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A Letter from the Managing Editor

Peter C. Earle

Happy New Year! On behalf of everyone here at the American Institute for Economic Research, I hope that you and your families had a joyful holiday season, and have a healthy, inspiring, and productive 2023!

As you are likely aware, AIER will commemorate the 90th anniversary of its founding this year. Between celebrating that, conducting a large number of undergraduate and graduate seminars, and hosting the annual Mont Pelerin Society meeting at Bretton Woods, New Hampshire in the fall, it is a year that promises to be one of the most successful, high-profile years in our storied institution's history.

On to the business at hand. President Ronald Reagan once said that *the closest thing to eternal life on earth is a government program*. While that assessment is accurate, I would add that bad ideas—and in particular, bad economic ideas—are a close second in longevity. Where knowledge tends to be cumulative in most intellectual fields, the accumulation of knowledge in economics and finance seems to follow a more cyclical pattern. Cosmologists managing the Hubble Space Telescope project do not suddenly propose a reconsideration of the theory of the luminiferous aether. Nor do psychologists, when facing challenging diagnoses, revert back to the practice of phrenology. Yet in economics, virtually every long-disproven theory and baseless trope going back several hundred years periodically resurfaces. In this issue of the *Harwood Economic Review*, a number of these incessantly returning blunders are discussed: price controls, protectionism, Malthusianism, and others.

Smith, Torrens, and Ricardo established versions of the principle of comparative advantage between 1776 and 1817, yet tariffs and other barriers to trade remain venerable policy choices. Among many others, Von Mises and Friedman spent decades assailing government interference in markets. But during every economic slowdown or financial crisis, a catalog of superficial palliatives is trotted out. If you have not read Paul Sabin's fantastic book *The Bet* (Yale University Press, 2014), giving the history of the Ehrlich-Simon debates and wager, I recommend it. Despite Simon's cogent arguments and astute forecasts, though, the occasion of the world's population crossing the 8-billion-person mark has given rise to both new and perennial doom-and-gloomers.

So why, in economics, are ideas akin to spontaneous generation or phlogiston theory periodically reinvigorated and embraced? Are the social sciences more manipulable than physical sciences? Is it because economics, like everything else, has become increasingly politicized? A lack of education? All of these reasons have explanatory value, and these and others are examined in this edition of the *Harwood Economic Review*.

Thank you for reading, and thank you for supporting our extraordinary institute.

Peter C. Earle
Managing Editor, *Harwood Economic Review*

There Is No Such Thing As Student Debt Cancellation

Nicolás Cachanosky

President Biden finally announced his promised student debt relief program. The government will forgive up to $20,000 of student debt for Pell Grant recipients, and up to $10,000 for others with an annual income below $125,000 ($250,000 if married). On top of this, he is extending the grace period on student loan repayment until the end of the year. The plan is estimated to cost $24 billion per year for a decade, for a total of $240 billion.

The victory lap surrounding the announcement suggests the government does not fully understand its own policy. Consider two representative politicians, Kamala Harris and Elizabeth Warren, who describe Biden's policy as debt *cancellation*. Recent columns in Forbes and CNET show similar statements. The word *cancel* is very telling; it gives the impression that student debt disappears. The cancellation narrative is reinforced by advocates talking about the benefits of the debt relief, while remaining silent about its costs. There is no such thing as debt *cancellation*. The loan will be repaid. The only question is who will foot the bill. Recognizing that the Biden administration's policy merely shifts the burden from some Americans to other Americans, the economic and ethical questions involved are more salient than many realize.

The student debt forgiveness policy means the government will forgo roughly $240 billion in payments over the next decade. How will it deal with this revenue shortfall? There are a few possibilities.

The government may
Cut spending
Raise taxes
Issue debt
Create money

The options are not mutually exclusive. The government might employ some combination of the four. But, no matter how you slice it, that $240 billion dollars will come from somewhere. Basic accounting requires it.

Further, the idea that the government is footing the bill for this policy is a bit misleading. The cost of the program does not fall on the government. It falls on those who miss out on expenditures that would have otherwise occurred, those who pay higher taxes as a result of the program, those who pay higher interest rates or are crowded out due to additional government borrowing, or those who see the purchasing power of their dollars reduced more than usual.

Remember, the government cannot give without taking.

Biden's student debt forgiveness policy raises important ethical questions. For example, individuals making up to $125,000 a year qualify. But median income in the United States is only around $45,000. Why should low income Americans pay for loans taken out by those who earn much more?

There are other equity issues, as well. Some students and graduates sacrificed consumption to pay down their loans more quickly and, as a result, will not see as much of their debt forgiven. Those who made the minimum payments or no payments at all will benefit. Those who have repaid their loans in full receive nothing. Why are those who have repaid their loans less deserving of financial assistance than those who haven't?

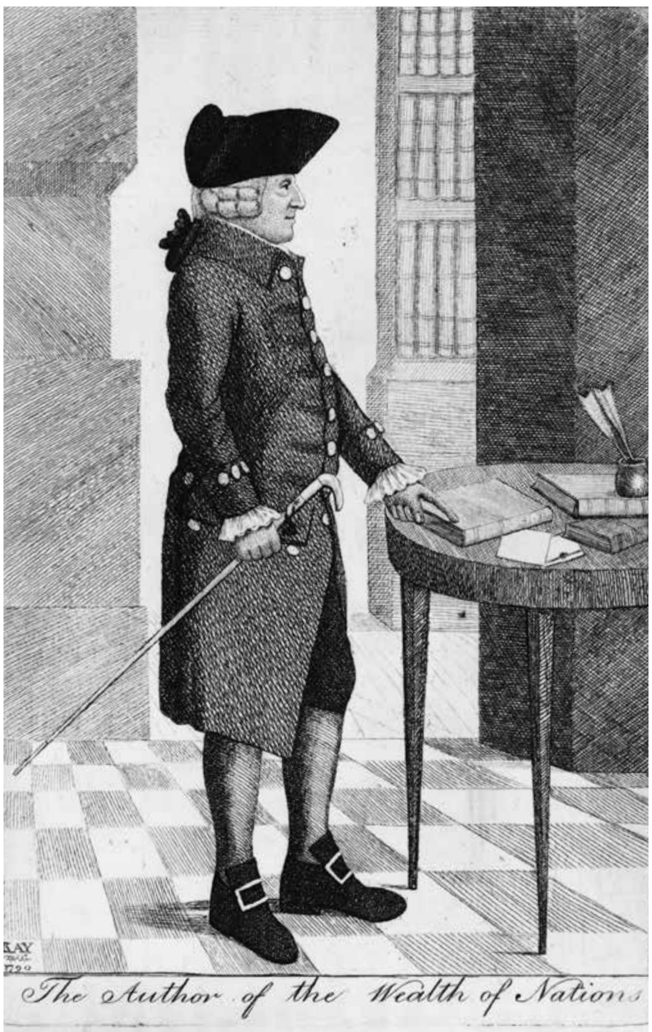
Further, the possibility that such a policy will be enacted again seems likely to create further problems. Lawrence White predicts individuals will be more inclined to take out larger loans, at higher rates, because there is now a greater chance that Uncle Sam will force someone else to pay for it at some point in the future.

