AIER Research Reports

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AIER

Research Reports

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

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November 2026

From the Senior Director of Research

Peter C. Earle
Senior Director of Research

For most of human history, surveillance was expensive. If a government wanted to know what someone was doing, it cost money, time, and effort. And for that reason, watching hundreds of thousands or millions of individuals was effectively impossible. Constitutional limits, an informed citizenry, cultural norms and other priorities limited some snooping governments, but the economics of it were prohibitive as well. But today, the cost and time constraints are rapidly disappearing.

Flock Safety's automated license plate readers are a case in point. Reuters estimates that over 120,000 such cameras, which record vehicle characteristics, license plates, and precise locations with timestamps, are in operation in 49 US states. When those digital records are combined, governments can reconstruct an individual's movement precisely - even across local and state boundaries. There are certainly some reasonable use cases for data of that sort: for example, assisting in the recovery of abducted people and aiding in the retrieval of stolen vehicles. But the camera systems track movements indiscriminately.

Surveillance is a production process. Capital, labor, and technology turn observations into usable information. And like many, this process involves front-loaded costs: manufacture, installation, and set-up. But once the technology is positioned, networked, and running, the cost of the data generated is diminutive. One single camera might record a given vehicle passing through an intersection. Thirty, around a town or county, generate a digital account of one's entire day or evening. Individual sightings are consistent with randomness; *en masse*, they form an intrusive record.

Over the past year numerous US municipalities have terminated contracts with Flock and similar technology firms. Even beyond concerns over government monitoring, citizens worried about cybersecurity and the potential for data being sold have been expressed. The potential for captured vehicular data to be integrated into other government data repositories, thereby generating a fuller, more complete electronic cross-section of daily lives, is another source of unease. And in some places - unsurprisingly - US citizens without the patience or inclination to wait for official responses or explanations have begun removing government video equipment on a spontaneous basis.

For its part, Flock has responded by promising internal audits, shorter data retention periods, and limits on searchability. But the problem is bigger than Flock. Yes; of course public surveillance technology can benefit victims of violent crime, theft, and potentially generate deterrence. Are those outcomes worth the cost of lost privacy, potential misuse of personal information, and scrutiny of perfectly lawful conduct? Drivers bearing those costs don't have a say, and declining to be tracked is, obviously, not an option.

The problem is bigger than Flock, though. Crime victims stand to gain from public surveillance, as do investigators who can solve cases more quickly. Deterrence is another potential dividend. Paying for those gains, however, are people who never voted to install the cameras or agreed to have the government follow them through ubiquitous tracking technology. Their losses include privacy, exposure to the misuse of information, and scrutiny of conduct that is entirely lawful.

Measured by arrests or crime statistics, the technology looks like an unqualified success. Law enforcement becomes more effective, and the political bodies overseeing them have an achievement to point to. It's basic public choice theory analysis at work, with one constituency enjoying concentrated benefits as losses are spread across the broader population of a jurisdiction. And while no bill arrives for the privacy lost, it nevertheless has an economic value.

When I drive, whether it's an afternoon running errands or my weekly trip back-and-forth from the Berkshires, I expect to be seen: by other motorists, pedestrians, and yes, the occasional cop. The leap from that to agreeing to have a digital timeline constructed, surreptitiously, into a searchable database entry is a vast one.

An analytical response: do Flock cameras improve public safety enough, on the margins, to justify the costs? Even an evidence-based answer based upon performance and savings would be insufficient, as every individual values their privacy, and the impact of its loss, differently.

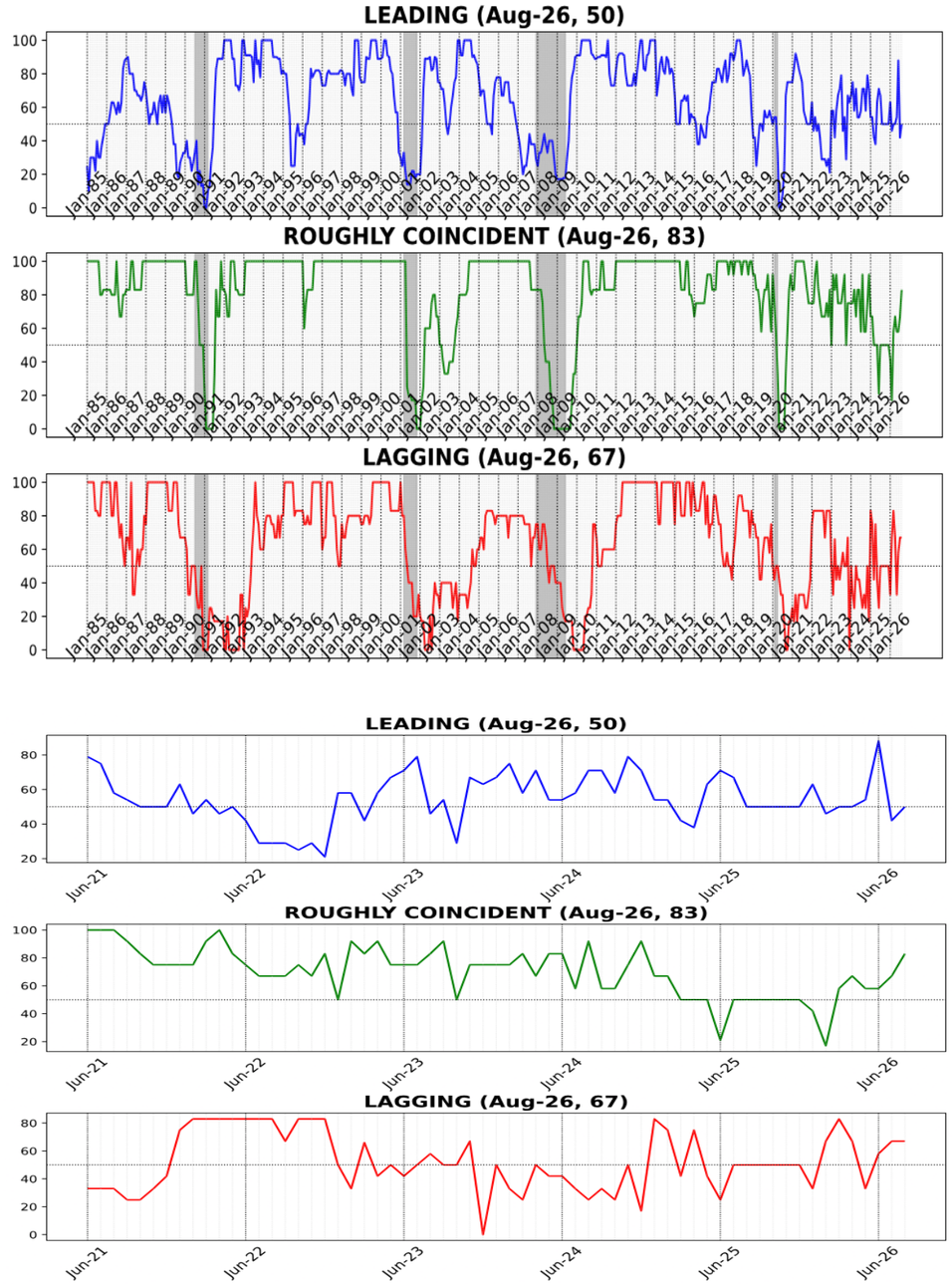
Amid the growing difficulties of affordability, entrenched political tribalism, and the myriad of distractions in our daily lives, Americans must remain vigilant around the expansion of government power. The existence of a technology is not a singular argument for its use. Economic constraints have historically helped protect liberty from political power. But as surveillance gets cheaper, and AI smarter, preserving our freedom is likely to require increasingly focused limits on what the state can do.

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

November 2026

Business Conditions Monthly August 2026

Peter C. Earle
Senior Director of Research



The August 2026 AIER Business Conditions Monthly (BCM) points to stronger current economic activity but a still-divided outlook. The Leading Indicator recovered to **50** from July's **42**, returning to neutral as improvements in financial markets, retail sales, manufacturing hours, and capital-goods orders were offset by weakness in consumer expectations, housing, transportation, and other components. The Roughly Coincident Indicator climbed to **83** from July's corrected reading of **67**, with five of six measures advancing. The Lagging Indicator remained at **67**, leaving the overall configuration more constructive than in July without establishing a broadly favorable forward-looking signal.

LEADING INDICATOR (50)

The Leading Indicator rose to **50**, with six of twelve components improving, and six declining. None fell within the unchanged band.

Several measures of financial conditions, spending, and prospective production provided support. The Conference Board US Leading Index Stock Prices 500 Common Stocks increased **3.1 percent**, while Debit Balances in Customers' Securities Margin Accounts rose **2.6 percent**. Adjusted Retail and Food Services Sales Total SA advanced **1.3 percent**, reversing July's decline. US Average Weekly Hours All Employees Manufacturing SA increased **0.5 percent**, rising from 40.4 to 40.6 hours. Business-investment orders also improved. Conference Board US Manufacturers New Orders Nondefense Capital Goods Ex Aircraft increased **1.2 percent**, providing a firmer signal from a measure closely associated with prospective capital spending. The 1-Year to 10-Year US Treasury Yield Spread declined **12.4 percent** and contributed positively to the index.

Those gains were matched by weakness elsewhere. The University of Michigan Consumer Expectations Index fell **7.0 percent**, from 55.4 to 51.5, reversing July's improvement. US Initial Jobless Claims SA increased **3.5 percent**, indicating a less favorable direction for layoffs than in the previous month. Conference Board US Leading Index Manufacturers' New Orders Consumer Goods and Materials declined **0.8 percent**. Housing and transportation remained weak. US New Privately Owned Housing Units Started by Structure Total SAAR fell **5.9 percent**, while United States Heavy Trucks Sales SAAR declined **4.8 percent**. Both extended the declines recorded in July. The Inventory-to-Sales Ratio Total Business slipped **0.7 percent** and also made a negative contribution.

August therefore restored balance to the leading components rather than establishing broad forward-looking strength. Firmer retail activity, capital-goods orders, manufacturing hours, equity prices, and margin borrowing helped offset continued weakness in housing and heavy truck sales. Yet declining consumer expectations and higher initial claims limited the improvement. The move from 42 to 50 is encouraging relative to July's setback, but an even division between positive and negative components leaves the outlook unresolved.

ROUGHLY COINCIDENT INDICATOR (83)

The Roughly Coincident Indicator increased to **83** from July's reading of **67**. Five of six components improved, with one declining and none unchanged.

The gains extended across sales, production, employment, participation, and consumer assessments of current conditions. Conference Board Coincident Manufacturing and Trade Sales increased **0.2 percent**. Conference Board Consumer Confidence Present Situation SA rose **2.4 percent**, from 114.4 to 117.2, recovering some of July's decline. US Industrial Production SA edged up **0.06 percent**, while US Employees on Nonfarm Payrolls Total SA increased **0.08 percent**. Both increases were modest but exceeded the BCM's positive-scoring threshold. The US Labor Force Participation Rate SA rose from **61.4 percent** to **61.6 percent**, an increase of 0.2 percentage points.

The sole declining component was Conference Board Coincident Personal Income Less Transfer Payments, which slipped **0.08 percent**. That decrease was small but outside the neutral band, making it a negative contribution rather than an unchanged reading.

The August coincident results indicate a broader improvement in current activity than the leading measures suggest for the outlook. Production, payroll employment, sales, participation, and present-situation confidence all moved higher. The strength of the diffusion reading should nevertheless be distinguished from the magnitude of those increases: industrial production and payroll growth were slight. An index reading of 83 signals widespread positive direction among the components, not rapid growth across the economy. The decline in income excluding transfers also tempers an otherwise firmer current-conditions picture.

LAGGING INDICATOR (67)

The Lagging Indicator held at **67**, with four of six components contributing positively and two negatively. Although the headline reading was unchanged, the composition of its support shifted.

Conference Board US Lagging Commercial and Industrial Loans increased **1.4 percent**, while US Manufacturing and Trade Inventories Total SA rose **0.4 percent**. Census Bureau US Private Construction Spending Nonresidential SA advanced approximately **1.0 percent**. Together, these measures indicate continued growth in commercial lending, inventories, and nonresidential construction spending. US Commercial Paper Placed Top 30 Day Yield increased **1.3 percent**, supplying the fourth positive contribution under the BCM's scoring framework.

Labor market duration moved in the opposite direction. Conference Board US Lagging Average Duration of Unemployment increased **5.6 percent**, from 24.9 weeks to 26.3 weeks. The longer average duration suggests greater difficulty finding work among those remaining unemployed and reversed July's favorable movement. The year-over-year core CPI measure eased from approximately **2.48 percent** to **2.45 percent**. That was a **1.3 percent** relative decrease in the reported inflation rate—not a monthly decline in the price level—and contributed negatively under the index's established scoring convention. This arithmetic treatment should not be read as a judgment that lower inflation is economically undesirable.

The unchanged lagging reading thus masks offsetting developments. Commercial paper yields switched to a positive contribution, while average unemployment duration switched to a negative one. Lending, inventories, and nonresidential construction continued to support the index. These results describe established or slower-moving conditions, however, and do not resolve the uncertainty evident in the leading components.

In summary: August's BCM readings narrow, but do not eliminate, the divergence between current activity and the outlook. The Leading Indicator's recovery to neutral reduces some of the concern generated by July's decline, while the Roughly Coincident Indicator shows a substantially broader set of advancing components. Continued weakness in housing and heavy truck sales, renewed deterioration in consumer expectations, and higher initial claims nevertheless argue against interpreting August as an unqualified strengthening. The most defensible conclusion is that current conditions improved while evidence of sustained future momentum remained mixed; subsequent readings will need to show whether the leading recovery broadens beyond an even split.

DISCUSSION, SEPTEMBER— OCTOBER 2026

September's inflation reports revealed renewed price pressure, largely associated with energy, after revisions had substantially improved the picture of underlying inflation over the summer. Consumer prices rose **0.65 percent** during the month, with energy contributing 39 basis points, while producer prices jumped **1.3 percent** as fuel costs worked through transportation and distribution. Annual headline CPI inflation reached **3.7 percent**, and annual PPI inflation climbed to **6.3 percent**. The increase was uneven: food prices were flat, medical commodities declined, and shelter accounted for much of the increase in core consumer prices. Owners' equivalent rent rose **0.35 percent**, contributing 12 basis points to the **0.33 percent** core CPI increase. Although three-month annualized core CPI accelerated to **3.4 percent**, the share of components rising faster than **3 percent** declined on both six- and twelve-month measures.

