

# AIER Research Reports

Volume XC  
October 2025

*AIER*

October 2025

# Research Reports

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 8 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](http://www.aier.org)

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October 2025

# From the Managing Editor

Peter C. Earle  
*Senior Research Fellow*

In a striking turnaround, the US Bureau of Economic Analysis (BEA) has revised its estimate for second-quarter 2025 GDP upward, from **3.3 percent** to **3.8 percent**. That half-point bump is more than cosmetic: it transforms the narrative of the quarter's economic output from "strong, but underwhelming relative to expectations" to "resilient and outpacing prior estimates."

What changed? The BEA attributes most of the revision to stronger consumer spending, especially in services, and a deeper-than-expected pullback in imports, which mechanically boosts GDP because imports are a negative in the national accounts. In the technical breakdown, consumer expenditures were revised upward across services categories (transportation, financial services, insurance) while downward revisions to exports and goods partially offset the gains. Also, the measure known as "real final sales to private domestic purchasers" – a cleaner gauge of domestic demand excluding volatile trade and inventory swings – was revised up by a full percentage point to **2.9 percent** growth.

Another twist: the BEA's annual update of national accounts also played a role, revising source data, seasonal factors, and aligning industry and state data back through earlier quarters. Because of that, even some non-Q2 figures were adjusted (including first quarter, corporate profits, and inventories) to maintain consistency.

The magnitude of the upward revision is significant in economic storytelling. Whereas the prior estimate of **3.3 percent** might have been read as "solid but not stellar," the **3.8 percent** figure allows commentators to describe the quarter as among the strongest in nearly two years. The upgrade places more emphasis on consumer resilience and less on the drag from foreign trade or investment weakness. In effect, the revised GDP lends credence to arguments that the economy is sturdier than previously believed.

But caveats remain. The reversal in imports may partly reflect trade distortions and inventory position tied to tariff speculation rather than pure underlying strength. Moreover, other indicators—especially the labor market and inflation measures—remain under scrutiny. The strong Q2 performance may not fully carry over into later quarters.

Nevertheless the revision changes the tone. A quarter once seen as "moderately strong" now looks like something more confident. It reinforces the idea that consumer spending continues to play a central role in growth, and that latent strength may persist—even amid headwinds.

Yet isn't it curious how downward revisions have been treated as proof of data manipulation, conspiracy, or biased spin, while upward revisions are praised as corrections, fine-tuning, or acts of statistical heroism?

If one quarter's employment numbers are later pushed downward – suddenly "the books are cooked" or someone has been "fudging the data." But when numbers are revised upward,

hey, that's just data catching up with reality, as if the workers sneaked back into the factories overnight. Revisions up are honest and proper, while revisions down signal moral failings.

To be blunt, the dichotomy stinks of selective outrage. It implies that human bias is only operative when the numbers make a policy look weak, and immediately vanishes when they make economic outcomes appear strong. Why should revisions up enjoy the benefit of the doubt while downward ones are met with suspicion?

In truth, revisions are an expected part of statistics and accounting. As more comprehensive source data arrive—tax returns, firm surveys, administrative records—data scientists and analysts refine their estimates. Sometimes the refinements move numbers up; sometimes down. To treat only one direction as legitimate is intellectually dishonest. Moreover, the irony deepens: if one believes that data agencies routinely understate growth (so that later upward revisions provide "surprises"), then upward revisions would be the product of concealment too. Yet somehow upward is virtuous and downward is traitorous. That's not skepticism; it's spineless spin.

In the specific case of Q2 GDP, the upward revision doesn't warrant conspiracy theories of boosters. It's more plausible that better data became available (especially consumer spending via revised surveys) and trade flows clarified (imports retreating) – exactly the kind of adjustments statisticians expect.

Likewise, employment revisions work the same way: benchmark surveys, administrative data, firm filings, and later corrections can push prior estimates downward or upward. The mere direction shouldn't determine whether we condemn the process.

So the next time someone gasps that a downward revision is proof of conspiracy—or that an upward one represents clear and incontrovertible truth, they are best reminded that the underlying data process is neutral. Any suspicions should apply universally, not selectively.

The revised **3.8 percent** Q2 GDP figure gives the quarter a stronger sparkle. It emphasizes consumer durability, revises trade drag downward, and makes the economic picture more upbeat than earlier readings suggested. But it's important not to treat that revision as gospel: future quarters, labor metrics, inflation, and business investment will all test whether the depicted strength holds.

And when it comes to interpreting revisions, we should resist the lazy moral framing: that sort of double standard is the domain of politicians and pundits, not serious analysts. Data adjustments are a normal part of a soundly-conducted statistical reporting process. The only relevant question is whether revisions make sense in light of source data—not whether they flatter one narrative while punishing another.

Peter C. Earle, Ph.D

*Managing Editor, AIER Research Reports*

October 2025

# Business Conditions Monthly July 2025

Peter C. Earle  
*Senior Research Fellow*

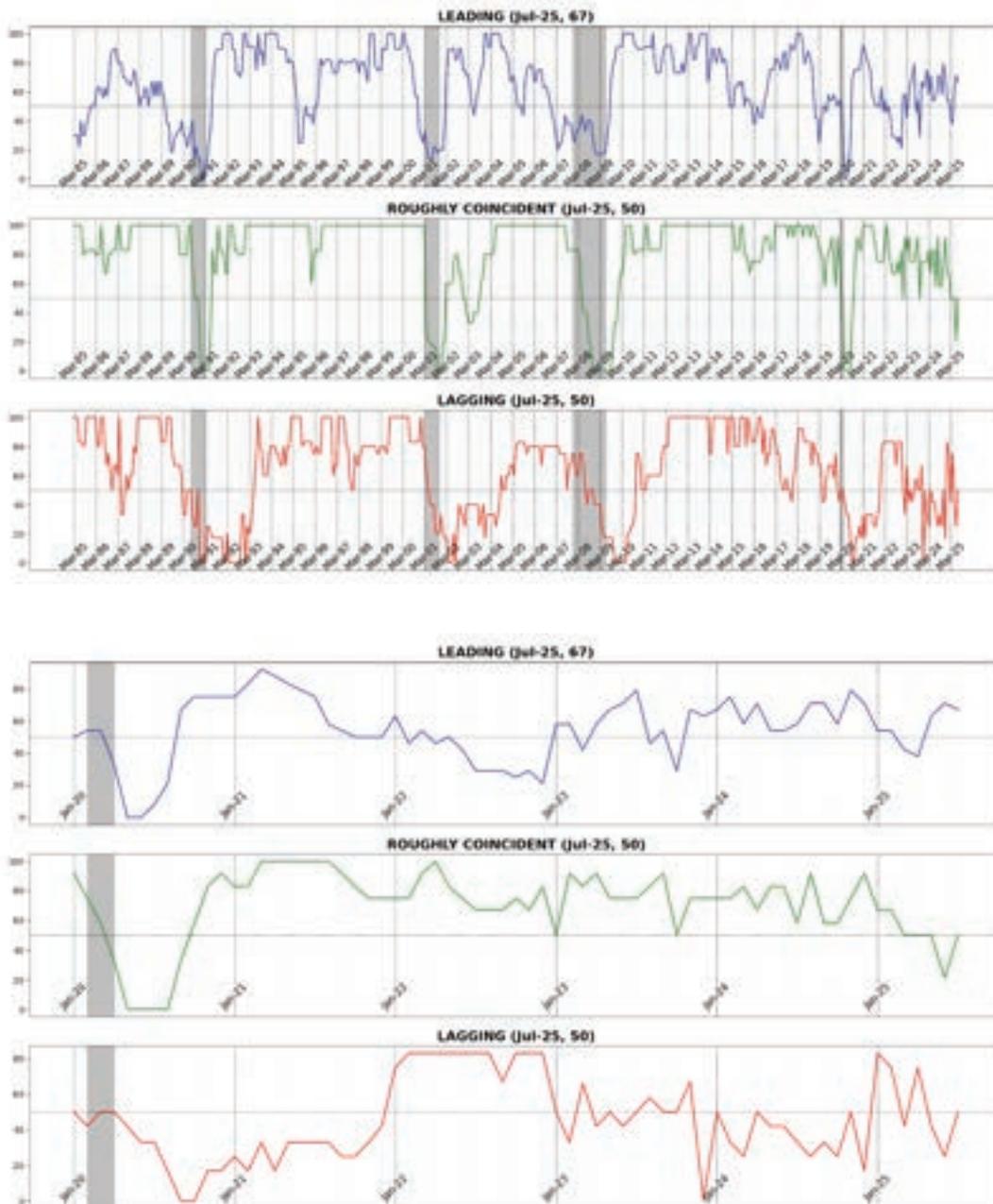
**BUSINESS CONDITIONS MONTHLY JULY 2025**

AIER’s Business Conditions Monthly indicators for July 2025 point to a reversal of last month’s momentum and a rebalancing across the indicator set. The Leading Indicator slipped 4 points to 67 from 71, ending the late spring surge and underscoring lingering fragility in certain forward-looking measures. Markets and housing remained supportive, but weaker sentiment and transport demand tempered breadth, suggesting that expectations for a strong second-half pickup should be moderated.

The Roughly Coincident Indicator rose from 21 to 50, marking a pause after June’s sharp contraction. Stability at this level reflects an offsetting mix of modest gains in sales, income, and payrolls against declines in

production, participation, and sentiment – leaving the real-time picture flat but fragile.

The most notable change came in the Lagging Indicator, which leapt to 50 from 25, with inflation pressures and growth in loans driving the surge. While backward-looking data typically trail turns in the cycle, the sudden jump signals a reemergence of price and credit intensity even as leading measures ease. Taken together, July’s Business Conditions profile points to softer forward momentum, stalled current activity, and backward indicators solidifying – a configuration that keeps the near-term outlook unsettled and highlights the difficulty of extrapolating clear directional signals in a period of policy volatility.



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### LEADING INDICATOR (67)

The Leading Indicator eased to 67 in July from June's level of 71, with seven of twelve components improving, one unchanged, and four declining.

Strength was anchored by financial and market gauges: the Conference Board US Leading Index Stock Prices 500 Common Stocks surged **4.4 percent**, the 1-Year to 10-Year US Treasury Yield Spread widened by **4.1 percent**, and Debit Balances in Customers' Securities Margin Accounts rose **1.5 percent**. Cyclical housing activity also added support with US New Privately Owned Housing Units Started by Structure Total SAAR up **3.4 percent**, while labor-market forward tone improved as US Initial Jobless Claims SA fell **5.6 percent**. Smaller gains came from US Manufacturers New Orders Nondefense Capital Goods Ex Aircraft (**0.8 percent**), Adjusted Retail and Food Services Sales Total SA (**0.6 percent**), and US Average Weekly Hours All Employees Manufacturing SA (**0.3 percent**). Offsetting influences included a weaker Inventory to Sales Ratio Total Business (**-0.7 percent**), softer sentiment in the University of Michigan Consumer Expectations Index (**-0.7 percent**), a decline in United States Heavy Truck Sales SAAR (**-0.2 percent**), and only a fractional uptick in the Conference Board US Leading Index Manufacturers' New Orders Consumer Goods and Materials (**0.1 percent**). The breadth picture shows continued strength in markets, claims, and housing, though tempered by softer consumer mood and transport demand.

### ROUGHLY COINCIDENT INDICATOR (50)

The Roughly Coincident Indicator rose to 50 from 21 with constituents evenly balanced; three improving and three declining.

On the upside, US Manufacturing and Trade Sales and Personal Income Less Transfer Payments each rose **0.3 percent**, while Nonfarm Payrolls edged **0.1 percent** higher. On the downside, US Industrial Production slipped **0.4 percent**, while both the Labor Force Participation Rate and the Conference Board Consumer Confidence Present Situation SA fell **0.2 percent**. The overall profile suggests that modest advances in sales, income, and payrolls are being countered by weaker production, participation, and sentiment, leaving current conditions flat on net.

### LAGGING INDICATOR (50)

The Lagging Indicator rose from a contractionary 25 in June to a neutral 50 in July, with three components advancing and three retreating.

Price pressure remained the dominant driver, as US CPI Urban Consumers Less Food and Energy Year over Year NSA jumped **6.9 percent**. Other positives included a **1.1 percent** increase in Commercial and Industrial Loans and a **0.2 percent** rise in US Manufacturing and Trade Inventories Total SA. The Conference Board US Lagging Average Duration of Unemployment (up **4.8 percent**) rose, and there were declines in both Census Bureau US Private Construction Spending Nonresidential SA (**-0.5 percent**) and US Commercial Paper Placed Top 30 Day Yield (**-0.5 percent**). Taken together, the lagging profile points to strong inflation and firm loan growth offset by softer short-term rates and weakening nonresidential construction.

In July 2025, the three Business Conditions indicators are at a very different balance than they were one year prior. The Leading Index eased slightly but remains close to its strongest levels in well over twelve months. Markets and credit conditions continue to provide support, housing activity firmed, and jobless claims remained relatively low, suggesting some forward momentum. Still, the consumer mood is subdued and freight demand is soft, reflecting lingering caution after the "Liberation Day" tariff shock in April. The result is a forward picture that looks sturdier than it felt in the spring, but with confidence still tenuous.

