geographical distribution did not only reflect the uneven development of the socialist movement, and of Marx's own influence, as distinct from other revolutionary ideologies such as anarchism. It should also remind us that there was no strong

correlation between the size and power of social-democratic and labour parties and the circulation of the *Manifesto*. Thus until 1905 the German Social-Democratic Party (SPD), with its hundreds of thousands of members and millions of voters, published new editions of the *Manifesto* in print runs of not more than 2,000–3,000 copies. The party's Erfurt Programme of 1891 was published in 120,000 copies, while it appears to have published not many more than 16,000 copies of the *Manifesto* in the eleven years 1895 to 1905, the year in which the circulation of its theoretical journal, *Die Neue Zeit*, was 6,400. The average member of a mass Marxist social-democratic party was not expected to pass examinations in theory.

Hobsbawm looks at the patterns in other countries, finding a "scattering of Marxist sects in the Anglo-Saxon world, operating on the left flank of such labour and socialist parties as existed." These groups were few, existing almost entirely on the periphery of the political spectrum. Hobsbawm thus concludes about even the readership of the comparatively accessible *Communist Manifesto* that they "were almost certainly not a representative sample of their membership" in the various associated labor parties and political organizations.

When did this pattern change, and when did Marx's most accessible work finally gain salience among a larger readership? Hobsbawm provides us with an answer:

This situation changed after the October Revolution – at all events, in the Communist Parties. Unlike the mass parties of the Second International (1889–1914), those of the Third (1919–43) expected all their members to understand – or at least to show some

knowledge of – Marxist theory. The dichotomy between effective political leaders, uninterested in writing books, and the ‘theorists’ like Karl Kautsky – known and respected as such, but not as practical political decision-makers – faded away. Following Lenin, all leaders were now supposed to be important theorists, since all political decisions were justified on grounds of Marxist analysis – or, more probably, by reference to the textual authority of ‘the classics’: Marx, Engels, Lenin and, in due course, Stalin. The publication and popular distribution of Marx’s and Engels’s texts therefore became far more central to the movement than they had been in the days of the Second International. They ranged from series of the shorter writings, probably pioneered by the German *Elementarbücher des Kommunismus* during the Weimar Republic, and suitably selected compendia of readings, such as the invaluable *Selected Correspondence of Marx and Engels*, to *Selected Works of Marx and Engels* in two – later three – volumes, and the preparation of their *Collected Works* [Gesamtausgabe]; all backed by the – for these purposes – unlimited resources of the Soviet Communist Party, and often printed in the Soviet Union in a variety of foreign languages.

Next, Hobsbawm directly anticipates another point we make in our paper. The Soviet Union’s mass publication and promotion of Marx’s works also filtered into other countries, as socialist and Marxist organizations copied the strategy provided by Lenin’s Bolsheviks. In short order, this promotional frenzy injected Marx into the mainstream of the university system as academics took up his works and began teaching from them. Hobsbawm continues:

The *Communist Manifesto* benefited from this new situation in three ways. Its circulation undoubtedly grew. The cheap edition published in 1932 by the official publishing houses of the American and British Communist Parties in ‘hundreds of thousands’ of copies has been described as ‘probably the largest mass edition ever issued in English’. Its title was no longer a historical survival, but now linked it directly to current politics. Since a major state now claimed to represent Marxist ideology, the *Manifesto*’s standing as a text in political science was reinforced, and it accordingly entered the teaching programme of universities, destined to expand rapidly after the Second World War, where the Marxism of intellectual readers was to find its most enthusiastic public in the 1960s and 1970s.

Few, if any, Marxists today would dispute Hobsbawm’s intellectual stature as one of the preeminent Marxist historians of the last century. Nor have they thus far challenged his analysis in the above-noted essay, which appears in multiple classroom editions of the *Communist Manifesto* – one of the most frequently assigned texts in university syllabi today. It is, therefore, no small irony that Hobsbawm’s qualitative investigation of Marx’s dissemination and spread now finds empirical validation in the unlikeliest of sources: our econometric analysis of the Soviet revolution’s effects on Marx’s citation patterns after 1917.