Price pressure was more pronounced upstream. Transportation and warehousing prices increased **3.4 percent**, trucking costs stood **15.4 percent** above their year-earlier level, and trade margins expanded **1.4 percent**. A sharp increase in producer airfares also pointed toward stronger September PCE inflation. At the same time, revisions to the PCE index lowered estimated three-month annualized core inflation to **2.0 percent** in August, indicating that inflation entered September with less momentum than previously reported. The question now is whether higher energy and freight costs spread persistently across other prices. September supplied evidence of that risk, but falling inflation breadth and subdued readings in several categories leave a generalized resurgence unconfirmed.

The labor market is becoming more difficult for jobseekers even as employers show little inclination to dismiss existing workers. August job openings fell to 7.08 million from 7.34 million, leaving approximately one vacancy per unemployed person. Establishments with fewer than ten employees accounted for a particularly large share of the decline, with openings falling by 335,000. Professional and business services, education and healthcare, manufacturing, and construction also advertised fewer positions. Hiring nevertheless increased modestly to 5.19 million, layoffs declined to 1.64 million, and the quits rate remained at **1.9 percent**. The adjustment is occurring primarily through fewer opportunities to enter or change jobs rather than widespread displacement.

September's payroll report showed how weak job creation has become. Employers added just 29,000 positions following a downwardly revised 133,000 increase in August, bringing the three-month average to 51,000, roughly one-third of its spring pace. Private employment increased 46,000, partly offset by government reductions. Leisure and hospitality added only 10,000 jobs, healthcare hiring fell well below its twelve-month average, and local government education lost positions. Information, financial activities, and professional and business services also contracted, although construction, manufacturing, and transportation-related employment provided some support. The household survey recorded 406,000 additional employed people, but labor-force growth of 485,000 lifted unemployment to **4.2 percent**. Average hourly earnings rose just **0.1 percent**. The principal vulnerability is thus the economy's limited capacity to absorb additional workers: layoffs remain contained, but slower hiring leaves households increasingly dependent on retaining their existing jobs.

September's business surveys showed continued expansion in manufacturing and services, accompanied by increasingly widespread input-cost pressures. The ISM Manufacturing PMI slipped to 54.5, but new orders rose to 55.3 and backlogs reached 56.4. Customers' inventories fell further below levels manufacturers considered adequate, potentially supporting production in coming months, although some purchasing may have been brought forward to avoid anticipated price increases. Production remained expansionary at 56.7, and employment strengthened to 52.7. Supply conditions remained difficult: deliveries lengthened, capital-expenditure lead times reached 176 days, and the prices-paid index jumped to 77.9. Nearly **59 percent** of manufacturers reported higher prices, compared with fewer than **3 percent** reporting declines.

The ISM Services PMI eased to 54.9 from 55.4, with thirteen industries reporting growth. New orders remained strong at 59.8, and backlogs increased to 56.6, their highest reading since July 2022. Business activity moderated but remained expansionary at 56.5, while employment edged above the growth threshold to 50.1 after two months of contraction. The services prices-paid index reached 74.0, with seventeen industries reporting increases and none reporting declines. Fuel and tariffs were prominent supply-chain concerns, and some respondents reported buying inventory ahead of expected price increases. Both surveys therefore point to enough work to sustain near-term activity, but also to costs that may squeeze margins or eventually reach customers.

Confidence has weakened among households and small businesses, although neither group's assessment points uniformly toward contraction. The Conference Board's consumer confidence index fell to 81.9 in September from 88.6, with the present-situation measure declining to 109.3 and the expectations index dropping to 63.6. Consumers saw fewer employment opportunities: **23.6 percent** described jobs as plentiful, while **21.9 percent** said they were hard to obtain, narrowing the difference to just 1.7 percentage points. Average year-ahead inflation expectations rose to **6.1 percent** and the median reached **5.1 percent**, both up 0.3 percentage point. During a survey period that included the Federal Reserve's September rate increase, **68.4 percent** of respondents anticipated higher interest rates over the following year. Households nevertheless remained positive on balance about income growth and stock prices. The University of Michigan's preliminary October survey showed similarly depressed sentiment at 46.3, with year-ahead inflation expectations at **4.7 percent** and longer-term expectations at **3.5 percent**.

Small business owners are also less willing to commit to expansion. September's NFIB optimism index slipped to 97.9, just below its historical average, while uncertainty rose to 90 against a long-run average of 68. Expectations for improved business conditions declined for a second month, fewer owners considered it a favorable time to expand, capital-spending plans retreated, and credit expectations weakened. Sales expectations nevertheless improved, and only **11 percent** of respondents identified poor sales as their principal problem. Labor quality remained the leading concern, cited by **26 percent**, while inflation rose to **20 percent**. With **31 percent** planning to raise selling prices over the next three months, cost pressures documented in the business surveys have a plausible route to household budgets.

Household caution is particularly evident in purchases that require substantial financing. September light-vehicle sales fell to a 15.98 million annualized pace from 16.76 million, their weakest reading since April. One month does not establish a sustained retreat, but the decline is consistent with resistance to the combined cost of purchasing, financing, and operating a vehicle. Higher fuel bills can also leave less income available for monthly loan payments. These figures point to pressure on a major category of consumer spending, though they do not by themselves establish a broad decline in retail sales.

Housing provides another illustration of how borrowing costs can restrain activity despite continuing demand. Existing-home sales increased **1.5 percent** in September to a 3.99 million annualized rate, following a downwardly revised **3.2 percent** decline in August, and remained depressed. Financing conditions subsequently became more restrictive: the average thirty-year mortgage rate reached **7.49 percent** in early October, rising roughly half a percentage point in three weeks. Annual median-price appreciation slowed to **1.6 percent**, but available inventory remained at 4.8 months of sales, below the level generally associated with a balanced market. The typical time on the market lengthened to 33 days. Neither slower price growth nor limited supply has resolved the affordability problem, and surveyed home-buying conditions approached record lows.

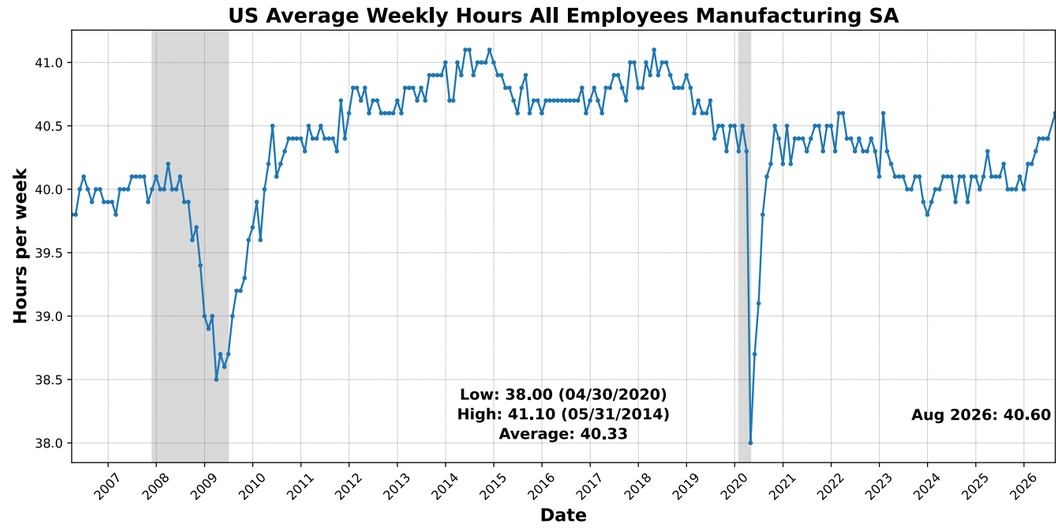
Industrial output has held up better than housing and vehicle purchases, although September's gains offer qualified evidence of stronger business investment. Industrial production increased **0.7 percent**, with manufacturing recovering **0.3 percent** after August's decline. Consumer-goods output rose **0.7 percent**, and most durable-goods industries expanded despite a reduction in motor-vehicle production. Nondurable manufacturing increased **0.4 percent**, supported principally by food, chemicals, and energy products. Much of the headline gain came from outside factories: utilities output jumped **3.5 percent** as unusually warm weather boosted electricity demand, while mining increased **0.2 percent**, including a **0.8 percent** rise in crude-oil extraction. Information-processing equipment output fell **0.9 percent** after a **0.7 percent** August decline; those two decreases warrant attention but do not establish a reversal in AI-related capital spending. Overall capacity utilization rose to **76.9 percent**, and manufacturing utilization edged up to **75.9 percent**, leaving room for additional production before firms need substantial new capacity.

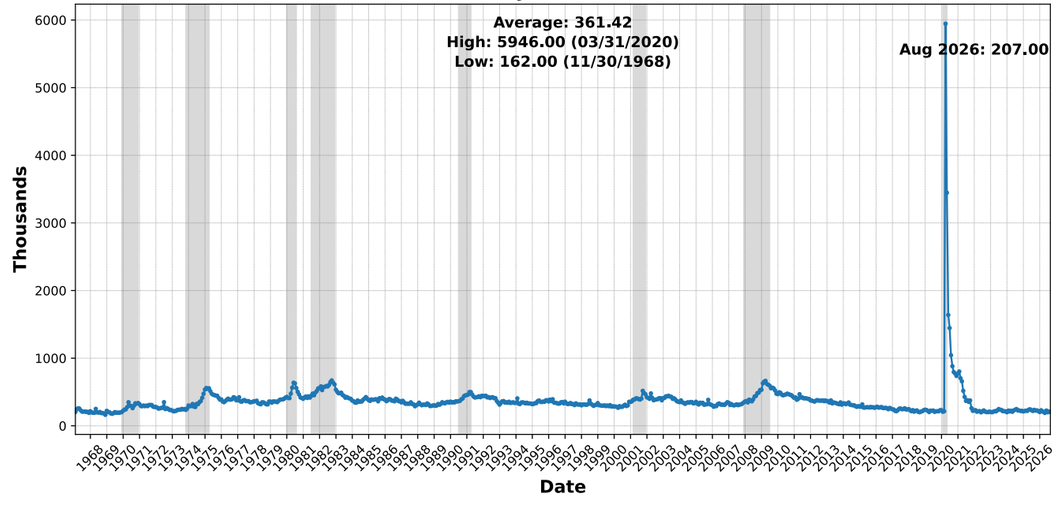
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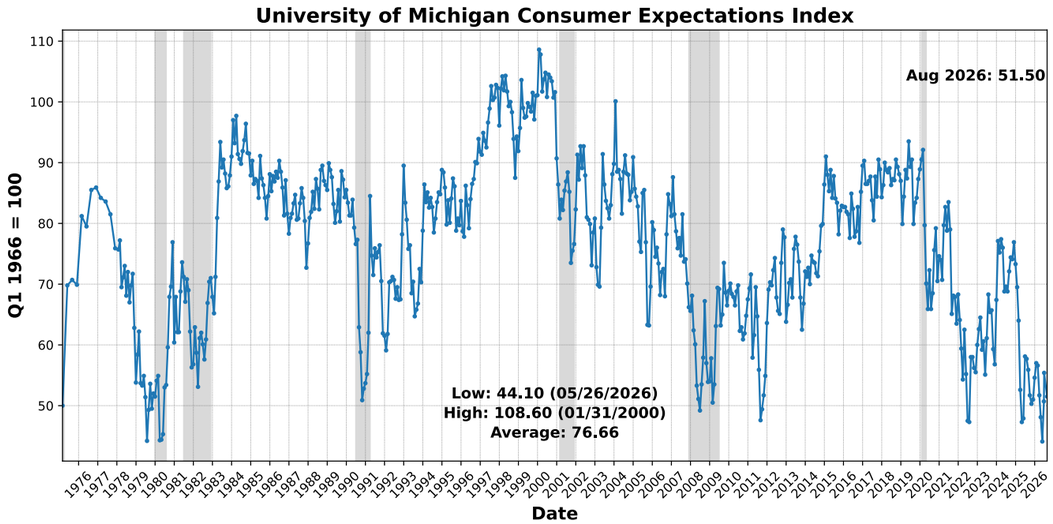
The latest Beige Book reinforces the case for waiting while illustrating why inflation risks remain difficult to dismiss. Four districts reported faster price increases, and all noted higher oil prices, with fuel and diesel expenses moving through supply chains alongside pressure from tariffs, insurance, and other commodities. Passing those costs to customers remained difficult: consumer-facing businesses reported resistance to further increases and responded with selective price adjustments, incentives, and less costly offerings, often at the expense of margins. Spending remained uneven and disproportionately supported by higher-income households, while most districts anticipated only modest growth. At the same time, five districts described firms using AI and automation to reduce staffing needs through attrition, postpone hiring, or expand production without proportionate additions to payrolls. One contact reported both lower unit costs and greater output capacity. These accounts remain preliminary, but they suggest that some hiring restraint may reflect improved efficiency alongside cautious demand expectations.

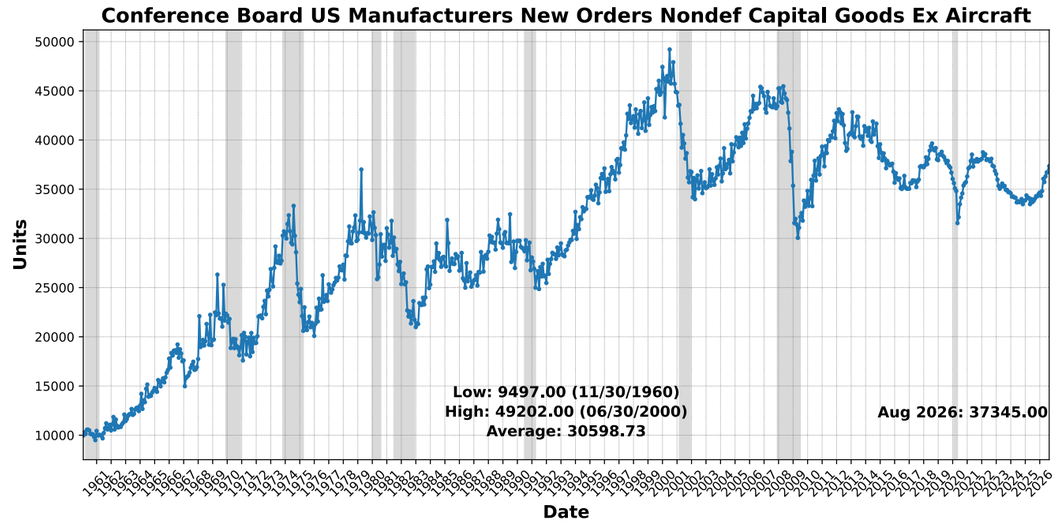
The combined evidence suggests an economy that continues to expand, but in which sustained business activity coexists with weak hiring, strained affordability, and greater reluctance to make major financial commitments. Manufacturing and services retain substantial orders, while households face fewer job opportunities and borrowing costs that are restraining housing and vehicle purchases. Renewed energy and input-price pressures complicate the inflation outlook, although narrower inflation breadth and downward revisions to earlier readings leave a broad resurgence unconfirmed. The combination favors a Federal Reserve pause. Looking ahead, the durability of the expansion will depend on whether income and productivity gains can offset rising costs before cautious hiring and investment give way to a more general weakening in demand.

