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Research Reports

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February 2026

From the Managing Editor

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For much of the past decade, American economic rhetoric has featured a renewed skepticism toward socialism, industrial decline, and what are often described as elite failures in economic management. That posture has resonated with many Americans uneasy about the expanding role of government in markets and the increasingly visible shortcomings of central planning abroad. Yet alongside the voiced defense of markets something more complicated. and arguably more consequential, has emerged: a growing inclination within the federal government to take equity stakes in private firms, attach behavioral conditions to corporate governance, and directly shape capital allocation in industries deemed strategically important.

This is not socialism. Private ownership still exists, prices are still nominally set by markets, and firms remain profit-seeking. But neither is it classical capitalism. What has taken shape instead increasingly resembles corporatism or state capitalism: a system in which private firms operate formally as market actors, yet under close government direction, preferential financing, or explicit political conditions.

Semiconductors offer a clear illustration. In the name of supply chain security and technological independence, the federal government has moved beyond arm's-length regulation into direct participation. Through financing arrangements associated with the proper administration's Chips and Science Act, the government acquired an equity position of just under ten percent in Intel. The rationale rests on ostensible national security concerns and less disputable competition with Chinese industrial policy. But ownership is ownership. Once the state becomes a shareholder, even a minority one, it gains both formal influence and informal leverage over corporate decisions, from capital investment through late stage production.

Critical minerals policy follows a similar pattern. Through the Department of Defense and other agencies, the federal government has acquired equity stakes, preferred financing positions, or quasi-ownership arrangements in firms including MP Materials, USA Rare Earth, Lithium Americas, and several rare earth processing ventures. These markets are widely regarded as strategically vital, and the logic behind intervention is straightforward: dependence on foreign supply chains is a vulnerability. Nevertheless, the mechanism chosen-government equity, special financing, or "golden share"-style rights-marks a decisive shift away from neutral rule setting toward direct participation in enterprise.

Green energy policy represents another major pillar of this trend. Across administrations, but especially during the Obama and Biden years, renewable energy firms, battery manufacturers, and electric vehicle producers have received extensive subsidies, tax credits, loan guarantees, and conditional financing. In some cases, government support has included warrants or convertible instruments that blur the line between subsidy and ownership. These policies are typically justified on environmental, industrial, and geopolitical grounds, but the effect is exactly the same: corporate planning increasingly shaped by political priorities rather than market discovery. Firms compete not only on cost and innovation, but on eligibility, compliance, and alignment with policy objectives.

What deserves closer attention is how these arrangements reshape incentives over time. When firms understand that access to capital, regulatory tolerance, or contract renewal depends upon political alignment, they quite rationally invest more in compliance, signaling, and lobbying than in productivity or innovation. Resources shift toward government relations teams and risk mitigation rather than experimentation. This is one of corporatism's defining features: it preserves the outward form of private enterprise while steadily replacing competitive pressure with negotiated outcomes.

Supporters argue that extraordinary global competition demands extraordinary measures: China subsidizes and directs its firms aggressively, and failing to respond risks unilateral disarmament. Critics reply that once the state decides which industries matter and which firms receive capital, market discipline erodes. Profit-and-loss signals give way to political incentives, while accountability blurs: failure can be blamed on policy, politics, or management alike. Framing firms as strategic state partners further shifts public expectations: losses become policy failures, profits political spoils. Over time, trust weakens, risk taking declines, and markets begin to resemble managed systems shaped by access and official favor rather than voluntary exchange.

Rejecting outright public ownership is easy. Resisting the quieter temptation to politicize private enterprise through equity stakes, conditional subsidies, and strategic favoritism is a vastly more demanding test of principle. The danger is less that the United States will suddenly adopt socialism than that it will continue drifting toward a system that retains the language of markets while steadily hollowing out their discipline and gifts.

Peter C. Earle, Ph.D
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February 2026

Business Conditions Monthly November 2025

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Shelter costs led price increases, but goods price acceleration leveled off. We've reached a new, distinctly elevated "normal."

As of December 31, 2025, data for 11 of the 24 components of the Business Conditions Monthly have not yet been published. The timing of their release remains uncertain.

Recent inflation data present a cautiously encouraging picture, though timing differences across measures matter for interpretation. December's CPI showed underlying price pressures continuing to cool, with core CPI rising just **0.2 percent** month over month and **2.6 percent** year over year, matching a four-year low after earlier readings were distorted by shutdown-related data gaps and seasonal effects. Shelter costs rebounded modestly and remained the largest contributor to monthly inflation, but outside housing, price increases were notably restrained, with core CPI excluding shelter rising only **0.1 percent** and core goods prices flat, reinforcing evidence that tariff pass-through to consumers has been milder and may already have peaked. The Fed's preferred gauge, core PCE—which reflects October and November conditions rather than December—told a similar, if slightly firmer, story: monthly core PCE inflation slowed into November, annualized measures eased further, and year-over-year inflation held near the upper two-percent range. Beneath the headline, services prices continued to exert some upward pressure, particularly in "supercore" categories, while market-based prices remained comparatively subdued. Taken together, the CPI and PCE data suggest that the disinflation process is intact but uneven, with housing and certain service categories slowing more gradually than goods. For households, this means inflation is increasingly less about broad price acceleration and more about a still-elevated price level, which continues to weigh on perceptions of affordability even as the overall pace of price growth moderates.

Recent labor market data point to a continued cooling in employment conditions, though without clear signs of a sharp deterioration. Job openings fell to 7.15 million in November, the lowest level in more than a year, and hiring slowed further, signaling that employers remain cautious about expanding headcount even as they largely avoid outright layoffs. The decline in vacancies—especially in leisure and hospitality, health care, transportation, and warehousing—has brought the ratio of openings to unemployed workers down to 0.9, its lowest level since early 2021 and a stark contrast to the overheated conditions of 2022. At the same time, layoffs eased to a six-month low, voluntary quits picked up modestly in select sectors, and December data from ADP showed private payrolls rising again after a brief contraction, consistent with a labor market that is softening but still functioning. Announced job cuts fell sharply in December, while hiring plans improved, offering tentative reassurance after a year marked by elevated layoffs and historically weak hiring intentions.

Survey-based indicators from the Institute for Supply Management reinforced this mixed picture, with services employment accelerating to its strongest pace in nearly a year even as manufacturing headcounts continued to contract. Overall, the employment landscape heading into 2026 appears characterized by slower hiring, reduced labor market tightness, and growing caution among employers: conditions that suggest diminishing momentum rather than an outright downturn, but one that remains sensitive to shifts in growth, policy, and confidence.

Conditions in the goods-producing sector remain soft, with manufacturing continuing to lag the broader economy despite some tentative signs of stabilization. ISM data showed factory activity contracting in December by the most since 2024, underscoring persistent weakness in output and demand, while S&P Global's flash January survey indicated that manufacturing activity improved only marginally and remained near its weakest level since mid-2024. New orders at manufacturers returned to modest growth in January after a brief contraction, suggesting demand may be bottoming but not yet rebounding convincingly. Employment conditions in manufacturing remain under pressure, with headcounts still shrinking, albeit at a slower pace, as firms remain reluctant to add workers amid elevated costs and policy uncertainty. Pricing pressures eased somewhat, but both input costs and prices received remain inconsistent with a rapid return to price stability. Overall, manufacturing appears to be moving off its lows but remains constrained by weak demand, cautious hiring, and lingering cost pressures.

In contrast, the services sector ended the year on notably stronger footing even as early-2026 data point to a more measured pace of expansion. The ISM services index jumped to 54.4 in December, its highest reading in more than a year, driven by robust gains in new orders, business activity, exports, and the strongest growth in services employment since February. Demand was broad-based across key industries such as retail, finance, accommodation and food services, and health care, although commentary continued to reflect unease around tariffs, pricing pressures, and uncertainty. At the same time, S&P Global's flash January data showed services growth slowing to its weakest pace since April, with new business and hiring close to stall speed as firms weighed high costs and softer demand. While input and output price measures eased modestly, they remain elevated, suggesting inflationary pressures in services are diminishing only gradually. Taken together, services activity has provided an important source of resilience for the economy, but momentum appears to be moderating as the sector enters the new year.

US consumer sentiment improved meaningfully in January, rising to a five-month high as households became more optimistic about both the broader economy and their personal finances. The University of Michigan's sentiment index climbed to 56.4, its largest monthly gain since June with improvements evident across income, age, education, and political groups. Despite the rebound, overall sentiment remains more than **20 percent** below year-ago levels, reflecting continued strain from elevated prices and concerns about a cooling labor market. Inflation expectations eased modestly, with consumers anticipating four percent price increases over the next year and lower long-term inflation than previously reported, even as high prices continue to weigh on purchasing power. At the same time, improved buying conditions for durable goods and stronger views of personal finances suggest households remain willing to spend, helping sustain economic momentum despite lingering affordability pressures.

That cautiously improving tone is echoed on the business side, where small business sentiment strengthened again in December as inflation pressures and labor frictions continued to ease. The NFIB small business optimism index rose to 99.5, driven primarily by a sharp improvement in expectations for future business conditions and a notable decline in uncertainty to its lowest level since mid-2024. Inflation receded as a top concern, with both actual and planned price increases moderating, reinforcing the broader picture of cooling cost pressures seen elsewhere in the economy. Labor conditions were more mixed: hiring plans softened modestly, but job openings remained elevated and fewer owners cited labor quality as their primary problem, suggesting improved balance rather than outright weakness. Offsetting these gains, expectations for real sales growth and capital spending edged lower, leaving the overall outlook one of improving confidence tempered by caution around demand and expansion heading into the new year.