There is no denying that some Americans are struggling, and some of those struggling have student debt. If the Biden administration is genuinely concerned about those struggling, it could provide greater assistance to those with low incomes. If it is genuinely concerned with those struggling to repay their student loans, it could have phased out the debt forgiveness over a much lower income threshold. That it took neither of these paths suggests it is primarily concerned with winning votes from educated elites in the next election at the expense of everyone else.

Mercantilist Follies, Then and Now

Samuel Gregg

At the 2022 American Economic Forum organized by the Intercollegiate Studies Institute, I had occasion to listen to an after-dinner speech about trade—more precisely, an economic nationalist view of trade—by former US Trade Representative, Robert Lighthizer. Chatting afterwards with students attending the Forum, one of them asked me what I thought of Ambassador Lighthizer's remarks. My response was: *It was mercantilism, updated for the twenty-first century.* ***What's mercantilism?*** she inquired.



Adam Smith, author of *The Wealth of Nations*
John Kay, 1790.

What, indeed, is mercantilism? It's not a word used commonly today, but mercantilism is shorthand for a set of economic, political, and legal ideas and practices that dominated the European world between 1500 and 1800. *The Mercantile System*, as Adam Smith called it, was also the target of Book IV of his *Wealth of Nations*. It was, as Smith himself later wrote to a Danish correspondent, *a very violent attack . . . upon the whole commercial system of Great Britain.* Smith's broadside, however, drew back the curtain to show what mercantilism really entailed. The picture that emerged was not a pretty one, but it illustrates why free trade abroad and free markets at home are far preferable to the neo-mercantilist alternatives on offer today.

A Zero-Sum World

One difficulty with analyzing mercantilism is that its proponents rarely laid out a systematic case for it. In his *History of Economic Analysis*, the economist Joseph Schumpeter noted that *mercantilist doctrines* emerged in a scattered fashion from the early-fifteenth century onwards. This often took the form of pamphlets defending specific economic endeavors or exploring issues like the balance of trade. The most systematic case for mercantilism (and a moderate version at that) was developed by the Scottish Jacobite, Sir James Steuart, in his *Inquiry into the Principles of Political Economy* (1767). Widely read throughout the late eighteenth century, including by Adam Smith, this text was in many American founders' libraries.

In other settings, mercantilist ideas were formally laid out in state papers authored by government ministers like Louis XIV's Controller-General of State Finances, Jean-Baptiste Colbert. This indicates the extent to which mercantilist ideas were driven by the desire to achieve political goals, rather than an empirical inquiry into how economies function.

What's clear from the extant literature is that mercantilism's economic vision did not emphasize economic growth. Rather, economies were considered largely static. Wealth was thus not believed to come through entrepreneurship, competition, and free exchange. For mercantilists, countries prospered by acquiring as much of the world's *existing* wealth as they could.

That basic conviction translated into several things. One was an effort by states to snap up as much territory and dominate as many trade routes as they could handle. Practically speaking, this meant European states like Britain encouraging or organizing colonial settlements around the world and barring British goods from being carried on non-British ships. These policies were backed up by a willingness to use force to protect territorial gains and enforce trade prohibitions.

Part of mercantilism's wealth-acquisition strategy involved governments giving charters to joint-stock companies, which conferred upon them a monopoly of a country's trade in particular parts of the world. This produced outfits like the Hudson Bay Company, the Dutch East India Company, and the French East India Company. The most famous of such enterprises, the British East India Company, was created in 1600. By the mid-eighteenth century, it was exercising powers akin to a sovereign state throughout modern-day India and Bangladesh. The East India Company's monopoly of British trade in these regions was gradually accorded subtle and, when necessary, unsubtle protection by British soldiers and the Royal Navy. Such were the close links that mercantilism forged between governments and many merchants.

A second byproduct of mercantilism's static view of wealth was a fixation with balance of trade questions: more specifically, ensuring that you exported more than you imported. Countries went to enormous lengths to try to secure a positive balance of trade. This makes sense if you believe that the sum-total of wealth in the world is finite.

Every time you imported a good from abroad, mercantilist arguments went, you exported wealth in the form of payments of gold and silver. To try to reduce imports, governments sought to create or bolster numerous domestic industries via subsidies and regulation, as well as tariffs on imports to discourage people from buying foreign-made products. In some cases, gold and silver exports were banned. Conversely, exports of goods were encouraged and often subsidized, because this meant that Frenchmen were paying, say, British merchants for British goods, thereby bringing more precious metals into Britain.

False Conceptions of Wealth

This brings us to a central mercantilist proposition: the more gold and silver that a country possessed and acquired, the wealthier it was. That was part of the economic logic that drove the Spanish conquistadors, with the eventual backing of the Spanish Crown, to conquer Central, South, and much of North America in an astonishingly short period of time.

It turned out, however, that acquiring vast sums of gold and silver did not make nations wealthy. After 1521, Spain experienced decades of enormous precious metal influxes from its American possessions. Yet by the mid-seventeenth century, Spain's economy was stagnating and visibly becoming poorer relative to other European nations. This owed something to Spain being constantly at war with major powers like France, Britain, the Netherlands, and the Ottoman Empire from the mid-1550s until the 1650s. But there is much research illustrating that Spain's economic decline was also partly driven by growing reliance upon gold and silver imports from the New World and the subsequent crowding-out of wealth-producing industries.

Herein lay yet another problem with mercantilism. The Spanish example shows that the essence of wealth is not, as mercantilists held, how much a country possesses by way of precious metals. Adam Smith demonstrated the falsity of that claim as early as his *Lectures on Jurisprudence*. Wealth is our capacity to satisfy our economic needs and wants. Among other things, this means being able to offer others something they want and being prepared to exchange it for something that you want. From this, it follows that the more barriers that obstruct people's ability to exchange and compete with others (which mercantilism did), the more wealth creation is inhibited.

Indeed, mercantilism discouraged individuals and countries from discovering and then specializing in what they do comparatively better than others. That mattered because the division of labor is key to facilitating the greater efficiencies and productivity that create new wealth. Instead, mercantilism encouraged governments to create and prop up inefficient domestic sectors, and incentivized merchants to curry favor with governments to extract privileges from them: something unconducive to efficient wealth-creation and positively corrosive to good government.

