

AIER Research Reports

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Research Reports

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November 2025

From the Managing Editor

Peter C. Earle
Senior Research Fellow

Five minutes is roughly the time it takes to brew a pot of coffee. It's also the time it took for Alphabet's latest quantum computing prototype—an experimental processor called Willow—to complete a benchmark calculation that would take the world's fastest supercomputers roughly ten septillion years to perform. To put that in perspective, if those machines had started crunching the same problem at the moment that the universe was born, they'd still be less than one-trillionth of the way through. Five years back—an eternity in innovation terms—the same quantum system required several minutes to solve an algorithm that would have taken conventional hardware about ten thousand years to compute. That's not incremental improvement; it's the kind of advance that resets the scale of what's not just possible, but conceivable.

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These are the moments when humanity blinks and realizes the horizon of the attainable has leapt forward. Breakthroughs like these promise not just faster computers, but progress in every field constrained by complexity and time. Quantum computation could accelerate the mapping of proteins and the search for cures to cancer, enable the design of novel materials for space exploration, and vastly increase the efficiency with which energy, logistics, and data resources are managed. The gains here are not only technological; they are temporal. What once took decades might soon take minutes or even seconds. Such leaps are heroic assaults on the most mysterious and unforgiving constraint faced by every human being and every civilization: time itself.

But the (literal) quantum leap rests atop a dense lattice of human capital, disciplined inquiry, and stabilizing institutions. Alphabet employs at least one Nobel

laureate on its quantum team, but the foundation runs deeper: a vast corporate infrastructure that mobilizes capital, discovers talent, and tolerates failure in pursuit of discovery at the foggy periphery of the known. Beneath that structure lies an even broader ecosystem of firms and innovators—RCA, Western Electric, IBM, Hewlett-Packard, Cray, and Intel—that spent decades pushing the frontiers of vacuum tubes, transistors, germanium, silicon, gallium, and more recently carbon nanotubes and yttrium. Each generation's advance relied on a framework of rules, incentives, and disciplines inherited from those before it.

Tracing that lineage leads back to the mid-twentieth century, when the modern computer was still a fuzzy idea in a research lab and the economy of innovation was shaped by forces grander than technology itself. The 1940s through the 1960s were formative decades not only for transistors and mainframes, but for the architecture of global finance that fostered their realization. The gold-linked dollar of the Bretton Woods era imposed a discipline that made long-term investment, budgeting, and trade-off analysis possible at scale. Engineers and entrepreneurs could plan because the value of money—the medium through which signals of effort, risk, and reward were transmitted—was stable.

No one would claim that sound money created the computer revolution. But a far sounder money than today's certainly provided the clarity within which the revolution could unfold. Under a system constrained by convertibility, resources were allocated through prices that conveyed real information about scarcity and preference. Investors could distinguish profit from illusion, efficiency from waste. The discipline of gold doesn't guarantee innovation, but it assists planning by steadying the compass of enterprise, making coherent business judgment and capital formation possible. That's the essence of coordination in an economic context: stable money as the catalyst of human creativity and progress.

It's worth asking what we may be losing in an age of unanchored finance. Since 1971, when the link between the dollar and gold was severed—and especially in the last several years of pandemic-driven fiscal excess and historic balance-sheet expansion—the signal of money has grown increasingly noisy. Inflation and intervention warp the calculus of risk and reward; cheap credit sustains projects that should have failed, while uncertainty pushes genuine innovators toward caution. The cumulative effect may not show up in quarterly data, but over decades it compounds. What discoveries

are deferred because time horizons have shortened? What technologies will our great-grandchildren never see because capital was mispriced or confidence eroded? These are deficits not of what's lost, but of what never comes to be.

Alphabet's achievement is thus both exhilarating and sobering. It shows what becomes possible when ingenuity, capital, and patience align—but also how rare such alignments have become. The same civilization capable of bending quantum states to calculation is, paradoxically, one that struggles to preserve the stability of its own money. Quantum leaps require sound money to clear a path for them. Without it, progress grinds against an insurmountable friction: uncertainty about value, about the future, about the meaning of the meaning of investment itself.

Sound money does more than hedge against inflation. It underwrites civilization's capacity to think and build on long horizons. It links generations, allowing today's efforts to compound into tomorrow's abundance. Progress depends as much on the discipline of choice as on the brilliance of machines. Poor money fetters judgment and stunts time preference; stable money magnifies the reach of human potential.

I marvel at qubits entangling across invisible dimensions while remembering the mundane but critical calculative bedrock which, decades ago, made all of this possible. The kind of technological advancements that Arthur C. Clarke wrote are “indistinguishable from magic” rests upon a monetary foundation that honors time rather than impugns it. When money is slipshod and adulterated, even the mighty Willow cannot compute what might have been.

Peter C. Earle, Ph.D

Managing Editor, AIER Research Reports

November 2025

Business Conditions Monthly August 2025

Peter C. Earle
Senior Research Fellow

Owing to the ongoing federal government shutdown, a number of key US economic data releases are currently unavailable. The Federal Reserve, the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the Census Bureau have suspended or delayed various updates. Consequently, the Business Conditions Monthly indicators will be unavailable until normal data publication resumes.

DISCUSSION, SEPTEMBER–OCTOBER 2025

Although the September 2025 CPI will be released on October 24, the exigencies of publishing deadlines require the *Business Conditions Monthly* to be issued before its release. Nevertheless, the following comments are germane to the ongoing macroeconomic discussion.

Amid the ongoing government shutdown, the Bureau of Labor Statistics (BLS) delayed the September CPI report from October 15 to October 24 and faces a greater challenge for October's CPI, which will likely include fewer collected prices and lower statistical accuracy. The shutdown has halted most field operations, meaning roughly **60 percent** of CPI price quotes (those gathered by in-person and telephone surveys) will be missing for much of October, while **40 percent** gathered through online and corporate data can be retroactively added later. Should the government reopen during the last week of October, as much as one-third of price data could still be missing, with the housing survey – the largest CPI component, representing about one-third of total weight – especially affected, potentially losing two-thirds of its normal sampling. This will widen the **95 percent** confidence interval for headline CPI, with resultant errors lingering into spring as the affected housing panel remains in the sample through May 2026.

Broader distortions could also persist across categories like airfares, hotels, and regionally staggered urban surveys, as several rely on bimonthly data collection and imputed pricing. Although alternative datasets such as Truflation and the Adobe Digital Price Index will provide interim guidance, they are methodologically inconsistent with CPI and risk adding noise. Bloomberg reports that high-frequency tracking of millions of prices indicates that tariff-sensitive goods have recently seen declines, while holiday-related categories like toys show isolated increases. Taken together, the evidence suggests that the September CPI release will be moderate enough to reinforce expectations of an October rate cut, though October's reading is likely to be statistically noisier than usual.

With official BLS reports suspended amid the government shutdown, the national employment

picture must be pieced together from state data and private sources. Estimates suggest that initial jobless claims fell to about 215,000 in the week ended October 11, indicating layoffs remain historically low despite a temporary spike in unemployment claims from furloughed federal workers under the Unemployment Compensation for Federal Employees (UCFE) program. Continued claims held near 1.9 million, pointing to steady labor-market absorption even as several states failed to report. Meanwhile, the ADP Research Institute's September estimate of a 32,000 drop in private payrolls likely overstates weakness due to methodological quirks tied to its re-benchmarking against incomplete Quarterly Census of Employment and Wages (QCEW) data and timing differences with BLS procedures. Adjusting for those factors, true net hiring is likely near 55,000, supported by alternative data from Homebase and Revelio Labs showing private-sector job gains between 60,000 and 150,000. Taken together, available indicators portray a labor market that remains resilient but is showing mild cooling at the margins; a picture far less dire than ADP's headline figure implies.

Although September's data were released under the shadow of a government shutdown, the available indicators suggest a clear cooling in US economic activity across both the services and goods sectors. The vast services economy effectively stalled, with the ISM Services Index falling to a neutral 50.0 as business activity contracted for the first time since 2020 and new orders flattened. Employment continued to shrink for a fourth month, constrained by cautious hiring and persistent labor mismatches, while supplier deliveries slowed more from trade-policy disruptions than from genuine demand pressure. Inflation in services remained stubborn, with prices paid rising to near three-year highs even as demand weakened – a troubling mix for policymakers already balancing slower growth and sticky costs.

On the goods production side, factory activity remained in contraction for a seventh straight month, with the ISM Manufacturing PMI inching up to 49.1 but still signaling decline. Output and employment improved slightly, yet new orders and backlogs fell again, inventories were drawn down, and tariff-related frictions kept confidence low. Input-price growth eased for a third consecutive month, suggesting fading pipeline inflation even as trade uncertainty, high borrowing costs, and weak global demand weighed on output. Taken together, the data depict an economy losing momentum on both fronts: manufacturing continues to

struggle for traction while services – the usual ballast – has slowed to a crawl, leaving growth increasingly fragile heading into the final quarter of the year.

