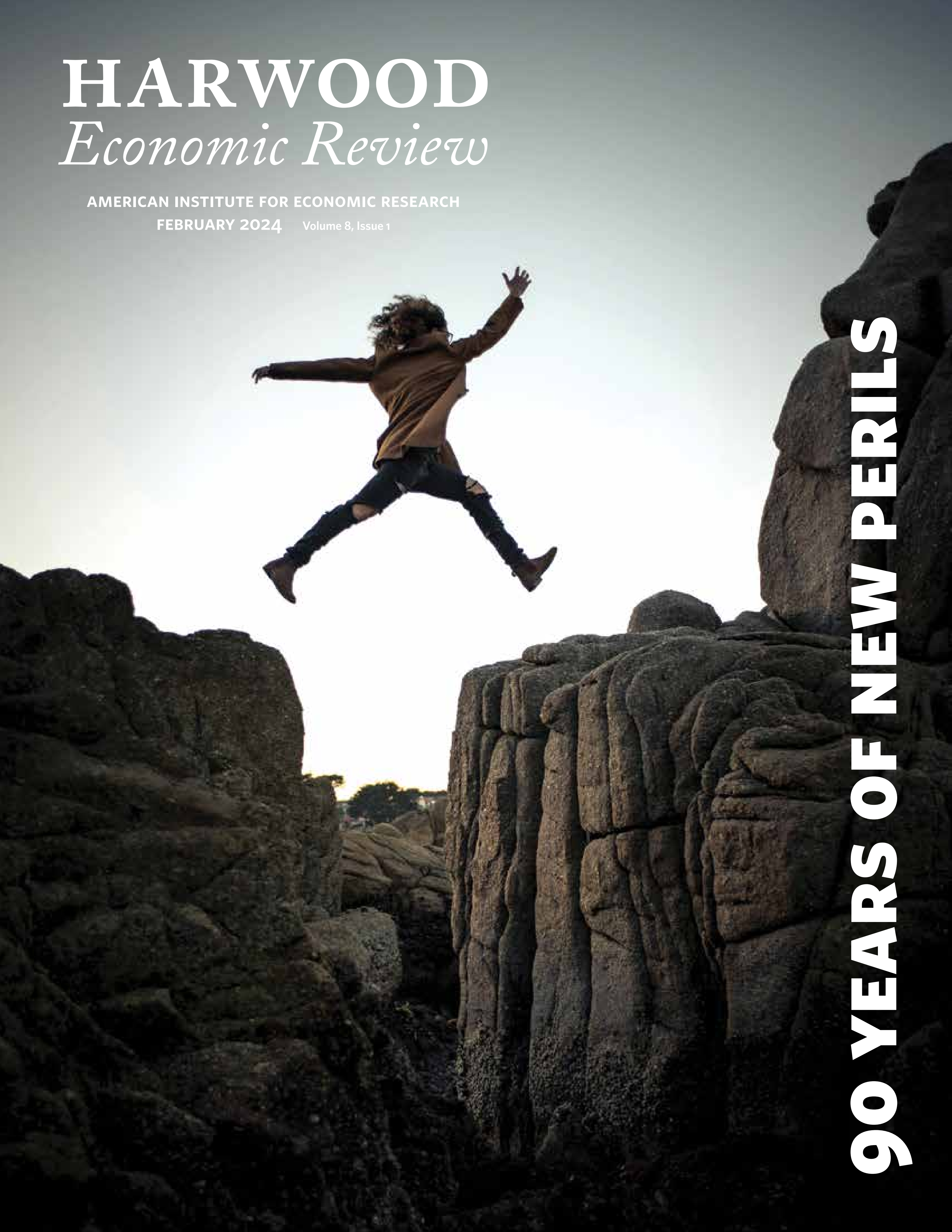
HARWOOD
Economic Review

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

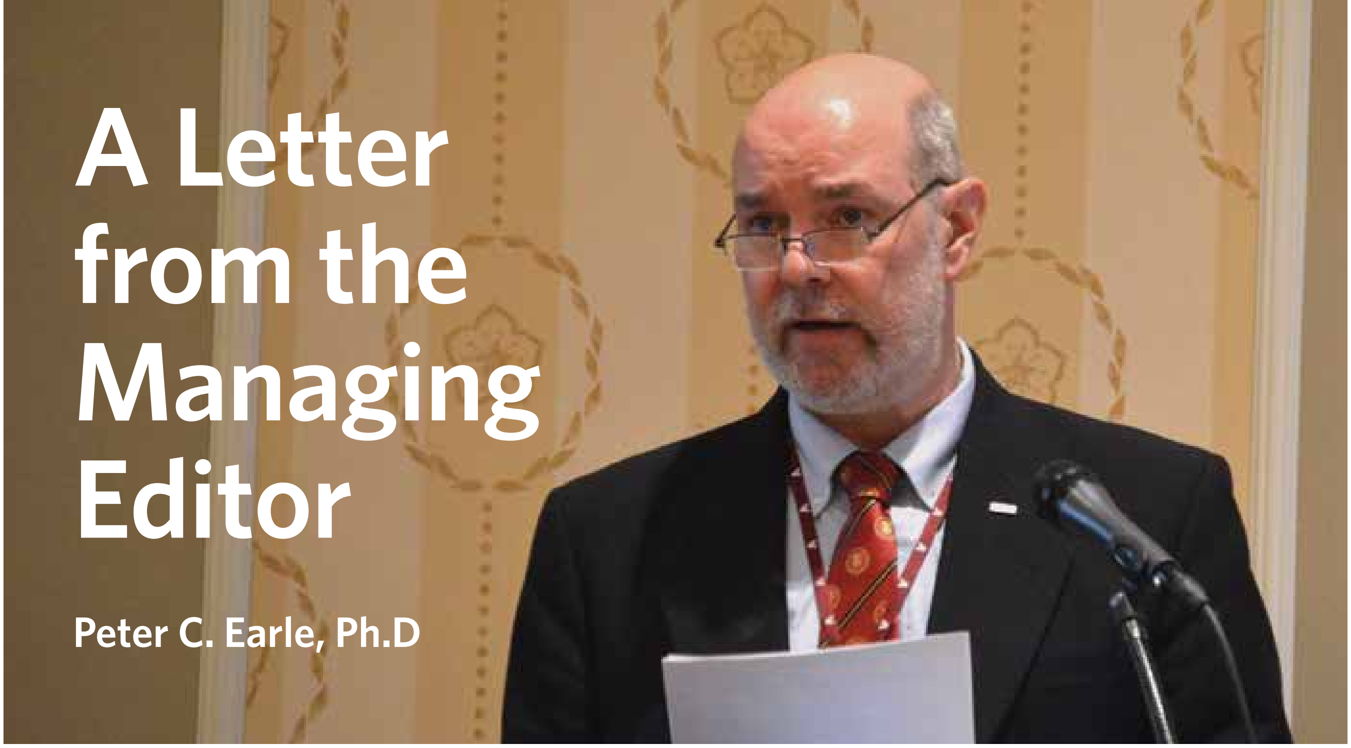
FEBRUARY 2024 Volume 8, Issue 1



90 YEARS OF NEW PERILS

Harwood Economic Review

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH



A Letter from the Managing Editor

Peter C. Earle, Ph.D

Happy New Year from the Berkshires, and best wishes for a productive 2024.

This issue of the *Harwood Economic Review* serves as a natural extension of the previous one. In *90 Years of New Deals* (May 2023), we discussed the enduring impact of Roosevelt's New Deal, which served as a major impetus for EC Harwood's founding of the American Institute for Economic Research in 1933. In particular, we examined its ongoing influence on the US economy as well as the efforts to reintroduce facets of the original New Deal. Not only is it ingrained in our daily lives, but politicians frequently invoke it when promoting massive interventionist programs, such as the Green New Deal. As such, this institution's fight against 'new New Deals' continues to this day.

AIER's commitment to the principles of classical liberalism also requires us to respond to new, often unforeseen challenges to American values. Accordingly, this issue focuses on our response to a number of emergent, unanticipated dangers to our freedom.

The roots of the environmental, social, and governmental (ESG) framework have diverse origins, including the Civil Rights era, the establishment of the World Economic Forum, and other developments in the 1960s and 1970s. ESG has transformed into a powerful corporatist movement, with government, regulatory, and business interests intimidating private firms to prioritize politically directed stakeholder issues over shareholders.

The intellectual obsession with various measures of inequality is another contemporary issue in which our researchers have been instrumental in highlighting philosophical and theoretical errors. Relatedly, the profoundly illiberal turn in both the left's push toward wokism and the right's promotion of national industrial policy have also prompted our critiques.

New threats target America's beleaguered dollar, as well. The accumulation of mandates by the Federal Reserve has lumped distracting and sometimes conflicting directives onto an already ruinous monetary policy regime. Meanwhile, de-dollarization and a global rush to introduce central bank digital currencies (CBDC) are posing existential risks beyond what our founder might have imagined.

AIER's capacity to take on new threats to prosperity underscores not only the talent and inexhaustibility of our researchers, but also our unwavering dedication to safeguarding American liberty in the face of evolving perils. The support you so generously provide, and which we so deeply appreciate, empowers us in the clash of ideas.

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

Why Business Should Dispense with ESG

Samuel Gregg

Milton Friedman's shareholder doctrine is dead. Such was the headline of a 2020 *Fortune* magazine article critiquing Friedman's famous *New York Times* opinion piece which, fifty years earlier, had argued that the social responsibility of a business is to increase its profits.

The *Fortune* article was just one of many op-eds, academic papers, and books penned over the past 52 years disputing Friedman's thesis. Their authors haven't been shy about proposing alternative models. One approach that has achieved prominence is the stakeholder theory of business, which has swiftly embraced environmental, social, and governance (popularly known by its acronym, ESG) criteria as a means to realize its objectives.

