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RESEARCH REPORTS

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 10 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including *Seeking Alpha*, *Intellectual Takeout*, *Mises Brasil*, and dozens of other outlets. To read all of them, go to

www.aier.org

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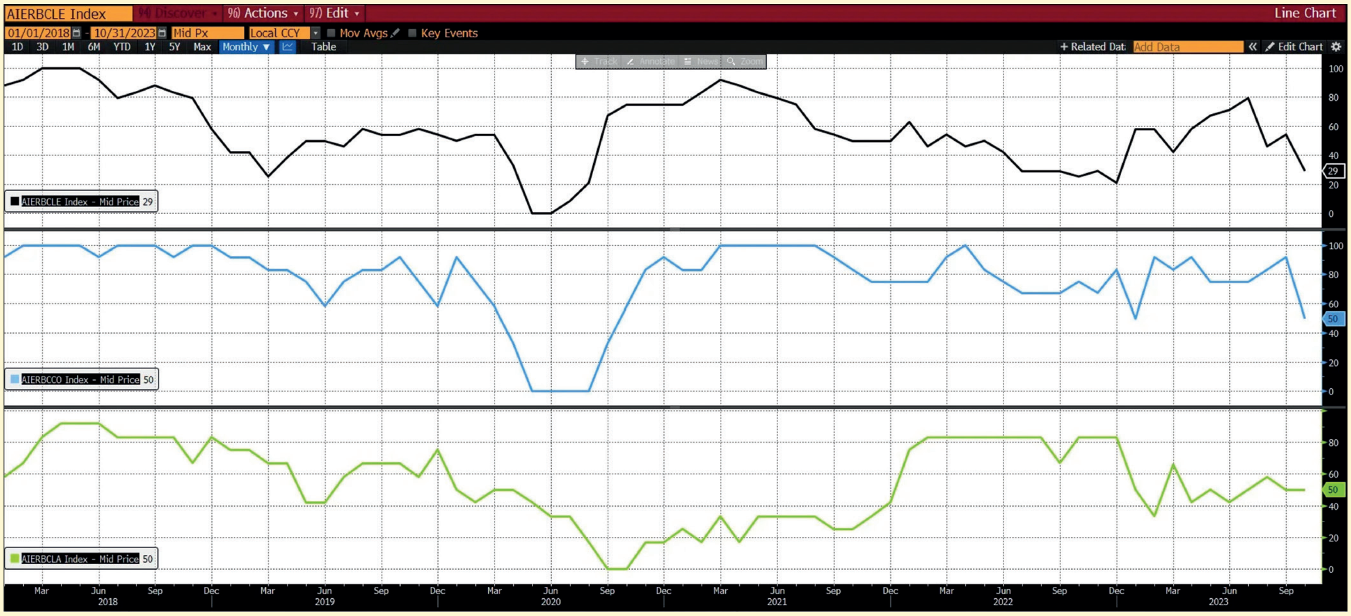
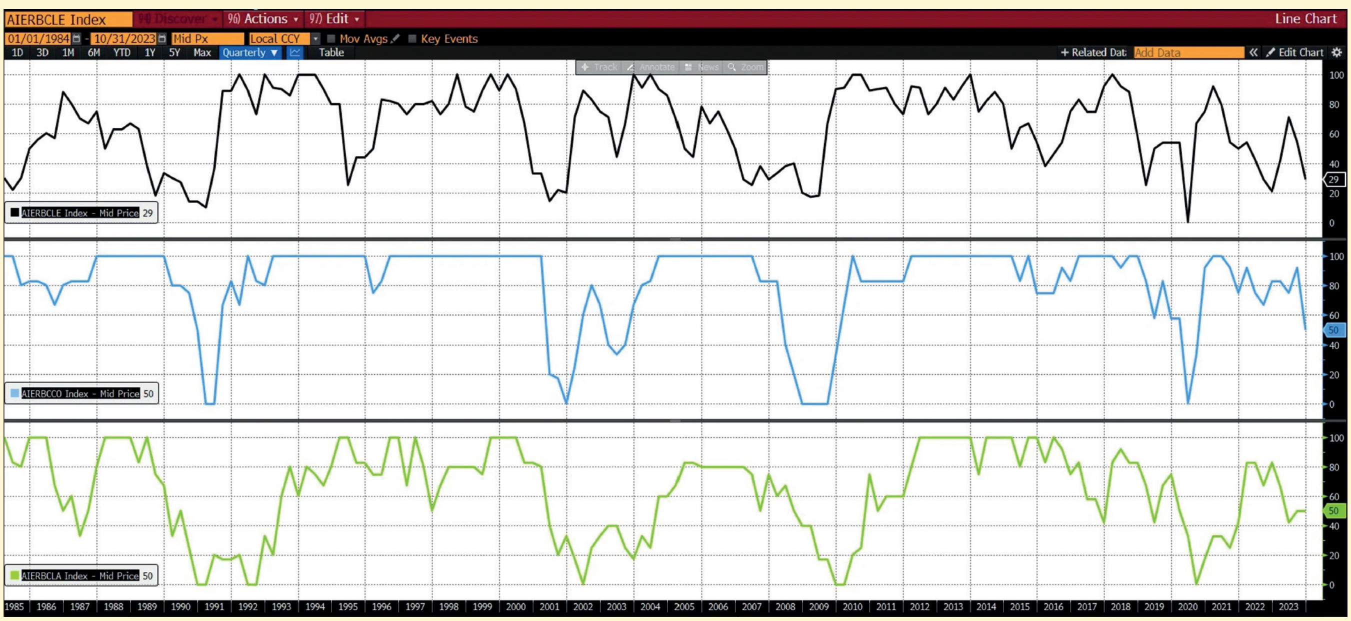
BUSINESS CONDITIONS MONTHLY

Peter C. Earle
SENIOR RESEARCH FACULTY

In October 2023, AIER's Business Conditions Monthly indices shifted downward. Our Leading Indicator fell to a contractionary 29, a level it has not registered since the period between July and December 2022. The Roughly Coincident Indicator fell from 92 in September to 50 in October, a stark turn from highly expansionary to neutral. And the Lagging Indicator remained at its September level of 50 in October.





Leading Indicators (29)

From September to October 2023, eight of the twelve leading indicators declined, three rose, and one was neutral.

Declining were the University of Michigan Consumer Expectations Index (-9.9 percent), FINRA's Debt Balances in Customers' Securities Margin Accounts (-6.8 percent), US Average Weekly Hours All Employees

Manufacturing (-0.3 percent), Inventory/Sales Ratio: Total Business (-0.3 percent), United States Heavy Trucks Sales (-5.2 percent), US Initial Jobless Claims (-0.7 percent), The Conference Board US Leading Index of Stock Prices (-3.1 percent), and Adjusted Retail & Food Services Sales (-0.10 percent).

Rising from September to October were the US New Privately Owned Housing Units Started by Structure (1.9 percent), the 1-to-10 year US Treasury spread (40.8 percent), and the Conference Board US Leading Index Manuf New Orders Consumer Goods & Materials (0.1 percent). The Conference Board US Manufacturers New Orders Nondefense Capital Good Ex Aircraft index was unchanged.

The drop from 54 to 29 was the second largest month-to-month decline since May 2020, and brings the AIER Leading Indicator to levels it last saw between July and December 2022 when the US entered a brief (and disputable) recession.

Roughly Coincident (50) and Lagging Indicators (50)

Among the constituents of the Roughly Coincident Indicator, declines occurred in the Conference Board Consumer Confidence Present Situation (-5.2 percent), US Industrial Production (-0.6 percent), and in the US Labor Force Participation Rate (-0.2 percent). Total US Employees on Nonfarm Payrolls rose by 0.1 percent, as did the Conference Board's Coincident Manufacturing and Trade Sales (0.2 percent) and Coincident Personal Income Less Transfer Payments (0.2 percent) measures.

With the exception of a single reading of 50 in January 2023, the last time AIER's Roughly Coincident Indicator reached and fell below the neutral level was between March and October 2020, inclusive.

The components of the Lagging Indicator were also evenly split. The Conference Board US Lagging Commercial and Industrial Loans rose by 0.4 percent, with total US Manufacturing & Trade Inventories and the Census Bureau's Private Construction Spending (Nonresidential) increasing 0.4 and 0.1 percent respectively. Headline CPI (month-over-month) declined by 2.4 percent, as did average 30-day yields (-0.5 percent) and Conference Board US Lagging Average Duration of Unemployment (-0.5 percent).

In sinking back to the neutral 50 level, as it also reached in January, May, and September, the Lagging Indicator's average value throughout 2023 is 49.1, revealing a slightly contractionary bias over the course of the year to this point. As the following discussion will indicate, this is the first time in over one year that the three AIER Business Conditions Monthly indicators are in some agreement with recent macroeconomic data.

Discussion

The second run of the 3rd quarter GDP number saw it revised from 4.9 percent up to 5.2 percent annualized. Those changes primarily came from an increase in estimates of residential investment (3.9 percent to 6.2 percent) and nonresidential fixed investment (-0.1 percent to 1.3 percent). Consumer spending, however, was reduced from 4.0 percent to 3.6 percent.

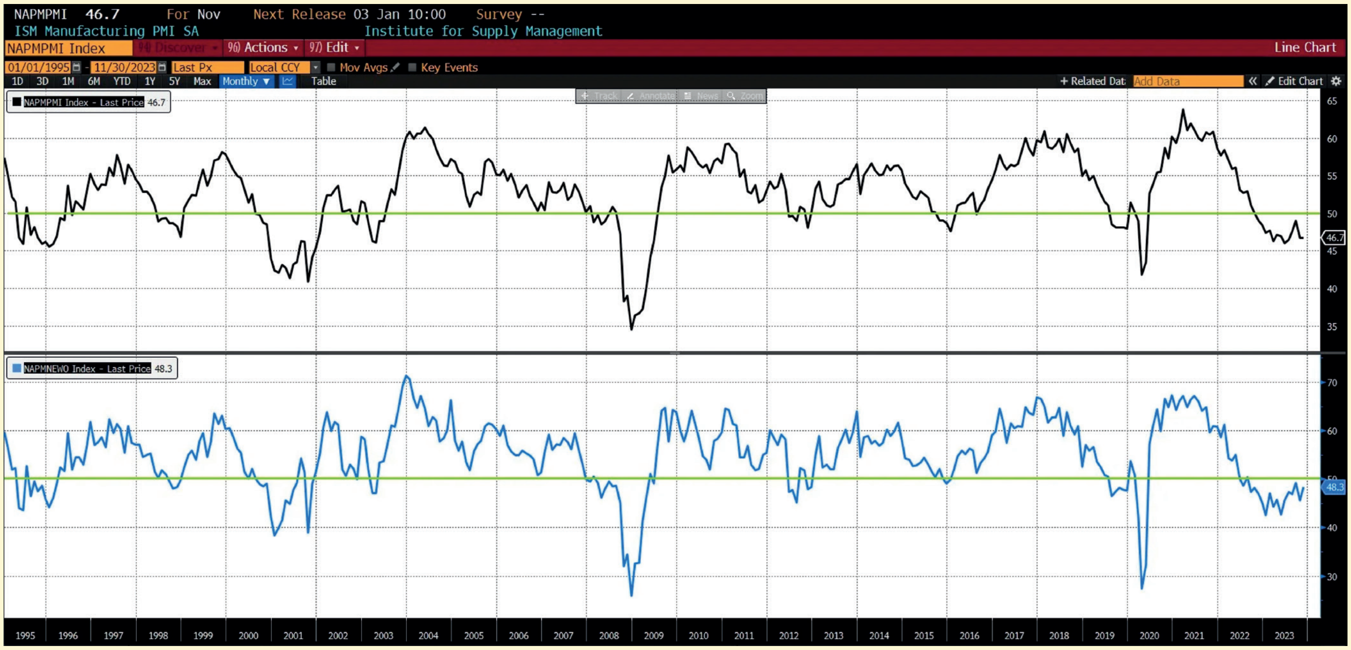
Our recent focus on consumption continues this month with early data from both Black Friday and Cyber Monday as well as anecdotal information. The National Retail Federation predicts that holiday sales (from November 1st to December 31st 2024) would grow between 3 and 4 percent from last year. Yet because that forecast is not adjusted for inflation, in light of October 2023's year-over-year core CPI reading of 4 percent the change in the movement of merchandise may in fact be flat from 2022. Similarly, Mastercard reported a 2.5 percent increase in online and physical sales between last year and this year – also not adjusted for inflation.

On Cyber Monday, engagement of “buy now pay later” (BNPL) plans hit an all-time high, vaulting over 42 percent from last year’s levels according to Adobe Analytics. While there are some differences, BNPL services are similar to what were at one time called “installment plans.” US consumers are likely turning to them for convenience and to avoid current record rates on credit cards which as of December 1st stood at an average annual percentage of 21.19 percent.

US consumers are evincing fatigue. Household disposable income is sliding, with personal consumption expenditures (in nominal dollars) following them and savings continue to fall. Given the outsized role of consumer spending in GDP, a continuation of this trend into 2024 is quite likely to correspond with slower economic growth.

On a separate front, the Institute for Supply Management’s manufacturing index remained at 46.7 in November, adding to evidence that the US economic growth is slowing. This is the 13th straight month of declines, the longest since the bursting of the dot com bubble. Although there was a slight rise in the index of new orders (from 45.5 to 48.3) that portion of the survey remains at contractionary levels (below 50). Higher interest rates and a retrenching of capital expenditure in light of growing sluggishness have led to the index of new orders also remaining in contractionary territory (under 50) for 15 months, the longest negative streak since the 1981 – 1982 recession.

Institute for Supply Management Purchasing Managers Survey and Index of New Orders (1995 – present)

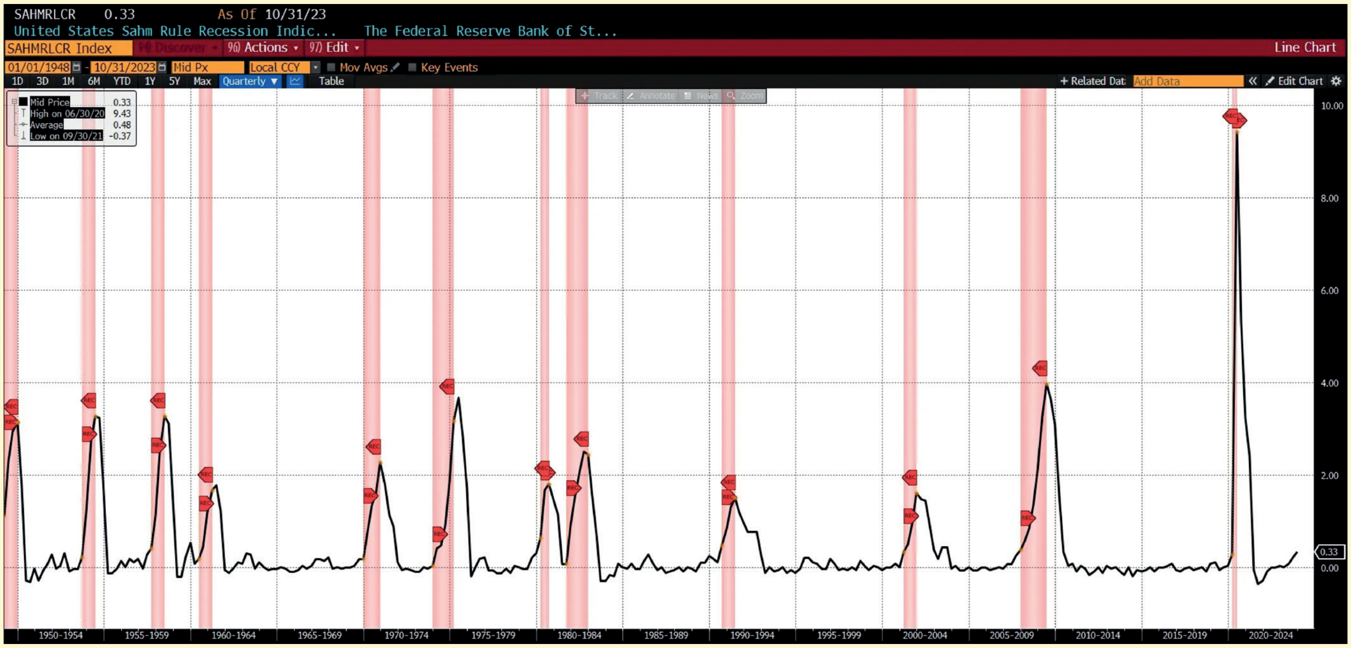


(Source: Bloomberg Finance, LP)

Among a number of long-observed economic patterns in business cycles is that once the US employment rate surpasses a certain level, it develops a sort of inertia. At that point it rises nonlinearly before returning to fuller levels of employment. Since World War II, from the trough the rate either rises by less than 0.5 percentage points or more than 1.9 percentage points, coinciding with recessions. Based upon the recent uptrend in the U-3 measure (US Unemployment Rate Total in Labor Force, Seasonally Adjusted), the recent trough occurred at the 3.4 percent level in both January and April 2023. Since July the rate has ticked up steadily to 3.9 percent in October 2023. (The next data point will be released on 8 December 2023.)

A measure which has demonstrated high empirical reliability in forecasting recessions is the Sahm Rule. It posits that an 0.5 percent change in the three-month moving average of the U-3 rate relative to its 12 month minimum is a threshold which has generated no false positive going back to the 1950s, correctly identifying recessions an average of four months after they have begun. The current Sahm Rule level is 0.33. Although Goldman Sachs has proposed that a 0.35 percent change is sufficient to trigger the rule, if the U-3 rate hits 4 percent within the next two months the trigger will be definitively struck.

