AIER Research Reports

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AIER

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

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From the Managing Editor

Peter C. Earle

Senior Research Fellow

The question of whether artificial intelligence is in a bubble hinges not only on price levels but on the reliability of the signals guiding investment—a distinction central to Austrian Business Cycle Theory (ABCT). Bubbles, in the Austrian sense, arise when prices, credit conditions, or narrative momentum mislead entrepreneurs into committing capital on the basis of distorted or incomplete information. Classic Austrian definitions emphasize malinvestment, intertemporal discoordination, and mispriced risk: all of which are outcomes of artificially cheap capital and the misinterpretation of future consumer demand. Market structure definitions align with Friedrich Hayek's emphasis on localized knowledge and dispersed discovery, while Israel Kirzner's behavioral insights point to entrepreneurial overreaction where profit signals are concerned. Evaluated across these frameworks, the AI boom illustrates several enduring Austrian insights, though not within a simple "bubble or not" binary.

On the risk side, valuations reflect intertemporal expectations that may exceed what current knowledge justifies. Several leading AI firms trade at cash flow multiples embedding a decade or more of aggressive growth, extraordinarily high margins, and uninterrupted scaling law improvements. One emblematic milestone: Nvidia became the first company ever to reach a $5 trillion market capitalization, underscoring the extreme optimism built into the AI story. (It also, undoubtedly, reflects the cumulative effect of five years of aggressive monetary expansion.) This is precisely the kind of future-heavy discounting Austrian theory warns becomes fragile when built on assumptions not grounded in demonstrated consumer preferences. The valuation structure leans heavily on terminal values, which may indicate that investors are projecting future consumption patterns too confidently, creating conditions in which malinvestment becomes more likely if those expectations prove too optimistic.

The scale and speed of the AI capital expenditure surge sharpen this point. The hyperscaler build-out, which now exceeds half a trillion dollars on an annualized basis, is among the clearest modern examples of the Austrian notion of long-term, roundabout production processes being undertaken before downstream demand is fully validated. While that capex is driving real revenues today for chip makers and cloud platforms, it may also be pulling forward several years of investment based on expectations not yet validated in consumer markets. That too mirrors classic Austrian cycle dynamics, in which large scale investment precedes reliable demand signals, leaving the structure of production vulnerable if consumer preferences do not evolve as anticipated.

Diminishing marginal returns to model scaling reinforce that concern. Even powerful scaling laws encounter physical, thermal, and energy constraints. As marginal capability gains flatten and inference remains costly, investors risk overestimating the feasibility of the most capital-intensive layers of the AI stack. Austrian theory would describe this as capital-complex misalignment: the expectation that deeper, more complex layers of production will yield proportional consumer value, even when constraints make that unlikely.

Market structure adds another layer of Austrian relevance. The extraordinary concentration of index returns in a handful of AI-leaders highlights a key Hayekian insight: price signals become less reliable when a few firms disproportionately influence the information structure of markets. Recent data show that S&P 500 companies with confirmed productivity-AI usage outperformed peers and the index by notable margins (roughly **17.2 percent** vs **13.3 percent** year-over-year), which reflects winners are racing ahead while others lag. Crowded institutional positioning and narrow leadership mean investors may be reacting less to dispersed, incremental entrepreneurial discovery and more to the momentum of a dominant account. Mechanical flows, leverage and benchmark-driven allocation can therefore amplify errors in a way that mirrors Austrian accounts of herd-driven, credit-fuelled cycles.

Yet the Austrian framework also helps explain why AI may not be a bubble in the conventional sense. Unlike many past technology manias, today's AI investments are producing both revenue and net income (profit), not speculative promises. Entrepreneurs and firms are discovering genuine productivity gains, especially in software development, workflow automation, and content generation. That aligns with Kirzner's view that entrepreneurial discovery processes often reveal new profit opportunities that were previously unknown and unknowable. In such contexts, rapid investment is not necessarily malinvestment; it can be a rational response to newly revealed possibilities.

Moreover, the AI capex cycle bears resemblance to previous long-term capital-deepening phases (think broadband, mobile, or cloud computing) where early investment raced ahead of monetisation but eventually proved economically viable. Austrian theory does not condemn large or premature investment per se; it emphasizes the reliability of the price and interest-rate signals guiding those decisions. Today's constraints, which include chips, power, data centers, transformers, and physical structures to house them, all suggest real resource scarcity, not simple speculative effluvium.

At present, the evidence maps unevenly. The cash flow-based bubble criteria reflect partial malinvestment risk (heavy terminal value dependency, mistimed scaling). Market structure criteria like narrow leadership, crowded positioning, and narrative dominance strongly reinforce Hayek's warnings about overcentralized information. Behavioral criteria, however, are muted: institutional allocators dominate, retail froth is limited, and credit conditions are not exceptionally loose. Consequently, AI is not in a classic Austrian credit driven bubble, but rather developing amidst a blend of genuine entrepreneurial discovery with pockets of potentially unstable long term investment.

Beyond investment, the boom illustrates the enduring relevance of Austrian insights: capital is being committed amidst imperfect knowledge, guided by both authentic profit signals and narrative-driven expectations. Whether today's investment wave proves to be efficient capital formation or prelude to a costly reallocation phase depends upon how accurately those signals map to future consumer demand. That is the question at the heart of Austrian Business Cycle Theory.

Peter C. Earle, Ph.D
Managing Editor, *AIER Research Reports*

December 2025

Business Conditions Monthly September 2025: Data Blackout

Peter C. Earle
Senior Research Fellow

The Fed enters its most consequential meeting of the year blinded by shutdown data gaps, armed instead with private proxies and guesswork.

The longest federal shutdown in US history has created deep gaps in the flow of economic data, preventing calculation of the Business Conditions Monthly indices. Most BCM components depend on federal statistical agencies, including the US Bureau of Labor Statistics, Census Bureau, Bureau of Economic Analysis, and the Federal Reserve, that were unable to collect, process, or publish October 2025 data. As a result, critical indicators such as payroll employment, labor force participation, consumer price index, industrial production, housing starts, retail sales, construction spending, business inventories, factory orders, personal income, and several Conference Board composites remain unavailable or were published without the sub-series needed for BCM methodology. Agencies have already confirmed that several October datasets were never collected and cannot be reconstructed. And while a handful of private and market-based measures (University of Michigan consumer expectations, FINRA margin balances, heavy truck sales, commercial paper yields, and yield-curve spreads) continued updating normally, the BCM cannot be produced unless all 24 components are available for the same month; missing even one Census or BLS series renders the entire month unusable.

Because the October data will not be produced, that month is permanently lost for BCM purposes. The indices can resume only once federal agencies complete their post-shutdown catch-up work and release full, internally consistent datasets for the next available month in which all 24 BCM components exist. Even once resumption begins, calculations based on the first complete month may reflect a gap that renders that initial reading economically suspect. Based on current release schedules, the earliest realistic timeframe for restoring the BCM is early 2026, once a complete set of post-shutdown data is again available.

This new data void is a graphic illustration of how short-term, error-prone, and erratic US economic policy has become, echoing earlier episodes such as the "transitory" miscalculation of 2021, the ruinous and clumsily-handled pandemic responses, and the panicked Fed rate hikes between 2022 and 2023 which resulted in a minor banking crisis.

DISCUSSION, SEPTEMBER–OCTOBER 2025

September's inflation data (released October 24th) offered a rare clean signal in an otherwise muddied environment, confirming a broad though modest cooling in both headline and core CPI before the federal shutdown froze statistical agencies. Headline CPI rose **0.31 percent** and core **0.23 percent**, both softer than expected, with year-over-year core easing to **3.0 percent**. Goods inflation softened, helped by declining vehicle prices and deflation among low-tariff-exposure categories. Core services, meanwhile, slowed sharply on a sizable drop in shelter inflation. Firms continued to pass through roughly 26 cents of every dollar of tariff costs, leaving price pressures elevated but stable, and diffusion indices showed slightly narrower breadth, with fewer extreme increases or declines. Combined, these data reinforced market expectations for another rate cut in December.