By stakeholder theory, I am not referring to the practice of businesses prudentially assessing their surrounding economic, political, and social environment to identify those constituencies (*stakeholders*) with whom any company must work if it is to realize profit. Commercial enterprises have been doing this for centuries. Nor am I thinking of the need for businesses to reflect upon what economists call externalities—i.e., the costs or benefits incurred by one or more third parties because of a company's activities. This too is an area that business executives have long understood as something to which they must pay attention to continue operating.

Rather, I have in mind those theories which maintain that the purpose of business goes far beyond profit and maximizing shareholder value. Expansive or pluralistic stakeholder theory, according to Harvard Law School scholars Lucian Bebchuk and Roberto Tallarita, *posits that the welfare of each stakeholder group has independent value, and consideration for stakeholders might entail providing them with some benefits at the expense of shareholders.*

But how do we assess whether a business is promoting its various stakeholders' well-being? This is where the contemporary emphasis on ESG comes into the picture. It is, alas, also where many subsequent problems for business, and society more broadly, begin.

Welcome to ESG

ESG is big business. Today numerous ESG-designated funds are operated by investment giants like BlackRock. Scarcely a month goes by without global management consulting firms like McKinsey & Company publishing articles urging companies to make ESG *real.* Major financial advisory services counsel clients on how to invest according to ESG guidelines, while ESG reporting and ratings providers assess companies' ESG performance on behalf of institutional investors.

In its essence, ESG is a framework that purports to help investors and those claiming stakeholder status understand how well companies are contributing to the realization of goals over and above profit. On the basis of pre-determined environmental, social, and governance standards, ESG promoters claim that investors, stakeholders, and CEOs can discern whether companies are sufficiently dedicated to managing specific externalities like their environmental impact or to integrating particular commitments, such as diversity, into their structures and practices.

What, some might ask, is wrong with this? Who could object to encouraging companies to promote particular values and stakeholders' interests as they pursue profit? For many people, the claim that you can contribute to any number of good causes while simultaneously making money is an attractive proposition.

The decisions of companies and people's investment choices certainly have moral dimensions. At a minimum, such choices should involve a refusal to choose evil or to formally cooperate with other people's evil.

One of ESG's many difficulties, however, is that its goals and methods are characterized by an incoherence sufficient to call into question not just specific features of ESG but the conceptual integrity of the entire ESG endeavor. Another ESG problem is its tendency to blur ethics and sound business practices with the promotion of particular political causes. This mindset has spilled over into the outlook of financial regulators, and consequently threatens to facilitate widespread dysfunctionality in these agencies' operations. Lastly, the adoption of ESG risks corroding understanding of the nature and proper ends of commercial enterprises—a development that has broader and negative implications for society as a whole.