Law-breaking, Inefficiency, and Cronyism

By the mid-1700s, frustration with mercantilist practices was growing throughout the European world. The high customs duties imposed on imports had resulted in widespread smuggling throughout Europe. This bred disrespect for law, but also necessitated vast expenditures on a customs apparatus that tried, and largely failed, to curb smuggling.

That wasn't the only economic cost related to mercantilism. Mercantilist ideas contributed to the growth of vast European colonial empires. But, as Britain discovered after its comprehensive victory over France in the Seven Years' War, providing the military forces needed to protect and police its huge global possessions and the trade routes between them was a major drain on the public purse.

Attempts to make the American colonies pay for what British parliamentarians viewed as their fair share of the costs of maintaining British military establishments in North America helped sparked insurrection and, eventually, a revolution.

Then there were the political and economic dysfunctionalities associated with mercantilist enterprises like the East India Company. As Edmund Burke noted in his *Speech on Fox's India Bill* (1783), the Company's trade monopoly severely distorted the workings of the price mechanism in India and consequently introduced widespread inefficiencies into British trade throughout the region. Worse, Burke pointed out, the Company's monopolistic convergence of economic and political power had corrupted many British colonial officials, merchants, and their Indian counterparts. Young British gentlemen of middling prospects, he famously stated, went out to India and were quickly turned into *birds of prey.*

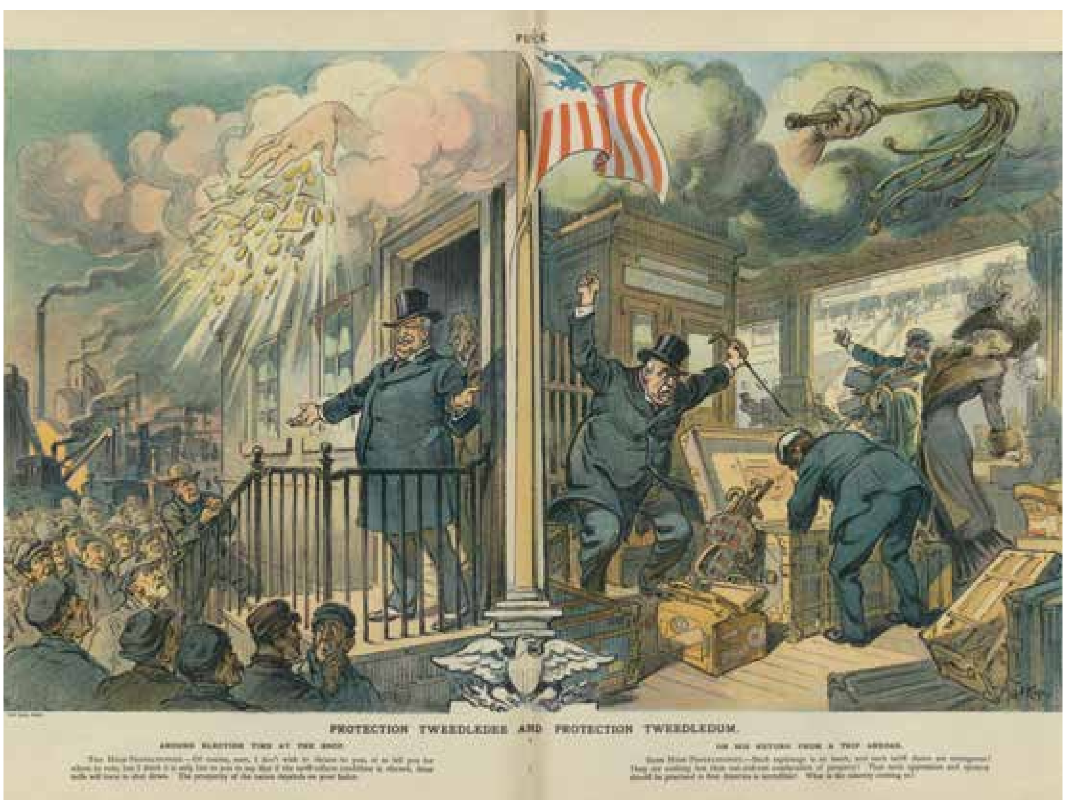
That corruption had a way of spreading. The East India Company spent vast sums maintaining a strong lobby in Britain's halls of power. It proved exceptionally proficient at nullifying attempts to diminish the Company's monopoly of British trade in the Far East. The fact that, by this point, the British government (and many members of Parliament) were major shareholders in the Company made the cronyism and corruption positively incestuous and all the harder to break.

Growing dissatisfaction with this state of affairs was not, however, enough to spark reform. Despite some trade-liberalization measures like the 1766 Free Port Acts, which Burke helped pass in Parliament, mercantilism's hold on European economies actually strengthened in the late-eighteenth century. Something else was required to start loosening its grip. That something else turned out to be a book.

Enter Adam Smith

To say that Adam Smith's *Wealth of Nations* intellectually demolished mercantilism is an understatement. For one thing, Smith showed how mercantilist efforts to protect domestic industries didn't increase a country's total output. No regulation, Smith stated, *can increase the quantity of industry in any country beyond what its capital can maintain*. Instead, they divert part of a country's capital *into a direction into which it might not otherwise have gone*. But, Smith added, *it was by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord*.

Smith's point was that tariffs don't bolster production. Output is driven by factors like efficiency, specialization, and the amount of capital invested in an enterprise. Tariffs can only encourage businesses to shift their investments elsewhere, and there is no possibility of knowing ahead of time if this will boost output.



Protection Tweedledee and Protection Tweedledum
Udo J. Keppler, 1872–1956

As for mercantilism's restricting of imports, Smith recognized that this misconceived the purpose of economic production. The goal of production, he stated, was not production itself. Production is a means to an end, and that end is consumption. We don't consume goods and services to promote production. Production is supposed to satisfy consumers' needs and wants. It followed, Smith stated, that *the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer*. The problem, Smith stressed, with mercantilism is that *the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.*

Furthermore, unlike millions of dispersed consumers, Smith stressed that producers could exert disproportionate influence over trade policy and thus promote their sectional interests at everyone else's expense. In a 1783 letter, Smith contended that *every extraordinary, either encouragement or discouragement that is given to the trade of any country more than to that of another may, I think, be demonstrated to be in every case a complete piece of dupery, by which the interest of the state and the nation is constantly sacrificed to that of some particular class of traders.*

Lastly, there was the balance of trade issue. Smith explained how the concept was *absurd*. *When two places trade with one another*, he wrote, *this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium.* Alas, Smith stated, *Both suppositions are false.* When two people freely exchange goods within or between countries, Smith saw, they both *win*, albeit to varying degrees, insofar as they both get what they want. Otherwise, neither would have assented to the exchange.