The Roughly Coincident Index has settled toward neutral after mild strength early in the year, with payrolls and incomes showing modest gains even as production and participation have weakened. The Lagging Index, meanwhile, has swung back toward neutral levels, driven by rising prices and expanding loans but simultaneously showing longer spells of joblessness. The unusual combination – leaders holding firm with coincident and lagging indicators rising to neutral levels – suggests an economy caught between early signs of recovery and the impact of record levels of uncertainty hanging over the economy. Short- to medium-term developments will hinge on whether forward momentum broadens into real activity, and whether the renewed pressure from prices and uncertainty over trade policy continues to exert drag on growth.

### DISCUSSION, AUGUST – SEPTEMBER 2025

Inflation data for August underscored a complex picture of persistent price pressures. The headline Consumer Price Index (CPI) rose **0.38 percent** while core CPI increased **0.35 percent**, the fastest monthly pace since January, lifting the annual headline rate to **2.9 percent** and leaving core at **3.1 percent**. Importantly, the acceleration was not tariff-driven – pass-through from trade levies into consumer goods prices has diminished sharply – but

was concentrated in services such as airfares and hotels, buoyed by easier financial conditions, alongside firmer food and gasoline costs. By contrast, many tariff-sensitive goods including appliances, furniture, and electronics registered outright price declines, suggesting earlier markups have peaked and margins are being absorbed by producers. Even so, the breadth of price gains remained concerning, with nearly half of CPI components running at a **4 percent** annualized pace or higher, highlighting that underlying momentum has yet to break. At the wholesale level, the producer price index unexpectedly fell **0.1 percent**, the first decline in four months, as service margins contracted, underscoring the difficulty firms face in passing rising costs onto households. That tension – between firm consumer-facing inflation and weak wholesale pricing – complicates the Fed’s task as it weighs both inflation persistence and demand-side fragility.

At the wholesale level, the Producer Price Index (PPI) unexpectedly fell **0.1 percent** last month, the first monthly decline in four months, with July also revised lower. On a year-over-year basis, PPI rose **2.6 percent**, but the details showed firms were reluctant to raise prices aggressively despite higher tariff-related costs. Services margins contracted **1.7 percent** – the sharpest drop since 2009 – offsetting modest gains in goods prices, while machinery and vehicle wholesaling saw especially steep margin declines. Analysts suggest retailers have been “eating” tariff costs to avoid alienating consumers already squeezed by affordability pressures, a strategy that may not be sustainable if demand weakens further. This divergence – sticky consumer-facing CPI inflation alongside softening wholesale margins – underscores the strain facing producers and complicates the Fed’s assessment as it balances inflation persistence against signs of weaker demand.

The most recent Personal Consumption Expenditure index data reinforced that narrative: goods inflation softened while services, particularly financial and portfolio-management fees, continued to apply upward pressure. Core PCE edged modestly higher, keeping the year-over-year pace at **2.9 percent** but with the three-month annualized rate rising, reflecting ongoing stickiness. Goods tied to tariffs saw softer or declining prices, while categories like recreational goods and vehicles benefitted from promotions that drove consumer activity. Personal outlays rose **0.5 percent**, with real spending up **0.3 percent**, though much of this strength reflected bargain-driven purchases rather than broad-based demand. Wage growth remained steady but slowed incrementally, reinforcing the impression that income support is softening. Taken together, the data suggest that services inflation remains entrenched,

even as tariff pass-through fades, leaving Jerome Powell’s Jackson Hole caution – that tariff effects will accumulate over time – still relevant.

Labor market readings show clear signs of deceleration, albeit with statistical noise clouding the signal. August nonfarm payrolls rose just 22,000 following downward revisions that pushed June into negative territory, while the unemployment rate rose to **4.3 percent**. Losses were broad across higher-skill sectors such as finance, professional services, and information, with gains concentrated in lower-wage areas including leisure, hospitality, and retail. Health care continued to expand but at its slowest pace since early 2022, underlining its outsized role in sustaining headline job growth. Compensation growth has moderated as hours worked were revised down, and aggregate labor income softened. While some weakness may be attributable to seasonal adjustment quirks common in August, the combination of weaker hiring, rising unemployment inflows, and slower income growth signals that labor demand is easing more quickly than supply.

Additional cooling is evident in July’s JOLTS and August ADP data. Job openings fell to 7.18 million, pushing the ratio of vacancies to unemployed workers below 1.0 for the first time in years, while quits held steady but are likely to trend lower as job-switching opportunities diminish. Health care job openings dropped to a four-year low, and ADP data showed education and health services employment contracting for a fifth consecutive month – diverging from the slower but still positive growth reported by BLS. Analysts increasingly expect reality lies somewhere in between: hospitals and nursing facilities are still hiring, but specialized services such as dentistry and outpatient care are shedding jobs. Staffing firms report shortages of licensed professionals remain a constraint, suggesting that even as demand cools, structural bottlenecks persist. Broadly, the labor market is no longer overheating but is now navigating a fragile equilibrium between weakening demand and supply-side frictions.

For households, this cooling labor backdrop collides with affordability headwinds, compounding pessimism. The prime-age employment-to-population ratio peaked a year ago, hiring rates have slowed since late 2023, and survey data show one in five Americans now view jobs as “hard to get.” For the first time since 2021, the number of unemployed has exceeded job openings, raising the risk that firms will feel less constrained in cutting staff. Unlike prior downturns in the 2000s and 2010s, this slowdown is occurring amid high inflation, elevated interest rates, and poor housing affordability, diminishing the ability of job growth to spur a broader

recovery. Housing markets are showing tentative signs of normalization as inventories rise and prices soften in certain regions, but high borrowing costs continue to choke affordability. Overlaying this is heightened uncertainty about AI: unprecedented investment could either displace high-skill workers or, if misallocated, produce a sharp bust. Together, these factors help explain why even modest labor-market weakness feels more destabilizing to households than in past cycles.

Survey data reinforce this fragile balance. The ISM manufacturing PMI ticked up to 48.7 in August, still in contraction but supported by stronger new orders and a slower pace of job losses. Supplier deliveries slowed, suggesting tighter supply chains, and price pressures eased modestly, but production slipped and backlogs shrank, leaving output highly sensitive to monthly demand. Services fared better, with the PMI rising to 52.0 as new orders accelerated to their strongest pace in nearly a year, supported by demand from data centers and tariff front-running. Yet, respondents reported mounting input-cost pressures and difficulty shielding customers from higher prices, while employment remained in contraction and backlogs shrank further. In short, manufacturing remains mired in weakness while services provide a modest cushion, though both are under stress from tariffs, labor strains, and rising costs.

Confidence measures highlight the divergence between households and firms. The Conference Board's consumer confidence index slipped to 97.4, as inflation expectations rose, views on job availability weakened, and discretionary spending intentions fell. By contrast, the NFIB small business optimism index rose to 100.8, its highest since January, with sales expectations improving and most owners rating business conditions positively. While price pressures moderated, capital spending plans and hiring intentions softened, and uncertainty remained elevated, reflecting ongoing caution. Together, the picture is one of wary consumers reining in demand and small businesses finding selective resilience but remaining reluctant to expand aggressively.

Hard data provided modest counterpoints. Retail sales surprised to the upside, rising **0.6 percent** in August, with core sales excluding autos and gas up **0.7 percent** and online sales surging **2.0 percent**. Restaurant and bar sales rose **0.7 percent**, supported by higher-income households, while the retail control group advanced **0.7 percent**, a favorable signal for GDP. Industrial production posted a **0.1 percent** gain after July's downward revision, with manufacturing output up **0.2 percent** on the back of vehicles, steel, pharmaceuticals, and textiles, even as aerospace output fell **0.6 percent**. Utilities subtracted from the headline with a **2.0**

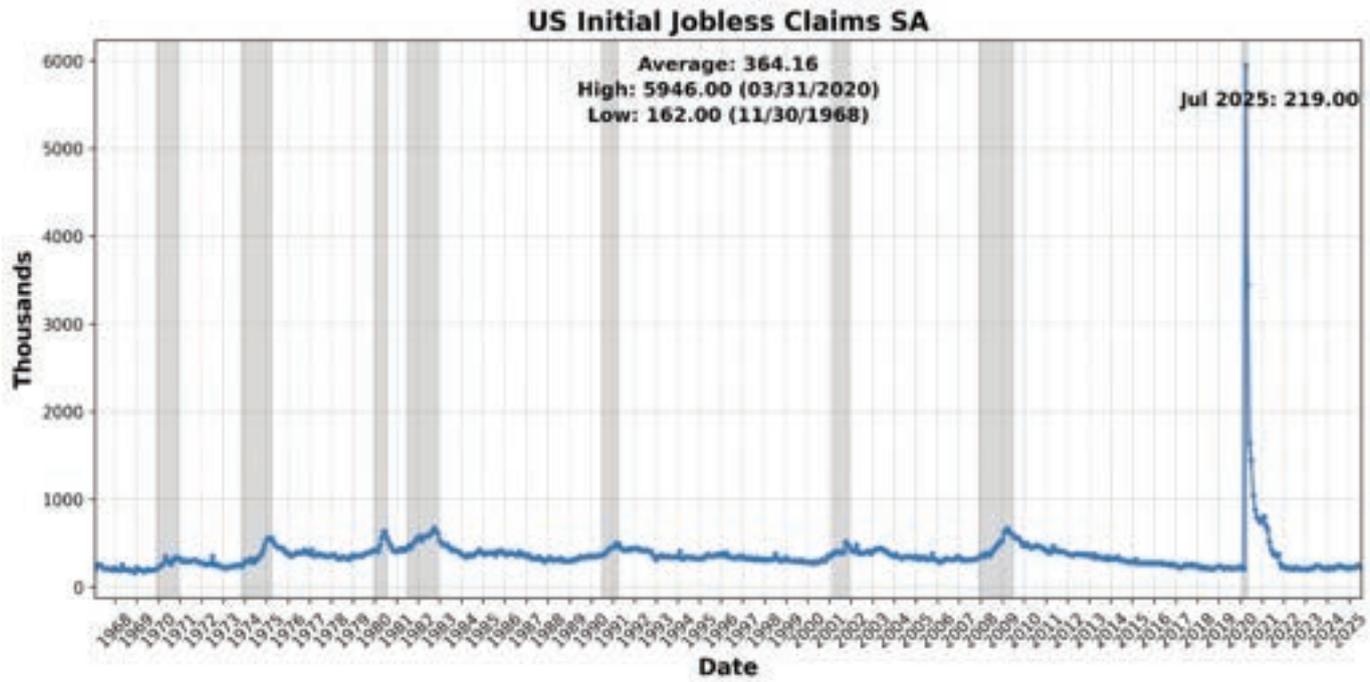
**percent** drop, and business equipment production contracted modestly. Capacity utilization held steady at **77.4 percent**, suggesting no meaningful reduction in industrial slack.

Policy backdrops further underscore the fragility. The Fed's Beige Book reported little or no change in activity across most districts, with consumer spending flat or declining and tariffs cited widely as a source of rising input costs. Employment was largely unchanged but labor shortages persisted in some sectors, particularly construction, where fewer immigrant workers are available. On the monetary side, the effective federal funds rate — long anchored at the bottom of the Fed's target range — could soon drift higher as reserves dwindle and Treasury's bill issuance drains liquidity. Market participants warn that a drop toward the Fed's "comfort floor" of \$2.7 trillion in reserves could force intervention. On the fiscal side, Congress remains gridlocked, with Democrats pushing a \$1.5 trillion package tied to health care subsidies and Medicaid, while Republicans press for a clean extension. The standoff adds another layer of uncertainty to an economy already facing tighter liquidity and cooling household sentiment.

Taken together, the US economy continues to straddle a narrow path between modest growth and mounting risks. Inflation is proving sticky, concentrated in services, while goods inflation has eased. Labor markets are cooling but remain structurally uneven, with health care still a critical but weakening pillar. Consumers are growing more cautious under the weight of affordability challenges, while businesses express guarded optimism tempered by investment and hiring constraints. Manufacturing is weak but services show resilience, leaving overall momentum uneven. Fiscal policy gridlock and monetary tightening through liquidity channels add to the uncertainty. As such, growth may persist into year-end, but fading momentum, sticky inflation, and policy constraints suggest an outlook of fragile stability rather than robust expansion.