Questions about affordability and consumer strain during the holiday season were partly answered by the January 14 retail sales report, which showed US consumers continuing to spend with notable resilience into the year-end. Retail sales rose **0.6 percent** in November, the strongest monthly gain since July, led by a rebound in auto purchases and broad-based strength across most retail categories despite lingering concerns about prices and job security. Excluding autos, sales still climbed a solid **0.5 percent**, and the control group measure that feeds directly into GDP posted another firm gain, pointing to continued momentum in goods spending at the end of the year. Holiday promotions, record online sales, and the use of Buy Now Pay Later options helped sustain demand, particularly as higher income households continued to anchor overall consumption while lower income consumers remained more price sensitive. Spending at restaurants and bars also rebounded, suggesting that services consumption retained some momentum alongside goods. While the figures are not adjusted for inflation and therefore partly reflect price effects, recent CPI data indicating that tariff-related price pass-through has likely peaked may help support real goods demand going forward. Taken together, the data reinforce a picture of a still-active but increasingly bifurcated consumer, one capable of sustaining near-term growth even as affordability pressures remain a meaningful constraint for many households.

Also posting a larger-than-expected gain at the end of 2025 was US industrial production, which rose **0.4 percent** in December, though the details of the report were less uniformly strong. The bulk of the increase came from a surge in utilities output, alongside gains in nondurable goods and transit equipment, rather than from core investment-heavy manufacturing segments. While overall manufacturing output also surprised to the upside, production of consumer durables and information-processing equipment declined, highlighting continued softness in areas most closely tied to household demand and technological investment. Capacity utilization improved modestly but remains consistent with a manufacturing sector operating below historical norms. Taken together, the data point to stabilization in industrial activity, but a manufacturing recovery that is proceeding slowly and unevenly beneath the headline strength.

Economic activity improved modestly across most of the United States in recent weeks, according to the Federal Reserve's Beige Book, marking a clear step up from the largely stagnant conditions reported in prior cycles. Growth was described as "slight to modest" in a majority of districts, reflecting a post-shutdown normalization rather than a broad acceleration. Labor market conditions remained stable but subdued, with employment levels largely unchanged and wage growth moderating toward what contacts described as more "normal" rates. Price pressures were generally moderate, though an increasing number of firms reported beginning to pass through tariff-related costs as pre-tariff inventories were exhausted and margin pressures intensified. These findings are consistent with policymakers' view that the labor market has cooled but remains on solid footing, even as inflation continues to run above the Federal Reserve's target. Against this backdrop, and following three rate cuts late in 2025, officials appear inclined to proceed cautiously on further easing.

At the district level, anecdotes reinforced this mixed but steady picture of the economy. Some regions reported early signs of improvement in manufacturing demand, particularly tied to data center construction and infrastructure-related investment, while others noted flat activity in transportation and persistent affordability challenges for households. Tariffs featured prominently in business commentary, with firms across multiple districts describing higher input costs, compressed margins, and selective price increases passed on to customers. Labor dynamics were generally balanced, with temporary hiring picking up in some areas and displaced workers often reabsorbed quickly, though large-scale hiring remained limited. Several contacts highlighted the growing use of automation and artificial intelligence to boost productivity, albeit with minimal near-term impact on employment levels. Overall, the Beige Book portrays an economy regaining modest momentum, constrained by cost pressures and policy uncertainty but not exhibiting signs of acute stress.

Several near-term tailwinds are supporting economic momentum, though they are accompanied by growing policy-related uncertainty. Markets continue to price in at least one Federal Reserve rate cut later this year, reflecting a mix of moderating inflation, softer payroll growth, and a still-low unemployment rate, all of which help sustain financial conditions that are not overtly restrictive. Fiscal policy is turning notably stimulative, with new tax deductions and adjusted withholding tables set to deliver a sizable boost to household cash flow and business investment in early 2026. At the same time, regulatory easing and credit loosening, ranging from lower capital requirements for banks to renewed support for mortgage markets, are likely to spur lending and risk-taking. Together, these forces create a powerful short-run growth impulse, reinforcing consumer spending, capital expenditure, and asset prices. However, uncertainty surrounding the Supreme Court's ruling on Federal Reserve governance has introduced a new risk channel, as any perceived erosion of central bank independence could quickly destabilize rate expectations and financial markets.

Counterbalancing these tailwinds are structural and policy-driven headwinds that complicate the outlook. Trade policy remains a meaningful drag, as evidence shows that US importers and households are absorbing most of the cost of higher tariffs, particularly on consumer goods, autos, and capital equipment, rather than benefiting from offsetting price concessions from foreign exporters. Tariff-inclusive import prices have risen nearly in lockstep with imposed duties, squeezing margins and raising domestic cost pressures even as headline inflation cools. These effects vary by trading partner, but overall they suggest tariffs are acting more like a tax on US firms and consumers than as a lever for foreign burden-sharing. More broadly, concerns about rising public debt, elevated asset valuations, and an increasingly accommodative alignment of fiscal, monetary, and credit policy raise longer-term risks to financial stability. For now, growth is being pulled forward by stimulus and easing conditions, but the durability of that expansion depends on whether today's policy tailwinds eventually give way to inflation, market imbalances, or institutional strain.

It would be remiss not to mention the astounding run in precious metals over the past thirty days, with both gold and silver posting historic gains amid mounting economic and policy uncertainty. Gold has surged to the cusp of $5,000 an ounce, driven by a powerful mix of falling real yields, fading confidence in fiat currencies, concerns over Federal Reserve independence, and sustained international central bank purchases. The rally reflects a classic "debasement trade," as investors seek protection from expansive fiscal policy, rising debt burdens, and the perception that monetary restraint is giving way to political pressure. Silver has moved even more dramatically, breaking above $100 an ounce for the first time as haven demand collided with a structurally tight supply backdrop and speculative fervor across global retail markets. Its dual role as both an industrial input and financial asset has amplified volatility, particularly amid trade tensions, geopolitical strain, and shifting expectations around tariffs and monetary policy. Together, the moves in gold and silver underscore a broader erosion of confidence in traditional anchors—currencies, bonds, and institutions—adding a distinct financial market tailwind to the narrative of heightened uncertainty shaping the current economic environment.

Recent economic indicators point to continued forward motion, but one increasingly driven by policy stimulus and financial conditions rather than broad-based organic strength. Consumer spending and services activity remain firm, helped by tax relief, easing credit, and moderating inflation, even as goods production, hiring, and capital investment advance more slowly. Price pressures are cooling, yet elevated living costs and tariff pass-through continue to constrain real purchasing power and business margins. At the same time, questions surrounding trade policy, debt accumulation, and the independence of monetary institutions have emerged as new, more prominent sources of risk. The sharp rallies in gold and silver serve as a market-level signal of that unease, reflecting not recession fear, but growing skepticism about the durability and tradeoffs of today's policy mix.

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	+.07%	+2.12%	+12.83%	20.6707	13.6142	14.4320
SPXT d	S&P 500 Total Return	-.12%	+2.14%	+14.80%	21.5273	14.1257	14.8072
SPX d	S&P 500 INDEX	-.21%	+1.82%	+13.35%	21.4994	14.1038	14.7924
MID d	S&P 400 MIDCAP INDEX	+3.36%	+5.70%	+6.44%	12.1208	8.8073	10.6841
RTY d	RUSSELL 2000 INDEX	+5.32%	+6.19%	+15.66%	13.7733	5.6244	9.5814
SXXP d	STXE 600 (EUR) Pr	+3.34%	+5.66%	+14.77%	13.9752	11.8890	8.5168
TLT US d	ISHARES 20+YR TR	-.11%	-3.87%	+.81%	-2.1797	-7.5006	-.5442
QLTA US d	ISHARES AAA - A	+.12%	-1.35%	+2.92%	4.2963	-.2367	2.5596
CRY d	TR/CC CRB ER Index	+3.93%	+3.06%	+.77%	3.6653	12.5404	5.4216
XAU	Gold Spot $/Oz	+11.22%	+20.87%	+81.04%			
XAG	Silver Spot $/Oz	+44.46%	+110.94	+238.84%			
ILM3NAVG	Bankrate 30Y Mortgage Rates Na	-1.75%	-2.06%	-12.69%			
ILM1NAVG	Bankrate 15Y Mortgage Rates Na	-1.58%	-1.41%	-11.97%			
MB301ARM	5 Year ARM	-3.73%	-3.73%	-15.44%			
ILA3NAVG	Bankrate 30Y Fixe Mtg Refis Na	-.58%	-2.97%	-2.97%			

(Source: Bloomberg Finance, LP. Data subject to shutdown limitations.)

February 2026

Medicaid's Structure Actually Invites Waste and Fraud

Thomas Savidge
Research Fellow

Medicaid's size and complexity create endless opportunities for gaming the rules. Incentives are skewed and accountability is weak, and the taxpayer always foots the bill.

Recently, Minnesota and Governor Tim Walz have come under scrutiny for Medicaid Fraud. The debacle received renewed focus on December 1 when Treasury Secretary Scott Bessent posted on X that he had directed the US Treasury to investigate allegations of fraud and that taxpayer dollars were allegedly "diverted to the terrorist organization Al-Shabaab."