Consumers—Not Producers—Should Rule

With this background in mind, we can see how mercantilist notions shape some of our present economic debates. Balance of trade questions, for instance, still preoccupy many economists who are by no means protectionists. In the case of contemporary economic nationalists, they regularly portray trade between nations in mercantilist terms, as a win-lose equation. They focus heavily on trade imbalances, and regard trade deficits vis-à-vis other countries as a *loss*. Like the mercantilists of old, they also emphasize building up and protecting specific industries via tariffs, import quotas, and subsidies.

Above all, modern-day economic nationalists follow the mercantilist prioritization of production over consumption. This was one of Lighthizer's central recommendations in his American Economic Forum address. We need, he said, to shift the emphasis of American trade policy away from consumption and *move it towards workers, their families, our communities, production, and values*. As these words illustrate, the well-being of American consumers—all 330 million of them—does not rank high on economic nationalism's priority list. Lighthizer even described contemporary free traders' focus on consumers and consumption as *the essence of materialism*.

What economic nationalists downplay or ignore is that it is precisely through serving consumers in a competitive market that businesses produce wealth. In these conditions, companies must constantly innovate, find efficiencies, and reduce their margins to outpace their competitors. In the process of doing so, they create new wealth. That same wealth allows businesses to employ millions of people, thereby providing individuals and families with the salaries, wages, and benefits that enable them to pursue numerous *non-economic* goals. How, I ask, is this materialistic?

But this is not the only reason why *consumer sovereignty*, as the German ordoliberal economist Wilhelm Röpke called it, matters. If the well-being of producers becomes the focus of economic life, it opens the door to the cronyism and often outright corruption that characterized the mercantile system. Certainly, many businesses and their armies of lobbyists insist that they deserve government assistance because they claim to be essential to the well-being of a town, blue-collar men, etc. But as Adam Smith observed of the commercial and political purveyors of mercantilist doctrines of his time, *I have never known much good done by those who affected to trade for the public good*.

The clear analogies between mercantilist practices and present-day economic nationalist impulses remind us that there is little new under the economic sun. As John Maynard Keynes wrote in his *General Theory*, *Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back*. In the case of today's economist nationalists, their scribblers go back over 250 years. And the prescriptions of those scribes are as mistaken now as they were in their own time.

Reprinted from Law & Liberty

4,000 Years of Failed Price Controls

Jon Miltimore

In 1892 the French archaeologist Henri Pognon made a historic discovery a few dozen miles northeast of Baghdad: a massive tell that held the ruins of the ancient city-state Eshnunna.

Though it was not excavated until decades later by another archaeological team led by Dutch Egyptologist Henri Frankfort, the tell was one of the great finds of the century, revealing secrets of a Mesopotamian city that had been hidden for millennia.

Among the secrets discovered on cuneiform tablets was that Eshnunna used price controls, a discovery notable in that it appears to be the oldest historical record of humans fixing prices. (I've attempted to verify this fact with economic historians, and will let you know if I get a response.)

> *1 kor of barley [she'um] is (priced) at [ana] 1 shekel of silver;*
>
> *3 qa of "best oil" are (priced) at 1 shekel of silver;*
>
> *1 seah (and) 2 qa of sesame oil are (priced) at 1 shekel of silver. . . . The hire for a wagon together with its oxen and its driveris 1 massiktum (and) 4 seah of barley. If it is (paid in) silver, the hire is one third of a shekel. He shall drive it the whole day.*

Eshnunna's price controls edge out by a couple centuries the Code of Hammurabi (1755–1750 BC), a more famous record from ancient Babylon that was a *maze of price control regulations*, as the historian Thomas DiLorenzo put it.

This might explain why the First Babylonian Empire fizzled nearly a thousand years before the Greek poet Homer told the story of the Trojan War. Price controls *don't work*, and an abundance of history (as well as basic economics) proves it.

A Brief History of Price Controls

The Ancient Greeks may have given us Homer and his wonderful stories, but they suffered from the same economic ignorance as the rulers of Eshnunna when it came to price fixing.

In 388 B.C., grain prices in Athens were out of control—largely because Athenian rulers had an incredibly complex set of regulations on agriculture production and commerce, which included *an army of grain inspectors appointed for the purpose of setting the price of grain at a level the Athenian government thought to be just*. The penalty for evading these price controls was death, and many grain traders soon found themselves on trial facing such a punishment when it was discovered they were *hoarding* grain during a (man-made) shortage.

The Athenian Empire was history by the time Rome attempted its own price-control scheme seven hundred years later, on a much larger scale. In 301 A.D. the Emperor Diocletian passed his Edict on Maximum Prices, which set a fixed rate on everything from eggs and grain to beef and clothing and beyond, as well as the wages of laborers who produced these items. The penalty for anyone caught violating these edicts was—you guessed it—death. Traders responded exactly as one would expect to these regulations.

The people brought provisions no more to market, since they could not get a reasonable price for them, one historian wrote. Not coincidentally, Rome's empire soon went the same way as that of the Athenians (though the eastern half would survive another thousand years).

And then there's the British colony of Bengal, located in northeast India. Few people today remember the Bengal Famine of 1770, which is astonishing considering an estimated 10 million people died, roughly a third of its population. What's even more astonishing is how little attention the event attracted at the time, at least in the

London press. While many attributed the famine to the monsoons and drought that plagued the region in 1768 and 1769, Adam Smith, writing in *The Wealth of Nations*, correctly observed that it was the price controls that came afterwards that likely turned a scarcity of food into a full-blown famine.

> *The drought in Bengal, a few years ago, might probably have occasioned a very great dearth. Some improper regulations, some injudicious restraints, imposed by the servants of the East India Company upon the rice trade, contributed, perhaps, to turn that dearth into a famine.*
>
> *When the government, in order to remedy the inconveniencies of a dearth, orders all the dealers to sell their corn at what it supposes a reasonable price, it either hinders them from bringing it to market, which may sometimes produce a famine even in the beginning of the season; or, if they bring it thither, it enables the people, and thereby encourages them to consume it so fast as must necessarily produce a famine before the end of the season.*

And let us not forget the French Revolution, where in 1793 leaders paused their head-lopping to pass the Law of the General Maximum, a set of price controls passed to limit *price gouging*. (Henry Hazlitt had it right when he called the law *a desperate attempt to offset the consequences of [the leaders'] own reckless overissue of paper money*.)