Sahm Rule with NBER-dated US recessions (1948 – present)



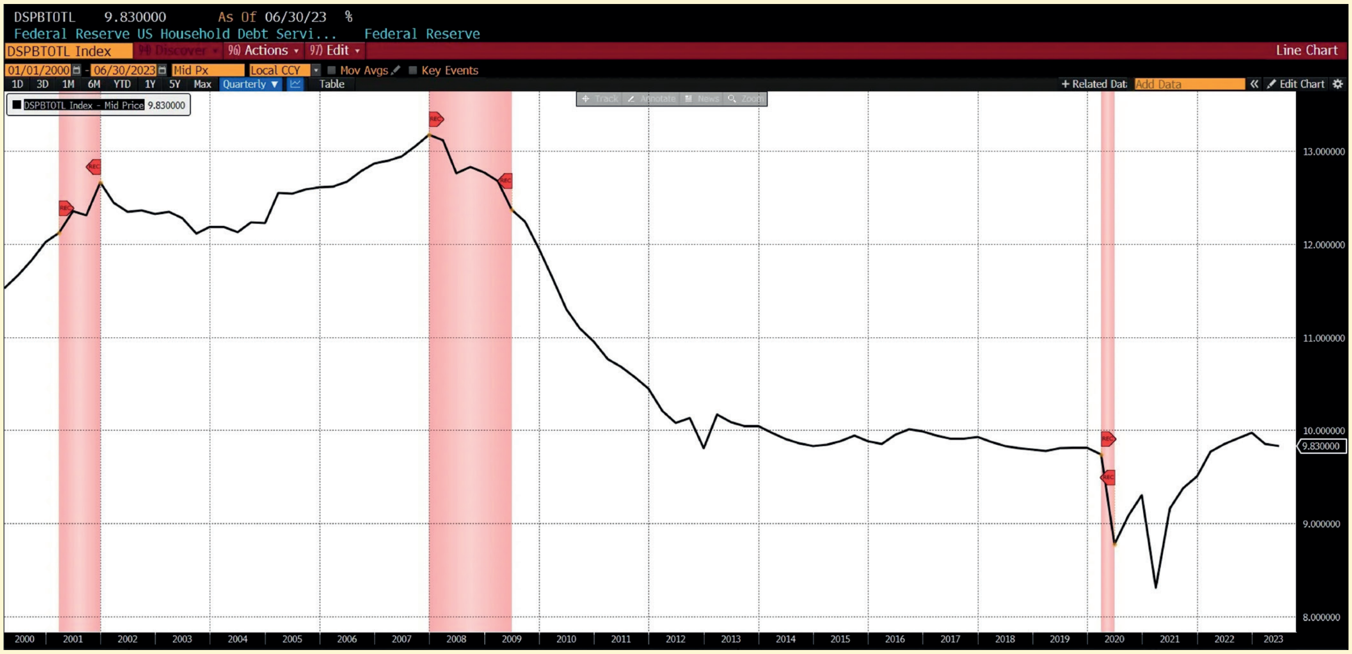
(Source: Bloomberg Finance, LP)

Another indicator is based upon US unemployment inflows and outflows: when inflows surpass outflows for four consecutive months, on average the US economy has already been in recession for two months. Unlike the Sahm Rule, the data behind the inflow/outflow matching indicator only goes back to 1990, but also has a high degree of reliability. Based upon that rule, the US has already entered a recession. Having said that, we are cautious about the exceptional nature of the current economic environment where established historical signals are considered. While we have expressed (and maintain) our view that the

US will enter a recession by September 2024, thoughtful scrutiny requires considering two factors which may undermine these typically reliable signals.

The natural rate of unemployment in the United States is currently estimated at between 4 and 5 percent. If true, an uptick in U-3 could settle into a range which would not generate substantial economic slack and thus make "soft landing" scenarios more likely. If true, though, the implication is that the non-accelerating inflation rate of unemployment (NAIRU) is higher than the current 3.9 percent U-3 level, which would likely generate upward pressure on wage and price inflation. Instead, though, both have declined this year, suggesting a lower NAIRU than required by this explanation.

We have focused upon consumers in the last few installments of AIER's Business Conditions Monthly, and it is regarding them that a second reason for which "it's different this time" derives. Before previous recessions, the balance sheets of both households and corporations have been far weaker than they are currently. As will be discussed in a subsequent section, consumers are beginning to show long-expected signs of wallet fatigue, but household debt service-to-income levels are substantially lower now than they have been before previous downturns: 9.8 percent currently versus 12.1 percent in 2001 and 13.1 percent in 2007.



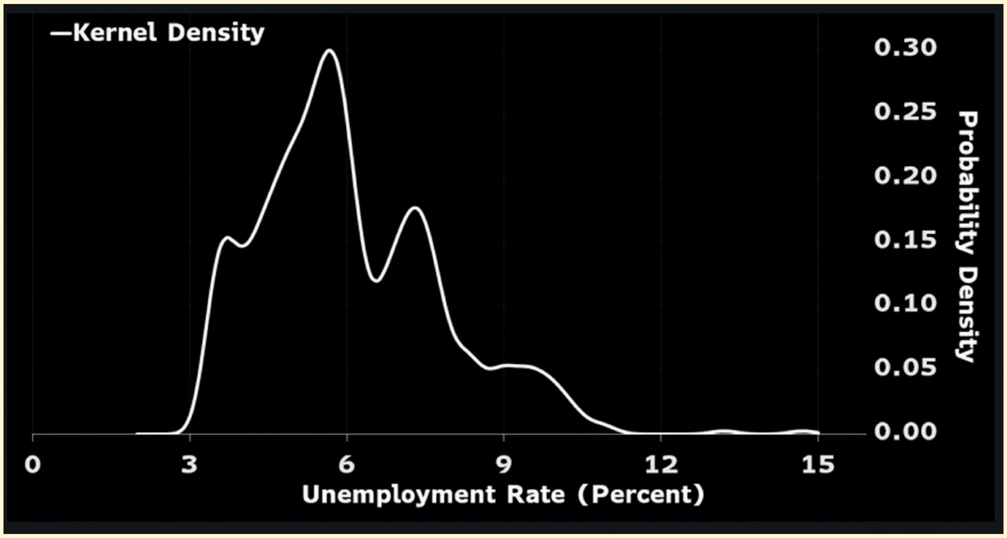
(Source: Bloomberg Finance, LP)

Yet the credit contraction continues and interest rates are continuing to rise as savings dwindle, likely leading to a greater debt service burden in the coming months.

In short, while those reasons have some degree of merit they do not dissuade us from our recession forecast. Having said that, while we are loath to predict the severity of a forthcoming recession we tentatively concede that those facts suggest a shorter or perhaps shallower recession than might be otherwise.

A more immediately overarching factor in how the current economic slowdown develops, in our view, are the policy actions of the Federal Reserve. Market implied policy rates currently anticipate Fed Fund rates at roughly 5.08 percent in May 2024, essentially pricing in a 25 basis point cut by that time. If the “higher for longer”/”right here for longer” mantra were reversed in the face of accelerating unemployment and growing slack (and by substantially more than 25 basis points), the ongoing labor market weakness and deteriorating sentiment might be arrested. This tension is the very essence of monetary policy uncertainty, a topic which has seen no shortage of research over the past decade (see Husted, Roger, and Sun 2020 for more information).

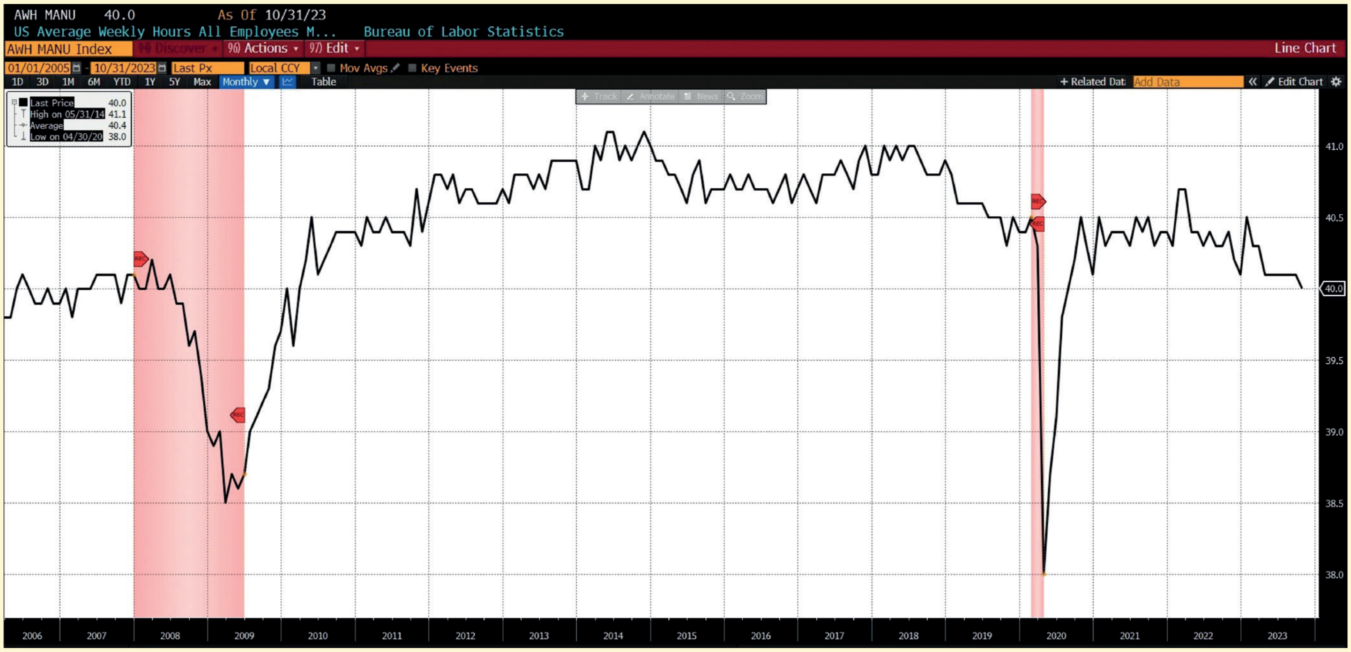
A final word in this month’s Business Conditions report. A growing number of economic forecasts are leaning toward a soft landing in 2024. This may indeed be the case. Yet Bloomberg reports that on the eve of the 1990 to 1991, 2001, 2007 to 2009, and even 2020 Covid policy recessions, predictions of soft landings dominated discourse. It may be that predicting a recession which does not occur is more damaging to one’s reputation (it is certainly more stereotypical) than a soft landing projection which crumbles. A more conclusive reason may be found in the distribution of monthly unemployment rates between 1968 and 2023. (For the mathematically inclined, this is the kernel-fitted distribution.)

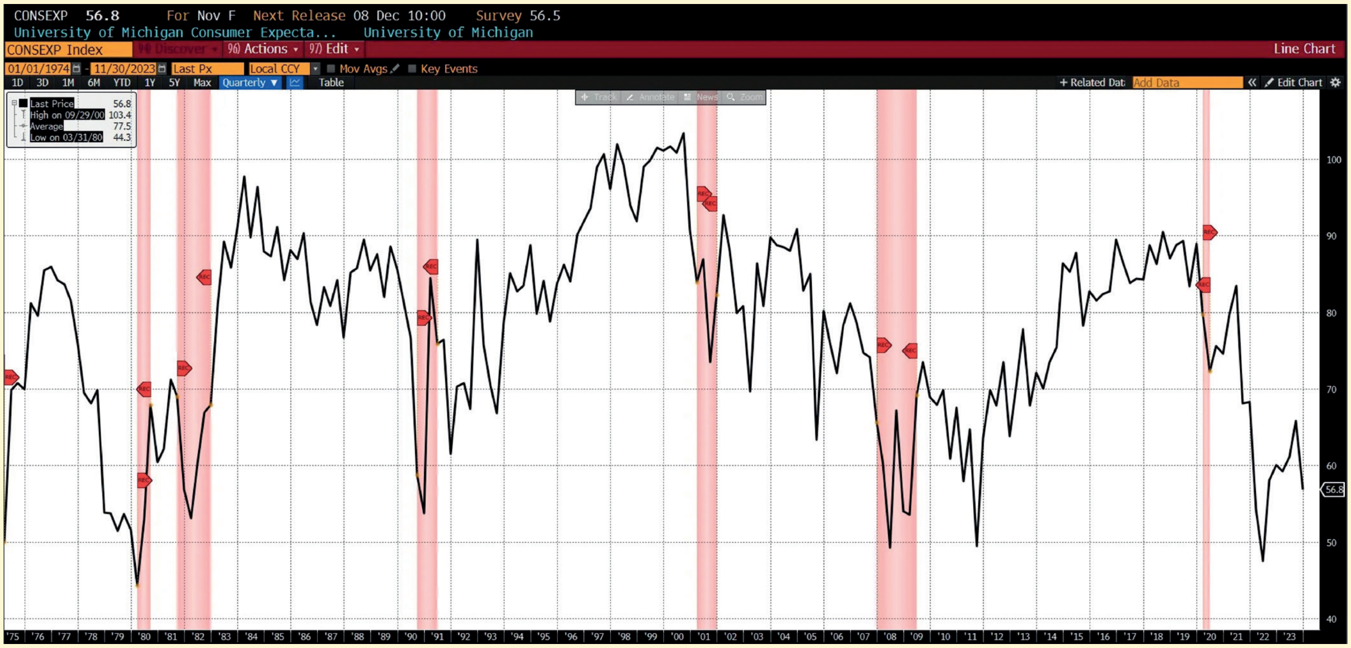


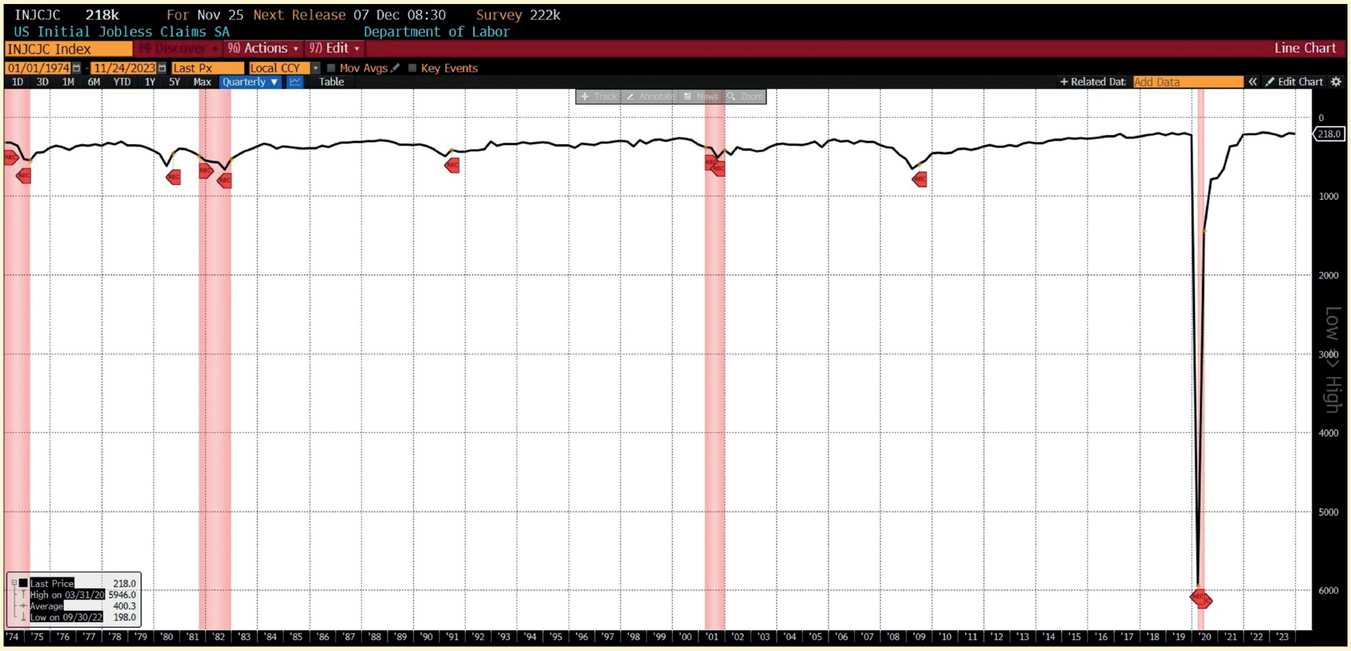
The distribution of unemployment rates is highly bimodal, meaning not normally distributed, and with a long right tail. In short, we see a large cluster of unemployment in the 4 to 5 percent range, with a small but appreciable cluster of employment at the 7 percent and higher range. Forecasting models which rely on normal distributions, as many likely do, will thus consistently and predictably understate those worse outcomes represented by the long, fat right tail of the distribution.

While we maintain an open-minded stance toward scientifically defensible alternative perspectives and will continue to impartially and vigilantly assess incoming data, our current analysis still points to a recession occurring before September 2024 as the most probable scenario.