Producer price data (released November 25th) painted a similar picture of contained underlying pressures, reinforcing the disinflationary tilt suggested by the CPI. September headline PPI firmed to **0.3 percent** on an energy spike, but core PPI rose only **0.1 percent**, below expectations, and categories feeding into the Fed's preferred core PCE gauge were mixed. Portfolio-management fees fell sharply, medical services posted uneven readings, and airfares jumped, suggesting pockets of resilient discretionary spending. Overall producer-side inflation remained tame. Prices for steel and aluminum products covered by Section 232 tariffs have risen about **7.6 percent** since March yet appear to be leveling off, supporting the observation that tariff-driven pressures are largely one-time rather than accelerating. The challenge ahead is that October CPI and several subsequent releases will be heavily compromised: two-thirds or more of price quotes were never collected during the shutdown, forcing the Bureau of Labor Statistics to rely on imputation well into spring 2026. As a result, September's moderate inflation reading may be the last clean data point for months, complicating the Fed's ability to gauge true disinflation progress even as markets continue to anticipate further easing.

Against this backdrop, the Fed entered its October 28–29 meeting with more uncertainty than usual and opted for the path of least resistance: cutting rates by 25 basis points and announcing that quantitative tightening via the balance sheet will be dialed back starting on December 1st, citing tightening liquidity conditions and a lack of reliable data as the shutdown froze much of the federal statistical system. Policymakers framed the cut as insurance against downside labor market risks even as Chair Powell used his press conference to push back against the idea that another cut at the December 9–10 meeting is guaranteed, emphasizing sharply divided views on the Committee, evidence that bank reserves are slipping from "abundant" to merely "ample," and the need to pause without fresh official readings on employment or inflation. The statement's sober description of growth as "moderate," despite private-sector estimates nearer **4 percent**, underscored how the absence of October CPI, payroll data, and other inputs are forcing the Fed to rely on partial and private data, much of which points to softening hiring but continued consumer spending. Markets initially assumed a follow-up cut in December, but Powell's more hawkish tone, noting lingering inflation frustrations, mixed labor signals, and uncertainty about whether recent growth is real or overstated, pulled those odds down sharply. Investors are now bracing for a data-blind December decision in which alternative labor indicators may carry more weight than any official release.

This dynamic is sharpened by the fact that September's nonfarm payrolls report is now the only official labor data point available to the Fed before the December meeting, complicating case for another rate cut at a time when the shutdown has halted JOLTS (next release: August 2025, on December 9th), ADP (October 2025, on December 3rd), and every other major labor indicator for October and November. Payrolls rose by 119,000, more than double the consensus, with gains concentrated in construction, health care, and leisure and hospitality. The prior two months were revised down, August job creation turned negative; the unemployment rate rose to **4.44 percent**; the latter primarily because labor force participation jumped. Wage growth slowed to **0.2 percent**, and sector-level data showed uneven hiring with services expanding, transportation and warehousing shrinking and unemployment inflows continuing to exceed outflows for a third month. In total, the report suggests gradual softening of labor market conditions beneath the surface.

With October and November employment reports cancelled and the next release tentatively planned for December 16, policymakers are left to make a December decision based on a single, stale release, private proxies, and fragmentary signals.

Meanwhile, October's Institute for Supply Management surveys offered a split view of the underlying economy, reinforcing the sense that growth is uneven but still resilient in places. Services activity accelerated meaningfully, with the headline index rising on the back of strong new orders and renewed business activity — these were partially fueled by data center demand and a burst of mergers and acquisitions in tech and telecom. Contrarily, manufacturing slipped further into contraction at as production reversed sharply following September's jump. Yet beneath the manufacturing headline, several forward-looking indicators improved, including new orders, backlogs, and employment, all alongside price pressures easing as producers reported input costs rising at a slower pace. Services told the opposite inflation story, with the prices-paid index surging to its highest reading since 2022 and respondents explicitly citing tariffs as a driver of higher contract costs even as service-sector employment contracted more slowly. Taken together the ISM data depict an economy still expanding on the services side while manufacturing remains weak but stabilizing, with demand firming across both sectors even as inflation dynamics sharply diverge.

Those mixed signals contrast with a sharp deterioration in household sentiment. Consumer sentiment fell in November 2025 to one of the lowest readings ever recorded as Americans reported the weakest views of their personal finances since 2009 and the worst buying conditions for big-ticket goods on record. Despite inflation expectations easing for both the one-year (**4.5 percent**) and long-term (**3.4 percent**) horizons, households remain deeply strained by high prices, eroding incomes, and growing job insecurity, with the probability of job loss rising to its highest level since mid-2020 and continuing unemployment claims climbing to a four-year high. The survey also highlighted a widening split between wealthier households (whose stock market gains and assets cushion them) and non-stockholders, whose financial positions are deteriorating even as headline economic data appear steady. Of particular note American consumer views darkened even after the federal shutdown ended, suggesting that sentiment is being driven less by political theater and more by lived economic pressure. View on the other side of the cash register were not materially brighter, which reinforces the broader theme of a cooling but still functioning economy. Small business sentiment slipped to a six-month low in October with the National Federation of Independent Business optimism index falling as firms reported weaker earnings, softer sales, and rising input costs. Half of the index's components declined, including a notable drop in owners' expectations for future economic conditions – now at their lowest since April – while the share reporting stronger recent earnings posted its steepest decline since the Covid pandemic. Hiring challenges eased, with only **32 percent** of respondents unable to fill openings and fewer firms citing a lack of qualified applicants. Yet near-term hiring plans ticked down for the first time since May, reflecting caution rather than confidence. Price pressures moderated, planned price hikes slipped to a net **30 percent**, and somewhat paradoxically the uncertainty index fell to its lowest level of the year (yet remained high by historical standards). The consequent picture is one where firms are still uneasy, yet not panicking, about souring trends in demand, margins, and the broader economic trajectory.

In retail consumption the recent narrative is similar: signs of slowing momentum but not collapse. September brought a modest downshift from August's brisk pace as households eased off goods purchases after an unusually strong back-to-school season, even as discretionary spending at restaurants and bars remained solid. Headline retail sales rose just **0.2 percent**, with most of the softness concentrated in nonstore retail, autos, and the control group categories (clothing, sporting goods, hobby items, and online purchases) all of which gave back part of the summer's surge. Food services and drinking places, by contrast, continued to post healthy gains, suggesting the pullback in goods was more a matter of normalization than retrenchment, and that spending momentum remained intact through the end of the third quarter. Despite the mixed monthly profile, strength earlier in the summer left real consumer spending on track for a robust **3.2 percent** annualized gain in the third quarter, underscoring that households, however stretched and anxious, were still spending steadily heading into the shutdown.

All of this must be interpreted through the lens of the unprecedented disruption of the federal statistical system. The next industrial production and capacity utilization readings are likely to be released on December 3, but beyond that, the timing of most other releases remains uncertain, and agency leaders must now decide which October data can be reconstructed and on what schedule. The CPI presents the thorniest case: with two-thirds of its 100,000 monthly price quotes gathered through in-person store visits, none of which occurred in October 2025, the probability is high that no October CPI will ever be published, and the November CPI may also be delayed beyond the December FOMC meeting. Missing shelter data will complicate rent calculations well into the first quarter of 2026, while surveys fundamental to unemployment measurement simply cannot be recreated weeks after the fact. Although payroll employment and GDP are less vulnerable, because both can be backfilled from employer and business records, the broader effect is essentially the same: for the next several months, official US data will be patchy, delayed, and in some cases permanently incomplete.

Even once agencies resume full operations, the statistical damage will ripple outward, affecting not only headline indicators but also numerous dependent series and long-running supplements. The unemployment rate may post its first missing observation in more than 75 years, since labor market transition measures cannot be estimated. The education supplement to the October household survey will disappear entirely. More immediately, the delays in the November employment report and CPI mean the Fed's December rate decision will be made with little to no official visibility on inflation or labor conditions for two full months — an extraordinarily rare and consequential impairment. While most of the record will eventually be repaired, the next several weeks will hinge on crucial judgments by BLS, BEA, Census Bureau, and Federal Reserve officials about accuracy, feasibility, and timing. Those choices will inexorably determine how quickly the economy's statistical foundation regains its footing.