**LEADING INDICATORS**

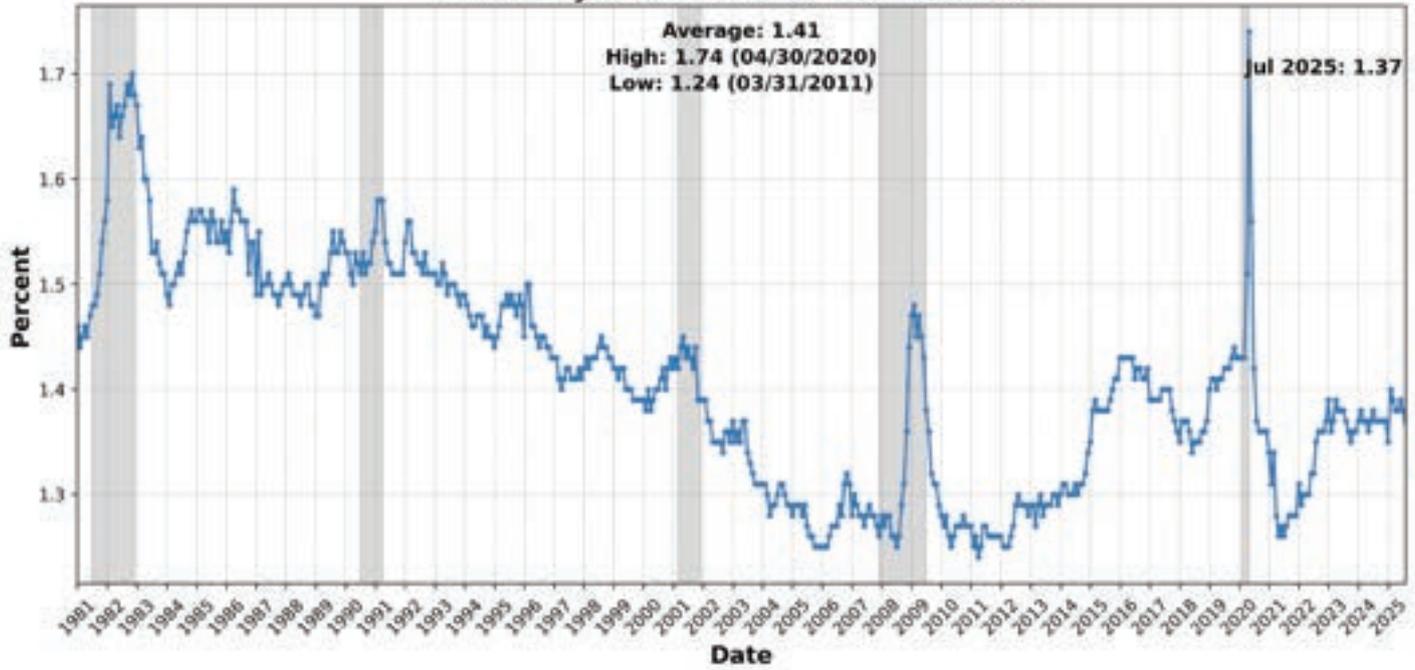




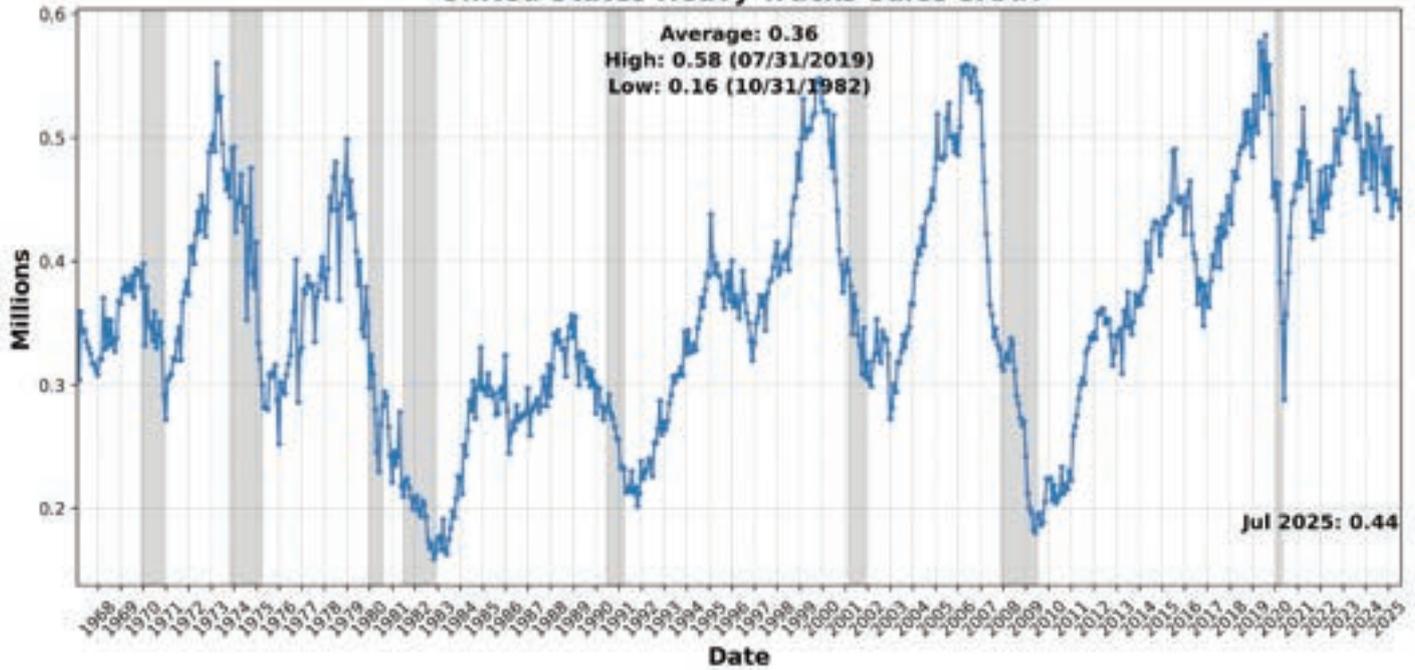


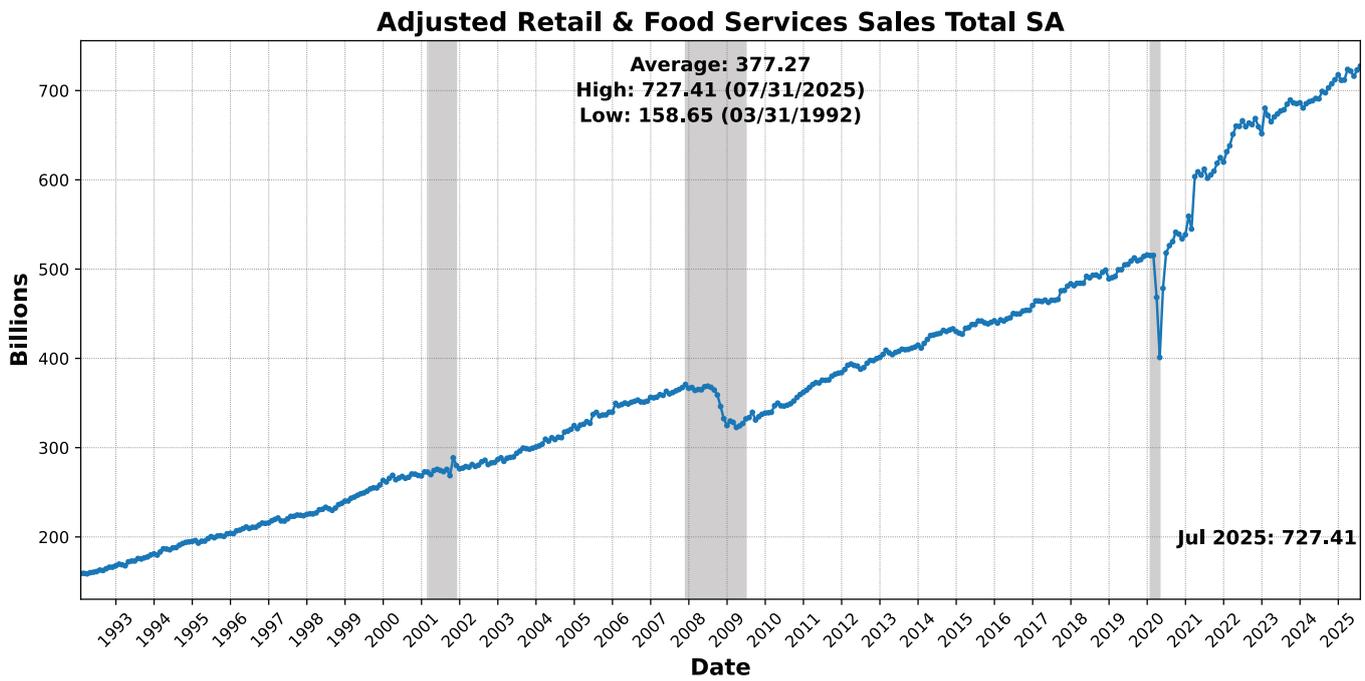
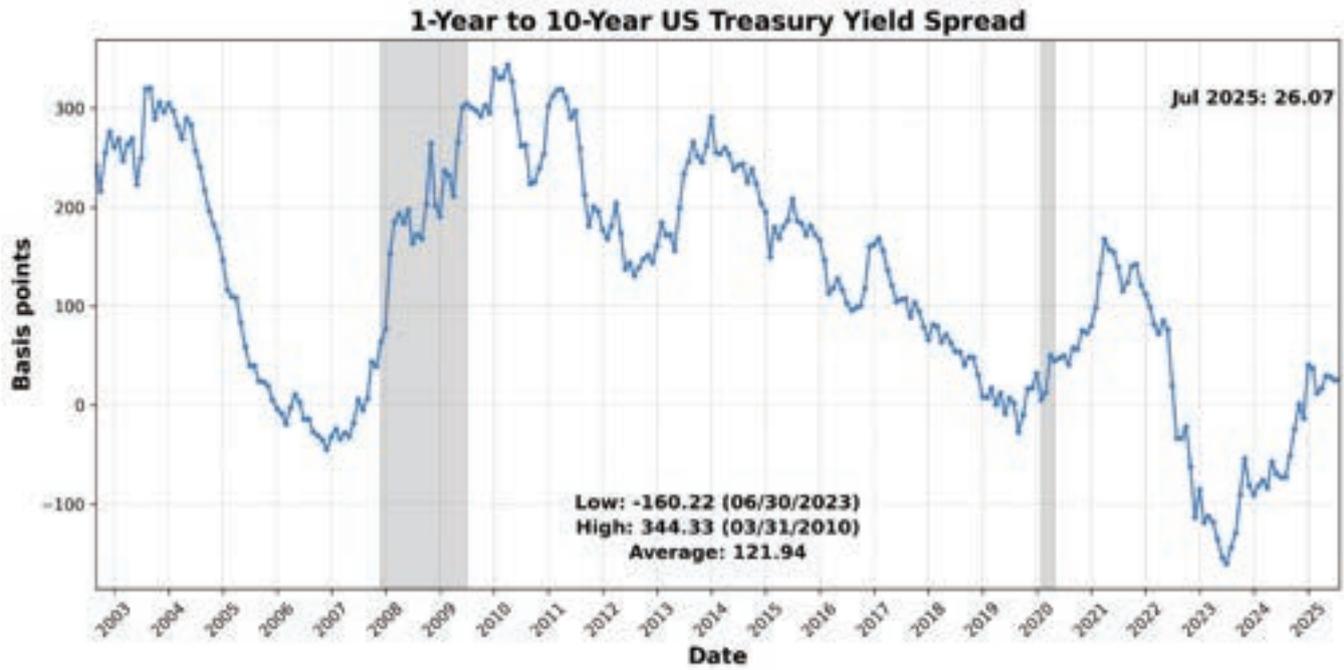