Consumer confidence softened in September and early October as Americans grew less optimistic about inflation and the labor market. The University of Michigan sentiment index slipped to 55.0, its lowest in five months, as households reported weaker income expectations and a higher perceived risk of job loss. Nearly two-thirds of respondents expect inflation to outpace wage gains in the coming year, while about a third foresee rising unemployment – almost twice the share from a year earlier. Buying conditions for big-ticket items worsened amid tariff-related price concerns, though lower borrowing costs modestly improved views on home and vehicle purchases. Short-term inflation expectations eased slightly to 4.6%, while long-term expectations held at a still-elevated 3.7%, suggesting persistent anxiety about costs even as spending continues.

Small-business optimism also slipped, with the National Federation of Independent Businesses (NFIB) index falling to 98.8 in September, the lowest since June 2025 as owners grew more cautious about sales, inventories, and inflation. Expectations for better business conditions over the next six months dropped sharply, and concern over excess stockpiles reached a multi-decade high. Yet operational indicators were steadier: hiring and capital-spending plans ticked up, and profit trends improved modestly. Roughly a third of firms plan to raise prices to offset tariff and input costs, while the NFIB's uncertainty index jumped to its highest since February. Together, both consumers and businesses remain fundamentally resilient but increasingly uneasy – maintaining activity for now, yet bracing for slower growth and policy-driven volatility ahead.

At present, that confidence is only marginally expressing itself in retail consumption, as a wave of high-frequency indicators points to consumers easing off the accelerator after a vigorous summer of spending. Credit- and debit-card data from Bank of America and Bloomberg Second Measure show a pullback in discretionary categories such as furniture, apparel, and home electronics, consistent with a moderation following 4.1% annualized growth in retail activity over the prior three months. While middle- and higher-income households continued to spend modestly – helped by stock market gains and lingering momentum from earlier in the year – lower-income consumers showed signs of fatigue, constrained by slower wage growth and persistently high prices. The Federal Reserve's Beige Book characterized retail activity as

having “inched down,” echoing private-sector reports that suggest shoppers are seeking more discounts and delaying large purchases. Still, Walmart and Wells Fargo reported steady spending patterns, suggesting no collapse – just a normalization. Overall, retail data portray a cooling but still durable consumer sector: steady enough to sustain growth, yet increasingly cautious as labor conditions soften and households brace for the holiday season amid economic and policy uncertainty.

Before getting to an overall assessment – so far as one is possible without the core statistical releases – a word is warranted about the government shutdown and its impact on the US economy. Now entering its fourth week, what was initially expected to be a short standoff has become a drawn-out political spectacle that could easily stretch into November. Prediction markets such as Kalshi now place its likely duration near 40 days, rivaling the 35-day record of 2018–19. The immediate effects, though real, are largely limited: hundreds of thousands of federal employees have missed paychecks, air travel has been strained by unpaid traffic controllers and TSA staff, and IRS, park, and nutrition programs have curtailed operations. A widely broadcast estimate holds that each week of closure shaves **0.1 to 0.2** percentage points from GDP, losses that will be partly recouped once back pay is issued – but potentially less so if the administration follows through on proposed federal layoffs. Opinion polls show nearly half of American respondents cite “the potential hit to the economy” as their chief concern, although there is a risk that political brinkmanship could begin to dent consumer and business sentiment if it drags deeper into the fourth quarter.

That said, the economic impact of shutdowns has historically been more theatrical than catastrophic. No US recession has ever been triggered by one, and markets have shown little panic amid the current impasse. The greater risk lies not in the lost output but in the erosion of confidence and the cumulative effect of delayed data, stalled programs, and political dysfunction. One could argue that temporary discomfort is a price worth paying if it spurs a serious reckoning with unsustainable deficits and debt – but history offers little encouragement that such episodes lead to lasting fiscal reform. More often, shutdowns end not with structural solutions but with another temporary fix, leaving the underlying budgetary pressures intact and public patience thinner.

In the broadest sense, US economic activity in

September and early October was little changed, with growth uneven and sentiment subdued across regions. The Federal Reserve’s latest Beige Book describes an economy holding steady but losing momentum at the margins: consumer spending edged lower, employment levels were broadly stable, and price pressures remained persistent. Tariffs continued to push up input costs, though businesses differed in whether they absorbed or passed those increases on to customers. Several districts reported flat or modestly weaker activity, while only a few saw slight growth; most contacts described conditions as soft but not collapsing. Labor markets, though looser, showed signs of recalibration rather than deterioration – some employers trimmed headcount

through attrition, while others found hiring easier as demand cooled. Persistent strains remain in hospitality, agriculture, and manufacturing, compounded by recent immigration policy shifts and tariff uncertainty. With inflation still above target and growth barely advancing, the Fed is expected to cut rates again later this month to steady conditions. The Business Conditions Monthly indicators will be updated when the constituent data is available. For now, the picture that emerges is of an economy that remains in delicate balance: not contracting, but slowing under the combined weight of trade frictions, policy uncertainty, and eroding confidence from both consumers and businesses.

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	+0.97%	+6.67%	+14.13%	23.3380	15.6930	14.8708
▶ SPXT d	S&P 500 Total Return	+1.14%	+7.14%	+16.55%	24.2691	16.0665	15.2883
▶ SPX d	S&P 500 INDEX	+1.02%	+6.77%	+15.00%	24.2425	16.0451	15.2726
▶ MID d	S&P 400 MIDCAP INDEX	-0.49%	+3.71%	+3.41%	14.6297	12.0753	10.7888
▶ RTY d	RUSSELL 2000 INDEX	+1.52%	+11.42%	+11.00%	15.2413	10.5267	9.7312
▶ SXXP d	STXE 600 (EUR) Pr	+3.26%	+4.68%	+9.71%	16.6595	13.0139	8.4242
▶ TLT US d	ISHARES 20+YR TR	+3.39%	+7.02%	-0.21%	2.6379	-7.7818	-0.5977
▶ QLTA US d	ISHARES AAA - A	+0.91%	+3.12%	+2.23%	7.5739	-0.1449	2.5160
▶ CRY d	TR/CC CRB ER Index	-0.84%	-2.72%	+5.49%	2.9477	14.2392	4.4854
XAU	Gold Spot \$/Oz	+9.68%	+20.97%	+51.09%			
XAG	Silver Spot \$/Oz	+9.62%	+24.07%	+42.95%			
ILM3NAVG	Bankrate 30Y Mortgage Rates Na	-0.16%	-6.19%	-8.62%			
ILM1NAVG	Bankrate 15Y Mortgage Rates Na	+1.07%	-5.80%	-10.83%			
MB301ARM	5 Year ARM	-2.43%	-6.32%	-8.31%			
ILA3NAVG	Bankrate 30Y Fixe Mtg Refis Na	-0.84%	-1.11%	-0.84%			

November 2025

Gold's Volatility Is No Argument Against a Gold- Backed Dollar

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BARRON'S

Alexander W. Salter

Senior Fellow, AIER's Sound Project

The precious metal's price has surged 60% this year, recently topping \$4,300 for the first time. For investors looking for a hedge against economic uncertainty, including a softening labor market and a U.S.-China trade war, gold seemed to be a haven.

But its price is highly volatile. Gold dropped nearly 6% on Tuesday—its largest fall in more than a decade. Although gold steadily rises over the long run, investors who go all-in on gold at the wrong time can lose their shirts. What goes up, often comes down.

Critics of gold use this fact to chastise the proponents of a return to a gold-backed dollar. They say gold's volatility undercuts the argument that a gold-peg is a stabilizing force for currencies and that returning to it would help soothe inflation. Since gold's price varies so much, they argue, tying the dollar to gold again would be disastrous. The dollar's purchasing power would constantly be in flux, making it impossible for households, businesses, or the government to make rational financial decisions.

This seems like a reasonable concern. But it overlooks a basic principle: If the government reliably enforced the gold standard, there wouldn't be big swings in gold supply or demand.

Gold is indeed volatile when it is untethered to the dollar, but prices would behave differently if there were a credible peg. And economics teaches us not to generalize data trends when the "rules of the game" change.

Suppose the dollar's value was set at 1/4000th of an ounce of gold; a gold-backed dollar would tell us how much gold it takes to buy things. Gold skeptics worry these prices would jump around unpredictably in response to changed supply and demand in the global gold market. More troubling, a big increase in the global demand for gold could cause unexpected deflation—even a recession, they say.

But such demand fluctuations would be highly unlikely. If Uncle Sam's commitment to gold is credible, there is no reason to buy gold as an investment or speculative asset. The U.S. Treasury (or private financial firms, with the government's backing) will have pledged to honor dollar claims for 1/4000th of an ounce of gold per claim. No trades should occur except those that are consistent with the dollar's stated gold content.

Contrary to some objections, this isn't a price control. It is akin to defining a weight or measure. The gold content of the dollar becomes the hub around which the economic wheel revolves.

Supply is trickier. But even here we should expect relative

stability; mining companies add gold to the global stock each year.

Big increases in gold flows might have a large effect on the global gold supply, which would cause a gold-backed dollar to lose some of its purchasing power. But this is unlikely. Mining companies wouldn't want to expand production unless the global gold price significantly exceeds the costs of production.