A Failure in Ends and Means

Let's begin by asking a very basic question: does ESG operate in the way that it claims to? Recent academic analyses of this topic have raised major doubts about this. In their *Review of Accounting* paper *Do ESG Funds Make Stakeholder-Friendly Investments?* for example, Aneesh Raghunandan and Shivaram Rajgopal asked whether *ESG mutual funds actually invest in firms that have stakeholder-friendly track records*?

Based on a large sampling of Morningstar-identified American ESG mutual funds from 2010 to 2018, Raghunandan and Rajgopal determined *that these funds hold portfolio firms with worse track records for compliance with labor and environmental laws, relative to portfolio firms held by non-ESG funds managed by the same financial institutions in the same years*. As if that were not enough, Raghunandan and Rajgopal conclude that *ESG funds appear to underperform financially relative to other funds within the same asset manager and year, and to charge higher fees*. In short, not only have such funds failed to deliver on many of their ESG goals, they also cost more and provide less by way of financial return.

A similar picture of ineffectiveness emerges when we take a closer look at the composition of ESG funds. In his analysis of the makeup of ESG funds managed by some major investment houses, the *Wall Street Journal's* Andy Kessler found that their composition differed only marginally from non-ESG-labeled funds. He discovered, for instance, that BlackRock's ESG Aware MSCI USA EFT had *almost the same top holdings as its S&P 500 EFT*. Nevertheless, Kessler noted, the ESG-labelled fund cost 5 times more by way of fees. If this was the subtext to Elon Musk's tweet proclaiming that ESG *is a scam*, he may have had a point.

Another complication involves the stability of the issues that preoccupy ESG investment vehicles. The areas covered by ESG are numerous and fluctuating. Once upon a time, the focus was on products like tobacco. Then climate change became popular, thereby making fossil-fuel industries a major target of ESG ire. More recently, ESG has embraced the universal prominence given to diversity, equity, and inclusion.

These ongoing shifts in emphases have generated substantial disparities and disagreement within and between ESG ratings providers about, among other things, what counts as ESG and what doesn't; how to measure ESG compliance; and how much weight should be assigned to a particular ESG goal (e.g., protect the environment) vis-à-vis other ESG objectives (e.g., promote diversity). In a May 2022 *Review of Finance* article surveying these methodological and measurement issues, Florian Berg, Julian F. Kölbel, and Roberto Rigobon found that ESG scores across six of the most prominent ESG ratings providers correlated on average only by 54 percent. You don't need a degree in statistics to recognize that such a low number indicates significant disagreements about which measures and goals really matter. In an earlier 2021 article, Berg, Kornelia Fabisik, and Zacharias Sautner presented evidence of unexplained and undocumented retrospective alterations to the data on which ESG scores were based. Data alterations are not unusual. Not explaining the reasons for the alteration, however, is.

Some major ESG supporters have conceded that this lack of agreement and consistency concerning ESG's content and measurement methods raises questions about ESG's credibility. This is not simply because it creates difficulties for assessing ESG compliance across industries and economies. If the content of ESG is unstable or effectively amounts to whatever you want it to be or whatever happens to be the *cause célèbre* at a given moment, and there's no universally agreed-upon measure of success, then whatever claim ESG has to coherence and universal applicability starts to look very thin indeed.

This has real consequences for some important topics that investors tend to care about—such as executive compensation. If ESG is to become part of the way that a firm assesses board, CEO, and senior management performance, then coherent and agreed-upon ESG criteria are necessary. Yet in their analysis of ESG-related executive compensation, Bebchuk and Tallarita found that ESG-based compensation disclosures generally offer *vague and underspecified goals, such as increasing sustainability, diversity, inclusion, or employee well-being, without any specific targets or additional information*.

Such imprecision suggests that ESG is unhelpful as a tool for assessing management compensation. Worse, it could potentially be used to diminish executive accountability for profit-performance. It is not a stretch to imagine how executives could appeal to their higher ESG responsibilities to justify lower returns to investors. Nor is it hard to see companies using these broad ESG commitments to curry favor with political leaders who prioritize specific causes. This would only exacerbate the already widespread problem of cronyism and help shift executive incentives further away from creating economic value and towards rent-seeking.

Internal Incoherence and Politicization

Even when a particular issue receives strong affirmation throughout the ESG world, other problems soon become apparent. Consider, for instance, ESG's present focus on diversity, equity, and inclusion in things like the makeup of company boards and management. In ESG literature, diversity, equity, and inclusion are treated as self-evident, virtually unquestionable values. A moment's reflection, however, soon illustrates the perils of this outlook.

Inclusion, for instance, suggests that there is something inherently problematic with exclusion. Certainly, there are unjust forms of exclusion. It is wrong to exclude someone from being considered for employment simply because she is, say, of Asian ethnicity. Yet it is not wrong to exclude an Asian woman from a board position if she lacks the formal qualifications or requisite experience; or has a track record of bad business judgments; or has been exposed in the past as dishonest.

In other words, there are *just* grounds on which we *rightly* exclude people, whatever their sex or skin color, from being given particular responsibilities. Prioritizing inclusion is thus not as unquestionable as ESG marketing pitches often suggest. Treating it as such is likely to lead to seriously mistaken personnel decisions. At present, it is hard to find ESG schemes that acknowledge such common-sense limits to their conception of inclusion.

Or take ESG's stress on diversity. ESG materials do not present diversity as a species of pluralism, understood as individuals, associations, and communities in a given society living out their freedoms in different ways while being bound together by some common commitments and obligations. Nor is it about promoting individuality. Instead, diversity reflects the idea that, as Peter Wood relates in *Diversity: The Invention of a Concept*, everyone is defined by membership in social groups and is largely the product of such groups' collective experiences. That draws attention away from two things: first, our common human nature and the essential equality of all humans qua humans derived from that; and second, the idea that all of us are as much individuals as we are social beings and thus shouldn't be boxed into particular unchanging and unchangeable categories, whether by custom or law.

