AIER Research Reports

Volume XCI
July 2026

AIER

Research Reports

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 8 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including Seeking Alpha, Intellectual Takeout, Mises Brasil, and dozens of other outlets. To read all of them, go to www.aier.org

Contents

July 2026

From the Managing Editor

Peter C. Earle

Senior Research Fellow

The latest debate over American manufacturing follows a familiar script. President Trump promised a manufacturing renaissance, and critics now point to declining factory employment and soft construction spending as evidence that it has failed to materialize. Supporters point to nearly a trillion dollars in promised investments and stronger factory output to claim the strategy is working. Lost in the political crossfire is a more fundamental question: are we even measuring manufacturing correctly?

Recent data from the Institute for Supply Management (ISM) suggest we are not. Manufacturing has now expanded for five consecutive months, with May's Purchasing Managers' Index reaching its highest level in roughly four years. New orders accelerated and virtually every major manufacturing industry grew. Survey respondents did not describe an industry starved for demand, but one with healthy sales and expanding order books despite rising costs and shipping disruptions related to the Iran war, and continuing uncertainty surrounding tariffs and imported inputs.

Those concerns are legitimate. Manufacturers across transportation equipment, chemicals, machinery, electronics, and food processing reported higher fuel, freight, and material costs. Delivery times lengthened and diesel prices pushed transportation costs sharply higher. Margins are under pressure, but the sector continues to expand rather than contract. American manufacturing appears to be weathering supply shocks surprisingly well.

Why, then, do so many headlines describe manufacturing as a disappointment? The answer lies almost entirely in one statistic: employment. Factory payrolls have continued to drift lower, leading many observers to conclude that manufacturing itself must therefore be struggling. That conclusion rests on a very shaky assumption that the health of manufacturing is measured by the number of people working in factories.

For decades, politicians have spoken as though manufacturing jobs were somehow taken from American workers: outsourced by greedy corporations, stolen by China, or sacrificed to globalization. International trade has shifted some production abroad, but emotional explanations overlook the far-larger force reshaping manufacturing globally: technological progress.

Manufacturing employment has declined across virtually every advanced industrial economy and in many emerging ones as well. Germany, Japan, South Korea, Britain, France, and even China have all experienced the same long-run trend. Factories have not disappeared, but modern factories simply require smaller headcounts than they once did.

The American factory worker has not been replaced by a Chinese factory worker, but by robotics, computer-controlled machinery, automation software, and, increasingly, artificial intelligence. Manufacturers now produce substantially more output with fewer workers than previous generations could have imagined. Judging manufacturing by employment is rather like judging agriculture by the number of people still plowing fields with horses. Productivity reduces labor requirements while increasing production.

Modern manufacturing demand is, itself, a product of technological change. The buildout of artificial intelligence infrastructure has increased demand for semiconductors, electrical equipment, fabricated metals, cooling systems, transformers, chemicals, and precision machinery. Yet these industries are among the least labor-intensive manufacturing sectors ever created. Industrial expansion does not always correspond to employment growth.

None of this means policy is irrelevant. Stable institutions, predictable regulations, affordable energy, and reliable global supply chains remain essential ingredients for long-term investment. Manufacturers in the ISM survey are understandably reluctant to make irreversible commitments amid rapidly shifting policy objectives.

In short, policymakers continue to promise something modern manufacturing will never deliver. American manufacturing can become more productive and technologically advanced. Output can, and may, increase. Investment will assuredly rise. But we will not return to the labor intensity of twentieth-century manufacturing. Those jobs cannot be reclaimed; they were rendered economically obsolete by innovation. The same progress that eliminated elevator attendants, switchboard operators, and typesetters transformed factories. They produce more but require far fewer workers.

That is not a failure of manufacturing. It is evidence of manufacturing's success. Economic progress produces more with fewer resources, freeing labor and capital while raising living standards. Measuring manufacturing by headcount mistakes innovation for decline. The latest ISM surveys suggest American manufacturing remains resilient despite high costs and policy uncertainty. A healthy manufacturing sector should be judged by what it produces, not by how many people it no longer needs.

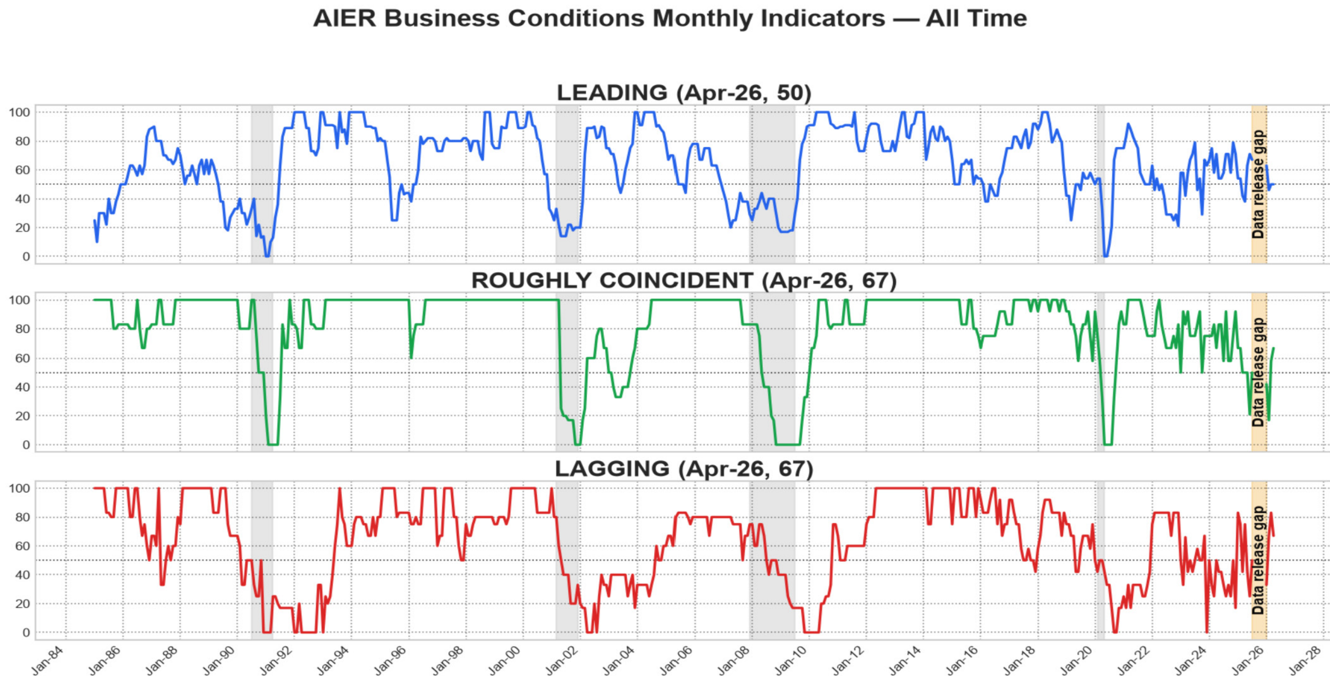
Peter C. Earle, Ph.D
Managing Editor, *AIER Research Reports*

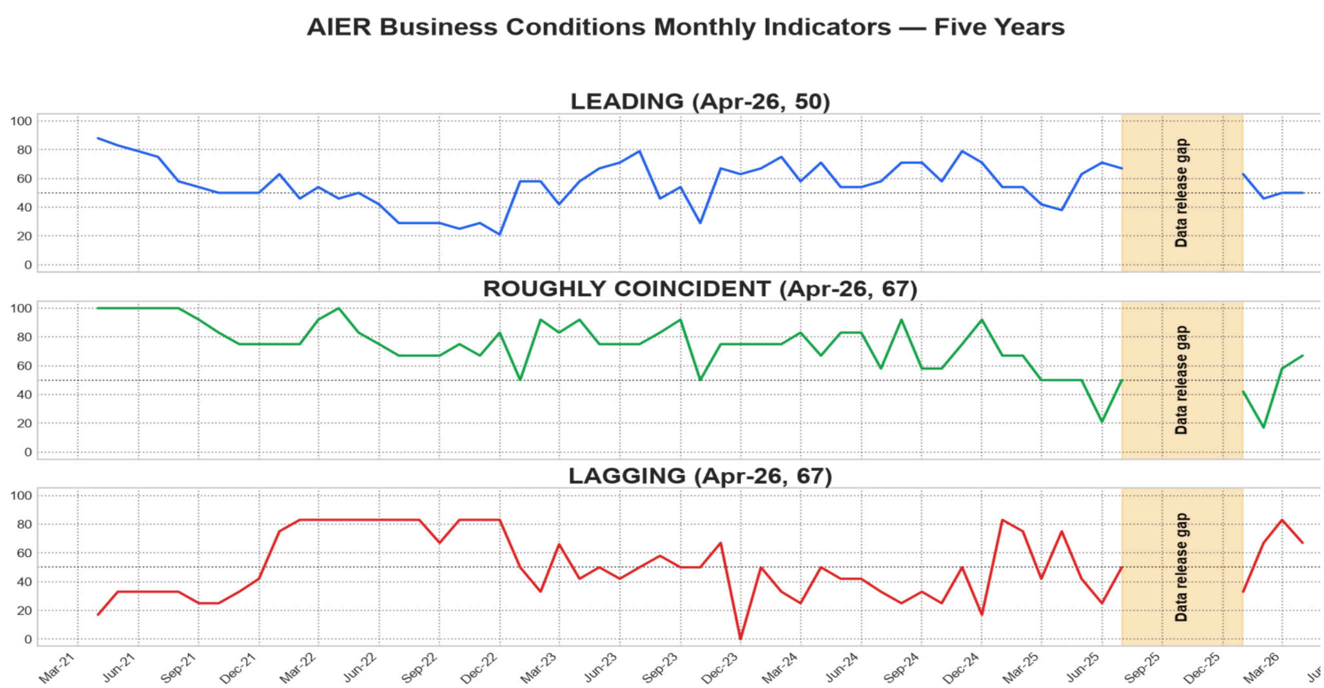
July 2026

Business Conditions Monthly April 2026

Peter C. Earle

Senior Research Fellow


AIER Business Conditions Monthly Indicators — All Time
LEADING (Apr-26, 50)
ROUGHLY COINCIDENT (Apr-26, 67)
LAGGING (Apr-26, 67)
Data release gap
0
20
40
60
80
100
Jan-84
Jan-86
Jan-88
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10
Jan-12
Jan-14
Jan-16
Jan-18
Jan-20
Jan-22
Jan-24
Jan-26
Jan-28


AIER Business Conditions Monthly Indicators — Five Years
LEADING (Apr-26, 50)
ROUGHLY COINCIDENT (Apr-26, 67)
LAGGING (Apr-26, 67)
Data release gap
0
20
40
60
80
100
Mar-21
Jun-21
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
Mar-24
Jun-24
Sep-24
Dec-24
Mar-25
Jun-25
Sep-25
Dec-25
Mar-26

The April 2026 AIER Business Conditions Monthly (BCM) points to a still-mixed but somewhat more balanced economic picture. The Leading Indicator held steady at **50**, suggesting that forward looking conditions remain neither clearly expansionary nor clearly contractionary. The Roughly Coincident Indicator improved to **67** from **58**, indicating firmer current activity than in March. The Lagging Indicator eased to **67** from **83**, but remained solidly expansionary, suggesting that slower-moving measures continue to show residual strength even as some momentum has moderated.

LEADING INDICATOR (50)

The Leading Indicator came in at **50**, with six of twelve components improving, none unchanged, and six declining.

Positive contributions came from a mix of labor, financial, market, and demand-sensitive measures. US Average Weekly Hours All Employees Manufacturing SA rose **0.2 percent**. US Initial Jobless Claims SA declined **6.4 percent** and was scored positively after inversion. The Conference Board US Leading Index Stock Prices 500 Common Stocks increased **4.5 percent**, while Adjusted Retail and Food Services Sales Total SA rose **0.4 percent**. United States Heavy Trucks Sales SAAR increased **4.4 percent**, and Debit Balances in Customers' Securities Margin Accounts rose **6.8 percent**.

Those gains were offset by weakness in several important forward-looking areas. The University of Michigan Consumer Expectations Index fell **7.0 percent**, pointing to softer household expectations. Conference Board US Leading Index Manufacturers' New Orders Consumer Goods and Materials slipped **0.2 percent**, and Conference Board US Manufacturers New Orders Nondefense Capital Goods Ex Aircraft declined **1.3 percent**. US New Privately Owned Housing Units Started by Structure Total SAAR dropped **8.5 percent**, while the Inventory-to-Sales Ratio Total Business declined **0.8 percent**. The 1-Year to 10-Year US Treasury Yield Spread widened **1.3 percent**, but because that measure is inverted in the BCM scoring system, it was scored negatively.

Taken together, the leading components suggest a forward-looking environment that remains divided. Financial market measures, retail activity, heavy truck sales, and initial claims provided support, but weakness in consumer expectations, housing starts, new orders, and the yield curve signal prevented the Leading Indicator from moving above neutral.

ROUGHLY COINCIDENT INDICATOR (67)

The Roughly Coincident Indicator registered **67**, with four of six components improving and two declining.

Current activity showed broad enough strength to move the index higher. Conference Board Coincident Manufacturing and Trade Sales rose **0.2 percent**, while Conference Board Consumer Confidence Present Situation SA increased **0.2 percent**. US Industrial Production SA advanced **0.9 percent**, representing one of the stronger coincident gains, and US Employees on Nonfarm Payrolls Total SA edged higher by **0.1 percent**.

Offsetting those gains, Conference Board Coincident Personal Income Less Transfer Payments declined **0.4 percent**, and the US Labor Force Participation Rate SA slipped **0.2 percent**. Those declines suggest that while production, payrolls, sales, and present-situation sentiment improved, the income and participation backdrop remained somewhat weaker.

Overall, the roughly coincident data point to a firmer current environment than in March. The move from **58** to **67** reflects a modest broadening in real-time activity, though the improvement is not uniform and remains tempered by softness in income and labor force participation.

LAGGING INDICATOR (67)

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

Several slower-moving measures continued to show strength. US CPI Urban Consumers Less Food and Energy Year over Year NSA rose **7.7 percent**, indicating renewed pressure in the core inflation measure. Conference Board US Lagging Average Duration of Unemployment fell **3.6 percent** and was scored positively after inversion. Conference Board US Lagging Commercial and Industrial Loans increased **0.1 percent**, and US Manufacturing and Trade Inventories Total SA rose **0.5 percent**.

Two components weakened. US Commercial Paper Placed Top 30 Day Yield declined **0.5 percent**, and Census Bureau US Private Construction Spending Nonresidential SA slipped **0.2 percent**. Those declines point to softer short-term credit conditions and mild weakness in nonresidential construction spending.

The lagging data remain expansionary, though less strongly so than in March. The decline from **83** to **67** suggests some easing in the strongest backward-looking signals, but the category continues to reflect underlying firmness in prices, inventories, commercial lending, and unemployment-duration dynamics.

April's BCM results still describe an uneven economy, but not one that's broadly rolling over: the Leading Indicator stayed at **50** (neutral), the Roughly Coincident Indicator climbed from **58** to **67** (firmer current activity), and the Lagging Indicator cooled from **83** to **67** while remaining expansionary (still-solid trailing conditions). Relative to March, the story is mainly a shift away from unusually strong lagging strength toward a better coincident read—smoother than last month, but not yet a clean, broad-based pickup.

DISCUSSION, MAY— JUNE 2026

Recent inflation data point to a complicated but somewhat less alarming price environment, with consumer prices showing signs of restraint even as upstream pressures remain firm. May's CPI report was softer beneath the headline than the energy-driven increase suggested: core inflation slowed, the breadth of price increases narrowed, food inflation moderated, shelter cooled from April's pace, and several discretionary goods and services categories showed evidence that consumers are resisting further price hikes. Gasoline and airfares remained important sources of pressure tied to the Iran conflict and higher fuel costs, while core goods softened overall, apart from scattered strength in metal-sensitive categories such as appliances, sporting goods, and jewelry. Producer price data complicate that benign consumer-side message, however, as May's PPI showed costs still moving through the production pipeline in energy, transportation, finance-related services, manufacturing inputs, and commodity-sensitive components. Some of those pressures have not yet reached consumers, implying either continued margin absorption by firms or delayed pass-through later this summer, while PPI components feeding into the Fed's preferred PCE measure point to a firmer reading through airfares, healthcare services, and portfolio management fees. The result is not broad inflation reacceleration so much as an uneven handoff: consumer caution, weak housing demand, and fading tariff pass-through are restraining retail prices, but producer-side costs and energy shocks keep the Fed from declaring the inflation problem resolved.

Labor market data have turned more constructive than earlier in the year, though the improvement remains uneven. May payroll growth came in well above expectations, prior months were revised higher, and gains were concentrated in leisure and hospitality, health care, local government, construction, and a modest rebound in manufacturing, while financial activities, information, and parts of professional and business services remained weak. The unemployment rate held broadly steady, participation was unchanged, and wage growth stayed firm without showing renewed acceleration. ADP's private payroll measure and low initial claims reinforced the view that employers are still adding workers and layoffs remain contained. Beneath the headline, however, the labor market looks more stable than broadly resurgent: job openings rose sharply in April, but the increase was concentrated heavily in professional and business services, while vacancies declined in several more cyclically sensitive areas. With quits lower, layoffs subdued, and continuing claims contained, labor conditions appear characterized by selective hiring and reduced worker mobility rather than rapid churn. For the Federal Reserve, firmer payroll gains and limited layoffs reduce the urgency for rate cuts, but the narrow breadth of hiring and uneven sectoral demand argue against treating the labor market as unambiguously tight.

Manufacturing and goods sector data improved notably in May and June, though some of the strength appears tied to supply concerns and inventory rebuilding rather than a purely organic acceleration in final demand. The ISM Manufacturing Index rose to its strongest level in several years, supported by stronger domestic and export orders, rising backlogs, and faster production as firms worked to meet demand amid lean inventories. S&P Global's June survey reinforced that improvement, with factory activity reaching its strongest level since 2022 and new orders advancing at the fastest pace in more than four years. Still, the details point to caution: manufacturers sharply increased input purchases and built stockpiles rapidly, suggesting precautionary behavior amid supply chain fears, while fuel costs, tariffs, metals, semiconductors, supplier delays, and elevated materials prices continue to cloud the outlook.

The services sector also expanded in May and June, but the underlying message was less reassuring than the headline gains suggested. The ISM Services Index rose on stronger new orders, yet export orders and backlogs softened, inventories increased more quickly, employment contracted slightly faster, and prices paid reached their highest level since mid-2022. S&P Global's June survey showed some improvement in services activity, helped in part by World Cup-related demand and better news from the Middle East, but growth remained subdued relative to manufacturing as high prices and weak consumer confidence continued to weigh on demand. Overall, services remain a source of expansion, but not an unambiguous offset to broader risks: activity is still positive, yet soft hiring, rising prices, and fragile demand leave the sector vulnerable if higher costs or weaker confidence begin to restrain discretionary spending.