The American historian Andrew Dickson White (1832–1918), a cofounder of Cornell University, explained the consequences of the policy.

The first result of the Maximum [price law] was that every means was taken to evade the fixed price imposed, and the farmers brought in as little produce as they possibly could, White wrote. *This increased the scarcity, and the people of the large cities were put on an allowance*.

Important Market Signals

Fortunately, today we have the advantage of not just history but the science of economics to show us that price controls don't work.

Basic economics teaches that prices are important market signals. High prices might be an aggravation for consumers, but they signal to producers the opportunity for profit, which leads to more production and investment. They also signal to consumers that the good is scarce, which encourages people to use less of it.

Take gasoline. When prices are $7.50 a gallon, people drive less than they would if the price were $1, $3, or $5 per gallon. Meanwhile, the high price also signals to producers an opportunity for profit, which encourages investment and production, which ultimately leads to lower gasoline prices. As economists will sometimes say, the solution to high prices is high prices.

Putting an artificially low price on gasoline sends the wrong signals to both consumers and producers. The low price discourages producers from bringing fuel to market, and it also encourages consumers to use more fuel because it's artificially inexpensive—which is a recipe for a gas shortage.

This is precisely what happened in the 1970s after President Nixon announced price controls on gasoline, resulting in a sustained national shortage and massive gas lines. (For what it's worth, Nixon knew his price controls would be a disaster, but passed them anyway because it would signal to voters he *meant business*.)

Price Controls Are Back

Today, nearly all economists agree that price controls are harmful—yet this has not stopped the specter of them from rising once again during our current global economic turmoil.

As *Axios* recently reported, price controls are back and are no longer a relic of the '70s. Facing an energy crisis, G-7 countries are seeking to form a buyers' cartel that would effectively put a price cap on Russian crude oil.

The scheme, like all price-control schemes, is likely to backfire. An abundance of evidence shows price fixing produces little beyond scarcity, black markets, and—in worst case scenarios—death and famine.

The people of ancient Eshnunna can be forgiven for not understanding why setting the price of a kor of barley at a shekel of silver was a harmful policy.

Today's policymakers, who have the benefit of history and economics, have no excuse.

Reprinted from the Foundation for Economic Education

Biden's Impoverishing Americans To Cut Emissions Won't Even Touch Climate Change

Jon Sanders

It was quite the spectacle. Pres. Joe Biden threw a White House lawn party September 13 to celebrate the *Inflation Reduction Act* (IRA). The timing deliberately coincided with the release of the new Consumer Price Index (CPI) numbers, the first since the ridiculously named Act passed four weeks prior. Those numbers showed that food prices had risen by 0.8 percent in the past month, as had medical services. They were tempered by a 10.6 percent decline in gasoline prices, but the overall 0.1 percent increase had overturned expectations of a monthly decline.

Over the past year, the CPI showed year-over-year inflation was at 8.3 percent, sustaining an intolerably high level not seen in four decades. Year-over-year core inflation was at 6.3 percent, also higher than expected.

This bill cut costs for families, helped reduce inflation at the kitchen table, because that's what they look at—how much are their monthly bills and how much do they have to pay out for their necessities, the President said.

CNN could no longer endure it, quickly cutting out as the network split screen showed the Dow down over 1,200 points while the president whooped it up. It ended up being the worst day for stocks in over two years, since June 2020.

To kick the party off, the President brought on folk singer James Taylor to serenade the crowd with his gentle dirge about a friend's suicide, his own heroin addiction, and his time in a mental institute. An ode to self-destruction seemed oddly appropriate for the moment, plus it was probably easier than getting Billy Joel to do a fast rewrite, *We Really Started a Fire*.

That morning the White House had apparently decided their word for the IRA would be *historic*. In the press briefing earlier that day White House press secretary Karine Jean-Pierre used the term several times to describe the bill. Biden used it in his remarks as well.

Rote repetition of *historic* was clearly meant to impress, but White House press gullibility notwithstanding, the word is not in and of itself a synonym of *beneficial*. The IRA is certainly not beneficial to the American people. Plus, anyone familiar with the Great Depression (and the work of J.K. Rowling) would note that other, deeply harmful legislation can properly be called *historic*. For example, the Smoot-Hawley Tariff, the National Industrial Recovery Act, and the Agricultural Adjustment Act were all *historic*. Terrible, yes, but *historic*.

The IRA promises to be terrible, too. With only a limited time to respond, hundreds of economists warned Congress that the act would perpetuate, not reduce, inflation. In particular, the economists warned, *its $433 billion in proposed government spending would create immediate inflation pressures by boosting demand, while the supply-side tax hikes would constrain supply by discouraging investment draining the private sector of much-need resources.* Economist David R. Henderson, research fellow with Stanford University's Hoover Institution and editor of the Concise Encyclopedia of Economics, explained in simple macroeconomic terms why the act would *necessarily* increase inflation. In his review of the act, University of Chicago economist Casey B. Mulligan found that over the next decade the IRA would likely reduce employment by 900,000, reduce GDP by 1.2 percent, reduce average household income by roughly $1,200, but *increase the rate of inflation* and the federal budget deficit.

So Biden's lawn party was his own inept *MISSION ACCOMPLISHED* moment, a deep breath before the plunge, the short-term interim between passage of the act and the full costs being felt.

Will the IRA's historic spending on climate change bring historic benefits?

Let us look at one of the big reasons we're told that the IRA is historic: its climate change promises. The monetary costs alone are enormous, which is strangely a point of boasting for the Biden administration. Vice President Kamala Harris recently told a gathering of Democrats that, *We made the largest investment to combat the climate crisis in history and deliver on environmental justice for people everywhere.*

With such an enormous expenditure in the midst of inflation the likes of which haven't been seen in half a century, what benefits can we expect? Shouldn't they be commensurately larger? To the extent that reduced carbon dioxide (CO_2) emissions reduce climate change, and to the extent that such reduction prevents a greater occurrence of natural disasters, what will Americans have been forced to buy at the cost of $369 billion?

A first great difficulty is that these benefits cannot accrue solely or even predominantly to those who bear the historic costs. Should cutting American emissions result in the actual predicted climate benefits, those benefits would be spread out equally across the globe. That's because CO_2 emissions are fungible. Emissions mix and spread out over the troposphere. One area's reduced emissions do not hover over that area like a storm-and-warming shield of virtue against other areas' emissions sins.

Expert estimates place the amount of CO_2 emissions cut—from where they were in 2005—would range from 31 percent to 44 percent. They estimate the current, pre-IRA trajectory at 24 percent to 35 percent. That overlap implies a nontrivial chance of spending over a third of a trillion dollars for practically nothing.