In this scenario, the benefit of mining one more ounce of gold is \$4,000—the definition established by the U.S. government. This seems like a lot. But remember that easily minable gold has already been extracted, and that all mining companies will find it very difficult to expand simultaneously without bidding up production costs. There might be a one-time increase in gold flows once redeemability kicks in, but after that, production rates will settle down. There wouldn't be a huge spike in the cost of living. And there wouldn't be the sustained dollar depreciation we take for granted under modern paper money.

It might seem paradoxical, but returning to a gold standard would result in much less volatility in the global gold market. This is an application of a general economic principle made famous by the monetary economist Charles Goodhart of the London School of Economics and the late Robert Lucas of the University of Chicago, who won the Nobel Prize for his contributions to macroeconomics. To wit: Economic policy evaluations based on historical data (the gold price) aren't reliable if policy changes (adopting a gold standard) alter peoples' behavior.

Of course, this only works if the government's pledge is credible. For the U.S., with its massive economy and powerful government, it would be. But for smaller economies with weaker governments, such as Mexico, it wouldn't. They simply aren't hefty enough to stabilize the global gold price with a currency redemption promise. In the language of economics, it is a bad idea for small, open economies to adopt commodity money. For superpowers, however, it can be a winning proposition.

Like all currency regimes, gold-backed money has both costs and benefits. It isn't obvious we should want to ditch the fiat dollar. But we can't make rational policy decisions unless we know which objections are valid and which aren't. The argument against gold on volatility grounds simply doesn't work. That, at least, makes gold worth another look.

November 2025

Mission Creep: The Fed's Foray Into State and Local Debt

Thomas Savidge
Research Fellow

Five years ago, The CARES Act authorized the Federal Reserve to create emergency lending facilities in the name of aiding the US economy during the COVID-19 economic downturn. In a 2021 appraisal of the Fed lending facilities, several AIER Sound Money Project (SMP) scholars observed:

Although some facilities likely helped to promote general liquidity, others were primarily intended to allocate credit, which blurs the line between monetary and fiscal policy. These credit allocation facilities were unwarranted and unwise.

One such facility was the Municipal Liquidity Facility (MLF), which loaned money to state and local governments. In my recent AIER White Paper “Enabling Bad Behavior,” I examined the two entities that took loans from the MLF: the State of Illinois and the New York Metropolitan Transportation Agency (MTA). I find that, while the MLF loans do not show any effect on the fiscal health of these entities during or after 2020, the MLF distorted the boundary between fiscal and monetary policy.

HOW DID THE FED’S MLF WORK? HOW DID IT COMPARE TO WHAT A CENTRAL BANK SHOULD DO?

The MLF loaned to state and local governments by purchasing municipal bonds directly from state and local governments, a historic first for the Fed.

For context, in their 2021 book *Money and the Rule of Law*, economists Peter Boettke, Alexander Salter, and Daniel Smith outline and discuss “Bagehot’s Principles,” for a central bank serving as a lender of last resort:

1. Only lend to solvent banks.
2. Accept only marketable collateral.
3. Lend at above-market interest rates to discourage unnecessary borrowing.
4. Publicly and credibly commit to this role *before* a crisis occurs.

When it comes to Bagehot’s Principles, the Fed establishing the MLF did not meet any of those standards:

- Non-bank lending: this facility extended credit to non-bank entities, namely state and local governments.
- High-risk borrowers: the MLF was open to loans on municipal entities with below-investment grade ratings. As financial analyst Marc Joffe noted in 2020,

Although the lending program is called a ‘liquidity facility’ – suggesting that it is a device for creditworthy governments to secure funds in difficult market conditions – it is open to junk-rated entities, meaning that the Fed could be taking on credit risk as well.

So much for only lending to solvent banks with collateral that is “marketable in the ordinary course of business.” Fed officials, however, did not lose any sleep about taking on such risk because the CARES Act promised that the US Treasury would cover the Fed’s losses up to \$35 billion, passing the risk over to taxpayers.

- Perverse Interest Rate Structure: The MLF structured borrowing rates so that the worse a government’s credit rating, the more favorable the interest rate it would receive. AAA-rated entities would face above-market interest rates (in line with Bagehot’s principle) while BBB-rated entities would receive below-market interest rates.
- Crisis-Driven Creation: the facility was created in the midst of the pandemic and ceased operations December 31, 2020. Its sudden emergence amid the crisis failed to meet the criterion of pre-crisis credibility.

Moreover, the SMP scholars found that the MLF was among several emergency lending facilities that were fiscal policy tools, not monetary ones. If Congress wanted to enact those fiscal policies, they argue, these policies should have been approved by Congress and executed by the proper executive branch agency. Having the Fed handle something like loans to state and local governments “blurs the line between monetary and fiscal policy.”

LENDING TO THE WORST OF THE WORST AND CHANGING THE RULES ALONG THE WAY

The MLF first purchased general obligation bonds from the State of Illinois. Illinois’s general obligation bonds were BBB-/Baa3, one notch above junk. This was due to years of fiscal mismanagement leading up to 2020, not the pandemic.

Using the Hoover Institution Municipal Finance Database, I found that Illinois entered 2020 with poor fiscal strength relative to states with similar economy sizes, population sizes, and poverty rates. By the time the MLF closed, the State of Illinois borrowed \$3.2 billion from the facility.

Originally, the MLF was set to lend only to state and

local governments. In April 2020, however, Senator Charles Schumer (NY) pressured the Fed to expand the MLF's list of eligible borrowers to multistate entities, specifically the Port Authority of New York and New Jersey (PANYNJ). In the end, the PANYNJ did not take an MLF loan, but the financially distressed New York MTA did.

The entity, which serves New York State and City, Long Island, Southeastern New York State, and Connecticut, is what is known as an "Off-Budget Enterprise" or a "Component Unit," which operates outside New York State's formal budget yet depends heavily upon transfer payments from governments whose areas they serve. New York State's financial reports describe component units (including the MTA) as:

"[F]iscally dependent upon, and has a financial benefit or burden relationship with the State...the nature and significance of their relationships with the State are such that it would be misleading to exclude them."

I applied Hoover's Fiscal Strength calculations to the New York MTA and PANYNJ, as well as Chicago Transit Authority (CTA), and the Washington Metropolitan Area Transportation Authority (WMATA) for comparison. From 2012-2020, the MTA consistently ranked at or near the bottom in fiscal strength.

In addition to the Hoover Fiscal Strength variables, I examined operating revenue (revenue earned through normal business operations) as a percentage of total transit authority revenue for all agencies. This is a sign of an agency's dependence on debt-financed spending and transfer payments from governments.

The MTA's operating revenue made up a smaller share of total revenue than all but one other agency in the sample (CTA), underscoring financial vulnerability. By the end of 2020, the MTA borrowed \$3.35 billion from the MLF.

THE AFTERMATH: BAD BEHAVIOR ENABLED

While both Illinois and the MTA paid the MLF loans back, they did so by paying back the debt by issuing new bonds sold on the municipal bond market, akin to someone using their Visa card to pay their MasterCard bill. The loans did not require Illinois or the MTA to make structural reforms or budget changes, allowing the same problematic fiscal behavior to continue unchecked.

Fiscal strength indicators showed no significant improvement in Illinois or the MTA compared to peers in their designated samples. Interestingly, the PANYNJ, the reason for the expanding MLF eligibility, did not borrow from the facility and is in a much stronger position than the MTA.

I also examined each mass transit authority's total ridership as a percentage of 2015 ridership (a pre-pandemic benchmark for stable transit use). None of the authorities in the sample have fully recovered ridership except the MTA's Bridges and Tunnels. While external factors influence demand for transit, ridership trends are a key variable for revenue forecasts and budget planning.

While the MLF loans did not seem to have a noticeable impact on fiscal strength, it did make waves in fiscal and monetary policy. In the same 2020 commentary mentioned earlier, Joffe also noted that the MLF risked permanently federalizing local debt finance, undermining the discipline of balanced budget requirements and other fiscal rules keeping state and local fiscal policy in check. He also noted that the program could crowd out traditional municipal bond market investors and invite moral hazard by enabling politically favored jurisdictions to access subsidized credit.

Joffe's concerns align with economist George Selgin's 2020 book *The Menace of Fiscal QE*, specifically that the Fed creating these emergency lending facilities creates a backdoor fiscal policy and raises the risk of political credit allocation. State policymakers (incentivized to look outside their own sources of revenue by decades of dependence on federal transfers) are more than happy to use these backdoors to ensure the *status quo* in fiscal policy is maintained.

While the federal government is infamous for interfering with monetary policy, the MLF creates a new rent-seeking group in monetary policy: state and local governments. Seeking favorable loans from the Fed again will come naturally for state and local policymakers who, on average, receive **55 percent** of their expenditures from federal transfers. Meanwhile, Fed officials who regularly embrace mission creep and consider the MLF "a clear success story of the pandemic policy response" will likely be happy to oblige.