Unfortunately, misuse of Medicaid funds is nothing new. In 2023, the Office of Minnesota Attorney General Keith Ellison charged three individuals as part of a scheme to defraud the Minnesota Medical Assistance (Medicaid) program out of nearly $11 million, the largest Medicaid fraud prosecution in that state's history. These charges spurred a wider crackdown on Medicaid fraud in the Land of 10,000 Lakes.

What distinguishes the current scandal from background levels of fraud is abundant evidence that "someone was stealing money from the cookie jar and they [state officials] kept refilling it." This quote, highlighted by Economist Michael F. Cannon, comes from one of the defense attorneys in the fraud case. Cannon then reiterated his insight from 2011: "The three most salient characteristics of Medicare and Medicaid fraud are: It's brazen, it's ubiquitous, and it's other people's money, so nobody cares."

This comes at the cost of reducing quality of care and access to care for the poorest Americans. The solution comes from getting government out of healthcare, not by enlarging Medicaid's "cookie jar," or by refilling the jar more frequently.

IMPROPER PAYMENTS? FRAUD? WASTE? WHAT'S THE DIFFERENCE?

When federal officials discuss various errors in their program, they choose specific language. Understanding the distinctions in how each term is used helps decipher how a federal program is performing.

In its own findings, the Government Accountability Office (GAO) notes that Medicaid is highly susceptible to "improper payments" with an improper payment rate second only to Medicare. The GAO defines improper payment as "payments that should not have been made or that were made in the incorrect amount; typically they are overpayments." This is distinct from their definition of fraud, which is "obtaining something of value through willful misrepresentation." The GAO comments, "While all fraudulent payments are considered improper, not all improper payments are due to fraud." An improper payment could be an honest mistake on the part of either the citizen receiving Medicaid or the public employees administering the program.

The GAO also distinguishes waste as "when individuals or organizations spend government resources carelessly, extravagantly, or without purpose" and abuse "when someone behaves improperly or unreasonably, or misuses a position or authority."

Specific allegations or investigations regarding waste or abuse are beyond the scope of this author, but incentives suggest that both are present and widespread among state Medicaid programs.

THE BAD NEWS: MEDICAID'S DESIGN MAKES IT SUSCEPTIBLE TO ERROR (INCLUDING FRAUD)

Medicaid is a joint federal-state program that funds health insurance coverage for America's poor. The federal government transfers funds to states, which then administer Medicaid programs, with some variations from state to state.

This income threshold to be eligible for Medicaid increased under the expansion of The Affordable Care Act (also known as the ACA or Obamacare). Because ACA enrollees receive more federal dollars than traditional Medicaid, state policymakers are incentivized to prioritize serving more Medicaid expansion enrollees (the slightly less poor) over those in traditional Medicaid (the poorest Americans).

The Centers for Medicare & Medicaid Services (CMS) estimates Medicaid's improper payments within three categories:

1. Managed care: Measured errors in payments states make to private insurance companies that are contracted to deliver Medicaid benefits (known as managed care organizations).
2. Fee-for-service: Measured errors in payments states make directly to providers on behalf of fee-for-service beneficiaries, including payments made to ineligible providers.
3. Eligibility: Measured errors in state eligibility determinations for both types of Medicaid beneficiaries.

In fiscal year 2024, improper payments in Medicaid were estimated at $31.1 billion—equal to five percent of total Medicaid spending. This highlights a major weakness in the program, whose size and complexity lead to clerical errors and procedural mistakes. Additionally, when states fail to collect the necessary documentation (such as up-to-date income verification), improper payments (including fraud) are more likely to occur.

Saul Zimet recently wrote in The Daily Economy:

> *The government bureaucrats who kept sending hundreds of millions of dollars to the fraudsters year after year had every indication of what they were enabling, but their incentives were to enable rather than prevent the theft.*

Unfortunately, Medicaid's design encourages state policymakers to maximize transfers. In some instances, that may mean lax oversight of where the money goes and who is eligible to enroll in Medicaid. COVID-19 stimulus funding required states to relax eligibility requirements and accelerate approvals to receive Medicaid: the environment was ripe for accidental improper payments as well as waste and fraud.

Since Medicaid's inception, state policymakers have taken advantage of accounting gimmicks (such as provider taxes) to maximize the amount federal taxpayers shell out into state programs. The motivation for state officials is clear: increase your spending and have federal taxpayers in other states pay for it. Transfers to state and local governments often come with strings attached—the terms and conditions of receiving the transfers—allowing federal policymakers more influence over state and local spending. Whether or not the use of a provider tax loophole represents a misuse of Medicaid's framework is the subject of debate. Research from the Paragon Institute highlights areas that, at the very least, require substantial investigation and reform to prevent states from shifting costs to federal taxpayers.

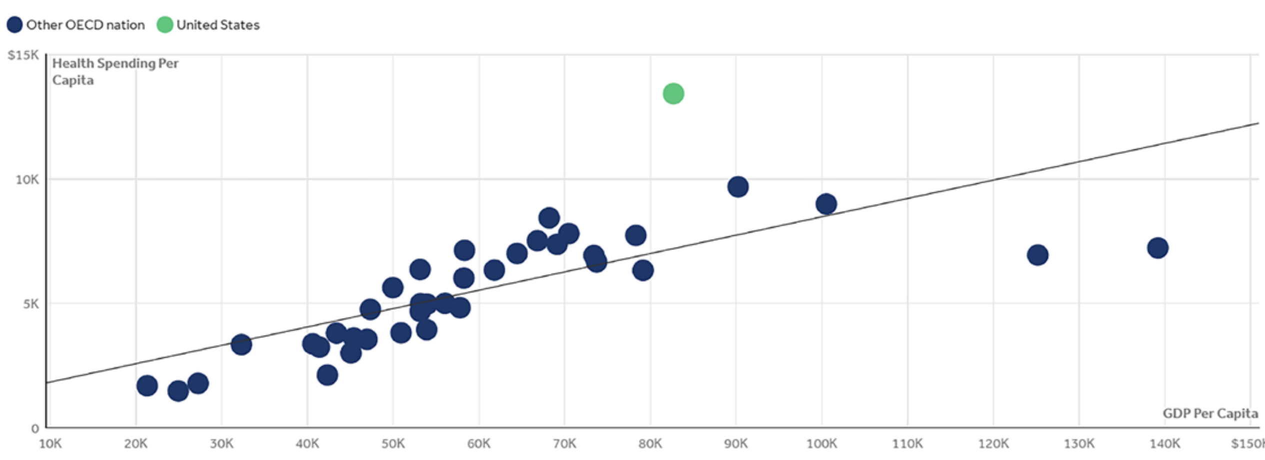
THE WORSE NEWS: MEDICAID'S ERRORS MAY BE WORSE THAN OFFICIAL GOVERNMENT ESTIMATES

From 2015-2024, the GAO reported $543 billion in improper Medicaid payments. Unfortunately, that may be lower than the actual total. Research from economists Brian Blase and Rachel Greszler found that improper payments during that period are estimated to actually be $1.1 trillion, more than double the GAO's estimates.

The discrepancy comes from Blase and Greszler's inclusion of eligibility checks in the audits of improper Medicaid payments, which both the Obama and Biden administrations excluded. The halting of Medicaid enrollment audits is especially concerning because during this same period, many states expanded Medicaid under the ACA and Medicaid saw a record number of enrollees during the pandemic. Blase and Greszler comment, "Eligibility errors of this nature are particularly concerning as it can indicate that individuals are allowed to remain enrolled in the program during times in which they do not qualify, potentially diverting limited resources that could otherwise be invested in better serving vulnerable populations."

Blase and Greszler's research raises serious concerns about Minnesota. Is the fraud being investigated just the tip of the iceberg?

GDP Per Capita and Health Consumption Spending Per Capita, U.S. Dollars, 2023 (Current Prices and PPP Adjusted)



Notes: Health spending per capita for Australia, Belgium, Costa Rica, Finland, Greece, Israel, Japan, Latvia, Mexico, the Netherlands, New Zealand, Norway, Slovak Republic, Spain, Switzerland, Türkiye, and the United States are estimated. For all other countries health spending per capita is provisional. GDP data for Colombia, Costa Rica, New Zealand and Portugal are estimated, while data for Belgium, France, Germany, Greece, Hungary, Korea, Mexico, Netherlands, Spain, Switzerland are provisional. Health consumption does not include investments in structures, equipment, or research.

(Source: KFF analysis of OECD data)

THE SOLUTION: GET GOVERNMENT OUT OF HEALTHCARE

In addition to the improper payment rate of Medicare and Medicaid (and the disincentive to investigate what becomes of 'other people's money'). Fraud risks are also being investigated in the other portion of the ACA: the premium tax credits paid from the US Treasury to an insurance company to cover an enrollee of an ACA exchange health insurance plan.

Healthcare is also the single largest category of the federal budget, with about 26 cents of every dollar spent going to various healthcare programs, which are also the single largest item on most state budgets. Not by accident is healthcare highly regulated at both the federal and state levels. Federal and state tax codes incentivize working Americans to purchase health insurance through an employer, leaving little room for insurance offered through civil society and voluntary contracting. There's a lot unknown in health care, but one thing is clear: government encroachment is not helping.

Healthcare, nearly twenty percent of the US economy and growing, is in desperate need of reform. Rolling back regulations on insurance offerings, the healthcare profession, and innovation, as well as reforming the tax code and spending to encourage consumer-driven choice will encourage competition, lower costs, and empower patients.

Greater consumer choice—and less reliance on distant federal programs—will help reduce the fraud endemic in government healthcare.