Consumer and business sentiment moved in opposite directions in late May and early June, but both remained highly sensitive to inflation, fuel costs, and policy uncertainty. The University of Michigan survey showed a modest improvement in consumer sentiment, helped by lower gasoline prices and some easing in inflation expectations. Consumers assessed both current conditions and the near-term outlook somewhat more favorably, while long-run inflation expectations moved lower — a development that should offer the Federal Reserve some reassurance. Even so, sentiment remains weak in absolute terms: households continue to view inflation as a greater near-term risk than unemployment, buying conditions for homes deteriorated, and plans for large purchases remain subdued despite small improvements for vehicles and household durables.

Small-business sentiment softened, reflecting a more difficult operating environment for firms exposed to rising input costs and uneven demand. The National Federation of Independent Business (NFIB) Index slipped in May as uncertainty stayed elevated, pricing pressures intensified, and supply-chain disruptions continued to affect a large share of firms. Business owners reported more difficulty passing higher costs through to customers, particularly as fuel prices became more volatile, and that appears to be weighing on plans for both capital spending and hiring. While recent profit trends improved somewhat, forward-looking indicators were weaker: capex intentions fell to very low levels, and hiring plans dropped to their weakest reading since 2020. Taken together, the sentiment data point to an economy in which consumers are slightly less pessimistic than they were, but firms remain cautious, cost sensitive, and reluctant to commit to expansion until the inflation and policy backdrop becomes clearer.

Retail and consumption data suggest that households continued to spend at a solid pace in May despite higher gasoline prices and elevated borrowing costs, with sales gains spread across most categories and particular strength in autos, gasoline stations, and online spending. The control group also advanced firmly, pointing to a consumer sector that remains resilient, though the report was supported by nominal price effects, larger-than-usual tax refunds, a rising stock market, and deal-seeking behavior rather than a clear easing of household constraints. Beneath the headline, the picture remains bifurcated: higher income households appear to be carrying much of the spending momentum, while lower income consumers remain pressured by tight budgets, weaker real wage growth, elevated borrowing costs, and a lower saving rate. Online retail strength suggests shoppers are becoming more selective and promotion-sensitive, with AI-powered shopping tools potentially becoming a larger influence over time. For now, sustaining consumption into the summer will depend less on one strong retail print than on labor market conditions, real disposable income growth, and whether households can continue absorbing higher energy prices without cutting back on discretionary purchases.

Industrial production and capex data show a goods-producing sector with pockets of real strength, but not a broad manufacturing revival. Total industrial production rose only slightly in May, while manufacturing output was essentially flat after a strong April, as gains in durable goods were offset by weakness in nondurables such as chemicals and petroleum products. The stronger areas were tied to business equipment, data center construction, onshoring, defense and space equipment, and energy production, with oil and gas drilling responding to higher prices. Durable goods output improved broadly, and business equipment production continued to advance, suggesting that capex plans remain intact in strategically important sectors. But the breadth of factory growth remains limited: consumer goods output declined, nondurables weakened across most categories, and factory utilization was little changed. Overall, the production data fit the broader pattern of the report — activity is still expanding in select investment-heavy areas, but the industrial base remains uneven, cost sensitive, and exposed to supply chain stress, war-related disruptions, and rising input prices.

The latest Beige Book reinforces the broader picture of an economy still expanding modestly, but with a more cautious tone beneath the surface. Most Federal Reserve districts reported slight to moderate growth, and manufacturing stood out as a relative bright spot, supported by defense activity, data-center demand, and selective hiring in industrial sectors. But that strength remains narrow rather than broad-based, and other parts of the report point to growing strains: consumer spending is increasingly split by income, with higher-income households still spending while middle- and lower-income consumers become more price-sensitive; loan delinquencies have risen in several categories; and businesses remain focused on protecting margins as energy costs ripple through shipping, packaging, groceries, and other inputs. Employment conditions also remain subdued, with most districts describing a low-hire, low-fire environment in which firms fill only critical roles and workers are less willing to change jobs amid uncertainty. Overall, the Beige Book supports the view that the economy remains resilient enough to keep the Fed from cutting rates immediately, but not strong enough to rule out easing later if consumer stress, credit deterioration, and business caution continue to build.

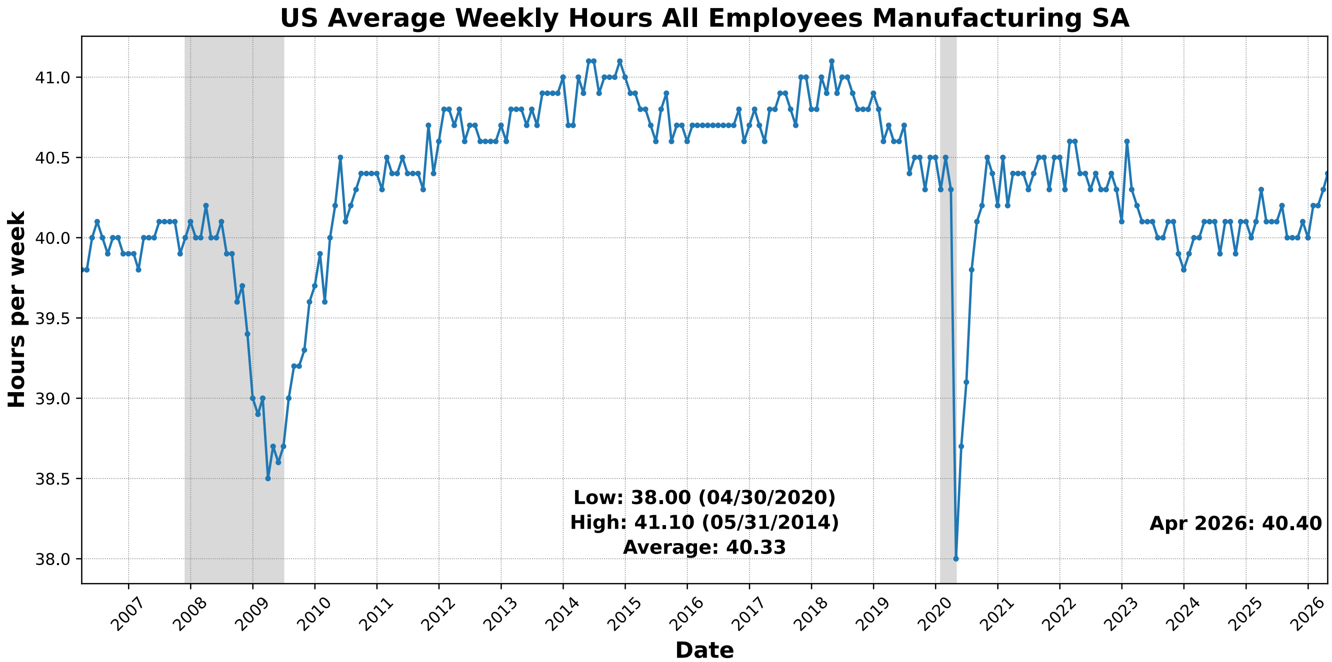
The monetary policy backdrop has turned decidedly more hawkish, even as the most likely near-term outcome remains an extended pause rather than an immediate rate increase. The Federal Reserve left its benchmark rate unchanged in June, but the updated projections showed a committee more divided and more concerned about inflation than it had been earlier in the year, with officials raising their core inflation forecast and marking down growth slightly. The statement also shifted in tone, emphasizing price stability, solid activity, strong productivity and capital investment, and inflation pressures tied partly to energy and other supply shocks. Warsh's first meeting as Fed chair reinforced that message: his press conference was notably focused on price stability, and the Fed's communications have moved steadily in a more hawkish direction since early 2026. At the same time, Warsh's decision not to submit a dot-plot projection, along with his stated preference for less forward guidance, introduces a new uncertainty around how much information markets will receive about the likely path of policy. For now, the Fed appears inclined to stay on hold while it waits to see whether energy-driven inflation fades and whether labor-market conditions soften more materially, leaving policy restrictive but not yet moving decisively toward either hikes or cuts.

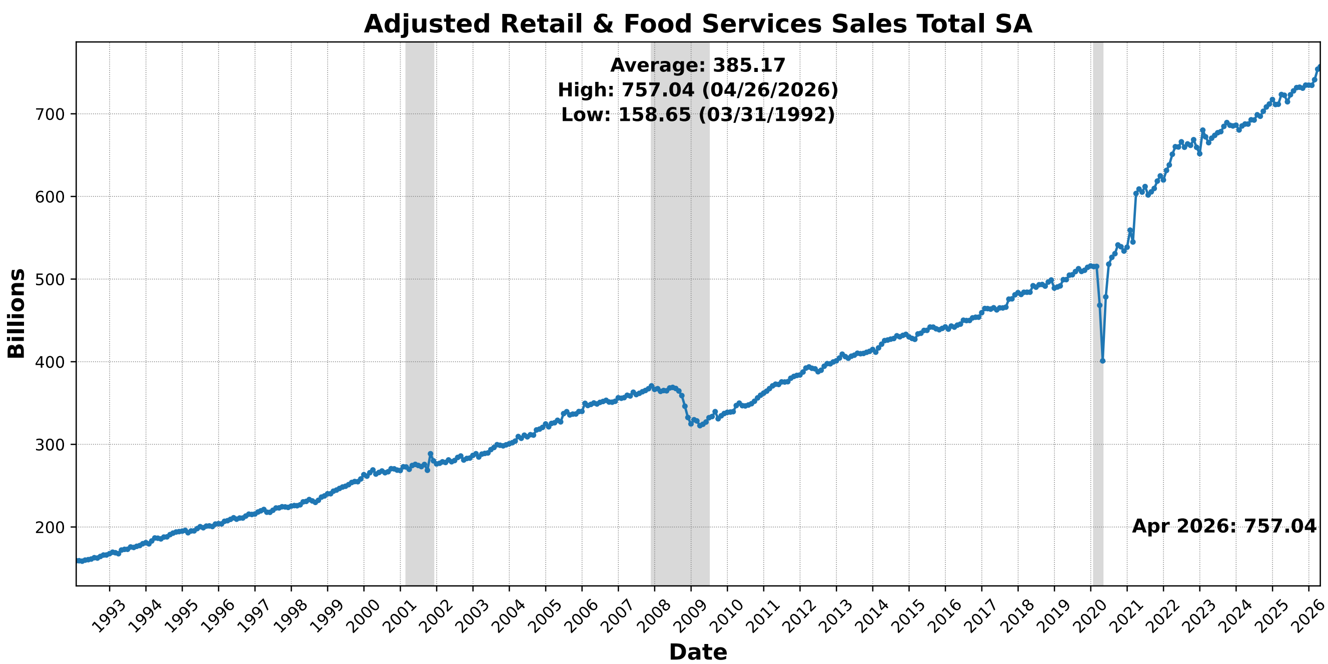
Fiscal, trade, and affordability policy are becoming a larger source of macro uncertainty, even as the administration presents tax cuts, deregulation, and energy production as offsets to higher living costs. The debt ceiling is already back on the horizon after last year's increase, with federal debt projected to rise further above GDP and annual deficits remaining politically salient.

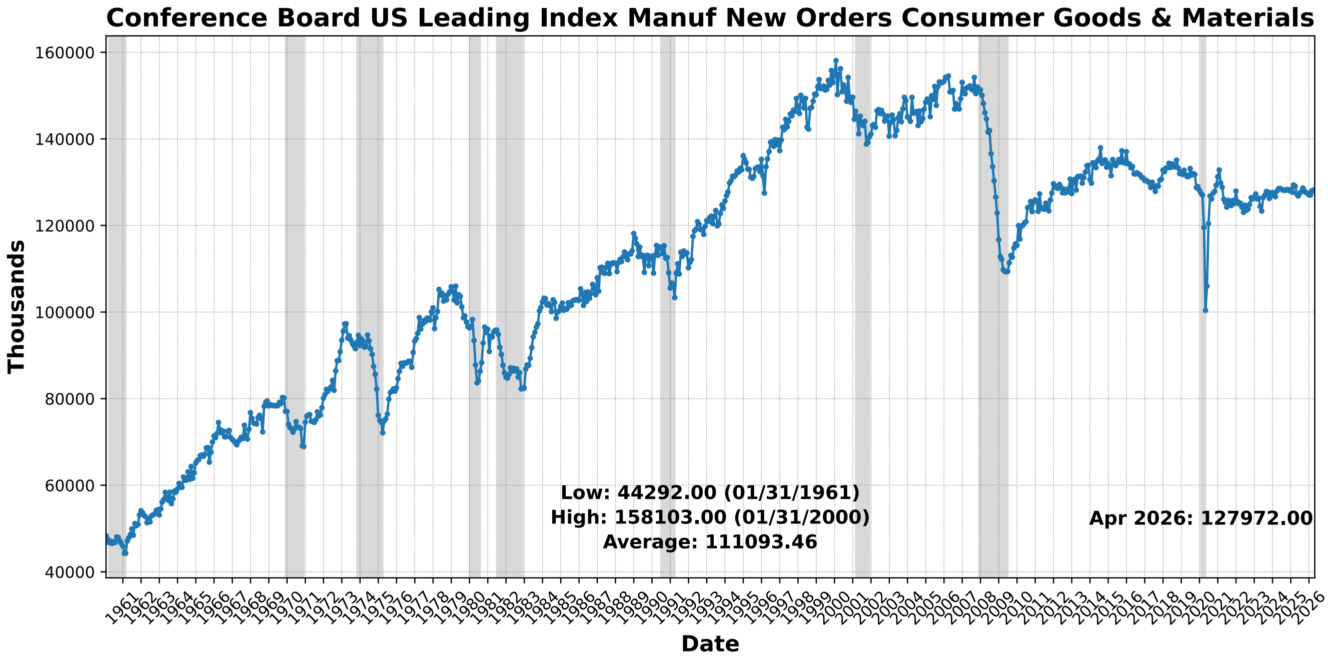
At the same time, the White House's affordability agenda has struggled to gain traction: housing legislation has stalled, efforts to cap credit-card interest rates have met resistance, and executive actions on mortgage access and builder regulation appear likely to have only limited near-term effects. Those difficulties have been compounded by the Iran conflict, which pushed gasoline and mortgage costs higher, weakened the spring housing market, and muted attempts to highlight tax refunds, drug price negotiations, and other pocketbook measures. Trade policy remains similarly unsettled after the Supreme Court rejected the administration's sweeping global tariffs, prompting a recent shift toward more targeted tools such as Section 301 investigations while preserving broad discretion through exemptions and inclusions. The result is an uneven and unpredictable tariff map, with some smaller economies gaining relief, others facing higher burdens, and major partners still exposed to renegotiation risk or sector-specific duties. Overall, the policy environment is simultaneously stimulative, protectionist, and fiscally strained: tax relief and deregulation may support demand at the margin, but debt-limit politics, tariff uncertainty, affordability pressures, and volatile energy costs continue to weigh on confidence, business planning, and the durability of the expansion.

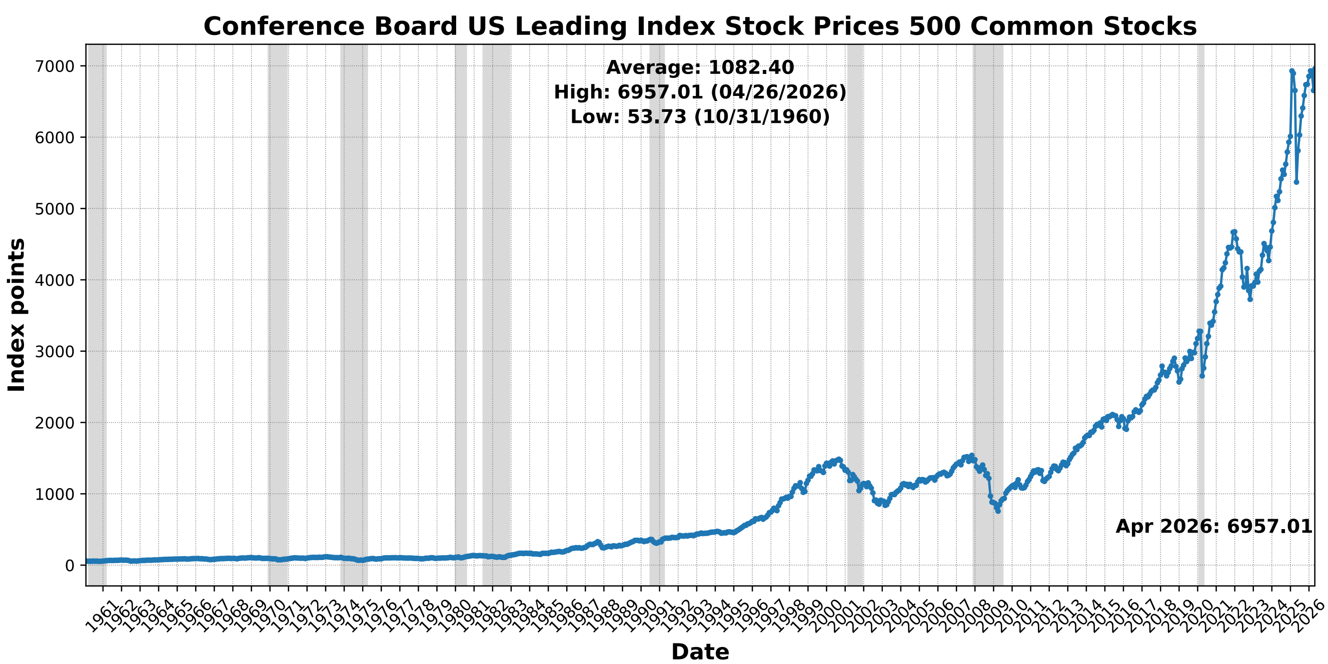
All together, the May/June US economic data reveal an economy that is still expanding, but with a narrower and more fragile foundation than the headline figures imply. Consumer spending and selected areas of manufacturing remain resilient, labor conditions have stabilized, and investment tied to data centers, defense, and business equipment continues to provide support. But inflation pressures have not fully cleared the pipeline, service demand looks less firm, lower-income households are under strain, firms are cautious about hiring and capex, and policy uncertainty has become a larger drag on confidence and planning for households and firms alike. The near-term outlook is therefore cautiously positive but increasingly conditional: growth can continue if energy pressures fade, consumers remain employed, and investment momentum holds, but the economy is becoming more vulnerable to shocks from inflation, tariffs, credit stress, or policy missteps.