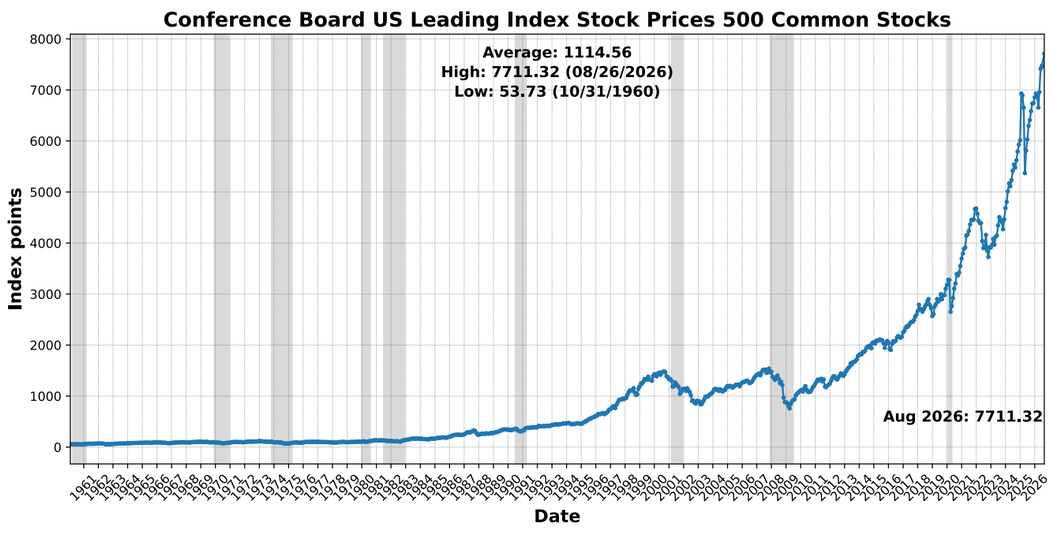
LEADING INDICATORS

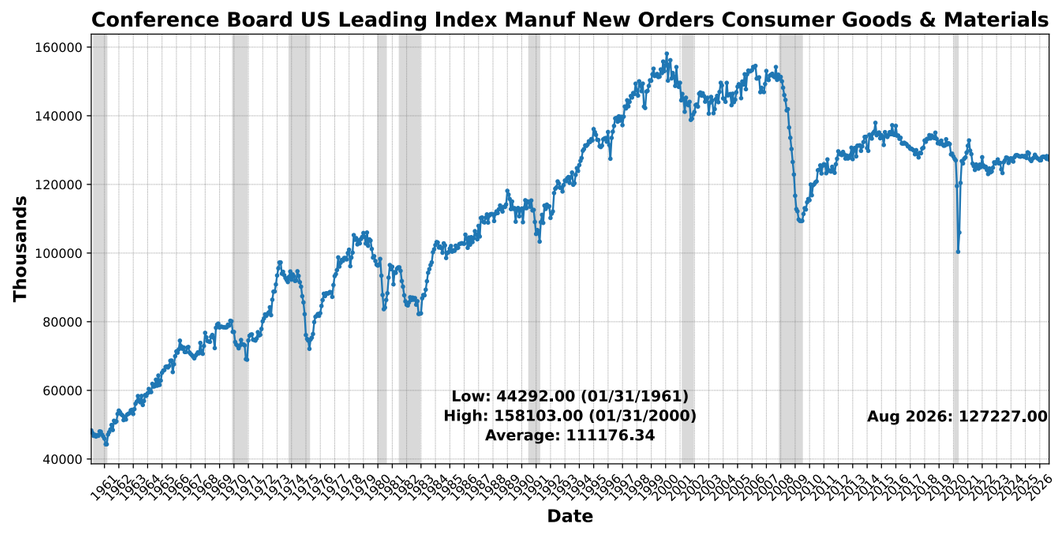


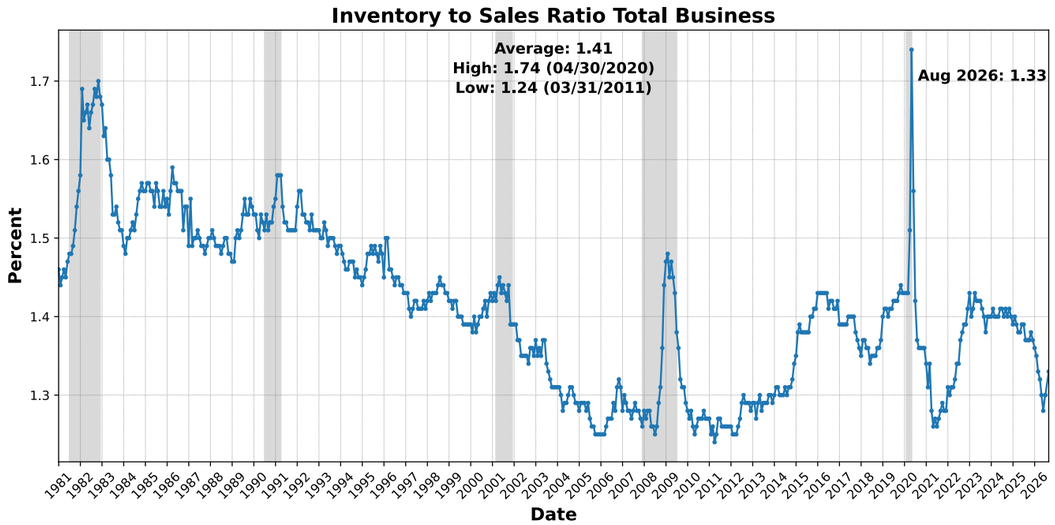


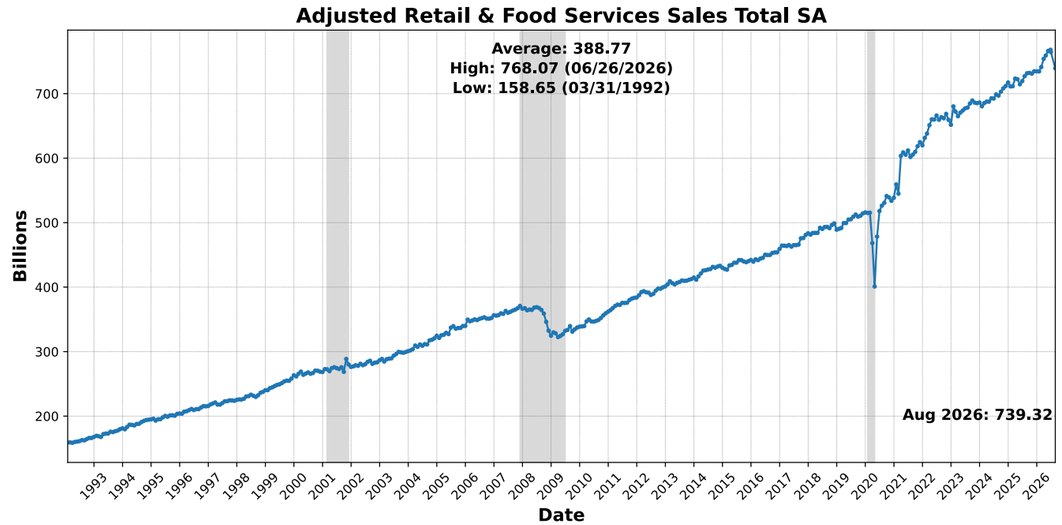

University of Michigan Consumer Expectations Index
Q1 1966 = 100
Aug 2026: 51.50
Low: 44.10 (05/26/2026)
High: 108.60 (01/31/2000)
Average: 76.66
Date

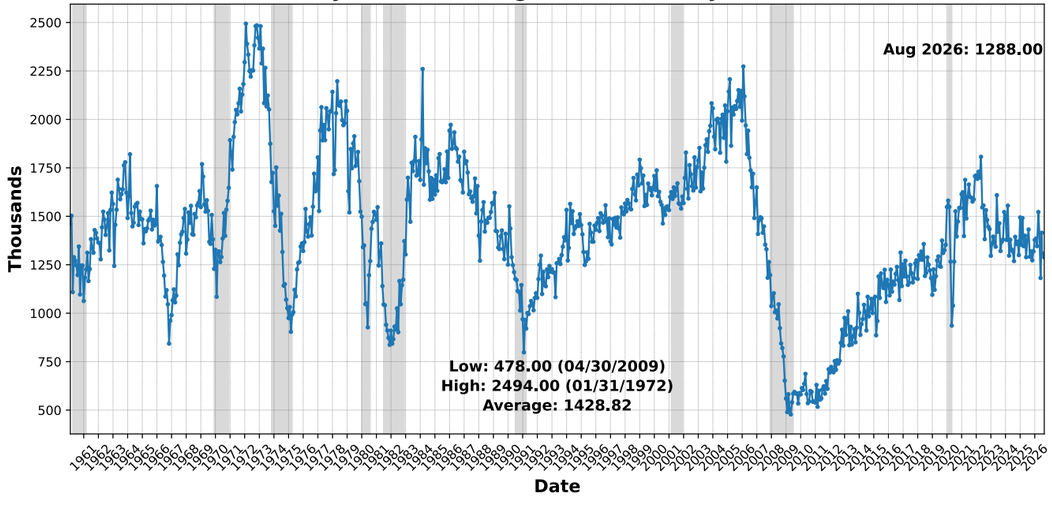

Conference Board US Manufacturers New Orders Nondef Capital Goods Ex Aircraft
Units
Low: 9497.00 (11/30/1960)
High: 49202.00 (06/30/2000)
Average: 30598.73
Aug 2026: 37345.00
Date

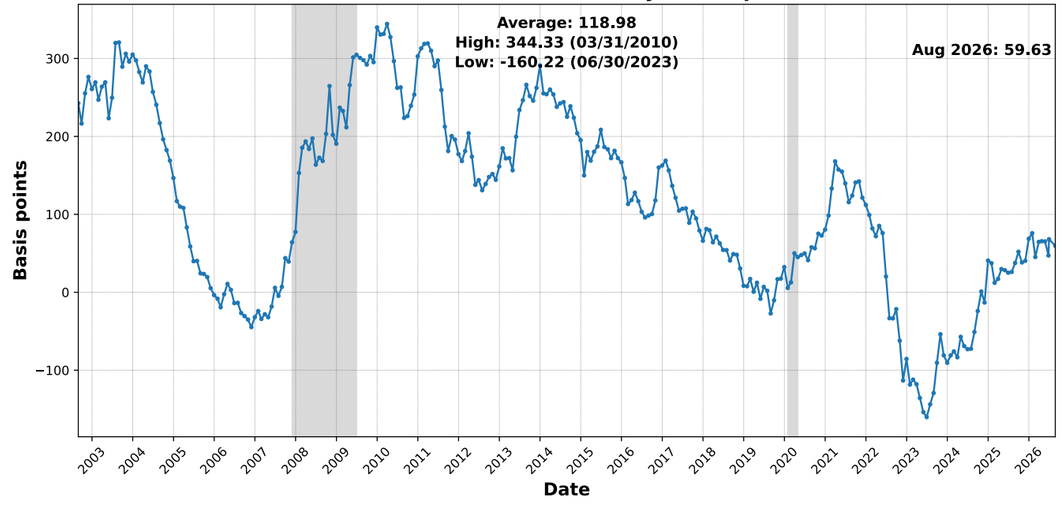

Conference Board US Leading Index Stock Prices 500 Common Stocks
Index points
Average: 1114.56
High: 7711.32 (08/26/2026)
Low: 53.73 (10/31/1960)
Aug 2026: 7711.32
Date

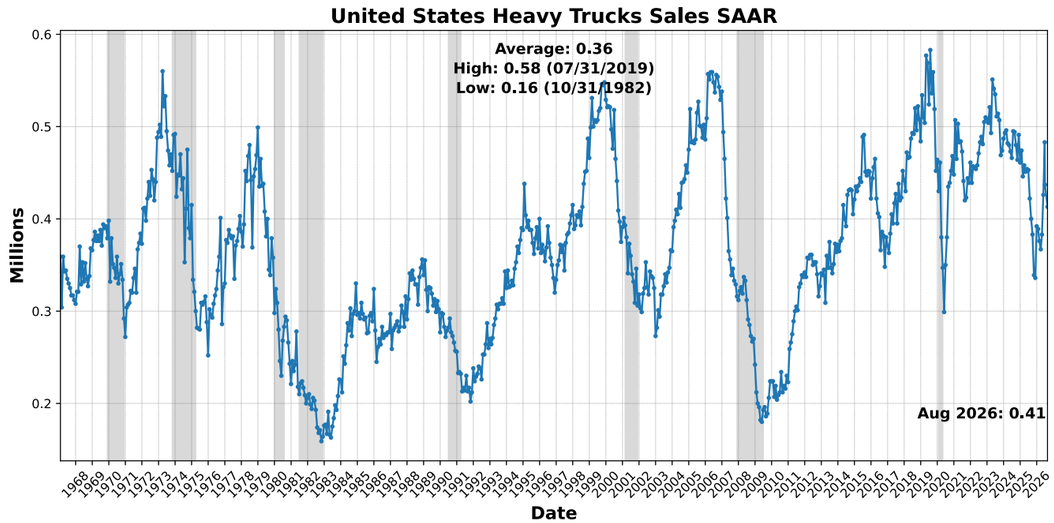

Conference Board US Leading Index Manuf New Orders Consumer Goods & Materials
Thousands
Low: 44292.00 (01/31/1961)
High: 158103.00 (01/31/2000)
Average: 111176.34
Aug 2026: 127227.00
Date