February 2026

The Regulatory Pendulum: Why Financial Rules Keep Missing the Mark

Nicolas Cachanosky

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Until policymakers accept that financial regulation shifts risk rather than eliminates it, we will keep cycling through crisis, overreaction, unintended consequences, and the next crisis.

Recently, two Federal Reserve governors delivered speeches with interesting differences. Michael Barr warned against weakening bank supervision, citing "growing pressures to scale back examiner coverage, to dilute ratings systems" that could lead to a crisis. Stephen Miran countered that "regulators went too far after the 2008 financial crisis, creating many rules that raised the cost of credit" and pushed activities into unregulated sectors.

Both governors make valid observations about their respective concerns. Yet neither addresses a more fundamental problem: the regulatory cycle itself may be the primary source of financial instability. Rather than preventing crises, financial regulation tends to shift risks to new areas, setting the stage for different—not fewer—failures.

THE REGULATORY RATCHET

Barr himself describes the pattern: "time and again, periods of relative financial calm have led to efforts to weaken regulation and supervision...often had dire consequences." But this observation cuts both ways. Periods of crisis lead to regulatory overreach, which creates unintended consequences, which leads to calls for reform—and the cycle repeats.

The Savings and Loan crisis of the 1980s and early 1990s illustrates this dynamic clearly. Following widespread S&L failures, regulators imposed stricter capital requirements through the 1988 Basel Accord. Financial institutions responded by using securitization to reduce their regulatory capital requirements while maintaining risk exposure—creating the shadow banking system that would later amplify the 2008 crisis. The new regulations didn't eliminate risk; they relocated it to where regulators couldn't see it.

After 2008, the pattern repeated. Dodd-Frank increased capital requirements and restricted proprietary trading through the Volcker Rule. As Miran notes, "many traditional banking activities have migrated away from the regulated banking sector" because regulatory costs made these services unprofitable for banks. Credit migrated to private credit funds, collateralized loan obligations, and other non-bank lenders.

Today, private credit markets exceed $1.5 trillion, largely outside regulatory oversight. When the next crisis arrives, it will likely originate in these sectors—not because markets failed, but because regulation distorted incentives and redirected risk to less efficient channels. "Shadow banking" now accounts for $250 trillion globally, nearly half of the world's financial assets, with minimal regulatory oversight.

MANAGING RISK, NOT PREVENTING IT

This regulatory cycle reveals a deeper problem with how policymakers think about financial stability. Both prevention-focused regulation (Barr's preference) and "peeling back regulations"

(Miran's approach) assume regulators can outsmart markets. Neither addresses the knowledge problem at the heart of financial regulation: regulators are always fighting the last war while markets adapt faster than rules can be written.

A more effective approach recognizes that financial risk cannot be eliminated—it can only be managed when it materializes. Financial regulation, if there is going to be any, should focus on crisis resolution rather than crisis prevention. This means three things:

First, establish clear rules about who bears losses when failures occur. Uninsured creditors, not taxpayers, should absorb losses. The FDIC's resolution authority works precisely because it allows banks to fail in an orderly way, with clear priorities for claims. Extending this principle—making "too big to fail" institutions write "living wills" that detail how they would be unwound—creates market discipline without micromanaging risk-taking.

Second, eliminate implicit guarantees that encourage excessive risk-taking. When creditors believe regulators will intervene to prevent losses, they stop monitoring risk carefully. The 2008 bailouts reinforced expectations of government support, which may explain why risk-taking continued despite stricter regulations. A credible commitment to let failures happen—even of large institutions—would do more to encourage prudent lending than any capital requirement.

Third, simplify the regulatory framework itself. Complex rules create opportunities for regulatory arbitrage and make it harder for market participants to understand their actual risk exposure. Miran identifies one such complexity: leverage ratios that penalize holding safe assets like Treasury securities, creating "contradictory incentives" that distort markets rather than stabilizing them.

Canada's experience offers a useful contrast. Canadian banks weathered the 2008 crisis better than their American counterparts, despite having less stringent capital requirements and a more concentrated banking sector. The key difference? Canadian regulators focused on ensuring orderly resolution of failures rather than preventing all risk-taking. Banks faced real consequences for poor decisions, which encouraged more conservative behavior than any amount of supervision could mandate. Since 1840, the United States has experienced at least 12 systemic banking crises—Canada has had zero. During 2008, Canadian banks maintained an average leverage ratio of 18:1 compared to over 25:1 for many US banks. The US bailed out hundreds of banks; Canada bailed out zero.

BREAKING THE CYCLE

The debate between Barr and Miran represents the latest turn in the regulatory cycle. Both assume their preferred approach will prevent the next crisis. History suggests otherwise. Until policymakers recognize that financial regulation shifts rather than eliminates risk, we will continue cycling between crisis, overreaction, unintended consequences, and the next crisis.

The alternative is clear bankruptcy procedures and eliminating implicit guarantees. Let markets—not regulators—price risk. Let banks—not bureaucrats—manage portfolios. And most importantly, let failures happen to those who take excessive risks, ensuring that profits and losses remain where they belong: with the institutions that make the decisions.

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The Powell Affair and the Limits of The Fed's Immunity

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The DOJ's investigation is ugly politics, but we might welcome a test of whether central bankers are subject to the same oversight as everyone else.

The latest clash between President Trump, Federal Reserve Chair Powell, and the Department of Justice has been widely portrayed as a constitutional crisis for central bank independence. The DOJ is investigating whether Powell made false or misleading statements to Congress regarding the scope and cost of the Federal Reserve's multi-billion-dollar headquarters renovation. Powell denies wrongdoing and casts the inquiry as political pressure on monetary policy. Trump denies direct involvement, but has renewed his longstanding attacks on Powell's performance as Fed chair. The affair has metastasized into a broader fight over law, accountability, and the nature of modern central banking.

Financial markets have responded nervously. Commentators warn of capital flight, politicized interest-rate decisions, and the erosion of US monetary credibility. Former Fed officials and many academic economists have rushed to Powell's defense, framing the investigation itself as the real scandal. International central bankers have issued statements of solidarity. The elite consensus is clear: even asking whether the Fed chair broke the law risks catastrophic damage to institutional independence.

But this framing obscures the main issue. It matters greatly whether Powell lied to Congress. Legislative oversight is not a nuisance; it is the constitutional mechanism by which unelected officials remain accountable to the public. If Powell's testimony was accurate, the investigation should end quickly and publicly. If it was not, that fact cannot be waved away by invoking the supposed sanctity of central banking. Accountability is not optional simply because the Fed is prestigious.

This matters even more given the Fed's recent record. Under Powell's leadership, the United States experienced the highest inflation in forty years—a clear failure of the Fed's price-stability mandate. At the same time, the institution increasingly drifted into areas far beyond monetary policy, such as explicitly targeting racial unemployment gaps and inserting itself into climate policy debates. None of this appears in the Federal Reserve Act. Congress did not authorize a social engineer with a printing press. Yet the Fed has behaved as if its independence grants it a limitless commission.

That brings us to the deeper issue: what does "central bank independence" actually mean? In practice, it has come to mean governance by unaccountable technocrats—officials who exercise vast discretionary power over money and credit while being insulated from democratic control. This is difficult to reconcile with self-government under the rule of law. Independence from day-to-day political pressure may be defensible. Independence from law, oversight, and consequence is not.

Defenders of the status quo argue that independence delivers superior economic outcomes. But the latest evidence fails to corroborate that. Even if this claim were empirically correct, it would not settle the matter. No technocratic efficiency argument can override constitutional structure. Agencies do not derive legitimacy from good results but from lawful authority. If the benefits of independence require shielding officials from legal accountability, then the price is too high.

None of this implies that Donald Trump is a disinterested defender of constitutional order. He plainly has political motives, and his history of browbeating the Fed is well known. Lawfare—the subordination of the state's institutions of justice to personal ambition—is always improper in a free society.

But Powell's culpability does not depend on the president's motivations. Trump is the head of the executive branch, and the federal bureaucracy is not a sovereign entity unto itself. A system that delegitimizes investigations whenever they inconvenience elite institutions puts bureaucratic immunity above the rule of law.

More broadly, the idea that central banking can ever be apolitical is a complete fiction. Government intervention in money and credit necessarily allocates gains and losses based on political criteria. Interest rates, asset prices, and credit availability are inherently political when the political process decides to create and maintain a central bank. The real choice is not between politics and technocracy, but between democratic accountability and no accountability at all. If democratic oversight proves messy or destabilizing, that should prompt a more fundamental question: why grant the government such sweeping control over money in the first place?

Powell therefore does not deserve an automatic pass. "Independence" is not a constitutional exemption. If a public official—any public official—lies to Congress, there should be consequences. If he did not, the investigation should end and the facts should be made clear. Either outcome would strengthen, not weaken, the rule of law.

"No one—certainly not the chair of the Federal Reserve—is above the law," a central banker once said. That truism must be our lodestar going forward. However the investigation plays out, it's time to discard the servile notion that the Fed is answerable only to itself.

February 2026

New York's Death Wish

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History—and a gritty 1970s vigilante flick—offers sobering lessons about what happens when public institutions fail at their most basic task: keeping citizens safe.

Zohran Mamdani garnered a bit more than **50 percent** of the vote in the recent New York City mayoral election. Have voters learned nothing from history? Apparently not. As Nobel laureate F.A. Hayek quipped, "if socialists understood economics, they wouldn't be socialists."