Back to the macroeconomic outlook: soft data show the economy's split personality: services expanding while manufacturing contracts but stabilizes, consumer sentiment collapsing to near-record lows amid deteriorating personal finances and job anxiety with consumption remaining strong, and small-business optimism slipping on weaker earnings and softer sales. The loss of October and November's core indicators, plus gaps going forward, mean that policymakers have no reliable read on inflation momentum or labor market cooling, forcing them to evaluate the economy through anecdotes and information patches rather than a full picture. In this environment, even modest surprises — whether in private-sector labor trackers, ISM reports, or high-frequency spending data — carry outsized weight, shaping market expectations and policy debates in ways that would never occur under normal statistical conditions. For now, the lone clear signal amid the noise is the price of gold, and its message is unmistakably cautious.

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	-1.19%	+3.99%	+10.69%	19.2567	14.2087	14.2109
SPXT	d	S&P 500 Total Return	-1.16%	+4.45%	+13.44%	20.2133	14.6970	14.6196
SPX	d	S&P 500 INDEX	-1.21%	+4.20%	+12.06%	20.1876	14.6759	14.6041
MID	d	S&P 400 MIDCAP INDEX	-1.31%	+.74%	-3.98%	9.7325	9.3153	10.1292
RTY	d	RUSSELL 2000 INDEX	-2.67%	+4.58%	+.17%	10.5550	6.8146	9.3248
SXXP	d	STXE 600 (EUR) Pr	-1.42%	+1.57%	+11.56%	12.2312	11.0787	7.8561
TLT US	d	ISHARES 20+YR TR	-1.13%	+4.19%	-2.47%	-.7339	-8.0379	-.4205
QLTA US	d	ISHARES AAA - A	-.70%	+1.32%	+1.62%	5.0932	-.5015	2.4586
CRY	d	TR/CC CRB ER Index	-2.31%	-1.90%	+2.95%	2.2450	13.1130	4.4526
XAU		Gold Spot $/Oz	+3.70%	+22.68%	+57.31%			
XAG		Silver Spot $/Oz	+8.65%	+31.97%	+68.02%			
ILM3NAVG		Bankrate 30Y Mortgage Rates Na	+.63%	-4.36%	-12.03%			
ILM1NAVG		Bankrate 15Y Mortgage Rates Na	+1.06%	-2.55%	-12.52%			
MB301ARM		5 Year ARM	+.36%	-2.59%	-10.88%			
ILA3NAVG		Bankrate 30Y Fixe Mtg Refis Na	-2.54%	-4.03%	-4.30%			

December 2025

In Memoriam, Gregory M. van Kipnis

Samuel Gregg, *President*
Terry W. Anker, *Chairman of the Board of Trustees*

It is with great sadness that we mark the recent passing of former AIER Chairman of the Board of Trustees and longstanding Voting Member, Gregory (Gregg) M. van Kipnis on the evening of Saturday, November 8, 2025, in New York.

A student of the Austrian economist Ludwig von Mises at New York University where he obtained his MBA in economics and finance, Gregg had a long and distinguished career in finance, business, and banking. Among many other positions, he served as President and CEO of Invictus Partners; Executive Vice President at Jefferies & Co.; Managing Director of NatWest Financial Products in London; and a Principal at Morgan Stanley. In his early career, Gregg was an economist and research director at Donaldson Lufkin & Jenrette, as well as the IBM Corporation. Most recently, Gregg was a General Partner and then consultant to the Tiedemann Investment Group. He was also a member of the boards of directors of several financial firms.

Throughout his life, and as a sign of his commitment to a society of free and responsible people, Gregg was involved in several philanthropic activities and professional associations. Additionally, Gregg taught courses in topics ranging from capital markets, microeconomics, and corporate finance at Spring Hill College, the University of South Alabama, and American University. Gregg also served as a captain in the United States Air Force from 1968-1971, which included time at the Pentagon.

A longtime supporter of AIER and its mission, Gregg became Chairman of the Board of Trustees in 2016 and remained in that position through 2024. He was also Chairman of the Board of Directors of American Investment Services (AIS), an SEC Registered Investment Adviser founded in 1978 and wholly owned by AIER.

In all these governance capacities, Gregg made substantial and lasting contributions to AIER's growth and vitality, for which he sought no acknowledgment, and which played an indispensable role in establishing AIER as one of America's leading classical liberal and free market institutions. For all these things as well as his counsel and guidance, the Board of Trustees and staff of AIER and AIS are deeply grateful.

In forthcoming weeks, there will be remembrances of Gregory M. van Kipnis by people who knew him well. But on behalf of AIER, we extend our deepest condolences to his beloved wife, Theresa (Terry), his daughters, and his extended family.

Terry W. Anker,
Chairman of the Board of Trustees, AIER

Samuel Gregg,
President (Interim), AIER

December 2025

The Fed Doesn't Determine the Price of Credit. Markets Do

Alexander W. Salter

Senior Fellow, Sound Money Project

The repo market reveals the limits of Fed intervention, showing how short-term credit conditions are ultimately determined by banks, borrowers, and market forces — not central planners.

Recent movements in short-term loan markets are a timely reminder of a forgotten truth: the Federal Reserve is not the master of credit conditions. It can influence interest rates, but it cannot dictate them. Interest rates ultimately reflect supply and demand conditions in the broader financial system. When those conditions shift, the Fed's administered rates give way to market realities.

That's precisely what we're seeing in the repo market now.

In an overnight repurchase agreement (or a "repo" in financial industry shorthand), a (borrowing) financial institution sells Treasurys to — and, hence, receives dollars from — another (lending) financial institution today and promises to buy them back tomorrow at a slightly higher price. The repo is economically equivalent to a collateralized loan, with the interest rate — or, repo rate — implied by the mark-up in price. According to a recent Reuters article, market repo rates have ranged between **4.05** and **4.25 percent** this month.

The Fed also participates in the repo market, selling Treasurys today and buying them back tomorrow. It does so in order to create a lower bound for the federal funds rate — that is, to prevent the federal funds rate from falling too far below the interest rate the Fed pays on reserves. But market repo rates are currently above the Fed's overnight repo rate (**3.75 percent**), the interest rate it pays on reserves (**3.90 percent**), and its federal funds rate target range (**3.75 – 4.0 percent**). Why are market participants agreeing to overnight rates that are greater than the Fed's target range?

This is no mere technical curiosity. It speaks to the inherent limits of discretionary monetary policy. The repo market is revealing something central bankers don't always like to admit: The Fed cannot micromanage short-term capital markets.

Consider what's driving the rate divergence. Bank reserves have declined significantly this year as the Treasury ramped up short-term borrowing to finance federal spending. When the government issues a torrent of new bills, interested buyers must come up with cash. That cash often comes from the banking system, draining reserves and tightening liquidity. No central bank edict can repeal this balance sheet constraint.

We have a three-way contest of goals: The Fed wants short-term credit conditions to reflect its policy stance. The Treasury wants to raise funds at the lowest possible cost. The banking system wants to preserve balance sheet flexibility. When these objectives collide, interest rates move. They may adjust in ways the Fed prefers — or, they may not. Even with all its powers, the Fed is only one among many actors, and its toolkit is constrained by economic reality.

The problem is that Fed policymakers routinely overestimate their capacity to steer markets whose internal dynamics are beyond their control. Overconfidence leads to poor expectations management — both inside and outside the central bank. Commentators talk as though interest rates were policy variables, not market prices. Politicians assume the Fed can deliver any desired macroeconomic outcome with enough determination. Even some monetary economists slip into this misguided way of thinking. We must not forget: the Fed's administered rates only work when they are consistent with actual credit conditions.