**Inventory to Sales Ratio Total Business**

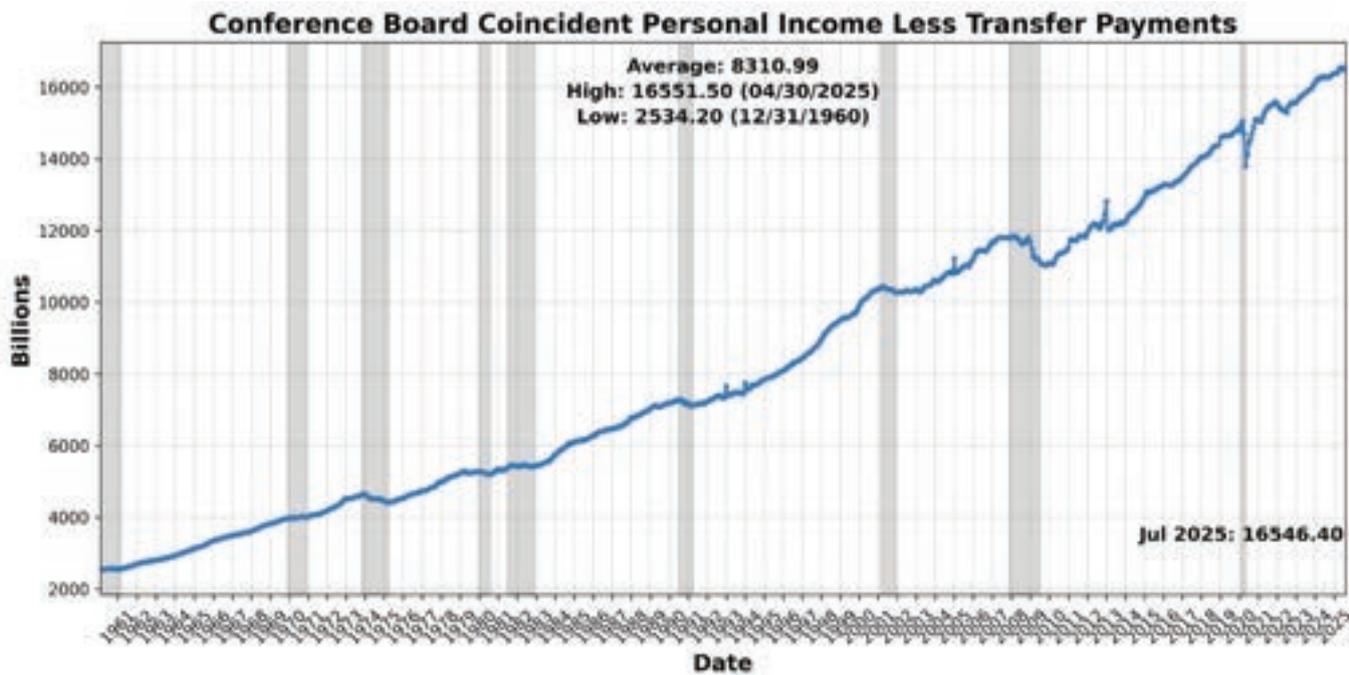
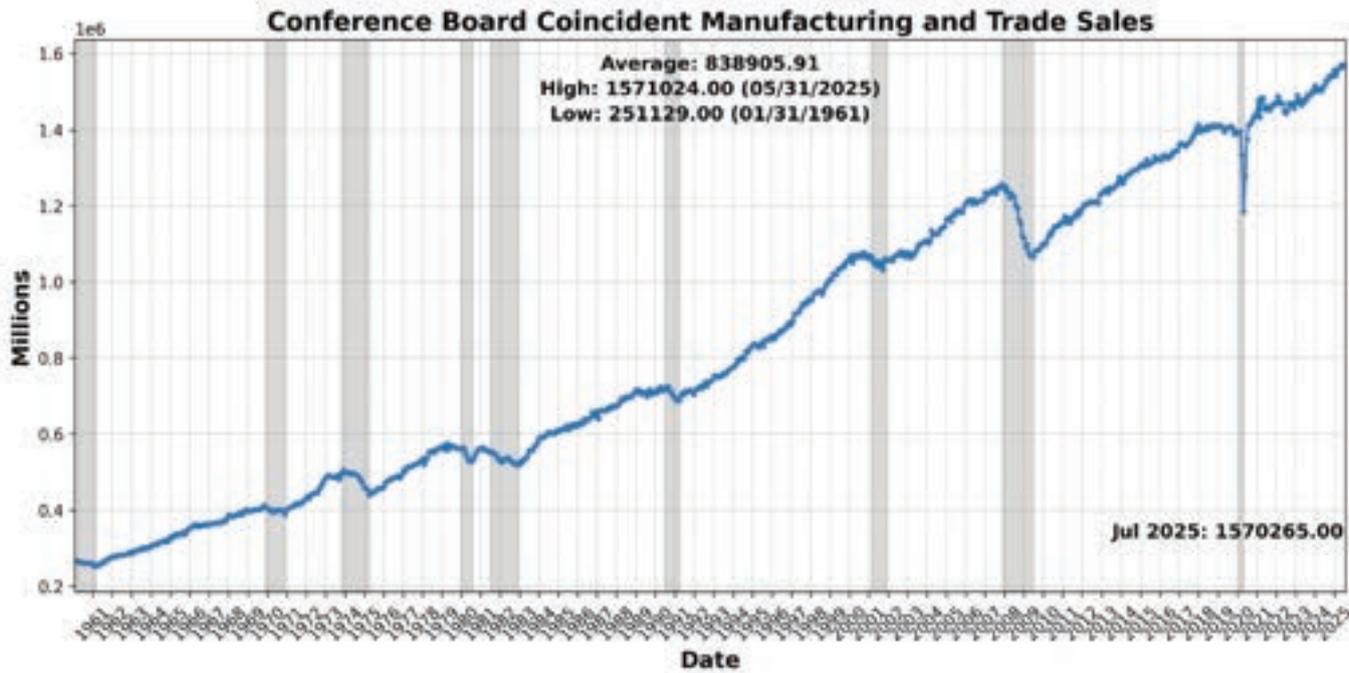


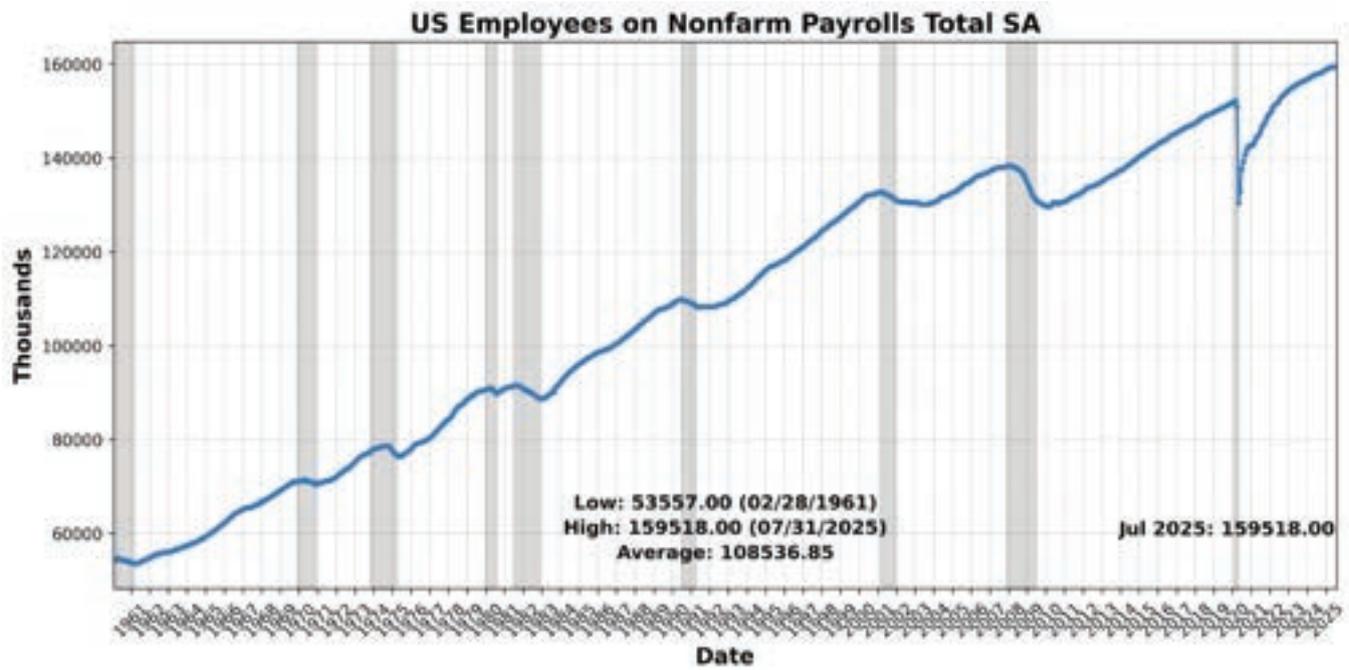
**United States Heavy Trucks Sales SAAR**

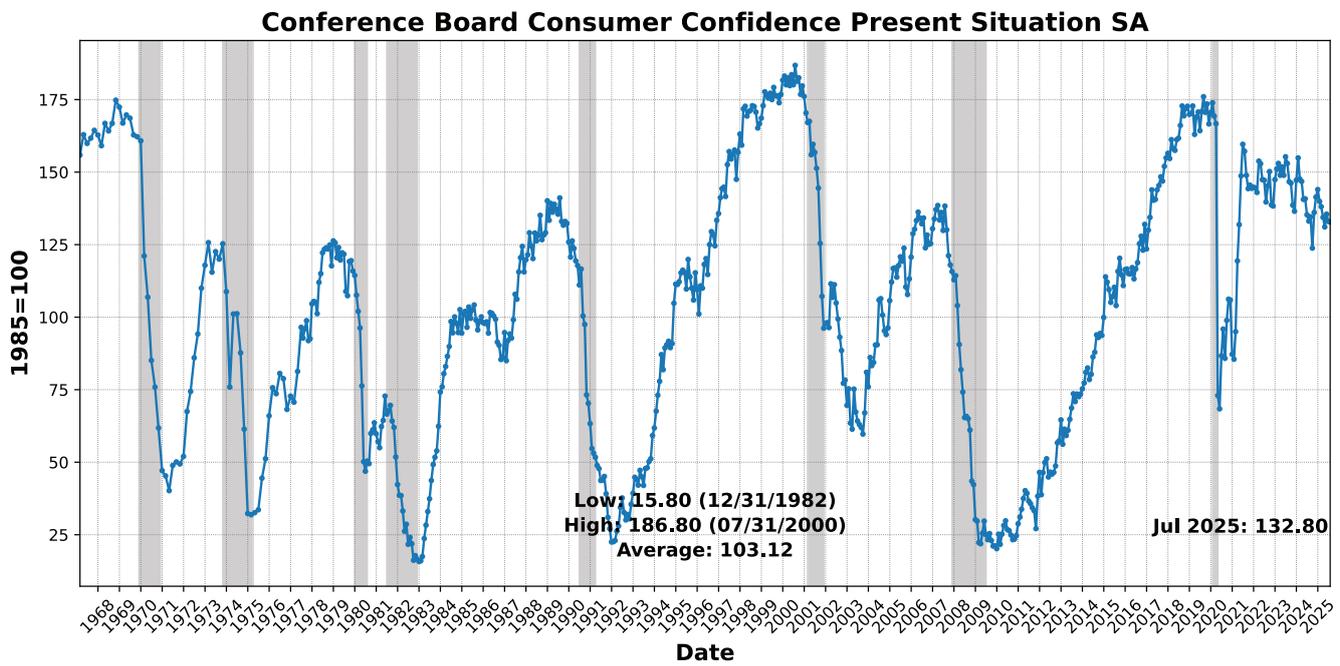




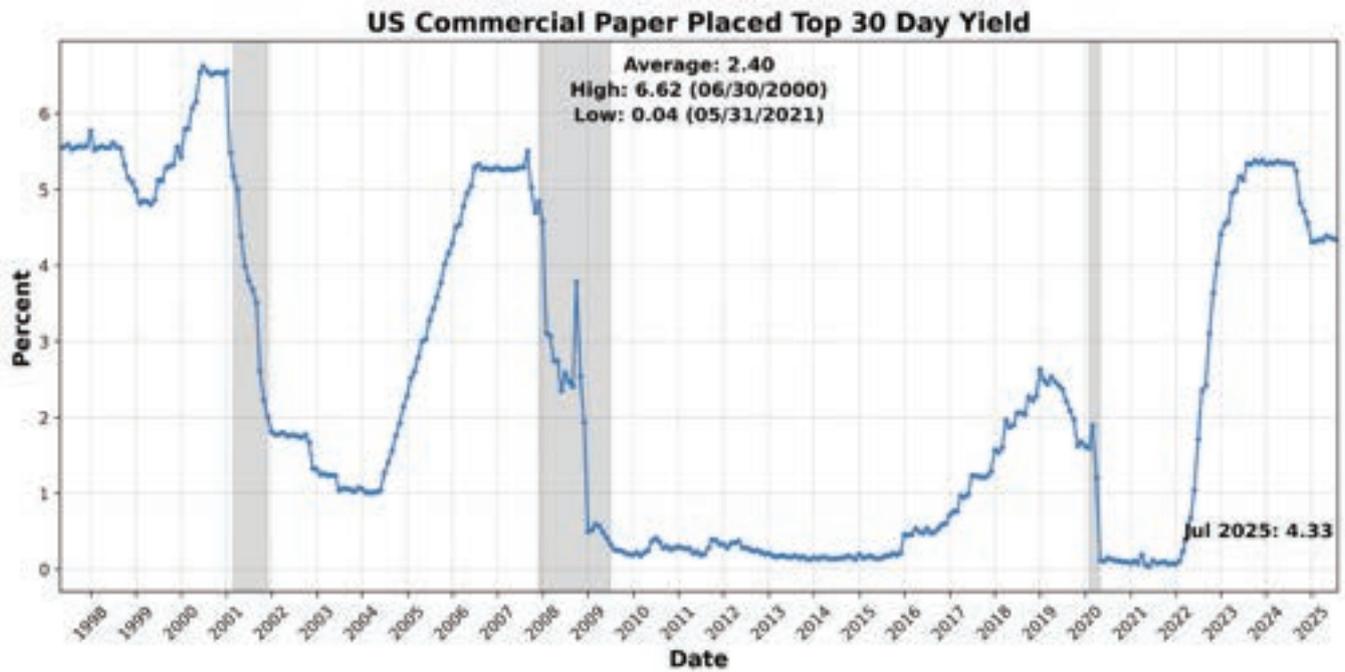
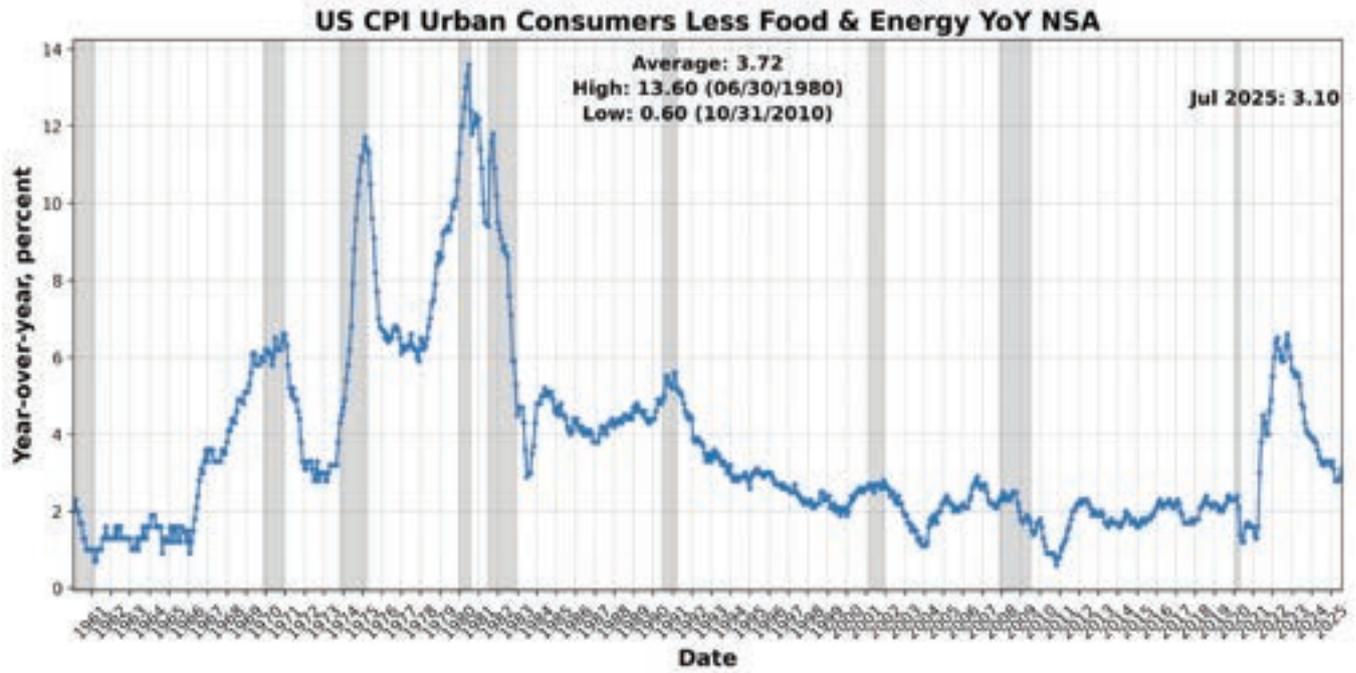
### ROUGHLY COINCIDENT INDICATORS