In the past six months, I count no fewer than twelve pieces in The Daily Economy that discuss—directly or indirectly—Mamdani's socialist policies. Rent controls will decrease the quantity and quality of housing. Millionaire taxes would accelerate the exodus to more friendly states, to the great glee of Texas and Florida real estate agents. City-owned grocery stores would end in a bungle of Soviet proportions, increasing food deserts and raising prices. The drop in tax revenue from increased taxes (Laffer Curve, anyone?), combined with increased expenditures, would lead to another debt crisis.

Things aren't looking good for the Big Apple. I remember walking through Manhattan with the late, great economist Jim Gwartney, an early mentor who introduced me to Frédéric Bastiat. He said, "You know, Nikolai… I like to visit New York City once a year to remind myself why I don't live here." I don't think I'd like living in New York City, but I do enjoy visiting a few times a year. The skyline, the commerce, the energy, the Metropolitan Opera, the museums, the restaurants (from posh and exotic to a slice of the world's best pizza)… and that's just Manhattan, with less than **20 percent** of the population and, with eight percent of total surface, the smallest borough.

I'm going to scramble to make it to New York one last time before it goes to the dogs. Lag effects being what they are, I figure I have a good six to twelve months before things get bad. It will take a while for food and hotel prices to rise, or for the inevitable debt crisis to arrive. The poorest will feel the pain quickly; my tourist bill can take the hit. But it's the crime that really worries me.

I'm not old enough to remember the 1970s in New York. But I am old enough to remember the late 1980s, which were still pretty gnarly. My family had just returned from a leafy suburb of Paris to leafy Princeton, New Jersey. I missed the café life and the French wines and cheeses—but Princeton is a quiet and peaceful slice of this green Earth. I still remember my first trip to Manhattan in the winter of 1988. I forget if we first arrived at Penn Station or the Port Authority Bus Terminal. Both were ghastly visions of Third World poverty, with hints of *Mad Max*. Bums were everywhere, in various states of dress—or undress—zonked-out druggies on the streets, sidewalks thick with hobos begging for money. I remember a visceral mix of horror—the memory still makes me reel, even after traveling to 70-plus countries—and pity, as I felt the urge to give something, anything, to every beggar.

Well, I'm sorry to say, despite my inveterate optimism, these sad images are likely to return. We can expect a dramatic uptick in New York City crime rates over the next five to ten years. To be sure, crime in New York has been falling, along with national trends, for the past 30 years. But localized spikes in specific categories demonstrate the fragility of these gains.

Shrinking tax revenues, rising rents and decaying housing, unemployment from higher minimum wages, and other business-punishing policies are likely to raise poverty dramatically. And, while social workers can be a powerful addition to police, Mamdani is already signaling a softer approach to crime. It doesn't take a Gary Becker to predict a rise in crime.

LESSONS FROM THE 1970S

In a recent weekly AIER research meeting, I wondered aloud who might replace Charles Bronson in the next round of inevitable New York vigilante movies.

This led me to return to his 1974 classic, *Death Wish*. It was a pleasure to revisit the 1970s—the cinematography seems campy now, but it creates a gritty realism. I did not watch the next four movies, or the 2018 Bruce Willis remake. But the 1974 original contained some fascinating nuggets of political philosophy.

The movie opens with a tender, loving, idyllic scene in Hawaii. Middle-aged architect Paul Kersey (Charles Bronson) is on a beach vacation with his wife (Hope Lange). They are in love and happy. Then they go home to New York City. The tropical paradise immediately gives way to traffic jams and graffiti, in the loud concrete and steel jungle, as they make their way home to their Manhattan apartment from the airport.

Back at the office, a colleague complains about the city's rising crime: "Decent people are going to have to work here and live somewhere else."

"You mean people who can afford to live somewhere else," Kersey retorts.

His colleague rolls his eyes. "You're such a bleeding-heart liberal, Paul," he says.

"My heart bleeds a little for the underprivileged, yeah," Kersey replies.

The conversation turns to policing. His colleague suggests the city will need more cops than people to curb rising crime. Kersey is doubtful. "You'll have to find other options," he says. "No one could pay the taxes."

Then comes the crime. Six minutes into the movie, we see our first act of violence. Two minutes later, it's vandalism, followed by breaking and entering. Then Kersey's wife is beaten by thugs in her own home, while their adult daughter is sexually assaulted. Kersey's wife dies from her injuries. His daughter survives but falls into catatonic mutism and ends up institutionalized.

A grieving Kersey finds solace at the office. One night, he tentatively whaps a would-be robber in the head with a sock filled with quarters. Then work calls him to Arizona. There, we learn that he was a conscientious objector in a medical unit during the Korean War, reinforcing his image as a nerdy, mild-mannered, middle-class Manhattan architect. But we also learn he grew up around guns—and he is a crack shot.

The movie then comments on violence and crime. Kersey's Arizona host argues that New York's crime wave is no coincidence, given the city's gun control laws.

"Muggers operating out here [in Arizona] just plain get their asses blown up," he tells Kersey. "If you ever get tired of living in that toilet, you're welcome here." Then he slips a gift-wrapped case into Kersey's suitcase: a .32 revolver with ammunition.

Kersey returns to the grim reality of a graffiti-mottled, lawless New York. There is no progress in finding his family's assailants. The police are overwhelmed, bureaucratic, and uninterested; the two victims are "statistics on a police blotter… and there is nothing we can do to stop it. Nothing but cut and run."

Shortly thereafter, Kersey shoots and kills a mugger who attempts to rob him. He returns home to vomit—incidentally, much like James Bond in Ian Fleming's original novels, who didn't have the casual nonchalance of the Broccoli movies. Minutes later, Kersey opens fire on three muggers, killing two immediately and executing the third as he tries to escape. By the end of the movie, Kersey will have killed a total of ten muggers in self-defense.

FROM HOLLYWOOD TO PHILOSOPHY

The movie raises a core question: *If the police don't do it, should we not do it ourselves?*

What, really, is "civilized"? Cutting and running, to live among others who have the means to stay safe? Or does a gentleman—or a lady, for that matter—defend himself as an armed citizen, protecting both himself and his community?

It's notable how the fictionalized NYPD changes its tune when a numbing, overwhelming crime wave sparks vigilante action. Initially, they were apathetic about Kersey's assault, assigning only a patrolman to the case. But when it becomes clear that the government's monopoly on violence is being challenged, the case is bumped up—fast—to an inspector. Think of the leap from a single private to a colonel, complete with a task force of about 20 police officers and detectives.

A crime wave is one thing, but "Murder is no answer to crime in our city; crime is a police responsibility," complains the Police Commissioner as he pours resources into tracking the vigilante.

I note an important detail. The movie is billed as a vigilante film. I was expecting naqam (biblical vengeance, as taught to me by my late Jesuit mentor). But Kersey doesn't seek out criminals to execute. In a crime-infested city, it may look like he's taunting criminals, simply by walking alone after dark. But he is going about his business as anybody would in a functional city, with a functional government and functional police. He just happens to exercise his natural right to self-defense, where the Lockean Commonwealth has failed.

This brings us back to the big question. We're all uncomfortable with vigilantism. As a good Lockean, I return to Chapter II, Section 13, of the Second Treatise of Government.

> *To this strange doctrine, viz. That in the state of nature everyone has the executive power of the law of nature, I doubt not but it will be objected, that it is unreasonable for men to be judges in their own cases, that self-love will make men partial to themselves and their friends: and on the other side, that ill nature, passion and revenge will carry them too far in punishing others; and hence nothing but confusion and disorder will follow, and that therefore God hath certainly appointed government to restrain the partiality and violence of men. I easily grant, that civil government is the proper remedy for the inconveniencies of the state of nature, which must certainly be great, where men may be judges in their own case, since it is easy to be imagined, that he who was so unjust as to do his brother an injury, will scarce be so just as to condemn himself for it…*

And yet. And yet…

Around the world, long-distance competition, then cellphone competition, replaced state telephone monopolies. Federal Express and UPS have replaced an inefficient monopoly postal service. Even Denmark—a country that has traditionally been enamored of state solutions—recently ended the state's collection and delivery of letters. Bitcoin is increasingly replacing failed fiat currencies. Private, tax-deferred retirement accounts (IRAs) arrived in the US 50 years ago; they have astronomically higher returns than Social Security.

So, why not security?

In America today, private security guards outnumber police two to one. To be sure, the latter enjoy a vast number of monopoly privileges, from use of force and arrest powers to qualified immunity that shields them from liability for actions committed behind the badge.

Returning to political theory, the anarcho-capitalist argues that security can and should be private, as the state can never be neutral and will inevitably serve its own interests. The minarchist and the Hayek/Friedman/Buchanan super-minimalists have crafted strong arguments for the necessity of neutral state-enforcement of rights. James M. Buchanan was uncharacteristically blunt: "The libertarian anarchists who dream of markets without states are romantic fools who have read neither Hobbes nor history."

But what if the state is demonstrably incapable of providing security? This was clearly the case in New York City in the 1970s. Adding insult to injury, the city, at least according to *Death Wish*, was more interested in protecting its monopoly on force than providing security.

The half of New Yorkers who didn't vote for Commissar Mamdani don't deserve the hell he is about to unleash on them. As to the **50 percent** of economically illiterate, naïve, and rapacious New Yorkers who voted for socialism, do they deserve what they asked for? Was H.L. Mencken right when he opined that "democracy is the theory that the common people know what they want, and deserve to get it good and hard"? Or can we hope for forgiveness, for they know not what they do?