LEADING INDICATORS






INJCJC 218k For Nov 25 Next Release 07 Dec 08:30 Survey 222k
US Initial Jobless Claims SA
Department of Labor
INJCJC Index
Line Chart
Last Price 218.0
High on 03/31/20 5946.0
Average 400.3
Low on 09/30/22 198.0


LEI NWCN 125769.00 As Of 10/31/23 MILLIONS
Conference Board US Leading Index Manuf...
Conference Board
LEI NWCN Index
Line Chart
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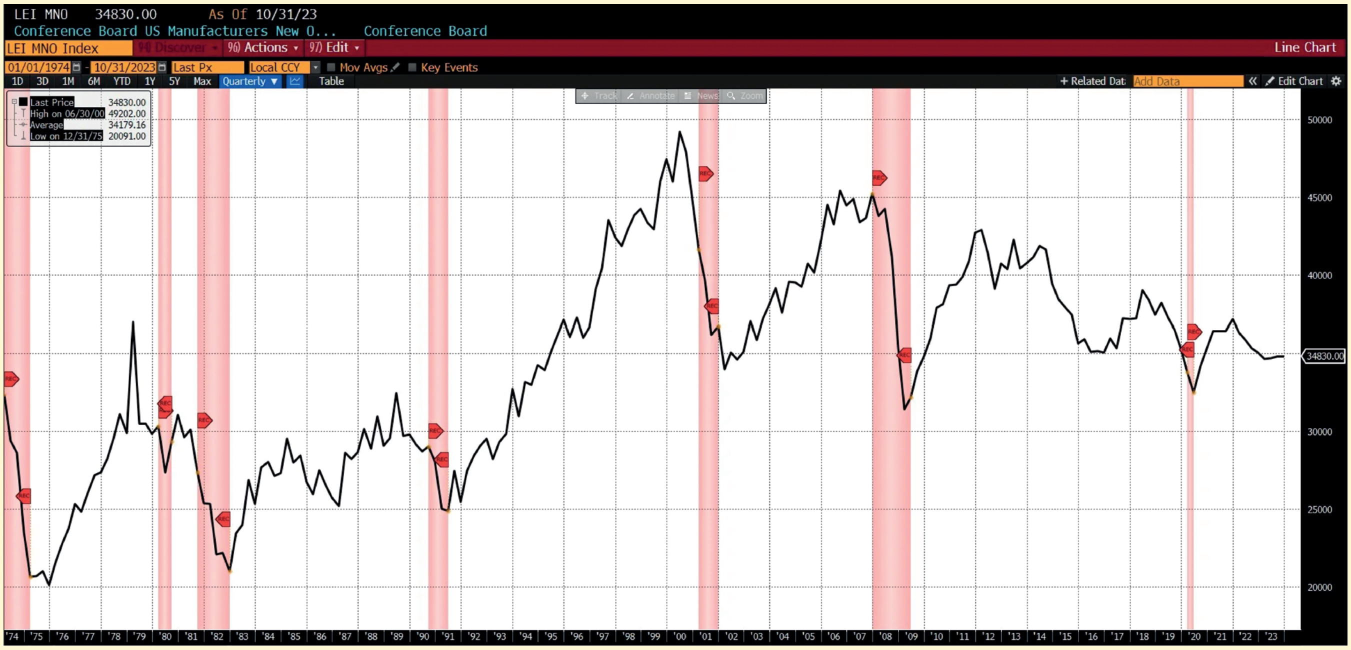
High on 03/31/00 0.155M
Average 0.122M
Low on 03/31/75 72104.00


LEI MNO 34830.00 As Of 10/31/23
Conference Board US Manufacturers New O... Conference Board
LEI MNO Index
Line Chart
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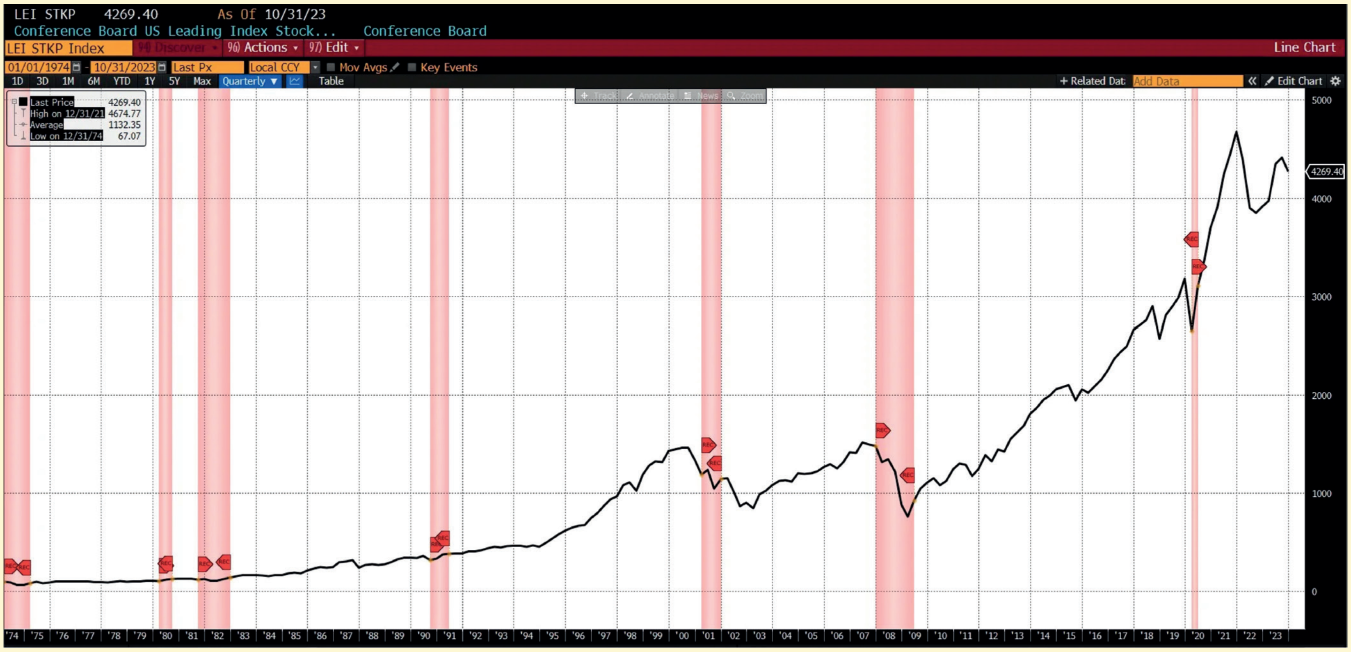
High on 06/30/00 49202.00
Average 34179.16
Low on 12/31/75 20091.00


LEI STKP 4269.40 As Of 10/31/23
Conference Board US Leading Index Stock... Conference Board
LEI STKP Index
Line Chart
Last Price 4269.40
High on 12/31/21 4674.77
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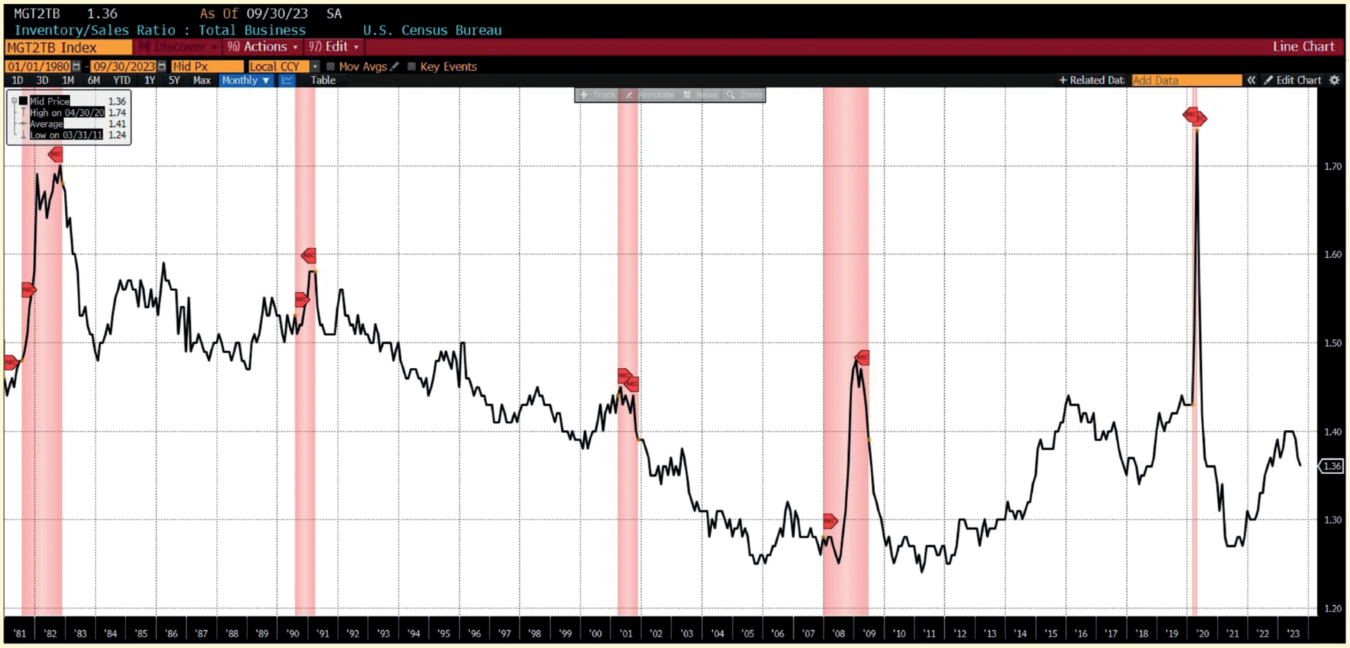
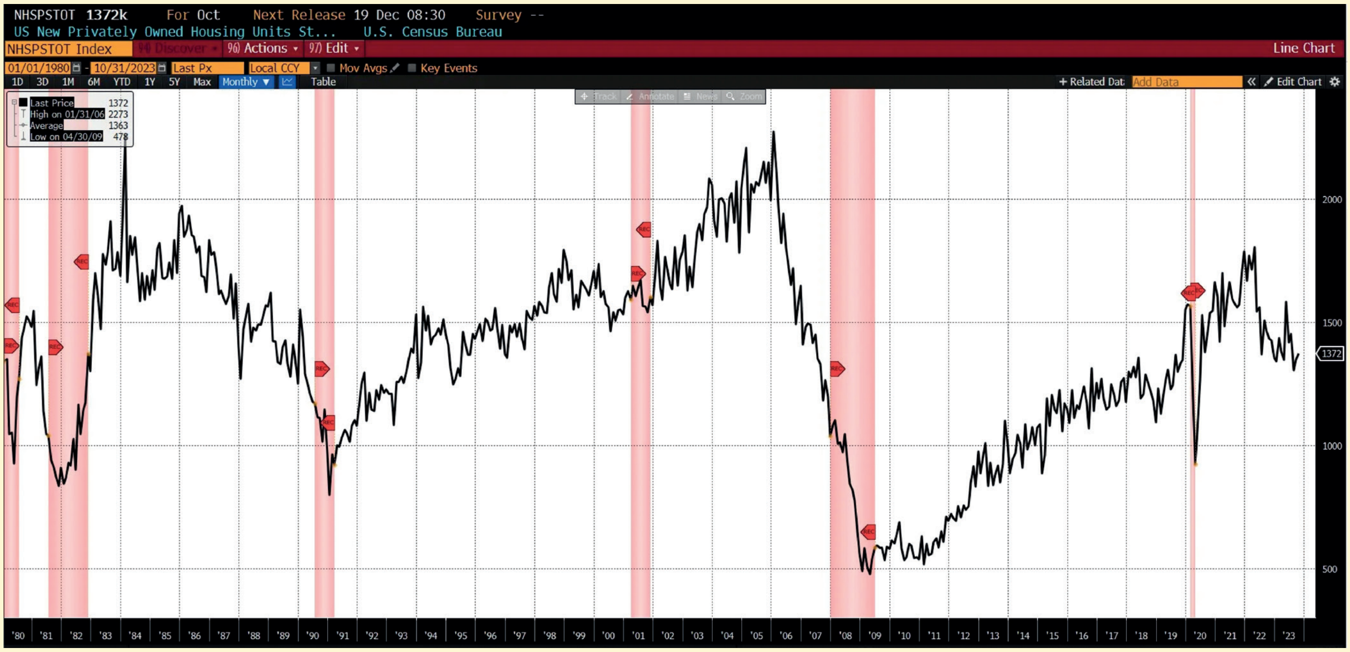
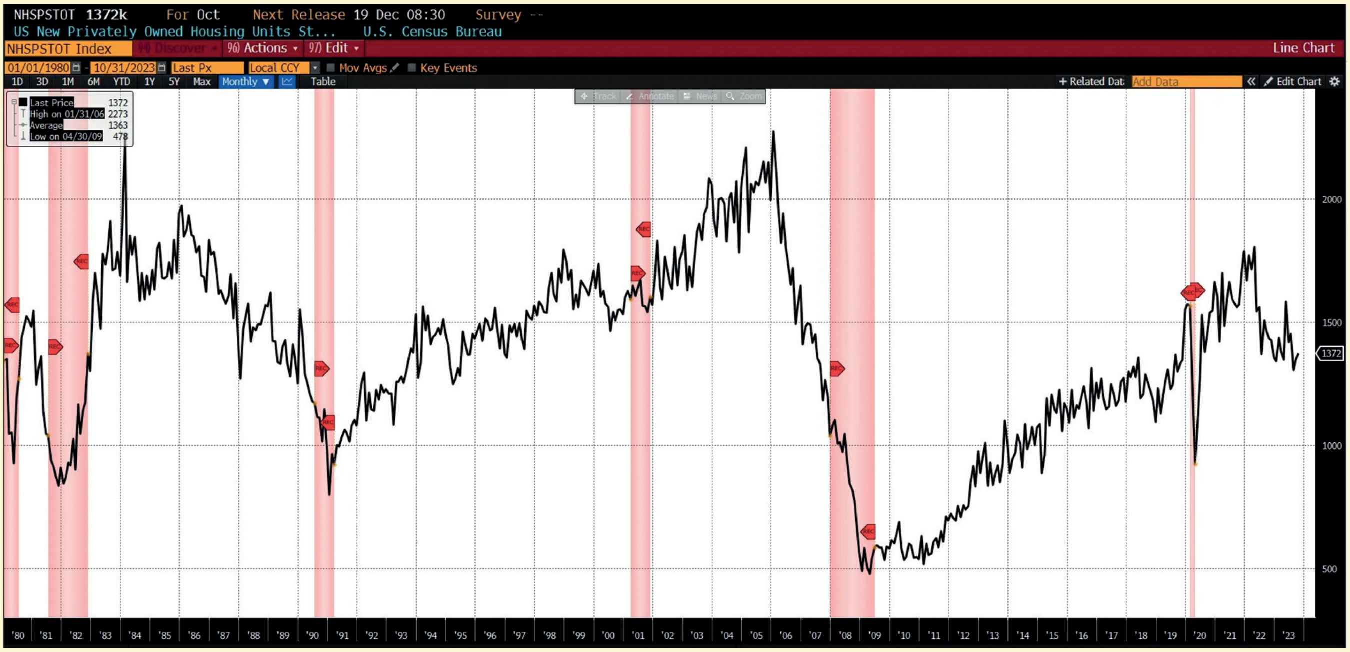
Low on 12/31/74 67.07

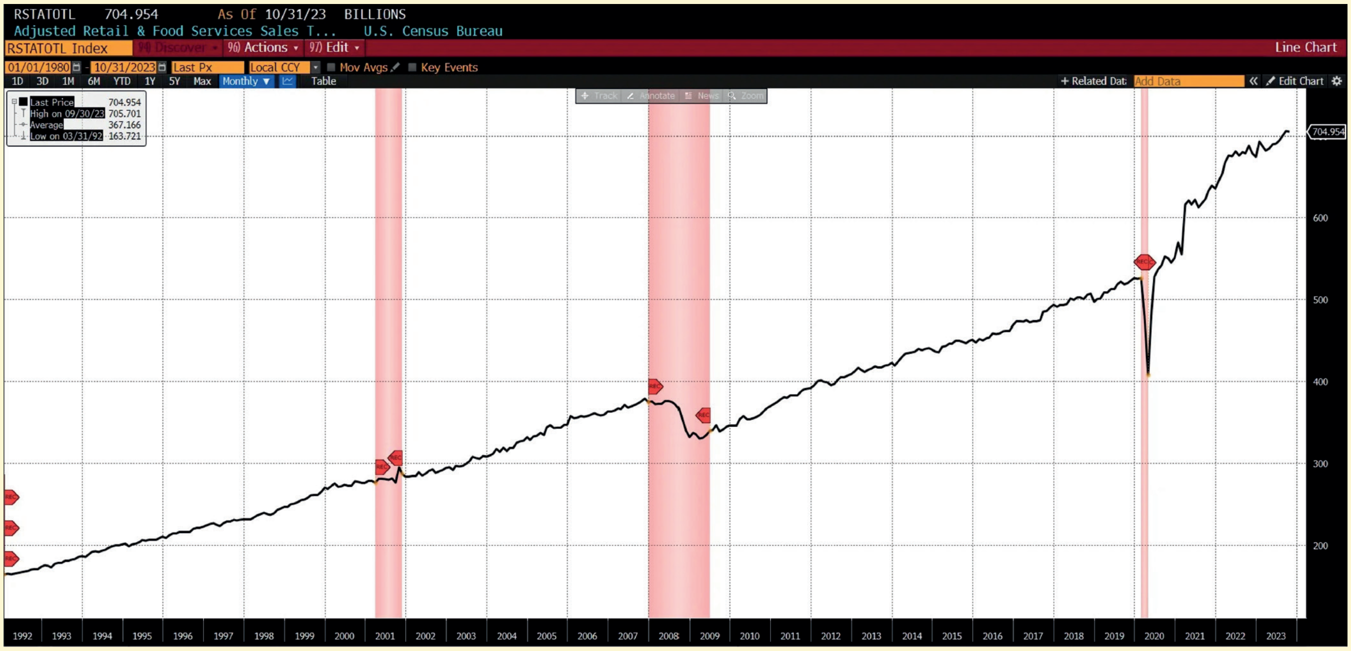


MGT2TB 1.36 As Of 09/30/23 SA
Inventory/Sales Ratio : Total Business U.S. Census Bureau
MGT2TB Index
96) Actions
97) Edit
Line Chart
01/01/1980 - 09/30/2023
Mid Px
Local CCY
Mov Avgs
Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly
Table
+ Related Dat
Add Data
Edit Chart
Mid Price 1.36
High on 04/30/20 1.74
Average 1.41
Low on 03/31/11 1.24
1.70
1.60
1.50
1.40
1.36
1.30
1.20
'81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23