Those estimates reveal something else, however. *The US is and already has been cutting CO_2 emissions*. Why, then, are climate-change predictions more cataclysmic than ever? The United Nations' Intergovernmental Panel on Climate Change recently gave us only *eight years left to turn the ship* on CO_2 emissions, shaving two whole years off their usual *10 years* alarmism.

US emission-cutting is being fast erased by China's massive increases

Let us not entertain any possibility that the UN panel is engaged in heavier-handed fear-based appeals to cow

Americans into countenancing great upheavals in their lives for their own political power, cronyism, and quasi-religious virtue posturing. No, let us imagine that the UN panel is surveying the worldwide production of CO_2 emissions, which are fungible, and deciding the problem is getting worse.

Then let's ask if it's a problem that can be solved by the United States at great expense to her citizens alone. According to the BP Statistical Review of World Energy 2022, the United States since 2005 has reduced the volume of its CO_2 emissions by over a billion tons (1,015 million tons).

Maybe the US isn't keeping up with the rest of the world? No, it's certainly not that. The US has cut more CO_2 emissions than any other nation in the world by far. The nations comprising the European Union come closest, reducing their combinedCO_2 emissions by 978.3 million tons.

What about the rest of the world? As then–Secretary of State John Kerry admitted in 2014, *Even if every single American biked to work or carpooled to school or used only solar panels to power their homes—if we reduced our emissions to zero, if we planted, each of us in America, a dozen trees, if we somehow eliminated all of our domestic greenhouse gas emissions, guess what. That still wouldn't be enough to counteract the carbon pollution coming from China and the rest of the world.*

Kerry now carries the title of *US Special Presidential Envoy for Climate*.

Since 2005, per BP, China's volume of CO_2 emissions has increased by 5,177.8 million tons. India's CO_2 emissions increased by 1,478.5 million tons. Emissions across Africa (351.4 million tons), the Middle East (956.0), and South and Central America (148.3) have all increased. That 2005 emissions peak was in the US only, not the world.

Incidentally, since Special Climate Envoy John Kerry made those comments, the US has cut CO_2 emissions by over half a million tons (502.8). Importantly, nearly all of the emissions reductions in the US is market-oriented (from technological change, consumer preference, an expanding service sector, and especially the fracking revolution) and was not driven by government-mandated renewable energy (their effect is far too small). Meanwhile, China and the rest of the world increased CO_2 emissions by nearly two billion tons (1,932.2 million tons, of which 1,394.2 were from China).

Nor does China's rapid expansion of coal-fired electricity show any sign of slowing. The nation added 38.4 gigawatts (GW) of new coal-fired electricity in 2020, announced 43 new coal-fired plants and 18 new blast furnace projects just in the first half of 2021, and expects to increase coal-fired electricity this year by 300 million tons. India is expecting to increase coal-fired electricity this year by 400 million tons. As energy expert Robert Bryce explained in RealClear Energy on June 26,

> *According to the Energy Information Administration, burning a ton of coal releases about 2 tons of carbon dioxide. Thus, the 700 million tons per year of new coal consumption in China and India will result in an additional 1.4 billion tons of carbon dioxide emissions. According to BP, that's about the same volume of emission reductions that were achieved in the US between 2005 and 2020.*

Meanwhile, European nations are preparing a return to coal-fired electricity in the coming winter, amid concern about Russian natural gas supplies.

Americans can expect no climate benefits, only high costs from the IRA

So even if the IRA achieved its CO_2 emissions reductions to experts' utmost predictions, all that Americans could expect is continued worsening of climate due to emissions elsewhere. *We're not the problem, and impoverishing us is not the solution.* In fact, because of our greater relative entrepreneurial freedom and wealth, Americans have been cutting more emissions than any other nation. We just didn't do it the *right* way, through government mandates. For our reward, we've been sold into worse inflation, worse energy poverty, and a worsening environment for rolling blackouts.

For those who want to celebrate that with the Biden administration, I leave you the advice of Guy Lombardo:

Enjoy yourself.

IT'S LATER THAN YOU THINK.

After Promoting Lockdowns, UN Advocates Inflationary Policies

Peter C. Earle

Last week, the United Nations Conference on Trade and Development (UNCTAD) issued a report entitled *Development Prospects in a Fractured World*. In it, the authors caution that:

> *[s]upply-side shocks, waning consumer and investor confidence, and the war in Ukraine have provoked a global slowdown and triggered inflationary pressures. All regions will be affected, but alarm bells are ringing most for developed countries, many which are edging closer to debt default.*

It is certainly true that emerging-market nations are seeing their debt-service costs increase. The report cites some *60 percent of low income countries and 30 percent of emerging market economies in or near debt distress*. But the blame should not be put on spendthrift government practices. Rather:

> *[i]nterest rate hikes by advanced economies are hitting the most vulnerable hardest. Some 90 developing countries have seen their currencies weaken against the dollar this year—over a third of them by more than 10 percent.*

And for this reason, UNCTAD advocates that international financial institutions *provide increased liquidity and extend real debt relief for developing countries*. And additionally that governments *increase public spending*, *use strategic price controls to directly target energy, food and other vital areas*, and *channel more money into renewable energy research and development*.

Before tackling the smorgasbord of economic ignorance here, it is helpful to look back to almost exactly two years ago when *Lockdowns have Killed What's Left of the United Nations' Credibility* was published. As noted, early in the pandemic the United Nations Office of the Secretary General called upon member governments to *step up and do everything possible to contain the disease*, adding that *[w]e know that containment is possible, but the opportunity is narrowing*. Thus the false dichotomy almost universally applied in the developed world in March and April of 2020 (that a choice must be made between economic viability and public health) was invoked. But many of the nations to which the UN was communicating are underdeveloped, thus not having the considerable *laptop class* that could easily shift to work from home. In May 2020, in the face of growing food security concerns among impoverished nations, the United Nations Human Rights Commissioner nevertheless urged that lockdowns not be lifted for political or economic considerations.