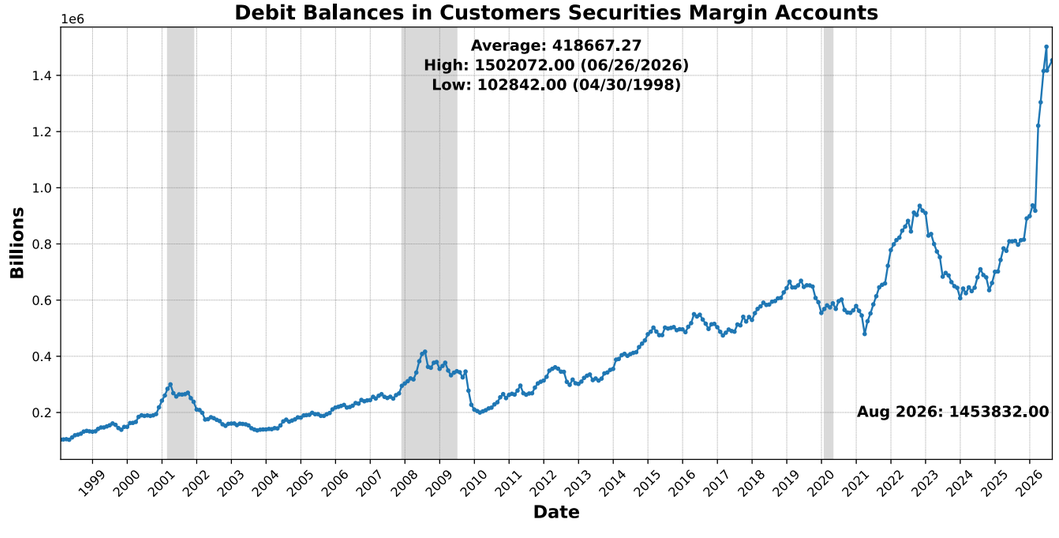

Inventory to Sales Ratio Total Business
Average: 1.41
High: 1.74 (04/30/2020)
Low: 1.24 (03/31/2011)
Aug 2026: 1.33
Percent
Date


Adjusted Retail & Food Services Sales Total SA
Average: 388.77
High: 768.07 (06/26/2026)
Low: 158.65 (03/31/1992)
Aug 2026: 739.32
Billions
Date

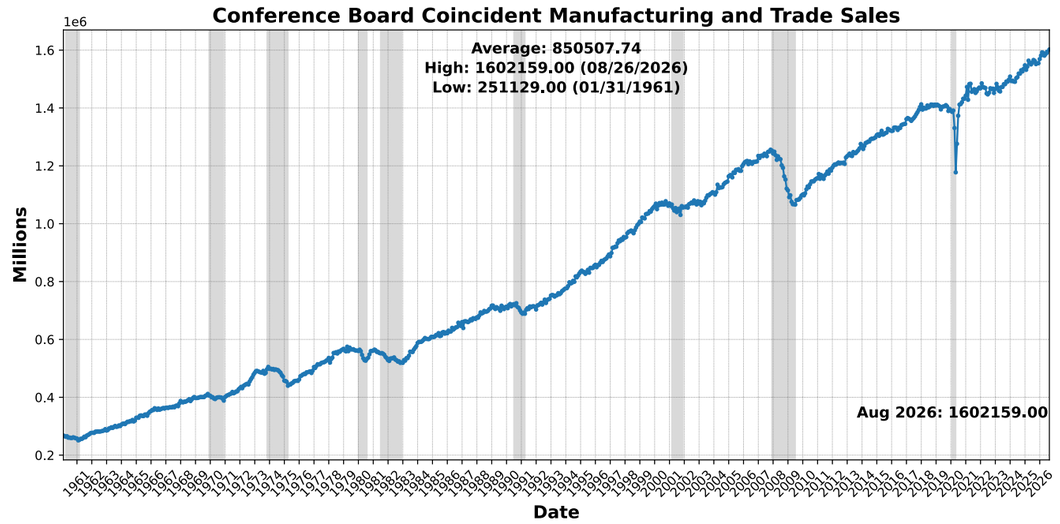

US New Privately Owned Housing Units Started by Structure Total SAAR
Aug 2026: 1288.00
Low: 478.00 (04/30/2009)
High: 2494.00 (01/31/1972)
Average: 1428.82
Thousands
Date

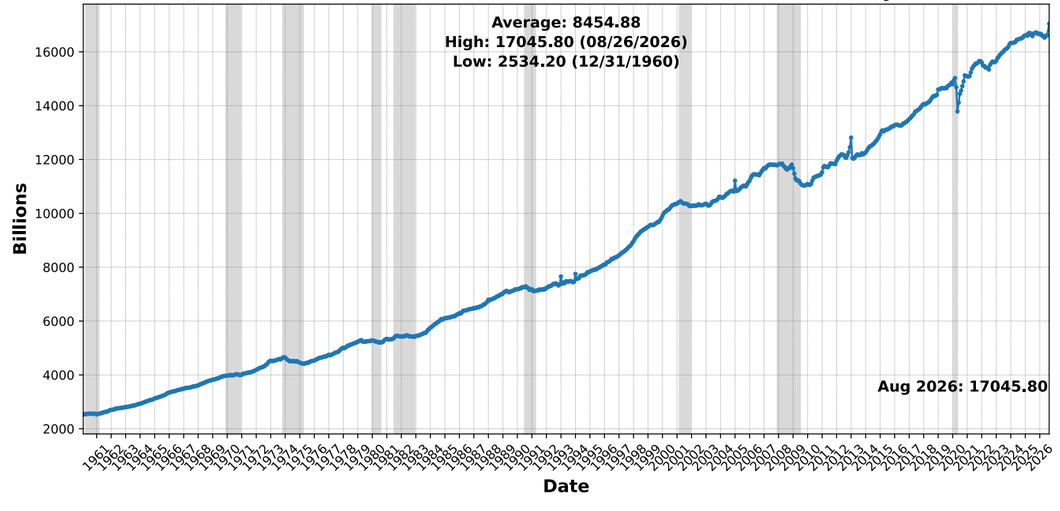

1-Year to 10-Year US Treasury Yield Spread
Average: 118.98
High: 344.33 (03/31/2010)
Low: -160.22 (06/30/2023)
Aug 2026: 59.63
Basis points
Date

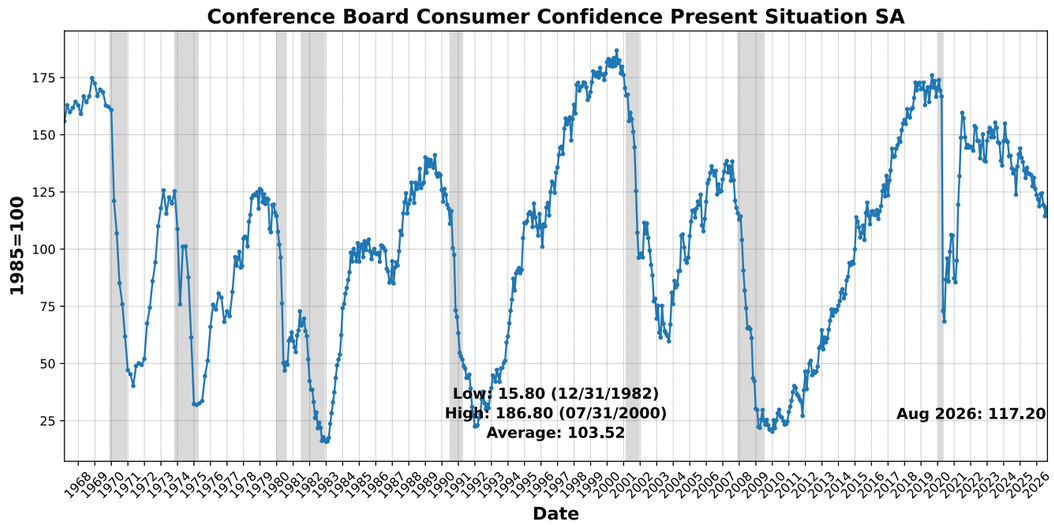


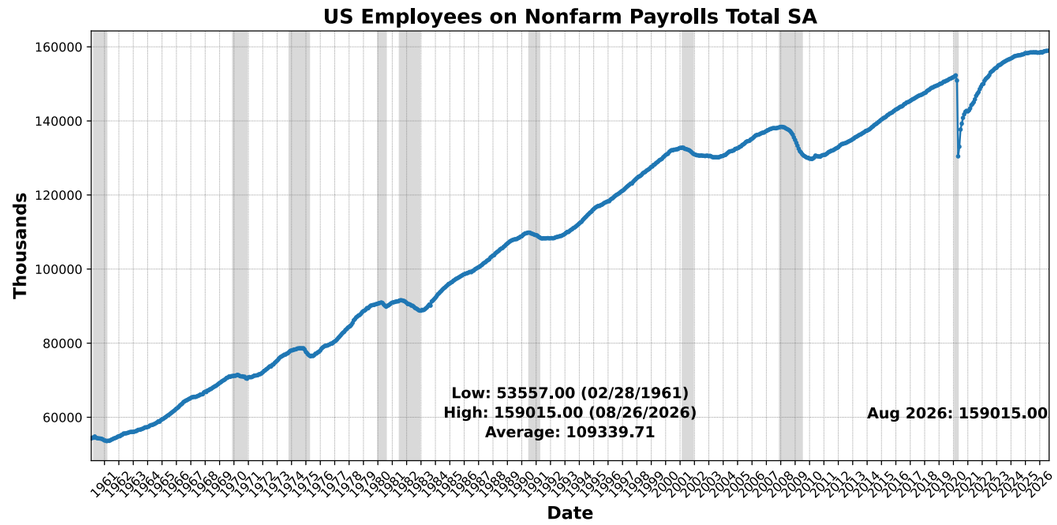


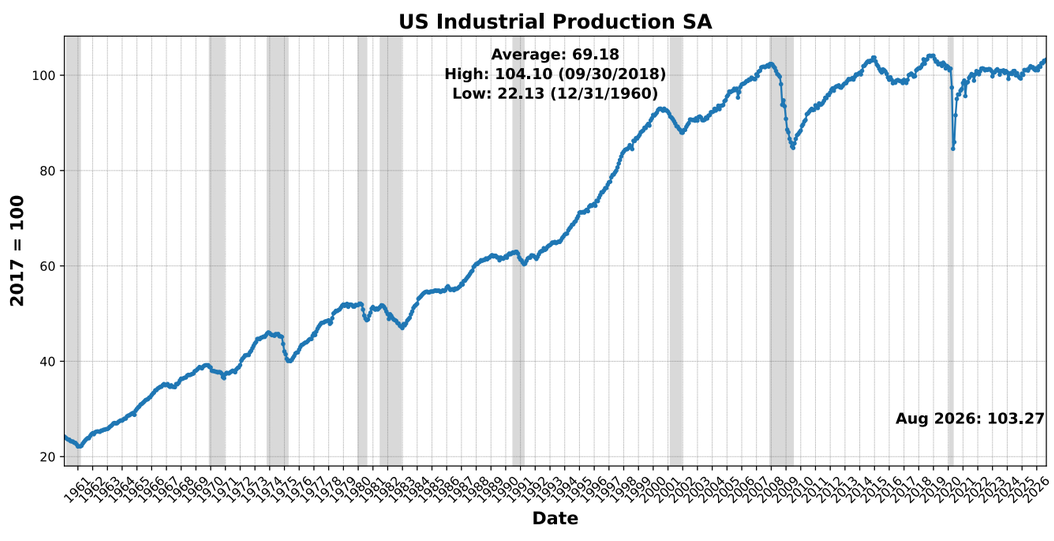
ROUGHLY COINCIDENT INDICATORS

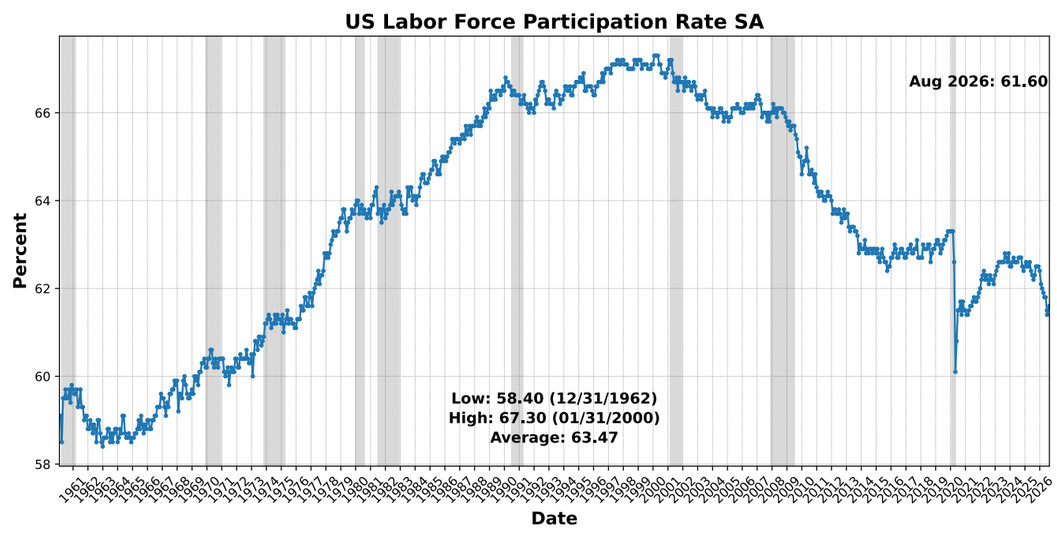




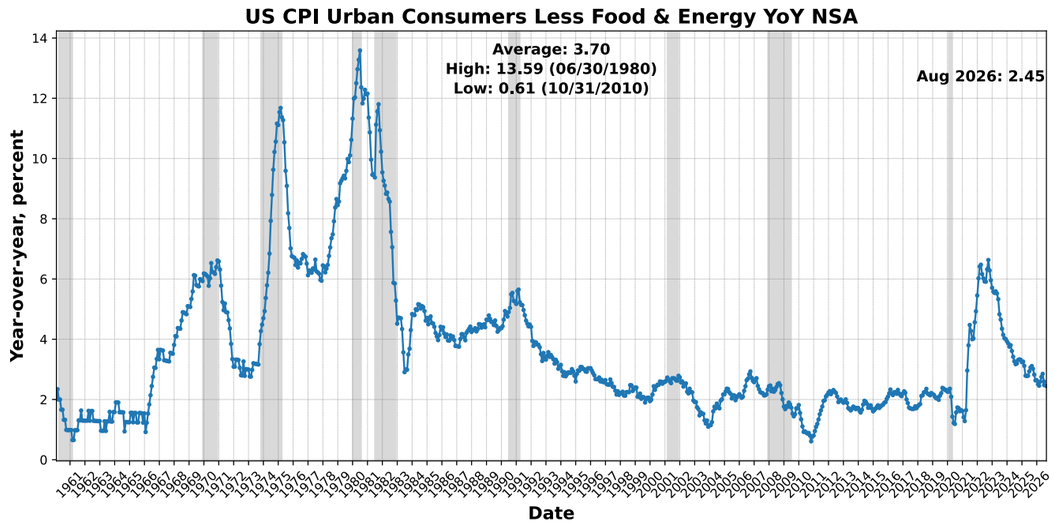

Conference Board Consumer Confidence Present Situation SA
1985=100
Date
Low: 15.80 (12/31/1982)
High: 186.80 (07/31/2000)
Average: 103.52
Aug 2026: 117.20