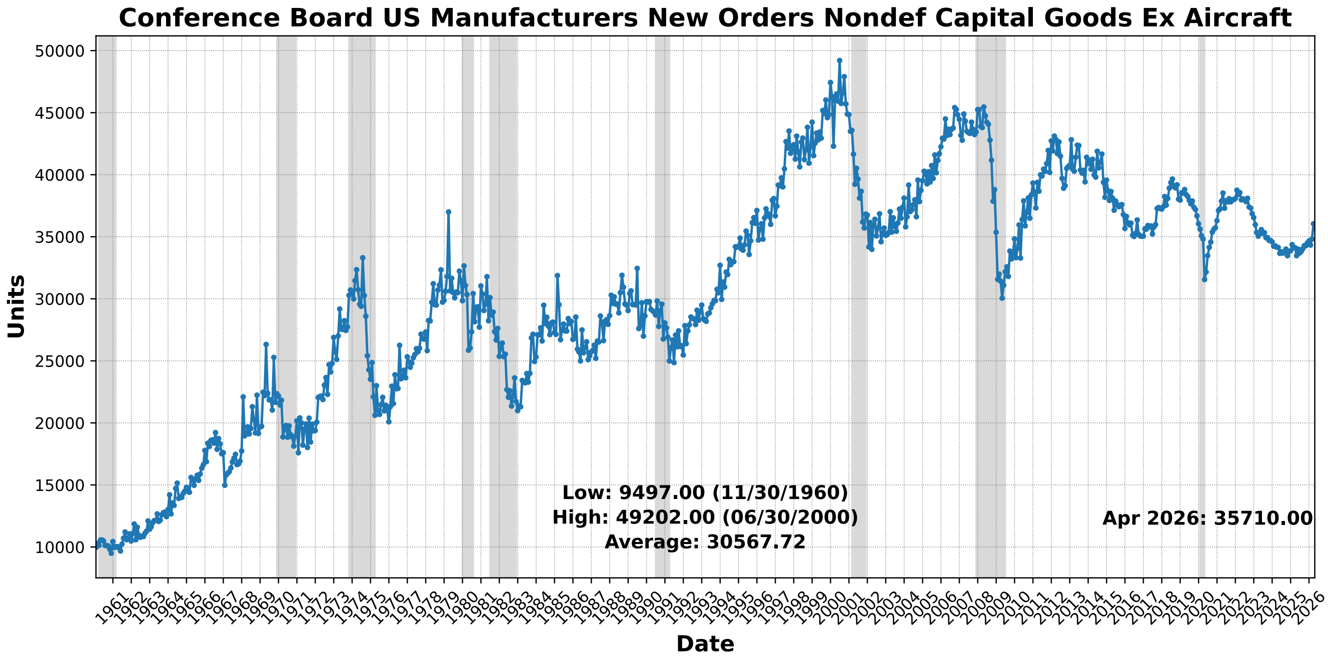
LEADING INDICATORS

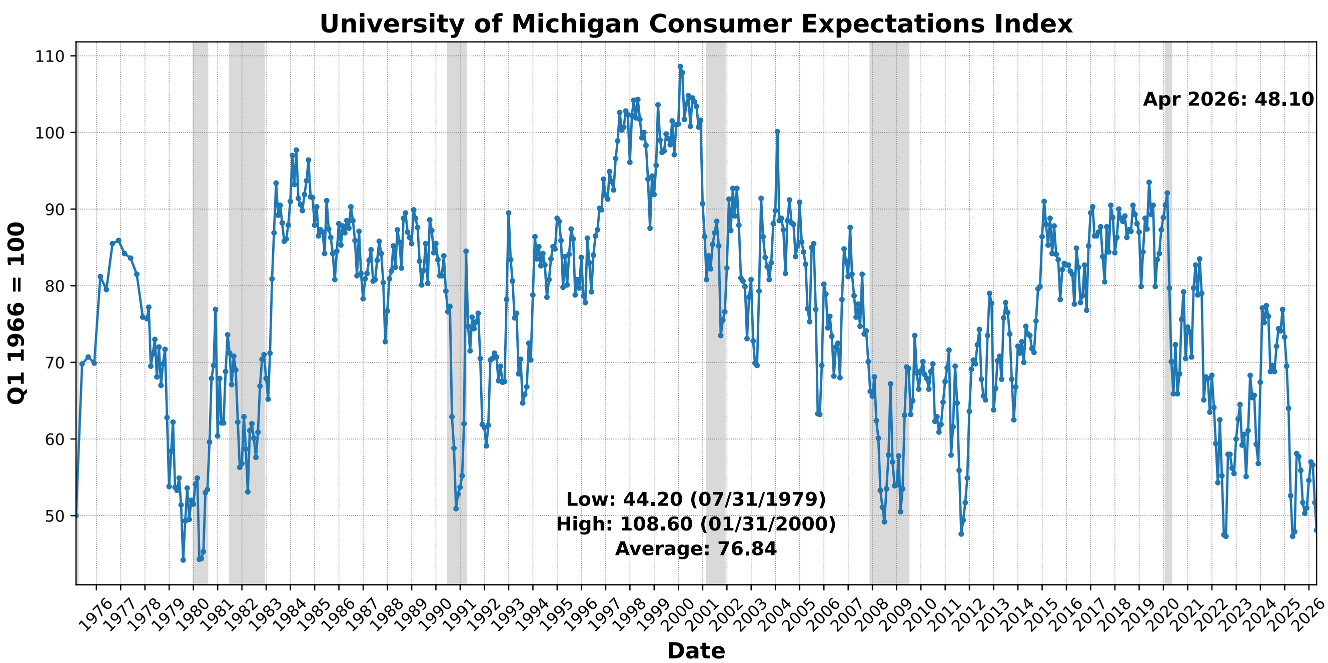


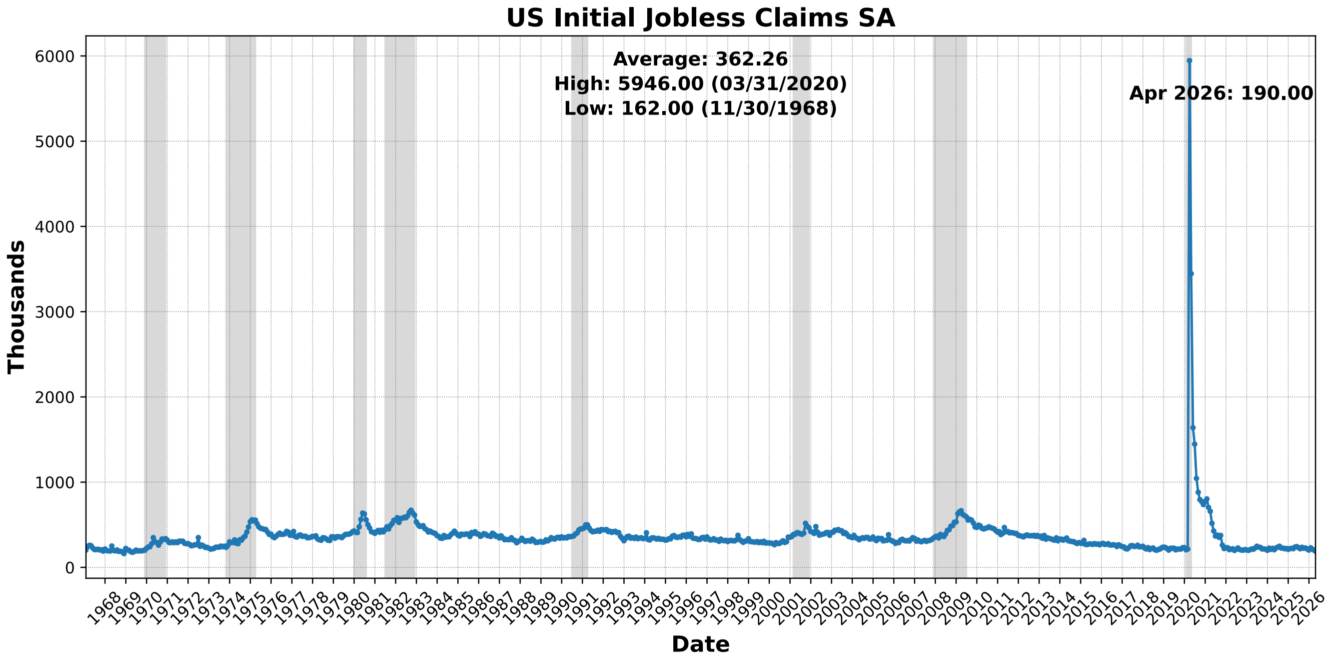


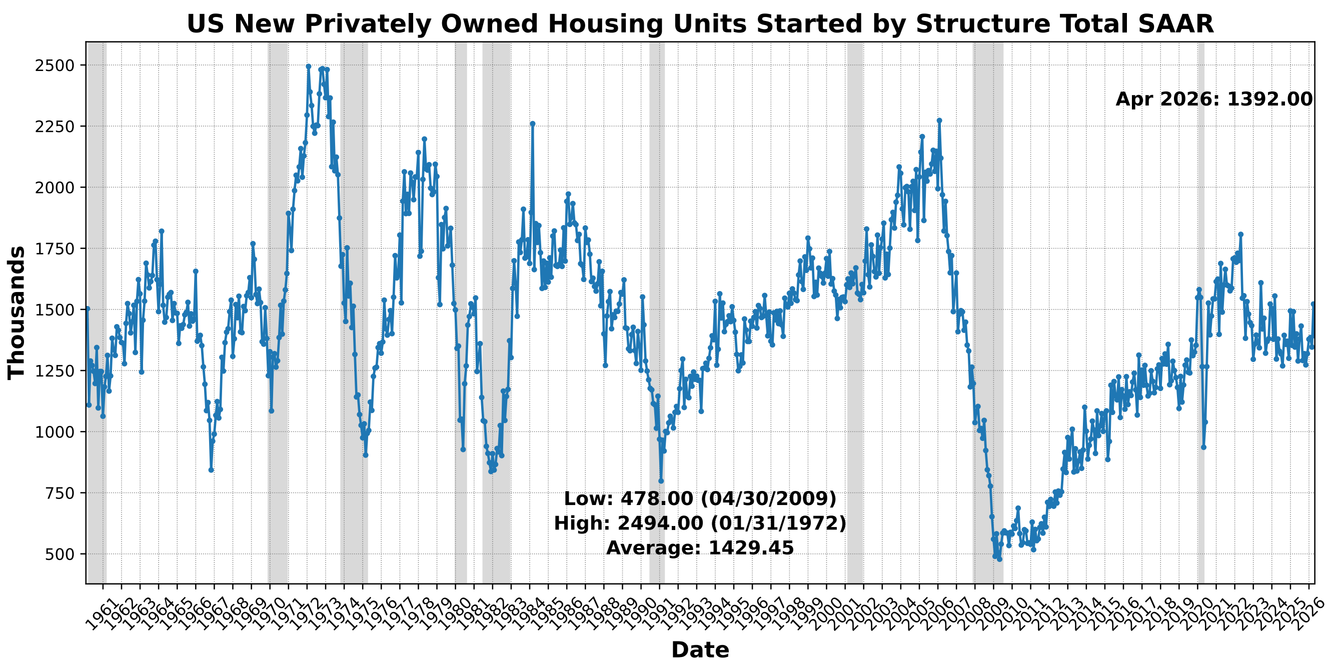

Conference Board US Leading Index Manuf New Orders Consumer Goods & Materials
Thousands
Date
Low: 44292.00 (01/31/1961)
High: 158103.00 (01/31/2000)
Average: 111093.46
Apr 2026: 127972.00

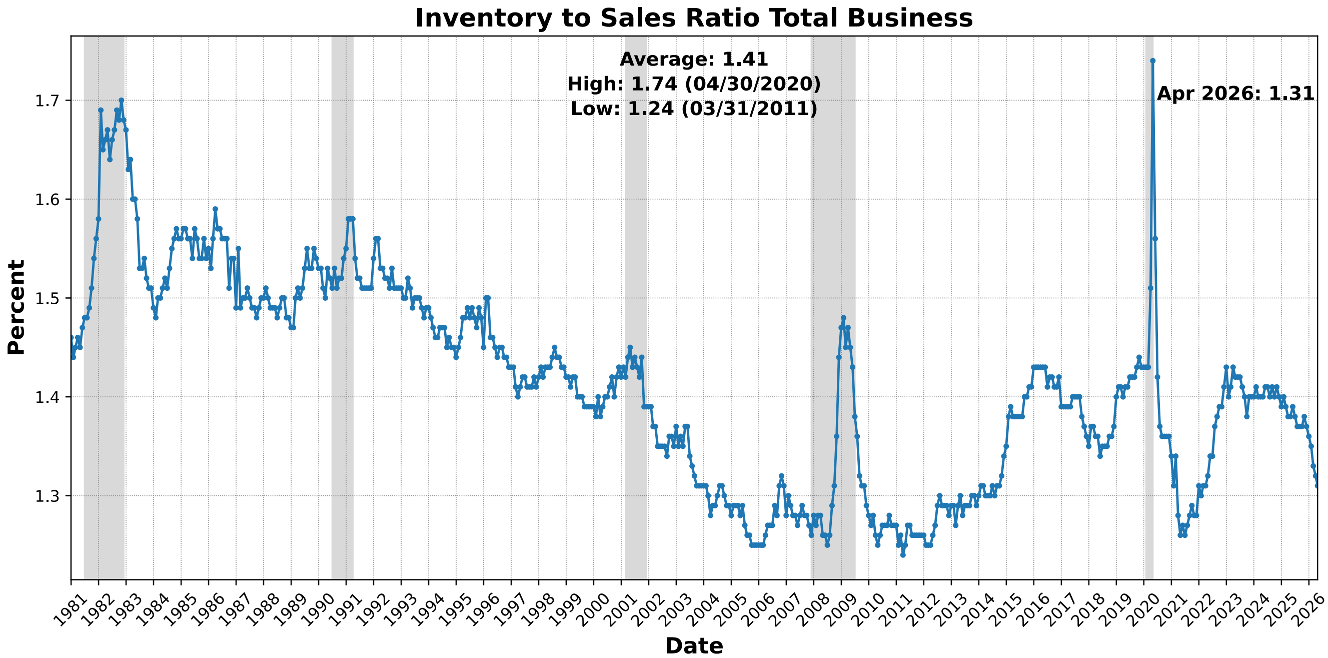

Conference Board US Leading Index Stock Prices 500 Common Stocks
Index points
Date
Average: 1082.40
High: 6957.01 (04/26/2026)
Low: 53.73 (10/31/1960)
Apr 2026: 6957.01


Conference Board US Manufacturers New Orders Nondef Capital Goods Ex Aircraft
Units
Date
Low: 9497.00 (11/30/1960)
High: 49202.00 (06/30/2000)
Average: 30567.72
Apr 2026: 35710.00

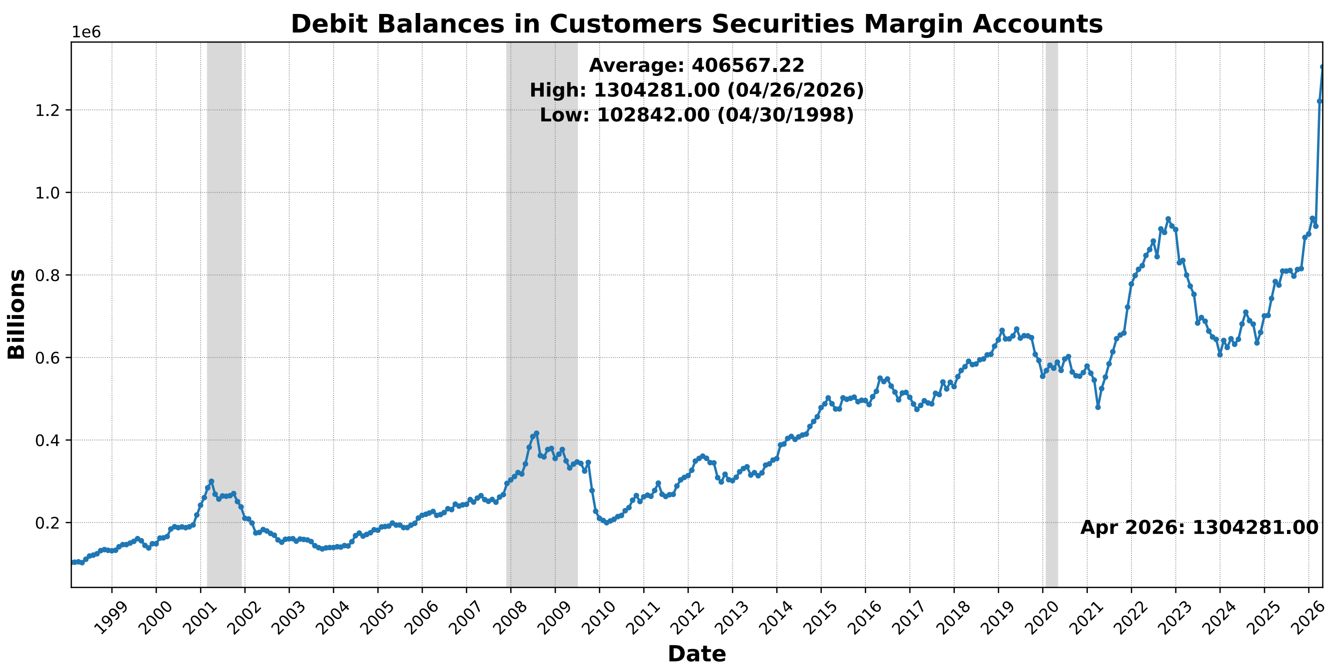

University of Michigan Consumer Expectations Index
Q1 1966 = 100
Date
Apr 2026: 48.10
Low: 44.20 (07/31/1979)
High: 108.60 (01/31/2000)
Average: 76.84


US Initial Jobless Claims SA
Average: 362.26
High: 5946.00 (03/31/2020)
Low: 162.00 (11/30/1968)
Apr 2026: 190.00
Thousands
Date

