

AIER Research Reports

Volume XCI
May 2026



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

Peter C. Earle, Ph.D

Managing Editor

Alexander Gleason

Assistant Editor

Jon Miltimore

Senior Editor, The Daily Economy

Laura Williams

Managing Editor, The Daily Economy

Contents

- 4 From the Managing Editor**
Peter C. Earle (Senior Research Fellow)

- 6 Business Conditions Monthly February 2026**
Peter C. Earle (Senior Research Fellow)

- 26 Why Undoing the EPA’s Greenhouse Gas Rule Matters for Americans**
Thomas Savidge (Research Fellow)

- 29 Early Supercomputing Helped Reduce Cold War Risks**
Jeffrey L. Degner (Research Fellow)

- 32 Why Gas Tax Holidays Backfire**
Thomas Savidge (Research Fellow)

- 34 Bootleggers, Baptists, and Others Who Benefit From Tax Complexity**
Julia R. Cartwright (Senior Research Fellow in Law & Economics)

- 37 From Fatal Conceit to the Friendly Skies: How Deregulation Made Flight Affordable**
Jeffrey L. Degner (Research Fellow)

- 40 Why AI Won’t Kill the Firm**
Peter C. Earle (Senior Research Fellow)

- 42 Headline Inflation Surged in March, but Core Remained Muted**
Bryan P. Cutsinger (Fellow, Sound Money Project)

- 44 Progressive Taxes May Discourage the Most Productive Work**
Jason Sorens (Senior Research Fellow)

May 2026

From the Managing Editor

Peter C. Earle
Senior Research Fellow

Heading toward the midterms, and given the success of the nationwide political sprint to the far left, Americans will likely be subject to campaign discourse asserting that some, many, or all large US corporations “pay no taxes.” It is a line that travels well and hits hard: simple, indignant, and politically useful. It is also, while not wholly fabricated, profoundly misleading: it compresses a complex institutional reality into a claim that obscures more than it explains.

Start with the basic structure: corporations are not taxed on revenue. They are taxed on *taxable income*, which is, revenue minus costs, expenses, and legally permitted adjustments. This is not a loophole. It is the foundation of any income tax system that attempts to measure net gain rather than gross receipts. A firm that spends heavily to generate income is not, and should not be, taxed as though those costs do not exist.

From there, things become more nuanced. Businesses are allowed to deduct ordinary expenses—wages, rent, materials, and interest payments. Beyond that, the tax code permits deductions for research and development and for capital investment through depreciation. In recent years, accelerated depreciation has allowed firms to write off large portions of investment costs upfront. The result is straightforward: a company making substantial investments may appear highly profitable to shareholders while reporting little or no taxable income in that same year.

Another key feature is the treatment of losses. Firms that lose money in one period can carry those losses forward to offset profits in future years. This mechanism—net operating loss carryforwards—reflects the simple reality that economic activity unfolds over time. A company recovering from earlier losses may show profits today, but still have no taxable income because it is effectively making up ground from prior downturns. Ignoring this is equivalent to pretending that each year exists in isolation.

Tax credits further complicate the picture. Unlike deductions, which reduce taxable income, credits reduce tax liability directly, dollar for dollar. Credits for research, energy investment, and taxes paid abroad can significantly lower what firms owe. In some cases, they can eliminate it entirely for a given year. Again, this is not an oversight—it is the result of deliberate policy choices aimed at encouraging certain activities or preventing double taxation.

For multinational corporations, there is an additional layer. Firms operating across borders must navigate different tax regimes, and they allocate income

accordingly. Mechanisms such as transfer pricing and the placement of intellectual property in lower-tax jurisdictions are often portrayed as evasive. In reality, they are governed by detailed rules and reflect the fact that modern corporations are not confined to a single national economy. While the outcomes may be controversial, they are not clandestine.

Much of the public confusion stems from the difference between “book” income and taxable income. Companies report profits to shareholders under one set of accounting standards and to tax authorities under another. These systems diverge in their treatment of investment, timing, and expenses. It is therefore entirely possible for a firm to report substantial profits in its financial statements while reporting minimal taxable income. When headlines declare that a corporation “paid no taxes,” they are often comparing figures that were never intended to align.

Taken together, these features produce a system in which tax liabilities can fluctuate significantly from year to year. Firms that are investing heavily, emerging from losses, or operating globally may report little or no tax liability in a given period. Over time, however, profitable corporations do pay taxes—often in very large amounts. What the system allows is not the permanent avoidance of taxation, but the timing and structuring of it.

None of this suggests that the corporate tax code is clean or especially coherent. It reflects decades of layered legislation, competing priorities, and political compromise. But it is not mysterious. The mechanisms that reduce corporate tax liabilities are extensively documented, explicitly written into the tax code, and well understood by every member of Congress.

The ‘untaxed corporation’ rhetoric is a corrupt effort to inflame and mobilize anger, not to clarify policies or—as some of its purveyors would undoubtedly like it portrayed—to courageously address some monstrous wrongdoing. It relies on partial truths, stripped of context, to suggest systemic abuse. But the reality is more straightforward and, in some ways, more revealing: the system is functioning as constructed. The outcomes are not aberrations. They are the predictable results of rules written and approved in plain sight. These are not accidents. They are choices. And the people invoking them as evidence of injustice know that perfectly well.

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

May 2026

Business
Conditions Monthly
February 2026

Peter C. Earle
Senior Research Fellow

The February 2026 AIER Business Conditions Monthly (BCM) highlights a notable divergence across the economic cycle, with forward-looking indicators softening, contemporaneous measures deteriorating, and lagging data continuing to reflect earlier resilience, although some of this pattern may be influenced by incomplete data and ongoing catch-up from prior reporting gaps.

LEADING INDICATOR (46)

The Leading Indicator registered **46**, with five of twelve components improving, one unchanged, and six declining.

Advances were concentrated in a handful of forward-looking and demand-related measures. The 1-Year to 10-Year US Treasury Yield Spread narrowed sharply by **40.4 percent** but was scored positively given its inversion. Labor-market forward conditions strengthened as US Initial Jobless Claims SA declined **7.0 percent** (a positive after inversion). Adjusted Retail and Food Services Sales Total SA increased **0.7 percent**, while the Conference Board US Manufacturers New Orders Nondefense Capital Goods Ex Aircraft rose **0.5 percent**. The Conference Board US Leading Index Manufacturers' New Orders Consumer Goods and Materials edged higher by **0.1 percent**.

These gains were outweighed by declines across several key areas. The Conference Board US Leading Index Stock Prices 500 Common Stocks fell **0.6 percent**, and the University of Michigan Consumer Expectations Index declined **0.7 percent**. The Inventory-to-Sales Ratio Total Business dropped **1.5 percent**, and Debit Balances in Customers' Securities Margin Accounts decreased **2.0 percent**. United States Heavy Truck Sales SAAR fell **3.3 percent**, while US New Privately Owned Housing Units Started by Structure Total SAAR declined **3.4 percent**. US Average Weekly Hours All Employees Manufacturing SA was unchanged.

Taken together, the leading components point to a loss of momentum in forward indicators, with isolated areas of strength unable to offset broader softness in housing, expectations, and financial market signals.

ROUGHLY COINCIDENT INDICATOR (17)

The Roughly Coincident Indicator came in at **17**, with one component improving and five declining.

US Industrial Production increased **0.7 percent**, representing the sole area of strength. Elsewhere, conditions weakened: Conference Board Coincident Manufacturing and Trade Sales slipped **0.1 percent**, while US Employees

on Nonfarm Payrolls Total SA was essentially flat, posting a slight decline. US Labor Force Participation Rate edged down **0.2 percent**, and Conference Board Coincident Personal Income Less Transfer Payments fell **0.4 percent**. Conference Board Consumer Confidence Present Situation SA dropped **2.5 percent**.

Overall, the coincident data depict a soft and weakening current environment, where declines in income, participation, and sentiment outweigh modest gains in production.

LAGGING INDICATOR (67)

The Lagging Indicator stood at **67**, with four components improving and two declining.

Strength was concentrated in credit and inventory measures. Conference Board US Lagging Commercial and Industrial Loans rose **2.1 percent**, while US Commercial Paper Placed Top 30 Day Yield increased **1.1 percent**. US Manufacturing and Trade Inventories Total SA advanced **0.4 percent**, and Census Bureau US Private Construction Spending Nonresidential SA increased **0.2 percent**. Against this, US CPI Urban Consumers Less Food and Energy Year over Year NSA declined **1.9 percent**, and the Conference Board US Lagging Average Duration of Unemployment rose **8.4 percent** and was scored negatively after inversion.

The lagging components continue to reflect underlying firmness in credit conditions and inventories, though the increase in unemployment duration and easing inflation suggest that slack is beginning to emerge beneath the surface.

The February 2026 BCM readings point to a deterioration in forward and contemporaneous conditions alongside continued firmness in trailing measures. The Leading Indicator (**46**) signals fading momentum, with gains in select demand indicators overshadowed by declines in housing, expectations, and market-based measures. The Roughly Coincident Indicator (**17**) underscores a weak present, marked by broad-based softness in income, participation, and sentiment. By contrast, the Lagging Indicator (**67**) reflects residual strength in credit and inventory accumulation, even as labor market strains begin to build. Compared with January's configuration (**63**, **42**, **33**), the shift is notable: forward and current indicators have weakened materially, while lagging measures have strengthened, consistent with a loss of economic momentum. Taken together, the pattern suggests an economy transitioning from uneven expansion toward a more fragile footing.

DISCUSSION, MARCH — APRIL 2026

March's CPI report reflects a sharp but narrowly driven acceleration in headline inflation, with gasoline prices — surging in the wake of the Iran conflict — accounting for the bulk of the increase. Headline CPI rose **0.87 percent** month-over-month, the fastest pace in nearly four years, lifting the year-over-year rate to **3.5 percent** from **2.4 percent**. In contrast, core CPI remained subdued at **0.20 percent** on the month and **2.6 percent** year-over-year, as easing in services and stability across several heavily weighted goods categories helped contain broader price pressures. Energy alone contributed roughly 70 basis points to the monthly headline gain, with gasoline prices jumping over **21 percent** on a seasonally adjusted basis — the largest increase on record. Outside of energy and a modest pickup in airfares, the transmission of higher commodity prices into consumer prices remains limited for now, reflecting the typical lag in pass-through. Food prices were largely flat, while core goods inflation held at **0.1 percent** amid a mix of declines in categories such as used cars, household furnishings, and prescription drugs, offset by strength in technology-related goods tied to memory-chip shortages and selective increases in apparel and recreation items.

Beneath the surface, inflation dynamics remain mixed but relatively contained, with some evidence of modest firming in the breadth of price increases alongside continued softness in key service categories. The share of core components running above the Fed's two-percent target edged higher, though still below levels seen in prior years, while core services inflation slowed to **0.2 percent** despite a slight reacceleration in rents. Discretionary services — including travel, lodging, and recreation — showed signs of weakening, potentially reflecting early consumer sensitivity to higher fuel costs. Looking ahead, near-term inflation is likely to remain elevated as energy prices continue to feed through, with additional pressure expected in airfares and a possible one-time firming in rents. However, a recently announced ceasefire and still-muted core trends suggest that underlying inflation may remain manageable. Against this backdrop, the Federal Reserve is likely to maintain a wait-and-see posture, holding rates steady through much of 2026 as it assesses the balance between transient energy-driven inflation and a still-cooling core, with markets continuing to price limited near-term policy easing.

Complementing this picture, February's PCE data indicate that underlying inflation pressures were already firming before the Iran conflict, particularly within

goods categories tied to global supply chains. Core PCE — the Fed's preferred gauge — remained elevated near **3 percent** year-over-year, with shorter-run annualized measures moving higher, driven in part by durable goods such as vehicles, apparel, and technology-related components linked to memory-chip shortages. At the same time, service-sector inflation showed signs of moderation, with categories such as health care and recreation contributing less to overall price growth. Notably, core PCE appears to have accelerated relative to core CPI, reversing its typical relationship and widening the gap between the two measures to unusually large levels. This divergence reflects differences in composition and weighting — particularly PCE's greater exposure to financial services, food services, and technology-related goods — while also highlighting how sector-specific shocks can shape broader inflation readings.

Taken together, the data suggest an inflation environment that is neither reaccelerating broadly nor decisively cooling, but instead being shaped by a shifting mix of supply-side pressures and uneven demand. Energy and goods-related shocks are pushing headline measures higher and adding volatility to core readings, while services — still the dominant driver of inflation — are gradually easing but remain firm enough to prevent a rapid return to target. As of early April 2026, US inflation appears increasingly bifurcated: headline measures are being driven by geopolitical and commodity shocks, while underlying inflation is moderating only slowly and unevenly. This leaves the overall trajectory uncertain, with inflation neither clearly reaccelerating nor convincingly returning to the Federal Reserve's two-percent objective.

Recent labor market data present a picture of resilience in the near term, though much of the apparent strength reflects temporary factors rather than a clear reacceleration in underlying demand. March payrolls rebounded by 178,000 following a weather- and strike-depressed February, with gains concentrated in sectors that had previously been disrupted, including leisure and hospitality, construction, and health care. The resolution of the Kaiser Permanente strike alone mechanically boosted employment, while improved weather conditions supported hiring in cyclical sectors. Private payrolls rose 186,000, led by services, though pockets of weakness persisted in professional and business services, finance, and information — areas likely facing structural adjustments, including ongoing layoffs tied to technological change. Wage growth moderated to **0.2**

percent, and a slight decline in hours worked weighed on aggregate income, suggesting that labor-market momentum remains modest beneath the headline rebound. The unemployment rate fell to **4.26 percent**, though this was driven in part by a decline in labor-force participation, pointing to a labor market that is stable but not tightening materially.

Broader indicators continue to signal a gradual cooling in labor demand, reinforcing the view that conditions are settling rather than strengthening. Job openings declined to 6.88 million in February, while the hiring rate fell to its lowest level since 2020, reflecting employer caution amid rising costs and growing uncertainty even before the escalation of the Iran conflict. The ratio of vacancies to unemployed workers remains below one, indicating that labor supply is no longer being outpaced by demand, while the quits rate has fallen to pandemic-era lows, suggesting reduced worker confidence in job mobility. Initial jobless claims have edged higher but remain historically contained and geographically limited, underscoring the absence of broad-based layoffs. Taken together, the data suggest a labor market that is holding up in the short run – supported by temporary rebounds and seasonal factors – but gradually losing dynamism. Looking ahead, higher input costs and tighter financial conditions could weigh more heavily on hiring in the second half of the year, leaving policymakers inclined to remain patient as they assess whether current stability gives way to more meaningful softening.

March's ISM Manufacturing report suggests continued expansion, though the underlying details point to a more nuanced and less robust picture than the headline implies. The PMI rose to 52.7, supported largely by slower supplier deliveries and inventory drawdowns tied to supply disruptions stemming from the Iran conflict, rather than a broad-based strengthening in demand. In contrast, forward-looking components softened: new orders eased to 53.5, export demand declined, and order backlogs grew more slowly, indicating some loss of momentum on the demand side. Production picked up, and inventories were depleted more quickly, consistent with firms working through constrained supply chains rather than responding to accelerating end demand. At the same time, the prices-paid index surged to 78.3, reflecting a sharp rise in input costs, while employment continued to contract modestly. Taken together, the report points to an industrial sector still expanding but increasingly shaped by the tension between rising costs and moderating demand, with supply-side disruptions playing an outsized role in recent strength.

The ISM Services report, by contrast, highlights continued growth but with clearer signs of strain from rising costs and operational pressures. The headline index declined to 54.0 from 56.1, remaining in expansion territory but marking a loss of momentum, even as new orders strengthened further and export demand improved. Beneath the surface, however, firms are facing a sharp increase in input costs, with the prices index jumping to 70.7 – the largest monthly gain in nearly 14 years – and supply chains showing renewed signs of stress. These pressures appear to be weighing on hiring, with the employment component falling into contraction for the first time in several months, and production slowing. Business commentary points to rising fuel costs, logistical disruptions, and broader geopolitical uncertainty as key challenges, particularly in transportation and travel-related industries. Overall, the services sector remains a source of growth, but the combination of firm demand and intensifying cost pressures introduces a more balanced and uncertain outlook, especially as firms adjust hiring and investment decisions in response to the evolving environment.