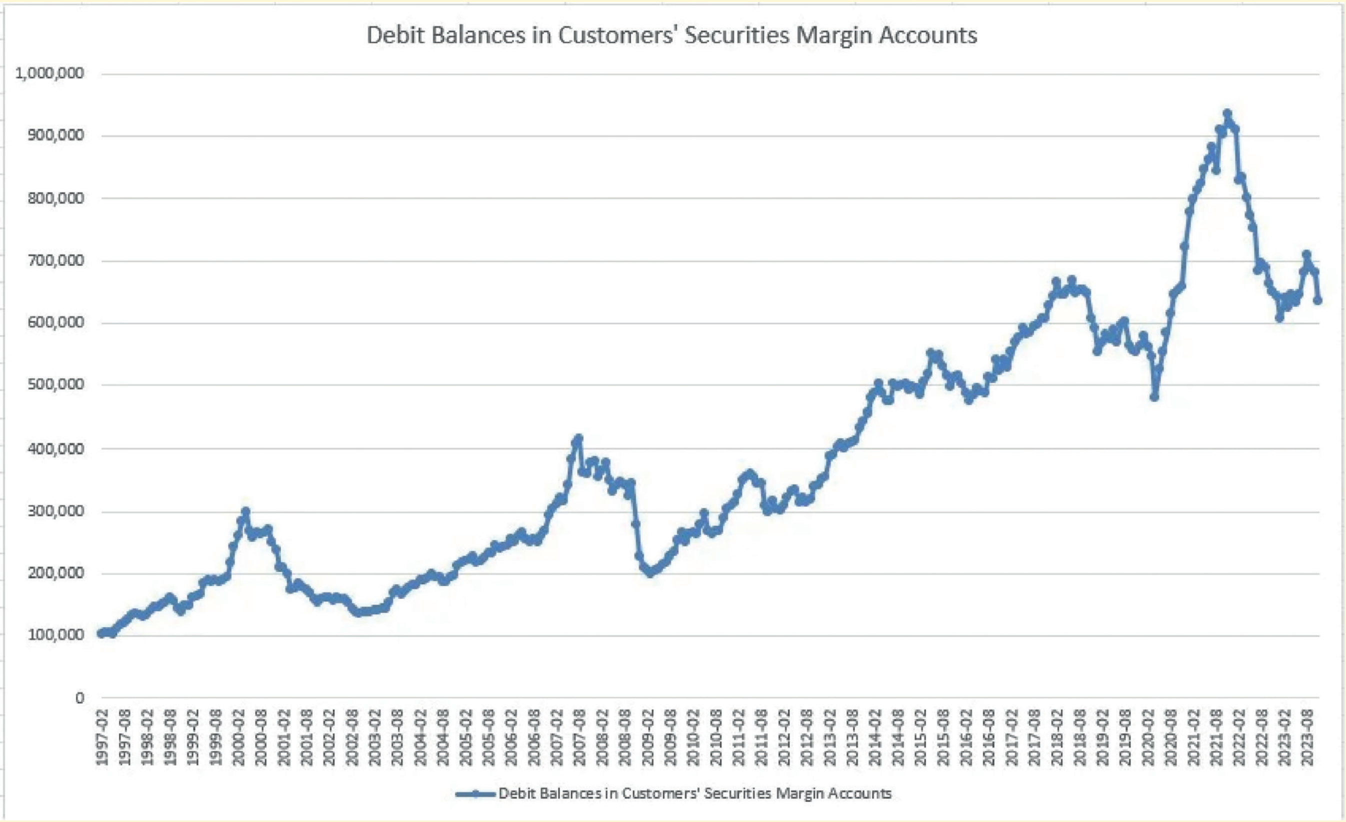
NHSPSTOT 1372k For Oct Next Release 19 Dec 08:30 Survey --
US New Privately Owned Housing Units St... U.S. Census Bureau
NHSPSTOT Index
96) Actions
97) Edit
Line Chart
01/01/1980 - 10/31/2023
Last Px
Local CCY
Mov Avgs
Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly
Table
+ Related Dat
Add Data
Edit Chart
Last Price 1372
High on 01/31/06 2273
Average 1363
Low on 04/30/09 478
2000
1500
1372
1000
500
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23


NHSPSTOT 1372k For Oct Next Release 19 Dec 08:30 Survey --
US New Privately Owned Housing Units St... U.S. Census Bureau
NHSPSTOT Index
Line Chart
01/01/1980 - 10/31/2023 Last Px Local CCY Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Last Price 1372
High on 01/31/06 2273
Average 1363
Low on 04/30/09 478
2000
1500
1000
500
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23

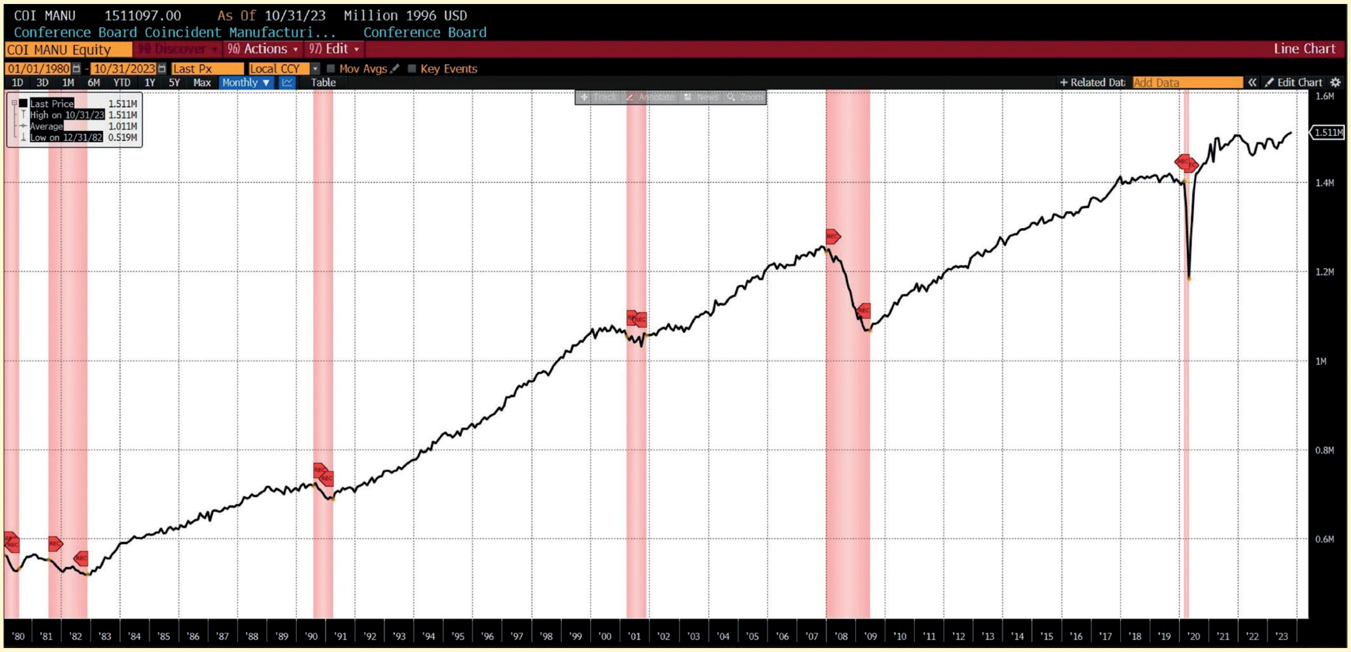

RSTATOTL 704.954 As Of 10/31/23 BILLIONS
Adjusted Retail & Food Services Sales T... U.S. Census Bureau
RSTATOTL Index
Line Chart
01/01/1980 - 10/31/2023 Last Px Local CCY Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Last Price 704.954
High on 09/30/23 705.701
Average 367.166
Low on 03/31/92 163.721
600
500
400
300
200
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

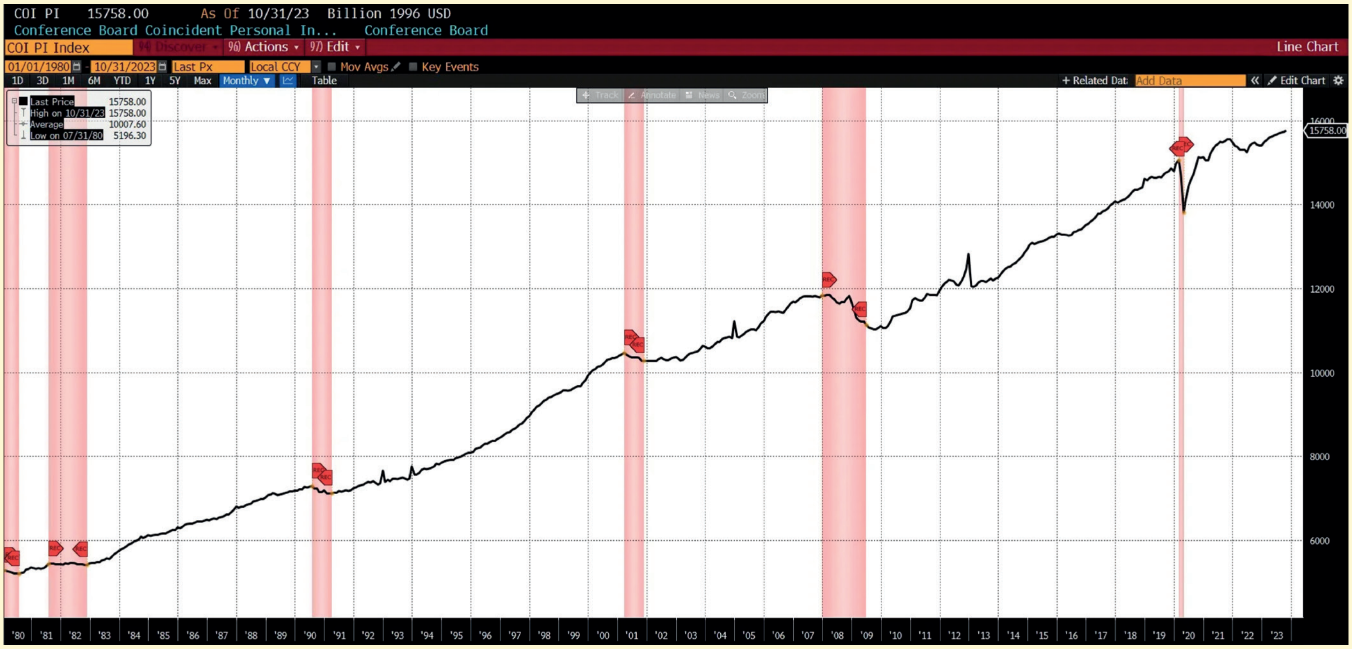

USASHVTK 0.475 As Of 10/31/23 Millions
United States Heavy Trucks Sales SAAR Bureau of Economic Analysis
USASHVTK Index
96) Actions
97) Edit
Line Chart
01/01/1980 - 10/31/2023 Mid Px Local CCY Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Related Dat Add Data Edit Chart
Mid Price 0.475
High on 07/31/19 0.583
Average 0.356
Low on 10/31/82 0.159
0.600
0.500
0.475
0.400
0.300
0.200
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23

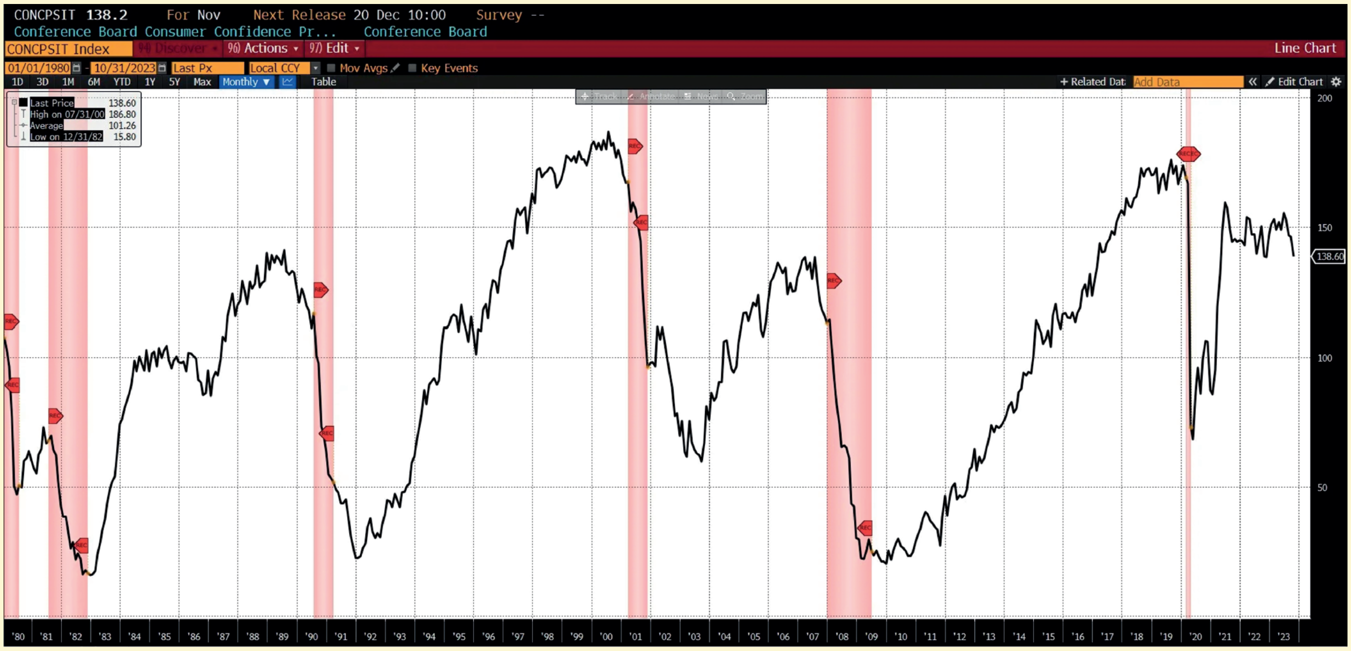

USYC1Y10 -80.839 +4.593 -80.839 /-78.185
At 20:30 Op -82.590 Hi -80.345 Lo -83.028 Prev -85.432
USYC1Y10 Index
96) Actions
97) Edit
Line Chart
12/08/2003 - 12/04/2023 Mid Px Local CCY Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Related Dat Add Data Edit Chart
Mid Price -80.839
High on 03/31/10 344.330
Average 123.413
Low on 06/30/23 -160.216
-200
-100
-80.839
0
100
200
300
Low => High
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

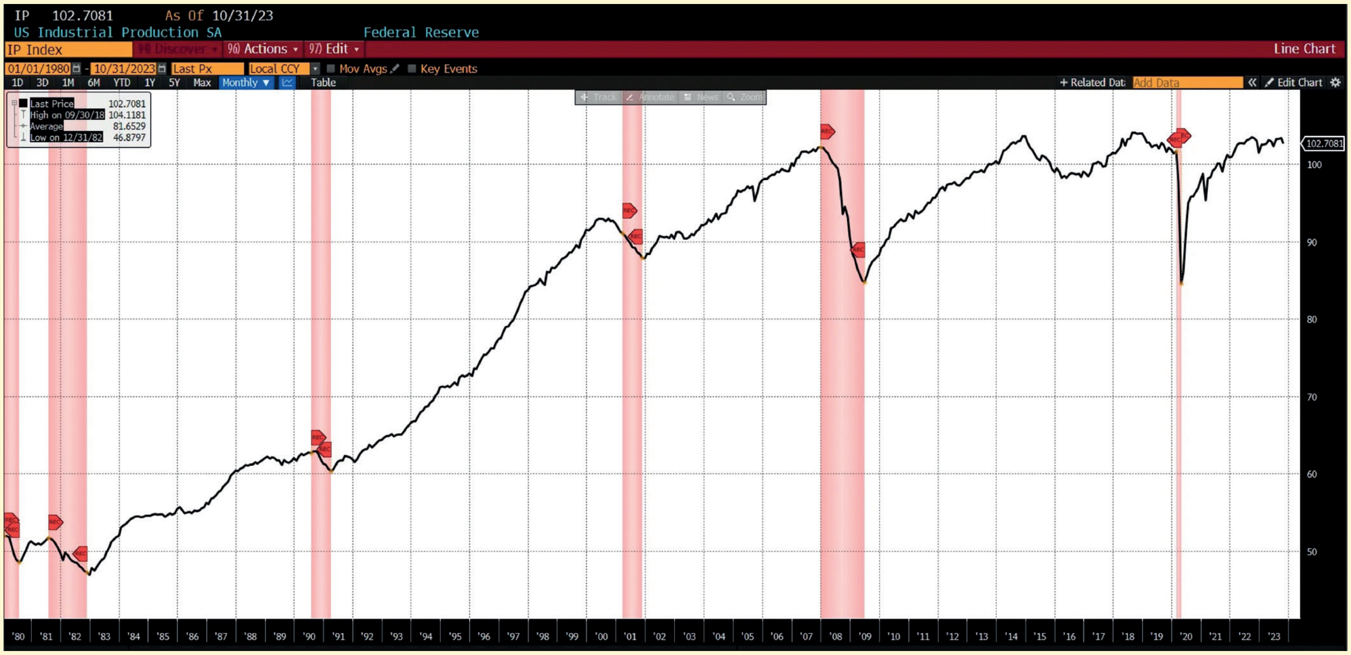


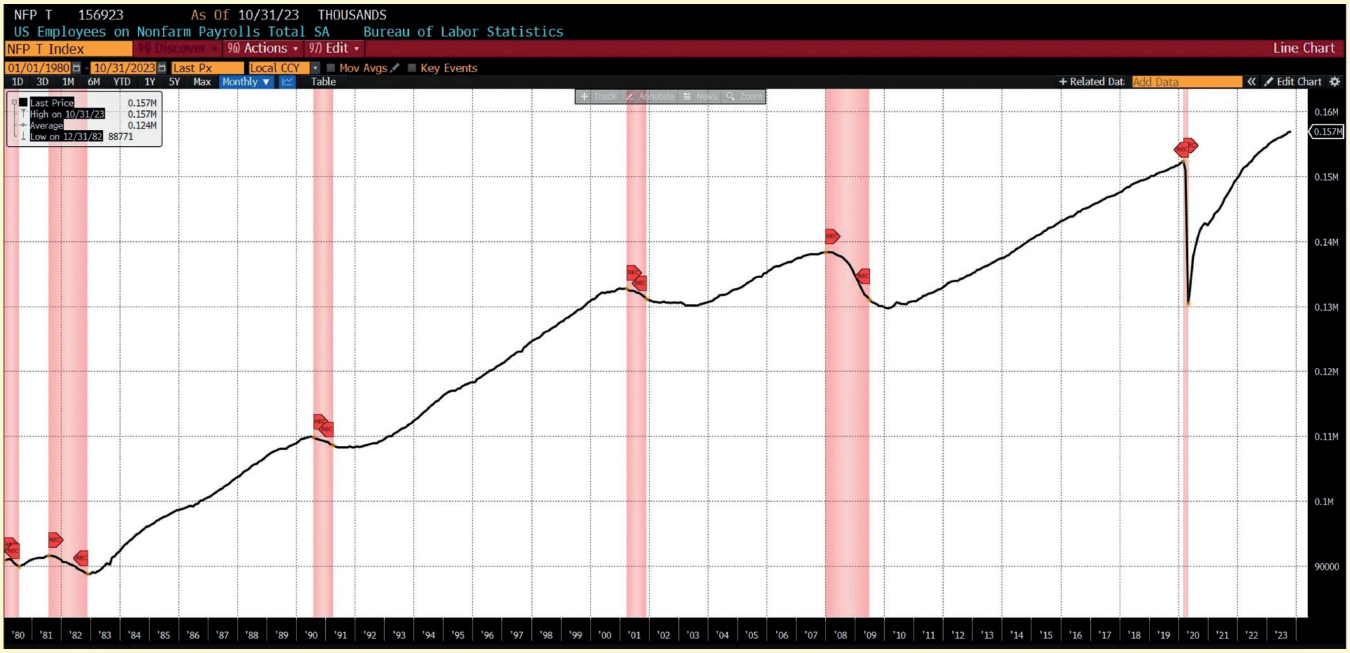
ROUGHLY COINCIDENT INDICATORS




COI PI 15758.00 As Of 10/31/23 Billion 1996 USD
Conference Board Coincident Personal In... Conference Board
COI PI Index
Line Chart
Last Price 15758.00
High on 10/31/23 15758.00
Average 10007.60
Low on 07/31/80 5196.30