The Fed can't lower market rates by fiat. It can offer premium terms, but it can't compel counterparties to trade with it. When reserves are tight, financial institutions flush with reserves will be able to lend some to financial institutions short on reserves at a rate greater than the Fed is paying. Ultimately, there is nothing magical about the Fed's tools. They work only to the extent they comport with market fundamentals.

A free society needs its public institutions to recognize their limits. Sound monetary policy requires humility before all. The central bank's proper role is maintaining the value of money, not fiddling with the price of credit. The structure of interest rates — those prices that coordinate the allocation of capital — is a job for markets, not bureaucracies.

This is why rule-based monetary frameworks are so important. A central bank operating with a narrow mandate (i.e., price stability) does not pretend it can fine-tune every fluctuation in credit conditions. It does not confuse its administered rates for true market prices. And it does not attempt to subordinate trends in the repo market to its technocratic will. Rules force policymakers to accept what should be obvious: markets set prices.

Ongoing repo dynamics are a lesson, not a crisis. They reveal the complex interaction between fiscal policy, balance sheet constraints, and liquidity preferences. But they also reveal a deeper principle. The Fed proposes an overnight rate; the market dispenses real resources. When the two differ, the market has the last word.

Our monetary institutions would be stronger if they embraced this reality rather than resisted it. Stabilizing the value of money is the Fed's proper task. Interest, as the price of credit, belongs to markets. When policymakers forget that distinction, the resulting confusion harms the very economic coordination that free markets excel at providing.

December 2025

Data Centers Aren’t the Only Reason Electricity Prices Are Surging

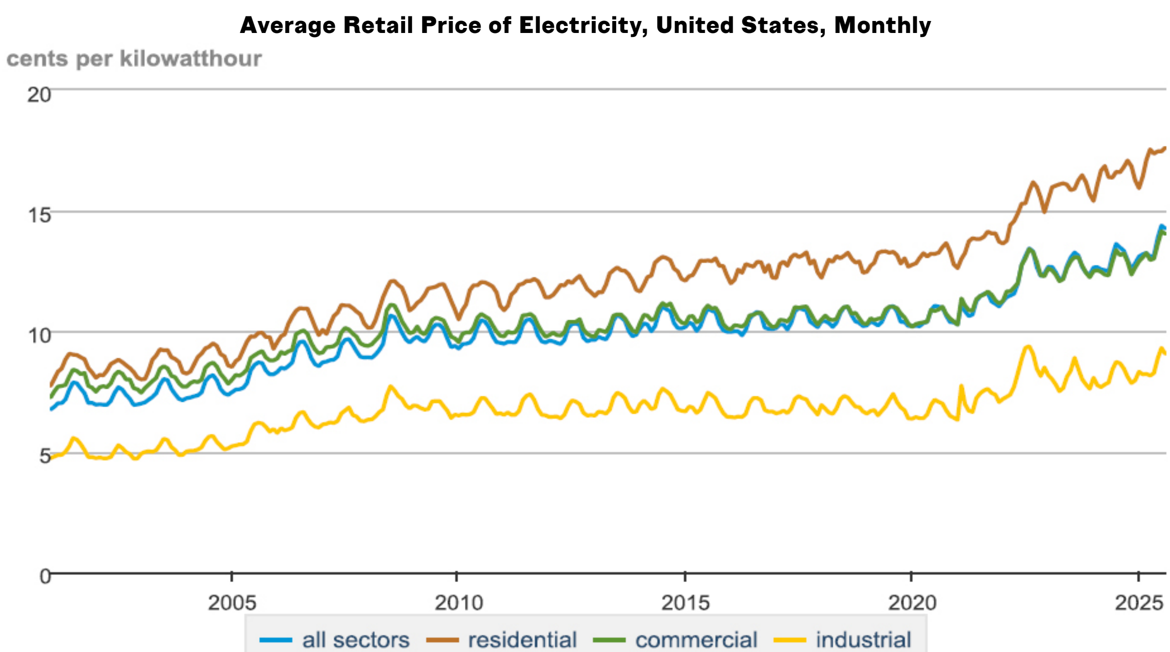
Julia R. Cartwright
Senior Research Fellow

America is on the cusp of the most power-hungry decade in a generation. Federal forecasters expect record electricity demand in 2025–26, even as oil producers are carefully managing output. Yet the main reason your bill is climbing isn't just regional differences, it's rules. A thicket of tariffs on essential hardware, marathon permitting timelines, and clogged grid interconnection queues layer a "policy premium" onto every kilowatt-hour. In a textbook supply-and-demand sense, demand is racing ahead, driven by AI data centers and electrification, while policy squeezes supply. Worse, Washington keeps "choosing" technologies, inviting regulatory capture and raising costs for everyone. If we want the AI era to benefit households instead of draining their wallets, we need neutral, pro-entry rules that let the cheapest reliable electrons win.

Energy inflation tells the tale. Headline prices are running hotter than the **2 percent** target, and the pressure points are concentrated in utilities. Electricity alone is up roughly **5 percent**, and utility gas is up close to **12 percent** versus a year ago. Average retail electricity prices have jumped nearly **9 percent** already this year. The burden isn't uniform. North Dakotans pay the lower energy costs, around 11.7¢ per kWh with a typical bill near $112, while Hawaiians pay roughly 42.3¢ and a $203 monthly tab. That gulf largely reflects system design and policy. North Dakota sits on abundant generation with strong ties to the Midcontinent grid; Hawaii is an islanded system importing fuel and equipment with layers of costs. When transmission is constrained and hardware is expensive, consumers pay.

Energy demand is taking off, mainly driven by data centers powering AI. Data-center electricity use tripled over the last decade to roughly 176 terawatt-hours, and federal analysts expect it to double, or even triple, again by 2028. That would take data centers from roughly **4.4 percent** of US electricity consumption to something like **10–12 percent** in just a few years. In markets with heavy data-center clustering, wholesale prices near key nodes have surged, reportedly doubling or tripling compared with five years ago, and those spikes bleed into retail rates. The largest campuses are now measured in hundreds of acres; Meta's complex in Prineville, Oregon, covers well over a hundred. None of this is a problem if supply can scale. But supply is boxed in.

Start with trade policy. The grid is steel, copper, aluminum, power electronics, batteries, transformers, inverters, and miles of conductor, exactly the things Washington keeps taxing. Many power-sector inputs now carry duties in the **25–50 percent** range. The administration has announced additional tariffs on medium and heavy trucks, which will raise logistics costs across energy supply chains. For oil and gas, the exemption record is mixed: while crude itself may avoid new levies, drillers and midstream firms still buy tariffed inputs — steel casing, line pipe, valves — magnifying project costs. Steel and aluminum duties, recently doubled to **50 percent** in some cases, raise the price of everything from rigs to transmission towers. On the "green" side, tariff policy is even more tangled. Grid-scale batteries face total duty stacks approaching the mid-sixties percent; aluminum and derivative products also pay **25 percent**.



(Source: U.S. Energy Information Administration)

Solar modules and cells still sit under safeguard tariffs near the mid-teens, layered atop other levies. The result is not a level playing field but a politicized one where lobbyists fight to be a "protected" winner and consumers lose either way.

Then there's the permitting time tax. Big energy projects routinely wait six or more years for approvals; some major transmission lines have been in limbo for more than a decade. Meanwhile, the grid clogs and aging infrastructure strains. Transmission congestion alone added roughly $11.5 billion to customer bills last year. Lengthy reviews no longer deliver meaningfully cleaner or safer outcomes; they mostly deliver uncertainty, which raises financing costs and deters entrants. In economics, that's classic deadweight loss.

Interconnection is the third vice. You can't sell power until a grid operator studies how your plant will affect the system. For years, independent system operators and regional transmission organizations have been drowning in applications, many of them speculative. Backlogs keep new capacity — renewables, nuclear uprates, even industrial cogeneration — from plugging in. Regulators have introduced helpful reforms: "cluster studies" that analyze groups of projects at once and "readiness screens" to ensure entrants have site control and basic financing before staff spends months modeling them. But adoption is uneven. Markets like the California Independent System Operator are making headway with annual intake cycles and clearer milestones; others are still stuck, creating a patchwork of rules that adds friction and encourages forum shopping. Even good projects die on the vine if siting processes collide with wildlife, historic-preservation, and local zoning rules that were never designed for 21st-century energy density.