Recent sentiment data across consumers and small businesses suggest a modest improvement in current conditions but a growing sense of caution about the outlook, particularly as rising energy costs and geopolitical uncertainty begin to weigh on expectations. The Conference Board's consumer confidence index edged higher in March, driven by a stronger assessment of present conditions and a still-stable view of the labor market, with slightly more consumers reporting jobs as plentiful. However, forward-looking components weakened, including expectations for income, employment, and spending across services categories. At the same time, inflation expectations moved sharply higher, with year-ahead expectations rising above **6 percent**, signaling that higher oil prices are beginning to shape household perceptions. The University of Michigan survey paints a somewhat softer picture overall, with headline sentiment declining and both current conditions and expectations deteriorating, particularly after the onset of the Iran conflict. While short-term inflation expectations rose, longer-term expectations remained relatively anchored, suggesting consumers still view the current price pressures as at least partially transitory.

Small-business sentiment also softened meaningfully in March, reflecting rising costs and elevated uncertainty, though the deterioration remains concentrated in expectations rather than current activity. The NFIB

Small Business Optimism Index fell below its long-run average for the first time in nearly a year, driven by weaker profit trends, declining expectations for business conditions, and reduced plans for capital spending. At the same time, hiring plans held steady and expected real sales eased only modestly, indicating that firms have yet to materially pull back on operations. The sharp rise in the uncertainty index underscores the role of policy, cost pressures, and geopolitical developments in shaping business outlooks. Taken together, the data suggest a sentiment environment that is holding up at present but becoming increasingly fragile, with rising inflation expectations and uncertainty posing risks to both consumer spending and business investment in the months ahead.

Recent retail and consumption data point to a consumer sector that remains nominally resilient but is showing clearer signs of strain once adjusted for inflation and income dynamics. Headline retail sales rose a strong **1.7 percent** in March, boosted in large part by higher gasoline prices, with gains broadly distributed across categories including furniture, general merchandise, and online spending. Even excluding autos and gas, sales increased a solid **0.6 percent**, and control-group sales – a key input into GDP – rose **0.7 percent**. However, much of this strength appears to reflect price effects and temporary supports such as tax refunds and higher-income spending, rather than a sustained acceleration in real demand. In real terms, control-group sales were likely flat, consistent with a slowdown in first-quarter consumption growth to around **1.0 percent** from **1.9 percent** previously. Earlier PCE data reinforce this softer underlying picture: real personal spending rose just **0.1 percent** in February, with services – typically the more stable component – slowing to its weakest pace in several months, while goods spending was constrained by rising prices in categories such as vehicles and technology-related items.

At the same time, income growth has softened, adding to pressure on household finances. Personal income declined modestly in February, with slower gains in compensation and declines in transfer payments and dividend income weighing on the headline. With spending continuing to outpace income, the saving rate fell to **4.0 percent**, while real disposable income growth has slowed to one of its weakest rates in recent years. This combination suggests that consumers are increasingly relying on reduced savings and selective spending adjustments to maintain consumption levels. Evidence of this adjustment is already visible in weaker discretionary services spending and in goods categories where higher prices appear to be dampening volumes.

Taken together, the data suggest that while consumer spending has held up in nominal terms, underlying real demand is softening, leaving consumption increasingly vulnerable to further increases in energy prices and broader cost pressures.

Recent data on business investment and production suggest that underlying industrial momentum was solid heading into the Iran conflict, though near-term readings have been distorted by sector-specific swings and early supply disruptions. February's durable goods report showed a headline decline of **1.4 percent** driven largely by a sharp drop in aircraft orders, but underlying demand was firm, with orders excluding transportation rising **0.8 percent** and broad-based gains across primary metals, machinery, and motor vehicles. Core capital goods orders and shipments – key indicators of equipment investment – both strengthened, pointing to a healthy pace of business spending prior to the escalation in geopolitical tensions. By contrast, March industrial production fell **0.5 percent**, reflecting a combination of payback from strong February revisions, weaker vehicle output, declining utilities production, and emerging supply-chain constraints tied to the conflict. Manufacturing output edged lower despite prior signs of strength in survey data, while capacity utilization slipped modestly. Taken together, the data suggest that the investment cycle entered the current period on relatively firm footing, but faces a more uncertain outlook as defense-related demand and supply disruptions offset potentially softer private-sector activity amid rising costs and heightened uncertainty.

Pulling back to a wider view, recent macro data suggest the US economy entered 2026 with firmer underlying momentum than headline figures imply, even as the current environment has become more uncertain. Fourth-quarter GDP was revised down to a modest **0.5 percent** growth rate, but income-based measures point to stronger activity, with real gross domestic income rising **2.6 percent** and corporate profits posting robust gains. Much of this divergence reflects technical distortions tied to last fall's government shutdown, which depressed measured output while leaving underlying income and demand comparatively intact; real final sales to private domestic purchasers still advanced a solid **1.8 percent**. This stronger foundation is broadly consistent with the Federal Reserve's latest Beige Book, which describes continued, if modest, expansion across most regions through early April, with consumer spending holding up and manufacturing activity generally improving. At the same time, the report highlights a shift in tone, with firms increasingly citing geopolitical tensions and rising costs as sources of uncertainty, leading many to adopt

a more cautious, wait-and-see approach to hiring, pricing, and investment decisions.

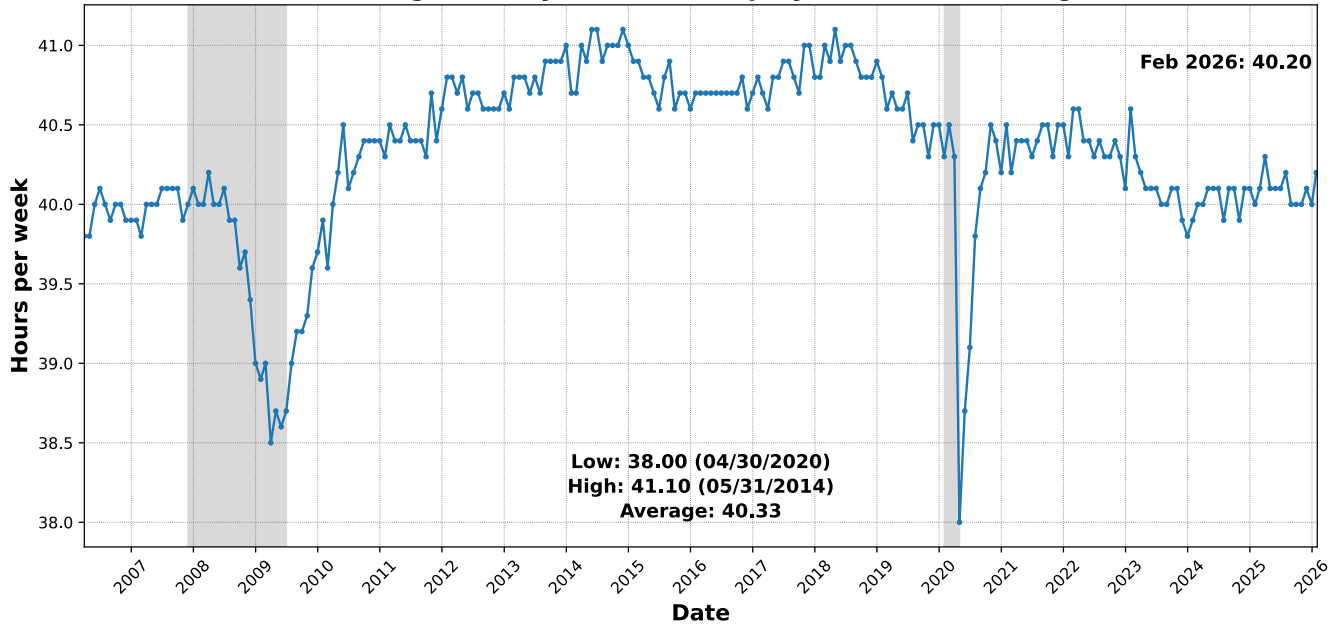
Against that backdrop, the policy outlook has tilted more cautious and incrementally hawkish, with the Federal Reserve signaling a clear preference to remain on hold amid heightened uncertainty and persistent inflation risks. Minutes from the March FOMC meeting indicate that while officials still see a path to eventual rate cuts, that timing has been pushed further out, with greater concern that inflation may prove more durable – even raising the possibility of additional tightening if price pressures fail to ease. At the same time, policymakers recognize a two-sided risk environment, in which the same oil-driven shock that lifts inflation could ultimately weigh on employment and growth, reinforcing a data-dependent and “nimble” approach. Near-term data are expected to show continued firm activity alongside elevated cost pressures, though the partial easing in oil prices following the early-April ceasefire may help reduce immediate risks to both inflation and growth. Fiscal factors are also providing some near-term support to demand, with tax refunds helping to sustain consumption despite rising energy costs. Overall, the policy stance reflects a balancing act: holding steady in the face of competing risks, while deferring any easing until clearer evidence emerges that inflation is durably moving back toward target.

Stepping back, the broader picture is one of an economy that remains fundamentally intact and, in several respects, more resilient than headline volatility might suggest. Growth entered 2026 on solid footing, inflation – while temporarily elevated by energy – remains contained beneath the surface, and both labor markets and business activity continue to expand, albeit at a more measured pace. At the same time, the composition of recent data reveals a system under pressure rather than in decline: real consumption is softening, hiring is becoming more selective, and firms are navigating rising input costs and supply disruptions with caution rather than retrenchment. The outlook, therefore, is cautiously constructive – supported by stable income growth, still-positive demand, and the likelihood that current inflation shocks will fade – but increasingly clouded by policy ambiguity, lingering tariff risks, and the unpredictable path of the Iran conflict. These crosscurrents leave the economy in a delicate but not unfavorable position: resilient in the present, but with confidence and momentum vulnerable to further shocks or missteps in policy.

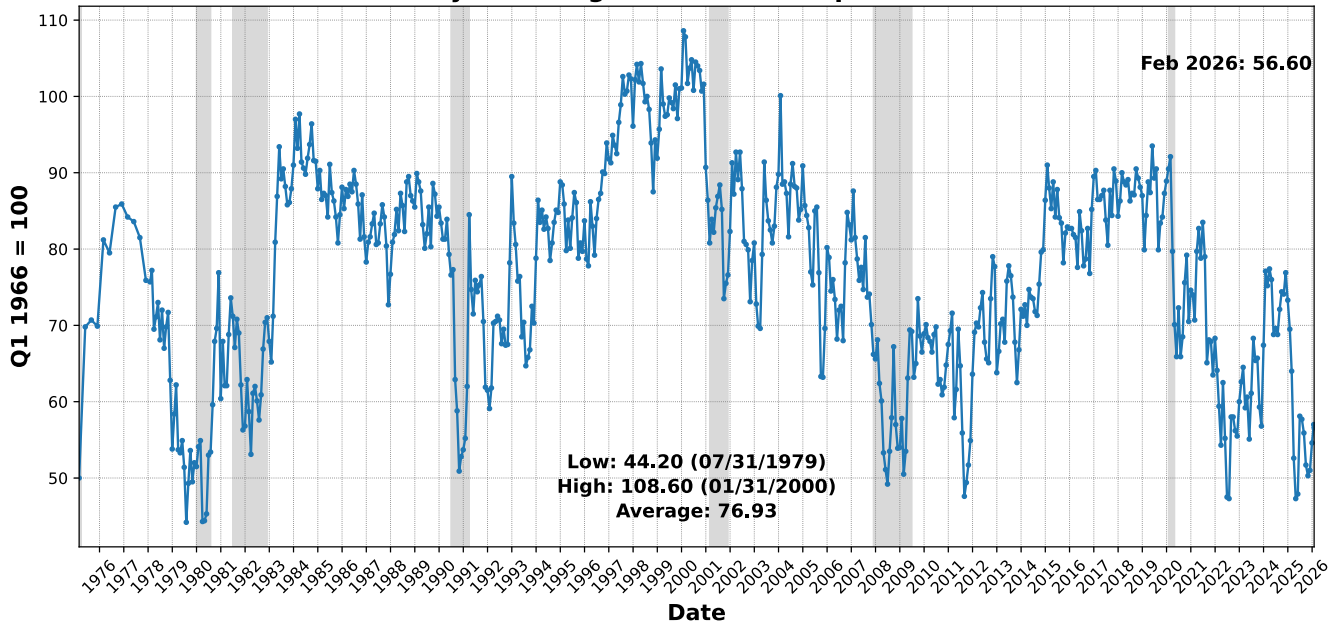
May 2026

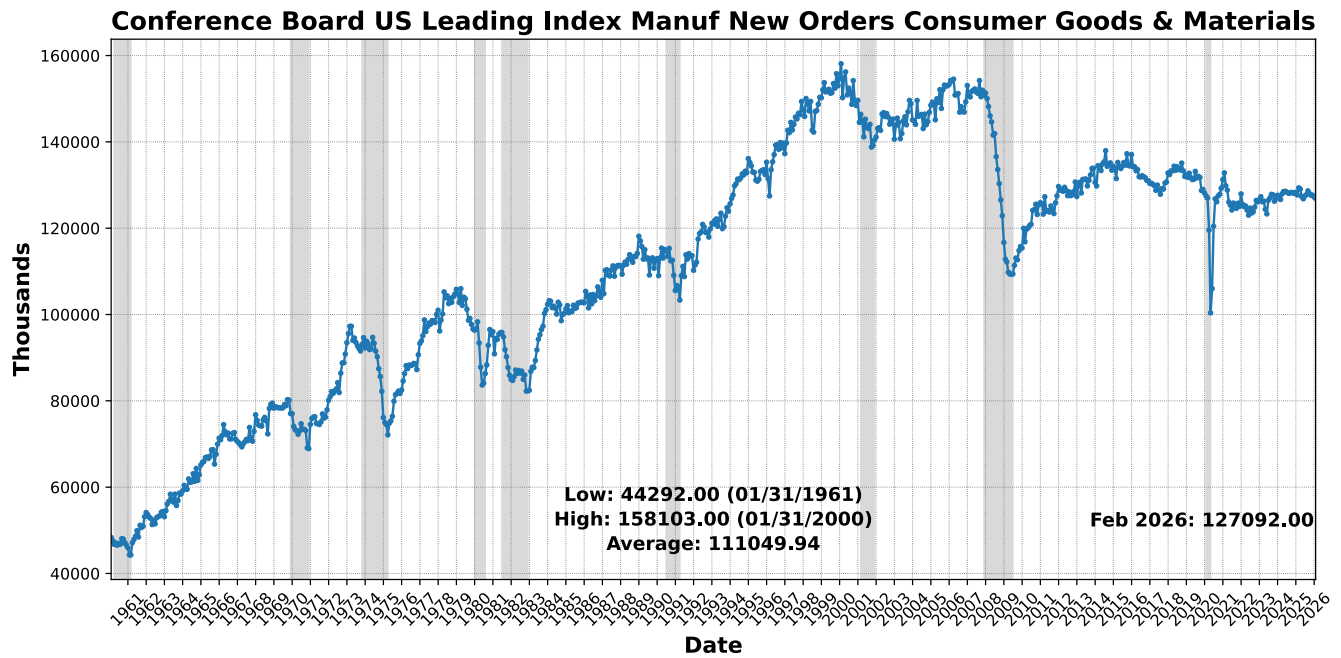
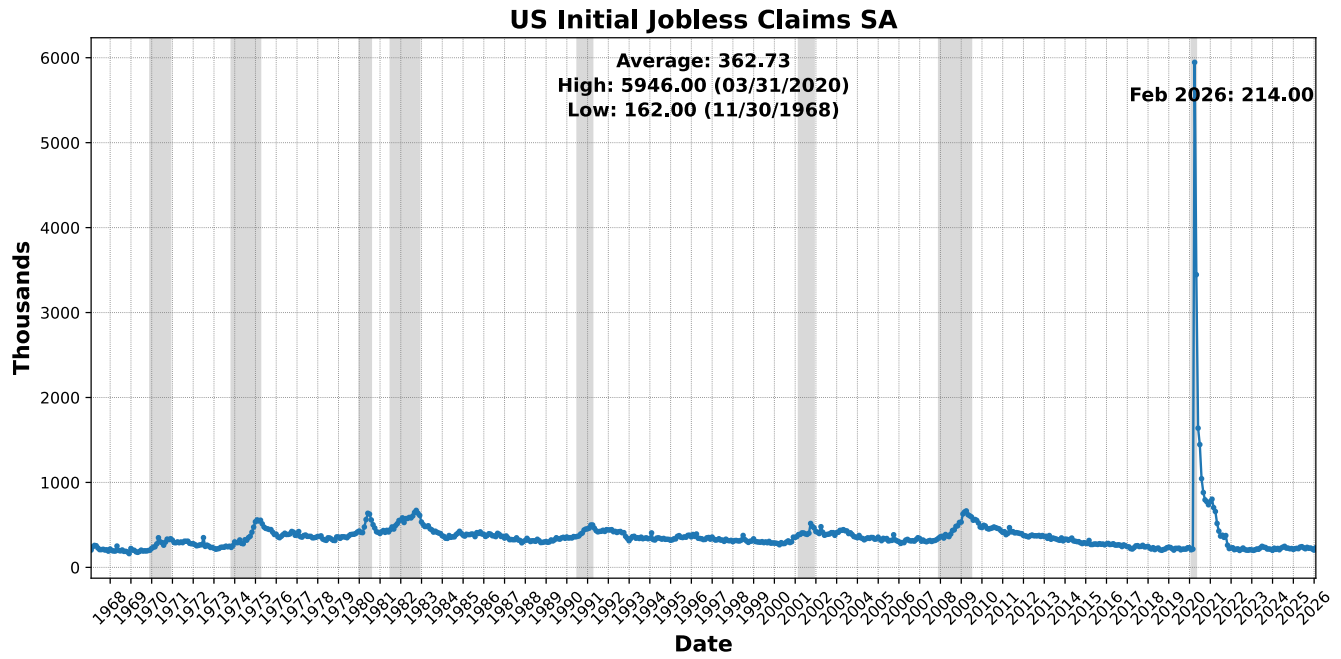
LEADING INDICATORS