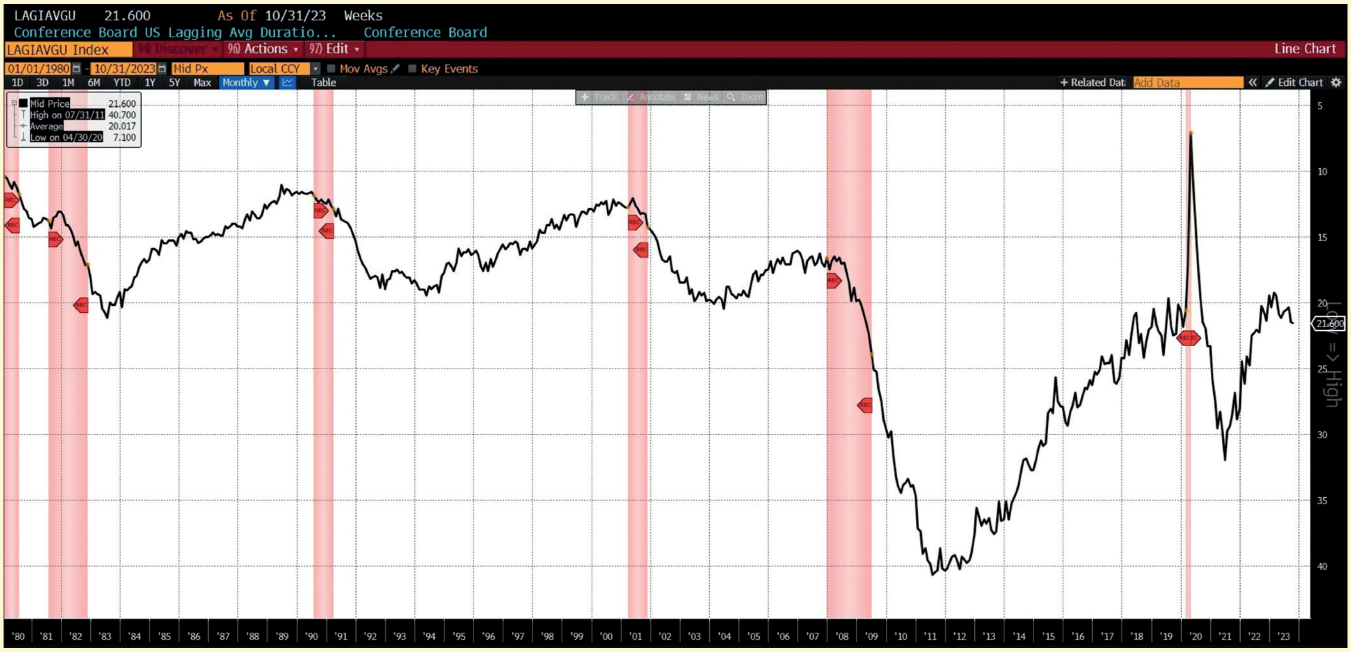

CONCPSIT 138.2 For Nov Next Release 20 Dec 10:00 Survey --
Conference Board Consumer Confidence Pr... Conference Board
CONCPSIT Index
Line Chart
Last Price 138.60
High on 07/31/00 186.80
Average 101.26
Low on 12/31/82 15.80

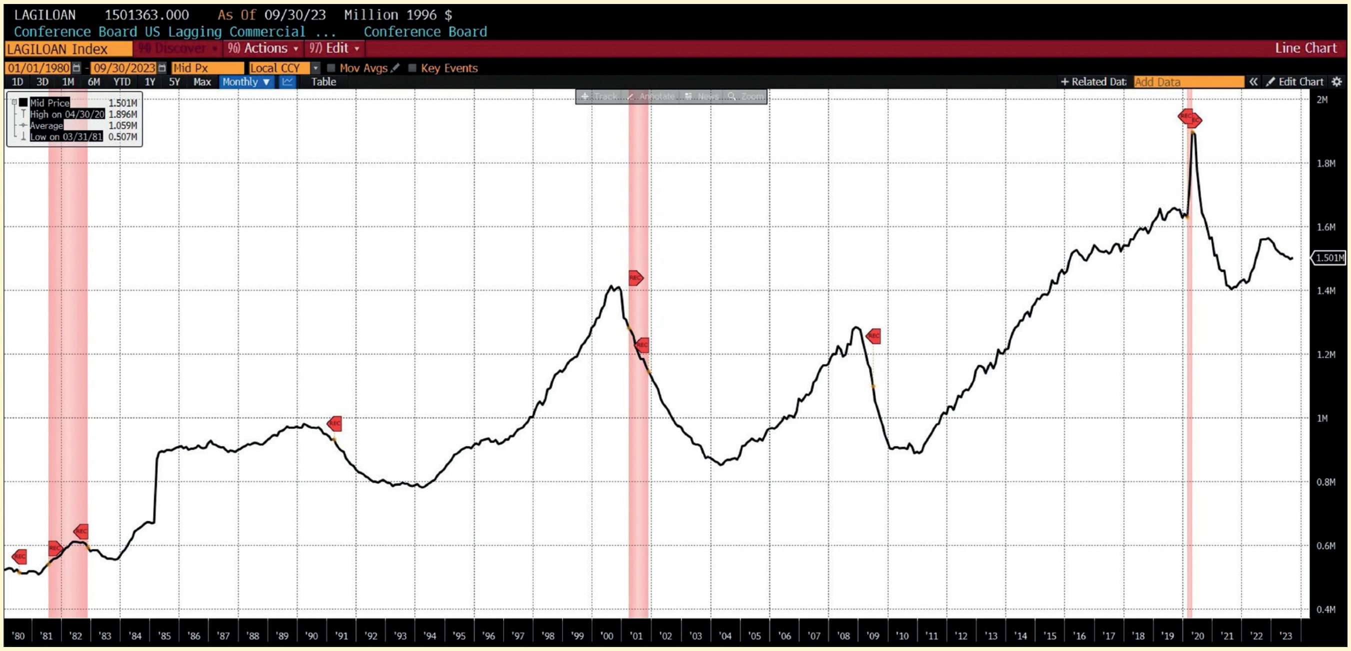

IP 102.7081 As Of 10/31/23
US Industrial Production SA Federal Reserve
IP Index
96) Actions
97) Edit
Line Chart
01/01/1980 - 10/31/2023
Last Px
Local CCY
Mov Avgs
Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Related Data
Add Data
Edit Chart
Last Price 102.7081
High on 09/30/18 104.1181
Average 81.6529
Low on 12/31/82 46.8797
102.7081
100
90
80
70
60
50
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23


NFP T 156923 As Of 10/31/23 THOUSANDS
US Employees on Nonfarm Payrolls Total SA Bureau of Labor Statistics
NFP T Index
96) Actions
97) Edit
Line Chart
01/01/1980 - 10/31/2023
Last Px
Local CCY
Mov Avgs
Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Related Data
Add Data
Edit Chart
Last Price 0.157M
High on 10/31/23 0.157M
Average 0.124M
Low on 12/31/82 88771
0.16M
0.157M
0.15M
0.14M
0.13M
0.12M
0.11M
0.1M
90000
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23

LAGGING INDICATORS


DCPB030Y 5.36 -.02 0.00 /0.00
At 12/1 Op 5.36 Hi 5.36 Lo 5.36 Prev 5.38 Vol 0
DCPB030Y Index
Actions
Edit
Line Chart
01/01/1980 - 11/30/2023 Mid Px Local CCY Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Related Data
Add Data
Edit Chart
Mid Price 5.38
High on 06/30/00 6.62
Average 2.24
Low on 05/31/21 0.04
7.00
6.00
5.38
5.00
4.00
3.00
2.00
1.00
0.00
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


LAGIAVGU 21.600 As Of 10/31/23 Weeks
Conference Board US Lagging Avg Duratio... Conference Board
LAGIAVGU Index
Actions
Edit
Line Chart
01/01/1980 - 10/31/2023 Mid Px Local CCY Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Table
Related Data
Add Data
Edit Chart
Mid Price 21.600
High on 07/31/11 40.700
Average 20.017
Low on 04/30/20 7.100
5
10
15
20
21.600
25
30
35
40
Low <= High
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23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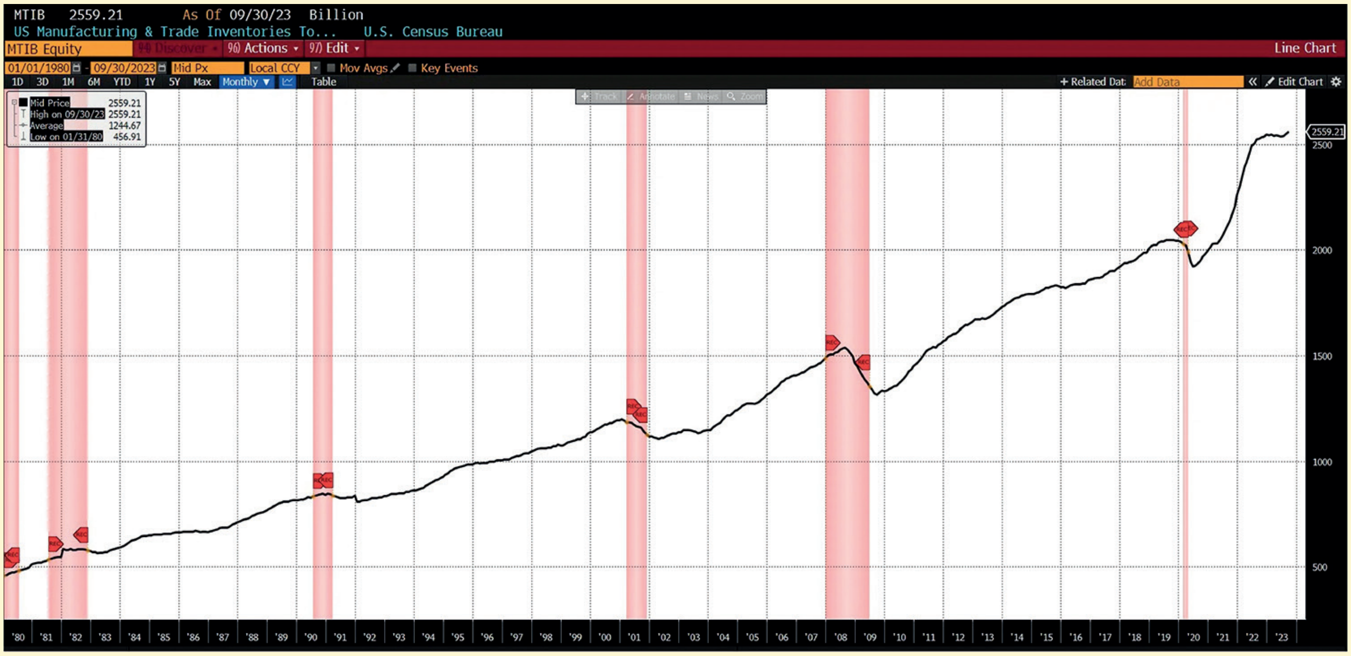
MTIB 2559.21 As Of 09/30/23 Billion
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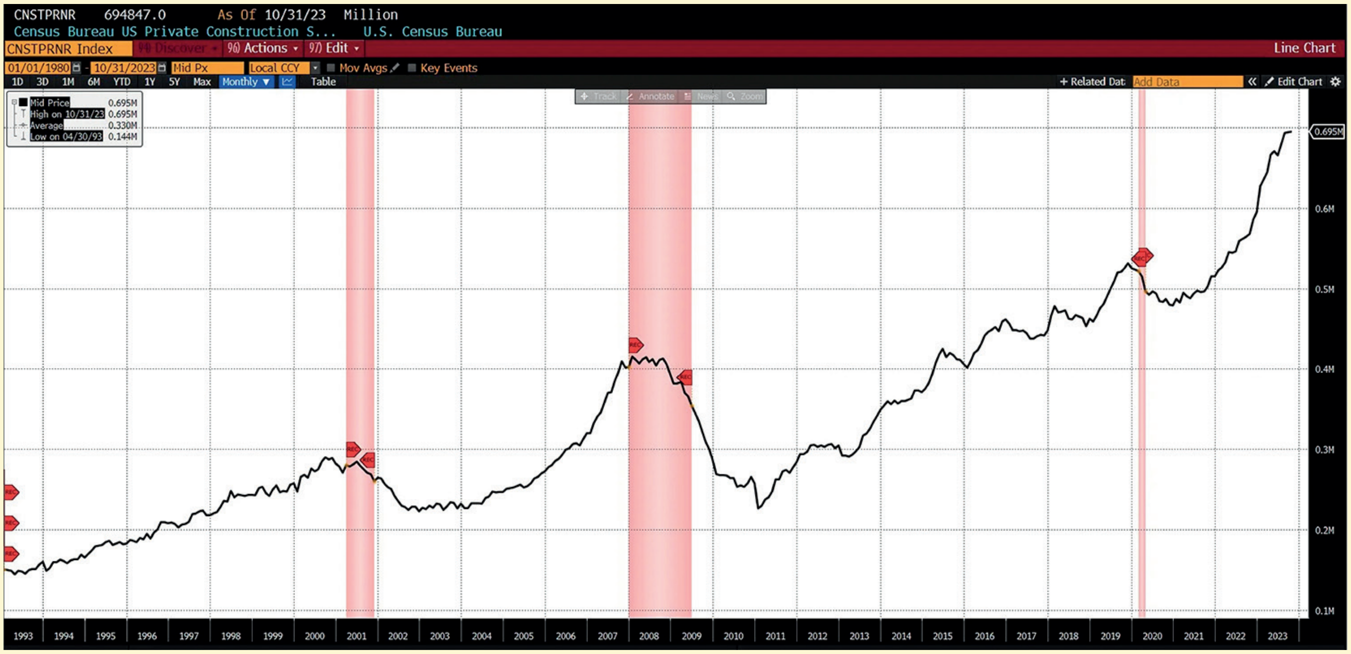

CAPITAL MARKET PERFORMANCE

▸ SPR		S&P 1500 Composite Index	+5.44%	+1.44%	+11.78%	9.3698	12.2040	11.4727
▸ SPXT	d	S&P 500 Total Return	+5.63%	+2.16%	+14.73%	9.5614	12.6324	11.8050
▸ SPX	d	S&P 500 INDEX	+5.42%	+1.75%	+12.84%	9.5416	12.6154	11.7900
▸ MID	d	S&P 400 MIDCAP INDEX	+5.94%	-1.65%	+2.00%	7.7496	8.6017	8.6646
▸ RTY	d	RUSSELL 2000 INDEX	+5.79%	-3.03%	-1.60%	1.7765	5.3540	6.1057
▸ SXXP	d	STXE 600 (EUR) Pr	+4.94%	+1.80%	+5.17%	9.4460	8.9193	7.1280
▸ TLT US	d	ISHARES 20+ YEAR	+6.12%	-1.96%	-13.17%	-14.1148	-2.0414	1.0965
▸ QLTA US	d	ISHARES AAA - A	+4.00%	+1.49%	-1.72%	-4.5897	1.6925	1.9751
▸ CRY	d	TR/CC CRB ER Index	-3.90%	-4.78%	-2.14%	19.4329	8.2914	-.0452
XAU		Gold Spot $/Oz	+5.40%	+7.32%	+17.88%			
XAG		Silver Spot $/Oz	+10.34%	+5.91%	+14.18%			
ILM3NAVG		Bankrate 30Y Mortgage Rates Na	-6.73%	-.66%	+14.90%			
ILM1NAVG		Bankrate 15Y Mortgage Rates Na	-6.81%	-1.18%	+13.54%			
MB301ARM		5 Year ARM	-5.72%	+1.38%	+20.26%			
ILA3NAVG		Bankrate 30Y Fixe Mtg Refis Na	+.26%	+4.76%	+19.57%			

– December 4, 2023

College History Textbooks spread Misinformation about the Great Depression

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The Great Depression was the most significant macroeconomic event of the past century, but don't expect to find an accurate portrayal of its causes in your college history classroom. The most commonly assigned college-level US history textbooks contain obsolete and economically erroneous explanations of the 1929 stock market crash and its aftermath.

