AIER Research Reports

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AIER AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

AIER RESEARCH REPORTS

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

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From the Managing Editor

Peter C. Earle
Senior Research Fellow

Welcome to an exciting new chapter in the life of American Institute for Economic Research (AIER) publications! This issue marks the first step in an initiative designed to streamline and elevate how we connect with our deeply valued supporters. Starting this month, we are uniting the monthly AIER *Research Reports* and the quarterly *Harwood Economic Review* into a larger, integrated monthly mailing. This change reflects both our continued commitment to delivering world-class insights in accordance with your preferences, as well as our understanding of your busy schedules and evolving needs.

For years, the *Research Reports* have provided timely, in-depth analyses of economic issues affecting markets, industries, the policy landscape, and our daily lives. The quarterly *Harwood Economic Review*, meanwhile, has served as a broader, thematic platform tailored for leisurely exploration. Combining the two streams allows us to offer a more cohesive and dynamic experience, where both the economic insights of our scholars and contributors and longer-term perspectives come together seamlessly in one package.

In this inaugural combined issue, you'll find the *Business Conditions Monthly* report, as well as a discussion of recent economic conditions in the United States. Following those are recent articles expressing scholarship and views supporting the mission that AIER founder Col. E.C. Harwood laid out some 92 years ago, promoting individual liberty, free enterprise, property rights, limited government, and sound money. As always, our research remains objective, wholly independent, and above all, scientifically rigorous.

As with any transition, we welcome your feedback. The evolution of this publication is grounded in a desire to better serve you, and your input will help us refine this new format to meet your expectations. We are confident that this consolidated approach will not only simplify your reading experience, but also provide greater clarity, insight, and value with every issue, in addition to responsibly stewarding the resources our donors entrust to us.

Thank you for your continued trust and engagement. We're excited to embark on this new journey with you and look forward to growing together in the months and years ahead.

As always, thank you for your generous support of AIER.

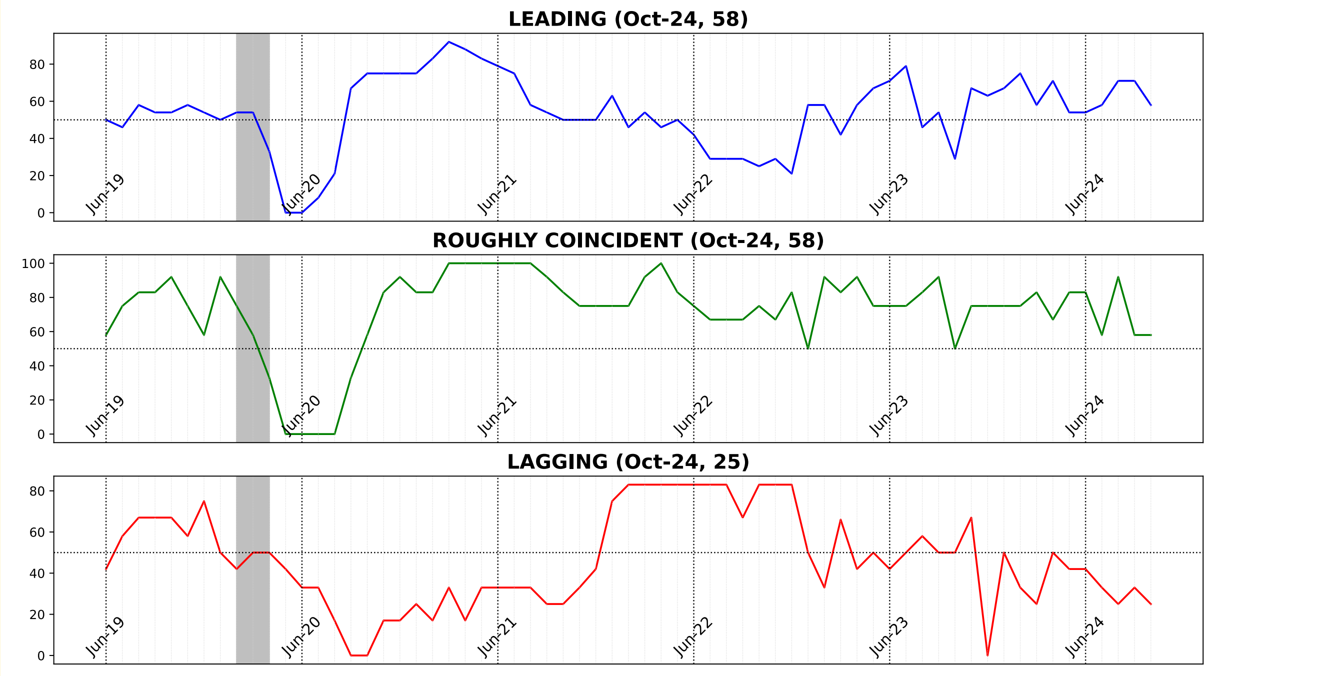
With my regards and best wishes for a healthy and productive 2025,