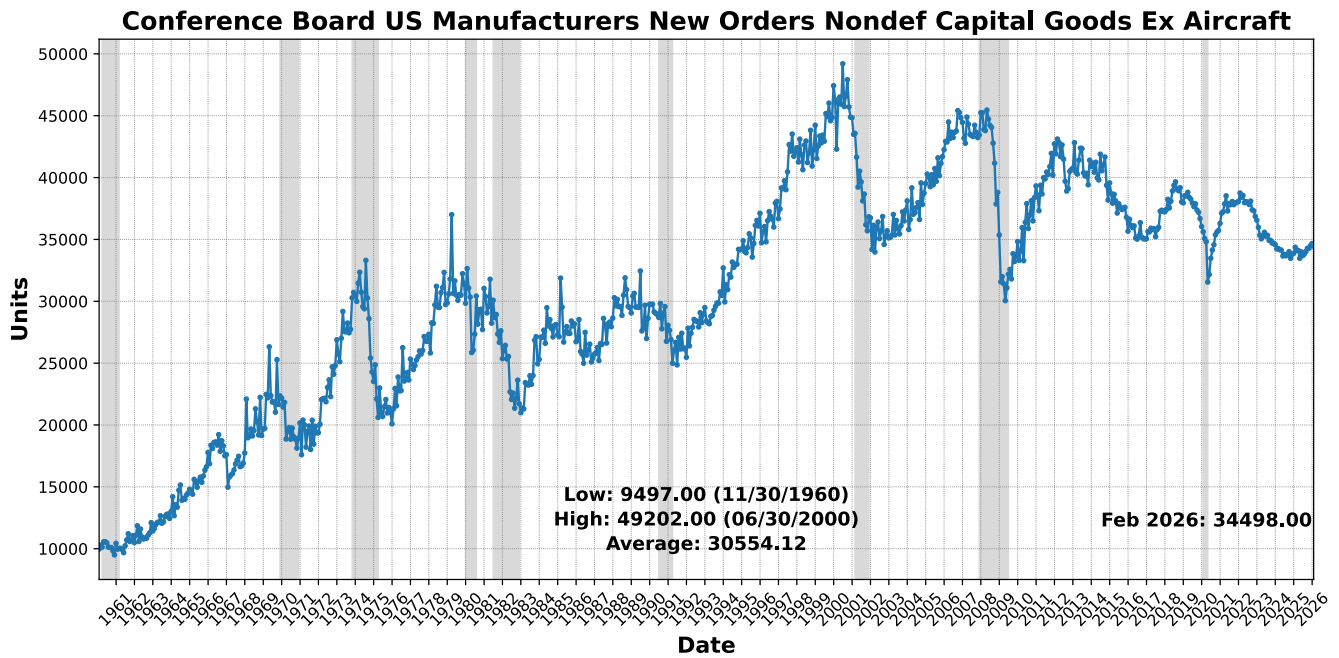
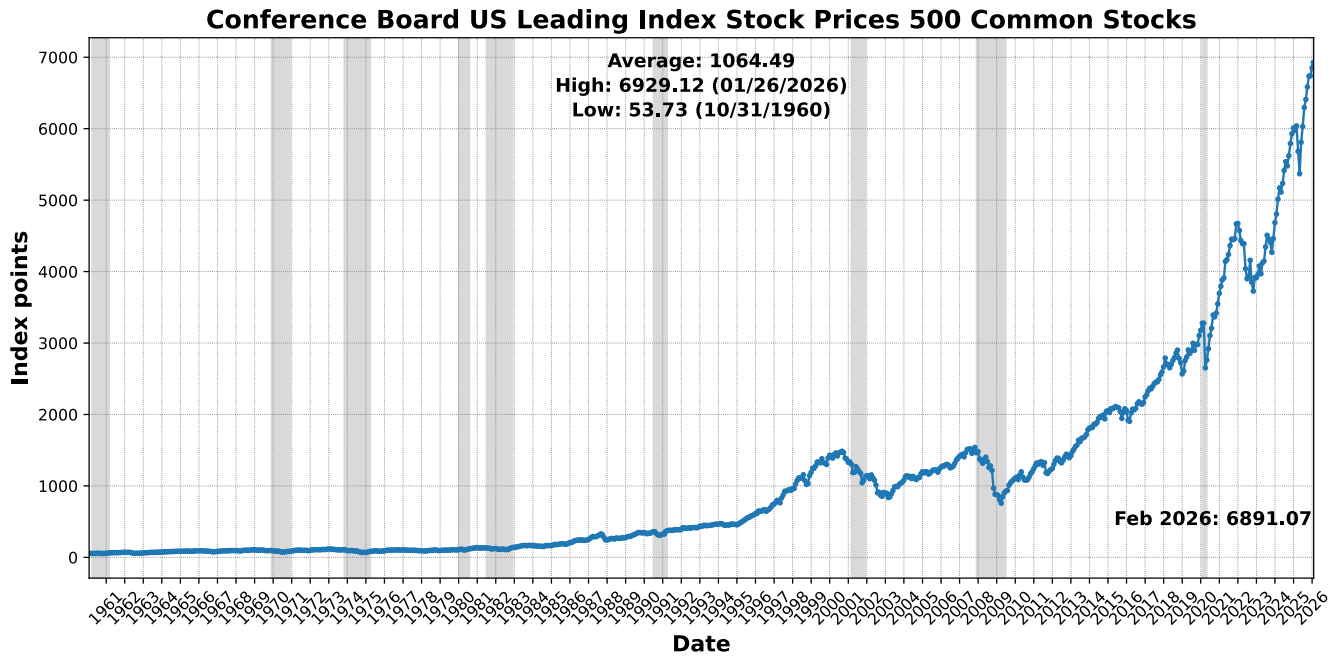
US Average Weekly Hours All Employees Manufacturing SA



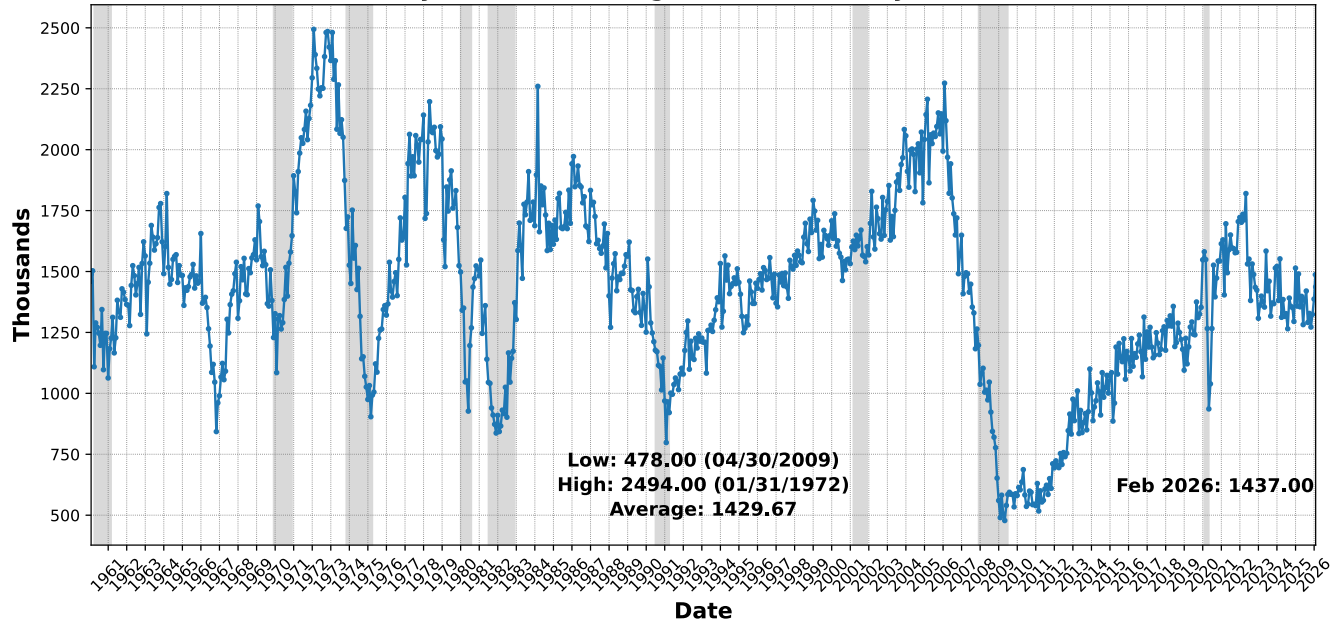
University of Michigan Consumer Expectations Index



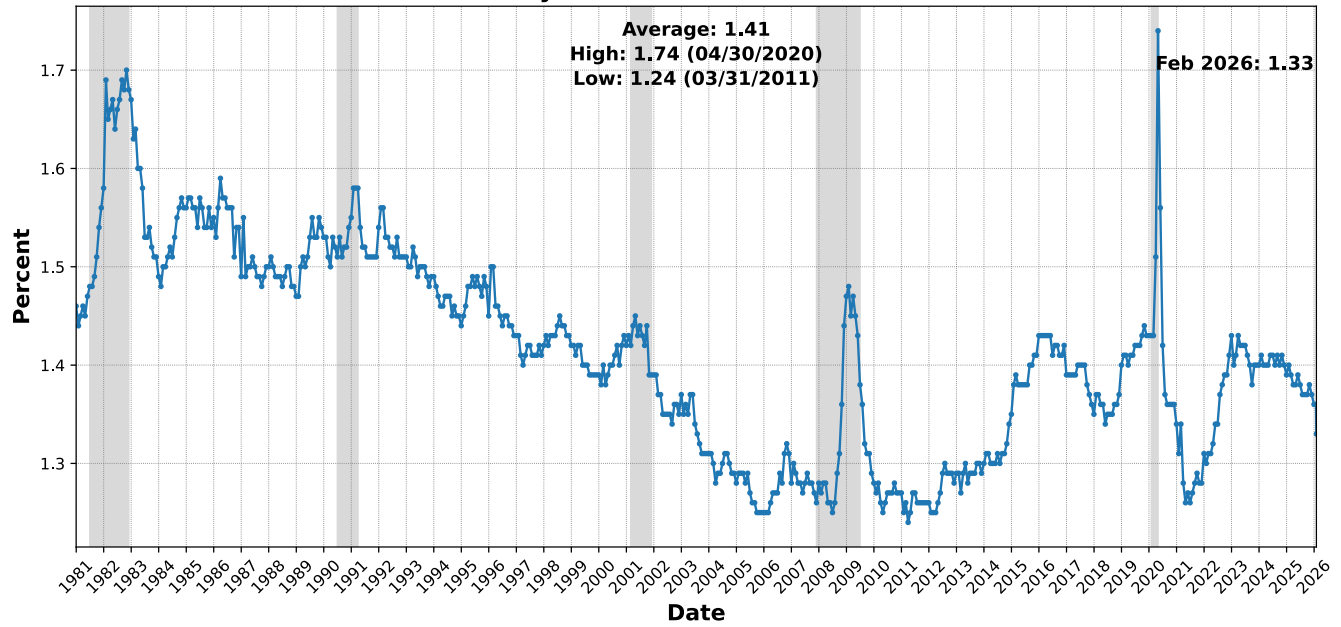




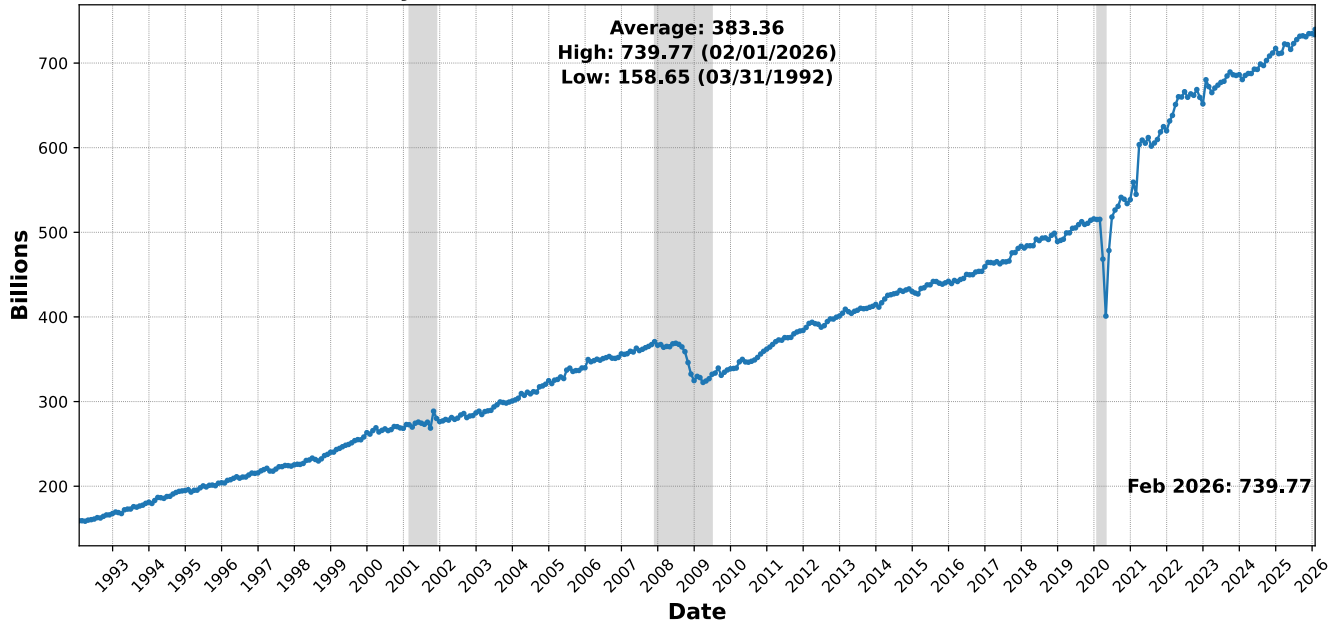
US New Privately Owned Housing Units Started by Structure Total SAAR