Ultimately, this behavior will damage fiscal and monetary policy. These loans will come at the cost of the

Fed's public perception as an independent agency and damage institutional legitimacy, threatening long-term price stability. Additionally, these loans will weaken state fiscal discipline by providing yet another avenue for state policymakers to circumvent fiscal rules.

WHAT CAN BE DONE?

The best way to rectify these mistakes is to establish strong institutional rules among federal and state fiscal policy as well as for monetary policy.

1. The Federal Reserve must be bound by a constitutional monetary rule to prevent Fed officials and fiscal policymakers from engaging in credit allocation.
2. Federal policymakers must make an explicit commitment not to bail out financially distressed states.

3. Both federal and state governments must embrace a strong fiscal rule that constrains spending growth and encourages policymakers to properly prioritize budget items.
4. State policymakers must establish rules that require state agencies to seek legislative approval before accepting federal grants or funding.
5. State policymakers must reform their relationship with Off Budget Enterprises. State leaders must either bring these entities fully on-budget and subject them to the same budget rules as other state entities, or end transfer payments and make them truly independent. These entities can no longer have their cake and eat it too.

These reforms will face political and institutional resistance. Without them, however, we risk further entrenching bad policy.

November 2025

Housing's Deep Freeze: Existing Home Sales at 25-Year Lows

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Senior Research Fellow

The American housing market is no stranger to boom and bust cycles, but the current slowdown in existing home sales is remarkable both for its scale and its stubbornness. With sales in 2025 on track to reach their lowest levels in more than 25 years, the market appears to be in a deep freeze. That stark reality, highlighted recently by analyst Meredith Whitney, has often been treated as a secondary detail in coverage of the economy. Yet the depth of this freeze – and the reasons behind it – are central to understanding broader economic conditions.

Whitney’s phrasing is blunt: the market is “gummed up.” Unlike past downturns, when collapsing demand or financial crises abruptly cut off activity, today’s deep freeze is rooted in a peculiar mix of policy choices, pandemic aftereffects, and household-level psychology. The forces of supply and demand still operate, but they are being distorted in ways that have left buyers sidelined and sellers locked in place.

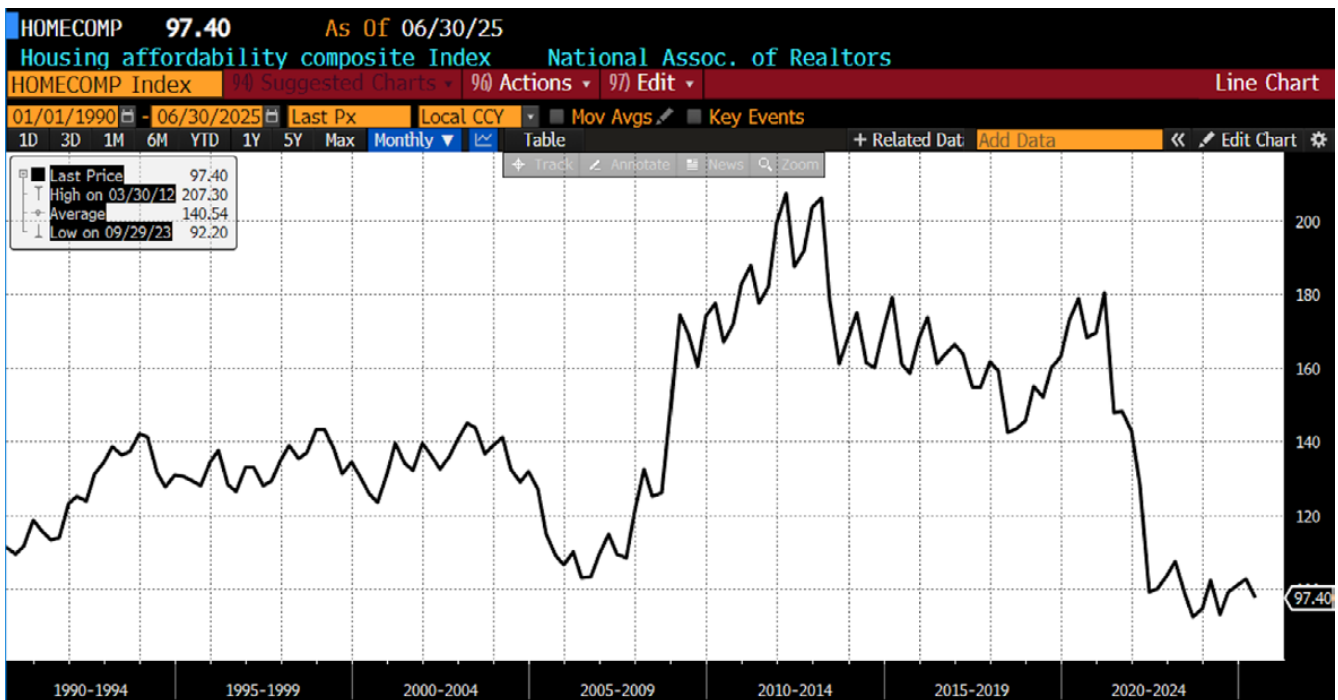
The most obvious factor is mortgage rates. Millions of households refinanced or bought homes in 2020 and 2021, when rates fell below **3 percent**. Those “golden handcuffs” make moving far less attractive. A family that secured a \$400,000 mortgage at **2.8 percent** would face a payment increase of hundreds of dollars per month if forced to take out a new loan at today’s rates,

which hover around **6 to 7 percent**. Unsurprisingly, many simply refuse to sell, contributing to the freeze.

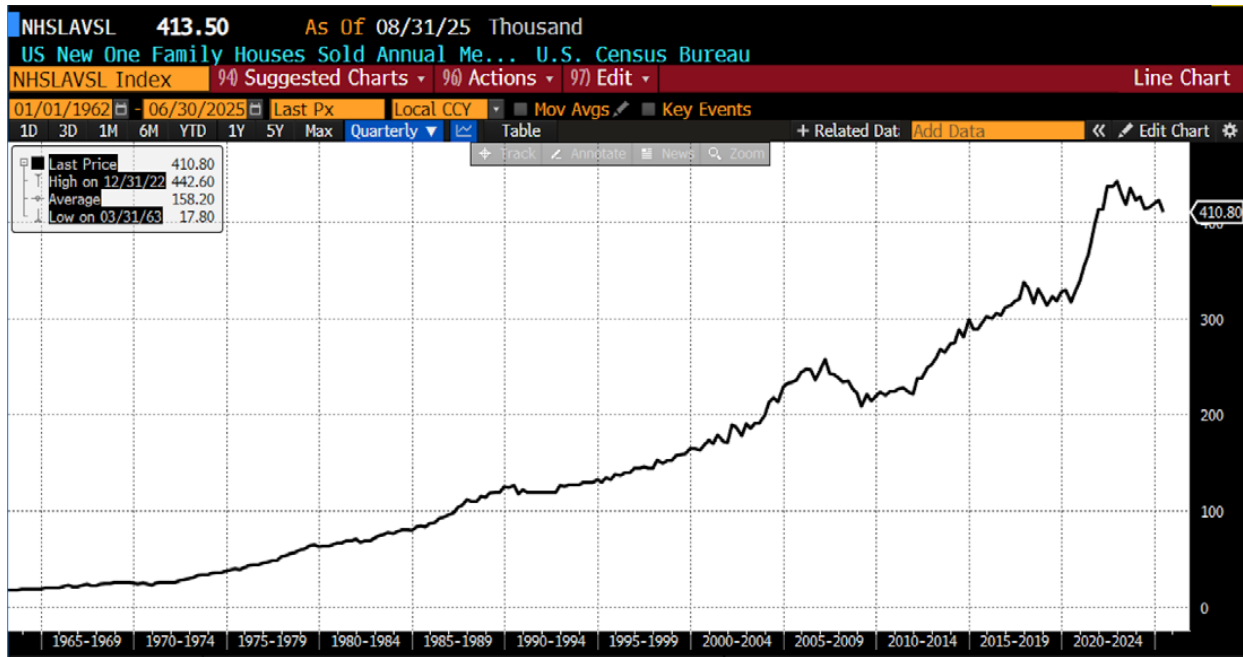
The stalemate can be traced to a web of overlapping dynamics. First, homeowners with ultra-low pandemic-era financing are clinging to their loans, unwilling to give up what may be the cheapest debt they will ever hold. Second, while price appreciation has slowed, home values remain historically elevated, keeping many first-time buyers on the sidelines. Third, the labor market, though stable, reveals caution through the “job hugging” phenomenon – workers staying put in their current roles rather than risking a change. If people are hesitant to change jobs, they are even more hesitant to take on new housing obligations.