These problems surrounding ESG's present focus on inclusion and diversity point to another difficulty. This is the hard-to-deny fact that many ESG concerns have taken on a political slant—one that aligns closely with what would be conventionally called progressive priorities—and are being used by governments and regulators to advance such goals in questionable ways. In 2021, the Biden Administration announced its intention of imposing new ESG disclosure requirements on publicly traded companies. Upon examining the requirements in question, the legal scholar Todd Zywicki found that *the disclosures advance left-wing causes such as environmentalism and race, sex, and sexuality 'diversity' initiatives, not issues such as the rule of law, economic development, or affordable energy policy*.

ESG is also being used to shape how regulators expect corporations to address the political pressures to which they are inevitably subject. In his book *The Dictatorship of Woke Capital*, Stephen Soukup observes that under Securities and Exchanges Commission (SEC) rules, publicly traded companies are allowed to exclude certain shareholder proposals if they receive permission to do so from the SEC. In 2019, Soukup writes, Apple asked the SEC to prohibit shareholders from voting on two propositions. One involved the promotion of intellectual diversity. The second focused on enhancing racial diversity. The SEC agreed that the intellectual diversity proposal would not appear on the shareholder ballot but allowed the racial diversity proposition to go ahead.

In short, racial differences were deemed more important by SEC officials than disparities in ideas. That is entirely consistent with ESG's progressive slant—not to mention the SEC's stated commitment to promoting diversity and inclusion within its own ranks, which, judging from the SEC Employee Affinity groups listed in the SEC's Diversity and Inclusion Strategic plan, is overwhelming about ethnicity and sex rather than, say, religious or political affiliation.

The broader danger is that ESG will become a vehicle by which regulatory agencies like the SEC engage in mission creep. As the legal scholars Paul G. Mahoney and Julia D. Mahoney note, the promotion of ESG risks diverting the SEC from its official mandate: *to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation*. Note that phrases like *protect the environment* or *promote diversity on Wall St firms' boards* do not appear here. But this hasn't prevented the SEC from looking at implementing new rules to require more extensive disclosure, for instance, of risks associated with climate change.

Regardless of whether the pressures to adopt such disclosures are coming from DC politicians, activists pushing particular causes, or within the SEC, any adoption of ESG disclosures by the SEC, Mahoney and Mahoney point out, cannot help but take an agency designed to be *a technocratic, expert body insulated from day-to-day political pressures* into the realm of deciding policy. In a constitutional republic like America, they note, such matters are properly decided through the legislative process—not by government employees.

In this sense, the SEC's embrace of ESG fits into a broader pattern of regulatory agencies expanding their brief without direct authorization to do so. This cannot help but undermine the credibility that America's primary financial regulator needs if it is to fulfill its actual, designated mandate in an age of deep distrust of institutions. Moreover, by moving further away from maintaining a framework of rules and using ESG to try and shape company board membership on politically contentious grounds, the SEC risks facilitating problems like the appointment of professionally unqualified or inexperienced individuals to such positions. And that is in no one's interest.

Getting Business Back to Business

Taken as a whole, the problems detailed above should be enough to cause policymakers, regulators, businesses, and investors to pause before advancing the ESG agenda any farther. Unfortunately, as Andrew Stuttaford observes, the reaction of many ESG advocates to criticism of ESG and its associated agenda is to try to shut down any discussion by conveying *the impression that ESG is not really a proper subject for legitimate **political** debate*. There have also been instances of people inside large corporations who directly or by implication questioned ESG being forced out, as happened to HSBC Asset Management's global head of responsible investing in the first half of 2022.

Looking beyond the immediate, however, I fear that doubts about the wisdom of embracing ESG will not grow or be allowed to be given expression within major businesses until a deeper and older problem is addressed.

In many respects, ESG reflects a long-standing desire to alter what an Aristotelian might call the *telos* of business. When then-presidential candidate Joseph P. Biden stated in July 2020 that *It's way past time we put an end to the era of shareholder capitalism*, he was reflecting a long-standing lack of ease (something by no means confined to progressives) with the idea that the primary goal of business is the pursuit of profit and maximizing shareholder value. To the extent that ESG seeks to change this core feature of commercial enterprises, it risks seriously distracting private businesses from making their distinct contribution to society's general well-being. From this standpoint, the negative externalities potentially generated by ESG stretch beyond business itself.

Understanding this point requires recognizing that all forms of associations have a specific *telos* which defines their *raison d'être*. The military's defining goal, for example, is to protect a nation's national security primarily through military means. The military is not responsible, however, for raising and educating children. That is the job of families. Nor is raising and educating children a prime duty of a hospital. Hospitals exist to protect and promote the good of health.

As organizations pursue their core functions, there are important side effects, many of which are positive in themselves. When a business teaches its employees the importance of teamwork or how to take prudent risks to achieve particular goals, it is shaping its employees' character in beneficial ways. But a business seeks to inculcate such habits because they improve the company's ability to fulfill its specific goals. It is not promoting character development for its own sake.

Such clarity about any human association's core purposes matters because it helps prevent organizations from drifting into areas that distract them from realizing their primary objectives—or, worse, impede them from doing so. This brings us to a central problem with ESG. The primary responsibility of the business enterprise is not to save the planet or promote diversity (let alone fight wars, raise children, or maintain law and order). The central *telos* of business—especially so in the case of publicly traded companies—is to generate a profit for its owners. This is the principle around which a commercial enterprise structures its organizational framework and operations. It is self-evidently true that when a business departs from this principle, it can no longer be called a commercial enterprise.

A business's embrace of its commercial *telos* is not a warrant for it to imagine that the ends justify the means. Making money does not amount to a license for companies to engage in wanton destruction of the natural world, lie to their customers, engage in theft, or force their employees to work in dangerous conditions. Such things are wrong in themselves and rightly prohibited by law. That same commercial *telos*, however, does mean that business is under no obligation to engage in environmental activism or advance progressive—or, for that matter, conservative—political causes. ESG, however, encourages businesses to think that they are. Government interventions to impose ESG requirements upon companies would only reinforce such misconceptions.

More generally, the adoption of ESG corrodes the understanding that it is through pursuing their specific *telos* that businesses contribute to the well-being of the whole. Just as the military promotes the well-being of everyone in a political community by fulfilling its specific mission of promoting national security, so too do commercial enterprises contribute to the general welfare through their pursuit of profit.