In a new study I co-authored with Jeremy Horpedahl and Marcus Witcher, we examined nine widely used US history textbooks and evaluated their accounts of the Great Depression. We then compared those narratives to assessments of the same event by economists and economic historians. The results show that historians are largely unaware of the leading economic explanations for the Depression.

Most economists attribute the crash to a decade-long quagmire to a series of bad economic policy decisions in the 1920s and '30s. As former Federal Reserve chairman Ben Bernanke conceded, the Fed is now widely recognized as having botched its response to the unfolding events of 1929-1933. Through a string of erroneous policy decisions and inaction, the Fed created the conditions for a monetary contraction and directly exacerbated a collapse of the banking system. Other policy blunders, such as the steeply protectionist Smoot-Hawley Tariff of 1930, added fuel to the fire by triggering a global collapse in international trade. And in 1932, President Herbert Hoover signed a massive hike in federal income tax rates in a misguided attempt to close the budget deficit. Contractionary fiscal policy during a Depression is seldom a good idea.

Other "consensus" economic explanations of the Depression do borrow elements of Keynesian theory, suggesting that the 1929 crash and aftermath illustrated a contraction in aggregate demand. This proposition has been heavily contested since Keynes first advanced it in the 1930s, but it remains a part of mainstream economic theory. To illustrate the range of economic explanations for the Great Depression, we summarized ten of the most commonly used college-level economics textbooks below.

TABLE 1: Use of the Great Depression in College-Level Introductory Economics Textbooks

	Income Inequality	Debt, Credit, Bankruptcies	Stock Market Crash	Federal Reserve Policies	Bank Failures	Monetary Contraction	Gold Standard	Aggregate Demand contraction (Keynesian explanation)	Protectionism/ Smoot-Hawley
Bade and Parkin				X	X	X		X	
Baumol et al.								X	
CORE Team	X		X	X		X		X	
Cowen and Tabarrok		X		X	X	X		X	
Frank et al.				X	X	X	X	X	X
Gwartney et al.				X		X		X	X
Mankiw			X	X	X	X		X	X
McConnell et al.				X		X		X	X
Samuelson and Nordhaus		X	X		X			X	X
Stevenson and Wolfers					X			X	

NOTE: Some categories listed in Table 1 are not included here because no history textbook mentioned them. The categories are: the gold standard, aggregate demand, and protectionism.

Turning to the nine most-common US history textbooks, we found a very different story. Monetary explanations of the Great Depression were seldom mentioned at all. Only two of the nine texts mentioned the role of Federal Reserve policies. The protectionist policies of Smoot-Hawley were largely omitted. US history textbooks even neglected doctrinaire Keynesian explanations rooted in an aggregate demand contraction.

Instead, all nine history textbooks attributed the Great Depression to a class of explanations known as "underconsumption" theory. Briefly summarized, underconsumption holds that economic production outpaced what most consumers could purchase given their low pay, triggering a contractionary event in the form of the Depression. This argument attained popularity in the early 1930s, and was used to justify many of the economic planning and regulatory programs of Franklin Delano Roosevelt's New Deal. Economists today overwhelmingly reject "underconsumption" theory. Even Keynes expressed skepticism of the notion, and attempted to prod the Roosevelt administration over to an aggregate-demand-based theory of the unfolding events. For the past 80 years, few if any economists have seriously entertained "underconsumption" as a viable explanation of the Great Depression.

As our study shows, US history textbook authors remain badly out-of-touch with the economic literature about the Depression. They also augment their obsolete "underconsumption" explanation with other political appeals.

Eight out of nine US history textbooks attributed the Great Depression to rising income inequality. Only one economics textbook made a similar argument, the explicitly heterodox CORE open access e-book. Tellingly, none of the history textbooks offered a coherent causal mechanism by which inequality supposedly caused or triggered the Great Depression. They simply asserted it to be the case.

The table below shows the range of causes listed in the nine US history textbooks. Note that it contains barely any overlap with the depiction of the same events by economists.

TABLE 2: Explanations for the Cause or Severity of the Great Depression in College-Level Introductory History Textbooks

	Under-consumption	Income Inequality	Over-production	Debt, Credit, Bankruptcies	Lack of Federal Regulations	Stock Market Crash	Federal Reserve Policies	Bank Failures	Monetary Contraction
Berkin et al.	X	X		X			X		X
Brinkley	X	X				X			
Divine et al.	X	X	X			X			
Faragher et al.	X	X	X			X			
Foner	X	X		X		X			
Henretta et al.	X			X		X			
Norton et al.	X	X		X	X	X			
Roark et al.	X	X		X					
Shi and Tindall	X	X	X				X	X	

NOTE: Some categories listed in Table 2 are not included here because no economics textbook mentioned them. The categories are: underconsumption, overproduction, and lack of federal regulations.

So what are we to make of this odd situation? The comparison of the two charts shows that US history instruction, including at the college level, is badly out of sync with the scholarly literature on the Great Depression. History textbooks show little cognizance of the leading economic explanations for this famous event, and display almost no awareness of how this literature has developed over the past 80 years.

The resulting treatment of the Great Depression in US history textbooks does little to educate students about the actual causes of the Great Depression. It does, however, privilege obsolete political arguments from the early 1930s that were used to justify the New Deal.

– November 10, 2023

The IMF is Wrong – and Right – About Crypto

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A recent report from the International Monetary Fund (IMF) and the Financial Stability Board (FSB) discusses the potential economic and financial risks posed by cryptocurrencies. The report provides "comprehensive guidance to help authorities address the macroeconomic and financial stability risks posed by crypto-asset activities and markets."

It should come as no surprise what the inter-governmental organizations advising major governments would recommend as a solution: more government.

The "Risks" of Crypto

Though noting that governments should evaluate "the costs and benefits associated with crypto-assets," the report itself is focused mostly on the costs. It outlines a number of risks that crypto might pose to monetary policy, financial stability, capital controls, and more. I am skeptical, however, regarding some of the supposed risks outlined in the report, as well as its proposed solutions.

Monetary policy: One of the report's main concerns is that crypto usage will interfere with domestic monetary policy, especially where such policy is unreliable already. "The risk of currency substitution," the report describes, "is particularly pertinent for countries with unstable currencies and weak monetary frameworks."

It is true that crypto is more likely to be adopted in countries with poor monetary policy, but this is mostly a problem for governments. From the citizen's perspective, crypto is a tool that can lessen the negative effects of a government's harmful policies.

Financial stability:

The IMF and FSB worry about financial instability that might be created by the integration of crypto with the traditional financial system. The report notes that "crypto-asset market turmoil" in May 2022 spilled over into traditional financial markets.

As some have noted, however, the major failures in 2022, including FTX and Three Arrows Capital, were not decentralized crypto protocols, but rather traditional financial institutions operating in the crypto space. Preventing such failures would be better accomplished by clarifying existing regulations rather than creating additional regulations for the crypto industry.

The use of stablecoins pegged to the value of the US dollar is another stability concern. It is possible that the value of a particular stablecoin might collapse if the issuer fails to maintain sufficient dollar reserves. This risk, however, is already being monitored by jurisdictions like the United States, the European Union, and others. It is unclear what benefit additional regulations would add.

Capital flows:

The report cites the use of cryptocurrencies to evade capital restrictions and notes that such evasion is "robustly higher in countries with tighter capital controls." Such capital controls may benefit the government, but they are harmful to citizens who seek only a stable asset in which to store their hard-earned wealth.

The report cites a laundry list of potential dangers, but the main worry seems to be that crypto will enable citizens to evade their governments' oppressive policies.

Policy Recommendations

To alleviate the supposed risks, the IMF and FSB recommend extensive systems for government monitoring, restricting, and managing cryptocurrency usage. The report also proposes an international framework for "regulation, supervision, and oversight of global stablecoin arrangements" as well as other frameworks for international regulation and governance of cryptocurrencies.

Naturally, the IMF and FSB recommend themselves as stewards of this process. Their policy roadmap proposes a number of ongoing actions and initiatives, virtually all of which would be organized by the IMF, the FSB, or both. They even call for a "global financial safety net," which, of course, the IMF would manage.

No Bans on Crypto

Despite recommending regulation, the report discourages attempts to ban crypto entirely, as such efforts can be costly and have potentially harmful unintended consequences.

"Blanket bans that make all crypto-asset activities (e.g., trading and mining) illegal can be costly and technically demanding to enforce," the report describes. "They also tend to increase the incentives for circumvention due to the inherent borderless nature of crypto- assets, resulting in potentially heightened financial integrity risks, and can also create inefficiencies."

I am glad to see the IMF acknowledging the difficulty and costliness of attempting to ban crypto. Almost a decade ago, my coauthors and I reached similar conclusions in our paper "The Political Economy of Bitcoin." We argued that in many countries, enforcing outright bans of bitcoin and cryptocurrencies would be difficult or impossible. It is good that the IMF has come around to this position.

The IMF and FSB's recommendations are transparently pro-government and anti-citizen. They overstate the potential harm of cryptocurrencies and propose monitoring systems that would benefit tyrannical governments at the expense of the public.

While the risks in the report are overstated and the solutions overbearing, at least the report gets one thing right: banning crypto would be a huge mistake.

– November 1, 2023

The Biden Administration's Artificial Intelligence Rent-Seeking Play

PAUL MUELLER
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This week President Biden signed a sweeping executive order around the use and development of Artificial Intelligence. While many commentators have praised it for its extensive use of platitudes and ambitious scope, basic economic analysis suggests this policy is business as usual for the Biden administration: usurping authority, brow-beating private-sector companies, slowing innovation, and advancing a divisive progressive agenda in the name of "equity."

Although the administration claims authority from the Defense Production Act, very little of the executive order is even remotely related to national defense. It uses boilerplate language about "serious risk," "national economic security," "national public health," "ensuring safety," "ensuring appropriate screening," and much more.

These aspirations have little connection with what this executive order will do.

The Biden administration signaled from day one (Executive Order 13985 *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*) that it would engage the entire machinery of the federal government to promote rent-seeking for "disadvantaged" groups – defined however the administration would see fit. It recently doubled down on this agenda. This new Executive Order 13960 on the *Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence* continues to advance the equity agenda.

Give them kudos for consistency!

From their attempt to "forgive" student loans to handing out tens or even hundreds of billions of dollars to favored groups they call disadvantaged – from distressed farmers to women and minority business owners to companies advancing "climate justice" through renewable energy production or electric vehicle development – the Biden administration clearly knows who should win and who should be ignored.

The same is true of this EO about artificial intelligence. The order inserts government bureaucrats and agencies into the development and use of AI. The administration wants to slow and restrict AI development – recommending that large AI companies come to government officials to "independently verify" the safety of their models and applications. Of course, political incentives being what they are, these evaluations of safety will be used to redirect and tweak AI models towards the priorities of the current administration and its ubiquitous "disadvantaged" groups.

Without details, evidence, or examples, the Biden administration insists that it cannot and will not "tolerate the use of AI to disadvantage those who are already too often denied equal opportunity and justice. From hiring to housing to healthcare, we have seen what happens when AI use deepens discrimination and bias, rather than improving quality of life." In response, administration officials intend to put their thumbs on the scale to make sure their favored groups, labeled as disadvantaged, gain special status, funding, access, and priority through AI models.

The lack of nuance on the topic of equity is mind-numbing. Furthermore, it is pedantically simplistic and erases individuals as moral agents by subsuming them under whatever group or class identity happens to be politically convenient.

Economic models of rent-seeking demonstrate that these requirements will divert resources away from productive activity, toward lobbying politicians and regulators for favorable treatment. Restrictions on AI development, despite the administration's claims to the contrary, will almost certainly make the AI space less competitive and more difficult for smaller and newer firms to operate in – further entrenching the economic size, political influence, and social clout of current massive tech companies.

The Biden administration is going about AI governance all wrong. Instead of allowing legislators to create clear, general rules based on observed, direct harm from AI development, it has taken the precautionary principle to an unhealthy extreme. This EO creates rules, restrictions, and demands on AI developers based on hypothetical, fictitious, abstract, and even imaginary *potential* harm. But all these precautions are costly – both in time and money – and will inevitably slow US companies' advance in what appears to be a critical new technology.

Concern about the strength and application of AI in national security and great-power rivalry should lead to an opposite approach, known as "permissionless innovation." The EO gets it right when it states "America already leads in AI innovation—more AI startups raised first-time capital in the United States last year than in the next seven countries combined." But the principles of this order, as they are developed into regulatory tools by the administrative state, are a clear threat to this creative lead in AI by American companies.

How does that serve American interests?

Just as a strong economy built on the rule of law, private property, and free enterprise prepared the US for a global war in the 1940s, unleashing US innovation in software and AI algorithms by reducing rules and regulations will create a far more robust technological base from which to compete with other countries. It will also help us combat hacking, electronic espionage, and other forms of technological sabotage.

Rather than averting danger, this executive order will put the US at a disadvantage in the race to develop AI. Instead of making AI "safer" and more "equal," these rules allow the federal government and its agents to direct the development of AI to benefit its favored interest groups at the expense of everyone else.

Rather than lauding ("landmark" and "the most sweeping actions ever") their own foresight and wisdom, Biden administration officials should be ashamed that Executive Order 13960 ever saw the light of day.

– November 2, 2023

FTC Suit Against US Anesthesia Partners Highlights How Anticompetitive US Health Care Is

ANGELA DILLS
Visiting Scholar

The Federal Trade Commission (FTC), under its chairwoman Lina Khan, has taken on some big corporations including Microsoft, Amazon, Google, and Meta. One of the FTC's newest targets is US Anesthesia Partners (USAP), a private equity firm that now owns a number of anesthesiology practices in Austin, Dallas, and Houston, Texas. USAP is accused of a "multi-pronged anticompetitive strategy [and its] resulting dominance has cost Texans tens of millions of dollars more each year in anesthesia services than before USAP was created." The three prongs of the alleged strategy are buying up existing practices to establish market power, engaging in price-setting agreements, and colluding with potential competitors to allocate sales territory.

As the FTC notes: "Section 7 of the Clayton Act prohibits mergers and acquisitions where the effect 'may be substantially to lessen competition, or to tend to create a monopoly.'" With large mergers and acquisitions, businesses must notify the government in advance, seeking approval. In USAP's case, the acquisitions were a series of purchases of relatively small anesthesiology practices.

Economics — and the government — use the Herfindahl-Hirschmann Index (HHI) to measure a market's competitiveness. The index ranges from 0 to 10,000 points, with values close to zero indicating something like perfectly competitive markets. The Department of Justice and the FTC's horizontal merger guidelines define markets with an HHI over 1,800 as concentrated, and mergers that raise the HHI by more than 100 points as raising significant competitive concerns.

The FTC provides HHI calculations in its complaint against USAP for the three metropolitan areas in question (Austin, Dallas, and Houston). These calculations show increases well above 100, that lead to HHIs well above 1,800. Absent some wrangling over how to properly define the relevant markets, these figures imply acquisitions that significantly reduced the competitiveness of hospital-based anesthesiology services.

The complaint — which makes for surprisingly good reading — also makes clear the wide variety of existing practices that make the healthcare industry so anti-competitive.

First, it takes a long time to train and certify an anesthesiologist (12-plus years) or even a Certified Registered Nurse Anesthetist (7-8 years). In some states, CRNAs can work independently; Other states require that a qualified physician supervise CRNAs. In Texas, CRNAs are not permitted to practice without physician supervision.

There are ongoing shortages in many healthcare professions, including in anesthesiology. Long training times and restrictions on the use of close substitutes for anesthesiologists, like CRNAs, pose a challenge to increasing the amount of anesthesia services available.

Second, a reader of the FTC complaint will quickly notice that all of the reimbursement rates — the prices paid to anesthesiologists — are redacted from the text. With no information on price or quality of services, it's challenging for an outsider to determine the effects on consumers. At a time with significant inflation and 2-4 year contracted pricing, one would expect rates to be rising, and the redaction prevents knowing to what degree this is happening.

The lack of visible prices is a telling feature of much of healthcare: Consumers rarely know the prices they, or their insurance, are paying for services provided. Without information on price (let alone on quality), it's hard to make informed decisions or to shop around for better quality, lower-priced services.

Third, many hospitals described in the complaint sign exclusive anesthesia contracts with anesthesiology practices. So, for example, if USAP signs an exclusive contract with a hospital, it is obligated to provide all anesthesiology services all day, every day. The flip side of this is that only one company can provide anesthesiological services in that hospital.

How much an insurance company pays anesthesiologists for their services is determined by the insurer's negotiated rates for each anesthesiology practice.

The complaint describes USAP's strategy as the following: Find anesthesiology practices that have signed exclusive contracts with key hospitals. Buy up the practice and transition that practice's reimbursement rate to the higher rate previously negotiated by USAP with the same insurer. Thus, the 'same anesthesiologists' are paid more.

As the FTC notes: "Patients do not, however, actively choose their anesthesiologists. Instead, anesthesia practices compete for contracts — often exclusive — to provide hospital-only anesthesia services at hospitals in the Houston MSA."

Imagine the scenario: A patient carefully seeks out a hospital that is an in-network provider for her health insurance, assuring the patient of lower out-of-pocket costs. This does not guarantee that the anesthesiologist proving pain management during the procedure is in-network. In the past, this resulted in surprise balance billing where anesthesiologists billed the patient separately for their services. The patient could then file the bill for out-of-network reimbursement from her insurer, but likely would be left with significant out-of-network, out-of-pocket expenses.

The recent No Surprises Act addresses some of this, requiring out-of-network providers at in-network hospitals to accept the in-network reimbursement rate as full payment. But, in cases like that of USAP, the No Surprises Act will likely reduce competition further.