During the COVID years, furthermore, stimulus checks, surging lumber prices, and waves of do-it-yourself enthusiasm fueled renovations. Many owners effectively upgraded their homes, reducing the incentive to move. Fifth, higher property taxes and soaring insurance premiums, particularly in coastal and hurricane-prone regions, add to the burden of ownership. For many, moving means not only higher mortgage rates but also higher carrying costs. Sixth, Whitney points to an overlooked trend: older Americans increasingly tapping home equity loans. By borrowing against their homes

National Association of Realtors’ Housing Affordability Composite Index (1990 – present)



(Source: Bloomberg Finance, LP)

US Census Bureau US New One Family Houses Sold Annual Median Price NSA (1962 – present)

(Source: Bloomberg Finance, LP)

rather than selling, retirees extract liquidity while leaving housing supply tight. That subtle shift removes inventory from an already constrained market.

Any one of these factors alone might generate a modest slowdown. Taken together, they create a self-reinforcing freeze on transactions. Buyers hold back owing to the absence of affordable options; sellers, because moving would mean abandoning generationally cheap financing. Lenders, too, see less incentive to innovate when volumes are depressed. The result is a housing market neither collapsing nor thriving, but immobilized.

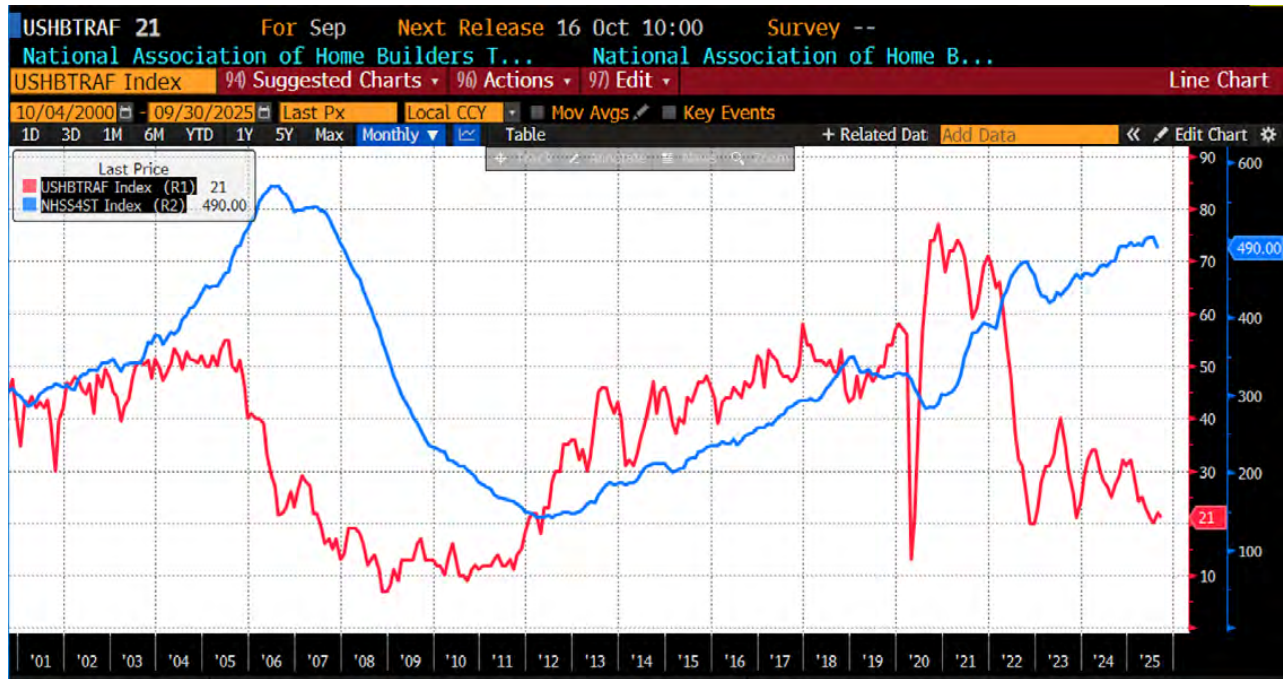
It's an unusual state of affairs. In past housing cycles, a dropping demand eventually led to falling prices, which in time rekindled activity. Today, though, limited supply has prevented prices from correcting meaningfully. Even with sales activity at quarter-century lows, the median home price remains near record highs. That keeps affordability stretched, and thus the freeze remains intact.

The consequences extend far beyond real estate. Housing is one of the economy's most powerful engines, driving construction employment, consumer spending on furnishings, and local tax revenues. When transactions dry up, a wide swath of related activity contracts. Realtors, appraisers, moving companies, landscapers, and retailers from Home Depot to Wayfair

feel the pinch. The freeze also complicates Federal Reserve policy. Rate hikes are designed to slow demand, but the lock-in effect has amplified their impact. Instead of facilitating a natural adjustment, higher rates have created paralysis. Ironically, contractionary monetary policy could keep the shelter portion of service inflation higher for longer, since constrained supply props up rents and prices even as demand softens. (It bears mentioning that while Fed policy influences the shortest end of the US yield curve, mortgage rates track the 10-year and other, longer-term maturities.)

The freeze also reshapes household decisions in ways that are somewhere between difficult and impossible to measure directly. Younger families delay buying, renting far longer than intended. Older homeowners, instead of downsizing, remain in houses ill-suited to their stage of life. Geographic mobility suffers, which reduces the efficiency of labor markets. The decision to move across town, state, or across the country, once fairly common, has become an economic gamble. Meanwhile, creative financial behavior is emerging. Home equity loans and cash-out refinancing let older homeowners tap into their otherwise sequestered wealth, introducing risks in the process. Rising indebtedness among retirees could become a problem rising to policy levels if housing values stagnate or fall.

National Association of Home Builders' Traffic of Prospective Buyers SA and US Census Bureau US New One Family Houses Total For Sale (1990 – present)



(Source: Bloomberg Finance, LP)

The key question is whether the impasse is temporary or persistent; frictional, or structural. A sharp drop in interest rates could unfreeze activity, but with inflation still elevated, such a shift seems unlikely in the near term. A major correction in prices could restore balance, but supply shortages make that outcome somewhat doubtful. The likeliest scenario is a market that muddles through: sluggish sales, elevated prices, and a large contingent of unsatisfied would-be market participants.

Whitney’s observation — that the reliance of older Americans on home equity loans may be a buried lead — underscores the complexity of the moment. The housing market is not simply a casualty of higher rates; it is the product of a confluence of pandemic-era choices, policy dynamics, and demographic realities. With sales at their lowest point in a quarter century, the US housing market is locked in a deep freeze, and understanding how — and when — it might thaw will be essential for prospective home buyers and sellers, investors, and policymakers alike.

November 2025

Liberty, Risk, and Permission to Live Dangerously

Paul Mueller
Senior Research Fellow

When my eldest son was four years old, he climbed on top of a batting cage at a park in New Jersey. Several bystanders noticed and began to freak out. I called my son down and told him: "I'm fine with what you are doing, but you're making other people nervous." I said this because he was a capable climber and because I judged the various risks acceptable. Yet, the fear of others was at play and could have resulted in government child services intervention.

Though my experience ended peacefully, the Meitiv family had multiple run-ins with child protective services for allowing their 10-year-old and 6-year-old to walk to a playground unaccompanied by an adult. Their clashes with safetyism and law enforcement helped launch the "Free Range" parenting movement.

Should a 10-year-old be able to take a couple younger siblings to a playground without an adult? A large percentage of Americans would say "no." Why? Because it's dangerous! They could be kidnapped! Yet the odds of that happening are astronomically low - kids are more likely to die in a car accident or to get cancer than to be kidnapped by a stranger - yet this extremely unlikely event has changed childhood (for the worse) for tens of millions of children.

Coddling and safetyism reduce people's willingness to take risk, *and* they distort their assessment of risk. So people will accept infringements on their liberty because they feel "safer." Besides fueling demand for more regulation, safetyism also dampens people's willingness to experiment and to grow through facing challenges and danger.

As individuals, as parents, as Americans, we should learn to live a little dangerously *on purpose*. Now, many Americans live dangerously by accident as they engage in unhealthy practices or act carelessly. There is also the recklessness of youths who feel invincible. That's not what I am talking about. I'm talking about realistically assessing risk and tradeoffs.

By disposition, I happen to be pretty conservative and risk averse. Why take a chance that something bad happens when the status quo seems mostly okay? Yet I am also a strident believer in liberty - so I would never want government bureaucrats to legally prohibit me from taking risks (even ones that I wouldn't take anyway). But I have also cultivated an entrepreneurial desire for value creation and improvement. I believe things can be better than they are - potentially much better - but that improvement will only happen with experimentation and, yes, risk-taking.

All of this reminds me of the movie *I, Robot* with Will Smith (based on the book by Isaac Asimov). *I, Robot* anticipated many of the problems contemporary Americans face in our current relentless cultural pressure

towards safetyism. In the film, humanoid robots are trained to follow the three rules of robotics:

1. A robot may not injure a human being or, through inaction, allow a human being to come to harm.
2. A robot must obey the orders given it by human beings except where such orders would conflict with the First Law.
3. A robot must protect its own existence as long as such protection does not conflict with the First or Second Law.

While seemingly straightforward, in the movie a comprehensive artificial intelligence decides that truly fulfilling these laws means protecting humans from each other, by force if necessary. This logic has been carried out relentlessly across the US for decades.