Why do we tolerate all this? Because we keep trying to direct outcomes, favoring particular fuels, geographies, or industrial constituencies, rather than setting simple, technology-neutral rules. That invites regulatory capture. When agencies tilt toward the loudest incumbent or the trendiest technology, they're not discovering the lowest-cost path to reliability; they're rationing permits and tax credits. Households and factories pay the markup.

What would a pro-consumer pro-technology agenda look like?

First, stop playing favorites. Drop the tariff thicket on intermediate goods central to generation, storage, and transmission. Don't carve out oil-and-gas inputs but punish solar or vice versa; end the game entirely. Let firms source the cheapest safe equipment globally and let market competition decide the mix of resources. When inputs get cheaper, so do bills.

Second, rebuild permitting around shot-clocks, not calendars. Establish firm timelines and a single lead agency for major projects; if the clock runs out, move to a decision on the record. Focus intensive reviews on genuinely high-impact projects and allow routine, low-impact work, like reconductoring existing lines or swapping transformers, to proceed quickly under programmatic approvals. Provide judicial review, but time-limit it to curb endless litigation.

Third, finish the interconnection fix. Make cluster studies and readiness requirements universal, but tune them so they screen out pure speculation without blocking smaller independent power producers. Publish transparent cost-allocation rules so developers can plan. Align interconnection with long-range transmission planning so we're not endlessly studying plants for a grid that doesn't exist yet.

Fourth, open the door to firm, zero-carbon baseload. Small modular reactors and advanced designs, including molten-salt and thorium-based concepts, should compete on their merits. That means modern licensing that evaluates designs by efficiency and productivity, not lineage; standardized approvals for repeat builds; and clarity on waste handling. Clear the obstacles so private capital can try thorium-powered nuclear. If it can deliver reliable power at scale, the market will adopt it. If not, resources will flow elsewhere. Either way, consumers win.

Finally, remember why we're doing this. AI is a once-in-a-century general-purpose technology. It can raise productivity and living standards, but only if the power system scales without crippling costs.

We don't need another round of picking winners and losers on the energy front. We need to remove the artificial barriers that make supplying power slow and expensive. Cut the policy premium, tariffs that pad equipment costs, permits that drag on for years, interconnection rules that reward queue gaming, and America's engineers, utilities, and entrepreneurs will do the rest. The cheapest reliable kilowatt-hour is the one that's allowed to be built.

December 2025

COP-30 Misses the Point: Give Indigenous People Ownership, Not Handouts

Paul Mueller
Senior Research Fellow

Bureaucracies, conferences, and consultants do nothing for those most impacted by environmental degradation. Real progress in the Amazon starts with secure property rights, not paternalism.

Central planners just can't help themselves. They feel obligated to solve the world's problems. Consider this year's Orwellianly-named "Conference of the Parties" (COP-30), the thirtieth annual climate conference sponsored by the United Nations Framework Convention on Climate Change (UNFCCC).

Thousands of government officials and members of international non-government organizations (which, of course, get millions of dollars from governments) have descended on Belem, Brazil for their annual COP-30 gathering. The past two gatherings, COP-29 in Azerbaijan and COP-28 in the United Arab Emirates, were rough to say the least.

They failed to get big commitments from wealthy countries, they didn't win over many less-developed countries, and increasingly the conference looked co-opted by fossil fuel interests. That low bar means this year's conference may hit a brighter note – although less than half-way through the conference, protestors tried to force their way in and harmed several security personnel. So maybe we'll see a new low in the war to "save" the planet.

As an advocate for freedom, these annual COP meetings can be disheartening. They are an annual reminder of the immense resources and machinery for coercion and central planning that keep grinding relentlessly on (with taxpayer funds) no matter how unhappy the people of the world are with their "benevolent" planning. As with most centralized solutions, the proposals put forward at COP-30 will do little to help or to empower those who are really at risk.

The Amazon rainforest figures prominently in the climate agenda this year. In fact, the indigenous protestors at this year's climate conference live in and near that rainforest. COP attendees busily work away at hammering out agreements for wealthy countries to compensate poorer countries for "environmental damages." These billions of dollars that attendees hope to extort from guilt-ridden governments and wealthy corporate managers will enrich themselves and their cronies by funding more travel, more conferences, and more studies. The money will also grease the palms of government officials in recipient countries. And then, whatever crumbs are left, might make their way into the hands of those most harmed by environmental problems.

But that's not what these protestors want. As one protestor said

> *We can't eat money….We want our lands free from agribusiness, oil exploration, illegal miners and illegal loggers.*

Brazil's left-leaning President Luiz Lula da Silva (known as "Lula") has said that this year's conference and the government of Brazil is committed to working with indigenous communities. Unfortunately, for Lula and the COP-30 attendees, paternalism does not seem to be what these indigenous communities want.

There is a much better and simpler solution: protect the rights of the vulnerable. The indigenous peoples in Brazil don't want a handout orchestrated by the global elite, they should have the property rights to their land defined and protected. Ironically, a better regime of property rights and contract will benefit the rainforest more than carbon offset schemes.

Clear cutting and deforestation happen because of deficiencies in property rights and the rule of law. People rush in to get as much wood as they can because if they don't, someone else will. Logging companies that own their own land, on the other hand, rarely engage in clear-cutting because it will reduce the value of their land. Instead, they manage their land with an eye towards the future. They plant new trees. They protect their trees from fire and other calamities.

There is no reason to think the indigenous peoples in and around the Amazon rainforest will act differently if they are given real ownership of their land. They will have the best knowledge of how to manage the rainforest – how to protect it, how to harvest its resources, and how to maintain its value.

They should not live under the whims or the hubris of lawyers in Brussels or The Hague, do-gooder corporate management, or small armies of government bureaucrats around the world. Instead, they should have autonomy and the right to determine their own future – to decide what is best for themselves and their families – not to become clients in a perverse environmental patronage system.

And this lesson from indigenous peoples in the Amazon rainforest applies in dozens of other ways to people around the globe. The UN/Davos/NGO elites want to regulate every part of our lives in their quixotic quest to prevent the planet from warming "too much." We will lose the right to decide how to ship goods, grow crops, generate electricity, travel, and otherwise govern ourselves.

Unfortunately, the global environmental machinery will continue grinding unless those in power are replaced by champions of freedom and innovation.

December 2025

Let Neighborhoods Work: Bans on Home Businesses Are Out of Control

Jason Sorens
Senior Research Fellow

Building a business out of your garage is a quintessentially American origin story. In many places, it's also against the law.

Do you sell cupcakes, run a home photography studio, or tutor kids in your living room? If so, you might be breaking the law.

In the US, zoning ordinances often treat modest home enterprises as threats to the neighborhood. If you're just running an online business, local governments generally won't bother you, but if clients are coming to your home, then they try to limit the visibility and impact of your business. Have these regulations gone too far? Should state governments tell local governments to leave home-based businesses alone, within certain limits?

Major companies have gotten their start in someone's garage. At this point, it's almost a mandatory back-story for any Silicon Valley company. Apple, Hewlett-Packard, Google, and Amazon all boast garage-based origins.

And it's not just fledgling tech startups. In residential neighborhoods across America, home-based businesses are the hidden sinews of resilient local economies, from the mom who takes care of several neighborhood kids while their parents work, to the independent tax accountant hanging out his shingle. From the Russian immigrant baking and selling honey cakes to those in the know, to a group of families that started a micro-school during the pandemic.

The rise of remote work makes home-based businesses more viable, because the potential customer base for small neighborhood retail is growing. More Americans could now benefit from the convenience of doing business close to home. Already, about **50 percent** of all small businesses and **69 percent** of startups are home-based.