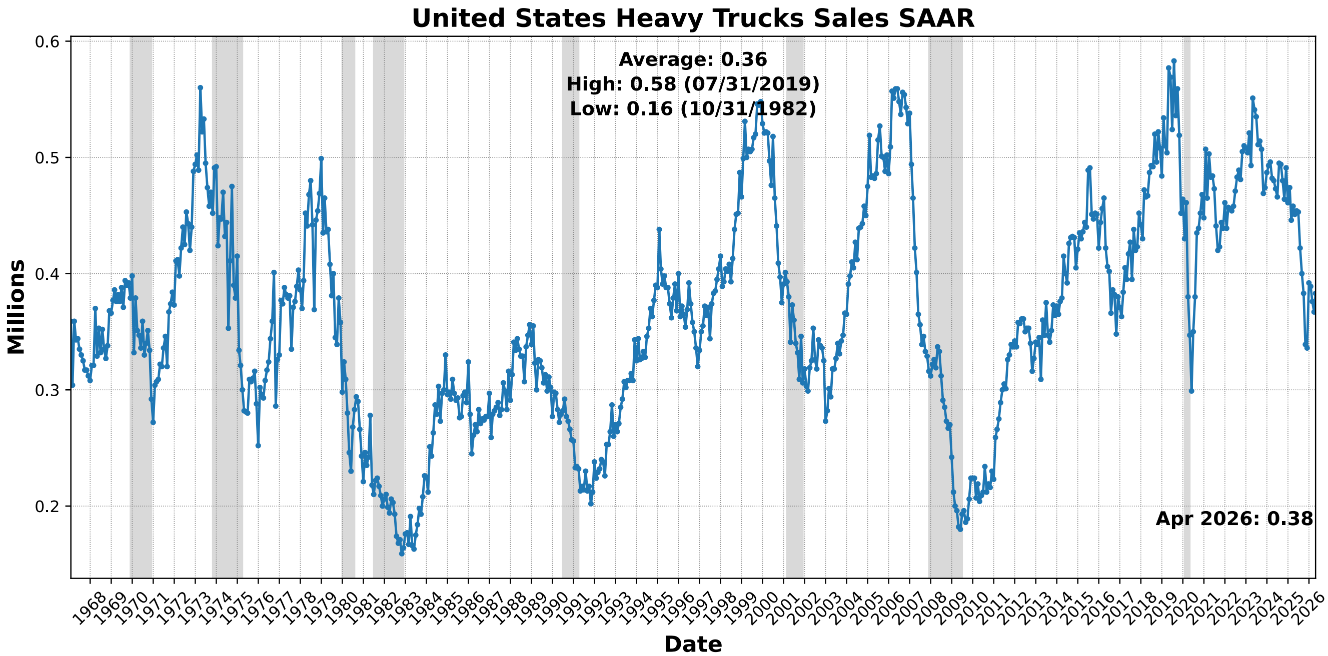

US New Privately Owned Housing Units Started by Structure Total SAAR
Apr 2026: 1392.00
Low: 478.00 (04/30/2009)
High: 2494.00 (01/31/1972)
Average: 1429.45
Thousands
Date

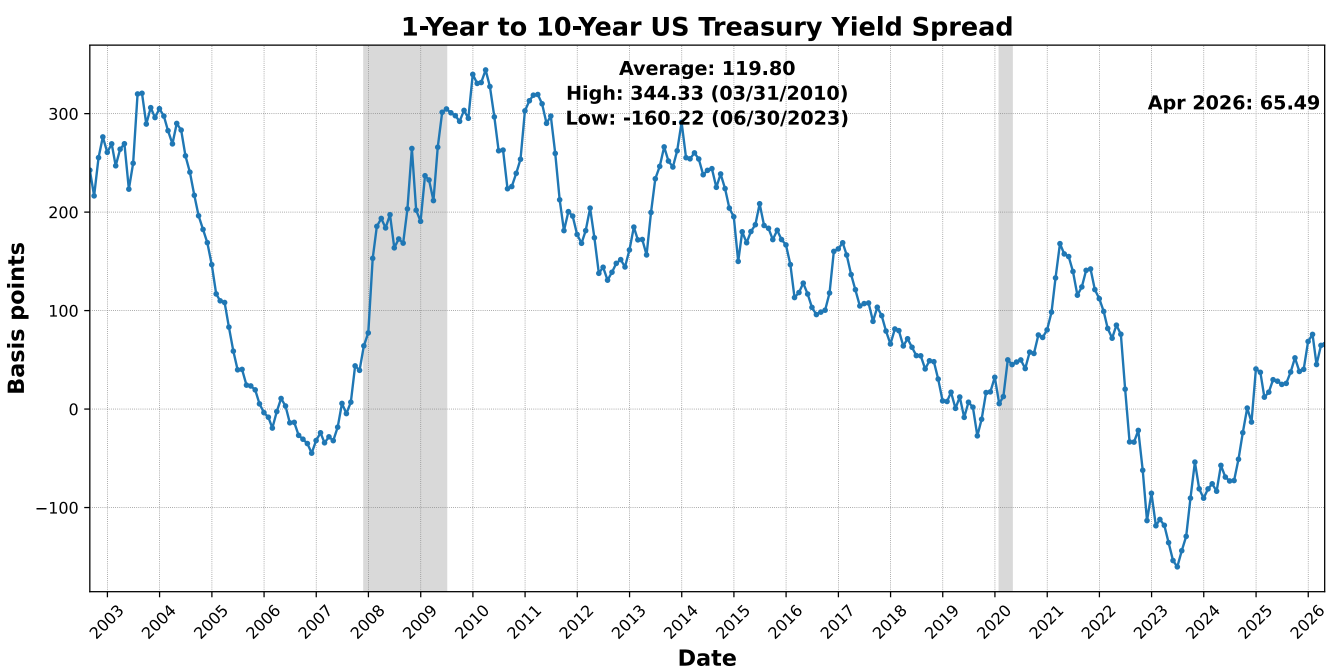


Inventory to Sales Ratio Total Business
Average: 1.41
High: 1.74 (04/30/2020)
Low: 1.24 (03/31/2011)
Apr 2026: 1.31
Percent
Date

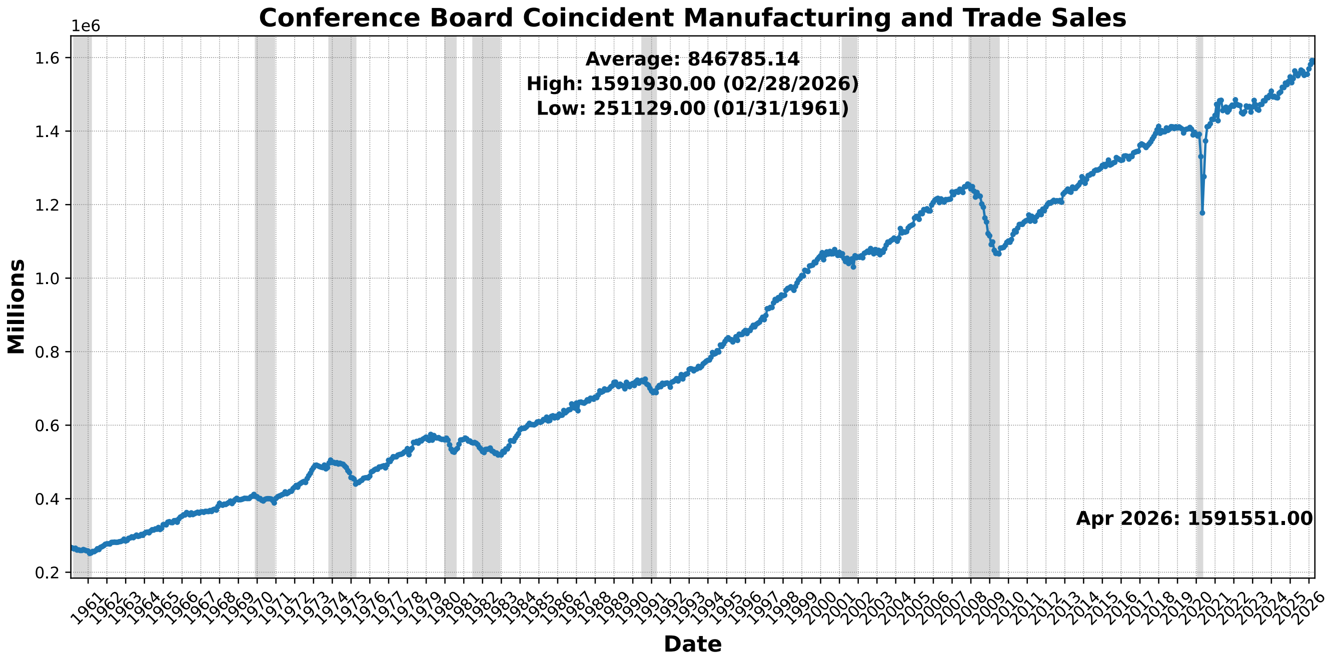


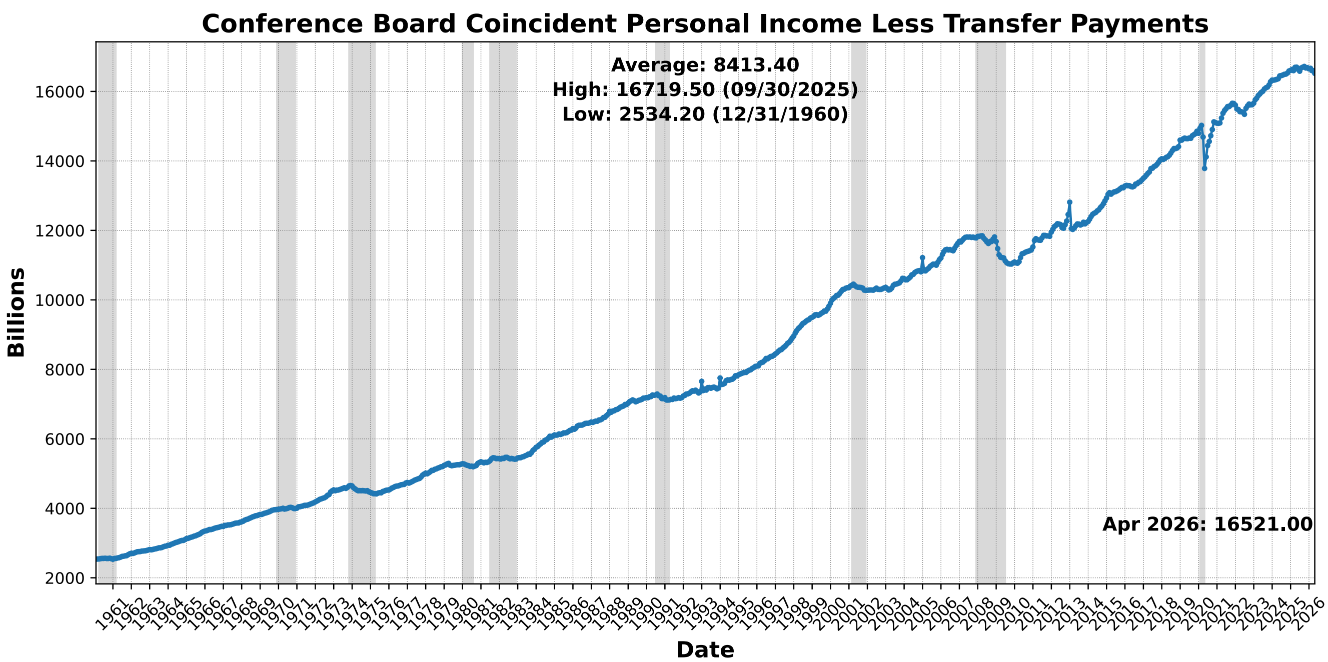
Debit Balances in Customers Securities Margin Accounts
Average: 406567.22
High: 1304281.00 (04/26/2026)
Low: 102842.00 (04/30/1998)
Apr 2026: 1304281.00
1e6
Billions
Date

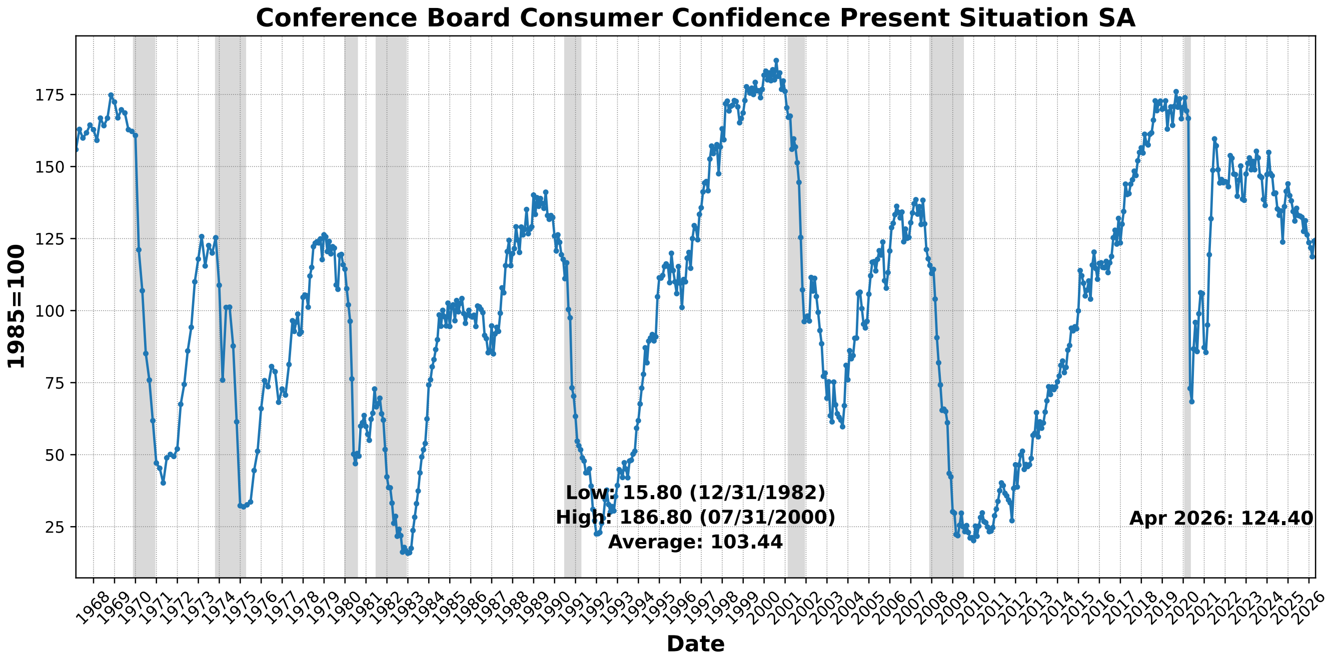

United States Heavy Trucks Sales SAAR
Average: 0.36
High: 0.58 (07/31/2019)
Low: 0.16 (10/31/1982)
Apr 2026: 0.38
Millions
Date

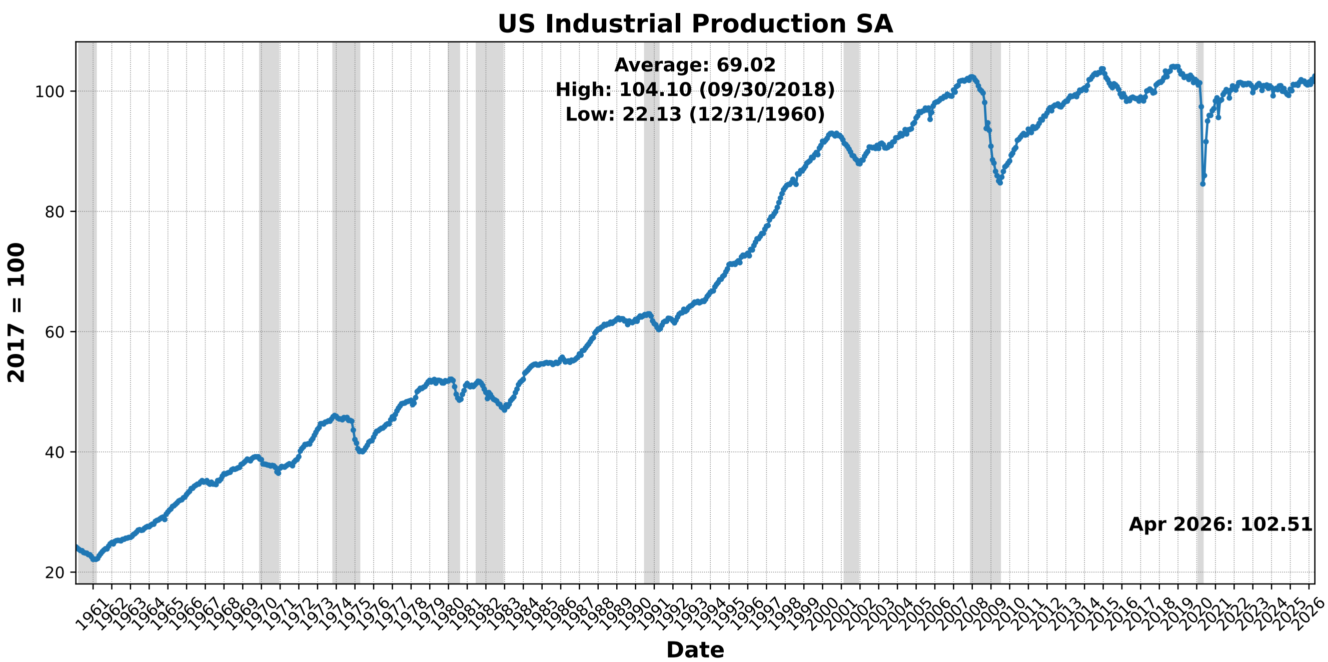

1-Year to 10-Year US Treasury Yield Spread
Average: 119.80
High: 344.33 (03/31/2010)
Low: -160.22 (06/30/2023)
Apr 2026: 65.49
Basis points
Date