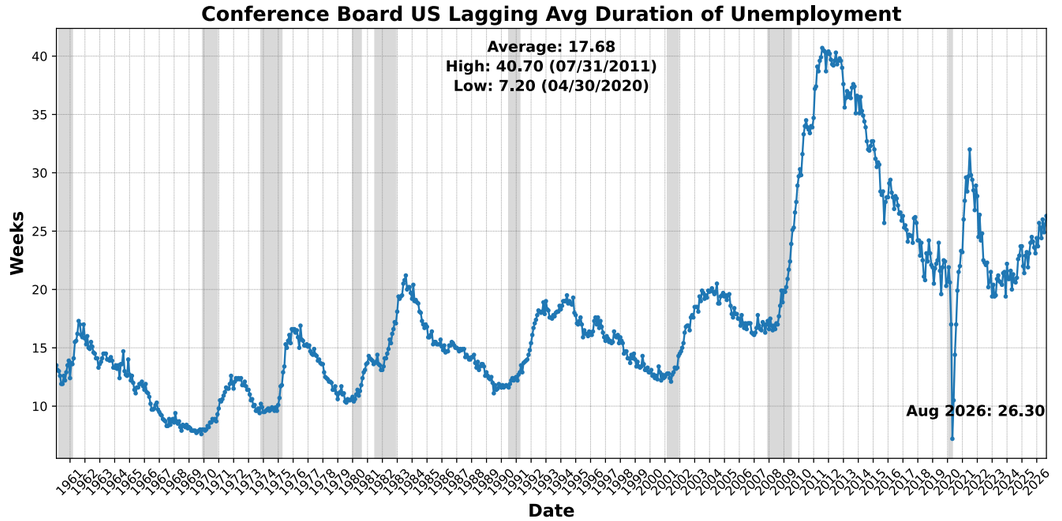

US Employees on Nonfarm Payrolls Total SA
Thousands
Date
Low: 53557.00 (02/28/1961)
High: 159015.00 (08/26/2026)
Average: 109339.71
Aug 2026: 159015.00

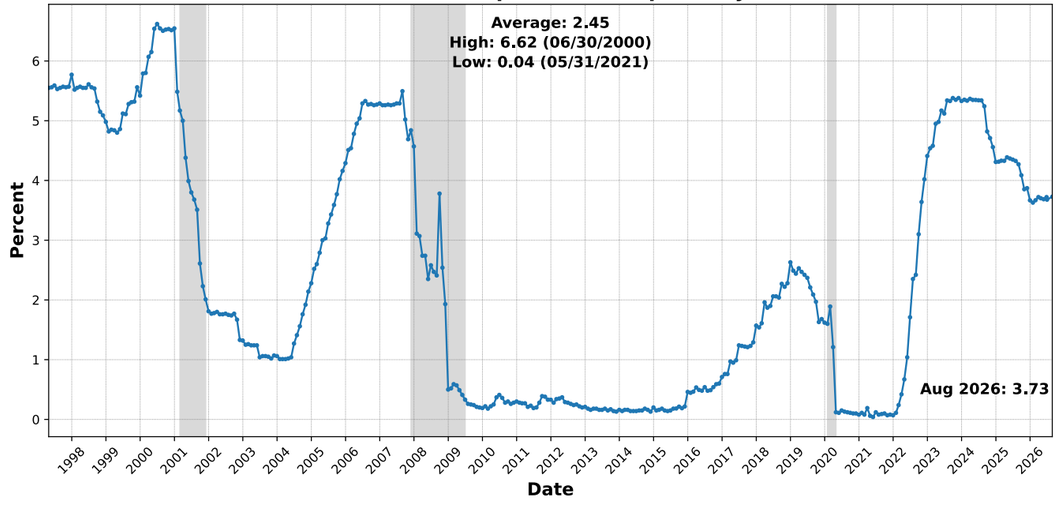

US Industrial Production SA
2017 = 100
Date
Average: 69.18
High: 104.10 (09/30/2018)
Low: 22.13 (12/31/1960)
Aug 2026: 103.27

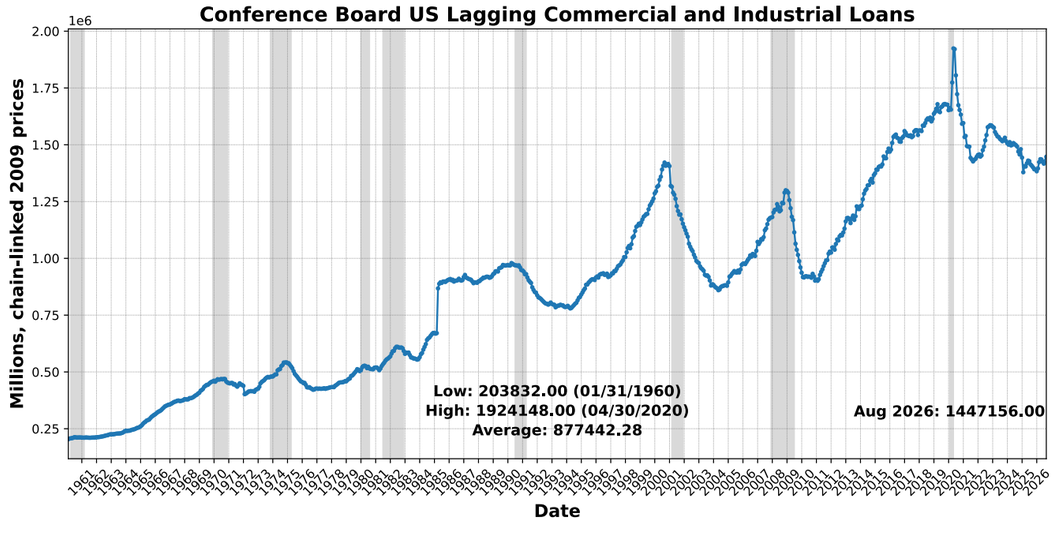

US Labor Force Participation Rate SA
Percent
Date
Low: 58.40 (12/31/1962)
High: 67.30 (01/31/2000)
Average: 63.47
Aug 2026: 61.60

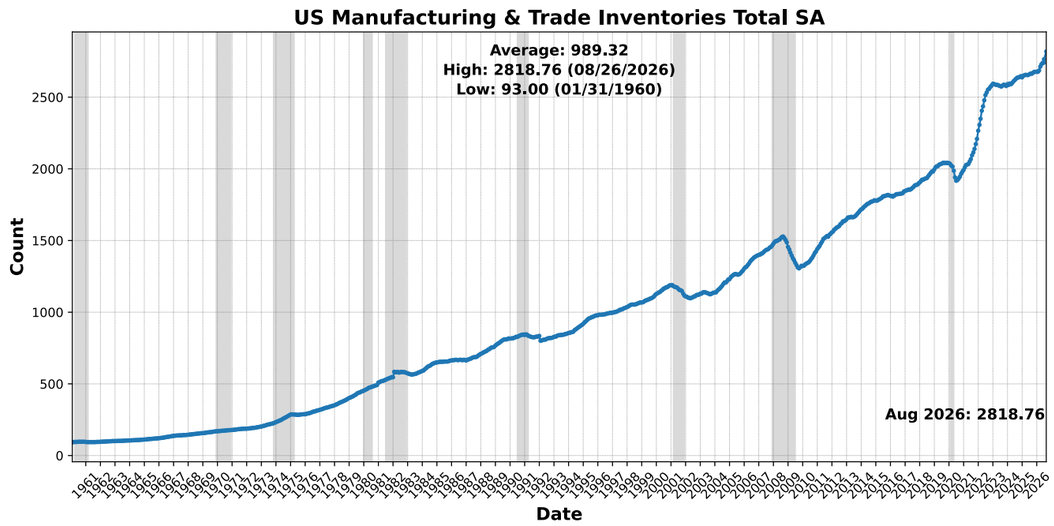
LAGGING INDICATORS

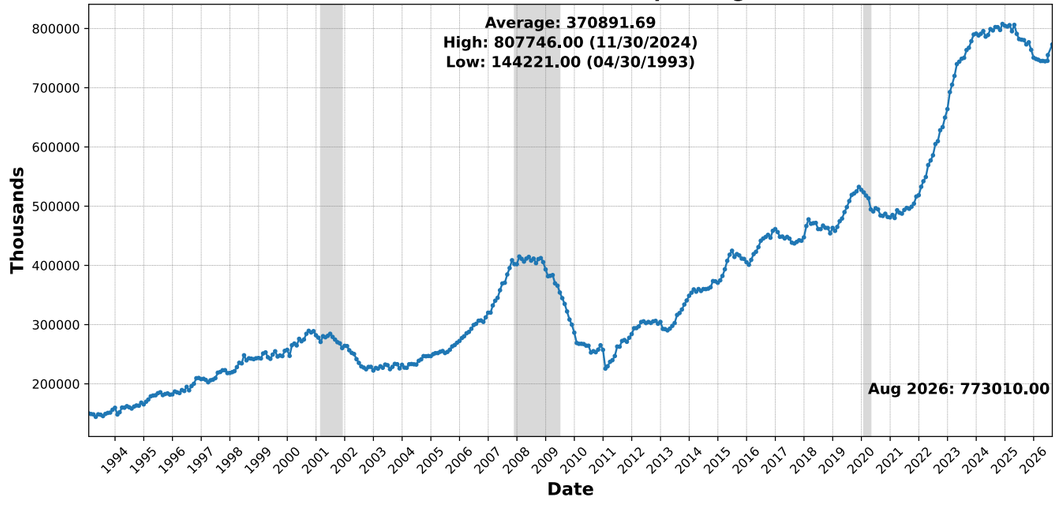












Capital Market Performance

Ticker		Short Name	%1M	%3M	%1YR	3 Year Annualized Total	5 Year Annualized Total	10 Year Annualized Total
SPR	d	S&P 1500 Composite Index	-1.48%	+2.29%	+12.17%	22.8784	11.9822	14.8803
SPXT	d	S&P 500 Total Return	-1.48%	+3.13%	+13.56%	23.3920	12.4768	15.3235
SPX	d	S&P 500 INDEX	-1.55%	+2.86%	+12.25%	23.3658	12.4550	15.3067
MID	d	S&P 400 MIDCAP INDEX	-.88%	-4.42%	+9.64%	16.7987	6.8672	10.4355
RTY	d	RUSSELL 2000 INDEX	-2.17%	-5.26%	+10.44%	20.1802	5.3573	9.8199
SXXP	d	STXE 600 (EUR) Pr	-.45%	-1.36%	+10.42%	17.4479	9.7306	9.9199
TLT US	d	ISHARES 20+YR TR	+2.55%	-2.29%	-11.07%	3.1328	-7.5535	-2.8081
QLTA US	d	ISHARES AAA - A	+.79%	-1.73%	-6.60%	5.5193	-.3779	1.3886
CRY	d	TR/CC CRB ER Index	+.01%	+5.80%	+38.16%	13.8711	11.9717	8.2085
XAU		Gold Spot $/Oz	-6.80%	-1.32%	-3.15%			
XAG		Silver Spot $/Oz	-16.36%	-6.44%	+10.16%			
ILM3NAVG		Bankrate 30Y Mortgage Rates Na	+3.79%	+11.11%	+17.09%			
ILM1NAVG		Bankrate 15Y Mortgage Rates Na	+4.28%	+12.54%	+20.28%			
MB301ARM		5 Year ARM	+3.69%	+12.35%	+16.40%			
ILA3NAVG		Bankrate 30Y Fixe Mtg Refis Na	+.57%	+.72%	-.85%			

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

November 2026

Revised Inflation Data Don’t Change the Fed’s Job

Bryan P. Cutsinger
Fellow, Sound Money Project

Inflation looks better than it did a month ago, but not because it improved much in August. Revisions from the Bureau of Economic Analysis (BEA) lowered estimates of recent inflation without materially changing the rapid growth in overall spending, which is still rising too quickly for inflation to return to the Federal Reserve’s **2 percent** target. In short, the Fed still has work to do.

The Personal Consumption Expenditures Price Index (PCEPI), the Federal Reserve’s preferred measure of inflation, rose **0.3 percent** in August, according to new data from the BEA, up from **0.1 percent** in July. The index has risen at an annualized rate of **3.6 percent** over the last six months and is **3.4 percent** higher than a year ago, unchanged from July’s rate.

Core PCEPI, which excludes volatile food and energy prices, increased **0.2 percent** in August, up from **0.1 percent** in July. It has risen at an annualized rate of **2.7 percent** over the last six months and is **3.0 percent** higher than a year ago, also unchanged from July.

In August, the BEA reported that prices had risen **3.7 percent** between July 2025 and July 2026. After this week’s annual update of the national accounts, the BEA now estimates that prices rose just **3.4 percent** over the same period. The apparent improvement therefore reflects revisions to earlier data, not a decline in the year-over-year inflation rate in August. The revisions reflect more than the BEA’s regular updating of recent estimates. The annual update incorporated newly available and revised source data, improved estimation methods, and updated seasonal adjustment factors. Among other changes, the BEA revised how it measures prices for portfolio-management services, legal services, and computer software.

As the chart below shows, the old and revised figures track each other closely through 2025 before beginning to diverge this spring. The BEA now estimates that inflation reached **3.8 percent** in May, rather than the **4.1 percent** reported last month, and that core inflation was **3.0 percent** in July, rather than **3.3 percent**. On the revised data, both headline and core inflation were unchanged in August.

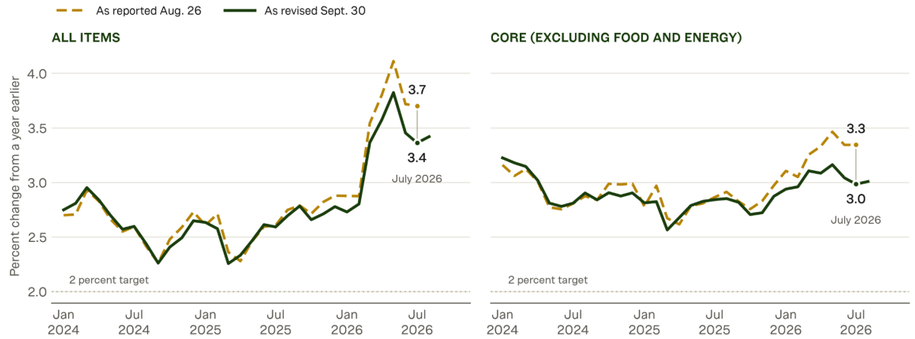
The revisions lowered the level of recent inflation. They did not change its trend. Even on the revised data, prices are rising faster than they were a year ago, when the inflation rate was **2.7 percent**. Over the past three years, both headline and core prices have risen at an average annual rate of about **2.9 percent**, above the Fed’s 2-percent target. That trend is why the Fed raised its target range for the federal funds rate by a quarter point, to 3.75 to **4 percent**, at its September meeting. “Inflation remains elevated,” the committee’s statement said, and the increase “will support a timelier return to the Committee’s 2-percent goal.”