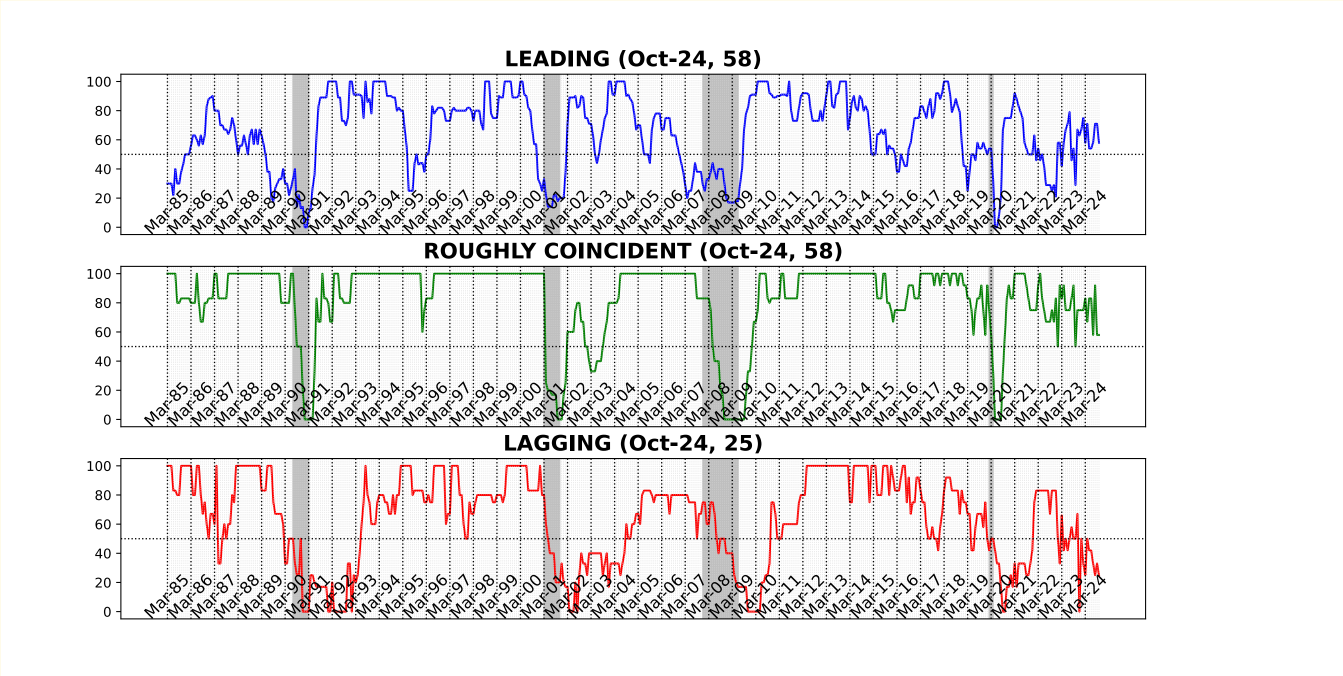
Peter C. Earle, Ph.D
Managing Editor
AIER Research Reports

Business Conditions Monthly

Peter C. Earle
Senior Research Fellow

In October 2024, two of the AIER Business Conditions Monthly indicators fell while one remained at neutral levels. The Leading Indicator fell to 58 from 71, returning to the more neutral levels it occupied in the early summer. The Roughly Coincident Indicator remained at the 58 level it held in September, and the Lagging Indicator remained in contractionary territory, declining to 25 from 33 the previous month.





(Source: Bloomberg Finance, LP)

Leading Indicator (58)

Of the twelve components that make up the Leading Indicator, five fell, five rose, and two were neutral.

In October 2024 included the 1-to-10 year US Treasury spread rose from −**0.23 percent** to **1.013 percent**, in addition to the Conference Board US Leading Index of Stock Prices (**3.0 percent**), Adjusted Retail and Food Service Sales (**0.5 percent**), FINRA Customer Debit Balances in Margin Accounts (**0.3 percent**), and the Conference Board US Leading Index Manufacturing, New Orders, Consumer Goods and Materials (**0.3 percent**). Declining were US Initial Jobless Claims (**-3.1 percent**), US New Privately Owned Housing Units Started by Structure (**-3.1 percent**), United States Heavy Truck Sales (**-2.7 percent**), University of Michigan Consumer Expectations Index (**-0.4 percent**), US Average Weekly Hours All Employees Manufacturing (**-0.3 percent**) were unchanged.

The Inventory/Sales Ratio: Total Business and US Leading Index Manufacturing, New Orders, Consumer Goods and Materials were both unchanged.