If at any time in the last few decades there was a clear role for the United Nations to play in defending the most economically vulnerable nations on Earth, this was it. The multinational organization might have recommended that member states address the spread of COVID by pursuing a balance between economic vitality and disease mitigation, informed by local knowledge and conditions. It might have promoted the idea of shift work or building risk-stratified workforces in agriculturally dependent nations. Yet, it parroted the policy prescription employed by many wealthy, developed countries (and even then not without consequences). So it was that in July 2022, the World Health Organization reported that:

> *[a]s many as 828 million people were affected by hunger in 2021—46 million people more from a year earlier and 150 million more from 2019. After remaining relatively unchanged since 2015, the proportion of people affected by hunger jumped in 2020 and continued to rise in 2021, to 9.8 percent of the world population. This compares with 8 percent in 2019 and 9.3 percent in 2020. Around 2.3 billion people in the world (29.3 percent) were moderately or severely food insecure in 2021—350 million more compared to before the outbreak of the COVID-19 pandemic. Nearly 924 million people (11.7 percent of the global population) faced food insecurity at severe levels, an increase of 207 million in two years. . . Almost 3.1 billion people could not afford a healthy diet in 2020, up 112 million from 2019, reflecting the effects of inflation in consumer food prices stemming from the economic impacts of the COVID-19 pandemic and the measures put in place to contain it. An estimated 45 million children under the age of five were suffering from wasting, the deadliest form of malnutrition, which increases children's risk of death by up to 12 times. Furthermore, 149 million children under the age of five had stunted growth and development due to a chronic lack of essential nutrients in their diets, while 39 million were overweight.*

The costs of the UN's lack of leadership during the COVID pandemic are both unmistakable and awful. Nevertheless, the United Nations is doubling down by promoting policies which are guaranteed to worsen the lot of individuals in both developed and developing worlds alike. A few points:

1. The link UNCTAD is attempting to draw between contractionary monetary policy and the current economic slowdown is questionable at best. US GDP was in decline (-1.6 percent) in the first quarter of 2022 before the first of the Fed's rate hikes. Given lag times, it is unlikely that the second quarter GDP contraction (-0.6 percent) was significantly driven by the rate hikes during that quarter. Prices have been rising since early 2021. UNCTAD seems to be conflating the global economic decline resulting from inflation, supply chain, and employment disruptions with the policy rate increases intended to blunt them. In doing so they are effectively calling for stagflation (slowing growth with high inflation) in place of a recession (slowing growth).

2. There are few better litmus tests for economic ignorance than endorsing price controls, and the UNCTAD report proposes them explicitly. When prices of sought-after goods and services are capped, critical price signals indicating scarcity are eliminated which thwarts the effective functioning of markets. By recommending price controls with the qualifier *strategic*, they are likely suggesting that only a handful of items should be capped. But even price controls on a small number of sought-after items, such as gasoline and eggs, will inevitably result in shortages and, over time, distortions in the prices of other goods as money is redirected. Indeed, most price-control campaigns have historically started by targeting a small number of essential goods initially, only to expand to others as scarcity broadens and price distortions spread. Other effects associated with price controls are decreasing production quality of goods, as well as corruption.

3. It is difficult to determine whether the UNCTAD recommendation that countries increase public spending is made in jest or not. The lockdowns which most governments embraced, and which the United Nations supported, were major factors abetting and undergirding the massively expansionary fiscal and monetary policies put in place throughout 2020 and early 2021. Intentional policies, not a virus, shut down most of the nations of the world for weeks or months two years ago. It is from those policies that the current inflation, supply-chain problems, and other current economic problems emerged. The Russian invasion of Ukraine only exacerbated difficulties already well underway. Guidance holding that not only should more debt be issued, but that countries with tremendous debt loads should see forbearance in the form of other nations' enduring unrestrained inflation, simply cannot be serious.

As covered in the previous article, in 1984 the forty-first session of the Commission on Human Rights met in Siracusa, Italy. The focus of the meeting was to discuss to what extent human rights should be negotiable in the face of a pandemic or other health disaster. The list was significant. The commission decided that emergency health measures should be based on scientific evidence, temporary, proportional, subject to review, and respectful of human dignity.

Yes, international relations are complicated. But the United Nations' penchant for promoting the most dunderheaded option at every opportunity is respectable only from the standpoint of predictability. Should Americans be spending their increasingly inflated tax dollars to underwrite 22 percent of an international bureaucracy suggesting that higher prices should be added to a deepening economic slowdown? Are US citizens willing to subsidize small foreign nations' proven inability to live within their means with the affordability of our groceries? With the cost of getting to work? With the ability to pay for our children to go to college? There, I subscribe, the answer is far simpler.

The Malthusian Contradiction

Antony Davies

Last month, something old became new again. What's new is that the world population crossed the eight-billion mark for the first time. What's old is that, for more than two centuries, experts have been warning that we're headed for calamity because our population is unsustainable.

When, in 1798, the world population crossed the one-billion mark, economist Thomas Malthus warned that the combination of linear growth in food production and exponential growth in population put us on a path to inevitable famine. Malthus' warning was understandable. It took humans around 250,000 years to reach a population of one-half billion, and only another 200 years to add a second half-billion. That's like a car taking four seconds to go from zero to 60, and then three-thousandths of a second to go from 60 to 120. Malthus was quite reasonable in his prediction that the world population was headed for an ugly crash.

The reality turned out to be worse than Malthus predicted. It took 200 years for the world population to double to the one-billion of Malthus' time. It took only 120 years for it to double again to two-billion in 1927. It took 47 years to double again to four-billion in 1974. Malthus would have regarded today's eight-billion as, at best, impossible, and at worst, apocalyptic. Actual world population growth has been far worse than Malthus could have imagined.

But the reality is also better than Malthus imagined. Not only did food production grow geometrically, it grew even faster than the population, so that the world can feed today's eight-billion far more easily than it could feed Malthus' one-billion. Yet, for two centuries, experts have repeated Malthus' error by predicting the end of the world every time the population approaches another round number.

The Malthusians' errors lay in not understanding resources.

Resources, experts warn, are limited. That's not entirely correct. Specific resources are limited. There's only so much oil. There's only so much land. There's only so much fresh water. But resources, in general, are not limited. Or, rather, they are limited only by human ingenuity. Millenia ago, the work a person could do was limited by his stamina and the strength of his muscles. Then some enterprising humans domesticated the horse and ox, and one person, leading a team of animals, could do the work of several people. Then humans invented steam power, and one person could do the work of several teams of animals. Then humans invented the internal combustion and electric engines, and work capacity multiplied again.

With computers and machines, a single farmer today can feed around ten times the number of people as a single farmer in 1940. And human ingenuity has not just made humans more productive. It has made the land more productive also. In 1960, worldwide, a hectare of land produced around 1.3 tonnes of cereals per year. Today, a hectare of land produces more than 4 tonnes.

In the 1400s, the world derived half of its energy from work animals and the other half from burning wood. Then humans discovered how to mine and transport large quantities of coal, an energy source with a 50 percent higher energy density than wood. By the early 1900s, more than half of the world's energy came from coal. Then humans discovered how to drill for oil—a substance with an 80 percent higher energy density than coal. By the close of the twentieth century, oil had replaced coal as the primary energy source. Humans learned how to build pipelines and distribute natural gas, a substance with a 25 percent higher energy density than oil. Today, natural gas and oil together provide half of our energy needs. Within the next century, humans will learn how to harness nuclear fusion, and that will make energy virtually limitless and almost free.