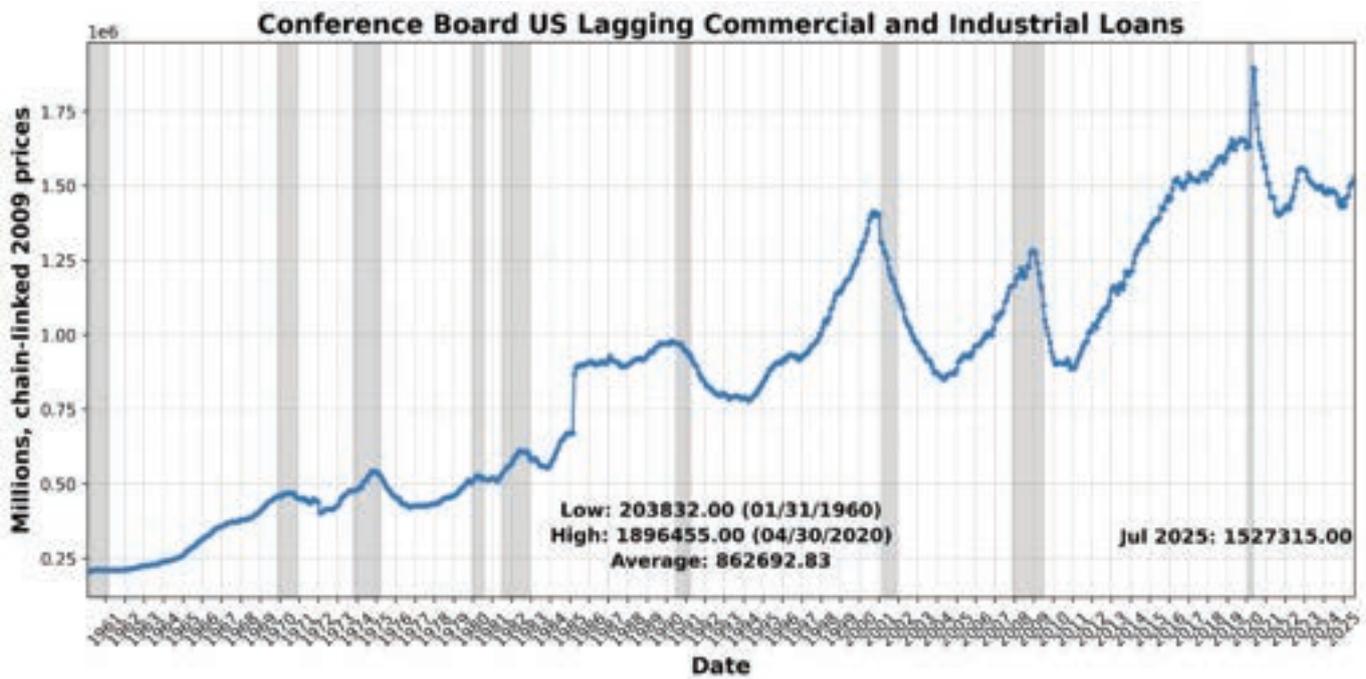
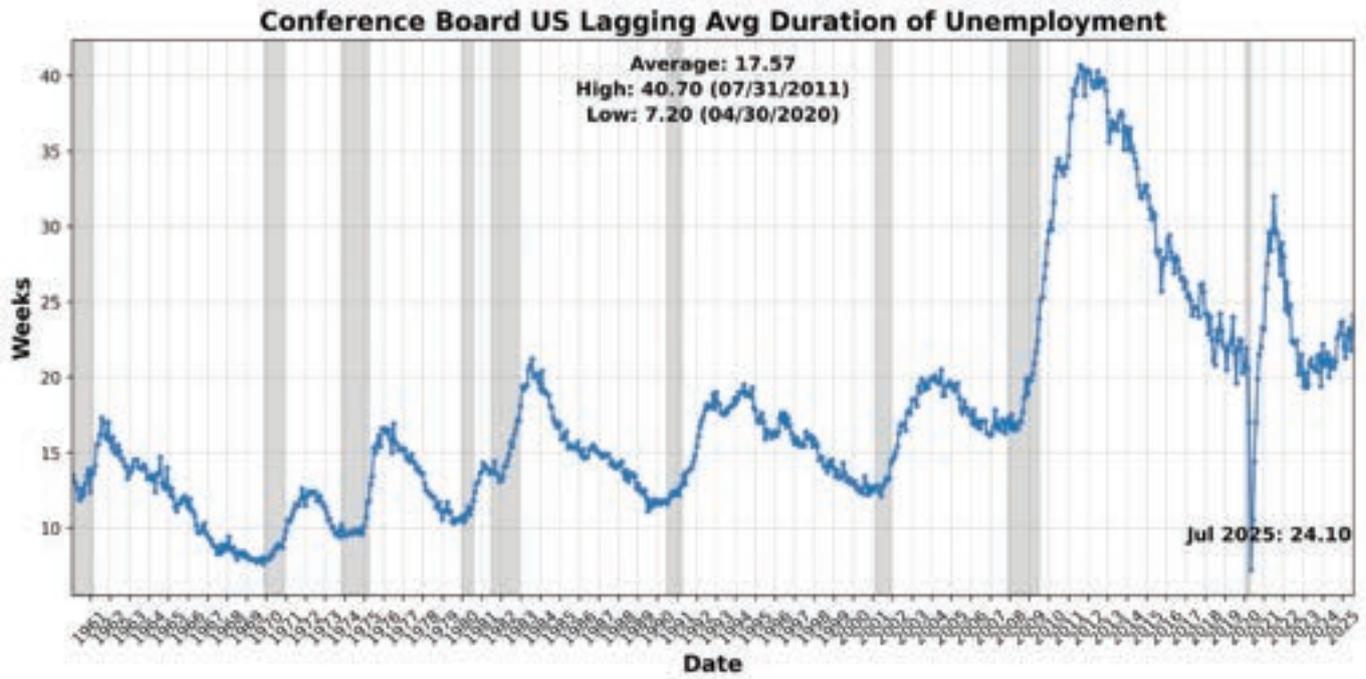


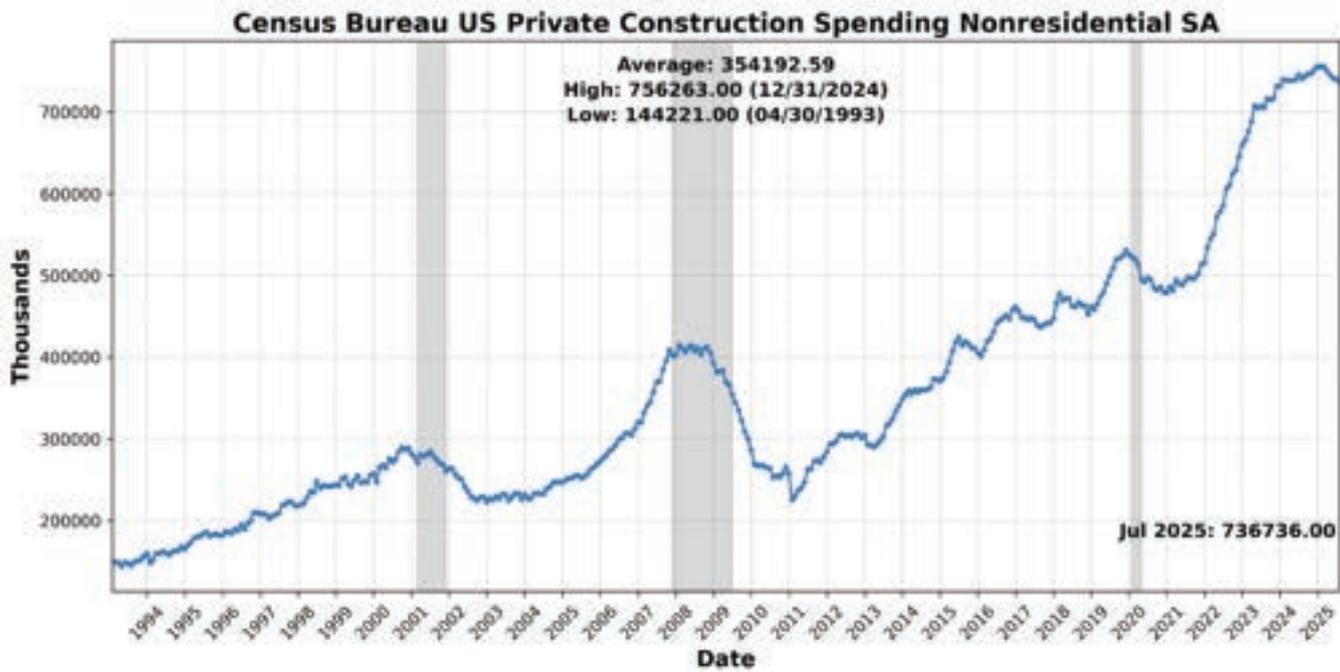




LAGGING INDICATORS







## CAPITAL MARKET PERFORMANCE

Ticker	Short Name	1M	3M	1YR	3 Year Annualized Total	5 Year Annualized Total	10 Year Annualized Total
• SPR	S&P 1500 Composite Index	+3.31%	+10.91%	+16.03%	20.5232	16.3901	14.0953
• SPXT	d S&P 500 Total Return	+3.63%	+11.44%	+18.60%	21.3265	16.6702	14.4895
• SPX	d S&P 500 INDEX	+3.51%	+11.10%	+17.05%	21.3005	16.6485	14.4750
• HID	d S&P 400 MIDCAP INDEX	+7.77%	+7.56%	+5.18%	12.6287	13.6463	10.3009
• RTY	d RUSSELL 2000 INDEX	+4.29%	+15.50%	+10.95%	12.1328	11.1991	8.8128
• SOXP	d STXE 600 (EUR) Pr	-1.41%	+3.43%	+7.18%	14.5643	12.0815	7.7978
• TLT US	d ISHARES 20+YR TR	+1.90%	+2.22%	-10.10%	-2.4397	-8.8261	-.8312
• QLTA US	d ISHARES AAA - A	+8.5%	+2.18%	-1.64%	4.9593	-.4352	2.4213
• CRY	d TR/CC CRB ER Index	-.75%	-2.39%	+4.79%	2.2362	14.5409	4.3667
XAU	Gold Spot \$/Oz	+11.23%	+11.14%	+42.42%			
XAG	Silver Spot \$/Oz	+13.27%	+21.04%	+42.35%			
ILH3NAVG	Bankrate 30Y Mortgage Rates Na	-4.81%	-8.13%	-4.67%			
ILH1NAVG	Bankrate 15Y Mortgage Rates Na	-4.59%	-8.48%	-6.34%			
MB301ARM	5 Year ARM	-2.59%	-9.16%	-.18%			
ILA3NAVG	Bankrate 30Y Fixe Mtg Refis Na	-.14%	-.28%	-1.24%			

October 2025

# H-1B Visas Are Good for U.S. Workers

*This article original appeared in*

**WSJ | OPINION**

Samuel Gregg

*President and Friedrich Hayek Chair in Economics  
and Economic History*

Once you let the economic-nationalist genie out of the bottle, it's difficult to stop it from enveloping the entire economy. Since January, the Trump administration has pursued an aggressive tariff agenda, taken a 10% stake in Intel, and insisted that the U.S. government can tell Nippon Steel how U.S. Steel should run its operations. It was only a matter of time before the administration applied the same logic of economic intervention for ostensibly patriotic purposes to America's labor market.