I hope I'm wrong. I really do. I wish all the best for New York City. I fervently hope Mayor Mamdani's policies are squarely thwarted by Albany. But I don't think I am wrong. And this invites a final question.

Who will replace Charles Bronson in the next round of Death Wish movies?

February 2026

The Latest Trump Administration Grift: Tariff Checks

Paul Mueller
Senior Research Fellow

Trump's tariffs haven't boosted manufacturing; they've raised costs and disrupted supply chains. A redistributive dividend check can't reverse the underlying economic harm.

Does the administration think its supporters don't understand economics?

I would hope not, but some of their policies and proposals make one wonder. On Tuesday, President Trump revived the idea of a $2,000 tariff "dividend" check. Although the politics make sense, the administration assumes people don't understand basic economic theory. President Trump has painted tariffs as making the American economy more competitive and more productive while simultaneously extracting money from foreigners who pay the Treasury.

If that's what were happening, economists would be cheering the tariffs. Unfortunately, President Trump's understanding of tariffs is just as faulty as his understanding of how much revenue the tariffs have raised. High tariffs don't make the American economy more competitive. They make it less competitive, because it becomes harder and more costly to build and manufacture. Nor do high tariffs increase production—just the opposite. US manufacturing output has *declined* over the past year.

And the notion that foreigners bear the burden of paying tariff taxes to the Treasury misses the fact that they turn around and collect more dollars from American businesses and consumers who pay higher prices for imported goods. The great irony of Trump's proposal is that he is simply giving people back their own money—the extra $120 they spent on coffee or tea or bananas, or the extra $90 they paid for beef or the extra $100 they paid for clothing or the extra $200 they paid for toys or electronics since "Liberation Day."

The worst thing about this whole situation is not that Americans have already paid for the tariff checks. It's that besides paying for it, they have had to live with a less efficient and less productive economy. At the same time, the US reputation and status on the global stage, when it came to trade, has been greatly diminished. Many of our trading partners have begun looking for more reliable trading partners.

Despite a handful of big "commitments" of foreign investment, largely made to placate or bribe President Trump until he has moved on to the next shiny object, most companies and countries have been making plans to restructure their supply chains and trading arrangements in light of the US being a much less attractive trading partner. Not only that, but the US trade deficit has ballooned during Trump's first year.

But back to the topic of tariff checks.

Who doesn't want to receive a $2,000 check (or maybe several checks if kids receive them too)? I would certainly appreciate getting one! The problem, though, can be seen in the tagline: "When everyone is special, no one is." Everyone getting more dollars without more production doesn't actually make our country wealthier. Real benefit comes from higher production in the economy.

Millions of Americans were happy to receive COVID-19 stimulus checks. But ask yourself, "Would I want those checks *and* the subsequent high inflation, or would I have preferred prices to remain low and stable?" Most thoughtful people would say the latter, because the stimulus checks were temporary and quickly spent. The higher prices, however, are here to stay—and our children and grandchildren will have to live with higher prices too.

So let's not kid ourselves. Trump's tariff dividend check idea is a destructive short-run play for popular support. It won't solve anyone's financial problems. It won't boost employment. And it won't fix any of the inefficiencies created by his high-tariff regime. If anything, it will stoke inflation and fuel the fire of class warfare since he has proposed that some people get checks and others will not, based on their income. Nor can the executive branch unilaterally send "tariff dividend" checks to the American people without appropriation from Congress.

If Trump wants to make the American economy great again, he should stop pursuing gimmicks and *ad hoc* investment commitments. He should replace the current hodgepodge of tariffs with a low, flat rate that doesn't raise the cost of doing business in the US much and still allows an abundant flow of trade across our borders. He might raise *more* tariff revenue under such a regime. Finally, the administration should redouble its efforts to implement deep institutional reforms – such as streamlining and reducing regulations around nuclear power, mining, drug R&D, and dozens of other industries – that will allow Americans greater scope and opportunity to improve their lives without relying on checks from Washington.

February 2026

Are Institutions Buying Up Single-Family Homes?

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Institutional investors own less than one percent of single-family homes, and their impact on prices is modest. New evidence suggests their presence may reduce rents.

The White House announced last week that it is “taking steps” to ban large institutional investors from buying single-family homes. It’s unclear whether the President has legal authority to do this without action from Congress. But setting aside that issue, let’s investigate the merits of the policy.

Many commentators have pointed out that institutional investors have such a small presence in the single-family market that it is implausible to attribute much of the recent appreciation in house prices to their activities. Institutional investors, defined as those owning 100 or more homes in their portfolios, own less than one percent of the single-family housing stock nationally and only about three percent of single-family homes for rent. Their purchasing activities have declined since 2022, but even at the peak the largest (1000+ homes) investors accounted for under three percent of single-family house purchases nationally. Institutional investors matter more in some markets than in others, but in no metro area do companies with 100+ home portfolios own more than five percent of the single-family stock. Figure 1 shows the large investor ownership share by state. All the states in blue–the large majority of them–have a large investor share less than one percent of single-family stock.

If we zoom out to the largest 50 metro areas, the same correlation holds, though a bit more weakly. Places with more large institutional investor ownership of single-family homes saw larger price declines over the most recently available 12-month period (Figure 3, next page).

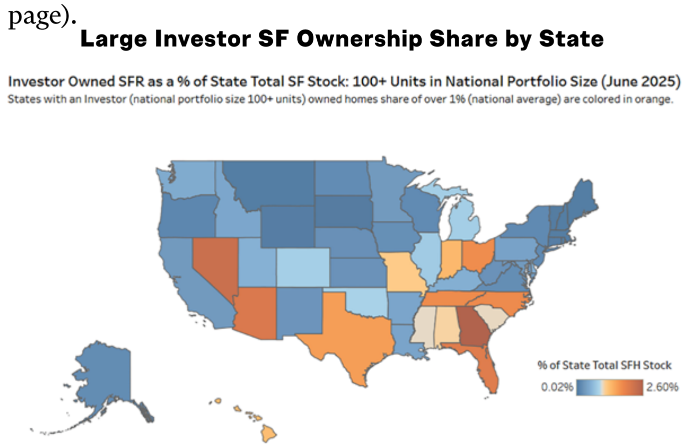

Figure 1: (Source: AEI Housing Center Data)

What commentators have so far left unsaid is just how beneficial the small amount of institutional investment is for the American housing market. It’s not just not a *big* problem; it’s not a problem at all, but rather something to be welcomed.

Institutional investors help make the housing market more liquid and less cyclical. They upgrade the quality of the housing stock, typically at lower cost than smaller renovation outfits. They make desirable neighborhoods accessible for households that could not afford to buy in those neighborhoods. Increasingly, they are directly increasing housing supply.

Institutional investors first started to take interest in single-family houses in 2012, at the bottom of the last housing cycle. They are less capital-constrained than smaller investors, let alone most owner-occupiers. As a result, they are better able to use cash reserves to identify good deals and the market and buy them at prices that make sense over the long run. The ability of institutional investors to support the housing market after a financial crisis will help prevent future liquidity problems in the mortgage finance sector from spiraling into a housing crash.

Why have institutional investors only emerged as players in single-family housing so recently? Economists point to technological advances such as cloud computing and mobile connectivity that have helped with acquisition and management of single-family houses. Machine learning (artificial intelligence) may have helped develop forecast models for acquisition as well. To be sure, some buyers became overconfident in their forecast models and ended up losing a lot of money—most famously Zillow. But Zillow’s model was to buy low and sell dear, rather than manage rental properties. Most institutional investors tend to focus on particular neighborhoods or cities to reduce the per-unit costs of property management.

Mortgage underwriting standards tightened dramatically after the Great Recession, making it difficult for younger Americans and those with a lot of income from “side gigs” and self-employment to qualify. As a result, homeownership rates declined. By making more single-family homes available to renters, buy-to-rent institutional investors have helped families that could not afford to buy or qualify for a mortgage to move into desirable neighborhoods.

The most recent and careful paper on the subject finds that large institutional investors slightly raise house purchase prices and reduce rents. The effect on prices is truly tiny: for every percentage point of the total single-family housing stock owned by large institutional investors, house prices go up **1.7 percent**. Since these investors own less than one percent of the single-family housing stock nationally, counterfactually eliminating all large investor ownership of single-family housing would decrease national house prices by less than **1.7 percent**. And even Trump is not proposing to force investors to sell what they already own.

The effect on rents is slightly bigger: for every percentage point of the single-family rental stock that institutional investors own, rents fall **0.7 percent**. Since institutional investors own about three percent of the national single-family *rental* stock, the total effect on rents is around *negative* two percent. While small investors substitute to some extent for large investors, the Coven paper still finds that large investors increase the total supply of single-family rental homes by 0.5 for every home that they purchase.

Foreclosures are a disproportionate channel by which institutional investors acquire homes. For example, INVH reported that **37 percent** of the houses they acquired between September 2015 and September 2016 were from distressed sales. Typically, large investors renovate homes before renting them out. Invitation Homes reported spending about $39,000 per purchased home on renovations in 2021. Large investors may have a comparative advantage in buying and renovating homes because they have full-time teams working in specific regions according to established procedures and buying materials in bulk. Thus, large institutional investors increase the average quality of the US housing stock.