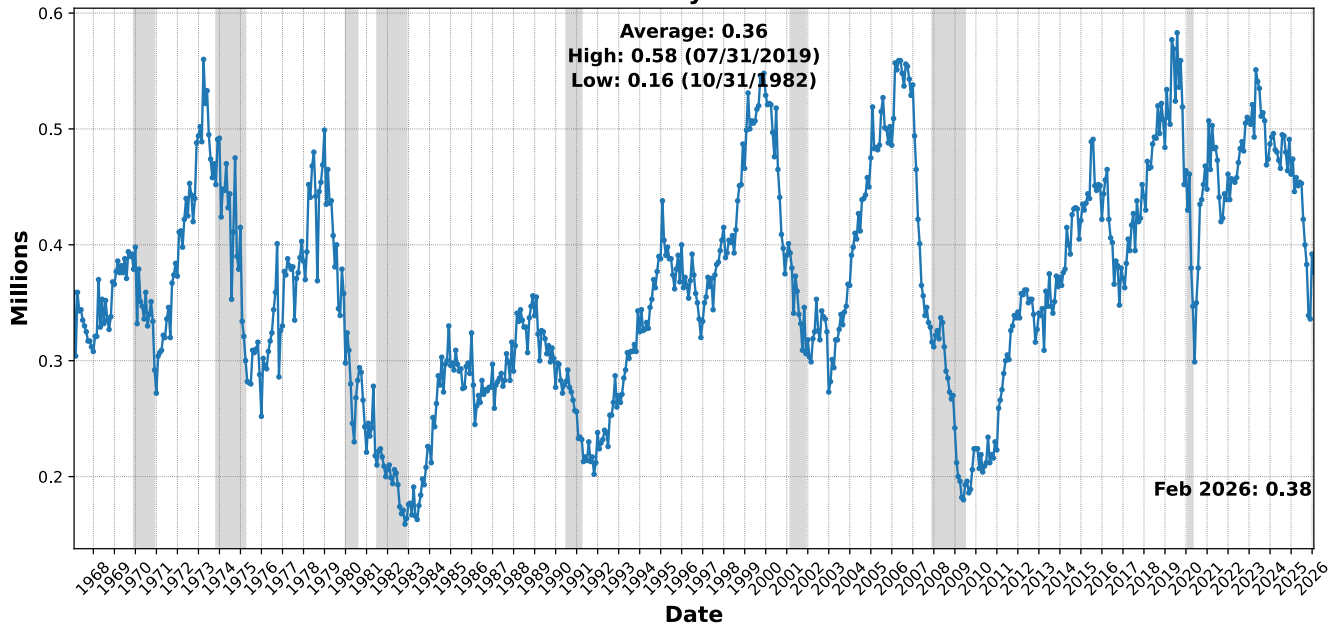
Inventory to Sales Ratio Total Business

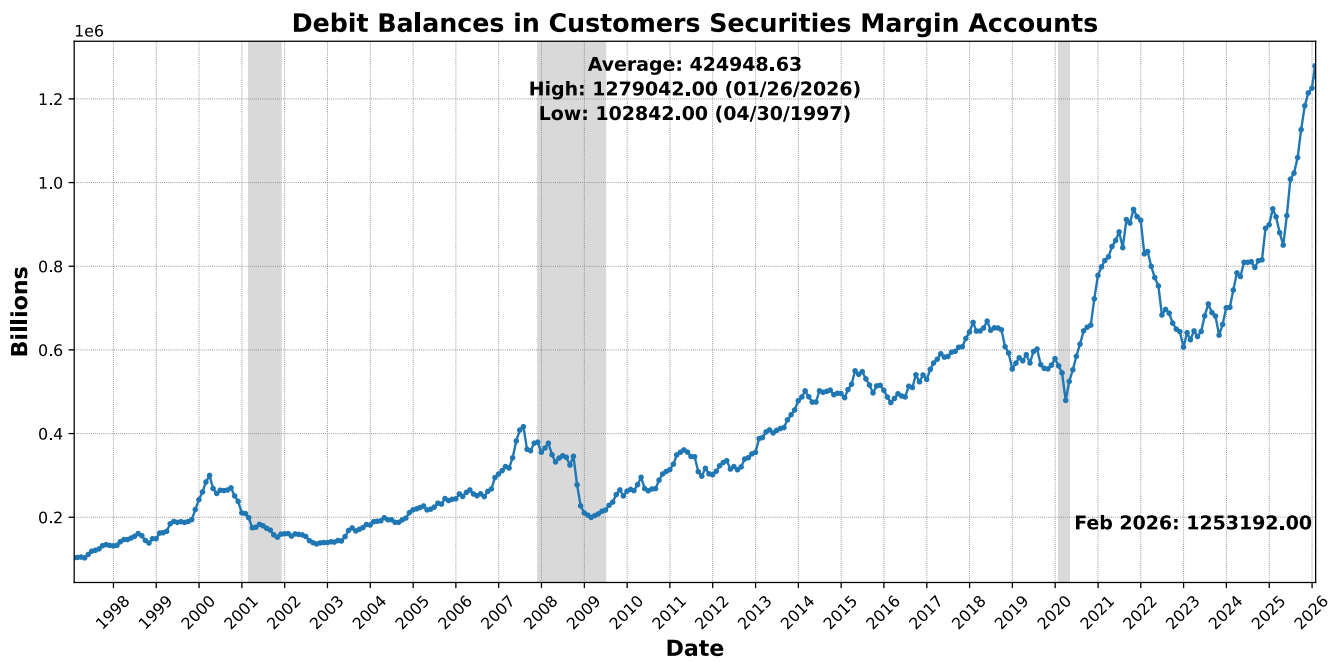
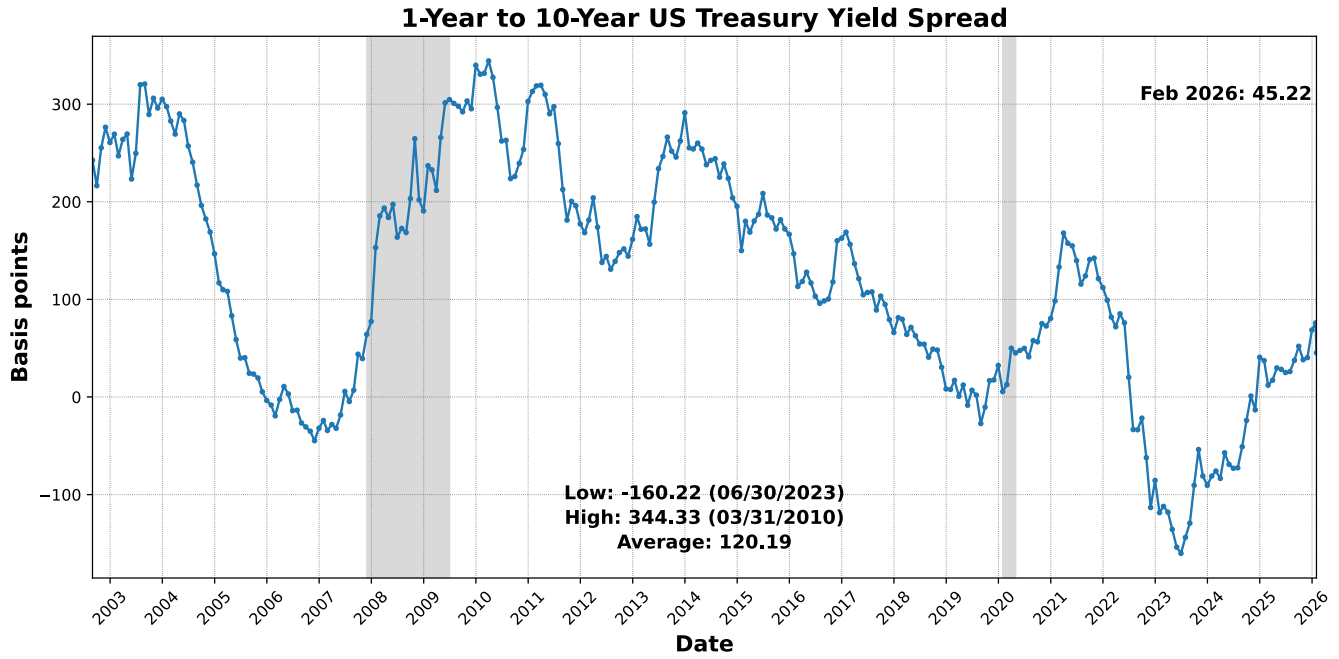


Adjusted Retail & Food Services Sales Total SA

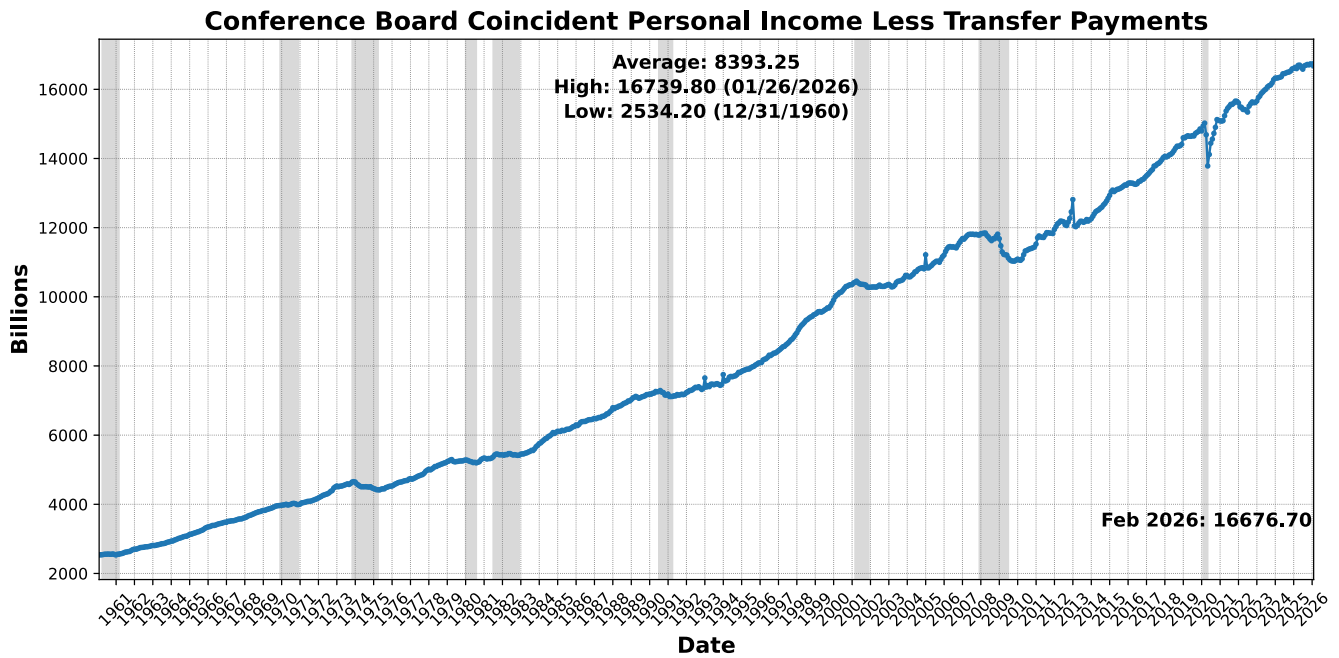
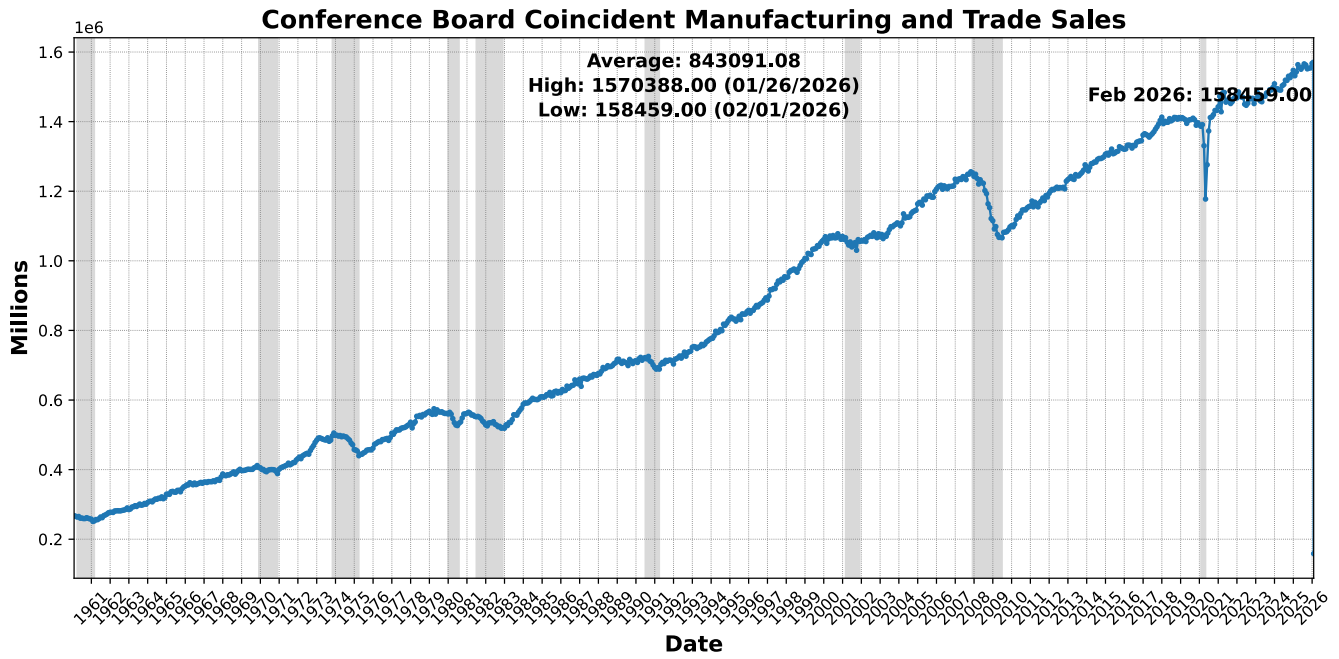