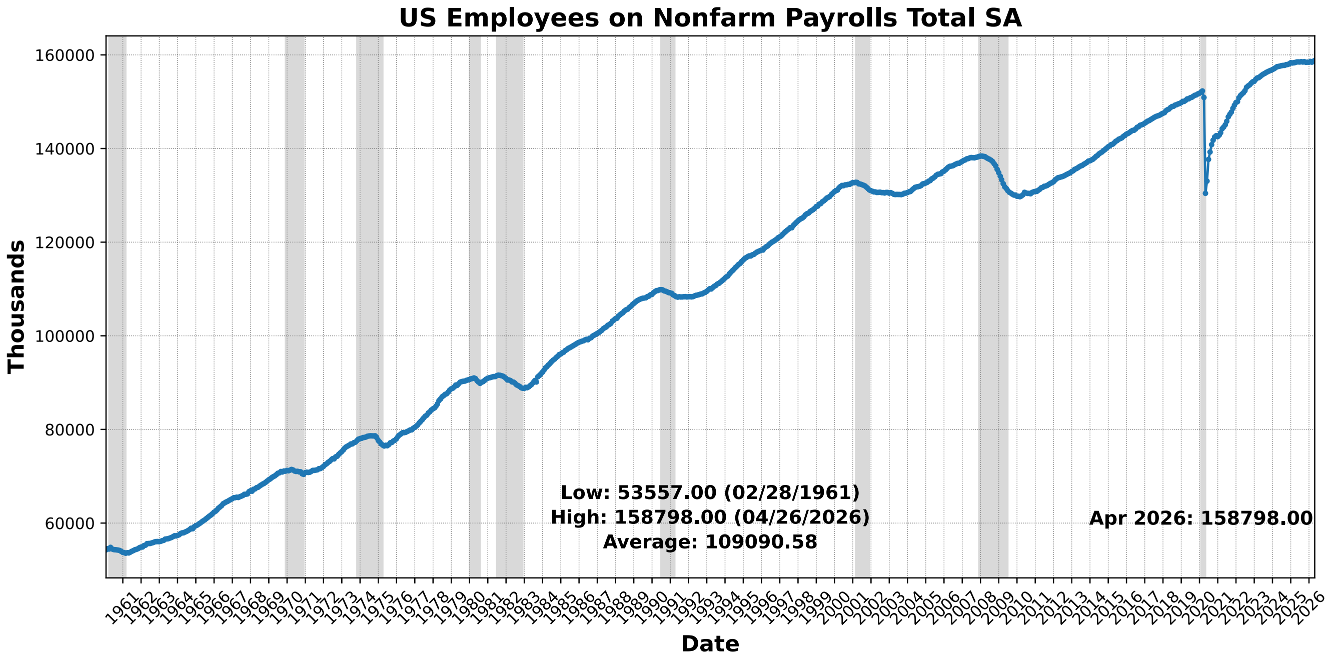
ROUGHLY COINCIDENT INDICATORS

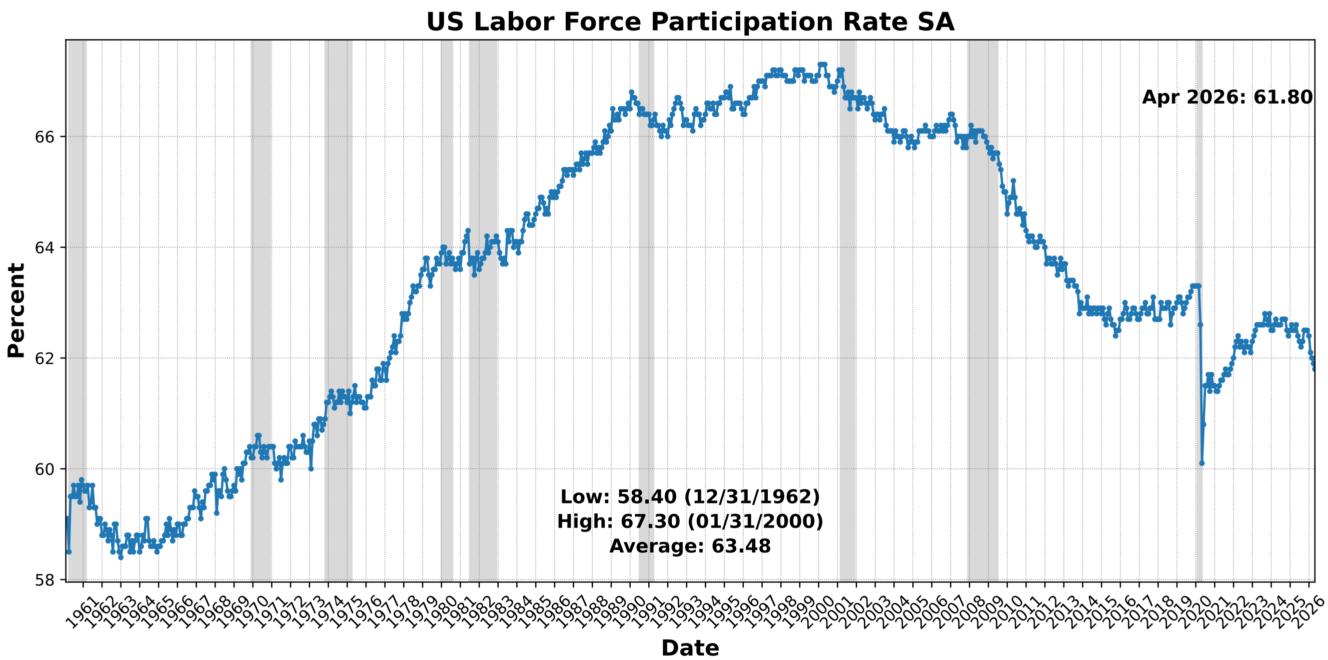




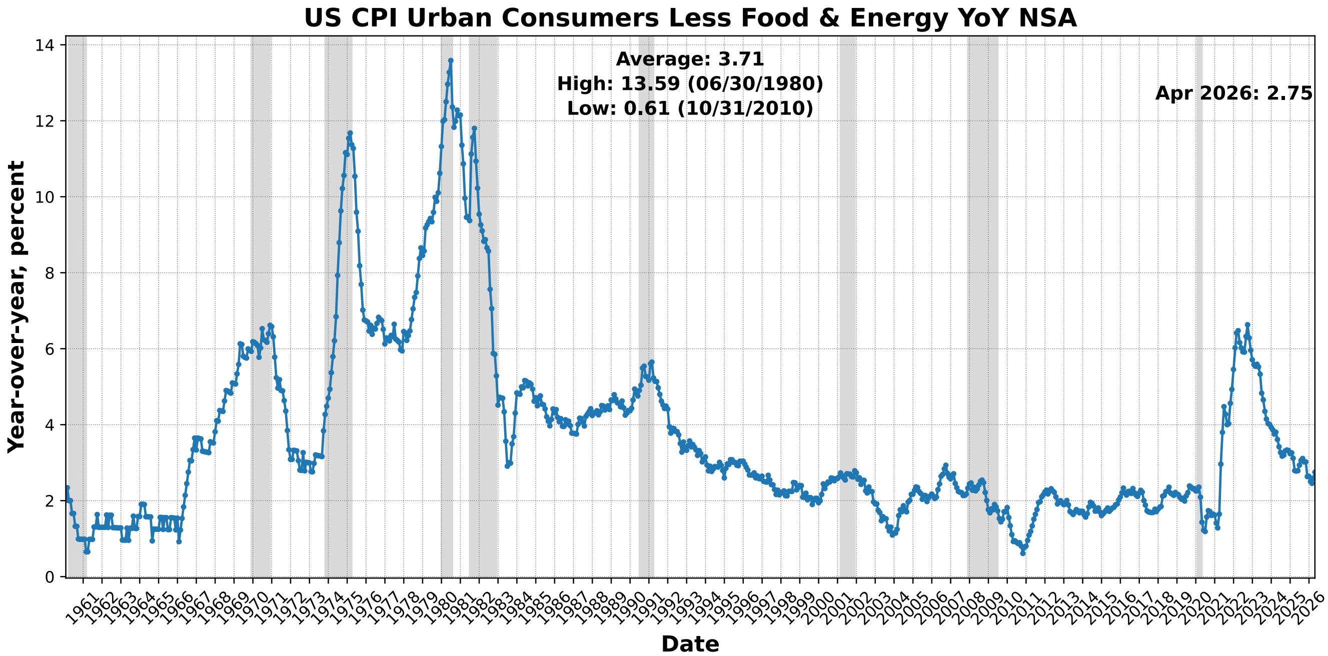

Conference Board Consumer Confidence Present Situation SA
1985=100
Low: 15.80 (12/31/1982)
High: 186.80 (07/31/2000)
Average: 103.44
Apr 2026: 124.40
Date

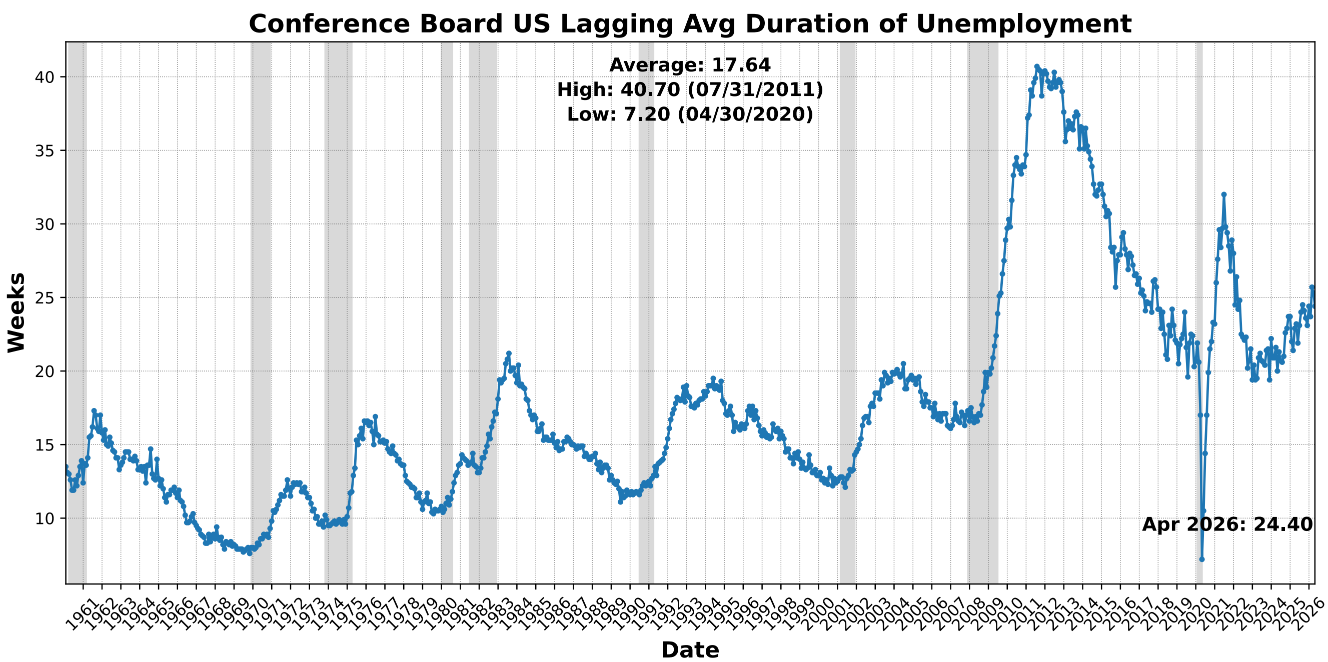

US Industrial Production SA
2017 = 100
Average: 69.02
High: 104.10 (09/30/2018)
Low: 22.13 (12/31/1960)
Apr 2026: 102.51
Date

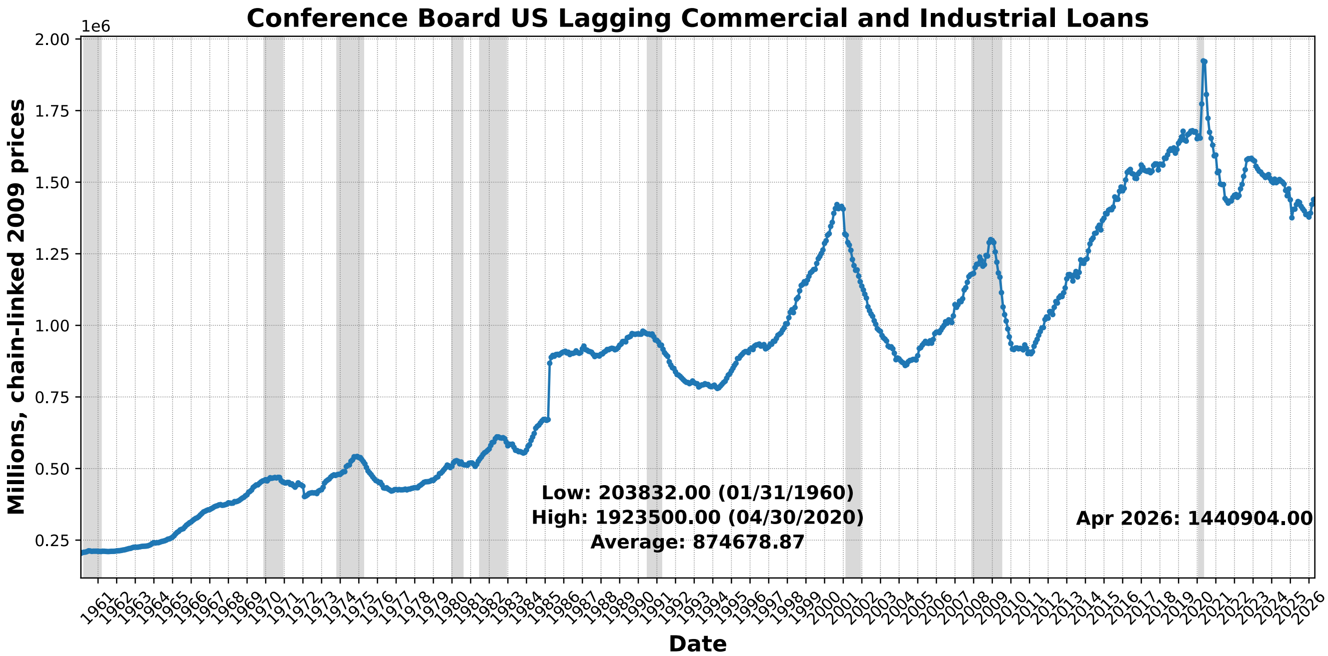

US Employees on Nonfarm Payrolls Total SA
Thousands
Date
Low: 53557.00 (02/28/1961)
High: 158798.00 (04/26/2026)
Average: 109090.58
Apr 2026: 158798.00

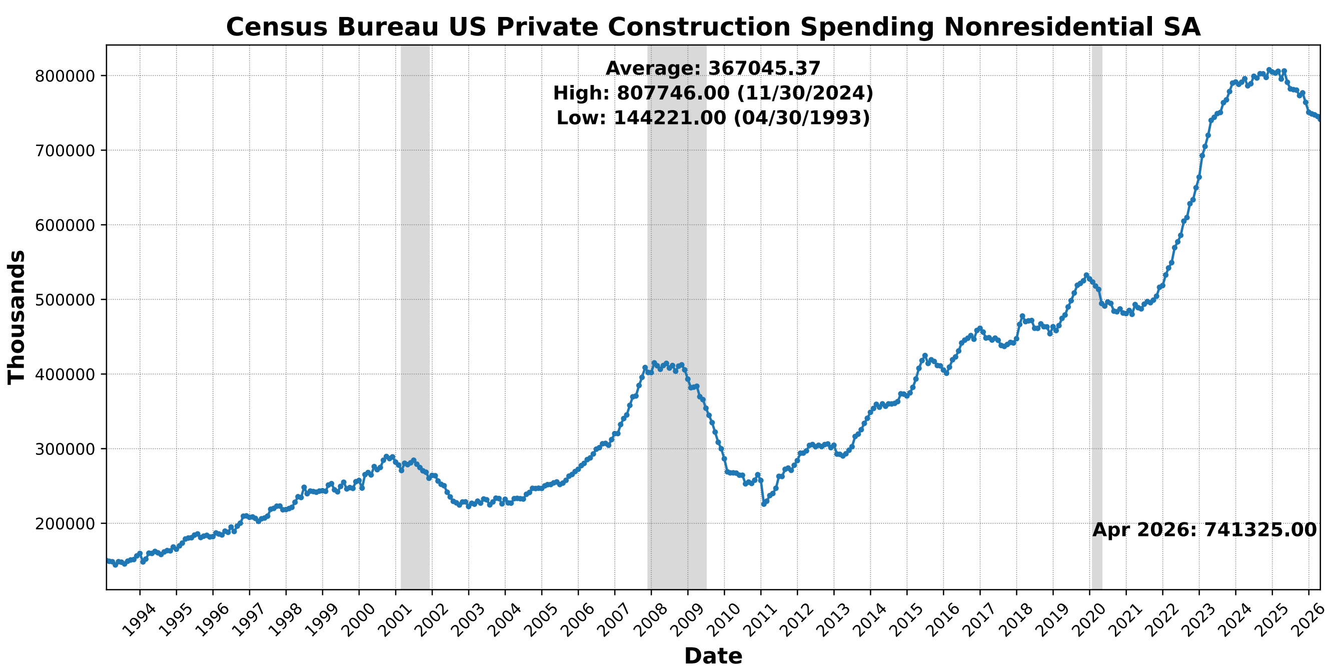

US Labor Force Participation Rate SA
Percent
Date
Apr 2026: 61.80
Low: 58.40 (12/31/1962)
High: 67.30 (01/31/2000)
Average: 63.48