The trend that matters most for where inflation is headed is in total spending. Nominal spending, the dollar value of all final goods and services produced in the economy, grew **6.3 percent** over the year ending in the second quarter, according to the third estimate the BEA released on Wednesday. That is slightly below the **6.6 percent** previously reported, but the revision does little to change the underlying trend. Nominal spending growth has exceeded **4 percent** in every year-over-year comparison since early 2021, and has averaged about **5.8 percent** annually over the past three years. More importantly, it has accelerated recently, rising from **4.8 percent** in the year ending in the second quarter of 2025 to **6.3 percent** over the latest year.

Nominal spending cannot consistently outpace the economy’s productive capacity without ultimately leading to higher inflation. The Fed’s latest Summary of Economic Projections (SEP) puts longer-run real output growth at **2 percent** per year. Add the Fed’s **2 percent** inflation target, and nominal spending should grow about **4 percent** per year over the longer run. Instead, nominal spending has grown **6.3 percent** over the past year, more than **2 percentage** points above that benchmark. At that pace, nominal spending is rising too fast for inflation to return to **2 percent**, which means monetary policy remains too loose.

Revisions lowered recent inflation

PCE price index before and after BEA’s 2026 annual update. Revisions reflect new source data, improved methods, and updated seasonal factors.



Source: Bureau of Economic Analysis via ALFRED (St. Louis Fed), vintages of Aug. 26 and Sept. 30, 2026.

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

There has been progress. Core inflation has risen at an annualized rate of **2.7 percent** over the last six months, down from **3.9 percent** over the six months ending in May. And because monetary policy affects the economy with a lag, the full effects of the Fed's September rate increase have yet to appear in the inflation data. But with spending growing this fast, inflation is unlikely to return to **2 percent** without further rate hikes.

That rapid rise in nominal spending should shape the Fed's next move at its October 27–28 meeting. But markets read the report differently: the downward revisions to recent inflation likely reduced the perceived need for further tightening, contributing to a decline in the odds of an October rate increase. Those revisions do little to change the case for tighter policy. Measured inflation fell by a few tenths of a percentage point, but the trend in nominal spending did not change.

December's meeting will bring the Fed's first Summary of Economic Projections incorporating the BEA's revised inflation and spending data. In September, 16 of 18 participants projected at least one more increase this year, and four projected two. Lower inflation figures should not lead them to scale back while overall spending in the economy is still running this hot.

Unfortunately, the BEA releases third-quarter GDP the day after the Fed's October meeting ends. If it shows nominal spending still growing well above **4 percent** over the past year, monetary policy is likely still too loose. Until that gap closes, the Fed's inflation fight is anything but over.

Libertarianism's Critics Bury Another Straw Man

Donald J. Boudreaux
Associate Senior Research Fellow

Daniel McCarthy — Distinguished Fellow in Conservative Thought at the Heritage Foundation — recently penned in the pages of *American Spectator*, an obituary of sorts for libertarianism. His essay is just the latest contribution to what has become a torrent of triumphalist declarations by pundits on the left and right that we Americans, having gorged ourselves on this junk-food philosophy, are now turning to a healthier diet of statism.

Yet McCarthy's eulogy, like the others, is marred by mistakes. Here are three.

First — the least important, in my view — is that, in the course of arguing that libertarianism has failed, McCarthy oddly lists libertarian victories, to wit: "What had long been radical libertarian views on gay rights, recreational drug use, pornography and vices such as gambling have now become law throughout the Western world." One need not approve of these developments (I'm sure McCarthy doesn't) to recognize that they are libertarian successes.

A second flaw is subtly evidenced in the way McCarthy words the above description of these libertarian successes. What he describes as having become "law throughout the Western world" on these libertarian fronts is the *removal* of *state-imposed* restrictions on adults' consensual participation in peaceful activities that had long been prohibited by the state. McCarthy doesn't explicitly claim that libertarians approve of gambling, drug use, pornography, and other vices. Indeed, he acknowledges that libertarianism "didn't demand" participation in these activities. But his essay sometimes slides from libertarians' defense of the freedom to engage in such activities toward attributing to libertarianism an affirmative cultural approval of these activities and their consequences. He writes, for example, that for persons "who had already begun to experiment with 'alternative lifestyles' or countercultural rebellion, libertarianism offered a principled, coherent philosophical defense." The suggestion is that libertarianism defends these activities when, in fact, libertarianism merely defends the *right* to engage in these activities free of state obstruction.

I admit that, in my many years of affiliation with the libertarian world, I recall encountering a handful of positive defenses of drug use, pornography, prostitution, and other personal vices. (I also have encountered many libertarians who object to these activities.) But these defenses are hardly essential to the libertarian case. I'm sure that there's no shortage of non-libertarians who have offered positive defenses of any number of vices. Think of the endorsement of LSD by Timothy Leary. The *libertarian* case is no defense of vice or of alternative lifestyles; instead, that case is limited to the insistence that the state should not prevent adults from engaging in whatever peaceful activities they, with their own money, choose to engage in, even if these activities are correctly believed to be self-destructive.

The libertarian argument is *against* state action, not *for* personal indulgence or, indeed, for any particular set of behaviors by individuals beyond minding their own business.

It remains mysterious to me why so many pundits, professors, and politicians are unable to distinguish the statement that "I believe that the state should not prevent Mr. Jones from snorting cocaine or paying for the services of prostitutes" from the statement "I don't disapprove of Mr. Jones snorting cocaine and patronizing prostitutes."

For the record, let me — a libertarian — note that my sincere advice to everyone is that they should avoid dangerous intoxicants, gambling, prostitutes, and other vices incompatible with emotional and physical well-being, as well as with one's obligations to one's family and friends. But I also do not fancy myself to be so superior to you that I'm entitled to *impose* my preferences and beliefs on you. If for no reason other than my wish to remain free to live my life as I choose, I grant to you the same freedom to live your life as you choose. Yet my granting this freedom to you in no way implies my approval — or even my lack of disapproval — of any use you may make of it.

The third and most serious flaw in McCarthy's libertarian obituary is its tendentious caricature of market-oriented economists. He writes — as if it's a fact as obvious and indisputable as gravity — of "the coldness that libertarian economists exhibit toward ordinary human concerns about neighborhood or nation" in the face of free trade. Tellingly, McCarthy doesn't quote any such frigid free-marketeer, the reason being that no such serious person exists. While some such individuals might be discovered amidst the detritus of social media posts, no credible economist fits this strawman image. Scour the works of ardent free traders such as Adam Smith, Frédéric Bastiat, Ludwig von Mises, F.A. Hayek, Milton Friedman, James Buchanan, Thomas Sowell, Deirdre McCloskey, David Henderson, Russ Roberts, Doug Irwin, Sam Gregg, or Scott Lincicome. Nowhere will you find any such coldness.

What you *will* find in these works is steadfast determination to examine not only the most-obvious consequences of economic activities and policies, but also their follow-on consequences — follow-on consequences typically ignored by protectionists and other free-market skeptics. This determination is rooted in economists' understanding that lovely initial impressions often mask ugly unintended or unseen consequences.

Competent economists (libertarian or not), for example, understand full well that new imports sometimes bankrupt local factories and, in turn, cause particular towns or regions to suffer economic decline. These economists also understand, and sympathize with, the hardship that this decline entails for workers and families in those towns or regions.

But competent economists also understand other realities that are lost on pundits like McCarthy. The most notable of these other realities is that attempts by the government to protect particular factories and jobs from economic competition impose burdens on fellow citizens. Once these burdens are recognized, opposition to protectionism is revealed not as coldness toward ordinary human concerns about neighborhood or nation, but as recognition that the government can artificially prop up some industries and jobs in the nation only by artificially stifling other industries and jobs in the nation.

The moment the inescapability of this trade-off is recognized, the case for protectionism loses most of its appeal. This fact is one reason why protectionists routinely portray international trade as a zero-sum struggle of "us" versus "them," with "us" being the good people of the country and "them" being a combination of foreigners and greedy corporate elites. Economists expose the falsity of this portrayal by explaining that the economic welfare of ordinary citizens Andrews, Baker, and Collins can be artificially propped up by government only by lowering the economic welfare of ordinary citizens Williams, Young, and Zimmerman. And then economists ask: What reason is there to worsen the lot of the latter group in order to better the lot of the former? Objecting to the use of government to better the lot of the former group isn't coldness toward that group but, rather, an expression of concern for the unseen groups who would be harmed by such government intervention. It's an expression of genuine *fairness* to *all* people of the nation.

What McCarthy takes to be economists' coldness toward the first group, therefore, is instead economists' refusal to play favorites. Were we economists to respond to protectionists by building and slaying our own straw men, we would accuse people such as McCarthy of acting with "coldness" toward fellow citizens who are harmed by protectionist policies. Yet we issue no such accusations, understanding, as we do, that protectionists support tariffs and other trade restrictions that harm people not because protectionists are cold-hearted but instead, because protectionists are economically ill-tutored. And yet, although the facts of free trade and protectionism have been repeatedly explained to protectionists for centuries, protectionists cannot resist attributing economists' support for free trade to economists' alleged moral failings.

As for McCarthy's claim that libertarian economists are indifferent to the welfare of the *nation*, that too is unwarranted. It's yet another straw man lurking in the shadows of McCarthy's essay - a straw man that insists that we Americans should support free trade because it is our duty to enrich foreigners at our expense.

Yet in fact the economic case for free trade is that it is a policy that *enriches* the nation. Of course economists recognize that when trade is made freer in America, benefits accrue also to non-Americans. But the core case for making trade freer in America is not that it enriches non-Americans but, instead, that free trade enriches *Americans*. In short, everyone who wants to make America great should support free trade even if they are so illiberal that they couldn't care less about non-Americans.

Going forward, people like Daniel McCarthy would do the cause of intellectual discussion a good service if, before tapping away on their keyboards, they took the time to read carefully what serious libertarian scholars write and say.

November 2026

Australia's Tobacco Taxes Have Sparked a Criminal Turf War

Jeffery L. Degner
Research Fellow

In 1993, my home state of Michigan enacted the Tobacco Products Tax Act, which raised taxes on cigarette packs from 25 to 75 cents per pack. Those were the highest excise taxes in the nation at that time. Michigan law still carries stiff penalties for tax violations, and anyone holding a pack without a Michigan stamp is liable for the tax, plus a penalty of five times that amount.

The smokers I knew back then started making late-night runs south of the border, to Indiana, where cartons were taxed at half the rate of the Great Lakes State. In a single, four-hour surveillance action, Michigan State Troopers recorded more than 180 Michigan-plated vehicles at just four Indiana party stores along Interstate 69. Indiana's low-tax regime attracted the consumers in droves. Michiganders began voting with their feet, and the Hoosier State welcomed them with open arms.

A similar story is unfolding in the Land Down Under. The Aussies face a nationwide tax intended to reduce the health concerns of smoking, and packs are now averaging between A$40–$50 ($25-34 US). Each individual cigarette is taxed A$1.52, and the price of the habit has smokers choking.

Predictable second-order results are emerging. Underground markets supply packs for around A$13: the price difference presents huge profit opportunities for smugglers. Markets expanded quickly, and when more competitors tried to enter, sellers turned on each other. Over 200 arson attacks have been instigated among competing groups as of February 2026, with the majority of the fires set in tobacco shops in Melbourne. Demand hasn't disappeared (about **8 percent** of Australian adults smoke, comparable to US rates) so when prices tripled over 10 years, smokers simply sought out illegal sellers.

Australia's tobacco-related firebombing is a case study in prohibition policies. When governments tax a legal product highly enough, consumers seek out low-price alternatives. The tax policy was meant to end smoking, but has instead produced lower tax revenues. Rates of use have not declined.

More than **80 percent** of tobacco Aussies consume is now black market. Australia's Border Force confiscated about 2.53 billion illicit cigarettes in FY 2025, as compared to 598 million in FY 2021, a remarkable **320 percent** increase. The Australian states received A$23.4 million to police the trade.

The tobacco excise tax raised A$16 billion in 2020, but took in just A$3.93 billion for FY 2026. These revenues have fallen as tax rates have risen. Recent reports expect tobacco tax revenue to decline by A$8 billion over five years.

Theo Foukkare of the Australian Association of Convenience Stores, an industry group for the retailers losing legal cigarette sales, warns that without a repeal of the policy, there will be far less excise tax for the government to collect. Illicit sellers certainly won't be filing tax returns either.

Mark Thornton's 1991 *The Economics of Prohibition* anticipates these outcomes with remarkable detail. He portrays prohibition as a tax where enforcement creates risk for suppliers, and that risk raises prices, while cutting output. Thornton's argument is that excise taxes and outright bans create similar incentive structures. Taxes can be used as indirect prohibition and Thornton described the consequences of this approach. He pointed to several economists:

> *Johnson (1978) provides additional evidence that...unit taxes result in higher prices than predicted by the traditional model of taxation. Harris (1980) also recognizes that increasing the per-unit taxes on cigarettes leads to a substitution of high-potency cigarettes for low-potency cigarettes.*

Australian public health officials laud the new policy and report falling smoking rates as an important success. What the health record doesn't address is how the tax persuaded smokers to seek out cheaper alternatives from unscrupulous actors. A crime wave has been set off: smuggling and money laundering are rampant, and rival sellers have firebombed over 220 locations in attempts to eliminate their competition.

Previous attempts to reduce smoking Down Under have included plain packaging, graphic health warnings, ingredient rules, age verification, and retail licensing, all of which have been applied to packaging. Four of five cigarettes smoked by Australians don't have any of these features. Similar policies have been adopted to dissuade cigarette substitutes. Vapes were restricted to those acquiring medical prescriptions, and roughly **97 percent** of e-cigarettes sold in the country were sold through illegal sources. That market alone is estimated to reach A$1.6 billion in total revenue and the regulations still persist. Officials govern a shrinking portion of the total trade: what ability they had to regulate tobacco products and their substitutes is going up in flames.

The futility of these efforts to eliminate Aussies' smoking habits is on full display. Sin and excise taxes have always been tools to try to squelch behaviors that governments deem undesirable. But good intentions can't negate the laws of economics. While they have done little to move the needle on public health, these punitive taxes have birthed or propped up dangerous criminal elements.

Salient parallels should give US policymakers reason to take heed. High-tax states have long been exploited by smugglers to generate higher profits, while treasury revenues dwindle. Neighboring states that keep taxes low see their coffers expand, as those wishing to stay on the right side of the law drive across borders for marginally lower prices. Australia, just like Michigan, couldn't stop people from smoking, but in both cases, tax revenues collapsed. The pain is even worse in the Aussies' case, as violent underground actors have responded to the incentives created by governing authorities.