United States Heavy Trucks Sales SAAR

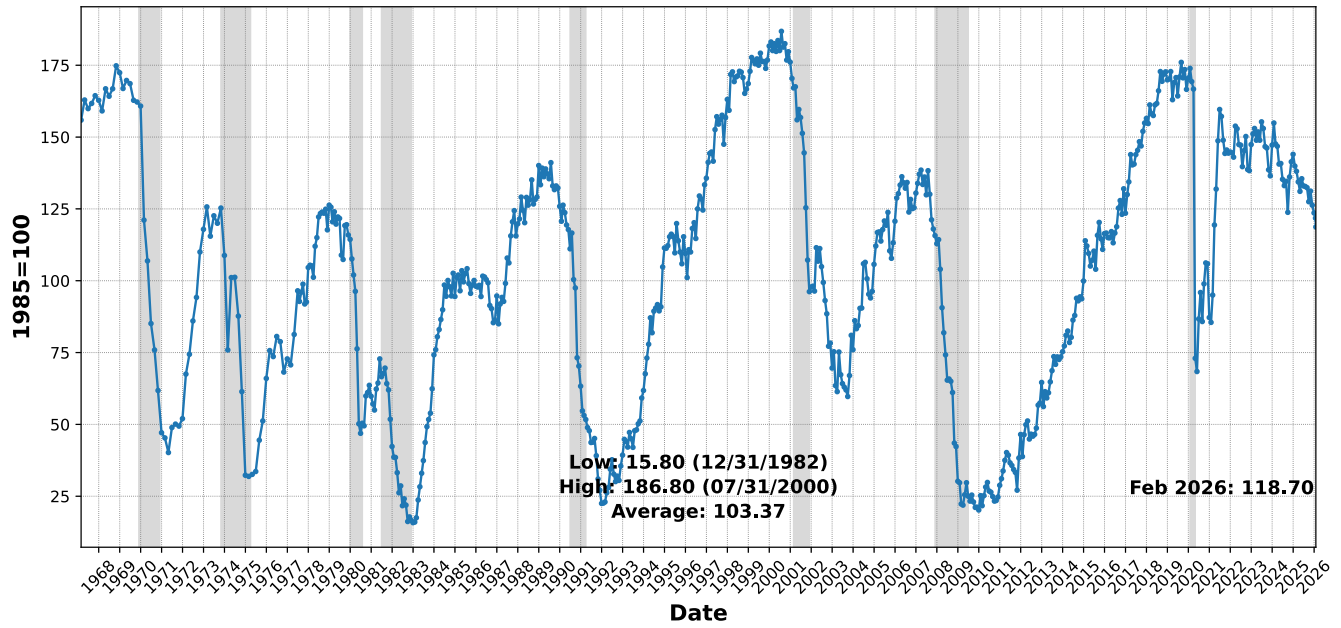




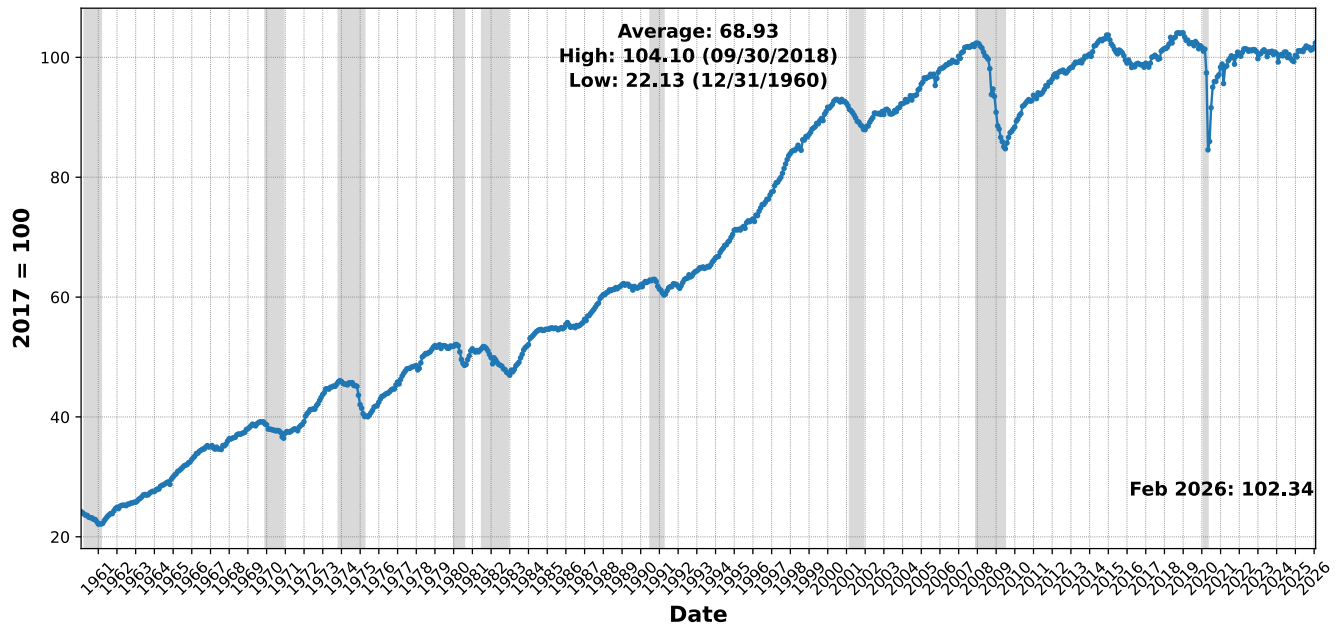
ROUGHLY COINCIDENT INDICATORS



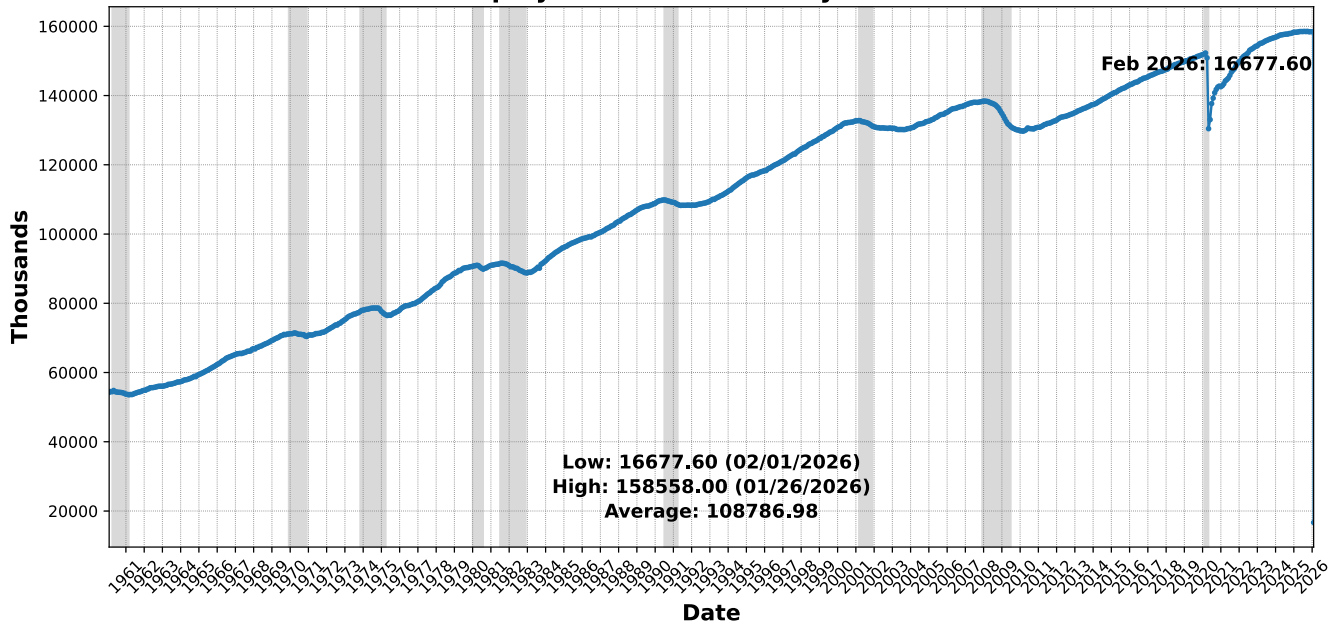
Conference Board Consumer Confidence Present Situation SA



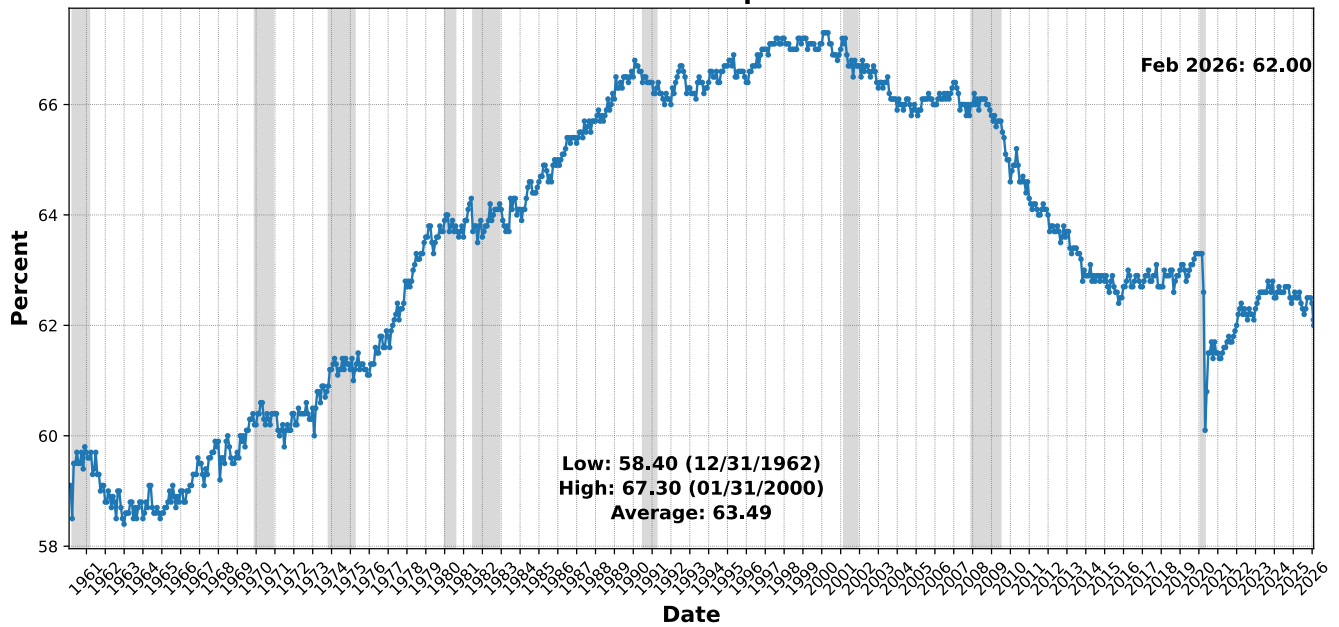
US Industrial Production SA



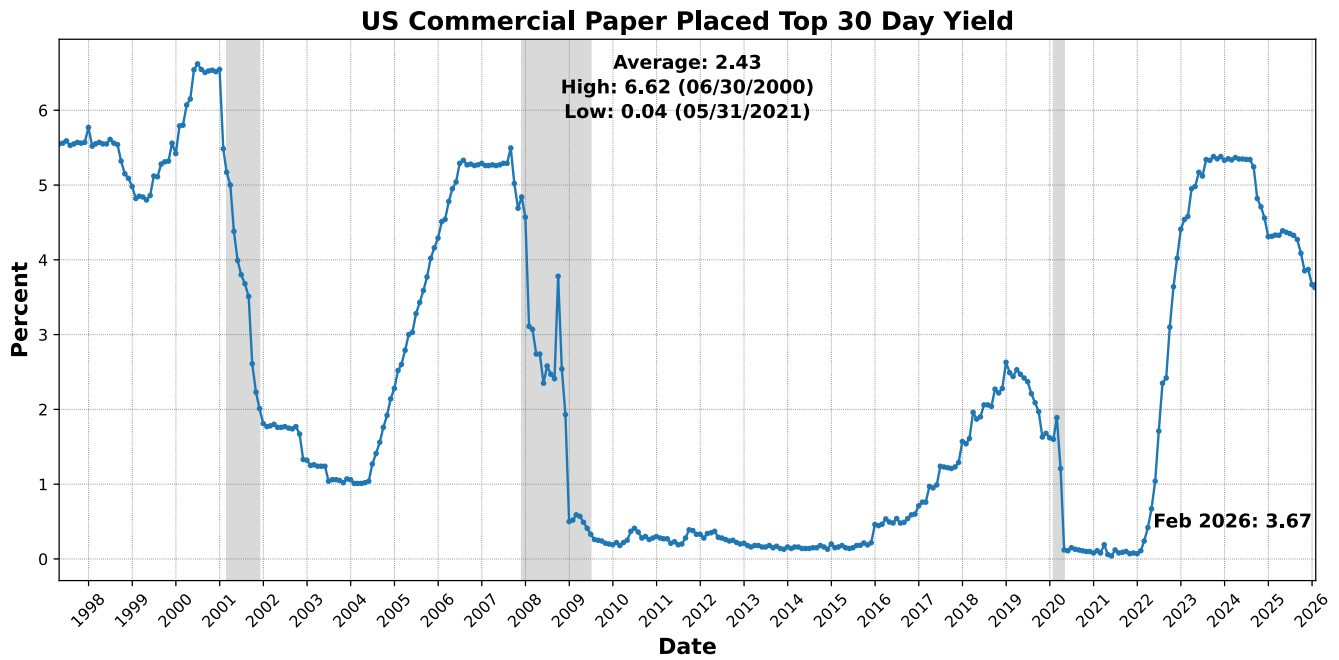
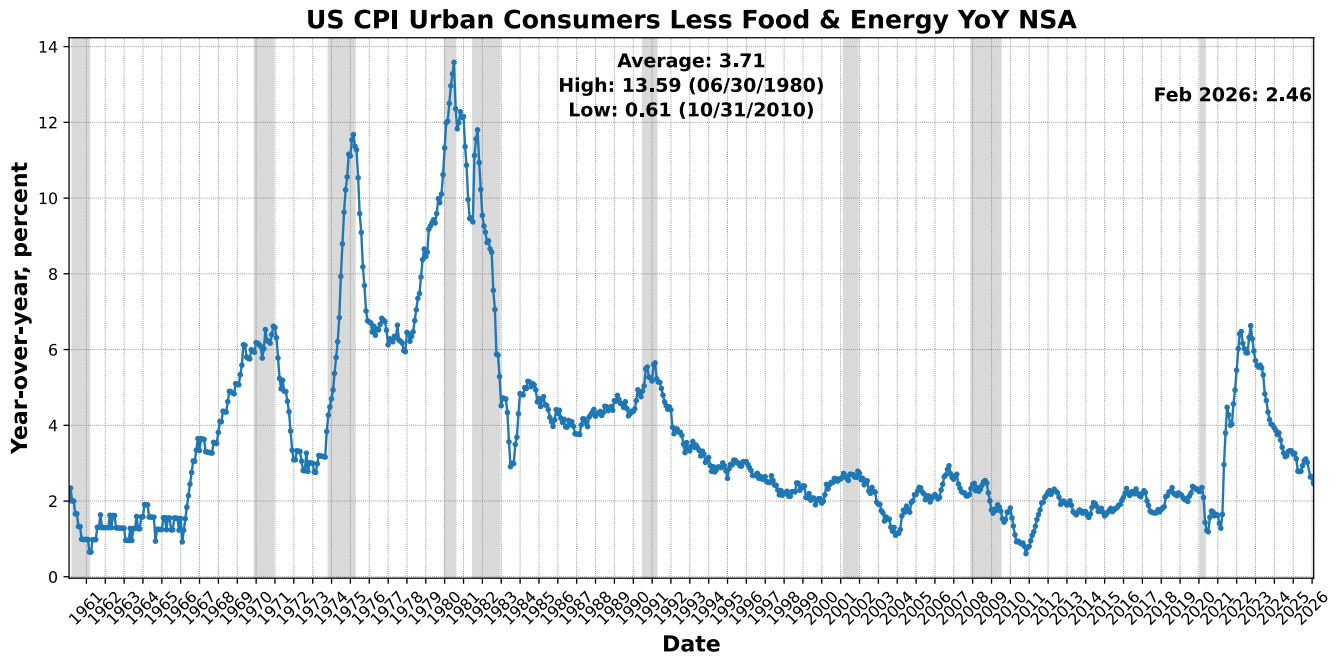
US Employees on Nonfarm Payrolls Total SA