New Hampshire is the only state with a complete dataset of local zoning regulations on home-based businesses, based on a survey of laws conducted by the Initiative for Housing Policy and Practice at Saint Anselm College. About **20 percent** of the state's independent zoning authorities outright ban home-based businesses and occupations in at least one residential district. Twenty towns ban the Hewlett-Packard origin story — a business in a detached garage — outright. Twenty-six more require a special permit. Other finicky regulations include requirements to build more parking (56 towns) or prohibitions on building more parking (14 towns), subjecting home businesses to site plan review, which comes with a public hearing and potentially costly requirements to run tests and studies (89 towns), and strict limits on the square footage a resident may use for running a business (22 towns set limits at or below 600 square feet).

You can bet that if "Live Free or Die" New Hampshire has these regulations, other states' rules are at least as onerous. In 2021, Florida legalized home-based businesses in all residential districts but otherwise allows local governments to regulate their operation. New Hampshire, California, Washington, Oregon, and Colorado have legalized home-based childcare statewide.

What would happen if we relaxed the rules on home-based businesses?

Japan's experience may offer a glimpse. American tourists return entranced by the tiny shops and offices that people run out of their homes. In Japan's "exclusively residential" zoning category, "[s]mall shops, dental clinics, hair salons, and day cares are all permitted." The widespread availability of small shops makes life more convenient if you live in a small house. You no longer have to store all the daily necessities of life within your residence. Jane Jacobs made the safety case for mixed-use neighborhoods in The Death and Life of Great American Cities. With more "eyes on the street," someone is more likely to see anything bad that happens and take action.

Now, there are good reasons for Americans not to adopt Japanese zoning wholesale. Japan's homicide rate is 25 times lower than America's. Americans are less likely to tolerate strangers roaming around their neighborhoods. And while Jacobs' "eyes on the street" thesis explains why mixed-use neighborhoods are safer than downtowns that empty out after work hours, bringing bars and perhaps some other commercial uses into residential neighborhoods appears to increase crime (though higher residential density reduces it).

Still, much of the US is extremely safe, and it just isn't plausible that making it easy to start a home daycare is going to spawn a neighborhood crime wave. Reasonable limits make sense for home businesses that bring in lots of vehicle traffic, create lots of noise, or attract an undesirable clientele, but if we set aside these problematic uses, why not let people offer more services and sell more stuff out of their home?

Opponents might point to the virtues of "local control." State legislators, they say, have less knowledge of local neighborhoods and potentially incompatible uses than local officials do.

Indeed, local governments are more competent at regulating commercial uses than homebuilding. Local governments over-regulate housing because they capture only part of the benefits of new local housing while paying the full costs. New property tax revenues and more up-to-date housing stock do benefit a locality, but the benefits of lower housing costs, lower homelessness, and stronger business conditions from new supply accrue to a larger region.

By contrast, localities reap the lion's share of the benefit of allowing new business, including more employment opportunities, higher property tax revenues, and more convenience and amenities for residents. So we should expect local governments to treat commercial uses better than they do dense residential uses, and that's generally what they do.

Even so, localities often err on the side of overregulation. Local officials lack the information, the incentives, and the flexibility that market prices provide. They can't know what services people really want, public hearings amplify anti-change voices, and getting variances is too costly for the average homeowner.

Thus, state legislatures can play a useful role in using their legal and administrative expertise to carve out safe harbors for low-impact uses that local officials may not have even considered.

One example of this opportunity is in-home childcare. Many towns regulate in-home childcare like any other home-based business. But childcare is a low-impact use, and there's no reason to treat it the same way we would, for example, auto repair. The lack of affordable childcare is also a major national economic issue. Thus, it's no surprise that states have started to set aside local zoning regulations that ban or strictly regulate home childcare.

Could states also require or encourage localities to allow entrepreneurs to do business at home in other ways? States have the expertise and capacity to help local governments figure out opportunities to ease the burdens on small-scale entrepreneurship, without turning residential neighborhoods into central business districts. Just ask Bill Gates or Steve Jobs. America's garages could be launching pads for global enterprise if we have the vision to let them.

December 2025

Grassroots Safety Net: SNAP Gap Inspires Americans to Help Out

David Hebert
Senior Research Fellow

Food stamp failures have mobilized thousands of individuals and businesses to provide meals for the hungry. Why are we tasking the feds with this anyway?

As I write this, a mother somewhere in Detroit just swiped her EBT card at a grocery store, trying to buy food for her children. She was denied, forcing her to leave the food at the cashier as her kids looked on, hungry and wondering why they're not able to carry the food out of the store tonight. She and 42 million other Americans are facing this dilemma because Congress hasn't passed a budget. While politicians point fingers at one another, families are starting to wonder how they'll put food on the table. Despite all the doomsayers, something amazing is happening that offers lessons for countries around the world: people are solving the problem without the federal government.

Several states announced that they would dip into their budgets to partially fund food assistance programs. But more tellingly are the local and private responses to this. H-E-B, a Texas-based grocery store, pledged $5 million to Texas food banks and $1 million for Meals on Wheels. DoorDash announced that it would deliver one million free meals and that they were going to waive delivery and service fees for 300,000 grocery orders. Communities, churches, and local charities, not to mention small businesses across the country are collecting increased donations and filling the gap left behind by Congress. All of this without federal authorization, oversight, or influence.

This isn't the first time people in local communities have stepped up in this way. In 2023, when Congress ended pandemic-era SNAP allotments, several pundits cried disaster. Food banks across the nation reported "increased demand" in the months following the cuts. And while there were some initial challenges, the American people once again rose to the occasion. Private charities donated some 5.3 billion meals that year, in exactly the same way that Americans are doing right now. The Archdiocese of St. Louis mobilized over 100 parishes within 48 hours. No hearings required.

This raises an interesting question: if communities and people can do something, why are we charging the federal government with doing it, and what net effect has the federal government's involvement had?

Whenever governments get involved in distributing benefits, it creates concentrated benefits for some and dispersed costs for taxpayers. With food assistance programs, there are two groups of beneficiaries. The most obvious beneficiary is the people who receive food assistance. But the less obvious beneficiary is none other than the well-connected members of the food industry.

As it turns out, there is a tremendous scope for cronyism in determining eligibility, benefit amounts, and purchase restrictions. Using the US's food assistance program as our example, consider the fact that you can buy cold chicken, but not hot, ready-to-eat chicken. Kellogg's Corn Flakes? Those are fine. Store-brand corn flakes made with the same ingredients? Maybe not. Nutrition science doesn't explain this. Lobbying does.

As another example, WIC, a federal program designed to further assist Women, Infants, and Children, leaves it to states to determine which products are eligible. Michigan lists 9,890 items, down to brand and package sizes. You can buy two-percent milk, but only if it's from certain brands and only one quart at a time. Want a gallon of milk instead to save yourself (and the taxpayer) money? Sorry, Lansing bureaucrats know better.

Imagine the lobbying effort that went into securing a product's placement on this list and similar lists in the other 49 states. Then realize that there are multiple levels of bureaucracy that must be navigated before a tax dollar reaches the recipients of these programs, all of which are staffed by people who do not work for free. The efficiency gains alone of cutting out the government are simply staggering.

According to some estimates, food pantries provide one meal for every nine that SNAP and other food assistance programs provide. But when these programs fail, those pantries, thanks to community involvement, almost instantly scale up, despite cries from the commentariat that "philanthropy can't fill the gap." Critics will argue that charity cannot replace the $8 billion per month the US spends on SNAP alone. They're right about the scale but wrong about the implications.

The irony here is that the same government, which claims the sole ability to prevent hunger, criminalizes feeding the homeless without permits in over 70 cities and requires food banks to navigate FDA regulations designed more for commercial enterprises. Philanthropy plus federalism plus free markets equals results. Not perfect results, of course, but far more effective results done much more efficiently than Washington's one-size-fits-none approach. This is because people know and understand their neighbors' actual needs, not just their demographic categories.