Sometimes life imitates art. Rather than Rousseau's famous dictum that men must be "forced to be free," modern elites generally subscribe to the notion that everyone must be "forced to be safe." We saw the culmination of this thinking in the lockdowns during the pandemic of 2020. But safetyism extends everywhere in society.

Spending years living in both DC and New York City, I got a front row seat to a safetyism that basically denies tradeoffs between risk and reward, and also encourages a warped and inaccurate view of actual dangers in the world.

We see it in playground construction and management. Rather than the often simple and low-cost, but "less safe" metal playgrounds of yesteryear, modern playgrounds have all kinds of safety requirements around heights, hardness of materials, accessibility, etc.

You have agencies like ASTM that publish the "Standard Consumer Safety Performance Specification for Playground Equipment for Public Use" and Consumer Product Safety Commission that publishes the "Public Playground Safety Handbook." The Americans with Disabilities Act (ADA) requires a variety of additional modifications to playgrounds. And then states, counties, and cities may (and often do) layer their own safety requirements on top of these. The level of safety is comical.

I'm not suggesting we should intentionally make playgrounds more dangerous. Nor am I saying that safety concerns don't matter. I am suggesting that most Americans should consider raising their threshold of acceptable risk. Besides the immense monetary cost savings, higher risk thresholds will reduce anxiety in parents (and children) while allowing greater physical

and character development in children who can push their limits further, learn to face fear, and also learn about risk/reward tradeoffs.

Parenting in general has become highly focused on safety - from helicopter parenting to emotional safety and self-esteem parenting come safe spaces and microaggressions. The heavy involvement of parents regulating their children's lives has been documented by Jonathan Haidt, Lenore Skenazy, and others. This safetyism is a form of coddling. It is also soft paternalism (doing for others what they can, and should, do for themselves) that restricts children's decision-making and autonomy which stunts their development of judgment and formation of virtue.

Our broader society is little better. Regulations around every activity imaginable have cropped up - almost always with a public safety component - industrial kitchen regulations, indoor sprinkler requirements, extensive licensing requirements, conditional use permitting, all are examples of anti-competitive costly rules built on safetyism. So are costly drug development processes, food inspection requirements, and workplace regulations.

Safetyism also has serious implications for innovation, technology, and the economy. California's attorney general recently claimed that, as a public charity, OpenAI has an obligation to make sure this doesn't happen. But is such a claim or regulatory burden helpful or appropriate? Large language models and AI platforms, even social media platforms that have generated measurable harm to adolescents, have similar features. Prioritizing safety over everything else, however, requires making stifling rules for everyone (millions of people) based upon extremely rare cases of harm.

California officials and regulators are going after OpenAI over "safety" concerns about how an incredibly small percentage of people use (or abuse) ChatGPT. *The Wall Street Journal* reported the story of Erik Soelberg who had a history of mental illness and self-harm, who developed a deeply unhealthy attachment to a ChatGPT chatbot who encouraged him in his paranoia. Tragically, he ended up killing his mother and himself.

While we may be tempted to "blame" ChatGPT for contributing to this tragedy, that would be a mistake. Imagine, for example, if Ford or Toyota were responsible every time someone used their vehicle to facilitate theft or murder or suicide. We would hardly hold those companies responsible for "enabling" this tragic behavior with their products. And if we did, those companies might not be able to exist, and the millions of people who benefit tremendously from their vehicles and use them responsibly would be harmed.

Part of young people's swing towards conservatism stems from feeling stifled, both physically and intellectually, by their teachers, parents, and the broader cultural preachers of safetyism. Safetyism strangles technology, entrepreneurship, personal autonomy, and ultimately liberty.

If we want a free, dynamic society of responsible citizens, safetyism browbeating has got to stop.

November 2025

Why the Erosion of Central Bank Independence Matters

Nicolas Cachanosky

Senior Fellow, AIER's Sound Money Project

Central bank independence isn't just wonky economic theory. It's a stabilizing force in fiat money-using economies. When shortsighted politicians control monetary policy, the public suffers. Consider that with a **10 percent** inflation rate, a \$50,000 salary loses \$5,000 in purchasing power *annually*—that's a month's rent, a year of groceries, or your child's college savings evaporating.

Yet this crucial principle, once taken for granted in advanced democracies, is under threat from the left and right in the United States. Central bank independence prevents politicians from using monetary policy as a tool for short-term political gain at the expense of long-term economic stability. Politicians face election cycles every two to six years and have strong incentives to boost economic activity before elections—even if doing so creates problems later. If central bankers are insulated from these short-term political pressures, they can make the tough decisions needed to maintain price stability and economic health over the long run.

The current White House has taken various steps to undermine Fed independence. President Trump has repeatedly pressured Federal Reserve Chair Jerome Powell to cut interest rates and considered firing Powell when he refused. Trump appears to have pressured Michael Barr to step down as Vice Chair for Supervision and is currently trying to remove Governor Lisa Cook from the Fed Board for cause. In doing so, Trump demonstrates a fundamental misunderstanding of the Fed's structure and independence.

Consider the rushed nomination of Stephen Miran to the Fed's Board of Governors just before the last FOMC meeting. Rather than resigning from Trump's Council of Economic Advisers, Miran opted to join the Fed while on unpaid leave from the White House. That looks like a clear violation of central bank independence, which raises some uncomfortable questions. Will Miran report behind-closed-doors Fed discussions back to the White House? Will Miran make monetary policy decisions based on his analysis of the available economic data or the political priorities of the President? How can markets trust that monetary policy will be conducted without political influence when a sitting Governor has the option to return to the White House in January?

The most dangerous threat to independence comes from what economists call *fiscal dominance*, where the central bank is forced to prioritize financing the government's spending over its primary goal of controlling inflation. When governments "print money" to cover their deficits, they increase the money supply without any corresponding increase in economic demand for that money. The result is not just inflation, but very high rates of inflation. In 2023,

inflation in Argentina spiked to **211 percent**. That's what life is like with fiscal dominance

The Federal Reserve's independence isn't a courtesy extended to unelected technocrats. It's a structural safeguard designed to protect families from the runaway inflation that has plagued other nations throughout history. It isn't an abstract policy dispute. Central bank independence is the foundation that keeps your grocery bill stable and your savings secure.

Recent political pressures on Fed leadership threaten to undermine decades of hard-won credibility that have helped keep inflation in check and financial markets stable. It would take years to rebuild that credibility, if lost, and would likely require painful economic adjustments during the rebuilding phase. In the American case, it would also risk dedollarization. The US enjoys the exorbitant privilege of issuing the global reserve currency because the rest of the world expects the Federal Reserve will conduct policy reasonably well. That expectation—and, hence, the ability to issue the global reserve currency—depends on the Fed's independence.

The lesson from around the world is clear: countries that politicize their central banks pay a steep price. America has not avoided that fate by accident. It has avoided that fate by design. Preserving central bank independence isn't just good policy. It's essential for promoting American prosperity..

November 2025

Slower Inflation But Rising Uncertainty in September

Bryan P. Cutsinger

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Inflation eased slightly in September, the Bureau of Labor Statistics (BLS) reported late last week, after a delay in the release due to the government shutdown. The Consumer Price Index (CPI) rose **0.3 percent** last month, down from **0.4 percent** in August. On a year-over-year basis, headline inflation ticked up slightly to **3.0 percent**, compared with **2.9 percent** in August.

Core inflation, which excludes volatile food and energy prices, rose **0.2 percent** in September, down slightly from **0.3 percent** in August. On a year-over-year basis, it ticked down from **3.1 percent** in August to **3.0 percent** last month.

Gasoline was the main driver of inflation last month. Gasoline prices rose **4.1 percent** in September, after rising **1.9 percent** in August. Overall energy prices climbed **1.5 percent**.

Food prices, in contrast, rose just **0.2 percent** in September, which was less than half the change observed in August. Prices for food at home increased **0.3 percent**, while food away from home rose **0.1 percent**. Both grew more slowly in September than in the previous month.

Most components of core CPI declined last month, with the notable exceptions of apparel and medical care.

While inflation is currently much lower than it was for much of 2021, 2022, and 2023, newly imposed tariffs have caused prices to rise more rapidly in recent months. Inflation averaged **0.3 percent** per month in July (**0.2 percent**), August (**0.4 percent**), and September (**0.3 percent**), which is equivalent to a roughly **3.7 percent** annual rate. That is well above the year-over-year figure of **3.0 percent**.

Recent core CPI data tell a similar story. Core prices rose **0.3 percent** in July, **0.3 percent** in August, and **0.2 percent** in September — an average monthly rise of roughly **0.3 percent**, which is again equivalent to a roughly **3.7 percent** annual rate. Hence, core inflation has risen faster in recent months compared to its year-over-year pace, as well.

Although the Fed officially targets the personal consumption expenditures price index (PCEPI), CPI data provide timely and relevant information for policymakers. The two measures generally track each other closely, though CPI tends to overstate inflation relative to the PCEPI. That makes the latest CPI readings a useful (if slightly higher) measure for Fed officials — and, hence, for determining how those Fed officials will likely conduct policy.