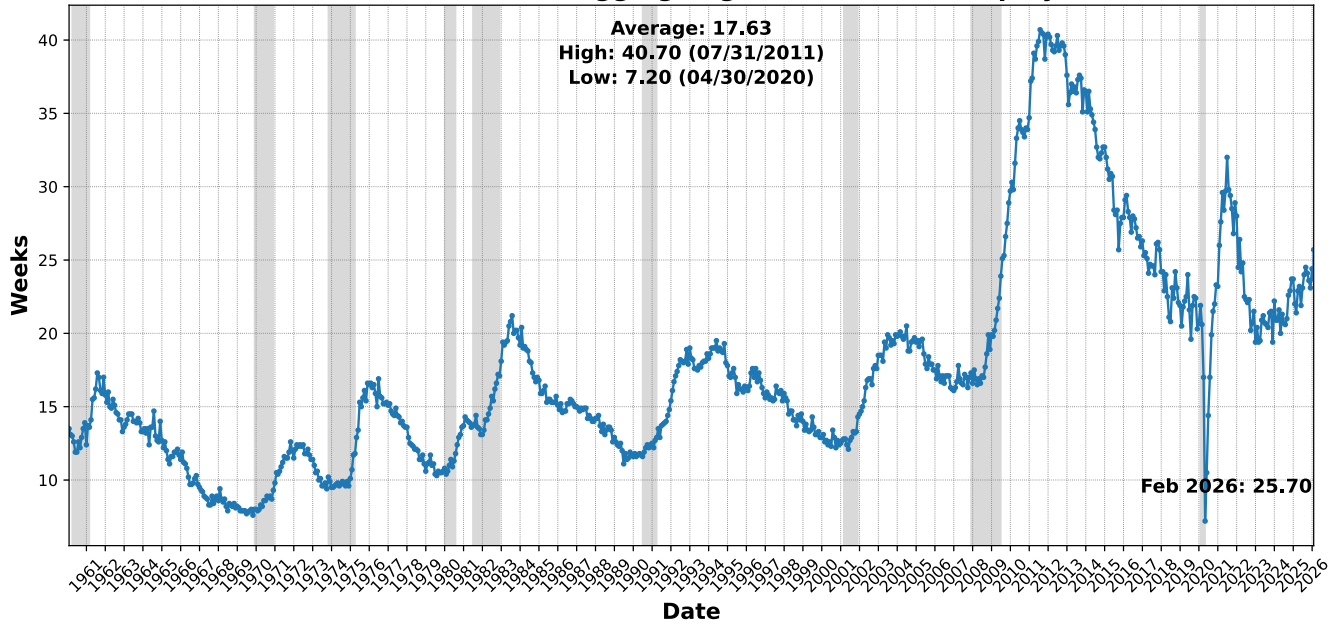
US Labor Force Participation Rate SA



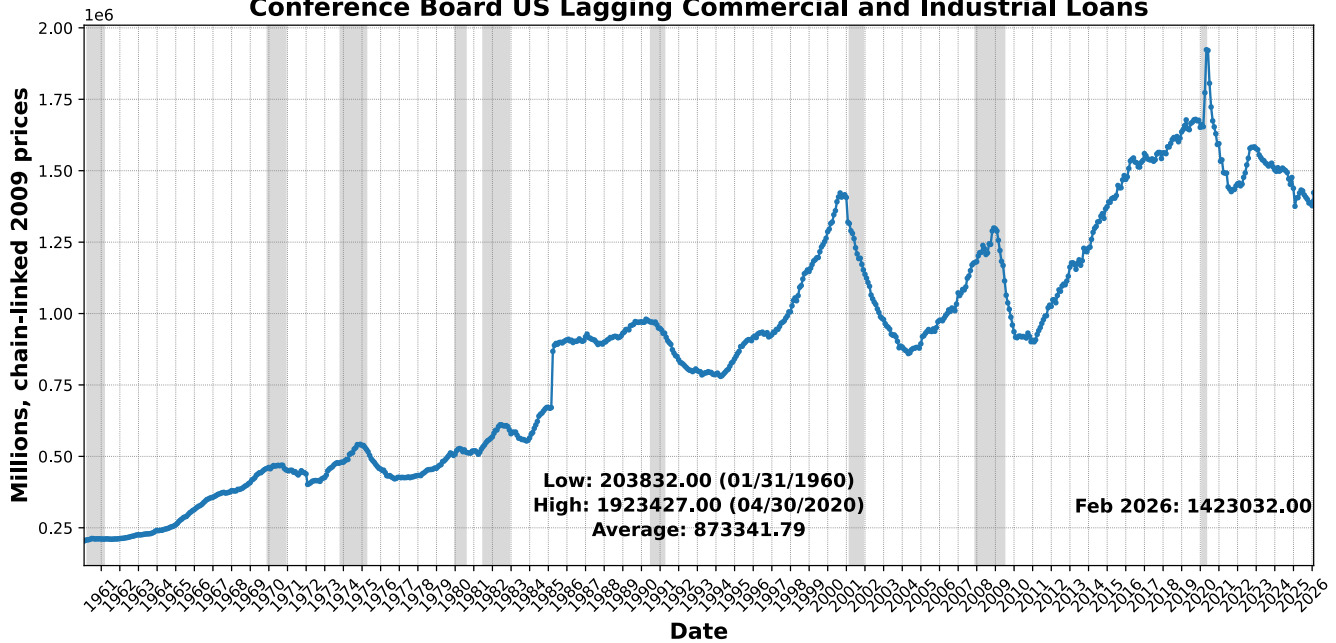
LAGGING INDICATORS

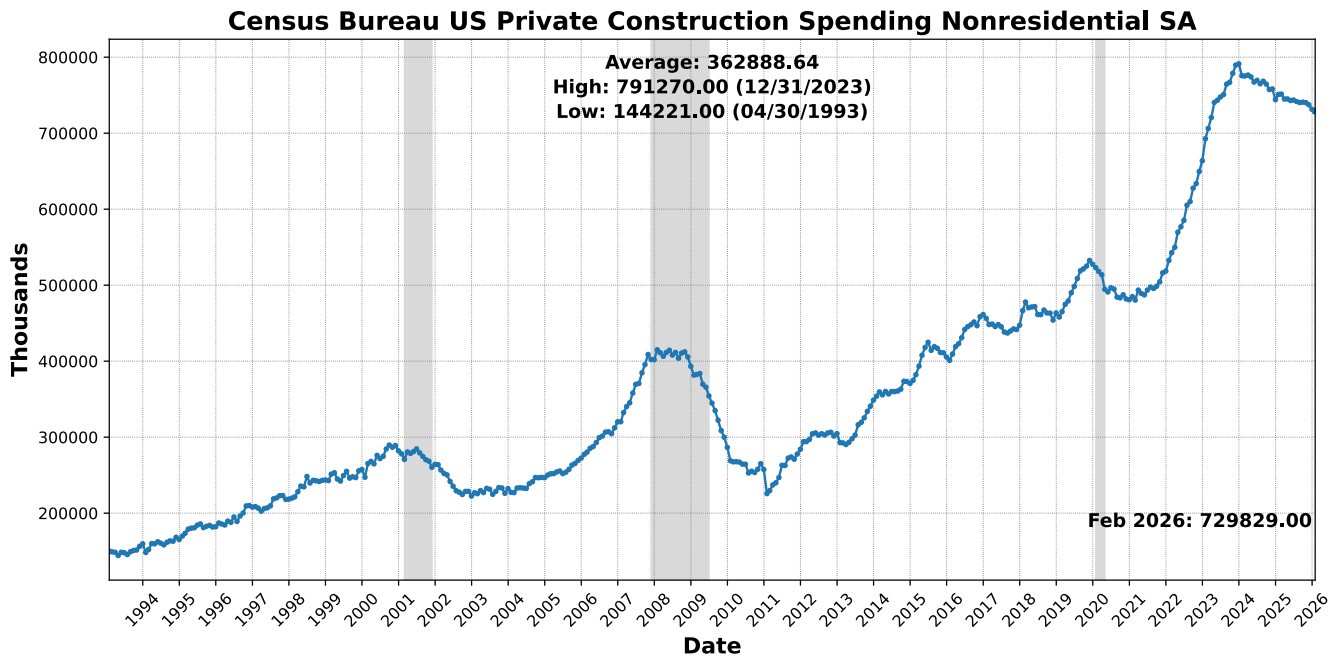
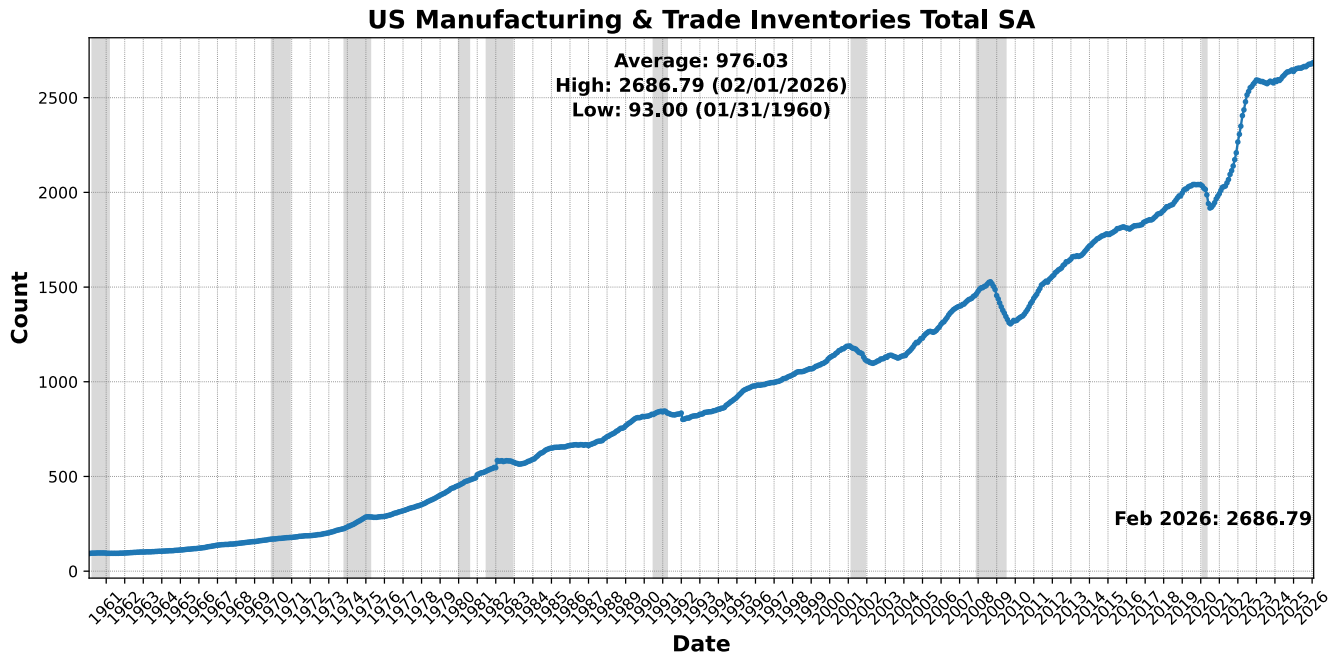


Conference Board US Lagging Avg Duration of Unemployment



Conference Board US Lagging Commercial and Industrial Loans





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	+8.76%	+2.28%	+33.69%	20.9522	12.6126	13.8149
	▶ SPXT d	S&P 500 Total Return	+8.65%	+2.48%	+35.25%	21.4918	13.0719	14.1513
	▶ SPX d	S&P 500 INDEX	+8.57%	+2.74%	+36.95%	21.4661	13.0495	14.1347
	▶ MID d	S&P 400 MIDCAP INDEX	+10.66%	+3.57%	+32.68%	15.3620	8.1937	10.5491
	▶ RTY d	RUSSELL 2000 INDEX	+13.39%	+2.48%	+50.24%	17.6027	6.4145	9.8534
	▶ SXXP d	STXE 600 (EUR) Pr	+7.46%	+1.18%	+21.34%	13.7513	11.0452	9.2100
	▶ TLT US d	ISHARES 20+YR TR	+0.86%	-0.85%	+0.66%	-2.1699	-5.9681	-1.3557
	▶ QLTA US d	ISHARES AAA - A	+1.36%	-0.83%	+2.66%	4.3711	.3766	2.1058
	▶ CRY d	TR/CC CRB ER Index	+1.27%	+20.55%	+25.06%	10.7284	13.7554	8.1202
	XAU	Gold Spot \$/Oz	+7.56%	-3.96%	+40.23%			
	XAG	Silver Spot \$/Oz	+12.06%	-19.50%	+138.31%			
	ILM3NAVG	Bankrate 30Y Mortgage Rates Na	+1.59%	+3.40%	-8.45%			
	ILM1NAVG	Bankrate 15Y Mortgage Rates Na	+1.93%	+3.94%	-6.45%			
	MB301ARM	5 Year ARM	+7.03%	+3.87%	-7.86%			
	ILA3NAVG	Bankrate 30Y Fixe Mtg Refis Na	+0.29%	+1.31%	-8.56%			

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

May 2026

Why Undoing the EPA's Greenhouse Gas Rule Matters for Americans

Thomas Savidge
Research Fellow

The recent rescission of the US Environmental Protection Agency (EPA) Greenhouse Gas Endangerment Finding and Motor Vehicle Greenhouse Gas Emission Standards Under the Clean Air Act marks one of the largest deregulation efforts in a generation. Among the 571,672 comments the EPA received on this issue last September, my colleagues at AIER Drs. Julia Cartwright, Paul Mueller, Ryan Yonk, and I joined the State Financial Officers Foundation (SFOF) and thirteen state financial officers in submitting a public comment in support of the rescission.

The Endangerment Finding was rescinded in February 2026 by President Trump and EPA Administrator Lee Zeldin. This action stands to help make life more affordable, reduce regulatory uncertainty, and rein in an expansive administrative state.

WHAT WAS THE EPA'S ENDANGERMENT FINDING?

In 2007, the Supreme Court case *Massachusetts v. EPA* (2007) ruled that the EPA was allowed to regulate greenhouse gases because they qualify as air pollutants under the Clean Air Act. From this ruling and a failed attempt at getting a climate bill through Congress, President Obama leaned on executive rulemaking.

From his exercise of executive authority came the EPA's Endangerment Finding. The finding declared six greenhouse gases broadly endangered public health and welfare, thus requiring regulation. The Endangerment Finding was the basis for vehicle emission regulation, but soon spread beyond that, resulting in costly burdens for Americans.

One hurdle, however, was that the Clean Air Act was designed to regulate industry, not the specific gases themselves. As Judge Glock of Manhattan Institute notes, "The act required federal permits for any source that emitted more than 100 tons per year of an air pollutant. By this measure, some families would need permits."

Despite some Supreme Court rulings limiting the EPA, the Endangerment Finding led to regulations that made life less affordable for the average American. Regulations under the Biden Administration EPA alone cost an estimated \$1 trillion. Additionally, as we discuss in our comment, these regulations encourage a "ratchet effect," where the government (in this case, the executive branch and the EPA in particular) expands in size and/or scope of authority due to perceived crises and rarely fully recedes. This, ultimately, decreases accountability.

In the end, the Endangerment Finding enabled the creation of stringent rules but failed to clearly

demonstrate the social benefits of individual policies proportional to their economic costs. The regulations stemming from the finding made life less affordable, but the benefits of said regulations were much more difficult to prove.

THE BENEFITS OF RESCISSION

The economic benefits of the rescission stem from the rollback of the burdensome regulations discussed in the previous section. Repealing these regulations could help lower costs of energy production for both producers and consumers. Regulatory reform would also reduce the policy uncertainty from vague statutes, lowering the costs for both producers and consumers.

Additionally, the rescission helps return rulemaking power to the legislative branch. Returning rulemaking powers to the elected legislative branch can improve transparency and accountability.

Furthermore, the rescission improves the balance between the federal and state governments. While Congress has primacy in climate policy, states have greater autonomy to apply local knowledge to environmental and energy challenges. This is especially important given the Supreme Court rulings of *Loper Bright Enterprises v. Raimondo* (2024), which compels courts to exercise independent judicial judgment interpreting ambiguous statutes rather than defaulting to agency readings, and *West Virginia v. EPA* (2022), which ruled that agencies must rely on Congress to grant it authority to regulate on issues of "economic and political significance" and allow states to set the enforceable rules governing existing energy sources.

WHAT COMES NEXT?

The rescission can help shift environmental and energy policy away from command-and-control regulations and toward institutional frameworks that rely on price signals, property rights, and competition. Markets function as a discovery process where entrepreneurs can test alternative technologies, production methods, and energy sources under conditions of profit and loss. When prices reflect relative scarcity, producers are driven to economize on fuel, improve efficiency, and innovate cleaner production techniques to reduce costs.

Additionally, by returning rulemaking to Congress and discretion to the states, the federal government can focus on sustaining "competitive, 'market preserving federalism'" while states are free to innovate without inhibiting free entry and exit between states. Successful institutional arrangements will scale as failed approaches

May 2026

exit as Americans vote with their dollars and their feet. Environmental stewardship emerges through clearly defined property rights, liability rules, and localized governance mechanisms that address identifiable harms.