This is what lies behind the administration's decision to raise the application fee for new H-1B visas to \$100,000 for every new applicant. The program, created by the 1990 Immigration Act, allows companies to bring high-skilled professionals into America to fill significant gaps in "specialty occupations" in the U.S. economy.

Consider the arguments in President Trump's Sept. 19 proclamation. American companies (especially tech businesses), it claims, have abused the H-1B visa program to "replace, rather than supplement, American workers with lower-paid, lower-skilled labor" and exploited H-1B regulations "to artificially suppress wages." The sheer number of foreign workers on H-1B visas, the proclamation insists, has made it harder for "college graduates trying to find IT jobs, allowing employers to hire foreign workers at a significant discount to American workers."

The theme underlying these claims is that the H-1B program—like trade liberalization and economic openness to the world generally—is hurting American workers. Consequently, the argument goes, the legal importation of foreign high-skilled workers into America via H-1B visas should be harder and more expensive.

Missing from this picture is appreciation of how H-1B visas benefit the U.S. economy, particularly the American-born workforce.

In the first place, there is considerable evidence that the young skilled immigrant workers typically granted H-1B visas increase overall U.S. employment. One 2015 study of the employment structure of U.S. firms found "rising overall employment of skilled workers with increased skilled immigrant employment by the firm," with the native employment expansion occurring primarily among younger workers. A more recent analysis, by the National Foundation for American Policy, likewise concluded that "H-1B visa holders do not adversely affect U.S. workers." Instead, they contribute to "lower unemployment rates and faster earnings growth among college graduates, including recent college graduates."

Adding an H-1B visa holder to the U.S. workforce isn't a zero-sum game. Foreign workers with highly valued and often rare skills inject human capital and expertise into

the U.S. workforce. This increases firms' innovativeness and productivity.

A foreign high-skilled worker may have rare skills different from those of an American high-skilled worker. But when the two employees are put together in an American business, the resulting collaboration translates into more creativity and output for the firm. In other words, H-1B workers complement and magnify the productivity of native-born Americans rather than nullify it. That means more jobs for Americans.

It's true that the entry of foreign skilled workers on H-1B visas into a particular field can produce an exodus of American skilled workers, such as IT specialists, from that field into another. But that doesn't necessarily translate into an overall loss of jobs. Redistributions of skilled workers from one sector to another occur all the time because of entrepreneurial, technological and structural changes in the U.S. economy.

This evidence indicates that if the Trump administration successfully reduces the number of H-1B workers, we can expect negative effects on overall U.S. employment. If American companies find the new H-1B costs too much to bear, it doesn't follow that they will automatically hire U.S. workers. More likely, many large American businesses will do something guaranteed to infuriate economic nationalists—move the jobs offshore. If the talent can't come to America, many U.S. firms will go to the talent.

This has been happening for several decades. Existing H-1B visa caps have led many American businesses to set up research-and-development offices abroad in cities with high concentrations of STEM workers. The effect is to increase employment abroad and for patents to be registered and new technologies to be created beyond U.S. shores.

In a saner policy environment, these factors would encourage American policymakers interested in stoking American employment and growth to expand the availability of H-1B visas and allow more foreign-born high-skilled workers into the U.S. The same considerations suggest that Washington should make it easier for such workers to do, at some point, what I did seven years after entering the country on an H-1B visa: become an American citizen and personally invested in this great country and its dynamic economy.

Unfortunately, in the upside-down world of economic nationalism in which we now live, different outcomes are more likely to be the case. The biggest losers, sadly enough, will be American workers—the very people whose interests economic nationalists claim to be protecting.

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# The Fed's Mission Creep Under Jerome Powell

William J. Luther

*Director of AIER's Sound Money Project*

In a recent *Wall Street Journal* op-ed, former Federal Reserve Bank of Philadelphia President Patrick Harker recounts an interaction with a protester who did not understand the Fed's limits:

Early in my tenure at the Fed, I sat down with a group of protesters to hear their concerns. One man in particular stood out. Passionate, persistent and frustrated, he made clear that he held a Ph.D. in economics from a major university. He insisted that the Fed provide loans directly to struggling nonprofits and community organizations. I interjected to explain that doing so would be illegal. Congress hasn't authorized the Fed to lend to those groups, only to banks and financial institutions under certain conditions. He seemed genuinely surprised.

Harker says the moment stayed with him over the years, "not because of the confrontation, but because it illustrated something more troubling: Misplaced expectations erode the Fed's independence."

Harker is certainly right about the inevitable disappointment that follows when "the public expects things from the central bank it isn't designed, or authorized, to do." He is also right in recognizing that "disappointment, when widespread and sustained, corrodes trust." But there is a glaring omission in Harker's account: under current Chair Jerome Powell, the Fed has been complicit in setting unreasonable expectations.

Consider the Fed's emergency lending authority. As Harker notes, Section 13(3) of the Federal Reserve Act permits the Fed to lend in "unusual and exigent circumstances" to banks and non-bank financial institutions "for the purpose of providing liquidity to the financial system, and not to aid a failing financial company." In times of crisis, previous Fed Chairs have pointed to these limits in order to circumscribe their sphere of action — and limit the risk of becoming politicized. Three examples serve to illustrate.

In 2008, Congress called on the Fed to bail out failing automakers. As then-Chair Ben Bernanke writes in his memoir *The Courage to Act*:

Members of Congress called on the Fed to lend to the auto companies. We were extremely reluctant. We believed that, consistent with the Fed's original purpose, we should focus our efforts on the financial panic. We were hardly the right agency to oversee the restructuring of a sprawling manufacturing industry, an area in which we had little or no expertise.

Bernanke recognized that lending to automakers was inconsistent with the Fed's authority. Such loans would not be "for the purpose of providing liquidity to the financial system." Rather, it would be "to aid a failing [...] company" — and not even a financial company, at that.

Then, in 2011, Bernanke was asked if the Fed could bail out defaulting municipal governments. Once again, he said no.

"We have no expectation or intention to get involved in state and local finance," Bernanke told the Senate Budget Committee. Such lending exceeded the Fed's authority to provide liquidity to the financial system in unusual and exigent circumstances. "This is really a political, fiscal issue," he said.

A similar exchange unfolded in 2015, when then-Chair Janet Yellen was asked if the Fed could bail out Puerto Rico. She, too, said no.

"It is something the Federal Reserve can't and shouldn't be involved in," Yellen told the House Financial Services Committee. "I think it's appropriate for Congress to consider what's best to do in this case."

Time and again, Congress has asked the Fed to venture beyond its narrow emergency lending authority. And, time and again, the Fed chair said no. That allowed the Fed to focus on its core competencies and prevented it from getting sucked into political disputes.

Chair Powell, in contrast, has shown much less restraint. Under his leadership, the Fed opened a host of facilities following the onset of the pandemic in 2020. It is difficult to justify the Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, Paycheck Protection Program Liquidity Facility, Main Street Lending Program, and Municipal Liquidity Facility under Section 13(3).

These facilities were not intended to provide general liquidity. Rather, as Powell told the Senate Committee on Banking, Housing, and Urban Affairs in May 2020, they were intended "to facilitate more directly the flow of credit to households, businesses, and state and local governments" in order to prevent those entities from failing during the pandemic.

An especially telling exchange occurred during that May 2020 hearing, when Powell was asked whether the Fed would consider a larger and longer-term facility for municipal lending. Whereas Bernanke and Yellen had unequivocally ruled out such lending, Powell left the option open.

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“Yes, we will take a look at that,” he said. “I will say, though, that generally with 13(3), what we are trying to do is address liquidity needs, and those are really longer-term funding needs. But notwithstanding that, we are taking a look.”

In other words, Powell acknowledged that (i) the Fed’s 13(3) lending authority is limited to providing general liquidity and (ii) municipalities were suffering from longer-term funding needs, not from a lack of general liquidity. And, yet, he did not rule out the additional lending to municipalities.

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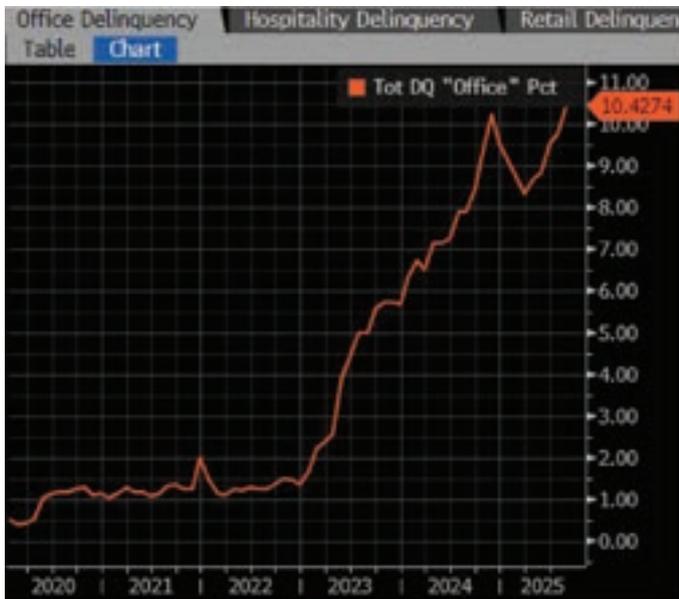
# Commercial Mortgage Delinquencies Now Surpass 2008 Financial Crisis Peak

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In November 2024, US commercial mortgage delinquencies spiked to **10.4 percent**, a level just below the **10.7 percent** peak during the 2008 financial crisis. Commercial real estate (CRE) delinquencies surged again in August 2025, with office and multifamily loans at the center of the slide despite widespread use of “extend-and-pretend” and forbearance tactics designed to stave off losses.

According to Trepp, the delinquency rate of office mortgages packaged into commercial mortgage-backed securities (CMBS) jumped to **11.7 percent**, surpassing the Financial Crisis peak of **10.7 percent**. As recently as December 2022, the rate stood at only **1.6 percent**, highlighting how quickly stress has spread. Multifamily CMBS delinquency rates also spiked, reaching **6.9 percent**, their highest since 2015. Two years ago, the figure was just **1.8 percent**.

The sharp deterioration reflects rising vacancies, elevated borrowing costs, and weak demand. Newer, higher-quality office buildings continue to lure tenants away from older towers, leaving the latter with mounting vacancies and unsustainable debt. Multifamily, once considered among the safest CRE classes, has been dragged down by a mix of aggressive construction, financing costs, and slowing rent growth.



Source: Bloomberg Finance, LP

Multifamily has now become the second-weakest CRE category after office, ahead of lodging CMBS at **6.5 percent** and retail CMBS at **6.4 percent**. Industrial property loans remain comparatively healthy at **0.6 percent**.

Both office and multifamily buildings stand out for the scale of their deterioration. In office space, the biggest

problems involve older towers struggling to compete. Multifamily spaces, though broadly supported by housing demand, face their own pressures from overbuilding in certain markets and refinancing challenges.

Much of the “improvement” in delinquency rates comes from accounting maneuvers rather than true recoveries. Loans are deemed “cured” not only when interest resumes or properties are sold, but also when lenders agree to extend maturities, restructure payments, or provide forbearance. These strategies push problems into the future but rarely resolve the underlying issues.

One example is the \$1.04 billion mortgage on 1211 Avenue of the Americas, a 2-million-square-foot Midtown Manhattan tower. The 1973 property became delinquent in August when its balloon payment was missed. Yet a three-year extension, pushing maturity to 2028, means the loan will soon come off Trepp’s delinquency list.

Similarly, the \$335 million Times Square Plaza loan was “cured” in August through a forbearance agreement lasting until 2026, with options for two additional extensions. As part of the deal, the borrower must inject \$14 million in equity and guarantee \$20 million for leasing and capital expenditures.

But not all loans receive reprieves. In multifamily, the \$62 million mortgage on Manhattan’s Park West Village, covering 850 units, became newly delinquent in August after missing payments.

Unlike the 2008 crisis, US banks are not the primary holders of office loan risk. Most exposure is distributed across institutional investors via CMBS, collateralized loan obligations (CLOs), REITs, and private credit vehicles. Some banks, particularly foreign ones such as Deutsche Bank, did accumulate heavy office exposure and have already taken write-downs or sold loans at steep discounts. But overall, the US banking system’s direct exposure is limited.

Multifamily loans, however, represent a much larger share of CRE debt – about \$2.2 trillion, or **45 percent** of the \$4.8 trillion total. Roughly half of this debt is backed by government-sponsored entities (Fannie Mae and Freddie Mac), whose share of multifamily exposure has doubled in the past decade. Banks and thrifts hold **29 percent**, life insurers **12 percent**, and private CMBS and related securities just three percent.

This distribution means investors and government-backed agencies will bear the bulk of losses. For banks, while individual institutions may face strain, the system as a whole is unlikely to see CRE losses metastasize into a systemic crisis.

The record delinquency rates in office loans – and worsening conditions in multifamily – underscore the depth of stress in CRE. While “cures” through extensions and forbearances will reduce headline delinquency rates, they primarily defer the reckoning. The longer vacancies remain elevated and refinancing remains costly, the greater the risk of losses eventually crystallizing.