To realize profit, for example, a business must employ a variety of people with different skills. It cannot do so without paying salaries or wages to employees. This income provides employees with economic resources and therefore opportunities to purchase life's necessities, buy assets, save for their future, perhaps privately educate their children, etc. In short, by pursuing profit, businesses indirectly create possibilities for other people to pursue their own goals. The same pursuit of profit indirectly allows businesses to increase the sum total of wealth in a given community. Such economic growth is essential if goods like health care, education, and employment are to become more available in any given society for more people over time.

ESG, however, clouds our ability to recognize these realities. Indeed, the more ESG encourages businesses to give equal or even greater priority to the realization of other ends other than profit, or to confuse management of externalities with advancing specific political agendas, the more it weakens understanding of the proper telos of business among company boards, CEOs, employees, policymakers, and citizens. This just isn't bad for businesses, it also damages society's wider capacity to recognize that when business achieves its proper ends, the wider, albeit indirect benefits for others are enormous.

https://www.aier.org/article/why-business-should-dispense-with-esg/

De-dollarization Has Begun

Peter C. Earle

Last week, China and Brazil reached an agreement to settle trades in one anothers' currencies. Over the past 15 years, China has replaced the United States as the main trading partner of resource-rich Brazil, and as such that shift may have been inevitable. But within the context of recent circumstances, this appears to be another in a series of recent blows to the central role of the dollar in global trade.

As the world's reserve currency, the US dollar is essentially the default currency in international trade and a global unit of account. Because of that, every central bank, Treasury/exchequer, and major firm on Earth keeps a large portion of its foreign exchange holdings in US dollars. And because holders of dollars seek returns on those balances, the ubiquity of dollars drives a substantial portion of the demand for US government bonds in world financial markets.

The switch from dollars to a yuan-real settlement basis in Chinese-Brazilian trade is only the latest in a growing trend. Discussions of a more politically neutral reserve currency have gone on for decades. The profound economic disruption experienced by Iran, and more recently Russia, after being evicted from dollar-based trading systems like SWIFT, however, have led many nations to consider imminent contingency plans. India and Malaysia, for example, have recently begun using the Indian Rupee to settle certain trades, and there have been perennial warnings about Saudi Arabia and other energy exporters moving away from the dollar. On that note, China also recently executed a test trade for natural gas with France settled in yuan.

It's not just the conscription of the dollar in economic warfare, but increasingly error-fraught monetary policy regimes that are driving various interests away from the greenback. The monetary policy response to the 2008 financial crisis saw the dollar's value whipped around unpredictably, and the response to the outbreak of COVID was even more frenetic. The massively expansionary response to the pandemic in 2020 was followed by an initially dismissive posture toward the outbreak of inflation, which reached four-decade highs before an aggressive contractionary shift in policy that destabilized precarious financial institutions was implemented.

DXY Index (1980–present)

Source Bloomberg Finance, LP

Bloomberg Dollar Spot Index (2005–present)

Source Bloomberg Finance, LP

Simply replacing the fiat currency of the largest economy in the world with the fiat currency(s) of (a) smaller economy(s) is hardly a viable replacement strategy. Moving away from the dollar brings substantial barriers to exit as well as network effects to overcome, owing to historical, technological, financial, and habitual obstacles. The US dollar is the *de facto* currency of East Timor, Ecuador, El Salvador, the Federated States of Micronesia, the Marshall Islands, Palau, Panama, and Zimbabwe. Further, the (comparatively, relatively) transparent conduct of monetary policy in the US has led no less than 22 foreign central banks and currency boards to peg their currencies to it. And dollars are the cheapest means of access to acquire nominally risk-free US Treasury instruments.

Some of the twists being discussed to provide alluring dollar replacements are cryptocurrencies, central bank digital currencies, or baskets of commodities representative of a given nation or region's competitive advantage. The latter scenario, in which (for example) certain African nations would trade in currencies backed by titles to rare earth metals, some South American nations in currencies backed by copper deposits, and so on, is interesting but faces substantial hurdles. Nevertheless, a conference in New Delhi on 12–13 October, 2023 focusing on increased cooperation between Brazil, Russia, India, China, and South Africa touched on just such a plan. Variations of such a currency order have been dubbed *Bretton Woods III*, and some non-commodity proposals bear a curious similarity to the since-discarded Facebook currency plan first called Libra (later, 'Diem').

Owing to the role that dollar pervasiveness plays in the international appetite for US Treasuries, a side effect of the long-term attempt to establish alternative reserve currencies may be decreasing interest in tradable US debt. Over shorter time frames, that would likely result in higher yields and higher levels of debt service on securities issued by the US Treasury. Over generational time frames, that shift could force a reduction in US government spending. Should that scenario play out, the long-term effect of using access to dollars as a bludgeon of American foreign policy could well be higher average inflation and/or higher taxes on American citizens.

The dollar, in some shape or form, will likely be around for a long time. Perhaps very long. But by weaponizing dollar dominance and permitting expanding mandates to disorient US monetary policy, the dollar's fate as the *lingua franca* of world commerce over the long haul may already be sealed. So long as the political will to moor US fiscal and monetary policies to those consistent with the constitution of sound money remain an inconversable matter, de-dollarization will proceed. And slower or more quickly, the dollar will lose ground abroad.

https://www.aier.org/article/de-dollarization-has-begun/

The Fed Needs a Single Mandate

Thomas L. Hogan and Alexander William Salter

Inflation continues its relentless march, eating away at workers' wages. Consumer prices rose 9.1 percent year-over-year in June, the fastest since 1981. The median American household is now losing more than $2,700 per year in purchasing power. As always, regular Americans are stuck with the tab for reckless monetary and fiscal policy.

The Federal Reserve is primarily responsible for inflation. Even with aggressive interest rate hikes, the central bank is behind the curve. The money supply has risen more than 40 percent in two years, far outpacing the market's demand for liquidity. Inflation is the predictable effect. Congress is partly to blame, too. Politicians have run up nearly $6 trillion in deficits since the coronavirus pandemic. The Fed scooped up Treasury securities totaling more than half of that deficit spending. Money mischief and fiscal folly reinforce each other.