Increasingly, large institutional investors expand total housing supply directly, through build-to-rent developments. In the Q2 2024 last year, build-to-rent (BTR) developments were **7.2 percent** of all single-family house starts. BTR isn't useful for getting renter households access to desirable neighborhoods, but it is especially useful for increasing overall housing supply, decreasing both sale prices and rents because the rental

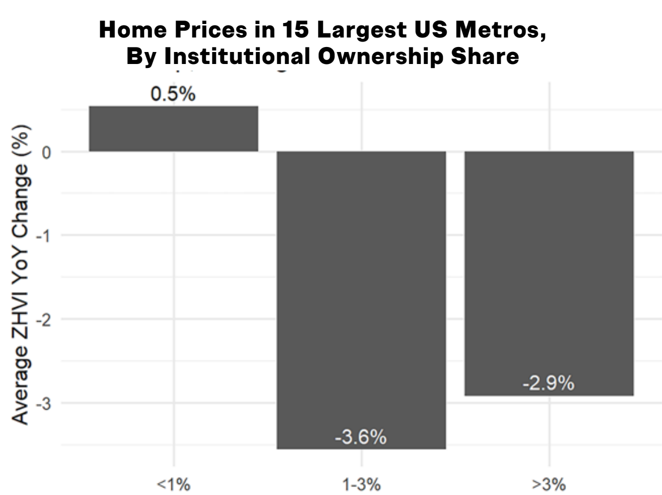

Figure 2: (Source: AEI Housing Center Data)

and for-sale markets are connected. When BTR drives down rents through new supply on the market, that encourages some households to rent rather than buy and reduces for-sale prices for buyers of the remaining homes on the market. BTR has been especially desirable in unfreezing a housing market challenged by mortgage lock-in. Unfortunately, HUD Secretary Bill Pulte reportedly wants to crack down on BTR as well as institutional purchases of existing homes.

In the past year, housing prices have declined the most in markets where large institutional investors are concentrated. If we look at the largest 15 metro areas in the country, house prices have grown **0.5 percent** in the markets with under one percent institutional ownership and fallen **3.6 percent** in the markets with between one and three percent institutional ownership. In the only market with over three percent ownership (Atlanta), prices have fallen **2.9 percent**.*

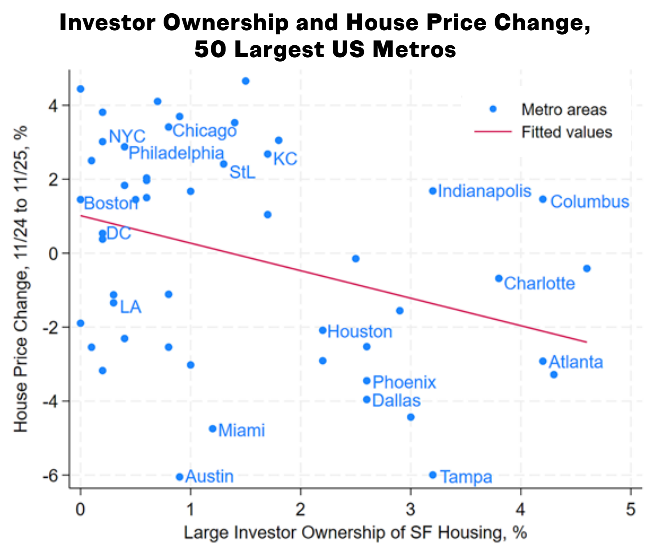

Figure 3: (Source: AEI Housing Center Data)

While correlation does not equal causation, these data certainly cast doubt on any claims that banning institutional investment will reduce house prices.

Left- and right-wing populists that want to ban institutional ownership of single-family homes will hurt the average American if they get their way. Institutional investors are increasing housing supply and making housing markets more liquid and less volatile. They help younger families and those of modest income gain access to desirable neighborhoods. Their upward impact on prices is tiny, and could even have reversed once we consider the new impact of build-to-rent development.

** These data are my own calculations based on data from the AEI Housing Center and the Zillow Housing Value Index. The ZHVI covers the 12 months from November 2024 to November 2025.*

February 2026

The Price of Greenland—and the Cost of Attacking Sovereignty

Peter C. Earle
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If borders become negotiable under tariff pressure, risks rise, investment falls, and fragile global norms further fracture.

President Donald Trump's renewed push to acquire Greenland is now framed not as a novelty or negotiating stunt, but as a foreign policy and national security imperative. Administration officials argue that Greenland's Arctic location, proximity to emerging shipping lanes, and potential role in countering Russian and Chinese influence make US control strategically essential.

That framing has now been paired with explicit economic pressure: in a recent social media post on Saturday, January 17, 2026, Mr. Trump announced that Denmark—the sovereign power over Greenland—will face a **10 percent** tariff on all goods exported to the United States beginning February 1, with the rate rising to **25 percent** on June 1 if Denmark does not agree to a "Complete and Total purchase of Greenland." He further stated that Norway, Sweden, France, Germany, Britain, the Netherlands, and Finland—NATO allies that have expressed solidarity with Denmark—will be subjected to the same escalating tariffs unless they relent.

Even granting the strategic premise, the proposal collapses under basic economic reasoning. The problem is not subtle. It lies in valuation, incentives, and the institutional foundations that make both markets and geopolitics workable.

VALUATION, OPTIONALITY, AND CONTRADICTIONS

Supporters of the acquisition often cite estimates suggesting Greenland holds between roughly $2 trillion and $4 trillion i n natural resources, including rare earth elements, hydrocarbons, and other critical minerals. At the same time, media reports and policy commentary have floated a hypothetical purchase price in the range of approximately $500 billion to $800 billion. Taken together, these two claims reveal a glaring contradiction.

Natural resources are not cash balances. They represent long-dated option value: future streams of potential revenue that may or may not be realized depending on extraction costs, infrastructure investment, environmental constraints, political consent, and commodity prices. From an asset-pricing perspective, the relevant concept is net present value (NPV). Even after aggressive discounting for uncertainty, time, and development costs, the expected present value of trillions of dollars in underlying resources would still far exceed a one-time payment at a steep discount.

Put differently, if Greenland truly contains assets worth multiple trillions of dollars, then even a willing seller would have no rational incentive to part with it for $500 to 800 billion. Strategic assets with long horizons and geopolitical relevance command premiums, not bargain prices. The administration's argument defeats itself: the more economically valuable Greenland is claimed to be, the less plausible a discounted sale becomes. If Greenland were a firm, no board would approve selling the entire enterprise for a fraction of its discounted asset value simply because a buyer found it strategically useful. Sovereign assets follow precisely the same logic.

THE SYMMETRY TEST

Even setting aside valuation, the Greenland proposal fails a more basic test: symmetry. If historical ties, strategic relevance, and latent economic value were sufficient grounds for territorial acquisition, then several European powers could assert claims to US territory with equal legitimacy.

Spain governed Florida, Texas, and much of the American Southwest for centuries. France once controlled the Louisiana territory, sold under geopolitical pressure in 1803, which now represents tens of trillions of dollars in economic value. Britain administered the original colonies and left behind enduring legal and institutional frameworks. Russia sold Alaska in 1867 for a sum that dramatically undervalued its eventual strategic and resource significance, particularly in today's Arctic context.

Yet no serious policymaker treats these historical facts as grounds for modern claims. The reason is economic as much as legal. Once sovereignty becomes contingent on strategic usefulness or newly discovered resource value, borders lose durability. Risk premia rise. Long-term investment becomes fragile everywhere. The modern economic order depends on the expectation that territorial arrangements are not perpetually renegotiable under pressure.

TARIFFS AS COERCION: A MISUSE OF TRADE POLICY

The Trump administration's sharp turn back toward mercantilism was initially justified as a necessary response to claims that the United States had been systematically mistreated by trading partners, hollowed out by unfair competition, and weakened by chronic trade imbalances. That same framework now appears to license something more troubling: the use of economic pressure as a form of geopolitical arm-twisting—leaving governments around the world to wonder what assertions Washington might make next—while the balance of trade and the cost of living for American households hang in the balance.

As mentioned, the Trump administration has floated tariffs against Denmark and other European Union governments if they refuse to cooperate. This reflects a persistent misunderstanding of trade economics. Tariffs are not fines paid by foreign governments; they are taxes borne largely by domestic consumers and firms. Using tariffs as leverage in a territorial dispute would raise costs for US businesses, invite retaliation, and disrupt transatlantic supply chains.

Denmark is neither an isolated counterparty nor a lonely national pariah, and any punitive action would almost certainly provoke coordinated EU responses. From a strategic standpoint, this is self-defeating. If the goal is to strengthen US geopolitical positioning in the Arctic, alienating allies through trade coercion weakens, rather than enhances, that stance. Economically, it introduces uncertainty (not, unfortunately, an unfamiliar consequence of this administration's policies), raises the cost of capital, and undermines trade relationships the United States itself depends on.

THE COST OF NORM EROSION

The administration's most serious defense of the Greenland gambit is national security. But even here, the logic is mislaid, with severe economic consequences.

Modern economies rely on stable borders and predictable sovereignty. Foreign direct investment, infrastructure finance, and long-term capital allocation all assume that territory is not subject to purchase or coercive transfer. When a major power signals otherwise, perceived geopolitical risk rises, particularly for smaller states. That risk translates directly into higher borrowing costs, reduced investment, and slower growth. Ironically, the erosion of these norms weakens the very strategic environment the policy claims to protect. And international moves one may have never expected to see are materializing with rapidity.

PEOPLE ARE NOT BALANCE-SHEET ITEMS

Finally, Greenland is not some unoccupied resource cache. It is home to a population with political institutions, cultural identity, and stated preferences. Treating territory as a tradable asset abstracts away governance and consent, precisely the factors that determine whether resource wealth becomes long-run prosperity or stagnation.