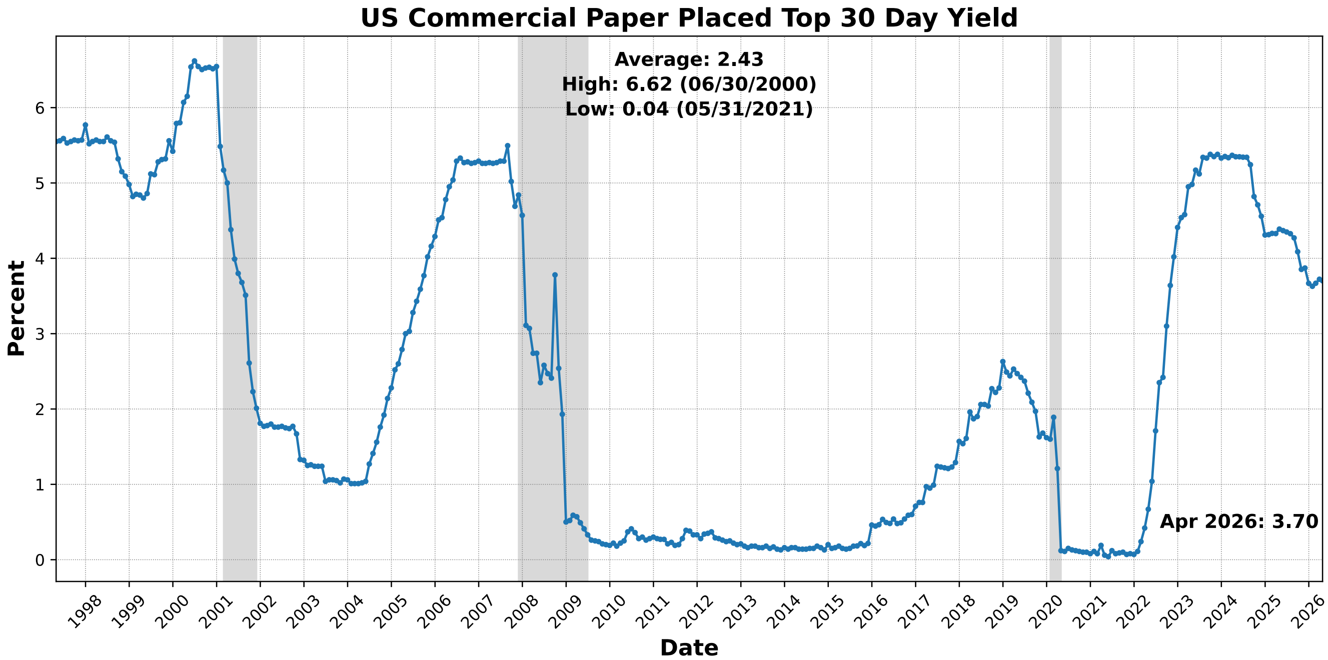
LAGGING INDICATORS

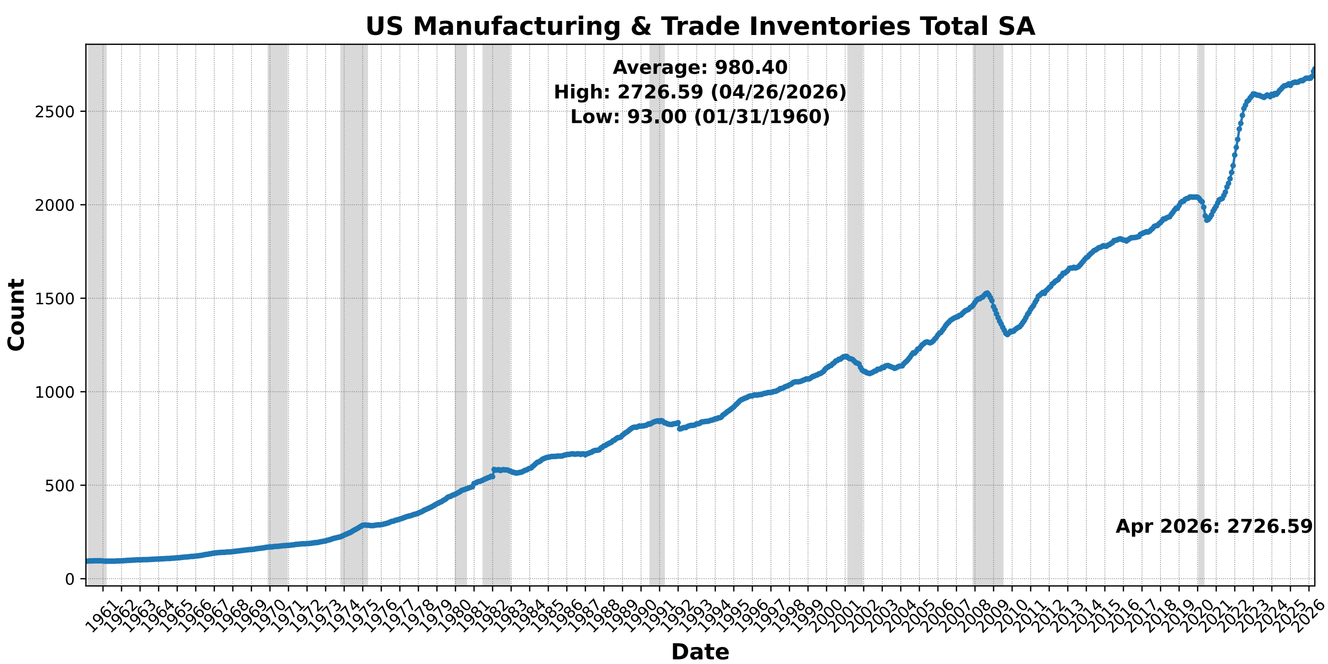





Conference Board US Lagging Commercial and Industrial Loans
1e6
Millions, chain-linked 2009 prices
Low: 203832.00 (01/31/1960)
High: 1923500.00 (04/30/2020)
Average: 874678.87
Apr 2026: 1440904.00
Date


Census Bureau US Private Construction Spending Nonresidential SA
Average: 367045.37
High: 807746.00 (11/30/2024)
Low: 144221.00 (04/30/1993)
Thousands
Apr 2026: 741325.00
Date


US Commercial Paper Placed Top 30 Day Yield
Average: 2.43
High: 6.62 (06/30/2000)
Low: 0.04 (05/31/2021)
Apr 2026: 3.70
Percent
Date
0
1
2
3
4
5
6
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026


US Manufacturing & Trade Inventories Total SA
Average: 980.40
High: 2726.59 (04/26/2026)
Low: 93.00 (01/31/1960)
Apr 2026: 2726.59
Count
Date
0
500
1000
1500
2000
2500

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	-.70%	+12.83%	+21.73%	20.4098	12.8392	15.2241
SPXT	d	S&P 500 Total Return	-1.34%	+12.66%	+22.36%	20.8016	13.2855	15.6172
SPX	d	S&P 500 INDEX	-1.00%	+12.84%	+21.44%	20.7760	13.2631	15.6004
MID	d	S&P 400 MIDCAP INDEX	+3.53%	+12.36%	+23.52%	16.1243	8.6885	11.2694
RTY	d	RUSSELL 2000 INDEX	+4.80%	+20.01%	+39.13%	19.3965	6.6906	11.2231
SXXP	d	STXE 600 (EUR) Pr	+1.61%	+9.65%	+17.41%	15.6448	10.6265	9.5717
TLT US	d	ISHARES 20+YR TR	+3.19%	+1.59%	-.02%	-1.8931	-6.5637	-1.3686
QLTA US	d	ISHARES AAA - A	+.87%	+.75%	+.18%	4.4890	-.0161	2.1195
CRY	d	TR/CC CRB ER Index	-9.51%	-1.09%	+19.65%	10.5402	11.1656	7.4021
XAU		Gold Spot $/Oz	-12.29%	-10.43%	+20.62%			
XAG		Silver Spot $/Oz	-24.92%	-17.69%	+63.20%			
ILM3NAVG		Bankrate 30Y Mortgage Rates Na	+.61%	+2.34%	-4.51%			
ILM1NAVG		Bankrate 15Y Mortgage Rates Na	+.68%	+4.01%	-2.61%			
MB301ARM		5 Year ARM	-1.39%	+.53%	-7.79%			
ILA3NAVG		Bankrate 30Y Fixe Mtg Refis Na	-.29%	+.29%	-3.61%			

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

July 2026

Measuring Trump 2.0 Against Trump 1.0: Tariff Boasts Meet the Data

Donald J. Boudreaux
Associate Senior Research Fellow

In his State of the Union address earlier this year, President Trump boasted that "one of the primary reasons for our country's stunning economic turnaround, the biggest in history, where the Dow Jones broke **50,000**, four years ahead of schedule, and the S&P hit **7000** where it wasn't supposed to do it for many years, were tariffs."

The facts tell a different story. First, because there is no schedule for stock-market gains, it is meaningless to say that the Dow Jones or S&P 500 rose "ahead of schedule." The reality is that the US economy during the first year of President Trump's second term simply did not perform a "turnaround," much less one that could be ranked as "the biggest in history."

By some measures, the US economy did indeed perform better in 2025 than it did in the previous year — such as, for example, in the growth of real median household income. This income grew by **1.4 percent** in 2025, which is 'bigger' than its **1.1 percent** growth in 2024 — but not (see below) the biggest in US history. Yet by other measures — such as the growth in nonfarm employment — 2025 was a worse year. Nonfarm employment grew only by **0.2 percent** between January 2025 and January 2026, after having grown by **0.8 percent** between January 2024 and January 2025.

But let's dig deeper to see if we can better determine if Mr. Trump is generally correct that the tariffs he imposed in 2025 were a boon to the American economy. To do so, we need a point of comparison for 2025 that's more credible than 2024, which was the final year of the economy under Joe Biden's economically harmful superintendence.

TRUMP 2.0 COMPARED TO TRUMP 1.0

Such a point of comparison is plausibly the first full year of President Trump's first term. Although the first full year of Mr. Trump's second term isn't identical to the first full year of his first term, they are similar enough to use the first year of Trump 1.0 as a 'test' of Mr. Trump's boast about the first, tariff-filled year of Trump 2.0. As Phil Gramm and I wrote a few months ago in *The Washington Post*, "in both 2017 and 2025, Trump dramatically improved the economy's growth potential by lifting crippling regulatory burdens imposed by his predecessors and by enacting pro-growth tax cuts. The only significant economic policy difference is the imposition of the largest tariffs since the 1930s." Unlike in 2025, when the marquee economic policy was the tariffs, in 2017 there were no tariff hikes. The first tariff hikes in Mr. Trump's first term weren't even announced until late January 2018, more than a year after he was first sworn into office, and these levies didn't take effect until February 2018.

While policy-wise the chief difference between 2025 and 2017 is the tariffs imposed in 2025, there's one other significant difference — a non-policy one — that separates these two years. It's a difference, however, that gave the economy in 2025 a boost that was not present in 2017. That difference is AI, which in 2025 was becoming far more integrated into the economy than it was in 2017. The presence of AI in 2025, and the optimism about its economic potential, added fuel to the 2025 economy that wasn't available eight years earlier. But I will here do nothing to correct for the effects of that AI boost; I will thus give Mr. Trump's boast about the effects of his tariffs on the US 2025 economy an unearned edge.

So how does the first year of Trump 2.0 compare to the first year of Trump 1.0? Even with the boost from AI investment, not well.

FINANCIAL MARKET INDICES

Let's begin by looking at the performance of the three major US financial-market indices: the Dow Jones Industrial Average (DJIA), the S&P 500 index, and the NASDAQ index. These indices are especially telling because they reflect the expectations of people investing their own money. These investors have strong incentives to take account of as much available information as is worthwhile, and not to be misled by political bluster or by reality-distorting hopes and fears.

In the year from January 20, 2017 (the day Mr. Trump was first inaugurated) through January 20, 2018 (two days before the announcement of Mr. Trump's first tariffs), the DJIA rose by a stunning **31.5 percent**. In the corresponding period of Mr. Trump's second term — January 20, 2025, through January 20, 2026 — the DJIA rose by **11.5 percent**. This latter rise in the DJIA is impressive, to be sure, but it's just over a third of the size of the rise in this index during the first year of Mr. Trump's first term.

Like the DJIA, both the S&P 500 and the NASDAQ rose by less in the year following Mr. Trump's second inauguration than they rose in the year following Mr. Trump's first inauguration. Specifically, during the first year of Trump 1.0, the S&P rose by **24.1 percent** and the NASDAQ by **32.1 percent**, while during the first year of Trump 2.0, the S&P rose by **13.3 percent** and the NASDAQ by **17.0 percent**.

These indices — which Mr. Trump himself explicitly pointed to as evidence of the success of his second-term tariffs — performed appreciably worse with these tariffs in place than these indices performed eight years earlier before any new tariff hikes were announced.

What about other plausible measures of economic performance over the first 365 days of each of Mr. Trump's two terms?

MANUFACTURING AND INDUSTRIAL OUTPUT

While *manufacturing* output rose by more (**2.0 percent**) during Trump 2.0 than it rose (**0.7 percent**) during Trump 1.0, the broader measure of *industrial* output — which is manufacturing plus mining and utilities — performed worse during Trump 2.0 than during Trump 1.0. From January 2025 through January 2026, industrial output rose by **1.4 percent** — barely half of its **2.7 percent** rise from January 2017 through January 2018.

MANUFACTURING EMPLOYMENT

Manufacturing *employment* — an economic statistic of special concern to the White House — *fell* (by **0.7 percent**) in the first year of Mr. Trump's second term, after having *risen* (by **1.6 percent**) in the first year of Mr. Trump's first term. Serious economists find no good reason to applaud increased manufacturing employment or to fret about its decrease. But because Mr. Trump and his protectionist supporters think otherwise, it's fair to note that Mr. Trump's second-term tariffs failed to increase manufacturing employment.

PAY AND INCOME

Average inflation-adjusted hourly *earnings* of production and nonsupervisory manufacturing workers also rose by less (**1.1 percent**) during the first year of Mr. Trump's second term than they rose (**1.4 percent**) during the first year of his first term. More generally, from January 2025 through January 2026, average inflation-adjusted hourly earnings for all private-sector employees rose by only **0.7 percent** — less than these wages rose (**1.0 percent**) from January 2017 through January 2018. (To adjust the nominal dollars available at these links into constant dollars I used this personal-consumption-expenditures deflator.)

The data just above are consistent with two other important measures of economic well-being: real median household income, and real per-capita GDP. While real median household income rose in 2025 by **1.4 percent**, in 2017 it rose by more, by **1.9 percent**. Real per-capita GDP also rose by more (**2.7 percent**) in 2017 than it rose (**2.3 percent**) in 2025.

INVESTMENT

Further, the **7.5 percent** rise in real private-sector nonresidential fixed investment during the first year of Mr. Trump's first term was notably higher than was the **5.8 percent** rise during the first year of his second term.

UNEMPLOYMENT, JOBS, AND INFLATION

Two of the most familiar economic gauges are the unemployment rate and the inflation rate. Each of these measures, alas, performed worse during the first year of Trump 2.0 than during the first year of Trump 1.0. Between January 2017 and January 2018, the unemployment rate dropped from **4.7 percent** to **4.0 percent**, yet between January 2025 and January 2026, this rate rose from **4.0 percent** to **4.3 percent**. Total nonfarm employment, from January 2017 through January 2018, rose by **1.4 percent**, but from January 2025 through January 2026, it rose only by an anemic **0.2 percent**.

And although the fall in the rate of inflation was a bit steeper during the first year of Trump 2.0 than during the first year of Trump 1.0 — declining from an annual rate of **3.0 percent** in January 2025 to **2.4 percent** in January 2026 — in January 2026 inflation was still running at an annual rate higher than the annual rate of **2.1 percent** that prevailed in January 2018.

A REALITY CHECK ON TRUMP'S TARIFF BOASTS

Data notoriously are able to be sliced, diced, and presented in ways that convey false impressions even without the data being falsified. And to 'test' any given economic claim, reasonable people can disagree over which events and phenomena are the most appropriate ones to measure and report on. The reader is advised to apply the same healthy dose of skepticism to my presentation of data that he or she should bring to anyone else's.

But I submit that the data that I present above are sufficiently broad and relevant to cast great doubt on President Trump's boast that his 2025 tariffs have been a boon to the American economy.

When Congress Waged War on Cheap Groceries

Jeffrey L. Degner
Research Fellow

One of my earliest memories growing up in Kalamazoo, Michigan, was a visit to the bakery at the A&P grocery store at 5800 Gull Road. It was one of a handful of places my parents could afford to shop at in the midst of the great stagflation of the 1970s. My mother made amazing birthday cakes for us as kids, and I presume she was there for some ideas. I had other things in mind. They gave away free "donut holes" to kids who were presumably well-behaved, leading to my temporarily angelic behavior whenever we went there.

Little did I know then, A&P was once regarded as a retail behemoth. A monopoly needing to be cut down to size. Their crime? Volume discounts. This allegedly nefarious practice was at the center of anti-chain-store sentiment that reached a fever pitch with the passage of the Robinson-Patman Act in 1936.

Casting chain-store grocers like A&P as greedy villains during the Great Depression, the populist Texan US Representative Wright Patman rode a wave of sentiment from smaller grocers to take down the nationwide grocer. In response to the Supreme Court striking down FDR's National Industrial Recovery Act (NIRA), Patman sought to reimpose portions of the NIRA, which would have faced enormous opposition and risked being struck down by the Supreme Court. Instead, he cleverly decided, along with co-sponsor Senator Joseph Robinson of Arkansas, to impose the bill as an amendment to the long-standing Clayton Antitrust Act (1914).

Entitled the Robinson-Patman Antidiscrimination Act, it was popularly known as the "Anti-Chain-Store Act", but more aptly known as "The Wholesale Grocers' Protection Act." Indeed, it was largely written by the wholesalers' trade association. The bill aimed to protect smaller competitors from the allegedly anti-competitive restraints on trade posed by retail giants like A&P. This was an easy sell to the public at a time when unemployment was at **18 percent**, with many small-town retailers closing up shop.

In order to secure passage, the legislators amended Section 2 of the Clayton Antitrust Act of 1914, with enforcement assigned to the Federal Trade Commission (FTC), a move that helped minimize opposition. That section was intended to "supplement existing laws against unlawful restraints and monopolies, and for other purposes". The "other purposes" would eventually be made known, to the detriment of consumers throughout the nation.

The specific wording of the Robinson-Patman Act reveals its fundamental economic error. It made it unlawful for "any person engaged in commerce…to be a party to, or assist in, any transaction of sale, or contract to sell, which discriminates to his knowledge against competitors of the purchaser." In frank language, it became illegal for a wholesaler to offer a bulk discount to larger retailers like A&P. This essentially prohibited suppliers from offering A&P the volume discounts their efficiency and scale had earned, and passed on to their beleaguered consumers. A single offense could land the wholesaler in hot water with the FTC, with potential fines up to $5,000 and up to a year in prison, or both.

This law wasn't designed to enhance competition, protect grocers, or serve customers. Rather, its design was to impose a price floor that protected wholesalers from the retailers who had enough market knowledge and a good enough reputation to work with competing wholesalers willing to sell for less. Hence, the more fitting title: The Wholesale Grocers' Protection Act.

In an ironic twist, the Roosevelt administration — which had created the NIRA and imposed higher retail prices — opposed the bill. They objected on the grounds that it would prohibit the kind of discount pricing by retailers that the Depression-ridden public needed to make ends meet. But Congress had its way on this matter. Historian Marc Levinson observed that the Robinson-Patman Act "had less to do with economics than trying to hold together a society that was fraying badly after six years of the Depression." It wasn't about sound economics; it was about populist PR.

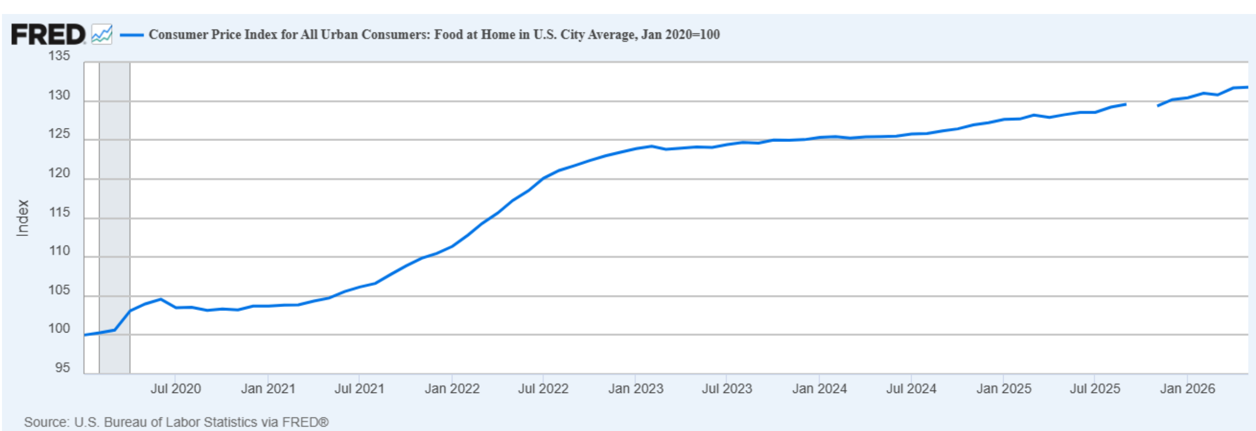
More than seventy years after its passage, the bipartisan Antitrust Modernization Commission (AMC) recommended its repeal. The commission concluded that "the RPA protects competitors over competition and punishes the very price discounting and innovation in distribution methods that the antitrust laws otherwise encourage."