To beat inflation, one reform stands out in importance. It's time for legislators to give the Fed a single mandate focusing on price stability. With inflation this high, we can't afford any more distractions for the central bank. The Fed needs focus. Stabilizing the dollar's purchasing power must come first.

The Fed is chasing too many goals. Its dual mandate, which comes from a 1977 act of Congress, requires monetary policymakers to pursue maximum employment and stable prices. But this is redundant: The only way the Fed can secure the former is through the latter. By expanding the money supply when total spending in the economy stalls, the Fed stabilizes the exchange rate of money against goods in general—the *price* of a dollar.

Labor markets have nothing to fear from an inflation-focused Fed. Contrary to what some politicians and economists assert, there is no tradeoff between inflation and unemployment. While that idea was fashionable as recently as the 1970s, advancements in scientific economics have long since put it to rest.

The number of jobs is determined by the availability of capital and natural resources, the productivity of our technology and the commercial friendliness of our laws. None of these depend on how fast the Fed prints money. **The best thing the central bank can do is make a credible commitment to stabilize the dollar's value, setting a strong foundation for job-creating economic activity**.

A stable, predictable price level keeps the economy as productive as possible, including labor markets. Thus, the employment plank of the Fed's mandate is superfluous at best and dangerous at worst. It gives central bankers an excuse to pick winners and losers while neglecting the one thing within their sphere of competence: the dollar's purchasing power.

A dual mandate inhibits price stability by giving the Fed a plausible excuse for its mistakes. Targeting employment

increases partisan pressure on the Fed and has led to calls from Congress and the Biden administration to incorporate diversity, equity and inclusion (DEI) into Fed policy. Recent Fed chairs, including Jerome Powell, rightly denied that monetary policy was capable of achieving these goals. The Fed's move to a more *inclusive* employment target has contributed to our current predicament.

Opponents of a rule-bound Fed worry that a price stability mandate can cause the Fed to inadvertently tighten in response to supply problems. As the past year has shown us, however, the Fed cannot be trusted to return to low inflation once a supply shock occurs, even going so far as to refine its own targets for inflation and employment to cover up its blunders. For example, the Fed insists it wants to "achieve inflation that averages 2 percent over time." But since the Fed refuses to specify a concrete path for the dollar's purchasing power, this is cheap talk. Any policy can be reconciled after the fact with an objective this vague.

They say a man with one watch always knows what time it is, but a man with two watches is never quite sure. It's time for Congress to give the Fed one, and only one, new watch. A purchasing target would direct the Fed towards an achievable goal that would improve American households' material wellbeing. Legislators from both parties should make a single Fed mandate a key part of their agendas.

https://www.aier.org/article/the-fed-needs-a-single-mandate/

New Evidence that Soaring Inequality is a Myth

Phillip W. Magness

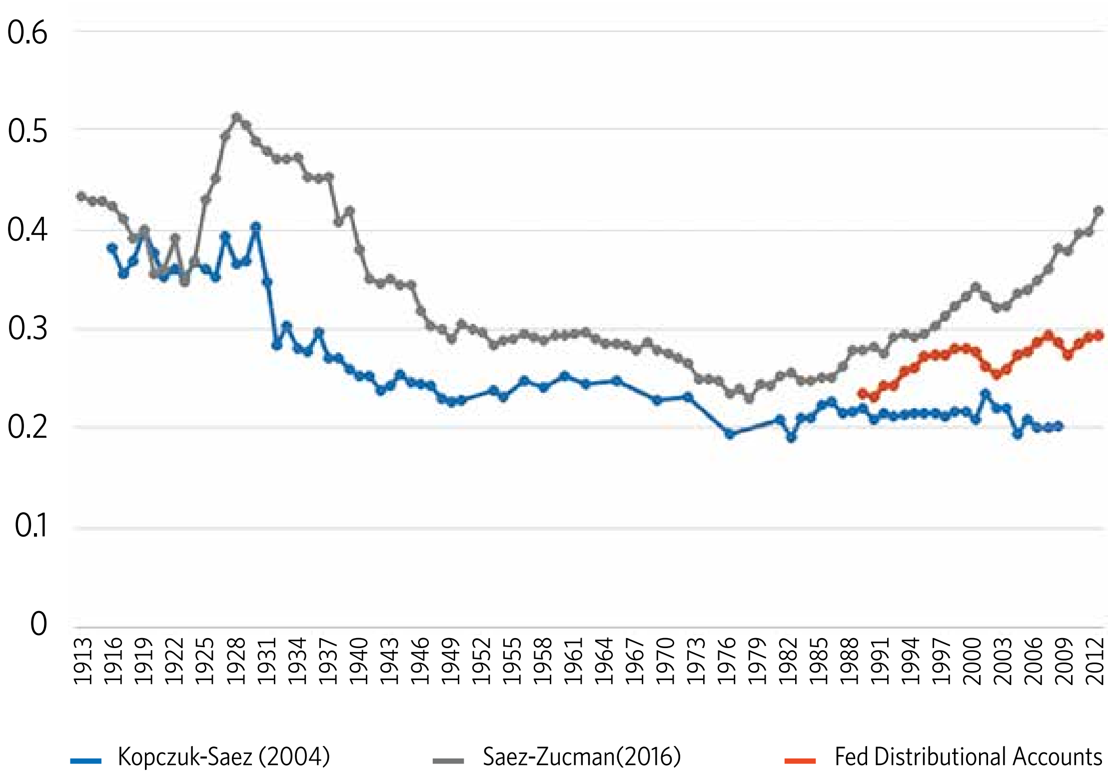
According to a dominant political narrative of the past several years, inequality in the United States is spiraling out of control. A few lonely voices, me included, have questioned the statistical foundations of this narrative , but most commentary on the subject invokes a 2016 paper by economists Emmanuel Saez and Gabriel Zucman that attempts to measure wealth concentration at the very top of the distribution.

Saez and Zucman's study points to an extreme and rapid inequality spike. They claim that the wealth share of the top 1 percent skyrocketed from 24 percent of the total share in 1980 to 42 percent today—almost doubling in a little over three decades. A new statistical measure prepared by the Federal Reserve appears to tell a very different story. It shows that wealth inequality is increasing in recent decades, but at a much more modest pace that's less than half of the Saez-Zucman spike.