November 2026

Why Apartments in Tokyo Are So Much Cheaper Than in NYC

Julia R. Cartwright
Senior Research Fellow in Law & Economics

Imagine it's January in New York and you're sharing a tiny apartment with two roommates. The walls are crumbling around you, and there's a hole in your bedroom wall big enough to see outside. Every time it rains or snows, water drips into your room. You call your landlord to fix it over and over again, but nothing happens.

This is reality for many New Yorkers. This degradation is the predictable result of decades of housing policy that has kept supply scarce and left rent-regulated buildings to decay. Many people blame it on big-city life, but lessons from Tokyo show us that it doesn't have to be that way.

Tokyo Metropolis is home to about 14.27 million people, far more than New York City's roughly 8.5 million. Yet renting in a city not quite twice the size costs a fraction of what it does in the biggest city in the US.

In the mid-1990s, a one-bedroom apartment in Tokyo cost about the same as one in New York, a little less than $1,000 a month. By 2025, a New York one-bedroom averaged about $4,400 per month, while a Tokyo one-bedroom ran about $1,270. A weaker yen explains part of that gap, but even in yen, Tokyo rents barely moved in 30 years while New York's rents nearly tripled.

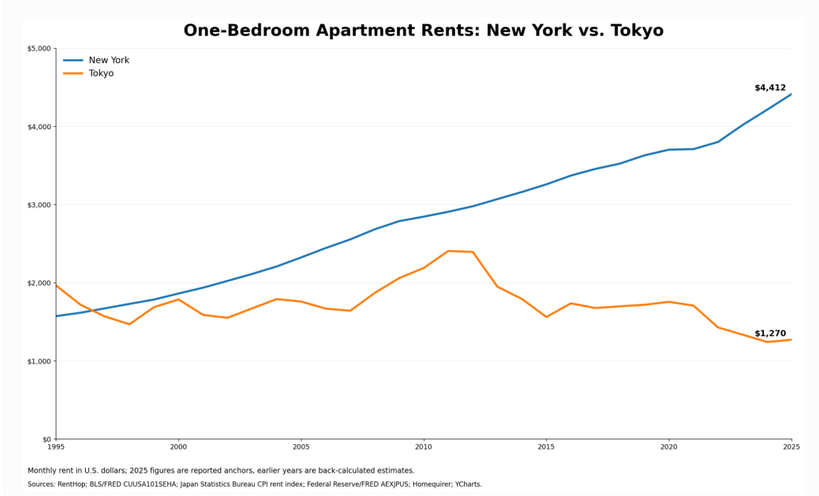
Housing prices ultimately come down to supply and demand. So how has Tokyo managed to keep housing relatively affordable, while New York has struggled to do the same?

Tokyo has been focused on keeping up with demand; its housing stock nearly tripled between 1963 and 2013, reaching 7.36 million homes. To do this, Japan keeps zoning flexible. Instead of limiting each area to a single use, zoning allows homes, shops, and light industry to coexist on the same blocks. Projects that follow these rules can be built "as-of-right," without discretionary review or giving neighbors the power to block them.

Japan's zoning rules are uniform across the country. The national government defines 13 standard zones instead of leaving land use to individual neighborhoods. That top-down approach cuts both ways, however, since a national system could tighten rules as easily as loosen them, but Japan's has repeatedly loosened them to allow more housing.

New York City's zoning works in nearly the opposite way. A site-specific rezoning goes through the Uniform Land Use Review Procedure, a review so onerous that about **40 percent** of private rezoning proposals fail to get approved. About **27 percent** of Manhattan's lots are under restrictive landmark regulations, and historic districts see new buildings at about one-sixth the rate of other lots.

Then there are the empty NYC apartments. The 2019 Housing Stability and Tenant Protection Act capped rent increases on vacant rent-stabilized units and limited how much renovation cost landlords can recover. When a $700-a-month unit needs $100,000 of work to meet code, many owners leave it empty; this helps explain why nearly 57,000 rent-stabilized apartments were empty in 2025.



Continuing their stance of flexibility, Tokyo has allowed smaller apartments to be built. A typical one-bedroom is about 430 square feet, compared with 590 for a New York one-bedroom. Smaller apartments lower the barrier to entry for single renters and young professionals to get their own place.

New York spent decades making small units hard to build through a 400-square-foot minimum rule dating to 1987 and zoning rules called the “Dwelling Unit Factor” that forced large average unit sizes. The “City of Yes” amendment only eased those rules in December 2024, after decades of limiting the kinds of smaller, cheaper apartments Tokyo builds routinely.

Buildings in Japan also turn over faster. Japan’s tax code depreciates a wooden house over 22 years, and the average Japanese home is demolished at about 32 years old, versus roughly 70 in the US. Old stock gets replaced with newer, denser buildings instead of being preserved indefinitely.

Japan’s inclusive regulations result in much more building. Tokyo averaged about 155,000 housing starts a year from 1995 to 2015 and still starts roughly 130,000 annually; New York, by contrast, added roughly 50,000 in 2025. Since the 1960s, Tokyo’s stock has nearly tripled while New York’s has grown only 20 to **30 percent**.

Factory-built homes also help ease supply constraints. One Japanese Sekisui House plant produces about 20 houses a day, and roughly **13 percent** of new Japanese homes are prefab or modular. New York has only recently started experimenting with modular construction, and it remains a small share of the city’s building, far behind Japan.

To be fair, Tokyo isn’t cheap by Japanese standards, but it has accommodated millions without New York-style crumbling buildings and vacant units. New York is moving the other way: Mamdani’s Rent Guidelines Board froze rents for roughly one million stabilized apartments. The freeze helps current tenants but creates no new homes, and analysts expect more units to sit empty as prices for non-stabilized apartments keep rising.

The renter watching snow blow through the hole in her bedroom wall won’t be saved by another year of frozen rent. Instead of doubling down on the policies that brought scarcity, dilapidated apartments, and sky-high rents, New York could take a lesson from Tokyo, where the way to make housing affordable has been to make a lot more of it.

Manufacturing Surged When Tariffs Were Lifted

David Hebert
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The New Right is taking a victory lap. Treasury Secretary Scott Bessent says that manufacturing is "roaring back at its fastest pace in years." He followed that up, calling this a "manufacturing renaissance." And when the August payroll data showed factories adding jobs, the White House called the report "explosive" and proof that the tariff agenda is working. *Checkmate, economists*.

Not quite. An honest comparison of 2025 and 2026 reveals the economists were right.

In 2025, the US ran what can only be described as the largest, most aggressive tariff experiment in nearly a century. The average effective tariff rate peaked at **22.4 percent** in April, which was the highest since 1909. By comparison, that figure was about **2.4 percent** in 2024. But the worst part of 2025 was not the increase in the tariff rate; it was the chaotic manner in which trade policy shifted. Rates could be announced one week, doubled the next, paused a few days later, and then reinstated at an altogether new number months later. They could be imposed due to trace amounts of fentanyl crossing a border, other countries not buying enough of our products, or because President Trump didn't like a person's tone during a phone call. Americans were told that tariffs were going to apply to countries with which the US ran trade deficits in order to reduce those deficits. But then tariffs were imposed on the UK and Australia, with both of which the US runs trade surpluses.

Unfortunately, this wasn't even the beginning of the uncertainty. Americans were told by Commerce Secretary Howard Lutnick that tariffs were "here to stay," but later that same week, President Trump himself said that he was ready to negotiate with affected countries. In another instance, President Trump said that tariffs would be deployed to create jobs, but then Lutnick said that the jobs brought back would be automated.

"The army of millions and millions of human beings screwing in little screws to make iPhones — that kind of thing will come back to the America," Lutnick said, "it's going to be automated, and great Americans, the tradecraft of America, is going to fix them, is going to work on them."

Likewise, Americans were told that tariffs would bring in trillions of dollars in revenue. But at oral argument before the Supreme Court, Solicitor General John Sauer said, "these are regulatory tariffs. They are not revenue-raising tariffs. The fact that they raise revenue is only incidental. The tariffs would be most effective, so to speak, if no person ever paid them. They achieve their goals and so forth." Here, Sauer is pointing out that if a tariff is generating revenue, then it is not blocking imports and, by extension, not leading to domestic consumers shifting to buying domestically made products. Thus, the goal, according to Sauer, was to not raise revenues at all.

Others associated with the Trump administration saw things differently.

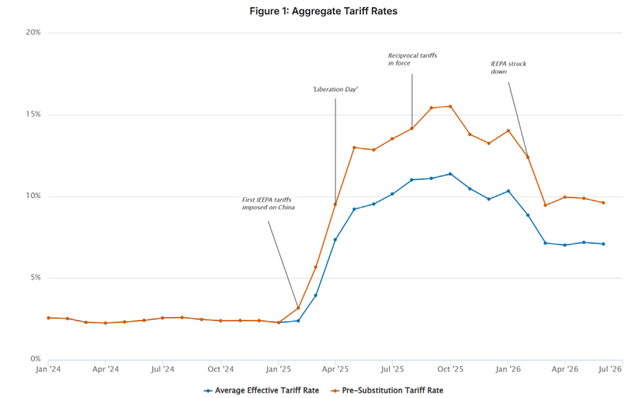
In a lengthy post on X and in *The Wall Street Journal*, Stephen Miran — formerly the chair of the Council of Economic Advisers and Federal Reserve board member — wrote that "it would have interfered with the legal case if I had said that tariffs were good for revenue and tax purposes, even if that's not actually the reason we gave in law for the tariffs." In other words, the tariffs were about revenue, except they weren't, but really they were.

In 2025, Scott Bessent described tariffs as a "gun [that] will always be loaded and on the table, but rarely discharged." The reality is that in 2025, there was no clear explanation of why the US was using tariffs, nor was there any clear indication of what the tariffs were ultimately trying to accomplish.

The combination of high tariffs with uncertain start dates and unclear goals proved disastrous for firms looking to make long-term investments. As a result, the manufacturing sector shrank. The ISM's Manufacturing PMI fell into contraction and stayed there for ten months. Factory payrolls fell for eleven straight months, resulting in a loss of about 92,000 manufacturing jobs. Economists had predicted these outcomes and warned that the tariff agenda would produce them.

2026, by comparison, has brought the exact opposite: tariff relief. In February, the Supreme Court struck down the IEEPA tariffs. The White House immediately replaced these with a **10 percent** tariff under Section 122. At the same time, the White House announced Section 301 investigations were beginning. While the findings of those investigations were almost certainly predetermined, they resulted in tariff rates of between **10** and **12.5 percent**, which were (again) still lower than those in 2025. In other words, tariff rates in the US *fell* in 2026 compared to 2025.

But the remarkable thing about 2026 is how stable tariff policy has been compared to 2025. If anything, the uncertainty surrounding 2026 is characterized more by which tariffs the president is going to reduce, not impose. When beef prices rose, President Trump lowered tariffs to help ease the burden on households. When the price of steel, aluminum, and copper threatened domestic industry, the president lowered tariffs to "more effectively address national security threats, spur investment in American agriculture, housing, and manufacturing, and facilitate US production of related products." Certain provisions of the Big Beautiful Bill,



Source: Penn Wharton Budget Model calculations based on data from US International Trade Commission DataWeb.

such as full expensing even for construction, took effect. Where 2025 can only be described as "raising taxes," 2026 is a paragon of *lowering* taxes.

And what happens when taxes, especially those that affect manufacturing formation and expansion, are lowered? Manufacturing expands. And that is exactly what has happened in 2026. The ISM's Manufacturing PMI crossed into expansion in January and has stayed there for eight months. Factory payrolls, which bottomed out in December 2025, have grown by 58,000 jobs. What's more, the manufacturing job growth is concentrated in the very industries that are less exposed to tariffs.

None of this should surprise anyone who has sat through an economics course. A tariff is a tax. It makes Americans poorer by forcing us to pay more for less. Given the composition of US imports, tariffs land disproportionately on two groups: low-income households and manufacturers, since roughly half of all US imports are either raw materials or intermediate inputs used in American production. Tariffs make those goods more expensive. Take steel as an example. US steel prices have increased dramatically as tariffs have priced out foreign suppliers. As a result, manufacturing (which uses steel) becomes more expensive, too. It doesn't take an economist to understand that when the cost of production rises, production slows down.

The manufacturing renaissance that is happening right now is not because we imposed tariffs on the rest of the world. It's because we lowered tariffs and made it easier for American workers to get access to the materials they need to produce.

That the New Right would rush to claim this moment as a victory was not hard to foresee. Last December in *The Wall Street Journal*, I wrote that "When tariffs don't deliver the promised renaissance, administration officials push back the timeline. First it was weeks, then months. Now, we need 'the right timeline' and must not grade policy 'on a news cycle.'" I argued that they were "buying time until the economy improves despite tariffs, at which point the administration will claim victory."

This is exactly what is happening. The timeline was stretched from weeks, to months, to "don't grade us on a news cycle." The economy, and specifically the manufacturing sector, improved the moment the tariffs were lowered. The officials who spent a year explaining away the damages their policies were causing are now taking bows after mitigating the harms of their own policies.

So let's just be clear. Manufacturing shrank when tariffs were high and erratic. Manufacturing rebounded when tariffs fell and became more stable. Far from being tariff-induced, the "manufacturing renaissance" is what happens when you lower taxes on steel, chips, and components. None of this takes a crystal ball. Ironically, all of this matches exactly what the standard economic textbooks — the very textbooks that the New Right insists are wrong and in desperate need of updating — have been saying all along. All that the administration has done is dig a hole and then partially fill it back in.

If we want to see manufacturing continue to rebound, we need to be cutting tariffs even further and making sure that they are stable and predictable.

November 2026

The S&P Is Soaring, but Two-Thirds of Stocks Are Stalling

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US equity investors have a lot to cheer of late, despite stubborn inflation, rising interest rates and financial tightening, and falling consumer confidence. The S&P 500 has hit 28 closing highs this year, and the index is up **103 percent** since the start of 2023 — slightly more than doubling even excluding dividends. While one would be foolish to predict that a stock market correction or crash is necessarily imminent, record levels in a given stock index can be misleading. Indices can be structured in ways that create the outward appearance of market health despite lackluster performance, and even sagging fortunes, beneath the index value. In early October, only an estimated **25 percent** of stocks making up the S&P 500 were trading above their 50-day moving average. By the end of Monday, October 12, that number had fallen to **21 percent**.

Per Bloomberg analysis, over the past three months, the ten largest S&P 500 stocks have gained **7.06 percent**; the entire equal-weight S&P 500 index has lost **1.49 percent**. That is an outperformance of 8.55 percentage points, putting the current reading among the most extreme episodes of megacap leadership in Bloomberg's historical records.