Even if one accepts the administration's claim that Greenland holds genuine strategic importance, the proposed means of acquisition are outside the pale of conduct and economically indefensible. The valuation logic violates basic NPV reasoning, the tariff threats misuse an already tattered US trade policy, and the broader approach undermines the fundamental institutional norms that support economic stability and growth. Economic realism requires coherence, not spectacle. On those grounds, the Greenland push is not a hard-nosed or well-calculated stratagem. Dismissing it as ridiculous is accurate, but not sufficiently analytical: it represents a fundamental, deeply troubling misread of the way in which assets, incentives, and institutions interact and work.

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Five Years After GameStop: What the Squeeze Actually Changed

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Meme-stock investment infusions rescued the company without redeeming its model. Did that borrowed time produce market discipline—or simply delay error correction?

In early 2021, a declining video game retailer unexpectedly became the epicenter of one of the most extraordinary episodes in modern financial history. GameStop saw its stock price surge from under twenty dollars to well over four hundred in a matter of days, propelled by an unusual combination of extreme short interest, coordinated retail buying, and feedback loops embedded in contemporary market structure. Hedge funds suffered dramatic losses, trading platforms restricted activity under operational strain, and Congress called hearings in rapid succession. What might otherwise have been a transient market dislocation quickly became a cultural and political event. The episode was soon framed as a populist revolt—small investors versus Wall Street, social media versus institutional finance, narrative triumphing over fundamentals.

Yet beneath the spectacle lay quieter and more enduring economic issues. The first is the massive impact of record levels of fiscal and monetary expansion during the pandemic. The other remains unresolved even today, years later. The GameStop episode was not merely a story about price volatility or market plumbing. It was a case study in what happens when capital markets intervene so forcefully that they separate a firm's financial survival from its economic validation, disrupting the market's normal process of error correction.

From an Austrian perspective, markets are not allocators of abstract "efficiency," but discovery processes. Prices, profits, and losses transmit information about what consumers value and how scarce resources can best be employed. Losses are not pathologies; they are signals—evidence that entrepreneurial plans have failed to align production with consumer demand. When those signals are muted or overridden, discovery slows, and misallocation persists.

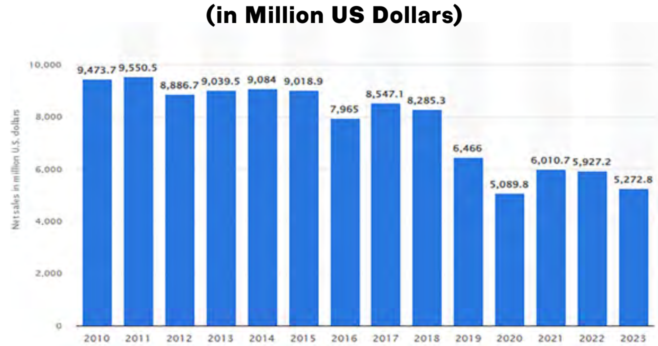
GameStop did not merely experience a temporary price spike. The short squeeze fundamentally altered the company's financial condition. By issuing large quantities of equity at elevated prices, the firm raised billions of dollars, eliminated near-term bankruptcy risk, and transformed its balance sheet almost overnight. A business that appeared to be on a downward glide path suddenly possessed a war chest large enough to attempt reinvention. The market had not merely repriced GameStop; it had suspended the binding constraint that normally forces rapid learning.

That outcome raises a question that extends well beyond a single retailer: did the short squeeze save an ailing firm with unrealized entrepreneurial potential, or did it prevent the liquidation of a badly run business that had already failed its market test? The distinction is central to Austrian economics. Saving a viable firm can allow entrepreneurial recombination and reorganization. Preserving a failed one risks freezing capital and labor in lines of production that consumers have already rejected.

Economists often distinguish between financial survival and economic validation, though popular discussions frequently collapse the two. A firm survives when it has access to capital. It is validated when customers willingly pay prices that cover costs and generate sustainable cash flow. These conditions frequently coincide, but they need not. When they diverge, capital can keep a firm alive even as its business model remains unproven—or has already been disproven.

Before 2021, GameStop had largely lost that validation. Physical game sales were shrinking, margins were under pressure, and the steady shift toward digital distribution—through platforms owned by console manufacturers and publishers—was eroding the retailer's role in the value chain. Losses were persistent rather than cyclical. By 2021, revenue had been in decline for over a decade, and in 2018 saw sales of its primary product, pre-owned and value goods, drop by **13 percent**. The store footprint was oversized relative to demand. Cash flow was deteriorating. These were not temporary setbacks caused by a weak quarter or a singular shock; they reflected structural decline in the firm's core

Net Sales of GameStop Worlwide From Fiscal 2010 to Fiscal 2023 (in Million US Dollars)



(Source: Statistica 2026. Published by Bruna Rocco)

business.Under ordinary market conditions, such a firm faces a reckoning. It restructures sharply, shrinks to its profitable core, or exits. From an Austrian standpoint, this is not "market cruelty" but knowledge transmission. Capital and labor are released from failed uses and redirected toward higher-valued ones. Liquidation is not the destruction of value; it is the recognition that value has already been destroyed and that further losses should be arrested.

The WallStreetBets-driven short squeeze disrupted that process. By allowing GameStop to raise equity at prices far above any reasonable estimate of near-term earning power, market discipline was suspended. The firm's survival was no longer contingent on consumer choice. Capital substituted for cash flow, and the hard budget constraint that normally enforces entrepreneurial discipline softened dramatically. Losses became tolerable. Time was purchased.

From an Austrian perspective, this matters because constraints are not arbitrary. They are the mechanism through which markets force alignment between plans and reality. When those constraints are relaxed—whether by central banks, governments, or speculative capital surges—error correction gives way to error tolerance. The system continues to function, but it functions more slowly and less accurately.

To be clear, buying time is not inherently irrational. Capital markets sometimes fund loss-making firms when uncertainty is high and future payoffs are difficult to forecast. Optionality has value. But Austrian economics emphasizes that time without discovery is not neutral. The question is not whether GameStop gained time, but whether that time was used to generate genuine entrepreneurial learning.

Following the squeeze, the firm pursued a series of initiatives framed as transformations rather than incremental improvements. The most visible was the launch of an NFT marketplace in 2022, intended to position the company at the intersection of gaming, digital ownership, and online communities. The idea was not obviously incoherent. But economics is not about plausibility; it is about revealed preference. Consumers vote with their spending, not with their enthusiasm.

Transaction volumes on the marketplace collapsed as interest in NFTs faded. Revenues were negligible. The initiative was eventually wound down. Official explanations cited regulatory uncertainty, but regulation does not extinguish demand. When consumers value a product, they find ways to access it. In this case, the market delivered a negative verdict.

A later decision was even more revealing. In late 2023, GameStop authorized its CEO to invest corporate cash in publicly traded securities. This was not an operating strategy aimed at improving production, logistics, or customer experience. It was a financial strategy. At that point, the firm was no longer primarily engaged in entrepreneurial discovery through production and exchange. It was implicitly conceding that returns might be more reliably earned through asset markets than through serving customers. More recently, the decision was made to enter the collectibles business, with early signs of success as the primary business of selling games continues to deteriorate.

Stock price behavior reinforces this distinction between trading success and business success. GameStop's post-squeeze history, even recently, has been characterized by extreme volatility. Investors who entered early and exited at precisely the right moment realized extraordinary gains. But those outcomes depended on timing, coordination, and tolerance for violent drawdowns—not on patient ownership of a firm generating rising cash flows. Over longer horizons, returns have been weak relative to risk. Holding the stock proved far less rewarding than trading it.

By contrast, firms operating in adjacent or overlapping spaces–such as Best Buy, Dick's Sporting Goods, Chewy, or Take-Two Interactive–generated value through far more ordinary means: selling products people wanted, managing costs, and producing operating cash flow. Their returns lacked drama, but they displayed durability. A successful trade validates a market position under unusual conditions. It does not validate a business model.

What, then, was delayed by the short squeeze? Most importantly, the liquidation counterfactual. Absent extraordinary access to capital, GameStop would have faced binding constraints by late 2020 or early 2021. Management would have been forced to close stores more aggressively, sell assets, renegotiate leases, and concentrate narrowly on whatever segments could plausibly generate positive cash flow. Some capital would have been written off. Employees and physical locations would have been redeployed elsewhere in the economy. This would not have been painless, but it would have represented a rapid resolution of error.

Instead, that liquidation–which might have sent its assets into other, more competent hands–was postponed. Capital remained locked inside a firm whose entrepreneurial direction remained unclear. From an Austrian perspective, this is not a moral failure but a systemic one: the knowledge embedded in losses was not allowed to do its work. Discovery slowed. Misallocation persisted.

So did the short squeeze save GameStop, or did it merely preserve it? The honest answer is that it did both. It saved the firm financially while leaving its economic status unresolved. Survival was secured. Validation remains pending. Austrian economics cautions against mistaking one for the other.

Markets are powerful coordinating mechanisms, but they are not redemptive. They can rescue firms without validating them. They can delay liquidation without ensuring renewal. Ultimately, only consumers determine whether a business deserves to persist.

Until GameStop converts the time it purchased into durable, self-funding cash flows, its story remains an open question—not a triumph of markets, nor a failure of them, but a reminder of the difference between staying alive and being worth keeping.

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