The fact that recent inflation is running hotter than its year-over-year pace is not altogether unexpected. The consensus view is that tariffs are likely to result in a one-time increase in the price level. If Fed officials accept that view, they will likely go through with the widely expected rate cut this week, despite both headline and core inflation exceeding the **2 percent** target.

According to the CME Group's FedWatch tool, markets are assigning a **96.7 percent** probability to an October rate cut. Last week's CPI release appears to have had little effect on expectations: the implied odds of a 25-basis-point cut were over **98 percent** on Thursday and have remained in the high 90s since the Fed's September meeting.

The Fed was slow to act when inflation first accelerated. It should avoid making the opposite mistake now. Although policymakers cut rates last month, monetary policy remains restrictive.

Some officials may be tempted to pause this week. They should remember that tariffs, not excessive money growth, are the main driver of recent inflation. Rather than risk overcorrecting, the Fed should stay the course and cut rates again. Failing to do so would mean falling behind the curve once more — this time by allowing overly tight policy to push the economy into a needless recession.

November 2025

One Vote Away: The Balanced-Budget Amendment That Almost Passed

Jason Sorens
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Thirty years ago, Congress failed by just one vote to send to the states a constitutional amendment requiring a balanced budget. Today, federal debt held by the public stands at \$29 trillion. As a percentage of the economy, it has doubled since 1996. When you add in other liabilities for federal employee pensions and health care, not even including the entitlement programs of Social Security and Medicare, the federal government's liabilities extend to \$45.5 trillion.

The federal government's financial position is dire by any measure. Even adding assets (cash, inventory, loans receivable, and equipment, but not federal land) leaves them at a net worth of negative \$40 trillion. Future Social Security and Medicare shortfalls for those already alive amount to over \$65 trillion. So the unfunded future obligations of the federal government come to over \$800,000 per US household.

A balanced budget amendment (BBA) would require Congress to stabilize the federal debt. Since Congress won't voluntarily do it, it might be the only option to prevent massive tax increases and inflation within the next 30 years. But Congress repeatedly fails to take action. Why?

The main reason is that Democrats oppose it. The last time the House voted on a BBA, it won a majority, but not the two-thirds needed to advance a constitutional amendment. Democrats voted against it, 178 to six.

The Democrats might have been right to oppose it. The law would have required a balanced budget every year, unless Congress waived it by a three-fifths vote of each House or by a joint resolution that the provisions of the BBA would not apply during a military conflict. It also would have required a three-fifths vote to raise the debt ceiling.

Since there is no hope that Congress could manage to balance the budget in a single year (the just-closed fiscal year's deficit is projected to have been \$1.9 trillion), this amendment would have effectively required a bipartisan three-fifths vote to pass a budget every year. Sound familiar? As of this writing, Senate Democrats cannot agree with Republicans to pass a continuing resolution, which requires a three-fifths vote, and as a result, the government is shut down.

A better BBA would eliminate shutdowns and build in enough flexibility to make it unnecessary to override its provisions. Rep. Jodey Arrington's 2024 resolution would have done some of this, but it never got a vote. It would have limited spending to the prior-three-year average of revenue plus population and inflation, built in a 10-year gradual closure of the deficit after ratification, and required a two-thirds vote for override.

Switzerland's debt brake is an even better idea to adapt. It allows expenditures to equal no more than the revenues that would be expected from trend GDP. In other words, deficits are allowed during times of recession, and surpluses are expected during times of peak growth.

A flexible debt brake is more likely to be honored than a strict, every-year balanced budget rule. And one of the counterintuitive insights of rational-choice political science is that a higher-spending "reversion point" makes political actors less likely to vote for higher spending. For example, if we eliminated government shutdowns and simply legislated that whenever a budget fails to pass, the previous year's budgeted expenditures would carry on, then defeating a budget would be a more tolerable option. The decisive voter in Congress would be less likely to acquiesce to high spending as the price to pay to avoid an intolerable shutdown.

Most Democrats are true believers in Keynesian aggregate demand management through fiscal policy. The debate among economists about the effectiveness of fiscal versus monetary policy goes on, but there is no need to resolve that debate for all time in the Constitution. A cyclically adjusted balanced budget amendment would address the concerns of the pro-fiscal stimulus camp while not foreclosing the possibility of even stricter fiscal rectitude if there is a congressional majority for it. Thus, a Swiss debt brake-type proposal could get the bipartisan support needed to advance a constitutional amendment.

It's well past time for Congress to get serious about controlling runaway federal debt. A well-crafted, flexible balanced budget amendment to the US Constitution could finally get bipartisan support, end shutdowns, and set a hard limit on the federal government's fiscal profligacy.

November 2025

What Hamburger Helper Knows and GDP Misses

David Hebert
Senior Research Fellow

By every official measure, the economy seems to be doing well. Personal income, disposable income, and consumption expenditures all increased. GDP growth has been revised upward by both the Bureau of Economic Analysis and the Atlanta Fed. As if that weren't enough, the stock market continues to climb to historic highs.

Despite these positive reports, there are still concerns. The University of Michigan's Index of Consumer Sentiment continues its downward trend. Job openings, hires, and total separations are holding relatively constant. This suggests that actual job growth has leveled off, meaning that Americans are likely to face harder times finding a new job should they lose their job or otherwise get furloughed. And while manufacturing seems to be growing in certain regions, it's also declining in others, and there is evidence of declining *producer* spending, which could portend hardship down the line as businesses shift toward hoarding cash instead of building capacity. Finally, there's the concern about America's agricultural sector, with President Trump promising to divert some of the tariff revenue to farmers in a bid to help them weather the challenges they are facing and are likely to face ahead.

With all of this in mind, economists' least favorite question, "how is the economy doing?" has but one answer: who knows? The more detailed answer, and one that famously drew the ire of President Truman, "on the one hand, official data looks pretty good. But on the other hand, there are some serious concerns that, going forward, may or may not cause some real problems."

Understanding this is key to understanding why the talking heads on television news networks seem to be so wrong. Plenty of indicators suggest that things are and have been fine in the American economy for a long, long time. And yet, for years we heard about the "vibecession" where almost every economic indicator was pointing toward a great economy but consumers were *inexplicably* acting as if we were in a recession. The problem wasn't with the consumers and, paradoxically, the problem was not with the fancy government statistics. The problem was with the talking heads and their refusal to ask *why* consumer behavior might be more telling than aggregate indicators.

To help cut through the noise, we can look to other, less obvious sources combined with economic theory. *The New York Times*, for example, reports that Hamburger Helper sales have risen **14.5 percent** just since the start of the year. The theory is that Hamburger Helper sales

are loosely correlated with economic recessions; when Hamburger Helper sales rise, it is a sign that consumers might actually have less disposable income and are seeking to stretch their money as far as possible.

Hamburger Helper is far from the only fabled example of quirky statistics that economists use to clarify our supposed crystal balls that allow us to peer into the future. Warren Buffet famously popularized the "men's underwear index," reasoning that men are more likely to buy underwear only when flush with cash, which happens during a boom. The Baked Beans Index, similar to the Hamburger Helper theory, suggests that baked bean sales spike during a recession.

The reason behind this is straightforward according to economic theory: these goods, and plenty of others, are often characterized as *inferior goods*. Here, "inferior" does not necessarily mean "of low quality." Instead, it refers to the idea that when a person's income rises, their demand for any given product will change. For inferior goods, income and demand move in opposite directions: when one increases, the other decreases. For so-called "normal goods," like beef, fresh vegetables, and new cars, income and demand move in the same direction: when one increases or decreases, the other moves in the same direction.

Consider a college student, toiling away late at night, working on esoteric papers and assignments foisted upon them by their malevolent professors. What is their diet likely to consist of? Instant ramen noodles, spaghetti, and (hopefully) some vegetables, though probably not the "organic" kind. But as their incomes rise after graduation, notice what happens: they stop eating instant-*anything* and shift toward healthier, tastier, and more expensive options. This reflects the idea that instant ramen noodles, spaghetti, and non-organic vegetables are *inferior* goods. Indeed, the hit song, "If I Had a Million Dollars" by the Barenaked Ladies is really just a song about normal and inferior goods. Chesterfields, ottomans, K-Cars, pre-wrapped sausages, fur coats (but not real fur coats), and exotic pets (like a llama or an emu)? All normal goods. Kraft dinners, in a subversive twist, also considered a normal good by Barenaked Ladies, provided, of course, that they come with "Dijon ketchup."

The truth of the matter is that individuals know whether they lost their job or not. They know full well whether their industry is in decline or if it is booming. Individuals don't need fancy government statistics to tell them what they already know. Because of this,

changes in their behavior often precede changes in official government statistics, no matter how good those statistics actually are.

So how can an average person do better economic analysis than the talking heads? Start with a basic principle from Nobel Laureate James Buchanan: “What a science does, or should do, is simply to allow the average man, through professional specialization, to command the heights of genius.”