The question isn't whether we can feed hungry families without federal oversight. We're doing it right now, and history shows this isn't an isolated incident. The question is why we pretend that only Washington can solve problems that communities solved long before the Department of Agriculture existed.

December 2025

AIER's Thanksgiving Index Near All-Time High: Costs Rise Again As Inflation Persists

Peter C. Earle
Senior Research Fellow

Turkey and trimmings will be at or near all-time price highs. New data reveal a slow reacceleration in food-at-home prices driven by energy, labor, and supply-chain costs.

The 2025 Thanksgiving season arrives with an unwelcome development: after last year's brief and much-needed period of easing in several Thanksgiving staples, prices have begun to tick back up. **As of September 2025, the AIER Thanksgiving Cost Index stands at 1904.72, less than half of one percent from its all-time high of 1912.30 (2023).** Food inflation overall is still cooler than in the early 2020s, but the downward drift seen in 2023–2024 has clearly reversed across most components of the holiday meal. The federal shutdown has complicated matters by halting the release of October CPI data, forcing analysts to rely on September figures and private-sector estimates, yet even the incomplete dataset shows a broad reacceleration. What had looked like the early stages of a sustained normalization now appears to have been only a temporary pause, and the modest but widespread increases recorded this year point to a cost structure that remains stubbornly elevated rather than steadily improving.

The latest AIER Thanksgiving Cost Index (TCI) points to roughly a **3 percent** increase from November 2024 through September 2025: almost exactly in line with broader food-at-home inflation. This gentle climb contrasts sharply with the explosive 2021–2022 surge that pushed the index up about **17 percent** in a single year, yet it also stands in clear contrast to last year's temporary dip. Categories such as canned fruits (+**6.2 percent**), frozen bakery products (+**2.2 percent**), frozen vegetables (+**1.7 percent**), and turkey and other poultry (+**3.0 percent**) all swung from mild deflation last year to renewed increases this year. Retailers and producers are no longer battling shortages or bottlenecks, and promotions are more common than during the height of the supply-chain crisis, but those improvements have not translated into continued price declines. Instead, the 2024–2025 pattern represents a re-acceleration from last year's deflationary interlude – modest increases replacing what now looks like a fleeting episode of relief.

	NOV 24 SEP 25 (%)	NOV 23 SEP 24 (%)	NOV 22 SEP 23 (%)	NOV 21 SEP 22 (%)	NOV 20 SEP 21 (%)
CPI BREAD	1.2	-0.8	3.7	15.7	4.0
CPI CANNED FRUITS	6.2	0.2	1.9	20.9	0.0
CPI FROZEN & REFRIGERATED BAKERY PRODUCTS	2.2	-2.8	2.0	19.4	6.5
CPI FROZEN VEGETABLES	1.7	-1.4	6.1	18.3	0.5
CPI TURKEY & OTHER POULTRY	3.0	-1.9	5.0	17.9	4.6
CPI SAUCES & GRAVIES	1.7	1.1	8.0	13.7	3.3
CPI POTATOES	11.4	-2.0	0.8	16.2	-0.2

This year's modest price increases have also generated political claims that merit clarification. President Donald Trump has repeatedly asserted that Thanksgiving costs are "way down" and that Walmart's advertised Thanksgiving basket is "**25 percent** cheaper than one year ago," citing the retailer's annual promotion as evidence of broad price declines. But these statements, widely circulated on the campaign trail, rely on a non-comparable, pared-down basket: Walmart's roughly $40 meal deal achieves a lower headline price by adjusting item counts and portion sizes rather than reflecting genuine market-wide deflation. Fact-checkers have pointed out that grocery prices overall are still rising — food-at-home inflation is running near **3 percent** — and that the "**25 percent** cheaper" claim is misleading without acknowledging the redesigned basket. In short, retail promotions do not substitute for underlying inflation data, and the official numbers show a return to mild price increases rather than a sustained move lower.

	NOV 24 SEP 25 (%)	NOV 23 SEP 24 (%)	NOV 22 SEP 23 (%)	NOV 21 SEP 22 (%)	NOV 20 SEP 21 (%)
CPI FOOD AT HOME	2.6	1.6	1.7	12.0	6.4
AIER THANKSGIVING COST INDEX	2.9	0.2	3.4	17.5	2.5

This shift is especially striking because the 2023-2024 period brought what appeared to be genuine stabilization. Frozen bakery products, frozen vegetables, bread, and turkey all showed mild declines last year, providing welcome respite after the intense price pressures of previous years. But the declines were short-lived. Nearly every major Thanksgiving category is back in positive territory this year, underscoring how deeply embedded the structural drivers of food costs have become. Energy, processing, packaging, transportation, and labor costs remain elevated; even where supply conditions have normalized, the price floor has not returned to pre-pandemic levels.

Long-run data confirm the extent of the shift. Cumulative price increases (calculated since early 2020) remain substantial:

- Turkey and Other Poultry (+**38.6 percent**)
- Canned Fruits (+**35.5 percent**)
- Sauces and Gravies (+**35.1 percent**)
- Potatoes (+**21 percent**).

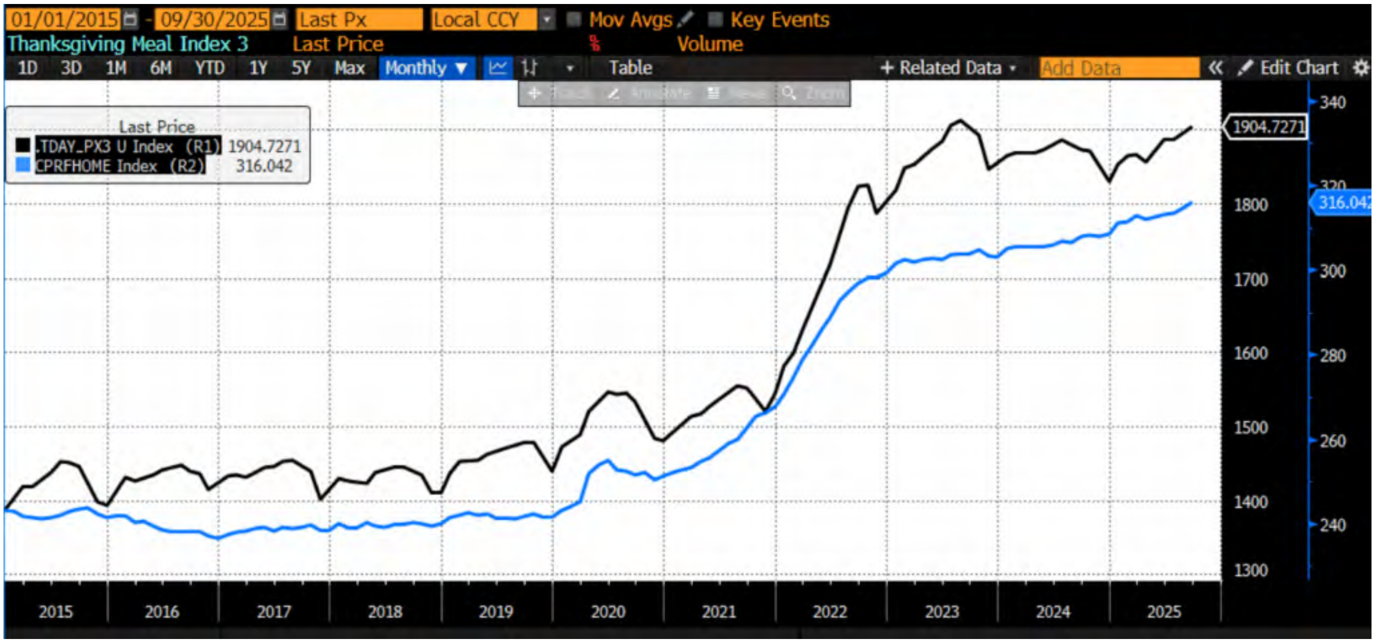
These categories remain structurally expensive because their underlying cost drivers — fertilizer and feed costs, energy-intensive processing, persistent poultry disease pressures, and higher post-pandemic labor and logistics expenses — have not retreated enough to undo the past four years' inflation. Even with last year's declines, turkey prices are still far above their historical norms, and recurring avian influenza outbreaks continue to constrain supply.