For now, the fallout is being absorbed by institutional investors and government agencies rather than threatening the banking system. But the scale of distress in two of the largest CRE categories signals that the sector is undergoing a slow, grinding reset with few straightforward solutions in sight.

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# Miran Follows a Long Tradition of Political Appointees at the Fed

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The Senate confirmed Stephen Miran to the Federal Reserve Board on Monday. Critics of Miran's nomination argued that his prior service at the Treasury Department and on the Council of Economic Advisers made him too political for the job. Putting Miran on the Board, they warn, will weaken the Fed's independence.

Whatever one may think about Miran, it is difficult to argue that his prior service in the Executive branch disqualifies him from serving on the Fed Board. Throughout its history, presidents of both parties have often nominated individuals for the Federal Reserve Board who had previously served in political roles. Nor is his likely return to the executive branch unusual. Indeed, one might argue Miran's nomination fits squarely within tradition. Let's briefly review the history.

Marriner Eccles provides an example of how an ostensibly political appointment can work out well. Before Franklin D. Roosevelt nominated him to chair the Federal Reserve in 1934, Eccles served as an assistant to Treasury Secretary Henry Morgenthau. A vocal supporter of Roosevelt's New Deal, he testified before Congress in 1933 in favor of policies that soon became central to the administration's program.

Roosevelt may have expected Eccles to be his man at the Fed. But Eccles would go on to play an instrumental role in the Banking Act of 1935, which — together with the Fed-Treasury Accord of 1951 — laid the foundations of the Fed's modern independence. Indeed, his influence was so enduring that the Federal Reserve's headquarters was renamed in his honor in 1982.

Arthur Burns provides a less favorable example. Before Richard Nixon tapped him to lead the Federal Reserve in 1970, Burns had served as chair of the Council of Economic Advisers under Dwight Eisenhower from 1953 to 1956 and later as a counselor to Nixon. After his tenure at the Fed, Burns served as a member of Ronald Reagan's Policy Advisory Board.

Burns's close political ties to Nixon were well known when he was nominated, yet they did not prevent him from being confirmed to head the central bank. Perhaps it would have been better if Burns had not been confirmed. While at the Fed, he faced pressure from Nixon. Burns caved, inflation soared, and Americans suffered.

But Burns is the outlier. Most modern central bank chairs have spent time working for the president, and those political ties are not generally thought to have undermined central bank independence.

Alan Greenspan served as chair of the Council of Economic Advisers under Gerald Ford from 1974 to 1977. A few years later, Reagan appointed him to chair the National Commission on Social Security Reform and to serve on

his Policy Advisory Board. Greenspan was confirmed for the top spot at the Fed in 1987. He was subsequently reappointed by George H. W. Bush, Bill Clinton, and George W. Bush.

It would be hard to argue that Greenspan compromised the Fed's independence. Most economists believe he was a highly competent central banker who deserves much credit for continuing the Great Moderation.

Ben Bernanke provides another case in point. He served as a governor on the Federal Reserve Board between 2002 and 2005 and as chair from 2006 to 2014. What did Bernanke do in the interim? He served as chair of Bush's Council of Economic Advisers. Like Greenspan, Bernanke was reappointed by the subsequent administration. His earlier political role was not viewed as a threat to the Fed's independence.

Like Bernanke, Janet Yellen spent time advising the president between stints at the Fed. She was nominated by Bill Clinton to serve as a governor from 1994 to 1997, and then chaired Clinton's Council of Economic Advisors from 1997 to 1999. Yellen served as president of the San Francisco Fed from 2004 to 2010. Barack Obama nominated her for a Board seat in 2010 and promoted her to chair in 2014. She would later serve as Treasury Secretary under Joe Biden. Yellen passed through the revolving door between the Fed and the executive branch more than anyone else. And yet, she was not generally considered a threat to central bank independence.

Taken together, these examples show that prior service in political roles has never been a barrier to appointment at the Federal Reserve. From Eccles to Yellen, presidents of both parties have consistently turned to individuals who had worked at the Treasury, the Council of Economic Advisers, or directly in the White House. The historical record makes clear that political experience has often preceded service at the Fed's highest levels. And many have gone on to work in the executive branch after spending time at the Fed.

Against this backdrop, the objections to Miran's confirmation seem overstated. Unlike Eccles, Greenspan, Bernanke, or Yellen, who went on to serve as chair for years (and in Greenspan's case nearly two decades), Miran has only been confirmed to fill the remaining four months of an unexpired term. Whatever one thinks of his policy views, it is difficult to see how such a brief tenure as a mere governor will threaten the Fed's institutional independence.

By historical standards, Miran's nomination is far from extraordinary. To treat it otherwise risks confusing the Fed's independence from politics with insulation from the normal process of presidential appointments.

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# Tariffs Are Missing the Real Enemy: Yesterday's Products

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Are President Trump's tariffs proving that two and a half centuries of economic analysis exaggerated the virtues of free trade? Have economists been wrong all these years to insist that consumers should be free to buy imports even when the prices of imports are quite low and their purchase takes business away from particular American firms and workers?

Most economists, including myself, believe not. But if we're mistaken, our professional duty demands that we point out that Trump's protectionism is insufficiently ambitious; it should go much further. Trump's protectionism overlooks a source of low-priced goods that poses a far worse threat than do foreign producers to American producers and workers. That source of low-priced goods is the past.

Goods sold in resale markets cost nothing to manufacture today. If, as Trump and other protectionists argue, it is necessary to tariff goods imported from abroad to protect US manufacturers from low-cost foreign competitors, then it is equally necessary to tariff goods imported from the past. The past exports to us at much lower costs than even the cheapest foreign producers.

Someone in Boston who buys a used Buick from his neighbor withholds demand from US-based automobile producers no less than does someone in Houston who buys a new Hyundai from Korea. Were it true that taxing Americans' purchases of imported cars is a just means of stimulating US automobile production, it must also be true that taxing Americans' purchases of used cars is an equally just means of achieving this same goal.

The gains from such a tax could be huge. Last year, Americans spent \$217 billion buying 7.7 million imported vehicles. That seems like a lot. But these figures pale beside the \$1 trillion that we spent buying 37.4 million used vehicles.[1] By tariffing only cars imported from abroad, the government leaves US automakers vulnerable to a source of competition far larger and more potent than foreign automakers: the past. Not only do used cars cost nothing today to produce, the life expectancy of automobiles is rising.

A new car today lasts twice as long as one did fifty years ago and **43 percent** longer than 30 years ago. Cars' rising durability means that the past is dumping ever-larger numbers of cheap vehicles on our market.

Even bigger gains for American workers would come from tariffs imposed on sales of used homes - sales that obviously provide far less employment for carpenters, electricians, masons, and other construction workers than do sales of new homes. In 2024, Americans bought

4.06 million used homes at a total cost of \$1.65 trillion. [2] That's nearly five times more than the \$350 billion we spent to buy 683,000 new homes.[3] If ordinary Americans are enriched when the government protects workers from imports that can be produced at a fraction of the cost of producing new American-made outputs, there's no reason not to impose high tariffs on homes imported from the past.

And as with automobiles, as houses become sturdier, the market will be flooded with larger and larger numbers of homes imported from the past. The president and other protectionists surely cannot ponder this reality without wanting to protect America's construction industry from that low-cost competitor.

Automobiles and housing are far from the only goods whose increased longevity results in more of them being imported into the present from the past. Between 1980 and 2000, the expected mileage of automobile tires rose by **38 percent**, and since 2000 by another **50 percent**; in 1980, we Americans could expect tires to last 29,000 miles while today we can expect 60,000 miles. In consequence, today's demand for new automobile tires is lower than it would be if we Americans were prevented from keeping our tires for as long as we now do.

Or consider lightbulbs. Today's LED bulbs last an amazing 20 to 25 times longer than their incandescent ancestors from just a few years ago. Similarly, the greater abundance of rechargeable batteries reduces the demand for newly made ones.

We're also importing more clothing from the past to compete with today's producers and retailers of new clothing. Consumer demand for used - "vintage" - clothing is rising. And this demand is significant: In 2023, eight percent of Americans' spending on clothing was for pre-owned apparel. That's spending that high tariffs on sales of vintage clothing could shift to the market for new clothing, thus helping to restore employment in US textile mills.

Among other goods that we are importing in increasing quantities from the past are restaurant equipment, furniture, and consumer appliances. Spending on the last of these second-hand items is projected to grow by about **25 percent** by 2032.

And what is recycling if not a concerted effort to import glass, plastics, paper, and metals from the past so that they can compete in the present against new outputs? Even used motor oil is recycled into lubricants that compete with newly produced varieties. Although recycling isn't costless, it nevertheless supplies the market today with outputs that depress new production.

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If protectionist logic is correct, the past is guilty of unfair competition that harms workers in factories making automobiles, batteries, lightbulbs, and other goods that are increasingly imported from the past.

President Trump and his advisors, along with protectionist pundits such as Oren Cass, assure us that one key to making the American economy great is protecting American workers from low-priced imports.

We economists are convinced that they're deeply mistaken. But if we are wrong and they are right, they have so far failed to protect American workers from a source of imports much larger and more formidable than foreign countries: the past and the many goods that it routinely exports to us at low prices.

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*[1] The average price of a used car sold in the US in 2024 was \$27,177. Multiplying this figure by 37.4 million units sold yields total expenditure on used cars in the US in 2024 of \$1,016,419,800,000.*

*[2] The median (I can't find the average) price of an existing home that sold in the US in 2024 was \$407,500. Multiplying this number by the number of such homes sold in 2024 - 4.06 million - yields \$1.165 trillion. [*

*3] The average price of a new home sold in 2024 was \$512,200. Multiplying this number by the number of such homes sold in 2024 - 683,000 - yields a figure of \$349.8 billion.*

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# Can the President Assassinate Suspected Criminals?

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“I don’t give a sh\*t what you call it.”

So wrote Vice President J.D. Vance in response to journalist Brian Krassenstein, who questioned Vance’s assertion that assassinating suspected drug smugglers with missile strikes is “the highest and best use of our military.” Krassenstein called killing civilians without due process “a war crime.”



Public profanity and crude insults are the stock-in-trade of politicians left and right now. Political consultants, I’m sure, tell their bosses it makes them sound strong. Red meat for the base, one small symptom of our late-republic degeneracy.

To be fair, the words “due process” are triggering to the Trump Administration. Vance himself earlier defended abrogating due process to speed up deportations. President Trump answered, “I don’t know,” when asked if he agreed with Marco Rubio that presidents must respect constitutional guarantees of due process.

The Trump Administration is taking precedents set by Barack Obama to a new level. As President, Obama developed a “kill list” beginning in 2010 in consultation with CIA chief John Brennan. He ultimately ordered the assassination of thousands of suspected Islamists, including American citizens, with drone strikes. Disturbingly, many of these drone strikes killed innocent people, including Abdulrahman al-Awlaki, son of Anwar al-Awlaki, who had himself earlier been killed by drone strike. The strike on Abdulrahman was admitted to have been a mistake.

Obama and Brennan never disclosed who was targeted for assassination or why, and the courts dismissed challenges to the list on the grounds of standing. Only those targeted for elimination, the opinion in the al-Awlaki case held, had standing to challenge it. Needless to say, people targeted for assassination were not eager to travel to the US to challenge their assassination order in open court. The Obama Administration’s legal theory held that the targeted individuals were on an active battlefield – but they also defined the active battlefield to include virtually the entire Middle East.

The Trump Administration is now further relaxing limits on the presidential assassination power, justifying blowing up a boat of suspected drug smugglers on the grounds that the White House has declared drug cartels and gangs to be

“foreign terrorist organizations.” Just as with al-Awlaki on Obama’s kill list, there is no recourse for anyone the White House considers to be affiliated with one of these “terrorist” groups and thus fair game for killing.

What makes the Trump Administration’s assertion of power more alarming is the fact that they also consider asylum seekers and illegal immigrants to constitute a literal “invasion” in the legal sense. It doesn’t take an expert logician to see that this administration’s position implies it would be lawful – and beyond judicial review – to employ federal agents to kill anyone suspected of entering the country illegally.

Obama could at least claim the authority to order the killings of foreign combatants under the congressionally enacted Authorization for Use of Military Force against al-Qaeda. The legal authority claimed by the Trump Administration for extrajudicially executing suspected drug traffickers is, believe it or not, the International Emergency Economic Powers Act, the same law it uses as authority for its sweeping tariff war against the world, despite the fact that it doesn’t mention tariffs or the power to kill.

In the second Trump term, we are getting a clear picture of an administration dedicated to punching holes in the rule of law. Since the Magna Carta, the Anglo-American legal tradition has held that the sovereign is subject to the law, a principle that amounts to words without substance if the law permits the sovereign to forfeit the lives, liberties, and properties of his subjects by simple command.

The framers of the American Constitution understood that the rule of law is not self-executing. The survival of the rule of law requires tight constraints on the executive branch. Congress and the judiciary must sanction the executive when he gets out of line. States must place roadblocks in the way of a federal government that tramples our rights.

I don’t so much blame Trump or Vance for trying to take power. Trump often behaves like a petulant child who doesn’t understand why he can’t always get what he wants. Vance has consistently chosen political power over principle, embracing positions that betray the very values he once claimed to defend. The genius of the Constitution is supposed to be that the ambition of each branch of government checks the power-grabs of evil men.