The easiest way to do this is to recognize that the economy is not some abstract thing measured by government statisticians. It’s millions of individual people making millions of individual decisions each and every day. When people start buying more Hamburger Helper, that should tell you something that GDP figures just can’t capture. The American people are not confused or somehow acting irrationally, they’re just responding to real pressures in their own lives that haven’t shown up in the aggregate data (yet).

If you want to get a broader picture of the economy, rather than start the investigation at national level data, start local. National level data often gives an inaccurate summary of the overall economy. It’s like

pointing out that everyone in a restaurant is, on average, a millionaire after Bill Gates walks in. No matter how accurate the statement, it’s still mostly meaningless. Pay attention to what people around you are actually doing. Are your neighbors buying Hamburger Helper or steaks? Are local businesses hiring or laying off? That tells you more than any GDP revision ever could. This is why Hamburger Helper sales matter more to everyday Americans than GDP revisions; they reveal what’s actually happening in people’s lives by reflecting data at the lowest level of analysis: the individual. Washington bureaucrats may carp about the fancy government statistics, but a thousand new tech jobs in California or in the hospital system in North Carolina don’t help the manufacturing workers being laid off in Michigan. The economy isn’t doing well or poorly. It’s doing differently for different people and the people living it know first and best.

November 2025

Electricity Prices are the New Inflation Flashpoint

Peter C. Earle
Senior Research Fellow

Electricity prices have moved from the background of daily life to the front lines of politics. What was once a quiet household expense is now a visible burden and a potent symbol of policy failure. Prices are rising not because of corporate greed or runaway markets, but because regulation, politically directed investment, and top-down energy planning have collided with the explosive growth of artificial intelligence. Inflation, supply constraints, and government mandates have turned the grid – once a model of steady reliability – into an arena where economics, technology, and politics now clash.

Americans once fixated on the price of eggs as the emblem of inflation. Now, the new shock comes in electricity bills. Power charges have jumped roughly **4.5 percent** in the past year – nearly double the broader Consumer Price Index (CPI) – driven by surging demand from AI data centers and advanced manufacturing against a backdrop of limited supply. “When you have increased demand and limited supply, you’re going to pay more,” said Calvin Butler, CEO of Exelon Corp., which recently set aside \$50 million to help low-income customers pay summer bills. The impact is spreading across the largest US grid, PJM Interconnection, where watchdogs estimate data-center growth alone has added \$9.3 billion in power costs.

CPI Electricity SA, 2010 – present



(Source: Bloomberg Finance, LP)

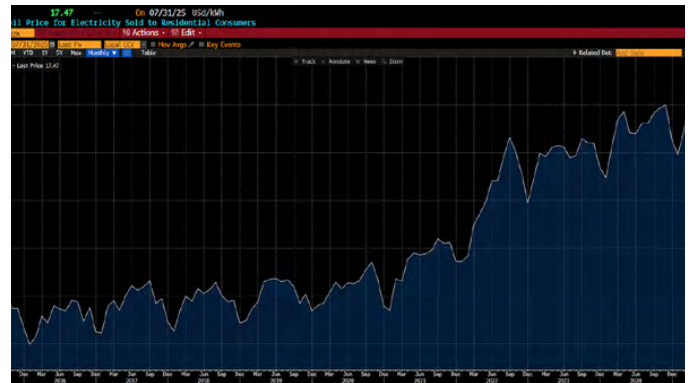
The numbers confirm the squeeze. The Energy Information Administration reports that average US retail electricity prices in 2025 are about **13 percent** higher than in 2022, with the typical household bill reaching \$178 per month. In Virginia – home to the world’s densest cluster of data centers – residential power and transmission costs are expected to rise as much as **26 percent** this decade and **41 percent** in the next. Wholesale power in regions with aggressive climate targets, such as ISO-New England, has tripled

since early 2024. The regulations meant to stabilize the transition are now amplifying volatility.

For two decades, data centers were small, fairly nondescript, warehouse-like structures on the landscape. The rise of generative AI has changed that. Training large language models demands vast computing power, transforming modest warehouses into mega-complexes that draw as much electricity as medium-sized cities and consume millions of gallons of water. Their footprint has turned electricity from a technical concern into an election issue.

In Virginia and New Jersey – this year’s gubernatorial battlegrounds – the politics of AI infrastructure have become a proxy for the nation’s energy debate. Virginia Democrat Abigail Spanberger argues that tech firms should pay a “fair share” for the grid upgrades their operations require. Her Republican opponent, Winsome Earle-Sears, blames clean-energy mandates for higher costs and reliability risks. In New Jersey, some proposals have sought to make data-center developers fund grid modernization, while Republican Jack Ciattarelli calls for more facilities and new gas plants to meet demand. Populist anger over rising bills has blurred party lines: even local candidates from both parties are now calling for moratoriums on new data centers.

US Department of Energy Retail Price of Electricity Sold to Residential Consumers, 2015 – present



(Source: Bloomberg Finance, LP)

States like New Jersey are seeing elevated and rising electricity prices after years of policy choices that prioritized offshore wind build-outs while allowing firm baseload and grid capacity to stagnate—most notably the 2018 shutdown of the Oyster Creek nuclear plant—even as demand accelerates. Now, the AI/data-center surge is colliding with those constraints: PJM projects roughly 32 GW of new peak load by 2030—~30 GW from data centers—creating “upward pricing pressure”

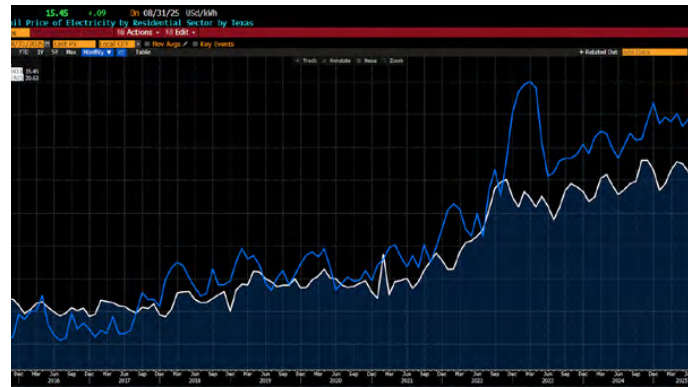
and resource-adequacy concerns, and recent reporting shows consumers across PJM picking up billions in transmission costs tied to data-center growth. Offshore-wind obligations also carry above-market OREC costs that regulators and consultants note will be passed through to ratepayers, reinforcing price pressure where transmission upgrades lag. In short, places that retired nuclear and moved slowly on wires while leaning hard into offshore wind entered the data-center era underprepared, and are now struggling to keep up or raising rates to fund capacity and grid upgrades.

Frustration is spreading. In Missouri, Senator Josh Hawley has denounced “massive electricity hogs,” accusing Silicon Valley of pushing costly transmission projects that residential ratepayers subsidize. Georgia’s Public Service Commission race has revolved around claims that data-center operators enjoy five-cent kilowatt-hour rates while households pay four times more. These fights reflect an economic truth: fixed-rate industrial contracts and tax abatements merely shift costs onto consumers rather than reducing them.

Demand growth is not only remarkably strong, but rising and difficult to predict. The International Energy Agency expects global data-center power consumption to nearly double by 2030. But in a genuinely competitive market, such growth would attract private investment in new generation and transmission. Instead, multi-year permitting processes, domestic-content mandates, and litigation have throttled supply. Investor-owned utilities plan more than \$1 trillion in capital projects through 2029 – much of it driven by regulation rather than market need – costs that inevitably flow into rate bases and monthly bills.

The political realignment around AI infrastructure reveals a deeper lesson: energy cannot be centrally planned without trade-offs. States like Texas, where competitive markets respond directly to price signals, deliver electricity at roughly half the price of Massachusetts and maintain stronger reliability despite rapid demand growth. By contrast, states that rely on administrative planning have locked in higher costs and slower innovation.

Average Retail Price of Residential Electricity, Massachusetts (blue) vs. Texas (white), 2015 – present



(Source: Bloomberg Finance, LP)

Both parties sense the stakes. The Trump administration’s AI Action Plan seeks to accelerate approvals and expand grid capacity to preserve US dominance over China, even as it moves to slow the retirement of fossil-fuel plants and roll back tax incentives for wind and solar. Democrats promoting the “abundance” agenda hail data centers as foundations of a digital and decarbonized future. Yet the economic tension is the same: who pays for the electrons that power the machines?

Electricity is no longer a neutral input; it is a commodity of both growth and grievance. The market could meet rising demand efficiently if freed to do so. Instead, bureaucratic control, subsidy races, and political favoritism have produced shortages that politics then exploits. The cure being offered – more mandates, more subsidies, more planning – is itself the disease.

A genuinely market-based approach would let prices reflect scarcity, open generation and retail supply to competition, and end cross-subsidies that hide costs from voters. Decarbonization and innovation can coexist with affordability, but only when capital is allowed to flow where returns justify the risks taken. As Americans open their power bills they are discovering, and in some cases rediscovering, that electricity is ultimately a market good, not a political entitlement, and that attempts to regulate away its costs only defer and magnify them.



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