Part of the complaint outlines United Healthcare's ongoing conflict with USAP. United Healthcare disputed USAP's attempt to raise rates and attempted to lower them. When USAP refused, United shifted them out-of-network in 2020. This likely resulted in more surprise billing, leading to pushback on the hospitals and firms using United to administer their health insurance plans. United eventually accepted higher USAP rates and brought them back in-network.

United Healthcare pushed back against the higher prices charged by USAP with the main lever it has: the threat, and reality, of shifting services out-of-network. But the nature of anesthesiology, exclusive hospital contracts, and, now, the inability to charge higher rates out-of-network for a range of services mean that the out-of-network threat is not threatening.

Neither do administrators have any incentive to fuss over prices charged by anesthesiologists practicing in their hospitals. Hospitals don't reimburse anesthesiologists. And anesthesiologists who charge higher rates "can (and sometimes do) offer to share the spoils with hospitals in the form of a lower subsidy from the hospital."

Limited supply, restrictions on the use of CRNAs, exclusive contracts with hospitals who likely prefer higher prices, individually negotiated rates with insurance plans, and balance billing regulations are just the restrictions clear from the government's complaint! There's little competition to be found much of anywhere in healthcare.

– November 10, 2023

Universal Basic Income? Universal High Income?

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With Woke Warriors reeling from reality, radical progressives are circling back to universal basic income (UBI) in their ceaseless attempt to collectivize America and other English-speaking paragons of free markets and free people. Implementing UBI, however, makes no more sense today than a year ago, or the 1970s, or the 1930s, or any previous epoch in which it (or its mutant offspring like "social insurance") has reared its head.

As cancel culture cancels itself, ESG retreats due to underperformance, and CRT melts under the critical gaze of Thomas Sowell's *Social Justice Fallacies*, some radical progressives, including Fredrik DeBoer and Musa al-Gharbi, want to return focus to bread and butter economic issues. Time, then, to queue the UBI gaslighting that coauthor Aleksandra Przegalinska and I warned about in 2021 and last year. UBI may seem like a remote possibility at present but who among us saw lockdowns, mask mandates, and vaccine Duckspeak on the horizon in early 2020?

"Universal Basic Income Is Working — Even in Red States" proclaims *Business Insider. Nonprofit Quarterly* has also chimed in, rehashing a trio of articles asserting that UBI will create "a broader solidarity economy." The traditionally conservative Claremont McKenna College recently hosted a staff writer (and author of a pro-UBI book) from *The Atlantic*. Crypto entrepreneurs, *Forbes* says, are developing a UBI of their own because apparently blockchains can create something out of nothing.

The Massachusetts legislature is currently considering a bill that would create yet another UBI "pilot" program by paying $1,000 a month to 100 people for 3 years. Not that more studies are needed once international "evidence" is adduced. *Vice* reports that Canada's UBI trials were so "successful" that it will likely soon hold a national forum focused on implementation. Ireland will not be far behind, reports the *Irish Times*. The *Wall Street Journal* says that South Korea is also going to implement a UBI in order to "boost" its economy.

Look for more such gaslighting if Ted Cruz's *Unwoke* gains traction or the Woke agenda suffers additional setbacks a la Bud Light or Target. Not that there is anything inherently Woke about UBI. Libertarians still debate its potential costs and benefits — Bryan Caplan and Chris Freiman are currently doing so. Some of the giants of free market economics, including Milton Friedman and Friedrich Hayek, floated UBI-like proposals.

The devil with such policies is always in the design. Where would the money come from, existing program cuts, higher existing taxes, new taxes, and/or new money creation? Would a UBI simply displace the current hodge-podge of income transfers or add yet another layer? Including Social Security and Medicare? What, if anything, will prevent the government from cutting off UBI payments to individuals it deems unworthy, like convicted violent criminals? or suspected "white supremacists" or "vaccine deniers"?

None of the trial programs cited by progressives are universal, or basic, or permanent, the three defining characteristics of UBI. The sums involved are trivial, often donated rather than from taxes, and given to narrowly defined groups for a finite period. Studies of program effectiveness merely show that giving people money makes them better off, but we knew that already.

An actual UBI would be distributed to all people (or perhaps just adults) until their death, and would cost at least five percent of GDP on net. That would be a dangerous experiment in collectivism with unknown, and until implemented unknowable effects on labor force participation, crime, birth rates, educational attainment, and residential patterns.

Progressives argue that Artificial Intelligence (AI) and other technological advances will render UBI “necessary” by making employment obsolete. One UBI proponent thinks humanity is headed toward “fully automated luxury communism” without explaining why robots will suddenly make collectivism work.

Elon Musk edges closer to the mark with his recent claim that humanity is headed for “universal high income” instead of UBI. Indeed, anyone conversant with economic history knows that humanity has already made great strides in poverty alleviation without a UBI and there is no reason that the trend will not persist to the extent that peace, easy taxes, and a tolerable administration of justice prevail. That means *reducing* the power of the state rather than *extending* it with UBI or other collectivist social experiments.

Commentators on Musk’s idea have been flummoxed by how “universal high income” would come about, but Przegalinska and I have already explained that stock ownership would be key. Governments should encourage widespread corporate ownership instead of erecting more barriers with regulations, including ESG mandates, that drive innovative companies into private equity instead of public ownership. Let the capital markets function and everyone can own a slice of the prosperity to come. If Musk is right and centuries-long trends continue, the slices won’t be equal, but they will be ample.

– November 18, 2023

TikTok: Five Cuts

JAMES R. HARRIGAN
Senior Editor

If anything is fair to say in this world, it is that presidential candidate Nikki Haley is not a fan of TikTok. She has been saying for quite some time now that the platform needs to be banned in the United States, and some unfortunate, if predictable outbursts last week provided a whole lot of grist for that particular mill. She is so sure of the correctness of her position that she has convinced herself that, once parents explain to their teenage children why TikTok had to go, they will understand.

I can't believe it falls to me to say this, but that's not how teenagers work.

Be that as it may, there are deeper problems with all of this, and they cut in a multitude of ways.

But first, Haley's contentions. "The reason we want to ban TikTok," she recently said, "and yes, I think we need to ban it — is because it's an app that actually goes and has access to your contacts, to your financial information, to your camera, to your recorder, to everything. It's infiltration; we know that."

I would say that I would suspect Haley would be horrified if she knew how many apps she just described but, of course, she wouldn't be. She knows she has just described many apps on every phone on her family plan. Many. The difference between TikTok and most of the rest of them is that TikTok is a Chinese product. And that's the first cut. Sure, the Chinese don't particularly look like a traditional ally. Surely, they spy on the United States. But is TikTok a security risk? Are the Chinese stealing sensitive state data one 34-second video at a time?

That seems silly, mostly because it is. TikTok is, in the end, a hopeless waste of time. And the American people were pretty much of that mind, no matter how hard Nikki Haley tried to chip away at the stone, right until fortune delivered a Hail Mary pass right into Haley's outstretched hands. That happened when a number of TikTokers came rushing to the defense of…wait for it…Osama bin Laden.

What do Osama bin Laden and TikTok have to do with each other? Well, nothing. Right up until the United States got tangled up in Israel's problem with Hamas. Once that happened, it was a foregone conclusion that any number of young people more conversant in keyboarding than American history were going to be taken in by the argument that everything Israel is presently doing is unnecessary at best, and mostly just evil, at worst. Thus, the reasoning goes, anyone who supports what Israel does is also evil, and anyone who stands up to that evil (which is the United States if you've kept up with the leaps of logic), is, by definition, good.

Thus, Osama bin Laden is good.

And so the story went for a number of TikTok days. And this, the second cut, played out most fully when some misguided and poorly educated American TikTokers got ahold of bin Laden's "Letter to America," in which he explained why he attacked the United States, and which had been published in full by *The Guardian* in 2002. With more than 73 million Americans on the platform, it's not surprising that some of them ended up pushing out this kind of nonsense. It's more than a little sad that none of them knew enough to be ashamed of themselves, but so it goes.

TikTok, for its part, was ashamed. It moved to take down all posts supporting bin Laden, arguing that such posts were a clear violation of its terms of service, which prohibit supporting terrorism.

And that's the third cut. The fourth? *The Guardian* took down bin Laden's "Letter," even though it had been sitting there in plain view for more than two decades.

So, we have a presidential candidate pushing to ban software being used by some 20 percent of all Americans because it is Chinese in origin and as such, a security risk. Making matters worse, young Americans, who are educated to blame the United States for all the world's ills, both real and imagined, took to TikTok to do what they do, but then the Chinese company censored Americans who were speaking ill of the United States.

It's hard to keep it all straight, and it's equally hard to identify heroes and villains.

But there's more. In the midst of all this, Haley opined that social media posts by anonymous users are a "national security threat" and that every poster, presumably across all platforms, should be "verified by their name."

If this sounds curiously like a license to engage in free speech, it should. And Americans already have a license to engage in free speech, in the form of the First Amendment. And if you are thinking that the United States has a long history of anonymous, public speech, you're right. Thomas Paine's "Common Sense" and the *Federalist* essays written by James Madison, Alexander Hamilton, and John Jay are just two cases in point. There are many, many others.

Then again, "Common Sense" and The *Federalist* were, in fact, national security threats. To the English.

That fifth cut is a tough one.

– November 21, 2023

Garbled Economics in the WSJ on Argentina Dollarization

JASON SORENS
Senior Research Faculty

With Javier Milei's recent victory in Argentina's presidential election, everyone is talking about the prospect of dollarization there.

Enter a curious piece in the *Wall Street Journal.* I find the *Journal*'s straight economics reporting of late to be of higher quality than that found in the *Financial Times* or the *Economist*, but this piece is an exception.

Here's what it says about why dollarization won't work in Argentina.

> Yet choosing the wrong conversion rate can be fatal. Also, the dollars needed to swap for all peso holdings are likely north of $9 billion, Capital Economics estimated in August, based on the black-market rate for the peso. Borrowing this money when the country can't pay back the hard currency it already owes seems unfeasible.

"Not enough dollars" is a bad reason to claim dollarization won't work. Currency units are an arbitrary numeraire. All Argentina needs to do is set a conversion rate of pesos to dollars that would fail to exhaust the supply of dollars on hand.

Now, perhaps the real problem, then, is not that Argentina doesn't have enough dollars, but that given the number of dollars it does have, it would need to depreciate the peso "too much" to make the conversion work.

But the piece tries to make the *opposite* point, that the peso is too strong and needs to be depreciated:

> The off-the-charts fertility of the Pampas region brings in dollars, but that pushes the peso too high for the less-efficient manufacturing sector. A dependency on exports of soybeans, corn and wheat then makes the economy vulnerable to volatile global prices and droughts. These torpedoed the balance of payments back in 2018 and again this year.

You can't have it both ways.

The piece then goes on to editorialize that Argentina needs "export-led industrial policy" for economic revival:

> Exploiting the Vaca Muerta shale formation may help, but Argentina ultimately needs to close the productivity gap through the kind of export-led industrial policies that have worked in South Korea and Vietnam. Populist recipes have failed to deliver these, and so will Milei's.

First of all, Hong Kong and Singapore had much higher growth rates than South Korea and Vietnam without "industrial policies."

Secondly, who's to say that Milei's policies won't deliver productivity growth? That remains to be seen.

Finally, no one doubts that Argentina has had terrible macroeconomic policies. It's an odd argument against fixing those to point to yet more issues the country faces.

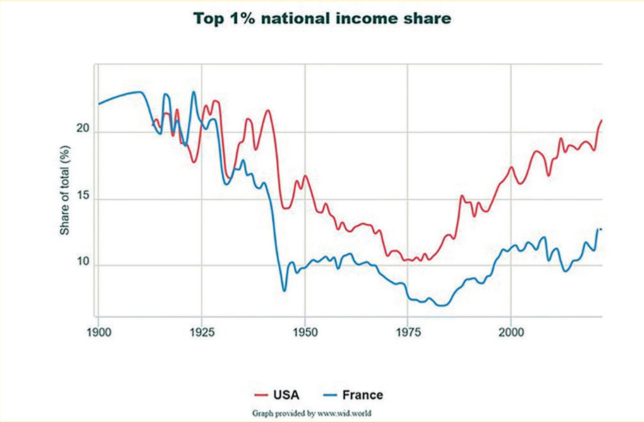
Dollarization may not be the first-best solution for Argentina, though it's hard to imagine it will be worse than hyperinflation, and this odd piece of "reporting" in the *Wall Street Journal* badly fumbles the case against it.

– November 26, 2023

It's Time to Discard Piketty's Inequality Statistics

PHILLIP W. MAGNESS (F.A. Hayek Chair in Economics and Economic History)
& VINCENT GELOSO (Senior Fellow)

Thomas Piketty is well-known for his work on estimating income and wealth inequality. That work made him an "economics rockstar" in the eyes of the media, as he appeared to confirm a popular narrative about rising inequality. Piketty's stats showed a consistent trend across the 20th-century United States. Top income and wealth concentrations followed a U-curve pattern, where the early 1900s were marked by high "Gilded Age" levels of inequality. These levels fell rapidly during the 1940s, stayed low until the 1980s, and rapidly rebounded until the present day as the "top 1 percent" pulled away from the rest of the pack.



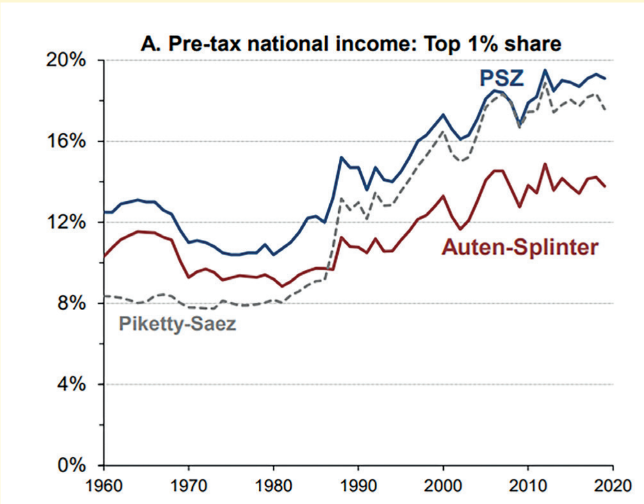
In fact, Piketty claims that US inequality today is higher than it was in 1929 — the highest point on the first half of the U-curve. The main culprit behind rising inequality, according to his story, is a series of tax cuts beginning with the Reagan administration. Just the same, Piketty points to the mid-20th century's tax system, where top marginal rates peaked at over 90 percent, as the reason for the trough in his U-curve. The resulting series of academic articles — often co-authored with Gabriel Zucman and Emmanuel Saez — are deemed as novel and important contributions to the scholarly literature on inequality.

The empirical work of Piketty and his coauthors has attained immense influence in American political life. The media often touts the U-curve and its depictions of skyrocketing inequality since the 1980s as a stylized fact. Politicians and pundits invoke his academic works to justify tax hikes and redistributive programs, all in the name of combating inequality.

What if Piketty and his team got the numbers wrong though? What if inequality wasn't rising as fast as he claimed, or what if the effects of growing income concentrations were already offset by existing government programs? There would no longer be an empirical case for hiking taxes or expanding government redistribution. That's the implication of a bevy of recent research articles, showing that Piketty's statistics could (and should) be discarded in favor of more rigorous work.

The most recent of these is an article by David Splinter and Gerald Auten in the *Journal of Political Economy.* Auten and Splinter revisited many of the data construction assumptions made by Piketty and his acolytes in dealing with data from 1960 to 2020. Most notably, they made sure that income definitions were consistent over time, that the proper households were considered (as Piketty et al. used tax units that can be easily biased by demographic changes), and that better data were used. They ended up finding that Piketty's mid-century trough was not as low as advertised. They also showed that the increase in income concentrations after 1980 was far more moderate than Piketty claims.

In the main article by Piketty and Saez, the top 1 percent earned 9 percent of all pre-tax incomes in 1980 versus 20 percent in 2020. In Auten and Splinter's improvements, these proportions are 9 percent and 14 percent, respectively. After accounting for transfers and taxes (something that Piketty and Saez fail to do), Auten and Splinter find virtually no changes since 1960. Piketty and his defenders have thus far attributed the differences to differing assumptions about methodology and the calculation of imputed portions of their series. But Auten and Splinter's work shows that these assumptions matter a great deal, meaning Piketty's version is no longer an authoritative standard for evaluating levels of inequality.



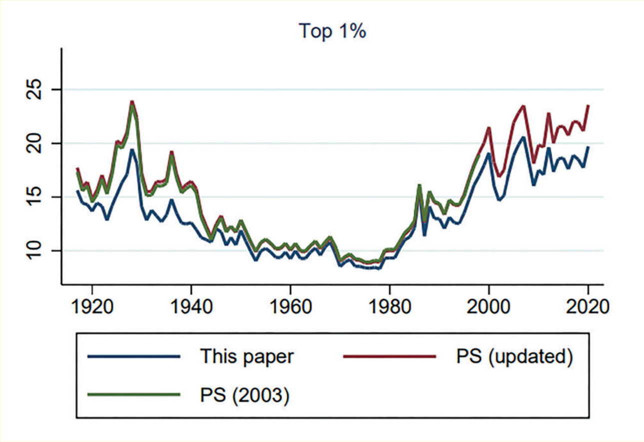
But what if we set aside the methodological disagreements about imputed data and focus instead on simply getting the underlying statistics right? It turns out that Piketty and Saez's original series had multiple accounting errors, data discrepancies, and even historical mistakes in how they dealt with changes to the tax code.

In a recent working paper, we set aside the discretionary disagreements over imputation and only looked at the ways that Piketty and his coauthors handled the underlying tax statistics. At multiple points over their century-long series, they switch out their approaches for estimating the total amount of income earned in the United States each year. This figure allows them to calculate the percentage of those earnings that went to the richest 1 percent, using income tax records.

Oddly enough, Piketty's most sweeping methodological changes happen at crucial junctures in their depicted U-Curve, such as the sharp decline in income inequality that they depict during World War II. It is no coincidence that these same years coincided with an overhaul of the tax code that standardized how the IRS collects and reports income data. In this instance, we found that Piketty and his coauthors failed to properly correct for the accounting changes, and used an inaccurate estimate of total personal income earnings. Similar errors pervade the entire Piketty-Saez series.