Independent grocers from the 1930s weren't being victimized by A&P. They were losing out to a model that better served customers. The Robinson-Patman Act was designed to prevent discounts before they could be passed on to consumers. Dominic Armentano, writing in 1986, made it even clearer that both the Clayton Antitrust Act, Section 2 and the RPA "explicitly intend to restrict price rivalry in the name of preserving competition. Government antitrust suits against firms that price discriminate almost always result in the defendant firm *raising* some of its prices to comply with the law."

This historic record shows that Main Street populism has unintended consequences. By limiting competition in defense of the so-called "mom and pop" stores, the RPA delivered higher prices that hurt the lowest-income households throughout the US at the height of the Great Depression. What was sold to the public as a fight for the little man was in reality a tax on consumers to subsidize local merchants.

Although the act saw minimal enforcement by the FTC or the Department of Justice throughout its history, it reared its ugly head under the Biden administration in 2024. In December of that year, the FTC filed suit against Southern Glazer's Wine & Spirits, the nation's largest wine and spirits distributor. The agency alleged that it was offering that most heinous of crimes: bulk discounts to large retailers. A similar suit was then filed against the PepsiCo. While the PepsiCo suit has been summarily dismissed, the litigation against Southern Glazer continues. The current FTC Chair, Andrew Ferguson, wrote a clarion dissent against the Biden administration's use of the RPA and while litigation continues, this bodes well for Southern Glazer. If the FTC prevails, however, the pain will immediately be felt by consumers who are the beneficiaries of their discounts.

While my childhood visits to A&P are now distant memories, the feeling of middle-class families needing to stretch their dollars in an inflationary environment is as fresh as those donuts I enjoyed as a kid. With the Consumer Price Index (CPI) for food at home up **31.8 percent** since 2020, grocery store discounts are what's holding some households together. The time is long past for retiring the Robinson-Patman Act. As Alden Abbott has eloquently put it, "repeal remains the first-best response to a law long criticized as 'corporate welfare at consumers' expense.'"



Recessions as Murder Mysteries: Are Business Cycles Just a Myth?

Paul Mueller
Senior Research Fellow

Economists have successfully predicted seven of the last three recessions...

So goes the humorous, if uncomfortably accurate, adage. Business cycles have been a source of fascination for centuries. Some economists attributed them to sunspots. Others to historical cycles — Kondratiev (45-60 year waves), Juglar (7–11 year waves), and Kitchin (three-to-five year waves). These views belong neither to cranks nor obscure figures; well-known economists from William Stanley Jevons to Joseph Schumpeter championed them.

Tyler Goodspeed's *Recession: The Real Reasons Economies Shrink and What to Do About It* belongs on the shelf of anyone tracking business cycles, financial markets, and economic growth. The book delivers a tour de force through US and UK economic history. Meticulously researched, it is full of data, analysis, and engaging stories about financiers, economists, politicians, and the occasional huckster.

I confess this book has done more to challenge my views of the business cycle than just about anything else I've read. Goodspeed argues, in fact, that the term "business cycle" is itself a misnomer. Economies do not operate according to predictable patterns or cycles. "Economic expansions don't die of old age," he writes, "they are murdered."

The central claim of the book is that there are no natural or inevitable reasons why modern developed economies must experience recessions. Goodspeed, who served as acting chairman of the Council of Economic Advisers from June 2020 to January 2021 and is now chief economist at ExxonMobil, argues that there are always real shocks behind downturns — not a buildup of malinvestment, not irrational exuberance, not some self-generated collapse. He invokes Tolstoy's famous maxim that every happy family is happy in the same way, while every unhappy family is unhappy in its own unique way.

So, he suggests, every recession is unique. Sometimes it is a drought, or locusts, or war, or unusual cold, or widespread strikes, or any number of other negative shocks. In fact, Goodspeed argues that recessions are rare precisely because they require several such shocks to occur nearly simultaneously.

Austrian economists like Mises and Hayek, and later Garrison, Rothbard, and Woods, have argued that artificial expansions of credit via central banks distort price signals around investment, its duration and sector, creating malinvestment and an unsustainable boom resulting in an unavoidable bust. Russ Roberts and John Pappola created memorable videos describing the debate between Hayek and Keynes on business cycles. One views recessions as caused by malinvestment, the other by too little spending.

Both are wrong, according to Goodspeed. Most approaches to studying or predicting business cycles — whether overconsumption, overinvestment, malinvestment, distorted price signals, or financial crisis — fall into the trap of oversimplifying historical episodes of economic contraction. These frameworks do not hold up when examining all recessions in the US and UK over the past three centuries.

With some familiarity in economic history and business cycles, I recognized many of the recessions Goodspeed highlights, though he also examines dozens of minor downturns that only specialists in economic history tend to notice. In the major cases of economic contraction and decline, he discusses the monetary policy shifts and financial crises that accompanied them — the same endpoints where many business cycle theorists stop their analysis.

Yet in case after case, significant physical shocks — often involving energy, food, or transportation — precede or accompany financial and monetary distress. Behind "malinvestment" and standard business cycle theories, then, are real, unpredictable shocks.

This aligns closely with the thesis of the New Classical economists, including Robert Lucas, Robert Barro, Thomas Sargent, Finn Kydland, and Edward Prescott. In this view, recessions and economic fluctuations are primarily driven by real physical shocks, with financial and monetary disturbances emerging as secondary effects.

The one theory of economic fluctuations that makes it through Goodspeed's criticisms relatively unscathed was Milton Friedman's "Plucking Model." Friedman argued that recessions are temporary declines in economic growth below a trend line (like plucking an upward-sloping guitar string), that would eventually be reversed during recovery back to the trend line. In this model, recessions are the exception, rather than the rule, of economic dynamics.

In some ways, this makes a lot of sense. Friedman won the Nobel Prize in part due to his work distinguishing real from nominal (monetary) elements of the economy. The nominal variables shouldn't affect real economic outcomes in the long run because people adjust their expectations and plans to changes in the money supply and the price level.

Friedman's plucking model flips standard cycle theory. It predicts that a recovery's speed and magnitude depend entirely on the severity of the bust, not the length of the preceding boom or the volume of artificial credit. This is exactly what Goodspeed finds across dozens of recessions. Recovery is far more predictable than recession. The worse the recession, the greater the subsequent rebound.

Recession delivers a powerful, accessible narrative of economic history, making significant claims about economic growth, contraction, and the nature of modern economies. It's quite compelling. Still, I am not quite ready to abandon Austrian Business Cycle Theory.

The absence of a predictable pattern or regularity between credit booms and recessions does not mean they play no role. They may still matter as both a transmission mechanism and a source of financial fragility. Goodspeed himself emphasizes the importance of sound institutions, including free-market prices and effective financial risk management and distribution, in mitigating the severity of downturns.

It is no coincidence that many of the stories he tells center on stress, panic, or failure within the financial system. It may be true that "malinvestment" is not the primary driver of business cycle fluctuations, but financial leverage and distorted signals still matter. At the same time, Goodspeed's warning against the hubris of market forecasting is worth taking seriously.

The economy, it turns out, is not only too complex to plan — it is also too complex to predict.

Why Water Prices Are Rising

Julia R. Cartwright
Senior Research Fellow in Law & Economics

America is good at solving problems, but less good at recognizing when the "solutions" become the problem. Nowhere is this more evident than on your water bill, which has risen more than **27 percent** over the past five years and is increasing at roughly twice the rate of inflation. Politicians and journalists point to aging infrastructure, climate change, and per- and polyfluoroalkyl substances (PFAS) contamination. They are not entirely wrong. What they often omit is how decades of well-intentioned government intervention have systematically weakened the market mechanisms that might otherwise help keep costs in check.

Consider gasoline. Drivers may not like what they pay at the pump, but the price is determined in global markets where no single regulator sets it. The market aggregates information from millions of producers and consumers and generates a price that, whatever its imperfections, reflects underlying conditions of scarcity and demand. Water operates very differently. Its price is shaped by a maze of legal doctrines, regulatory mandates, utility commissions, and interstate compacts accumulated over more than a century. Each layer places additional distance between the resource and the consumer, making prices less transparent and less reflective of underlying realities.

This is what makes the situation so puzzling. Markets are remarkably effective at directing resources to where they are most needed. Hong Kong, Singapore, and Japan are three of the world's most prosperous economies, yet they share one notable characteristic: a scarcity of natural resources. They possess little oil, coal, or rare earth minerals, and yet they thrive because markets reveal prices, coordinate investment, and allocate resources to their highest-valued uses. Scarcity, it turns out, is not an obstacle markets cannot overcome. It is often the very incentive that drives innovation and efficiency.

Water, by comparison, is an unusually ordinary resource. It is more abundant than oil, easier to treat than rare earth minerals, and across much of the United States, it literally falls from the sky. So why is America facing a slow-motion water crisis while Singapore can recycle wastewater to semiconductor-grade purity? The answer is not geology or climate. It is governance.

Some will argue that water is fundamentally different—a natural monopoly with relatively inelastic demand and pervasive externalities, where actions upstream affect everyone downstream. Those characteristics are real. Yet similar challenges exist in markets for oil, coal, and rare earth minerals, and markets have still found ways to move those resources across oceans to countries that possess little or none of them. To understand America's water challenges, we must go back to a series of legal and political decisions that began before the Civil War and have compounded ever since. Let's dive in (pun intended).

The first distortion predates federal regulation entirely. American water law split into two doctrines before the country was even fully defined. In Eastern and Midwestern states, riparian rights gave water access to whoever owned adjacent land; geography, not prices, determined access. In most Western states, prior appropriation, "first in time, first in right," meant whoever diverted water first held the senior claim, regardless of the proximity of future landowners. Neither doctrine consistently allowed water to flow to its most productive use, as both locked allocation in place by accident of history. This was not a free market distorted by regulation, but one that was never permitted to form.

On top of that foundation, Congress layered environmental mandates over many years. The Clean Water Act (1972) and the Safe Drinking Water Act (1974) set uniform standards every utility must meet, regardless of local conditions or costs. Each new regulated contaminant means a new compliance cost passed directly to ratepayers with no competitive check. PFAS regulations (2024) alone now add an estimated $1.5 billion annually in system-wide costs.

Meanwhile, most Americans cannot choose their water provider. One pipe, one utility, no exit.

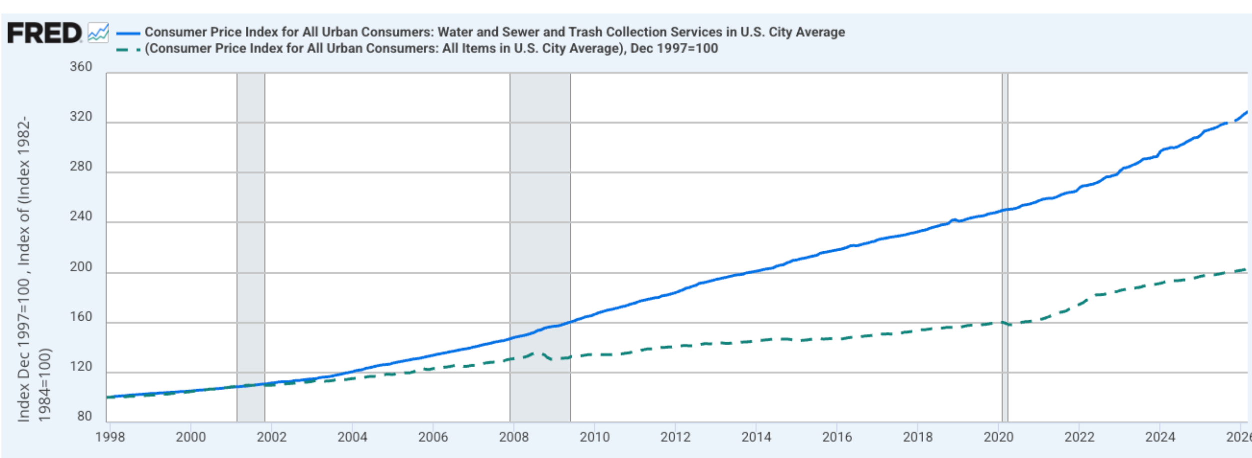
Investor-owned utilities have learned to leverage that captivity through mechanisms that pass capital costs to ratepayers, combining the pricing power of a monopoly with limited cost discipline.

This dynamic, where customers have nowhere else to turn, creates a system ripe for upward price pressure with little accountability. And the Colorado River Compact (1922) illustrates just how deep this dysfunction runs: negotiated by political compromise, it divided water among states by seniority of claim, locking in agriculture's consumption of **80 percent** of the river's flow simply because those rights are oldest. Meanwhile, cities that would generate far greater economic value per gallon are legally prevented from buying that water at any price. The result is a river stretched to its limits, serving yesterday's economy by law, while growing urban centers go thirsty by design.

Decades of regulations that distorted water prices also resulted in them being too low in some municipalities. These layered laws subsidized the construction of entire cities in places that markets never would have chosen: dry desert cities like Las Vegas, Phoenix, and Tucson. The logic was circular: keep prices low enough that growth looks cheap, and the growth generates political constituencies that demand prices stay low. It is precisely the logic of subsidizing flood insurance for beachfront homes, except the moral hazard here is measured in millions of people and entire metropolitan economies that now require ongoing federal intervention just to stay hydrated.

The solution is to move water more fully into the market, allowing prices to reflect scarcity and capital to flow toward conservation and innovation. In practice, that means a managed transition in which rates gradually move toward market levels, whether higher or lower. Most importantly, it means eliminating the policies that created the problem: below-cost agricultural water contracts, federal development subsidies that ignore water costs, and interstate compacts that lock 1922 decisions in place indefinitely. It also means stopping policies that make it artificially cheap to build the next Phoenix in the desert.

Your water bill isn't rising because water has become more expensive. It's rising because we've built a system specifically designed to ensure that price has little to do with it.



July 2026

Bessent's Neo-Mercantalism: New Podium, Old Mistakes

David Hebert
Senior Research Fellow

There's something very ironic about extolling mercantilism at the Reagan Library. Scott Bessent did just that last week, arguing that America had been wrong to trust markets, wrong to value efficiency, and wrong to believe that "the invisible hand would correct vulnerabilities."

Jamieson Greer followed this up with a piece in the International Monetary Fund's *F&D Magazine*, where he declared that tariffs and import regulations had been unfairly cast aside by an "elite consensus" and that "the return of tariffs and import regulations creates an opportunity to update old assumptions and dated models with the hard evidence of real-world data and experience."

These are not new arguments. For anyone who understands the history of economic thought, they are also easily rebuked. The argument against mercantilism is not new, and it is not difficult to understand. It is, however, very inconvenient for the current occupants of 1600 Pennsylvania Ave.

WHAT IS MERCANTILISM?

Briefly, mercantilism is the idea that a nation, not unlike a household, is wealthiest when it has large reserves of money. This was the animating idea behind economic policy up until nearly the end of the eighteenth century. Nations focused their attention on acquiring large sums of gold. To do this, they used policy to encourage exports and discourage imports. Exports were considered "good" because it meant that the nation acquired gold in an exchange. Imports were "bad" because they required *giving up gold*. Thus, the focus of a mercantilist system is on *production*, not on *consumption*.

This began to change in the late eighteenth century when Adam Smith published his treatise, *An Inquiry into the Nature and Causes of the Wealth of Nations*. The full title is worth spelling out here because what Smith does in this volume is not "defend free market capitalism," but inquire about the nature of wealth. Specifically, he asks, "what is wealth?" and his answer is quite simple: wealth is measured in what you can purchase. Tom Hanks in "Cast Away" still would have had to knock his own tooth out with an ice skate if he'd washed ashore with a trillion-dollar coin in his pocket. And therein lies the lesson: while you do need money in a modern economy, what matters is what you can actually do with that money, not how much money you have.

Neo-mercantilists accept this, but want to argue that national security concerns override this logic and that economists have somehow missed this. They call for updating economic models to be more in line with "tariffs, industrial policy, and the costs of globalization."

They are wrong on both counts. Economists have not missed the national security argument. While there may be legitimate cases for protectionism in the name of national security, those cases are extremely limited and certainly do not justify tariffs on the entire world and the imposition of managed trade. The actual threats to American national security are not the product of being "too open" or "too dependent." The risks we face today have been greatly overstated and are actually the fault of excessive government.

THE ECONOMISTS WERE WRONG?

Greer opens his *F&D* piece with a riff on a Chesterton quote: for the past thirty years, "tariffs were not tried and found wanting but rejected by au courant economic models and left untried." This is quite simply revisionist history. Every single president for the last thirty years has tried tariffs, and those tariffs were found wanting. Bill Clinton imposed tariffs on imported steel, automobiles, and bananas. George W. Bush imposed tariffs on steel. Then, President Obama imposed tariffs on Chinese tires because of alleged dumping. That then brings us to President Trump, who famously used tariffs during his first term, President Biden who expanded Trump's tariffs (something the current Trump administration hasn't shied away from pointing out), and now the second Trump presidency, which has obviously seen tariffs being used.

Far from being bastions of success, these were not just "found wanting," they were disastrous and in most cases, lifted *because of their pernicious effects*. This wasn't surprising. Economists warned about *exactly this* at the time. They were correct then, and they're correct now.

Greer complains that trade models assume full employment and frictionless worker transitions. It's a fair point; the models that economists use do contain simplifying assumptions. But the question we have to ask is whether these assumptions meaningfully affect the results of the analysis to the point of needing to be jettisoned. And the answer is a resounding "no." Pointing out a model's imperfections does not mean we jettison its underlying insights.

WASHINGTON GAVE CHINA THE EDGE, NOT THE OTHER WAY AROUND

The Bessent-Greer framework would have us believe that American manufacturers have been competing in a game rigged by Chinese state subsidies and that we are "losing." That American communities have been hollowed out by cheap imports and the offshoring of jobs and that American manufacturing is in decline. And they blame economists for naively supporting free trade when, in the words of Scott Bessent, "the warning lights were glaring all around us."

As the old saying goes, when you point a finger at one person, you've got three more pointing back at yourself. And those three fingers are doing a lot of work, here.

American manufacturing is not in decline because of free trade. In fact, it could hardly be described as "in decline" to begin with. The truth is that manufacturing output in the US is quite high.