So I blame cowardice in Congress and the courts, if these assaults on the rule of law manage to go through. If vague legislation authorizes sweeping executive emergency powers, then we no longer live in a constitutional republic, but an elective dictatorship.

Obama set the precedents for presidential lawlessness; now Trump is exploiting them. It’s not difficult to see where this trajectory is heading.

October 2025

# How Long Could That \$1.8 Billion Powerball Jackpot Fund the Government?

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In 2022, I described what Congress could do with the \$2.04 billion Powerball jackpot. The result, which should surprise no one, was “not much.” But just how “not much” turned out to be staggering. At the time, the nation was still plagued by COVID-related stimulus and spending packages, and we were being led by the Biden/Harris Administration, which was no stranger to increased government spending.

With the recent \$1.8 billion Powerball jackpot, it’s time for an update. Has a new Administration obsessively determined to root out “waste, fraud, and abuse” and to improve “government efficiency,” succeeded in turning back the tide of government spending?

Based on budget figures for FY2025, Powerball bucks could cover the Pentagon’s \$859 billion spending for 18 hours and 36 minutes. Social Security (annual price tag \$1.57 trillion) burns through the Powerball winnings in barely 10 hours. The \$1.75 trillion Congress is slated to spend on healthcare, including Medicare and Medicaid, would swallow the jackpot in just nine hours.

The federal government’s \$7.03 trillion budget means that Congress spends the equivalent of the Powerball winnings every 2 hours and 15 minutes – 24 hours per day, 7 days per week, 365 days per year. One day’s worth of federal spending is equivalent to ten jackpots.

Even more sobering to consider is the federal deficit for this year. With Congress scheduled to spend \$1.9 trillion it does not have, America would have to win the Powerball over 1,000 times just to balance the federal budget. With three drawings per week, our Congressional leaders would have to win a \$1.8 billion jackpot for the next six and a half years just to pay for this year’s excess spending. All this, and they still would not even begin to touch the \$37.4 trillion national debt.

These simple facts highlight a sobering reality: we cannot tax our way out of what is clearly a spending crisis. When winning one of the largest lottery jackpots every single day still would not fill the gaping hole in our federal budget, the problem is not the shovel, but the size of the hole we keep digging. We need real solutions, not cheap political promises to root out “waste, fraud, and abuse” while spending continues to climb. Plenty of politicians, from both the Left and the Right, have promised to fix the problem of our national debt. None have succeeded. The reason for this is simple: Congress is set up to spend money.

With the passage of the Second Liberty Bond Act in 1917, Congress effectively gave itself a credit card. Initially, this credit card was intended to be used only in case of emergencies. However, like any kid given a credit

card for “emergency use only,” Congress kept finding new “emergencies.”

Today, this borrowed money is used for everything from pet projects (political largesse benefiting a small number of politically connected people), to core functions, to infrastructure expansions and everything in between. Consider the Pentagon’s \$640 toilet seats, the Air Force’s \$1,300 coffee mugs, or the lavish spending promoted by “use it or lose it” budget rules, such as a \$9,341 leather chair. This is not fiscal responsibility. It is lunacy.

Worse yet: Congress has the power to raise the debt ceiling whenever it wishes. This would be like a credit card company letting a teenager decide what the spending limit on their “emergency use only” credit card should be, while sticking mom and dad with the bill and the credit score ramifications.

Prior to the Second Liberty Bond Act of 1917, Congress could still issue debt. But instead of having a pre-approved debt limit, Congress had to authorize each and every debt issuance on a project-specific basis. Major spending projects, such as the Panama Canal and the Louisiana Purchase, were decided in this way.

With project-specific debt authorization, policymakers were required to go on the record as supporting borrowing for identifiable purchases. Voters, then, could evaluate policymakers’ votes, seeing exactly where any debts were holding them accountable at the ballot box for any fiscal malfeasance. With the passage of the Second Liberty Bond Act, the national debt jumped from \$5 billion in 1917 to \$15 billion in 1918. It would never be that low again.

Today, voters are presented with omnibus appropriations packages; bills scored against baseline projections that give the impression of saving money while really just increasing spending more slowly; and continuing resolutions to adjust spending growth, instead of actual spending.

Our fiscal reality is clearly unsustainable. With the passage of the “Big Beautiful” budget reconciliation bill, Congress has already given itself permission to grow the national debt to \$41 trillion. Interest payments on the national debt are already the second-most-expensive item on the federal budget, behind only Social Security (and ahead of defense spending). As the national debt continues to grow, debt service will become our number one spending obligation. History suggests it’s only a matter of time until we hit that limit and, unless things change, once again raise the debt ceiling. This cannot continue indefinitely.

## How Long Could That \$1.8 Billion Powerball Jackpot Fund the Government?

The truth is that we cannot tax our way out of a spending crisis. When the second-largest lottery jackpot in US history represents little more than a drop in the bucket to our political leaders, the solution is no longer cheap political talk, but real reform. This will require real limits on federal spending, automatic triggers that force real spending cuts instead of hollow debates that ultimately lead to raising our debt ceiling and worsening our credit rating, and entitlement reforms that acknowledge both demographic and fiscal realities. Until that happens, Congress continues to spend lottery-jackpot sums every two hours and fifteen minutes, and it's taxpayers who keep losing in the gamble.

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# One Big, Beautiful Tradeoff for the Fed

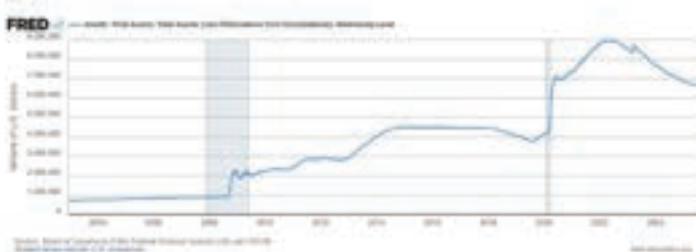
Nicolas Cachanosky

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President Trump’s “One Big Beautiful Bill” (OBBB) is a mixed bag for the Federal Reserve. On the one hand, OBBB’s passage removes the near-term difficulty of conducting monetary policy in the face of huge swings in the Treasury General Account. On the other hand, it may make it more difficult for the Fed to see through its planned balance sheet reduction.

The Federal Reserve’s \$7 trillion balancing act just got easier – and more complicated – thanks to President Trump’s historic \$5 trillion debt ceiling increase. While this “One Big Beautiful Bill” resolved an unprecedented collision between fiscal brinkmanship and monetary policy, it created new challenges that could complicate Fed operations down the road.

Let’s start with the Fed’s massive balance sheet. During the 2008 financial crisis and COVID-19 pandemic, the Fed expanded its asset holdings from around \$800 billion to nearly \$9 trillion – that is, \$9,000 billion. Then, in 2022, the Fed began slowly shrinking its balance sheet. It is not actively selling assets. Rather, it is not replacing a portion of its maturing bonds. The Fed intends to use this “balance sheet runoff” approach to transition from an abundant reserves to an ample reserves regime.



The Fed’s balance sheet runoff approach was designed to run in the background, on autopilot, while interest rates did the heavy lifting of monetary policy. So far, it has reduced the balance sheet by approximately \$1.7 trillion.

Before the passage of OBBB, debt ceiling politics created a roadblock for the Fed’s balance sheet runoff plans.

The Treasury has an account at the Fed known as the Treasury General Account (TGA), which is essentially the government’s checking account. Typically, the government will maintain a large balance in the TGA, in order to ensure it can make payments over the next few weeks. It will draw down this balance gradually, and replenish it as it sells bonds and receives tax payments throughout the year.

When the debt ceiling becomes binding, however, the TGA can increase reserve volatility. Unable to issue new debt, the Treasury must rapidly drain the TGA to keep the government funded. When the government spends this money, it flows into the banking system, causing bank

reserves to spike. Then, when Congress raises the debt ceiling, the Treasury rebuilds its TGA balance by issuing new debt. That results in a sudden drain of reserves from the banking system. For example, after the debt ceiling was raised in June 2023, the TGA “increased by \$600 billion over the short period of three to four months.”

Huge swings in the TGA balance create a dangerous scenario for the Fed. If bank reserves fall too quickly, financial markets might become volatile. This is especially difficult if the Fed is engaged in balance sheet runoff, since that also removes reserves from the system. Indeed, when the Fed faced this risk in March 2025, it slowed its balance sheet runoff. In other words, the Fed took its balance sheet runoff approach off autopilot to prevent a potential reserves shortage.

The OBBB raised the debt ceiling by \$5 trillion – the largest increase in US history. This massive increase in the debt ceiling likely provides sufficient borrowing authority for the next five years, allowing the Treasury to operate normally without the dramatic swings in the TGA that complicated Fed policy. Correspondingly, the Fed can resume normal balance sheet runoff operations.

But solving one problem created another. The Congressional Budget Office projects that the OBBB will add \$3.4 trillion to the national debt over the next decade – equivalent to roughly \$340 billion in additional Treasury issuance each year. That creates a challenging market dynamic. Private markets must absorb both normal Treasury financing needs (approximately \$3 trillion in maturing debt this year) plus the additional \$340 billion annually. Assuming this increase in the supply of Treasuries outpaces demand, interest rates will be pushed up.

Presumably, the White House will not be happy about the prospect of paying higher interest rates on its debt. It may pressure the Fed to step back in as a buyer of national debt to help reduce the financial cost to the Treasury. Congress could even require the Fed to purchase more government debt, effectively ending the Fed-Treasury accord.

Even if the Fed is neither required nor pressured to buy more government debt, it will have to decide how to react to the corresponding interest rate movements. That, on its own, may push the Fed to reduce the pace of the balance sheet runoff or become a buyer once again.

Thomas Sowell famously quipped that there are no solutions, only tradeoffs. Fed officials can surely appreciate the sentiment. By raising the debt ceiling, OBBB takes them out of the reserve-volatility frying pan. It may also put them into the debt-monetization fire.

# The Social Security Reform Bill Clinton Almost Brought to America

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Twenty-five years ago, Bill Clinton was gearing up to “save” Social Security. The year was 1998, and the national mood was cautiously optimistic. Internet startups were booming, the Cold War was seemingly behind us, and there were discussions about bringing the American spirit of innovation and personal freedom to one of the most stagnant policy areas: Social Security and retirement options more generally.

In part, this conversation had been sparked by the ideas of José Piñera, a relatively unknown (at least to the American public) Chilean official. His ideas came to prominence after a Newsweek article spotlighted Chile’s bold pension reform. The piece caught the attention of thinkers in Washington, and whispers of reform turned into White House meetings and Congressional speeches.

That Piñera was a bold thinker in this area isn’t a surprise; he wasn’t just another economist. He was a fervent believer in the American Dream and the power of the market to improve individuals’ lives. After earning his Ph.D. from Harvard in 1974, he returned to a Chile ravaged by Marxist and Keynesian policies. As Chile’s Secretary of Labor and Social Security, he didn’t just tinker with their public retirement system; he reinvented it. By 1980, Chile had implemented the world’s first fully funded system of personal retirement accounts, empowering workers to invest their own money, choose among private firms, and build wealth.

President Clinton’s team took notice. In 1996, Mack McLarty – Clinton’s special envoy to the Americas and former chief of staff – visited Chile and wrote upon his return, “Without a doubt, the reform of Chile’s pension system has been a critical contributing factor... to Chile’s ongoing economic success... I believe we can learn a great deal from your country’s bold initiative.”

In a 1998 letter to *The Wall Street Journal*, Piñera explained the Chilean reform:

This reform is about citizens’ empowerment... Individual retirement accounts will help people experiencing poverty. Workers now choose among competing private companies to invest the equivalent of what used to be their payroll taxes... harnessing the power of compound interest.

He understood what America once knew: that the dignity of the individual lies in choice, in ownership, in self-determination. The Chilean model didn’t just fix numbers – it affirmed that people, not the state, are best suited to control their futures.

Reform didn’t mean abandoning the elderly. Piñera emphasized maintaining benefits for current retirees and those who chose to stay in the government system.

The transition had tradeoffs. The so-called “sunk costs” of our entitlement state wouldn’t disappear, with or without reform.

By 1998, Clinton stood at the podium for his State of the Union address and declared: “I will convene the leaders of Congress to craft historic bipartisan legislation... a Social Security system that is strong in the twenty-first century.”

It was a moment. A window. A shot at real reform. But soon, Clinton, impeached, diminished, and drained of political capital, was sidelined. Personal retirement accounts, once on the verge of becoming law with growing bipartisan support, became just another “what if” in the annals of American policy.

In 1999, Clinton made one last effort.

“With the number of elderly Americans set to double by 2030,” he said, “I propose that we... establish universal savings accounts.”

It was the first time a sitting US president publicly called for personal retirement accounts. Clinton’s plan would have seen tax credits automatically invested in individual accounts, and funded by the then-projected budget surplus.

But the political moment for even the possibility had passed, and Clinton no longer had the strength and the credibility to lead significant legislative efforts.

So, the Social Security time bomb kept ticking – and continues to tick. Entitlements remain the largest drivers of federal debt, but the conversation has gone quiet. José Piñera’s vision remains as relevant today as it was 25 years ago. In a world of big government and even bigger debt, the American Idea – free markets, limited government, and personal responsibility – isn’t just worth defending. It’s the only way forward, and with the ticking growing louder, restarting that conversation is more important than ever.



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