The shutdown-induced absence of October CPI data injects unusual uncertainty into this year's analysis. Without the month that typically anchors holiday food-price assessments, economists have turned to private-sector trackers to gauge October and early November conditions. Most show continued moderation in broad food-at-home categories, along with a mix of small declines and increases across Thanksgiving components — consistent with the slight but widespread upward drift seen in the official September data. When BLS backfills or combines the missing data later this year, the trendlines will become clearer, but for now the picture is incomplete.

Even with that gap, the post-pandemic arc is increasingly clear. Pre-2020 Thanksgiving prices were generally stable or drifting downward in categories like frozen vegetables, bakery items, and turkey. The 2020–2022 period brought an extraordinary supply shock marked by pandemic disruption, fertilizer spikes, freight constraints, soaring energy prices, and repeated poultry disease outbreaks. The 2023–2024 period delivered a short phase of relief as bottlenecks dissipated and yields improved. And now, the 2024–2025 readings suggest a new phase: stability mixed with renewed upward movement. The deflationary pause has ended; the inflationary surge has not returned; what remains is a plateau of high but not rapidly rising prices.

Overall, the 2025 Thanksgiving Cost Index describes a holiday environment that feels more stable than the tumultuous early 2020s but still more expensive than Americans were accustomed to before the pandemic. Prices this year are up modestly, the brief declines of last year have reversed, and the long-term structural cost build-up remains firmly in place. For consumers, the result is a holiday meal that is more predictable but still historically costly. For policymakers, it is a reminder that the economic effects of expansionary monetary policy, trade intervention, and supply shocks persist long after headline inflation cools — sometimes reasserting themselves just when they appear to be fading.

AIER Thanksgiving Cost Index vs. US CPI Food-at-Home (2015-2025)



(Source: Bloomberg Finance, LP)

December 2025

Escape Velocity: Why America's 1963 Poverty Math Is Broken

Peter C. Earle
Senior Research Fellow

The Kennedy-era poverty formula hides the economic pressures now crushing working Americans. Worse, benefits losses are wiping out wage gains.

In a recent analysis gone viral, financial blogger Michael W. Green traced how modern American families can earn anywhere from **$40,000** to **$100,000** and still fall further behind. The argument is devastatingly simple: the mathematical parameters defining "poverty" are built upon a benchmark drawn in 1963, multiplied by three, and only lightly adjusted for inflation. Everything else — childcare, healthcare, housing, transportation, and the structural design of the welfare state — has transformed beyond recognition. The result is a system in which the official poverty line tells us less about deprivation than it does about starvation. And once you trace the math, the inescapable metaphor emerges: America's working households require escape velocity to break free from the gravitational well of modern costs of living.

In physics, escape velocity is the minimum energy needed to break free from a body's gravitational pull. Below that threshold, every burst of energy merely bends the trajectory and drops the object back into orbit. The same dynamic now governs mobility in the United States.

Using conservative assumptions, a bare-bones "participation budget," the minimal cost necessary for a household to work, raise children, and avoid freefall, is roughly between **$136,000** to **$150,000**. That figure doesn't represent luxurious living; it's the updated application of Mollie Orshansky's original method, which assumed food was one-third of a household's budget. Today, food is closer to **5** to **7 percent**, and the real multipliers reside in the unavoidable costs of existing in a post-industrial service economy. The system still uses the original 1963 architecture, so the "poverty line" is measured as if housing, childcare, and healthcare still operated like they did during the Kennedy administration.

Below this new-era threshold, income gains are eaten by benefit cliffs: the loss of Medicaid, SNAP, childcare subsidies, and at that same point a sudden, full exposure to market prices in sectors that the United States has spent decades distorting through subsidies, mandates, and regulatory sclerosis. A family can leap from **$45,000** to **$65,000** and end up poorer, because the system confiscates more than **100 percent** of that incremental income. From that perspective, it's not irrational to stay put rather than aggressively seek higher earnings that will only bring more hardship and deprivation.

Using the 1963 poverty line today is like measuring the distance from Earth to the moon with a yardstick whose markings have been sandblasted away. It ensures two outcomes. First, because the benchmark is too low, benefits are means-tested too early. The ladder gets sawed off halfway up. The poor face marginal tax rates that would make a hedge fund blanch, and the working poor find that one extra dollar of income can trigger thousands of dollars in lost benefits. The mathematics are inherently punitive, punishing upward mobility and the productive instincts that animate it.

Second, persistent inflation, especially in non-discretionary categories, reshapes the spending basket faster than the poverty formula can adjust. This is not purely the result of supply-and-demand fundamentals. It is a direct consequence of decades of monetary expansion, financial repression, interest-rate suppression, and regulatory barriers that choke off the supply in housing, healthcare, education, and childcare. When the Federal Reserve aims to stabilize macroeconomic aggregates, it also inadvertently distorts the production of essential goods that determine whether a family can remain afloat. Price levels matter for survival even if economic science has come to prefer analyzing rates of change.

A similar mismatch between past prices and present reality — the real versus nominal divide — haunts the financial system. The **$10,000** reporting requirement for bank transfers was created in the early 1970s, when **$10,000** represented a down payment on a house. Today it represents two or three months' rent in many cities — or a single dental emergency. Inflation has quietly turned an anti-money-laundering threshold into a mass-surveillance dragnet for normal people performing normal transactions. That same inflation, coupled with outdated benchmarks, now pushes American families into poverty by statistical invisibility and brutally repels attempts at upward mobility.

When escape velocity is **$140–$150k**, and the effective marginal tax rate is **80–120 percent**, buying scratch-off tickets ceases to be obviously irrational. One needs a tremendous economic leap of roughly **$100,000** a year to continue living without disruption. In a nonlinear system with cliffs and arbitrary phase changes, a low-probability high-payout gamble can be mathematically defensible. Tilting at heavy-tailed payoffs is not illogical; it is a response to a payoff structure policymakers engineered.

A likely response, politically, is to suggest simply lifting eligibility all the way up to the true cost-of-living threshold. But indexing benefits to the real cost of American life would balloon federal outlays by trillions. Extending Medicaid, SNAP, housing subsidies, and childcare credits to households making $140,000 would produce deficit dynamics that would make the 2020–2021 stimulus era look mild and restrained. The welfare state is already actuarially fragile; expanding it to cover half the US population would collapse it. On the other hand, three somewhat simple reforms could help restore a sane poverty escape velocity:

- Use a modern participation-budget approach, not a 1963 grocery multiple. If there is to be a social safety net, it should be driven by means testing which phases out smoothly, not falls off cliffs.
- Deregulate housing, healthcare, childcare, and education: the sectors where supply is most strangled by regulation. Deregulation — particularly zoning, certificate of need laws, licensing, and insurance mandates — would create downward price pressure far more powerful than subsidies.
- The Federal Reserve's century-long experiment with cheap money has inflated asset prices, destroyed purchasing power, raised the cost of entry into middle-class life, and widened the gap between wages and participation requirements. A quick fix could be rendered by shifting from discretion to a rules-based monetary regime (whether Taylor-style, commodity-linked, or another transparent, market-tested anchor) to stabilize prices and reduce the boom-bust cycles that erode household stability.

America's primary poverty crisis is not moral failure, laziness, or poor financial literacy. It is math. A system built on 1963 assumptions cannot function in a 2025 reality. Until the parameters shift, which is to say until lawmakers acknowledge the true cost of participation, that escape velocity will remain impossibly out of reach for tens of millions. The tragedy is not that people are failing; it is that the system is calibrated for a world that has not existed in over three generations. There is no reform, no genuine improvement in the condition of the poor, no revival in the living standards of consumers — or of any American who works — without monetary reform beginning at the very top, with the Federal Reserve.

AIER
250 Division Street | PO Box 1000
Great Barrington, MA 01230-1000