One would have to be very selective in choosing which data to examine to conclude that manufacturing is in decline, and even then, an honest accounting would include several paragraphs of caveats.

What is in decline is manufacturing employment. But this, again, is not because of "free trade" resulting in companies shipping jobs overseas or the so-called "China Shock" that occurred after China joined the World Trade Organization. It's because of tremendous gains in productivity by the American worker — largely thanks to automation, advanced machinery, and improved production processes — combined with onerous regulatory burdens that made building new factories in America far too costly. The solution to this is not to make manufacturing at home more expensive through tariffs and other trade restrictions; it's to make it easier for America's manufacturing workers to acquire the materials they need to produce their output.

The truth of the matter is that the US has, on a per-capita basis, the most productive manufacturing sector on the planet. Not even the "mighty" China comes close. The US employs about 12.6 million manufacturing workers. China, by comparison, employs some 212 million. With nearly 200 million more manufacturing workers, China only outproduces us by about **60 percent**.

WHAT ABOUT NATIONAL SECURITY?

Here, we must concede that there is a shred of truth to the protectionist logic. *If* there is a genuine national security concern and *if* domestic production were the *only* way to mitigate these concerns, *then* protectionism *might* have a leg to stand on. But note the repeated use of qualifiers in that sentence. Each one deserves examination before we jump to, "*therefore*: use protectionism."

The truth of the matter here, and one that protectionists simply do not acknowledge, is that what matters for national security concerns is ensuring domestic *access*. Domestic production is certainly one way of doing this, but it is far from the *only* way.

Consider the case of steel, clearly a critical material for national defense purposes. How dependent on foreign steel are we? The American Iron and Steel Institute reports that only **23 percent** of finished steel in the US was imported. The Association for Iron & Steel finds that the US is the third largest producer of steel in the world. Where do we get the rest of our steel? According to the US International Trade Association, we get the rest of our steel from, in order: Canada, Brazil, Mexico, South Korea, Vietnam, Japan, Germany, Taiwan, the Netherlands, China, and 68 other countries. This is not a dependency. This is resiliency, as long as we do not push away our allies.

The exception to this would be a monopoly supplier of a critical material. China's dominance of so-called rare earths provides a potential example. But here again, the question we should be asking is, "why is China the dominant supplier of these materials?" and the answer is staring us right in the face: excessive environmental and labor regulations. Once again, it's not "free trade" that caused a vulnerability to China. It's too much government standing in the way. The solution is not to fight government ineptitude with more ineptitude. It's to get the government out of the way so that markets, not politicians, can actually solve the problems.

WHAT WOULD ACTUALLY WORK

The irony that Scott Bessent championed mercantilist justifications for protectionism by invoking Reagan's name at the Reagan Library to an audience that presumably understands Reagan's position is palpable. That Jamieson Greer did the same in the International Monetary Fund's magazine is equally ironic. Restricting trade does not make a nation wealthier or safer, and it never has. Mercantilism has been wrong for the past 500 years, and it will be wrong for the next 500 years, too.

Instead, American interests, both economic and security alike, are best served through free trade and globalization. Trade between nations brings us closer together and vastly reduces the likelihood of war between trading partners. Globalization ensures that if war were to break out, access to critical materials for the war effort can remain uninterrupted. The real risks to America's supply chains have been created by excessive regulation, not openness.

It's time to end the experiment with tariffs once and for all. We need to be tearing down barriers to trade, not erecting new ones. Doing so would unleash the American worker on the rest of the world. Doing so will not only make us wealthier, it'll make us safer, too.

World's First Net Worth Trillionaire

Peter C. Earle
Senior Research Fellow

Following the pricing of the SpaceX IPO, Elon Musk has become the world's first trillionaire, on paper. A significant portion of the response will predictably focus on wealth and inequality. Yet the more interesting story is something else entirely. Following SpaceX's opening public market valuation of approximately $1.77 trillion on June 11, and an IPO share price of $135 per share, Elon Musk's estimated net worth stands near $1.1 trillion. That figure is extraordinary, but what it principally reflects is not income, compensation, or consumption. Rather, it is a measure of how financial markets value the future, particularly when financing colossal, extraordinarily uncertain, long-term technological bets.

Most of Musk's wealth is not cash. It consists primarily of equity: ownership stakes in firms such as Tesla, SpaceX, and xAI. Equity markets are inherently forward-looking. Investors are not paying primarily for what these companies earn today, but for what they believe they may produce years or even decades from now. When valuations become enormous, it is because markets collectively judge the underlying technologies — electric vehicles, reusable launch systems, satellite networks, artificial intelligence, robotics, and energy storage-as possessing the potential to fundamentally reshape industries and economic life.

SpaceX itself illustrates this dynamic vividly. At an IPO valuation of roughly $1.8 trillion, investors are not simply valuing rockets and satellite launches. They are assigning probabilities to a sprawling and highly speculative set of future possibilities: global satellite broadband, orbital computing infrastructure, reusable heavy launch systems, interplanetary transportation, and AI-enabled applications that do not yet fully exist. According to the company's own filings, SpaceX sees a total addressable market measured in the tens of trillions of dollars, driven heavily by artificial intelligence and orbital data infrastructure. Skeptics, however, argue these expectations may be wildly optimistic. Morningstar, for example, has suggested a base-case enterprise value closer to $1 trillion, assigning only a small probability to a "moonshot" scenario approaching $2 trillion. Goldman Sachs' underwriting projections reportedly envision revenue growing from roughly $19 billion in 2025 to nearly $475 billion by 2030, while more conservative estimates see growth as substantial but far smaller. The point is not which estimate is correct, but rather that today's valuation represents markets pricing profoundly uncertain futures rather than certainties.

This is where capital structure becomes crucial. Musk's companies have relied heavily on equity financing rather than debt, for good reason. Debt requires fixed repayment obligations on a schedule, making it more suitable for stable and predictable enterprises. Equity is more adaptable. If projects fail or underperform, shareholders bear the losses. If they succeed, shareholders participate in the upside. For ventures where outcomes range from complete failure to transformative success, equity is generally the more appropriate financing mechanism.

It could be wiser to view SpaceX's speculative AI and orbital businesses as akin to a call option: investors pay today for exposure to a potentially enormous future payoff. The analogy is apt: equity financing permits firms to fund experiments with asymmetric outcomes, where failure is common but success can be civilization-altering. Investors voluntarily bear the downside in exchange for the possibility of enormous gains.

That distinction matters for the broader economy. Funding long-term, high-risk innovation with equity rather than leverage reduces systemic fragility. It lowers the likelihood that failed projects trigger cascading defaults or financial instability. At the same time, it permits firms to pursue ambitious and uncertain ideas without the burden of rigid repayment schedules. Historically, many major advances in transportation, communications, computing, and energy have emerged from precisely this type of financing environment. The gains extend beyond founders and investors to consumers and workers through better products, lower costs, and entirely new industries.

Large valuations additionally reveal how markets price uncertainty. Investors are effectively assigning probabilities to vastly disparate future scenarios. Most will not fully materialize, but a small subset may generate enormous value if they do. A core function of financial markets is to incorporate those possibilities into current prices. This helps explain why valuations can sometimes appear disconnected from current earnings or conventional metrics. What looks speculative is often a market attempting to estimate the value of uncertain but potentially revolutionary outcomes.

Macroeconomic conditions matter as well. Interest rates influence how future earnings are valued: lower discount rates generally support higher valuations, especially for firms whose anticipated returns lie far in the future. Investor appetite for risk matters too. When confidence is abundant, capital flows more readily toward uncertain ventures; when it contracts, lofty valuations become harder to sustain. The emergence of a trillionaire reflects not merely an individual's entrepreneurial success, but the broader financial and monetary environment as well.

It also helps explain why such wealth appears concentrated even though its origins are widely distributed. Asset prices are set by millions of participants, including pension funds, mutual funds, sovereign wealth funds, institutional investors, and retail traders — each of which make judgments about an enterprise's future prospects. The resulting valuation is collective. Although the headline number belongs to one individual, it reflects a comprehensive market consensus regarding the likely trajectory of technology, production, and innovation.

Seen in this light, the first trillionaire story is far less about egalitarian outcomes than about economic priorities. Markets are directing enormous amounts of capital toward highly uncertain, long-duration innovation while distributing the associated risks across numerous investors of varying levels of sophistication rather than concentrating them through leverage. That is not a flaw of market economies; to the contrary, it is a central mechanism for experimentation, adaptation, and growth.

That Elon Musk is an immigrant to the United States who arrived without wealth, status, or elite connections in America will likely be lost amid the inevitable class-warfare point-scoring. Less remarked upon is that the companies he has founded or helped build — including Tesla, Inc. (**134,000**), SpaceX (**22,000**), **Neuralink** (300), xAI (**1200**), X (formerly Twitter) (**1000**), and The Boring Company (**400**) — now collectively employ on the order of 150,000 people worldwide, directly supporting a workforce larger than many midsized American cities. The temptation will be to generate interpretations of such a milestone in resentment-driven, zero-sum political terms. The more useful and accurate lenses are both financial and structural. An individual with a trillion-dollar net worth ultimately reflects markets allocating vast amounts of equity capital not to an individual, but toward uncertain but potentially transformative ideas; and, in the process, generating benefits extending across billions of lives and potentially generations beyond.

July 2026

Independence or Accountability: The Fed Cannot Have Both

Alexander William Salter
Senior Fellow, Sound Money Project

Kevin Warsh gavels his first meeting as Federal Reserve chairman this week. Lisa Cook's seat on the Board awaits a Supreme Court ruling the justices could hand down any week now. And Jerome Powell, having yielded the chairmanship, has chosen to stay on as a governor, something the Fed has not seen in nearly 80 years. Each twist has drawn the same anxious chorus: the central bank's independence is sacred, and any encroachment upon it invites ruin.

This view is mistaken. Central bank independence is not a pillar of sound governance. It is a habit dressed up as an immutable law, which survives only so long as no one scrutinizes it. Two false yet widely believed claims hold it up. The first is that independence produces better economic outcomes. The second is whether walling off the Fed's monetary and regulatory functions is compatible with the US Constitution. The first is overstated. The second actually points the other way.

Consider the evidence the defenders lean on. Decades ago, economists observed that countries with more independent central banks tended to suffer less inflation, and the observation calcified into doctrine. Yet the correlation has not worn well. It shifts with the sample and the method. Under closer inspection, it often vanishes. A plainer explanation fits the facts: Nations that respect the rule of law also tend to keep prices stable. The good effects of independence are downstream from limited constitutional government more generally. Sound money follows from sound institutions, not from an insulated class of bureaucratic experts.

The constitutional objection cuts deeper still. The Constitution vests in Congress the power to coin money and regulate its value. Furthermore, in performing its delegated duties — implementing monetary policy, supervising and regulating banks, making emergency loans, and bringing enforcement actions against banks, to name a few — the Fed unquestionably carries out executive functions. Those who wield delegated authority remain bound by the statutes Congress enacts and answerable to the Chief Executive who enforces them.

The modern Fed proceeds as though this structure were a suggestion. It regulates banks, affects the price of credit, and controls the monetary base (the nation's ultimate settlement asset), all while shielding its leaders behind strict protections from removal. This is a problem because the Fed wields executive power by any honest reckoning. The Supreme Court has lately held that an agency cannot escape presidential oversight simply because it is staffed by experts. Strangely, it then indicated an apparent exception for the Fed. Yet no principle supports the exception. Only the fear that enforcing the rule would prove disruptive sustains it.

None of this is new. Milton Friedman laid out the case decades ago, and it has aged much better than the institution he critiqued. An independent central bank, he warned, cannot easily be reconciled with a government of laws rather than of men. It gathers immense power in a few (unelected) hands. This mutes responsibility, and hence, accountability.

Friedman also noted the mystique of central banking, which he believed was a deliberate tactic. By treating monetary policy as an arcane science beyond the ken of ordinary citizens, the Fed lifted its own record above scrutiny. That is good for the Fed, since its record is highly questionable. Recessions since 1913 have hardly lessened in frequency and severity, and inflation has been a persistent feature of post-Fed economic life.

The years since have provided even more evidence for Friedman's view. Following COVID-19, the Fed delivered the worst inflation in four decades, then tried to wash its hands of the matter with its talk of "transitory" price hikes and "supply-side" pressures. Just as worryingly, the Fed has strayed into climate and social justice crusades that Congress never authorized.

Independence did not give us excellence. It created an institution that takes credit for every success and accepts blame for zero failures.

What, then, is the alternative? Not a president setting interest rates from behind the Resolute Desk — that is a caricature, and a useful one for those who deploy it. What we need is real accountability. Make senior Fed officials removable for poor performance, as wielders of executive power are meant to be. Attach genuine consequences to failure. And narrow the Fed's mandate to something legislators and the citizens to whom they answer can actually measure. Congress should change the Fed's goals to price stability alone. This would replace the tangle of competing goals that allows the Fed to hide its poor performance. A single, legible objective is how we get from "trust us" to "show us."

A deeper remedy Friedman favored still stands open: binding the dollar to a rule that leaves little to discretion. The clearer the rule, the less room there is for technocrats to meddle. But we are getting ahead of ourselves.

The first and more basic steps are long overdue. A free people does not excuse its most powerful officials from oversight simply because they have hard tasks or impressive credentials. Instead, free societies demand that they answer for what they do, the same as everyone else. The Fed has evaded that demand for more than a century. It is time to hold it to account.

July 2026

How the National Flood Insurance Program Raises Housing Costs

Jason Sorens
Senior Research Fellow

There's not much that the federal government can do to make housing less costly; most of the action must be at the state and local levels. But there are a few areas where federal regulations or guidance, backed by subsidies, make housing development more expensive or difficult.

One such area comes out of the National Flood Insurance Program (NFIP). The NFIP insures property owners against the risk of catastrophic loss from flooding. In the United States, regular homeowners' insurance policies do not cover flooding or other "acts of God."

The NFIP generally attempts to charge owners of new structures in floodplains an actuarially fair rate that reflects the risk of flood damage. However, the program grandfathered existing structures into heavily subsidized rates, encouraging beneficiaries to rebuild — sometimes multiple times — in high-risk flood zones. Premium growth is capped at **18 percent** per year. As of 2023, only one-third of policyholders paid an actuarially fair premium, with the remainder paying substantially less — at an anticipated cost of $27 billion to US taxpayers by 2037.

The main way the NFIP reduces housing affordability is through its regulatory requirements. The NFIP requires states and localities to adopt flood management regulations before their property owners can participate in the program. Some of these regulations are reasonable, but others are crude or outdated.

These requirements are how the NFIP attempts to control moral hazard, the tendency of insured parties to behave in ways that increase the likelihood of the insured risk occurring. Without requiring some form of flood loss mitigation, the NFIP would likely encourage more construction in floodplains, as well as building techniques that may be cheaper but less protective — risks that the program could not easily monitor and therefore could not price accurately.

It is understandable, then, that the NFIP seeks to encourage mitigation measures. But its approach of working through local governments rather than individual property owners has often encouraged excessive and unnecessary regulations that increase the cost of housing production without a clear mitigation rationale.

For example, the NFIP requires every participating community to adopt a floodplain management ordinance. These ordinances give local governments the authority to regulate development in floodplains, defined as areas with at least a one percent annual risk of flooding.

While some regulations might be reasonable — requiring buildings to be elevated above the 100-year high-water mark, for instance — localities have frequently taken the opportunity to ban residential development in the floodplain altogether. Fort Collins and Brighton, Colorado, have both banned new housing in the floodplain, no matter how it is built.

Until recently, Lebanon, New Hampshire allowed single-family housing but banned multi-family housing in the floodplain. Perhaps realizing that this distinction had no rationale in sound flood management practice, the city council repealed the ban on multi-family housing in 2019.

Outright prohibitions of manufactured housing in floodplains are common nationwide, even though such homes can be made as safe as other single-family houses through anchoring and elevation.

Another common regulation not technically required under federal law is to make new housing development in floodplains subject to a discretionary public hearing process, rather than relying on the judgment of technical staff. It is not clear how the general public would be better qualified to assess the flood-resistant qualities of new construction than trained professionals, but making permitting discretionary and subject to public hearings does create more opportunities to delay or block new residential development.

FEMA, which administers the NFIP, explicitly encourages communities to adopt "more restrictive" floodplain regulations than the minimums set forth in federal law. The Community Rating System gives policyholders discounts in communities that implement anti-development regulations in floodplains and watersheds, giving them an incentive to do so.

Examples of regulations that FEMA explicitly encourages include larger minimum lot sizes, applying the stricter International Building Code to a wider range of development, placing open space into public ownership for conservation, and prohibiting residential or commercial development in floodplains. Communities are then scored using a complex points system that rewards adoption of these measures.

If the NFIP charged policyholders market-based premiums on new construction, there would be less need to encourage localities to adopt specific regulations. Those premiums would reflect flood risk, which communities could reduce through a range of mitigation strategies. But does FEMA actually know how effective each of these strategies is? The Community Rating System has the appearance of scientific precision, but the weights assigned to its components are ultimately arbitrary.

Giving communities credit for applying the International Building Code is an example of this arbitrariness. The IBC applies higher standards to development than the International Residential Code, but most of those standards have nothing to do with flooding. Requiring costly sprinkler systems for small buildings drives up costs without improving safety much.

In fact, the Government Accountability Office says that the Community Rating System does not reduce flood risk by as much as the premium discounts that participating communities receive: “The amounts of CRS discounts — both to individual properties and program-wide — are not closely linked to potential loss reduction of currently insured properties.” As a result, they say, policyholders in non-CRS communities are cross-subsidizing those in CRS communities.

Unfortunately, much of the damage may already be done. By incentivizing strict floodplain regulations, the NFIP has given localities a tool that can be used for exclusionary purposes. Reforming or privatizing the program will not put the genie back in the bottle, but it could reduce incentives that encourage even well-intentioned communities to maintain stricter regulations than they otherwise would.

Ideally, the federal government would no longer provide flood insurance. Private flood insurance is available in countries like the United Kingdom and France, and there is no clear reason it could not function in the United States as well.

If that is not politically feasible, FEMA could at least revise the Community Rating System to reward outcomes rather than the regulatory tools assumed to produce them. Instead of rewarding communities for increasing minimum lot sizes, it could reward reductions in impervious surface area, perhaps measured through satellite imagery. Instead of rewarding stricter building codes, it could reward policyholders for elevating structures above base flood elevation or locating them near higher-capacity storm sewers. Residents could then pressure local governments to adopt the specific mitigation measures that reduce flood risk and, in turn, premiums.

Reforming flood insurance will not solve the housing shortage on its own, but it could help at the margins. As federal policymakers consider ways to address affordability, this is one of several levers worth examining.

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