By allowing market processes to work, people, not government, can drive lower cost abatement strategies while preserving energy reliability and consumer choice.

May 2026

Early Supercomputing Helped Reduce Cold War Risks

Jeffrey L. Degner
Research Fellow

As a kid growing up in the 1980s, I was frighteningly aware of the possibility of a nuclear war with the Soviets. While films like *War Games* and *The Day After* kept an older generation on edge, I was a bit too young.

Nevertheless, one evening I saw a news report about a “nuclear exercise” that showed American troops running for cover. The terror set in. It took what seemed like hours for my parents to calm me down. Those childhood fears weren’t without reason. Nuclear near-misses like the “Able Archer” incident in November of 1983 almost led to a Soviet preemptive nuclear strike on the US. Thankfully, those worst fears never came to fruition, and we’ve lived to tell the tale.

The end of the Cold War and the Soviet nuclear threat had clear and compelling reasons. The most important is the irrationality of socialism itself. Certainly, the courageous acts of Eastern Europeans who resisted their oppressors played a decisive role, along with moral and material support from the West. At the same time, there were subtle and unsung heroes whose actions were in the pursuit of profit and innovation. Seymour Cray, “the father of supercomputing,” was just such a man.

Known as an “eccentric maverick,” Cray served as a code-breaker in the Pacific theater, breaking Japanese codes. In 1957, he founded Control Data Corporation in Bloomington, Minnesota. It was partly his personal fears about nuclear war that led him to bring the labs to his small hometown of Chippewa Falls, Wisconsin. However, after this move, management conflicts emerged, and he later broke away and formed Cray Research. It was there that his computing principles — simplicity, size, discipline, and cooling — birthed the world’s first supercomputer.

This drive for innovation led him and his team to use integrated circuits to construct the fastest computing speeds in the world. But this speed came with a tradeoff: extreme heat. In fact, the machines ran so hot that legend has it that they were used to heat the facilities during freezing Midwest winters. Once the cooling issue was solved, and production began, the first machine, the Cray-1, was “lent” to the Los Alamos National Laboratory in March of 1976. After its successful use there (simulating the impacts of nuclear blasts), it was sold to the National Center for Atmospheric Research in 1977 for \$8.8 million, more than \$50 million in today’s terms.

Cray’s team had expected to sell about a dozen machines, but demand was higher than anticipated. By the time the Cray-2 was developed, they had sold more than 80, a smashing business success if there ever was one!

Alongside the tremendous success of this entrepreneurial venture, Cray’s creative genius can’t be overstated. When

asked what sort of CAD program he used to design it, he replied, “#3 pencils with quadrille pads.”

Cray’s commitment to simplicity and intuitive design was perhaps a manifestation of the importance of miniaturization, the cornerstone of modern computing success, portability, and mass production.

In 1965, Gordon Moore observed that the number of transistors on a microchip doubles in about two years. This claim gave rise to what’s known as “Moore’s Law.” Simply put, the more transistors, the greater the computing power. Cray harnessed this to great effect with his supercomputer. Further, the success of his machine was largely due to its lightning-quick 160 million floating-point operations per second “MFLOPS” with memory of 32 megabytes. By way of comparison, an average laptop from 2021 ran up to 2,671 times faster!

This kind of success in business and innovation had untold cultural effects, not just for how we live and work, but for the de-escalation of the threat of nuclear war at the end of the twentieth century.

While it might be a stretch to claim that the use of the first Cray-1 directly led to fewer nuclear tests by the US government, it coincided with a steady decline in testing at Los Alamos. The weapons testing program curtailed explosions from twenty down to fourteen per year in 1980. The importance of reduced testing is known to have reduced tensions between the superpowers at the time, since the escalation of weapons testing signals a threat to adversaries, just as it does today. Despite that four-year trend, testing then mildly accelerated under the Reagan administration. Indeed, there are some who give credit to this nuclear saber-rattling as a rope-a-dope tactic to the collapse of the USSR. Meanwhile, others, including Soviet insiders, have their doubts about that hypothesis, recognizing the weakness of the Soviet economy as its fatal flaw. Whatever the ultimate reasons, the world breathed a sigh of relief as nuclear tensions were dramatically reduced once Soviet socialism and its nuclear threat were evidently put to rest.

With the end of the Cold War, the 1990s saw a new wave of freedom sweep the Eastern bloc, unleashing dramatic, if uneven, economic growth and liberalization. A key part of the recipe has been investment in computing power, not just in the former socialist states, but all across the globe. With ongoing increases in computing speed, work productivity has increased, and at an ever-decreasing cost. Advances in computing power have made households and firms alike more productive and connected than ever and spurred the creation of a digitized culture.

For better or worse, this fundamental shift in geopolitics, the nuclear threat, and in the way we live, work, and move have been influenced by the exponential growth in computing power. In light of these benefits and their tradeoffs, Seymour Cray and his entrepreneurial judgment and risk-taking shaped our world in ways that few would have expected. And at least for this Cold War kid, it allows my kids to sleep a little better at night than I did, unless, of course, they're awake and using their handheld supercomputers.

Whenever people hear of the Los Alamos National Lab, they think of J. Robert Oppenheimer, the Manhattan Project, further atomic weapons testing, and broader scientific and computing experimentation, all brought to you by the US federal government. However, the development of the first supercomputer was first conceived and executed by a private firm, Cray Research Incorporated, and its founder, Seymour Cray.

May 2026

Why Gas Tax Holidays Backfire

Thomas Savidge
Research Fellow

Energy price increases are hitting Americans hard. In the March 2026 Everyday Price Index, my colleague Pete Earle noted that the Iran war drove up energy prices, with adjacent industries feeling the impact, while core inflation remained muted. These price increases resemble an energy shock rather than broad-based inflation that might concern the Fed.

For ordinary Americans, however, Earle comments, “consumers are first encountering the shock in the most visible and psychologically powerful places — gas stations, travel, and transportation-linked expenses — while the rest of the basket remains relatively stable.”

The “visible and psychologically powerful” price increases have many policymakers rightly concerned. Both Indiana and Georgia have enacted state gas tax holidays while Utah will implement one from July through December. Several states are also considering issuing similar policies, and federal lawmakers have proposed a nationwide gas tax holiday.

Concerns about affordability are genuine, but this is a case where good intentions do not guarantee good outcomes. Our present strains at the pump are due to limited supply. Pausing gas taxes will not increase the supply of gas. Instead, policymakers should focus on regulatory reforms that lower energy production costs and reduce bottlenecks.

REASONING FROM THE PUMP PRICE

Prices act as a signal that informs buyers and sellers how much of a good or service is available and how much others want that good or service. Scott Sumner’s insight, “people should never reason from a price change, but always start one step earlier—what caused the price to change” is essential here.

The legal incidence (who is legally obligated to pay the tax) falls on wholesalers or retailers while the economic incidence (who bears the cost of a tax) falls on consumers. Consumer demand for gas is relatively less elastic than other goods and services in the short run, meaning people are willing to forgo other spending before reducing fuel consumption.

When prices rise due to a supply shock, consumers continue purchasing gasoline. A tax holiday can, therefore, increase demand at precisely the worst moment. Evidence from past tax holidays and disaster responses shows that such policies often shift consumption, but do not provide lasting relief.

When refining capacity, inventories, or distribution networks tighten, the benefits of tax cuts dissipate.

In those conditions, tax holidays provide less relief precisely when relief is needed the most.

Gas tax holidays must be judged by their outcomes. Understanding the cause of price increases helps policymakers avoid responses that are ineffective or do further damage.

WHAT CAN BE DONE?

The good news is that there are some reforms that federal and state policymakers can accomplish to help the American people. While avoiding gas tax holidays prevents additional harm, they can focus on getting government out of the way through regulatory reforms that improve supply.

Policymakers should reform regulations that currently constrain oil and gas production and create supply chain bottlenecks. Federal actions include accelerating leasing, streamlining permitting processes, and reining in executive discretion over permitting, which allows the President to revoke permits that go against a given administration’s preferred energy agenda. States can roll back renewable portfolio standards to reduce compliance costs and ease permitting bottlenecks. They can also exit regional cap-and-trade programs to lower costs often passed to consumers.

Additionally, with the Greenhouse Gas Endangerment Finding rescinded, now is the time to conduct regulatory audits to assess the costs and benefits of regulations. Policymakers could enact regulatory budgets that cap the number of regulations in force at any given time. Finally, they should consider sunset requirements that remove regulations after a certain period unless explicitly renewed by the legislative branch.

THE PROBLEM ISN’T GAS PRICES — IT’S SUPPLY

Gas tax holidays might be politically attractive, but they do not expand supply nor ease supply chain constraints. They can even worsen shortages by increasing demand.

A more effective approach focuses on reducing regulatory barriers and improving energy market flexibility. This approach can address some of the root causes of policy volatility during and after the supply shock.

Prices work best when they are treated as signals, not problems to suppress. By understanding how and why prices change and minimizing interference in the price system, policymakers can avoid doing unintentional harm.

May 2026

Bootleggers, Baptists, and Others Who Benefit From Tax Complexity

Julia R. Cartwright

Senior Research Fellow in Law & Economics

To understand the American tax code, you first need to understand a theory developed while watching liquor regulations in the American South. Economist Bruce Yandle noticed that two groups supported Sunday alcohol bans: Baptist ministers, who wanted to protect communities from drinking, and bootleggers, who wanted to eliminate their competition for a day. The two groups had different motives, but pushed for the same policy. Yandle called this dynamic “bootleggers and Baptists,” and it helps explain nearly every major provision in the US tax code.

The pattern is straightforward. A well-connected industry or interest group seeks a tax carveout. On its own, that effort would likely face public resistance. So, it aligns with a broader, more publicly acceptable goal, often championed by genuine reformers. The policy passes under that moral banner, and the administrative state, Treasury officials, IRS regulators, and rulemaking bodies translate it into law that shapes generations of American wealth.

Just to be clear, the bootleggers are not the villains of this story. They’re rational actors pursuing their interests through legal means. Groups can act as bootleggers in some contexts and Baptists in others, each believing their position serves a broader good. The broader question is whether the policies they shape keep resources in private hands where they’re used more efficiently than government spending.

The four largest tax expenditures in the federal code illustrate this dynamic clearly. Together, they “cost” the Treasury over \$1 trillion annually and touch virtually every American taxpayer. Their benefits, however, do not flow equally, and that gap almost always comes down to the same thing: complexity.

RETIREMENT ACCOUNTS: \$397 BILLION

The case for tax-advantaged retirement savings is intuitive. Encouraging individuals to save reduces dependence on public programs and strengthens long-term financial security. That was the Baptist argument behind 401(k)s, IRAs, and related plans.

The financial services industry recognized a parallel opportunity. Tax-deferred accounts would channel trillions of dollars into managed investment products, generating steady fees over decades. Firms lobbied heavily to expand and refine these vehicles, while the administrative state built a dense regulatory framework governing contribution limits, eligibility, and withdrawals.

Both sides achieved their goals. Retirement accounts are among the most effective wealth-building tools

available, yet their benefits scale with knowledge and income. A middle-income worker may reduce their tax bill modestly while building savings. But a high-income professional, using more complex structures like Simplified Employee Pension-IRAs or defined benefit plans, can shield far larger sums. The policy is broadly beneficial, but its full advantages are unevenly realized.

CAPITAL GAINS: \$304 BILLION

Preferential tax rates on capital gains were justified as a way to encourage long-term investment and economic growth. Lower rates increase the after-tax return on investment, making it more attractive to deploy capital rather than hold it idle.

High-income households earn a larger share of their income from investments rather than wages, so they capture a disproportionate share of this tax advantage. While small investors benefit from lower capital gains rates, those whose income is primarily structured around capital gains benefit far more. The principle behind the policy is sound, but its design amplifies how unevenly those benefits are distributed.

EMPLOYER HEALTH INSURANCE EXCLUSION: \$296 BILLION

The exclusion of employer-provided health insurance from taxable income originated in the 1940s and was formalized in 1954. The policy aimed to expand access to healthcare by encouraging employers to offer coverage.

Labor unions and public health advocates supported the policy as a way to provide broad, stable coverage. Employers and insurers supported it because it strengthened the employer-based system and expanded their market. Its benefits rise with income because higher earners face higher marginal tax rates and often receive more generous plans. A worker with basic coverage receives a modest tax benefit. An executive with a comprehensive plan receives a much larger one.

Millions of Americans receive employer-sponsored coverage with favorable tax treatment. The tradeoff is that the system remains complex and uneven.

IMPUTED RENTAL INCOME: \$296 BILLION

One of the least visible but most consequential provisions involves homeownership. When you own your home, you effectively consume housing services without paying rent to another party. That implicit benefit is not taxed. The justification rests on the value of homeownership, stable communities, long-term investment, and wealth accumulation.

May 2026

Real estate developers and lenders supported policies that made ownership more attractive, expanding their market in the process. The result is a substantial subsidy. A homeowner with a modest property receives a small implicit benefit. A homeowner with a high-value property receives a much larger one.

WHERE POLICY MEETS COMPLEXITY

Each of these provisions was designed to advance widely supported goals, and in many cases, they work. Retirement savings increase, investment flows, healthcare coverage expands, and homeownership grows. But the complexity required to deliver these outcomes creates a second layer of inequality. Americans spend an estimated 7.1 billion hours and \$464 billion each year complying with the tax code.

For the average filer, that amounts to more than a dozen hours and hundreds of dollars spent navigating rules, eligibility, and strategies to minimize liability.

Those who understand the system capture far more of its benefits, while others leave money on the table. The Baptists shaped the purpose, the bootleggers shaped the structure, and the administrative state ensured the details would reward those who know where to look.

The benefits are real, and the policies are often defensible, but access to them is far from equal.

May 2026

From Fatal Conceit to the Friendly Skies: How Deregulation Made Flight

Jeffrey L. Degner
Research Fellow

The economic history of commercial airline flight began with courageous pilots and entrepreneurs in the American West. They could hardly have imagined the proliferation of the industry and its low relative costs, safety, and frequent use among Americans of all income levels and backgrounds.

A century ago, Varney Air Lines took flight with a mail delivery that departed Pasco, Washington, headed for Boise, Idaho. Founded by Walter T. Varney (pictured below), who was a part of the US Signal Corps in World War I, the fledgling operation obtained the first airmail contract in 1925 from the US Postal Service.

Varney's chief pilot was Dewey "Lee" Cuddeback who guided a Laird Swallow biplane from Pasco to Boise in just under three hours, safely landing before a crowd of around two thousand onlookers with 207 pounds of mail in tow. After refueling, he delivered more mail to Elko, Nevada finishing just shy of four-and-a-half hours in the sky. This feat took less than a tenth of the time that traditional railway transport would have taken to deliver the mail and represented an incredible reduction in delivery time.

Later that day, a second pilot, Franklin Rose, ended his flight in a less auspicious way. His leg from Elko to Boise terminated in an emergency landing in a mud-soaked grain field just north of the Nevada-Idaho state line. While Rose walked away unharmed after being blown off course by over sixty miles, the aircraft remained stuck in the mire, bringing an end to the day's second round of flights. Despite that unfortunate outcome, the stage was being set for modern passenger flight. Four years later, Varney Air Lines was acquired by United Aircraft and Transport Corporation; in 1934 it merged with several other air transport firms to form United Airlines.

The early years of American flight were filled with these harrowing stories of innovation, safety improvements, and rivalrous competition. Through it all, efficiency, safety, and costs improved. One such innovator was Archie League, whose innovations in ground signalling and radio communications paved the way for ever-safer passenger flight. League's ideas on safety were highly valued in St. Louis, as the flight fever that was spawned by Charles Lindbergh's exploits attracted more and more pilots to America's heartland to test their aviation mettle. As air traffic became busier there, League's safety protocols set the standard for flight safety for takeoffs and landings. Discontented with ground signalling alone, League famously guided a flight bound for St. Louis's Lambert airfield through severe weather and dense fog with calm and concise directions for a safe landing in October of 1929, sparing the lives of all on board.