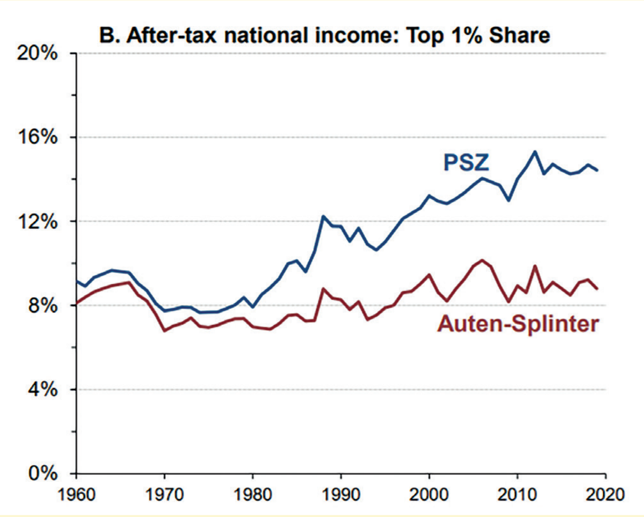
After correcting for these problems, we found that Piketty and his co-authors tend to underestimate total personal income earnings, thereby artificially pumping up the income shares of the richest earners. They do so inconsistently though, as their largest underestimations are from the periods between 1917-1943 and from 1986-present. These errors correspond precisely with the two highest periods of inequality, the two tails of the U-shaped pattern. Shifting to a consistent methodology that does what Piketty and his co-authors aimed to do, but does so more rigorously (we carefully assembled year-by-year data of national accounts components to create a consistent definition rather than use a "rule of thumb" as they did), shows that 40 percent of the differences between Piketty and the work of Auten and Splinter is due to the methodological inconsistencies of the former.

In earlier works published in *The Economic Journal and Economic Inquiry*, we also found other signs of carelessness by Piketty and his acolytes with data sources pre-1960. They used inconsistent definitions to link discontinuities in tax records. They omitted certain tax filing records after misreading their data sources. They made arbitrary decisions about how to impute gaps in their data, and used unreliable ratios to estimate the effects of accounting changes by the IRS. When we corrected all of these issues, we found that inequality was far lower in the 1920s than depicted. The decline did not start in the 1940s — it started in 1929 and close to two-thirds of it was completed by 1941. Again, the mid-century trough was not as deep as depicted. The combination of all work – the pre-1960 corrections and the century-long consistent methodology can be seen in the graph below where the U-curve is far less pronounced and at a lower level.



Other works have confirmed these points differently. A small list of these suffices to show this. Miller et al. in an article in *Review of Political Economy* showed that most of the increase from 1986 onward is due to tax shifting behavior linked to the 1986 Tax Reform. Armour et al. in an article in the *American Economic Review* showed that properly measuring capital gains eliminates all the increase since 1989. In subsequent work in the *Journal of Political Economy*, Armour et al. confirmed this finding. Finally, a National Bureau of Economic Research by Smith et al. confirmed that all of these findings also apply to wealth inequality. Moreover, work by Sylvain Catherine et al. from the University of Pennsylvania shows that Piketty and his team failed to properly consider the role of social security which – when included – essentially levels the evolution of wealth inequality.

Normally, these findings would be cause to revisit the conventional wisdom around Piketty's narrative. The problems with his underlying statistics are now well-documented, and newer and better estimates are available to take their place. Those estimates show a weaker U-curve with different timing and magnitudes for its evolution. Most of the decline to the trough is no longer tied to tax rate changes but rather to the effects of the Great Depression. Most of the increase post-1986 is an artifice of accounting and can be probably better attributed to changes in the returns to education during the 1970s, 1980s and 1990s which have since stabilized. Overall, the causal link between high taxes and low inequality (or the inverse scenario) is no longer apparent in the corrected data, which shows a much more nuanced evolution of top income levels over time. Indeed, one of Auten and Splinter's main findings shows that if you look at top income levels after taxes are paid, the top 1 percent has hovered around a stable 8 percent income share for the last 60 years.



As the study and measurement of inequality progresses, Piketty's (and his team's) main estimates have become obsolete and might be properly consigned to the field of the history of economic thought. However, Piketty is now calling anyone who refuses to accept his stats an "inequality denier" and saying it is equivalent to climate denial.

Critics do not deny inequality. They merely want to measure it correctly. Piketty's own data are deeply suspect and open to challenges that he simply does not want to answer. Labeling his critics as "deniers" is a way of sidestepping the many problems with his own work. That alone warrants not only discarding his estimates but also discounting any future research because of bad academic behavior.

– November 28, 2023

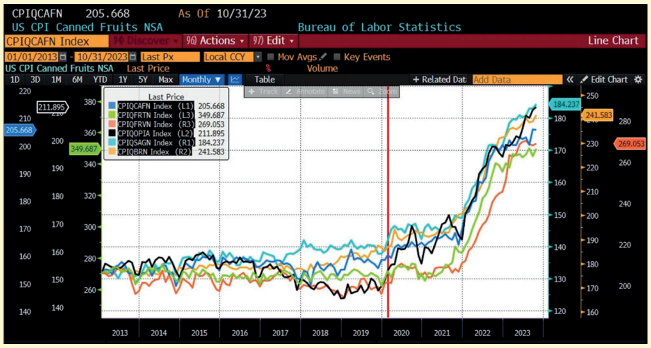
AIER's Thanksgiving Cost Index Climbs Over 5 Percent from 2022 to 2023

PETER C. EARLE
Senior Research Faculty

For the past few years, we have reported on the change in prices associated with various holiday seasons. The Thanksgiving Cost Index was the first, a product of our desire to track not just general price trends, but those of goods and services linked to specific events.

The constituents of the Thanksgiving Cost Index include the six CPI subcategories: turkey (and other poultry), sauces and gravies, bread (rolls and biscuits), canned fruit, vegetables, and pies and cakes. We also track the price of food away from home for comparison's sake. Without further ado, the price changes are shown below, first as a ten year chart, and then over the past three years.

Thanksgiving Cost Index constituents (red vertical line indicates start of COVID monetary policy response), 10 years



(Source: Bloomberg Finance, LP)

	Oct	Oct	Oct
	2020 to 2021	2021 to 2022	2022 to 2023
US CPI Other Poultry Including Turkey	1.68%	16.89%	7.25%
US CPI Bread	2.29%	14.78%	6.27%
US CPI Biscuits, Rolls, and Muffins	4.76%	13.57%	5.68%
US CPI Potatoes	1.66%	15.19%	3.34%
US CPI Frozen Vegetables	-0.30%	16.74%	10.69%
US CPI Fresh Vegetables	1.69%	8.28%	-2.22%
US CPI Canned Fruits	2.87%	18.68%	3.09%
US CPI Sauces and Gravies	1.76%	14.57%	7.48%
US CPI Food Away from Home	12.04%	8.59%	5.37%

The Inflation Reduction Act notwithstanding, the Thanksgiving Cost Index rose 5.3 percent between October 2022 and October 2023, from an index level of 1378.96 to 1451.78. That's substantially less than the 17.8 percent increase from October 2021 to 2022, but a steeper increase than both the 2020 to 2021 (3.37 percent) and 2019 to 2020 (2.94 percent) rises. The cost of eating at a restaurant rose almost identically over the same time period (5.37 percent).

The twenty-year trend in the combined index is shown below — again with the start of the Fed's COVID response indicated by a horizontal red bar. Since October 2019, our Thanksgiving Cost Index has risen 32 percent (1099.537 to 1451.781).

AIER Thanksgiving Cost Index, 2013 – present

(Source: Bloomberg Finance, LP)

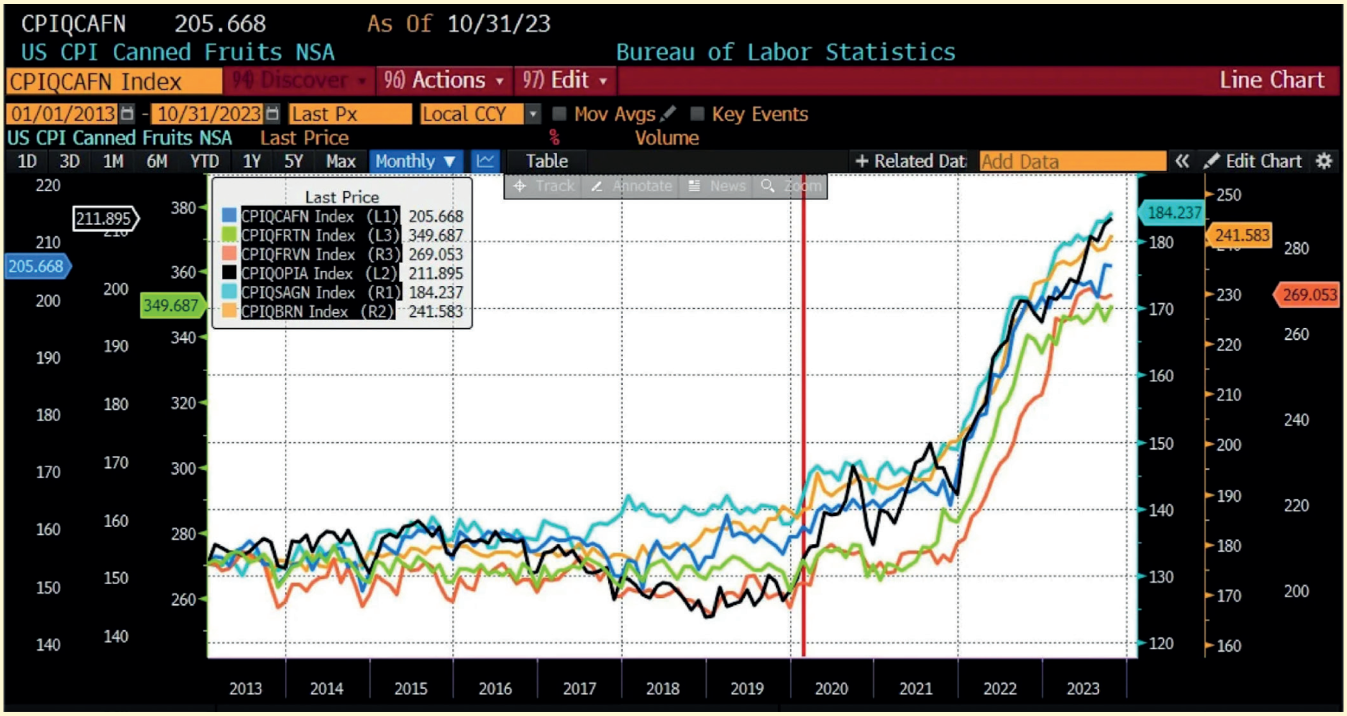
The American Farm Bureau Federation calculates that Thanksgiving dinners will be about 4.5 percent cheaper than last year's historically high prices, reaching the same conclusions that we do using a somewhat different basket of goods.

We also examine a second set of prices, best described as "secondary" or "auxiliary" Thanksgiving expenses. They include costs that tend to be incurred around Thanksgiving but do not include food: transportation, grooming, and the like. Between 2022 and 2023, three of these prices took part in the overall deflationary trend: for gasoline, airline tickets, and intercity transportation (buses and trains), prices declined. Yet a handful of seasonally-engaged services — haircuts, dry cleaning/laundry, and pet care — rose at nearly twice the October year-over-year headline CPI rate (3.2 percent) from October 2022 to October 2023.

	Oct	Oct	Oct
	2020 to 2021	2021 to 2022	2022 to 2023
AAA Gasoline (average, US)	51.64%	20.00%	-7.88%
US CPI Gasoline, Regular Unleaded	51.28%	17.07%	-5.58%
US CPI Airline Fare	-4.63%	42.89%	-13.20%
US CPI Other Intercity Transportation	4.60%	4.07%	0.37%
US CPI Haircuts and Personal Care Services	4.31%	5.59%	5.04%
US CPI Pet Services Including Veterinary	3.93%	10.67%	7.29%
US CPI Laundry and Dry Cleaning	6.92%	7.19%	6.15%

In 2023, Americans are facing another expensive holiday season stemming largely from the monetary interventions enacted during the initial stages of the COVID pandemic. Disinflation is underway, but as the AIER Thanksgiving Cost Index makes clear those effects are taking effect both slowly and not pervasively. The uptrend in both the general price level, and in this cultural touchstone as well, are the enduring legacy of the 2020 policy choices of the Federal Reserve.

– November 22, 2023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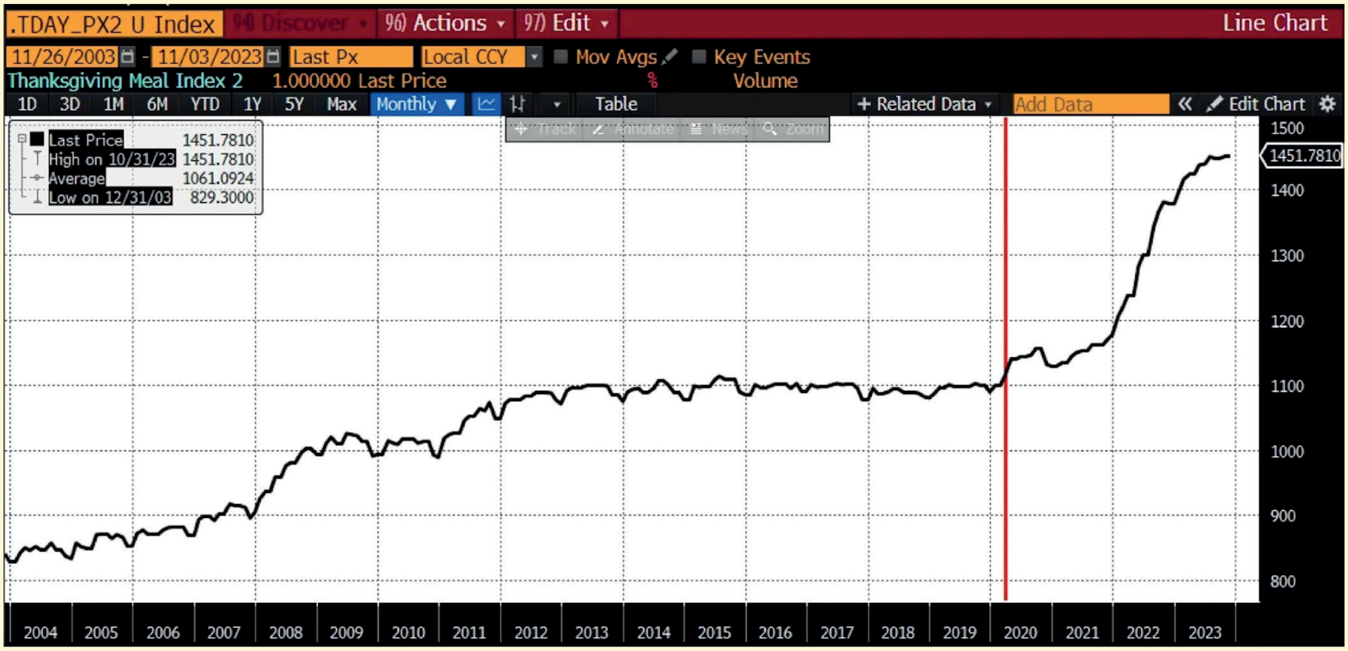
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Disinflation Dream Come True

ALEXANDER WILLIAM SALTER
Senior Fellow, Sound Money Project

Great news on the inflation front: According to the Bureau of Economic Analysis, price pressures have significantly eased. The Personal Consumption Expenditures Price Index (PCEPI) rose 3.0 percent year-over-year in October, down from 3.4 percent the month before. Continuously compounded, headline inflation was a mere 0.59 percent last month. Core inflation, which excludes volatile food and energy prices, was 1.96 percent. Even the higher number is below the Federal Reserve's 2.0 percent target. We could be near the end of the war on inflation.

Many financial and economic commentators doubt the Fed will tighten monetary policy further in December. The latest release would seem to reinforce their doubts. Ongoing disinflation means monetary policy is unambiguously tight. To see why, consider the two most common barometers of monetary policy: interest rates and the money supply.

The current target for the federal funds rate, which is the Fed's key policy interest rate, is between 5.25 and 5.50 percent. Using core PCEPI growth, the inflation-adjusted range is 3.29-3.54 percent. As always, we must compare this to the natural rate of interest. Sometimes called r* by economists, this is the inflation-adjusted rate consistent with maximum employment and output, as well as non-accelerating inflation. We can't observe this rate directly. But we can estimate it. Widely cited figures from the New York Fed place r* between 0.57 and 1.19 percent. That means current market rates are roughly three times as high as the estimated natural rate! This is likely an overstatement, since the New York Fed's data only goes through 2023:Q3 and many believe the natural rate has ticked up in recent months. Nevertheless, judging by interest rates, monetary policy is clearly restrictive.

Money supply data tell us more of the same. M2, arguably the most important measure of the money supply, is down 3.30 percent from a year ago. We should also consult broader aggregates that weight money-supply components based on how liquid they are. These figures are shrinking between 1.73 percent and 2.62 percent per year. While it is not unusual for the stock of money to grow more slowly, it is highly unusual for it to fall. Unless the demand to hold money is falling even faster (which is incredibly unlikely), this is evidence for tight money.

The Fed will probably keep the fed funds target range unchanged in December. Officials previously signaled additional tightening, but things have changed. Central bankers can read the macro data just as easily as we can, and financial markets have been clamoring for lower rates.

Fed followers sometimes get whiplash. Discretionary monetary policy is inherently unsteady, like trying to cross a canyon on a tightrope. Loosen too much relative to market expectations and you get crippling inflation; Tighten too much relative to market expectations and you get a painful downturn. Fed decision makers must always be searching for the "sweet spot." A strict rule for monetary policy would be better, but as long as we must live with discretion, we should hope it's wielded as responsibly as possible.

– December 1, 2023

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