An index can rise even when many, even most, of the stocks within it are declining in price. In a capitalization-weighted index (see holdings, here), bigger companies account for more weight. An equal-weighted index, on the other hand, gives each stock the same weight (as shown here) regardless of size. The S&P 500 index customarily reported in the financial news media uses a capitalization weighting based on the shares available for public trading and the stock price. A company with a float-adjusted market value of $2 trillion in an index totaling $50 trillion would therefore have a **4 percent** weight. In an equal-weighted index with 500 constituents, that same company would have a **0.2 percent** weight — as would each of the other 499.

The number of stocks rising versus falling in a particular index is known as the market "breadth;" tracking that number helps distinguish a broad advance in stock prices from one carried by a small number of companies. In a capitalization-weighted index, narrow breadth can easily lead market conditions to appear healthier than they are.

The S&P 500 index which is typically reported in the financial news is the cap-weighted index. On October 12, 2026, Reuters reported that the index was up just over **14 percent** year-to-date. But beneath the surface, at least 200 of the 500 constituent stocks are down for the year, and the median constituent is up **4 percent**. The worst-performing quarter of the cap-weighted index constituents are down at least **11 percent**, though. And more than 10 percentage points of the index's **14 percent** gain has come from a handful of major tech stocks within the index.

In a cap-weighted index, larger companies have a substantially greater impact on the index than smaller names. In the case of the S&P 500, presently, roughly ten companies compose about **40 percent** of the total index weight; three years back, the top ten companies constituted roughly **28 percent** of the index. This underscores several considerations: first, that while diversification is usually sought to spread out the risk among a large number of assets in a portfolio, market-cap weighted indices are more diversified by individual stock names than the risks that drive stock prices.

An advance-decline line, here provided by Bloomberg for the S&P 500, tracks the cumulative daily difference between rising and falling stocks; a rising number depicts an increasingly small number of index constituent stocks contributing to the index's gains.

For that reason, the type of index that investors own may impact the extent to which their overall risk is spread. When the stocks of ten firms account for **40 percent** of an index, their performance vastly outweighs that of the smaller index holdings — both up and down. Thus while nominally diversified across 500 stocks, the risks that directly impact the largest index constituents — in this case, technology-specific risks, such as expectations for technology earnings and AI regulation — will disproportionately impact the index returns. And that concentration can follow investors across numerous accounts: a 401(k), IRA, and separate mutual funds may each follow capitalization-weighted methodologies, creating numerous lines of narrow exposure to a small handful of publicly-traded companies.

None of those prominently represented firms has to fail outright for investors' exposure to become costly. Indeed, throughout history, businesses have seen growing revenue and profits even as their share prices fell. The key question is the multiple that investors are willing to pay for earnings. Any disappointment over the potential for AI firms to recoup the massive capital expenditures they're undertaking, or a threat posed by competitors or new technologies, could substantially change investors' views of firms and the sector at large. And in that case, a few falling stock prices could drag down a capitalization-weighted index, even while the companies behind those equities remain profitable.

There is a wide gulf between dependable firms and dependable investments. In the 1960s, the "Nifty Fifty" — a loosely defined basket composed of the stocks of rapidly growing US companies — were deemed so reliable that they were viewed as a buy at virtually any price. By the early

1970s their valuations had become exceptionally lofty, and in the 1972 to 1974 bear market the equal-weighted Nifty Fifty composite declined by more than the S&P 500's **48 percent** decline. During the dot-com collapse from March 2000 to October 2002, the S&P 500 index declined **49 percent**. The index was not completely composed of internet stocks, nor were the technological importance of those firms imaginary, but the prices investors paid throughout most of the period were not justified by the earnings that materialized.

Of course, the concentration of an index says nothing of either timetables or eventualities. In 2023, the cap-weighted S&P 500 returned just over **26 percent** to investors, compared with just under **14 percent** for the same, equal-weighted index. The leadership of a given index can narrow as surely as it broadens, and investors' responses to earnings, macroeconomic developments, and a wide variety of other inputs ultimately indicate what outcome lies beyond the next quarterly earnings report or Fed announcement.

(Returning to the concept of breadth here, the thoughtful investor may ask: is narrowing breadth amid a rising market a harbinger of poor performance? Again — while history does not dictate future outcomes — that question has been analyzed on several fronts.)

It's not that indices reaching record highs are meaningless, nor that sticking with equal-weighted indices necessarily ratchets down risk. A headline index, whether it's the S&P 500, the Dow Jones Industrial Average, or the Nasdaq 100, describes a particular portfolio with its own nuances. A rise in any one index neither establishes the health of American businesses, nor guarantees that investors whose portfolios track that index are meaningfully diversified.

What Turned a Stock Market Crash into th Great Depression?

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To most Americans, October is "scary" because of Halloween. Economists recall another scary day: Black Tuesday, October 29, 1929. Over that Monday and Tuesday alone, the US stock market plummeted by almost **25 percent**, eventually falling **89 percent** from its peak by 1932. The crash is widely recognized as the start of the Great Depression, the most severe economic downturn in US history.

Grade school textbooks may teach that the Great Depression was caused by Wall Street's speculative excess, and that is part of the story. But the length and depth of the Depression were largely caused by flawed government policies, especially misguided monetary policy by the Federal Reserve.

THE UNSUSTAINABLE BOOM

The seeds of the disastrous Depression were sown in the boom of the "roaring twenties." The Austrian theory of the business cycle that originated with Ludwig von Mises and Friedrich Hayek describes how an unsustainable boom (generally driven by expansionary monetary policy) can result in a bust. Loose money pushes down interest rates and encourages borrowing for projects that would not be profitable at normal borrowing costs. When rates return to their neutral levels, the faults of malinvestment are revealed. Business profits fall, and with them, spending and employment.

Examining the events of the Great Depression, Lawrence H. White and I found that the boom and bust are consistent with Hayek's theory. From 1921 through 1929, the money supply grew at an average rate of **4.6 percent** per year, which, in Hayek's view, outpaced the needs of the economy. This monetary expansion appears to have driven the well-known stock market boom and crash of the 1920s, and caused similar problems in industrial production and real estate.

THE INEVITABLE BUST

By 1928, officials at the Federal Reserve recognized that the economy was growing beyond its sustainable rate. They decided to intervene by slowing the rate of money growth and, they hoped, the economy. The effects of their actions, however, were more severe than anticipated. The tightening exposed the overleveraged investments across the economy, which stunted spending, plunged the price level toward deflation, and tipped the economy into recession.

While this monetary contraction is sometimes attributed to the gold standard, the fault lies with the Fed. Fed officials were actively managing gold flows into the banking system with the intent of manipulating the economy. As future Fed Chairman Ben Bernanke and his coauthor Harold James described in 1991, "The initial contractions in the United States and France were largely self-inflicted wounds; no binding external constraint forced the United States to deflate in 1929."

The same is true of the international contraction. Many countries around the world experienced simultaneous economic contractions as gold was drained from their monetary systems. The root cause was not the gold standard itself, but rather gold hoarding by the Federal Reserve and the Bank of France, which prevented the efficient function of the international gold standard and dragged much of the world into depression.

THE COLLAPSE OF THE BANKING SYSTEM

The economic downturn was magnified by a series of bank failures from 1930 through 1933.

These failures were partly due to risk-taking and central bank-induced malinvestment, but were primarily caused by another faulty Fed policy.

Since the Fed was created to serve as the lender of last resort, it could have intervened to support struggling banks following the initial 1930 panic by providing liquidity to the banking system. It failed to do so. As Milton Friedman and Anna Schwartz explain in their seminal book *A Monetary History of the United States, 1867-1960*, the lack of liquidity caused banks to hoard deposits, leading to a collapse in credit and a series of bank runs and panics.

By 1933, roughly one-third of US banks had failed, and more than $7 billion in deposits had evaporated. This collapse in financial intermediation accelerated the downturn and drove the economy into depression, resulting in the deepest and longest recession in US history. Real GDP fell by **29 percent**, and the unemployment rate reached **25 percent**. The recession officially lasted 43 months, about 2.5 times as long as the average US recession.

THE SLOW RECOVERY

The Great Depression was unique in American history not only for the depth of the economic contraction but also for its length.

John Maynard Keynes famously argued, contrary to the view of classical economists, that free markets do not necessarily facilitate recovery from economic downturns. Recessions can persist because markets fail to intermediate savings and investment. Markets do not, in Keynes's view, provide sufficient incentives to guide businesses' investment decisions. Instead, managers are lured by their "animal spirits" to overinvest during boom times and to be excessively frugal during recessions.

Keynes's solution was to increase government spending to help kick-start the economy and encourage recovery.

Based on these same principles (although not on Keynes's work in particular, as George Selgin points out), President Roosevelt's New Deal aimed to spur an economic recovery. As White documents, advisors to the administration believed that falling prices were harming businesses and especially farmers, and that raising prices by limiting supply could help facilitate the recovery. This was a mistake. Although it is true that prices may rise as a result of strong spending and growth, FDR's advisors wrongly believed that raising prices by restricting production would somehow benefit consumers.

Through the National Industrial Recovery Act (NIRA) and the Agricultural Adjustment Act (AAA), the administration instituted policies that reduced the supplies of food and labor. The NIRA required wages to be raised to unsustainable levels, increasing business failures and worsening unemployment. The AAA directed farmers to destroy their crops and to kill and dispose of their livestock, which decimated the nation's food supply.

FDR's supply-reducing policies had severe negative consequences for the economy.

Before it could recover to pre-Depression level, the economy relapsed into a second recession, sometimes known as the "Roosevelt recession," from 1937 to 1938. In total, the two events lasted 108 months, more than five times the length of a typical US recession.

The second recession ended in 1940, but the years of World War II were not ones of material prosperity — that returned only after the war's end, when the wartime restrictions and harmful New Deal policies were ended. While many believe economic recovery required government intervention, these misguided government policies themselves stalled the recovery and lengthened the Great Depression.

The Roosevelt administration nearly adopted a monetary policy that would actually have helped.

As Sebastian Edwards documents, the US Treasury had worked out an agreement with several foreign central banks to coordinate injections of gold into their banking systems as well as our own, expanding the money supply and encouraging recovery. At the last minute, however, Roosevelt called off the deal, because he preferred to conduct monetary policy by setting the price of gold himself.

WHAT CAUSED THE GREAT DEPRESSION?

The Depression was a correction from the unsustainable boom of the 1920s, magnified by the bank failures of the early 1930s, both of which were monetary in nature. Then, just as things began to turn upward, the harmful policies of the New Deal stunted the recovery and pushed the economy back into recession.

October is a month for scares and fear. But as President Ronald Reagan once said, "the nine most terrifying words in the English language are: I'm from the Government, and I'm here to help." Such is the case with the Great Depression. Although they were intended to help, harmful government policies, especially from the Federal Reserve, caused, deepened, and lengthened the Great Depression.

November 2026

Cook Case Tests the Limits of Fed Independence

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President Trump has renewed his effort to remove Lisa Cook from the Federal Reserve Board. Whether he has a legitimate reason to fire her is another matter. The White House announced a three-person "committee of inquiry" to investigate whether Cook made false statements on mortgage applications, and whether that is sufficient cause to remove her from her post. Next month, the committee will question her at a White House hearing.

This is Trump's second attempt. In June, the Supreme Court blocked the first one. As I wrote at the time, the ruling carved out a special exemption for the Fed. That same morning, the justices ruled in *Trump v. Slaughter* that agency heads who wield executive power answer to the president. Then immediately, they shielded the most powerful agency of all from the impact of that ruling.

But the June decision was narrow: Cook was entitled to notice and an opportunity to respond before removal for cause. The White House is now complying with both requirements. Cook's lawyers maintain that the alleged infraction — designating two properties as her "primary residence" — was just an "inadvertent error," pointing out that the president's and Treasury Secretary Bessent's own property filings contain the same discrepancy.

Whether the allegations around mortgage documents are proven or not, the real stakes are much bigger. President Trump's attempt to unseat Cook ultimately tests central bank independence. The conventional defense of central bank independence, reinforced by the high court's treatment established in *Slaughter*, holds that the Fed should be insulated from political accountability to do its job well. That doctrine deserves far more scrutiny than it usually gets.

Central bank independence rests on two claims. The first is empirical: independent central banks supposedly deliver lower inflation. But the evidence for that is decidedly mixed, and varies with the sample and the estimation method. There's a simpler explanation that also fits the data: countries that respect the rule of law also tend to keep prices stable. Sound money comes from sound institutions, not from insulated technocrats.

The second claim is constitutional: the Fed's insulation supposedly fits within our system of separated powers. But it does not. Congress holds the power to coin money and regulate its value, and has delegated substantial power to the Fed. Many of the Fed's activities, particularly bank supervision and enforcement actions, involve the exercise of executive power. The Constitution vests the executive power in a president, who answers to voters. If central bankers who exercise that power are shielded from discipline and removal, then they answer to no one.

Milton Friedman made the fundamental argument more than 60 years ago in *Capitalism and Freedom*:

> *Mistakes, excusable or not, cannot be avoided in a system which disperses responsibility yet gives a few men great power, and which thereby makes important policy actions highly dependent on accidents of personality. This is the key technical argument against an 'independent' central bank.*

An independent central bank concentrates power while diffusing responsibility. When policy fails, no one is answerable for the failure.

The Fed's recent record bears Friedman out. Following COVID-19, the central bank delivered the worst inflation in four decades. Five years later, inflation still runs above target. No one was fired, demoted, or made to face any meaningful consequence. While failing at its price stability mandate, the Fed took up projects Congress never authorized, issuing climate-risk guidance for large banks and building out DEI programming. This is what bureaucracies do when nobody can discipline them.

Cook is not a bystander here. She has served on the Board since May 2022, with inflation at 40-year highs. She attributed the Fed's inflation failures to supply constraints rather than monetary policy. And when the Board rescinded its climate guidance last fall, she formally objected. None of this constitutes "cause" in the White House's sense, and Trump's motives are doubtless partisan. But it does illustrate the deeper problem: Fed officials operate in a system where poor performance carries no penalty.

The president's committee will likely recommend firing Cook. If the president follows through, another round of litigation is likely. Remember, the problem is not a specific monetary policymaker's alleged wrongdoing. It's central bank independence itself. The solution is accountability of the ordinary kind: a limited mandate simple enough for citizens to evaluate, with meaningful consequences for poor performance. Eventually, a monetary rule could further limit officials' discretion. As Friedman put it:

> *The only way that has yet been suggested that offers promise is to try to achieve government of law instead of men by legislating rules for the conduct of monetary policy that will have the effect of enabling the public to exercise control over monetary policy through its political authorities, while at the same time...[preventing] monetary policy from being subject to the day-to-day whim of political authorities.*

The case for central bank independence rests on a straw man. Neither Congress nor the President will set interest rates. What matters is who's ultimately in charge, especially with inflation above the Fed's target for more than five years. The American public can't afford the Fed's simultaneous concentration of power and exemption from accountability.



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