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Economic Liberalism's Uncertain Future

SAMUEL GREGG

Distinguished Fellow in Political Economy

Reprinted from Law & Liberty

In October 2022, two events underscored just how far economic liberalism's sway in politics across the world has declined since its period of relative influence between 1979 and 2008.

One was former Conservative Prime Minister Liz Truss's swift defenestration from No.10 Downing Street by her own party following her failed effort to introduce some mild supply-side reforms into an ailing British economy. The second was Xi Jinping's re-election for a third term as Chinese Communist Party General Secretary. Since 2012, a hallmark of Xi's rule has been a steady winding-back of the limited and selective liberalization of China's economy that commenced in 1978.

Many other indications of economic liberalism's fading impact are observable. Whether it is the Biden Administration's continuation of the Trump Administration's protectionist policies or left-populism's resurgence throughout Latin America, all signs show that we are light-years away from the Reagan-Thatcher era. Certainly, the enthusiastic free market rhetoric of those decades exceeded the more modest achievements. Yet interventionists of all stripes were unquestionably on defense through the 1980s and 1990s.

Never an Easy Road

In one sense, market liberalism's present weakness represents a return to normal. In his monograph, *The Changing Fortunes of Economic Liberalism: Yesterday, Today and Tomorrow* (1998), the British academic economist and senior Treasury official David Henderson (1927-2018) pointed out that

ever since basic market liberal principles acquired decisive intellectual form with Adam Smith's *The Wealth of Nations*, there had "been no consistent trend toward liberal economic policies."

Between the late-1840s and early-1880s, Henderson observed, economic liberalism developed somewhat of an ascendancy in Western elite opinion and a degree of mass support in countries like Britain. But even before 1914, that trend was receding. Welfare states began to be established in countries like Germany. Other European nations and their colonies started re-embracing protectionist arrangements. From then on, interventionist trends accelerated, spurred forward by two world wars, government reactions to the Depression, and the fundamental rethinking of economics associated with John Maynard Keynes.

At the time of his monograph's publication, Henderson noted the trend toward economic liberalization which had commenced in the mid-1970s. But, he added, market liberalism still confronted formidable obstacles.

First, despite positive shifts in what Henderson called "informed opinion"—civil servants, central bankers, politicians, etc.—toward market liberalism, profound opposition endured in much of the economic profession, large swathes of the left, some conservatives, and intellectuals in general. Recall, for example, the massive opposition from economists and many Tory MPs and even Cabinet ministers to Margaret Thatcher's monetarist approach to inflation in 1981.

Second, what Henderson called "Do-It-Yourself-Economics" (DIYE) in his 1985 BBC Reith Lectures continued to shape informed opinion. Time

and again, Henderson wrote, his work in national and international economic agencies resulted in encounters with politicians and officials who held mercantilist economic views without even knowing it. Among the same group, Henderson detected an “unreflective centralism” (a default presumption that government officials must direct much of the economy) and what he called “essentialism:” the tendency to think that countries should strive for self-sufficiency in an ever-growing number of economic sectors to maintain their security.

Third, Henderson stressed, economic liberalism in the 20th century’s closing decade had not shaken off a “chronic weakness.” “In most if not all countries,” he stated, “majority opinion remains hostile to the idea of what is termed ‘leaving it to the market,’ and ready still to accept and endorse a much wider role for government than economic liberals would wish to see.”

Real existing socialism may have lost credibility, but market liberalism’s limited success in shifting informed opinion was, according to Henderson, even more restricted at a mass level. Expectations that the state should intervene extensively in the economy remained persistent. For however many people claimed to dislike bureaucrats and regulators or railed against high taxes and entitlement programs, Henderson emphasized how easy it remained to mobilize mass opposition against market liberalization policies.