Malthus was wrong because he believed that our ability to feed ourselves depended on natural resources. Natural resources do matter, but ultimately, they aren't what feed us. Human ingenuity is what feeds us. Earth provides materials, but it's human ingenuity that turns those materials into valuable resources. And so long as there is human ingenuity, there will always be resources.

And this brings us to what we might call the *Malthusian contradiction*. Only a small minority of humans have the intelligence, skill, drive, and luck to invent and discover new resources. To ensure that we have enough of these rare humans to keep invention and discovery going, we need more humans. If only one in a thousand of us is a genius, and only one in one-hundred of those has the outsized drive to search for new discoveries or create new inventions, and only one in ten of those has the luck that so often plays a role in discovery, then we'd need a population of one million to expect to get just a single Thomas Edison or

George Washington Carver or Steve Jobs. And what if we needed thousands, or tens of thousands, of Edisons? We'd need a population well into the billions.

A second thing that Malthusians (the old and the modern) fail to appreciate is that complex systems are self-correcting. As the number of people grows, not only do we have more of those rare ingenious humans, but increased demand for specific resources drives prices of those resources up, and elevated prices summon armies of people to seek out, establish, finance, and assist those geniuses. Behind every Jeff Bezos are thousands of entrepreneurs, investors, consumers, and workers putting their own particular talents and treasures to work, also. The result is that exponential population growth necessarily gives rise to exponential resource growth.

The common counterargument is that, while we have managed to feed ourselves, the Earth's environment is groaning under our collective weight. And yet here, again, the evidence points to ingenious humans saving the day. Since 1990, worldwide deaths due to air pollution are down 45 percent on a per-capita basis. Since 1990, deforestation in developed countries has reversed course and become reforestation. While deforestation continues in developing countries, the rate is slowing and shows every sign of turning around to reforestation within the next several decades. In 2000, 60 percent of the world's people had access to safe drinking water. Today, it's almost 75 percent and projected to rise above 80 percent by the end of the decade. Carbon emissions in the US peaked in the 2000s and are now down 30 percent. Carbon emissions worldwide are down 5 percent in 2020 versus 2019, and the major carbon emitters (China and the rest of Asia) are steadily slowing their emissions.

Malthusians err in thinking that resources are limited and that the key to saving humanity is to limit our consumption of those resources by limiting our numbers. The truth is that it's humans who create resources in the first place. When Malthusians point to explosive population growth, they think they are identifying a problem. They are actually identifying the solution.

Why You Should Include Charity In Your Will

Andrew Palmer

There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That's also not true. The fact is that most gifts by will (bequests) are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn't continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

A Gift By Will Is Easy To Make
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property, or designate a dollar amount, or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

A Gift By Will Does Not Alter Your Current Lifestyle
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn't affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

A Gift By Will Can Change Lives
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

A Gift By Will Creates A Lasting Legacy
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don't have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

SEE PAGE 23 TO GIVE TO AIER

Liberalism and the Global Economy: Bretton Woods at 80 Years

We are pleased to announce that the American Institute for Economic Research will host the 2023 Mont Pelerin Society Regional Meeting. This year's conference will take place on October 29 to November 1, 2023 in Bretton Woods, New Hampshire, at the historic Mount Washington Resort.

As we approach the 80th anniversary of the Bretton Woods Conference, we will gather to examine the state of the international economic system that emerged in its wake. In addition to formalizing an international exchange rate system for the post-war world that ultimately displaced the gold standard, this event led to the creation of the International Monetary Fund and World Bank, and set into motion the proceedings that produced the General Agreement on Trade and Tariffs in 1947. Moreover, liberalism more broadly is once again under serious threat and requires focused discussion. Accordingly, the theme of this year's Mont Pelerin Society meeting is *Liberalism and the Global Economy: Bretton Woods at 80 Years.*

2023 also marks the 90th anniversary of the American Institute for Economic Research. We expect the rich history of AIER, the Mont Pelerin Society, and the Mount Washington Resort will converge to create an important and exciting conference. We have already confirmed several impressive speakers, including Judy Shelton, Vernon Smith, John Taylor, Douglas Irwin, Deirdre McCloskey, and Chris Berg. We are honored to have been selected to organize this special meeting of the Mont Pelerin Society and cannot wait to see everyone in Bretton Woods. For more information please visit **mpsbrettonwoods.org**

Planned Giving

Each one of us already has a default estate plan—one dictated to us by the government. The government doesn't know who we are; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

The only way to make sure that your estate plan reflects your wishes is to design it yourself with competent counsel. Will your legacy be subsumed by faceless bureaucrats as a windfall profit for government programs that you may believe are antithetical to prosperity and justice? Or will it be a responsible transfer of values held dear by the one who earned the money? Make sure that you are the author of your own personal estate plan.

By making a planned gift to AIER—whether it be through your will, charitable trust, or another giving vehicle—you are making an incredible commitment to true freedom, sound money, and private governance. You not only secure your legacy as a champion of free markets, but you ensure that AIER will continue to fight for the principles you hold dear for generations to come.

We are forever grateful for AIER's planned giving supporters who help to ensure that people around the world will always have access to sound economic research, robust education in free market concepts, and practical training from AIER.

Here are some ideas on how to include AIER in your estate plans:

Your Will

If you already have a will, you can generally amend it to create a bequest for AIER and other charities. If you have elected a living trust rather than a will, you can also include AIER and other charities as trust beneficiaries, similar to creating bequests under a will.

Your Retirement Accounts

Retirement accounts—such as an IRA, 401(k), and others—that are left to heirs are double-taxed because (often but not always) they are subject to the estate tax and heirs are also subject to ordinary income tax on what's left. Retirement accounts left to a non-profit like AIER are not taxed at all.

Your Life Insurance

One of the easiest ways to leave AIER in your estate plans is to simply name AIER as a beneficiary of a life insurance plan. Life insurance proceeds, other than when given to a spouse or to a tax-exempt entity like AIER, are generally subject to the estate tax. Therefore, life insurance policies that are no longer needed for financial security are a good choice for enhancing your philanthropic legacy.

Other Giving Vehicles

Several less-common giving vehicles are typically used in complex estates, but might be worthy of consideration. We recommend you speak with your attorney or financial advisor regarding: Charitable Gift Annuities, Charitable Remainder Trusts, and Charitable Lead Trusts.

To get started

please contact us at 888-528-1216

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I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Donor

AIER donors understand the importance of AIER's mission and want others to understand too.

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