Earlier this spring, the Fed released its Distributional Financial Accounts (DFA) series of quarterly data on household wealth concentration from 1989 to the present. The series can be downloaded from their website, which also features a useful interactive tool to visualize wealth shares by percentiles. The new DFA series merges the Fed's Survey of Consumer Finances (SCF) with the Financial Accounts of the U.S. This allows them to obtain a more fine-grained estimate than the triennial SCF previously permitted.

The more subdued rise in inequality from the DFA series occurs in fluctuations, as opposed to the sharp upward march depicted in Saez-Zucman. It shows that the top 1 percent's wealth share increased from about 23 percent to 29 percent between 1989 and 2012 for a total rise of just 6 percentage points. By contrast, Saez-Zucman claimed a 14 percentage-point spike over the same period. While 2012 is

Comparison of Estimates: Wealth Ineqality in the US, top 1%



the last available date for comparison in the Saez-Zucman series, the DFA only shows about a percentage-point increase between then and the end of 2018.

The substantial gap between the two measures also reveals two very different historical narratives. Saez and Zucman's inequality spiral suggested that the top 1 percent's wealth concentration has already reached a level unseen since the Great Depression, and even sits above the norm for the late Gilded Age of the 1910s and 20s. The Fed's new DFA measure shows a recent rise in wealth concentration from a trough in the 1980s. But that rise only brings the 1 percent to parity with what Saez and Zucman's own series depicts for the 1950s—an era that political commentators often champion as a *golden age* of greater equality in the United States.

There are a few conceptual differences between the two measures. As with earlier SCF estimates, the DFA series retains the convention of measuring wealth by households. Saez-Zucman uses tax units from its IRS-derived sources.

A side by side comparison of the DFA and Saez-Zucman nevertheless reveals the differences in their depicted trends in stark terms. The chart below depicts the DFA (red), Saez-Zucman (grey), and the older series of Kopczuk and Saez (blue), which measures individual net worth based on estate-tax records.

As can be clearly seen, only the Saez-Zucman series depicts the inequality spiral that has taken hold of the modern political conversation. The other two measures are either flat (in the case of estate taxes) or modestly rising (as in the new DFA series). While some commentators have already begun spinning the DFA as new evidence of a pressing inequality problem in the United States, the deeper story is how it actually tempers the inequality alarmism of the past several years by showing a much more subdued pattern.

The much-touted Saez-Zucman series, it would seem, is an outlier among existing measures of income and wealth concentrations at the top. The rush to embrace its depicted inequality spiral over alternative measures showing a more nuanced and tempered pattern—indeed one with less than half of the alleged rise—is indicative of how a political push to justify increased taxation has afflicted the entire inequality debate.

https://www.aier.org/article/new-evidence-that-soaring-inequality-is-a-myth/

Progressive Politics Prevail Over Economic Freedom

Robert E. Wright

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

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

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

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

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

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

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

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

Policy rollbacks in the next two years appear unlikely, but the pace of policy change and new spending may slow greatly, which at least should help the Fed to fight inflation.

But America is not yet poised to again unleash its full economic potential by restoring the expectation of high levels of economic freedom.

https://www.aier.org/article/progressive-politics-prevail-over-economic-freedom/

Industrial Policy on Parade

Veronique de Rugy

It's no longer news that industrial policy is making a comeback. Too bad, that. In the zombie parade of bad policies that the left and the new right are now staging, this one is particularly baffling. Industrial policy has been tried on large scales—think the Soviet Union—and on smaller scales, including in the US and many other countries.

The fact that past industrial policy attempts were abandoned due to grotesque failure to achieve their goals seems to make no difference to those who are intent on reviving this practice. Indeed, we need not look as far back as the 1980s for evidence of the folly of trusting government to guide industrial development; we have a contemporary example. And this example is detailed by none other than the *New York Times*, which recently reported that, after years and billions of dollars, California's effort to build a high-speed train has been a disaster. A tidbit:

> *Now, as the nation embarks on a historic, $1 trillion infrastructure building spree, the tortured effort to build the country's first high-speed rail system is a case study in how ambitious public works projects can become perilously encumbered by political compromise, unrealistic cost estimates, flawed engineering and a determination to persist on projects that have become, like the crippled financial institutions of 2008, too big to fail.*

This effort qualifies as industrial policy because the government claims to know better than private markets what is the best means of transportation *and* worth hijacking resources to produce bureaucrats' preferred outcome. But as usual, government officials—spending other people's money—miss the obvious.

There's a reason why trains in the US are far less popular than planes. There's a reason why travel by rail makes more sense in small countries, and along the densely populated northeastern coast of the US. But politicians and intellectuals, enamored of the notion that trains are more friendly to the planet than are planes, ignore these realities in pushing for an industrial outcome that will likely never be profitable. For a walk down failed-rail-project memory lane see this piece by Phil Klein.

Building a high-speed rail connecting Los Angeles and San Francisco was always going to be challenging due to California's geography. And of course, most of you will not be surprised to learn that this large-scale government project is in fact failing, in large part because of the perverse incentives that pervade such a government project. From conception to planning to building, the incentives consistently encourage waste and error. Again, legislators aren't funding this boondoggle with their own money. Nor will they be personally accountable for cost overruns, failure to deliver, or what are certain to be many technical problems.

The cost overruns here are almost comical for something that literally hasn't been built yet. In 2008, the train's cost was projected to be $33 billion. Fourteen years later the final plan is projected to cost $113 billion—a mere 242 percent more than the sum used to peddle the scheme to the general public.

In addition, decisions on construction are unduly—but not unsurprisingly—influenced by special interests rather than by good economic sense. As the *Times* writes: *political deals created serious obstacles in the project from the beginning*. Here's more:

> *A review of hundreds of pages of documents, engineering reports, meeting transcripts and interviews with dozens of key political leaders show that the detour through the Mojave Desert was part of a string of decisions that, in hindsight, have seriously impeded the state's ability to deliver on its promise to create a new way of transporting people in an era of climate change.*

As if the project wasn't difficult enough to deliver on, legislators decided to create costly detours to serve political friends:

> *Political compromises, the records show, produced difficult and costly routes through the state's farm belt. They routed the train across a geologically complex mountain pass in the Bay Area. And they dictated that construction would begin in the center of the state, in the agricultural heartland, not at either of the urban ends where tens of millions of potential riders live. . .*
>
> *Mike Antonovich, a powerful member of the Los Angeles County Board of Supervisors, was among those who argued that the train could get more riders if it diverted through the growing desert communities of Lancaster and Palmdale in his district, north of Los Angeles.*

Even the SNCF engineers from France who came to work on the project eventually gave up:

There were so many things that went wrong, Mr. McNamara said. *SNCF was very angry. They told the state they were leaving for North Africa, which was less politically dysfunctional. They went to Morocco and helped them build a rail system.*

Morocco's bullet train has been in service since 2018.