In the same month as League's radio innovation, economic history would take a turn with Black Tuesday's infamous stock market crash. While the aviation industry was in its infancy, it would soon be smothered by New Deal regulations, preventing the same pace of improvement that had been unleashed by the likes of Varney, League, and Lindbergh. Indeed, the Hoover and FDR administrations delivered an unprecedented rise in the "fatal conceit" of economic planners who attempted to create economic outcomes according to their own wishful thinking. Their restrictions and barriers to entry and exit would do nothing of the sort, and proved to inhibit improvements and price competition in the airline industry for four decades.

With FDR's creation of the Civil Aeronautics Board (CAB) in 1938, its designers claimed that it would centrally administer, "safety-related rulemaking, accident investigation, and economic regulation of commercial airlines." Eventually, it would go far beyond such broad claims and do far more than that, engaging in price-fixing and the prevention of new entrants, just to name a few. Ultimately, the hubris of social engineers led them to declare what "fair" prices were across the airline industry.

In a 1975 report, no less than liberal senator Edward Kennedy admitted that "the Board's experience suggests it is extremely difficult, if not impossible, to develop a cost-based ratemaking system that uses fair procedures and keeps fares in such an industry low." In a more damning admission, "This is not to say that inherent defects are the only cause of the CAB's failings. These may, for example, also reflect the human tendency to listen more closely to representatives, such as those for the industry, who are powerful, well-informed, and can reward regulators with future jobs or contracts."

The ultimate effect of this centralized planning was to "control prices, restrict entry, and confer antitrust immunity." In brief, the CAB was used to create a government-backed cartel in the interest of existing large carriers. In what amounted to a public confession of crony-capitalism, the CAB's days were numbered.

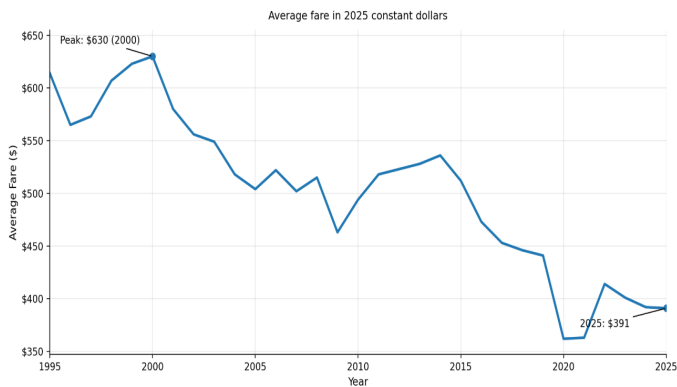
In the wake of the report, American Airlines was allowed to discount its fares up to **45 percent** in an attempt to see whether airline travel could be "made available at a price all can afford." Once this mild form of price competition was allowed, rivalrous competition showed suspicious legislators and regulators that allowing competition did indeed create greater value for consumers. Eventually, Senator Howard Cannon along with bipartisan supporters including Ted Stevens and Wendell Ford helped pass the Airline Deregulation Act

in February of 1978.

Since industrial leaders at the time, like Delta Airlines, had grown accustomed to the many protections they received under the CAB, they lobbied against the deregulatory move. They made claims that “free entry” and “free exit” were “untested concepts” that would result in the concentration of the industry into the “hands of only a few carriers...causing service deterioration at smaller cities and in smaller markets.” Delta’s doom-mongering didn’t materialize in either the short or long run.

In the nearly 50 years since the abolition of the Civil Aeronautics Board, routes and flexibility have proliferated, and prices have declined continually. In fact, the last three decades have seen inflation-adjusted domestic airfares fall from \$614 in 1995 to \$397 in 2025. Further, the industry continues to grow, nearly doubling the number of employees since 1990. Prior to deregulation, air travel was undoubtedly a luxury good. Now, it has become so affordable that **80 percent** of Americans with annual household income below \$50,000 have taken flight at some point in their lives.

Inflation-Adjusted Average Airfare, 1995-2025



Source: Bureau of Transportation Statistics (Rates calculated using BLS.gov Consumer Price Index).

In the 100 years since Varney Air Lines first took on the tremendous risks and costs of delivering a few hundred pounds of mail in the American West, to the amazement of onlookers in Pasco, Boise, and Elko, the industry itself has undergone incredible transformation. Once the purview of daredevils and former combat pilots, the “friendly skies” are now a nearly ubiquitous experience for Americans who, despite the inconveniences of TSA delays and the need for significant reform, continue to vote with their dollars and take flight at lower costs than Varney, League, or Lindbergh would have dared imagine.

That transformation is, in large part, thanks to their own courageous actions and airline deregulation nearly 50 years ago.

May 2026

Why AI Won't Kill the Firm

Peter C. Earle
Senior Research Fellow

The idea that artificial intelligence could usher in a “post-money” world — and that such a world would also render firms obsolete — rests on a misunderstanding of what firms are and why they exist. Even if, for the sake of argument, we accept the highly implausible premise that money would disappear beneath an AI/robotics explosion of superabundance, it does not follow that firms would disappear with it. Firms are not artifacts or by-products of monetary exchange; they are organizational responses to coordination problems, uncertainty, and the costs of markets.

The classic insight comes from British economist Ronald Coase, whose theory of the firm begins not with money, but with transaction costs. Costs do not necessarily connote prices. Markets are not frictionless arenas in which individuals seamlessly contract for every task. Searching for counterparties, costs of instantaneity, negotiation, enforcement, and adapting to unforeseen changes all impose costs. Firms arise precisely to economize on these costs by internalizing certain transactions. Instead of navigating every step of production through the price system, firms substitute managerial direction for repeated market exchange.

Nothing in that logic depends on money *per se*. One can imagine a world in which prices are denominated in some non-monetary unit, or — in the scenario that Musk and others like him are envisioning — a world in which advanced AI systems coordinate resource allocation without explicit prices. But the underlying coordination problem remains. Complex production — whether building aircraft, running cloud infrastructure, or developing pharmaceuticals — requires an alignment of hundreds or thousands of interdependent tasks. Even in a hypothetical AI-managed system, there must be boundaries within which decisions are made, hierarchies to resolve conflicts, and mechanisms designed to allocate effort. Those are the defining features of firms.

Going a bit further, the elimination of money would, if anything, increase the need for firms (or firm-like) structures. Prices are compressed information signals, conveying relative scarcities and preferences. Without them, the information burden shifts elsewhere. AI might assist in processing vast datasets, but it does not eliminate the need to define objectives, contend with tradeoffs, or assign accountability. Someone, or something, must decide whether a given unit of labor or material is better used in healthcare, energy, or transportation. These are not simply technical questions: they involve prioritization, constraints, and considerable opportunity costs. Firm structures provide the locus for making such decisions in a structured manner.

Moreover, incentives do not vanish with money. Even in a non-monetary economy, individuals will inevitably face tradeoffs in time, effort, status, access, or other scarce benefits. Systems will need to motivate participation, discourage shirking, and reward performance. Compensation may take the form of wages, privileges, reputation, access to scarce resources, or combinations thereof; the fundamental problem of aligning individual incentives with organizational goals persists. Firms, properly understood, are the institutional solution to this problem.

Perhaps the largest issue involves the unavoidable nature of risk and uncertainty. Production unfolds in time, along a term structure, and often requires upfront investment in projects whose outcomes are uncertain. Firms internalize, bundle, assess, and manage risks, deciding which projects to undertake and how to allocate resources among them. Even if AI could forecast outcomes with greater accuracy than human managers, uncertainty would not disappear. The future remains inherently unknowable in countless dimensions, partially driven by attempts to ameliorate them in the present. That is particularly the case where innovation is concerned. Organizational structures that can absorb, distribute, and respond to risk would still be critical, whether or not the form they take is familiar.

The notion that “no money means no firms” conflates the medium of exchange function of money with the structure of production. Money (in addition to having other roles) facilitates exchange across decentralized actors; firms exist precisely because not all coordination is best handled through decentralized exchange. They are islands of planned coordination and networks of contracts, arbitrating between functions more efficiently undertaken outside versus within their notional borders, whether that system is market-based, AI-mediated, or something else entirely.

Many similar predictions were made early in the internet era, and more recently, where DAO (Decentralized Autonomous Organizations) innovation has occurred. (If the markets for those tokens are indicative, nothing of the sort is expected any time soon.)

Nothing about either of those, nor AI, abolishes the economic problems that give rise to firms; at most, they would shift. New problems may indeed arise. Coordination, incentives, uncertainty, and transaction costs do not disappear in a world of abundance or advanced technology. They simply take new forms. And as long as those problems exist, so too will the need for organizations that solve them. They will be firms by another name, perhaps — but firms nevertheless.

May 2026

Headline Inflation Surged in March, but Core Remained Muted

Bryan P. Cutsinger
Fellow, Sound Money Project

Inflation surged in March, the Bureau of Labor Statistics (BLS) reported today. The Consumer Price Index (CPI) rose **0.9 percent** last month — triple February's **0.3 percent** pace and the largest monthly increase since early in the pandemic. On a year-over-year basis, headline inflation jumped to **5.3 percent** from **2.4 percent**, reversing months of steady disinflation in a single report.

But strip out food and energy, and the picture looks entirely different. Core inflation rose just **0.2 percent** in March, unchanged from February. Year-over-year, it edged up only slightly to **2.6 percent**. In other words, the broad price pressures that keep Fed officials up at night barely moved.

The culprit is no mystery: energy. The energy index surged **10.9 percent** in March — the largest monthly increase since September 2005 — and gasoline prices jumped **21.2 percent**, a record monthly increase, as the conflict with Iran and the disruption to shipping through the Strait of Hormuz sent oil prices sharply higher. Shelter, which accounts for about a third of the index, rose a modest **0.3 percent**. Food prices were flat, with a small decline in groceries offset by a small increase in restaurant prices.

Within core categories, the gains were concentrated in a handful of volatile items: airline fares jumped **2.7 percent**, apparel rose **1.0 percent**, and transportation services increased **0.6 percent**. Working in the other direction, medical care fell **0.2 percent** after a **0.5 percent** increase in February, personal care declined **0.5 percent**, and used cars and trucks dropped **0.4 percent** for the second straight month. On balance, the decliners roughly offset the gainers, which is why core inflation held steady.

The three-month trend makes the headline-core divergence even starker. Over January through March, headline CPI averaged **0.47 percent** per month — equivalent to a **5.6 percent** annualized rate, well above the **3.3 percent** year-over-year figure. But virtually all of that acceleration comes from March's energy spike. Core CPI over the same three months averaged just **0.23 percent** per month, or about **2.8 percent** annualized — barely above its **2.6 percent** year-over-year pace. The underlying trend, in short, has not changed much.

Although the Federal Reserve officially targets the personal consumption expenditures price index (PCEPI) rather than the CPI, the distinction between headline and core is especially important this month. An energy-driven price spike, however dramatic, is not the kind of broad-based inflation that would warrant a policy response. Markets seem to agree: the CME Group's FedWatch tool now indicates that the Fed will almost certainly hold rates steady at its meeting later this month.

The latest labor market data reinforce the case for patience. March payrolls rebounded by 178,000 after February's revised 133,000 decline, and the unemployment rate ticked down to **4.3 percent**. But perhaps more telling is what happened to wages: year-over-year earnings growth slowed to **3.5 percent**, the weakest reading since May 2021. That suggests the nominal spending pressures that drive sustained inflation are easing, even as a geopolitical shock temporarily distorts the headline numbers.

The Fed can afford to look through the March energy spike. Core inflation is well-behaved, wage growth is moderating, and the **0.9 percent** headline reading is a reflection of what is happening in the Strait of Hormuz, not in the domestic economy. The real question is whether elevated energy costs linger long enough to raise inflation expectations. If they do, the calculus changes. But for now, the data suggest the Fed should hold steady. ics remain broadly consistent with nominal spending expanding faster than would be needed to keep inflation at the Fed's two-percent target over time. In that environment, easing policy too quickly could risk reigniting price pressures. For now, patience remains the safer course.

May 2026

Progressive Taxes May Discourage the Most Productive Work

Jason Sorens
Senior Research Fellow

Could income taxes ever encourage someone to switch from a higher-paying to a lower-paying job? Perhaps surprisingly, the answer is yes. I have a recent example of this in my own family.

The marginal nature of the United States' progressive income tax is supposed to prevent this outcome. You pay a higher tax rate only on income you earn above a certain level, not your entire income. For example, a married couple earning \$600,000 a year would pay **10 percent** on the first \$24,000 they make, **12 percent** on the \$73,000 they earn between \$24,000 and \$97,000, and so on, up until they pay **35 percent** on the \$99,000 they earn above the \$501,000 threshold. (Bracket figures are rounded to the nearest thousand.)

What matters when you're considering a new income source is the tax you will pay on that additional income. If a new job would pay \$50,000 more and you're already making \$600,000 as a married couple, then the job is really only paying you, after tax, \$32,500 more.

And that difference between pre-tax and post-tax pay could make all the difference when deciding on a job that pays more but is less fulfilling or enjoyable. High marginal tax rates discourage productive, paid labor.

One alternative to paid work is household work. Accordingly, economic research suggests that married women respond to income taxes more strongly than married men, mainly by choosing whether to do paid work at all.

But another substitute for paid labor is different paid labor – instead of getting paid entirely in money, though, you can get paid partly in job satisfaction and amenities. The economic term “compensating differentials” (see video below) refers to this kind of nonmonetary compensation. More difficult, unpleasant, and unsafe jobs pay higher wages than equivalent jobs that are less difficult, more pleasant, and safer. If they want to attract workers to the tougher jobs, companies have to offer them higher wages.

In the popular Paramount TV show *Landman*, the main character points out that men working the West Texas oil patch make \$180,000 a year for the dangers they face. “That’s not enough money to risk your life on,” a young female attorney responds. “For you? Maybe,” he counters. “For a felon with an eighth-grade education, it’s a lottery ticket.” (I’m guessing he means a *winning* lottery ticket.) The difference between \$180,000 and what a felon with an eighth-grade education would make annually in a safe job he’d be qualified for is the compensating differential.

My wife recently faced a tradeoff of a similar kind. She chose to leave a higher-paying job for a slightly lower-paying job. Her old job had a long commute and required intercontinental travel; her new job has no commute and requires only minimal travel within North America.

There were important family reasons for the switch, but part of the logic had to do with taxes. We carefully calculated the value of her time and the wear and tear on the car from the commute, and used them to estimate how much salary she could reasonably give up for a more flexible job. We are in a higher tax bracket, which squeezed the difference in after-tax pay enough that the lower-paying job was a good deal once all other factors were considered.

How many other families find themselves in a situation similar to ours? I found exactly one study on the question. It found that a **10 percent** increase in the net-of-tax rate causes a worker to choose an occupation with a **0.3 percent** higher wage, on average. (The “net-of-tax rate” is the rate at which wages are converted into post-tax earnings, so you can think of it as the inverse of a tax rate.) It’s a small effect, but added up across an entire economy could amount to billions of dollars in new wages from a typical tax cut. Moreover, it confirms the theory: people are willing to work harder, better-paid jobs when taxes are lower.

Income taxes decrease labor supply in other ways too. Economist Michael Keane points out that even if income tax rates have a small effect on labor force participation (particularly men’s) in the short run, the long-run effect could be much larger if work experience builds productivity. Depriving even a small number of potential workers of the incentive to work when they are in their 20s and 30s means they’ll be far less productive than they otherwise could have been in their 40s and 50s.

Most other countries have “flatter” tax burdens than the US. In other words, the middle class shoulders a larger share of the tax burden in other countries. Perhaps the US could learn something from them in this respect – indeed, it may be that they are only able to raise the revenue to sustain a bigger government by keeping their tax structure flat and disincentivizing paid work less. If they want to avoid hiking taxes on the middle class, Congress could have no choice in the future but to cut spending drastically. Hiking already-high marginal tax rates on the most productive workers will do too much economic damage.



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