Back on Defense

In many respects, the situation facing market liberals today is dire. DIYE economics is rife on the left and has been spreading rapidly throughout the right since 2015. Unreflective centralism has metastasized in the form of renewed interest in industrial policy, despite its demonstrated track record of failure. Likewise, essentialism is back, with pressures mounting to “re-shore” as many American business operations as possible or to turn every trade question into a

national security imperative. Some conservatives have even called for autarky, apparently unaware of how damaging such policies were for countries that embraced them.

This is further complicated by the proliferation of claims by interventionists that are, to put it mildly, highly contestable. We have been informed, for example, that Adam Smith only applied his free trade principles to domestic investment. That’s simply untrue. Other conservatives tell us that the New Deal was a marvelous thing, despite the mountains of evidence assembled by economic historians indicating that it did not in fact get America out of the Great Depression. As no less than FDR’s Treasury Secretary, Henry Morgenthau, stated on May 6, 1939, “We are spending more than we have ever spent before and it does not work. . . . I say after eight years of this Administration we have just as much unemployment as when we started. . . . And an enormous debt to boot!”

Yet other conservatives (echoing arguments made by progressives almost 15 years ago) insist that we can learn many things from Chinese state-capitalism. This flies in the face of growing evidence (which Beijing is trying to hide) that the wheels are falling off that particular wagon.

But while such propositions are easily rebutted, they have acquired considerable traction for several reasons. They provide, for instance, support for what some people want to hear: that economic salvation via the state is possible, despite the many indications to the contrary. In other cases, they create rationales for those whose primary goal in life is the acquisition of power, either for its own sake, or because they believe that technocrats can overcome complicated social challenges through top-down economic tinkering. Once such mythologies permeate public discourse, ousting them is very difficult.

Then there are the image problems confronting market liberals. Many people associate free trade and economic globalization with the likes of Klaus

Schwab, the World Economic Forum, and the ubiquitous Davos Man who dismisses patriotism as mere tribalism. The fact that such outfits' embrace of stakeholder capitalism, DEI, and ESG reflects a distrust of markets and commitment to more-or-less corporatist economic arrangements is, alas, irrelevant. The fact that economic liberalism seems intrinsically linked in many people's minds with these individuals and organizations is political poison for market liberals.

To these difficulties, we must add a disconcerting fact. Western democracies are increasingly trapped in something akin to the soft despotism that Alexis de Tocqueville warned against in *Democracy in America*. There are many interest groups, rent seekers, and members of the general population who will resist even the slightest deregulation or retraction of government spending because they recognize that it will introduce unwelcome change into their lives. Plenty of politicians promise these lobbies and sections of the population “no change”—or even more privileges or entitlements—provided, of course, they reciprocate with financial contributions and reliable votes.

Exacerbating this problem has been many governments' propensity to rely on easy money policies and heavy deficit spending to paper over the subsequent and growing fiscal gaps. The rotten fruits of this are now manifesting themselves everywhere in the Western world. This will make implementing pro-market reforms politically difficult (as Truss discovered) and more painful than they might otherwise have been.

What's a Market Liberal to Do?

By now, readers may be asking, “If this is true, how should market liberals respond?”

Any answer to such questions should involve the recognition that there are no turnkey or silver-bullet solutions that will magically reverse present trends.

No doubt, that is disconcerting to those who worry about their grandchildren growing up in a world in which economic freedom and constitutionally limited government are being voided of significance. Nonetheless, this tough truth must be said, if only for the sake of realism and expectations-management.

Second, many things already being done—engaging policy debates, popularizing free market ideas, growing economic liberalism's social media presence, etc.—should be continued and magnified. But if there is one thing that must change, it is this: more priority needs to be given to deeper formation in market-liberal ideas. Indeed, this should precede any embarkment upon activism in market-liberal causes.