The report is worth reading in its entirety. It is the most ridiculous and clichéd story of why industrial policy fails. Such projects are often taken over by special interest groups (remember Alaska's bridge to nowhere) that bloat the cost, and in extreme cases lead the project to failure.

This experience is commonplace. My colleague Jack Salmon told me about the plans for HS2, a high-speed rail project in the UK, that started in 2009 to link London to Birmingham, Manchester, and Leeds. The high-speed train was promised to reduce the time of the journey by 30 minutes. Salmon sent me the following information:

The first stage was predicted to be completed by 2020, and with a further connection to Scotland operating by 2030. In 2010, the new conservative-led coalition amended 50% of the planned route after rural conservative MPs made a fuss about noise pollution and property values. At the time, the cost was estimated at about £30 billion. In 2013, the cost of the project was revised up to £50 billion. In 2014, the cost was revised to £57 billion. By 2019, the Oakervee review estimated that the projected cost, in 2019 prices, had increased to £88 billion. Lord Berkley, deputy chair of the review, said that these estimates were very optimistic and could actually be as high as £170 billion. The route is now estimated to be completed by 2045, although this will likely be pushed back. By that time, this £30 billion gravy train could end up costing £1 trillion.

That's the problem with industrial policy, and such gravy train projects. Politicians can't help themselves and these projects are always hijacked by special interests.

https://www.aier.org/article/industrial-policy-on-parade/

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.

AIER events

Santa Claus, the Tooth Fairy, and NetZero 2050 **with Diana Furchtgott-Roth**

March 13
Raleigh, NC

AIER's Bastiat Society program in Raleigh will host Diana Furchtgott-Roth, Director of the Center for Energy, Climate and Environment at The Heritage Foundation. How many people believe in Santa Claus? How many people believe in the tooth fairy? And how many people believe in Net Zero 2050? Diana will discuss how realistic it may be to reach net zero emissions by 2050 during this evening event.

Movie Screening: *The Hong Konger*

March 19
Charleston, SC

Join AIER's Bastiat Society program in Charleston for a movie screening of *The Hong Konger*, a documentary by the Acton Institute. When Hong Kong's basic freedoms come under attack, media tycoon Jimmy Lai finds himself in the crosshairs of the state and must choose between defending Hong Kong's long-standing liberties, or his own freedom. Jimmy's story is one that cannot die in a prison cell—it is one that must reignite a persistent movement to defend the cause of freedom for Hong Kongers, for China as a whole, and humanity everywhere.

Life-Changing Secrets of Mastering Difficult Conversations **with Dr. Peter Boghossian**

May 2
San Francisco, CA

The Bastiat Society of San Francisco welcomes Dr. Peter Boghossian, philosopher, teacher, speaker, and author of *How to Have Impossible Conversations,* for a special dinner event. Peter will discuss why civil discourse is indispensable, particularly in polarized times. Peter's lectures impart practical, powerful tools that empower communication across seemingly impossible divides. Audience members leave with practical, effective strategies, skills, and techniques, backed by science and evidence, for the most difficult conversations. You will discover the fundamentals of good conservation, expert skills to engage the close-minded, as well as ways to improve your communication and navigate difficult conversations. Attendees will have the opportunity to meet Dr. Peter Boghossian during the book signing.

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

SUPPORT AIER

Researching, articulating, and advancing the importance of markets

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.

For nearly a century, the American Institute for Economic Research has educated Americans on the value of personal freedom, free enterprise, property rights, and sound money. Eschewing dogmatic assertions and party politics alike, AIER seeks to scientifically understand and demonstrate the importance of these principles to advance peace, prosperity, and human progress. We support the research of numerous leading economists and share their findings with policymakers, professionals, educators, and the general public through publications, in-person programs, and online outreach that are each tailored to the needs of these audiences. By strategically articulating and promoting the principles of pure freedom, AIER helps to build the intellectual basis for, and popular consensus around, the expansion of individual rights and market freedom, and against the increasing demands for government intervention, central planning, and collectivist policies.

To donate, call AIER at 888-528-1216,
visit **www.aier.org/donate**, or mail in the form below.
Thank you!

✔ YES! I WANT TO SUPPORT AIER TODAY.

- ◯ **$50**
- ◯ **$250**
- ◯ **$100**
- ◯ **$500**
- ◯ **Enclosed is my additional tax-deductible donation of $** ____________

NAME ______________________________

STREET ______________________________

CITY ______________ STATE __________ ZIP __________

EMAIL ______________________________

PAYMENT METHOD

- ◯ Personal check or money order payable to *AIER*
- ◯ MasterCard
- ◯ American Express
- ◯ Visa
- ◯ Discover

CREDIT CARD NUMBER:

____

EXPIRATION (month/year) ______________ CSV # ________

TELEPHONE (   ) ______________________________

____

SIGNATURE

ORDER ONLINE **aier.org** or CALL TOLL-FREE **888.528.1216**
We do not share or sell your personal information under any circumstance.

Mail to: AIER PO Box 1000 Great Barrington, MA 01230-1000

American Institute for Economic Research
250 Division Street
Great Barrington, MA 01230

[The] poorer classes of the population, little understanding the nature of their bondage but suffering its evil effects, follow any demagogue who offers them a hope of change in the belief that any change, even a move backward toward the Dark Ages, will be a change for the better. Thus, men come to power who neither understand nor care for the principle of freedom that is the intended goal of our Constitution, and to satisfy the masses who elected them pass laws that reverse the movement toward freedom and take us back along the road on which mankind has struggled to move forward for hundreds of years.

**—E.C. Harwood
January 1945**