Aristotle was onto something when he cautioned about entering public life and conversations without adequate grounding in sound ideas as well as more experience of the world. Yes, that can be frustrating for young people anxious to make a difference sooner rather than later. And the sheer urgency of the challenges surely doesn't allow for the decades of preparation that Aristotle considered necessary. That said, the “bench” of market liberalism needs to be wider and deeper than it presently is. If market liberals limit themselves to economic defenses of markets, they will struggle to refute philosophical, sociological, and historical critiques of market processes and institutions, and thus find themselves, by definition, on perpetual defense.

In short, formation in the case for economic liberalism should include but go beyond economics. Market liberalism has always been defined by rigorous economics. If anything, the public square requires more of that today, given DIYE's sheer pervasiveness throughout society. Going forward, however, market liberals will need greater knowledge of other fields. This especially concerns history (and not simply economic history) and political economy: the judicious integration of the empirical and technical knowledge yielded by

economics with normative concerns for moral and philosophical truth.

Many of the most potent attacks on market liberalism today are being made on historical, philosophical, and ethical grounds. Whether it is an attempt to put a shiny gloss on the New Deal, “creatively reinterpret” the *Wealth of Nations* along protectionist lines, conjure up visions of shadowy global neo-liberal conspiracies, rehabilitate mercantilist follies, or caricature market liberals as utilitarian robots, all these endeavors take the case against market liberalism far beyond economics. Ergo, market liberals need to counter their opponents on these terrains.

In doing so, market liberals would be following the example of some of the greatest economic liberals. Appeals to economic efficiency and effectiveness were central to Smith’s case for markets. Yet his *Wealth of Nations* also reflected the wider civilizational agenda associated with the Scottish Enlightenment: one that sought to end legal privileges for the politically well-connected and create opportunities for millions stuck in crushing poverty, while simultaneously promoting freedom as well as commercial, classical, and religious virtues in the commercially orientated societies then emerging in the Anglo-American world.

Contemporary market liberalism has many individuals engaged in the important work of policy development and advocacy. Yet it desperately needs more people like the historian Amity Shlaes or the philosopher James R. Otteson. Such individuals combine their academic specialties with deep appreciation of market economics. But the market liberal cause also needs more of an even rarer commodity: economists with the breadth and depth of knowledge that gives them the capacity to mix it up with historians and philosophers peddling left-populist or economic nationalist narratives—and to do so on their opponents’ intellectual turf. Such individuals

additionally require the capacity to address often very different audiences: experts and non-experts; the secular and the religious; the business leader tempted by the ESG agenda and pushed by woke management consultants to turn her company into something akin to an NGO; or the homemaker who’s considering voting for the latest politician promising economic nirvana through state intervention.

These are big asks in a world in which hyper-specialization is the scholarly norm, and where all of us are more at ease talking to some groups rather than others. But such intellectual depth and versatility will serve market liberalism well. For whenever a Black Swan-like event creates opportunities to shift opinion in market-friendly directions, or when that rare politician appears who combines an appreciation of market ideas with the political skills to advance commensurate policies, we need market-orientated scholars able to repulse the attacks of dirigistes in ways that go beyond the language of supply and demand. Put simply, market liberalism needs many more people capable of doing what the economist Wilhelm Röpke did to promote and defend the German economy’s liberalization in 1948, or what Milton Friedman and Michael Novak did to support Ronald Reagan’s economic agenda in America in the 1980s.

Granted, such individuals and combinations of knowledge and skills are rare. They also take time to develop. Nor will they suffice to reverse the wave against economic liberalism currently sweeping the world. The Truss fiasco illustrated how much market liberals need to lift their game at every level if they are to combat the ongoing slide toward state capitalism. However, without more of the serious formation that I have in mind, and more of the individuals who embody it, I fear that the long-term prospects for market liberalism are grim indeed.

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