Roughly Coincident (58) and Lagging Indicators (25)

Within the Roughly Coincident Indicator four components rose and two were unchanged from September to October 2024. The Conference Board Consumer Confidence Present Situation Index rose **9.9 percent**, in addition to Coincident Manufacturing and Trade Sales (**0.2 percent**), Coincident Personal Income Less Transfer Payments (**0.2 percent**), and Nonfarm payrolls (**0.2 percent**). US Industrial Production fell **0.4 percent**, as did US Total Labor Force Participation (**-0.2 percent**).

Across the six Lagging Indicator subindices three fell, two rose, and one was unchanged. US Commercial Paper Placed Top 30 Day Yields declined by **2.3 percent**, US Lagging Commercial and Industrial Loans were down **1.1 percent**, and the Census Bureau's Private Construction Spending (Nonresidential) fell **0.3 percent**. Core CPI (year-over-year) was unchanged, while the Conference Board US Lagging Average Duration of Unemployment declined **1.3 percent** and

US Manufacturing and Trade Inventories fell **0.1 percent**.

In 2024, the Leading Indicator demonstrated periodic expansion early in the year, peaking at 75 in February, but shifted toward a neutral range by mid-year and beyond, signaling diminished forward momentum. The Roughly Coincident Indicator remained consistently strong, holding steady in the expansion range above 60 for most of the year, indicating resilience in current economic activity despite fluctuations in the leading signals. Meanwhile, the Lagging Indicators showed persistent contraction, with values consistently below 40 after February, suggesting that improvements in economic conditions have yet to filter through to slower-moving components of the economy.

The divergence between the leading and lagging indicators highlights uneven progress, a staple of the post-pandemic recovery, but with robust coincident indicators bridging the gap. This dynamic suggests that while current conditions are on as steady a footing as we've seen since 2021, as of October 2024 forward-looking signals and lagging adjustments nevertheless reveal vulnerabilities in sustained economic growth. The alignment of neutral leading and coincident indicators late in the year reflects a cautious economic outlook.

Discussion

Global disinflation is expected to persist into 2025, prompting additional rate cuts from central banks. This progress will vary across regions, however. In the United States, disinflation appears to be losing momentum, leading to a reassessment of the scale and pace of rate cuts in 2025. Key factors such as labor market trends, prices, and consumer activity will play a crucial role in determining the extent and timing of further monetary easing next year.

The labor market in late 2024 reflects a complex mix of resilience and gradual softening, marked by strong payroll growth in November but tempered by signs of broader cooling. Payroll employment rose by an estimated 227,000 in November, with upward revisions adding another 56,000 to prior months. Despite this, the broader context suggests a labor market that has been slowing over the past two years. Indicators such as a **0.8 percentage** point rise in the unemployment rate since April 2023 (satisfying the Sahm Rule criteria) and a lengthening median duration of unemployment to 10.5 weeks point to a less robust environment. While initial jobless claims in December fell below expectations, continuing claims remain elevated, reflecting longer periods of unemployment for laid-off workers.

Key structural factors have contributed to the current dynamics. A massive surge in undocumented immigrants has raised the breakeven pace of job gains needed to maintain steady labor-market conditions, while forthcoming benchmark revisions from the BLS are likely to reduce historical estimates of employment growth. This revised perspective suggests that job gains, though robust by pre-pandemic standards, may be insufficient to sustain prior levels of labor-market tightness.

Looking ahead to 2025, the labor market is expected to continue cooling as gradual layoffs, exemplified by announcements from Boeing and Stellantis, signal further pressure on employment. The Federal Reserve's December 18 rate cut, supported by an "orderly" softening in labor conditions, aligns with expectations of additional easing next year. Overall, while the current labor market remains far from contractionary, the trajectory suggests a continued moderation in employment growth, providing room for the Fed to manage inflation risks without fear of overheating. By early 2025, revisions to employment data and additional rate cuts may clarify whether these trends point to a stabilizing or further slowing labor market.

On prices, recent Federal Reserve policy decisions highlight an attempt to maintain a nuanced balancing act in response to cooling inflation, a softening labor market, and persistent uncertainties. A 25-basis-point rate cut brought the Federal Funds rate to a target range of **4.25–4.50 percent**, with the updated dot plot signaling a slower, shallower path for rate reductions through 2025. This cautious approach reflects evolving economic conditions, including sticky inflation and moderate labor market cooling, as well as assumptions about the potential extension of the Tax Cuts and Jobs Act (TCJA). Inflation data supports the Fed's measured stance. Core PCE inflation slowed to a monthly rate of **0.11 percent** in November 2024, significantly below prior levels, though annual inflation remains stubborn at **2.82 percent**. Key drivers of disinflation included slowing prices in housing, health care, and discretionary goods, though categories such as financial services may exert upward pressure in the coming months. Looking ahead, the Fed's slower projected pace of rate cuts reflects concerns about inflation's resilience and a still-solid labor market. With inflation pressures in services proving tenacious and growth forecasts predicated on policy extensions, the Fed's cautious optimism hinges on continued progress and stable labor market adjustments.

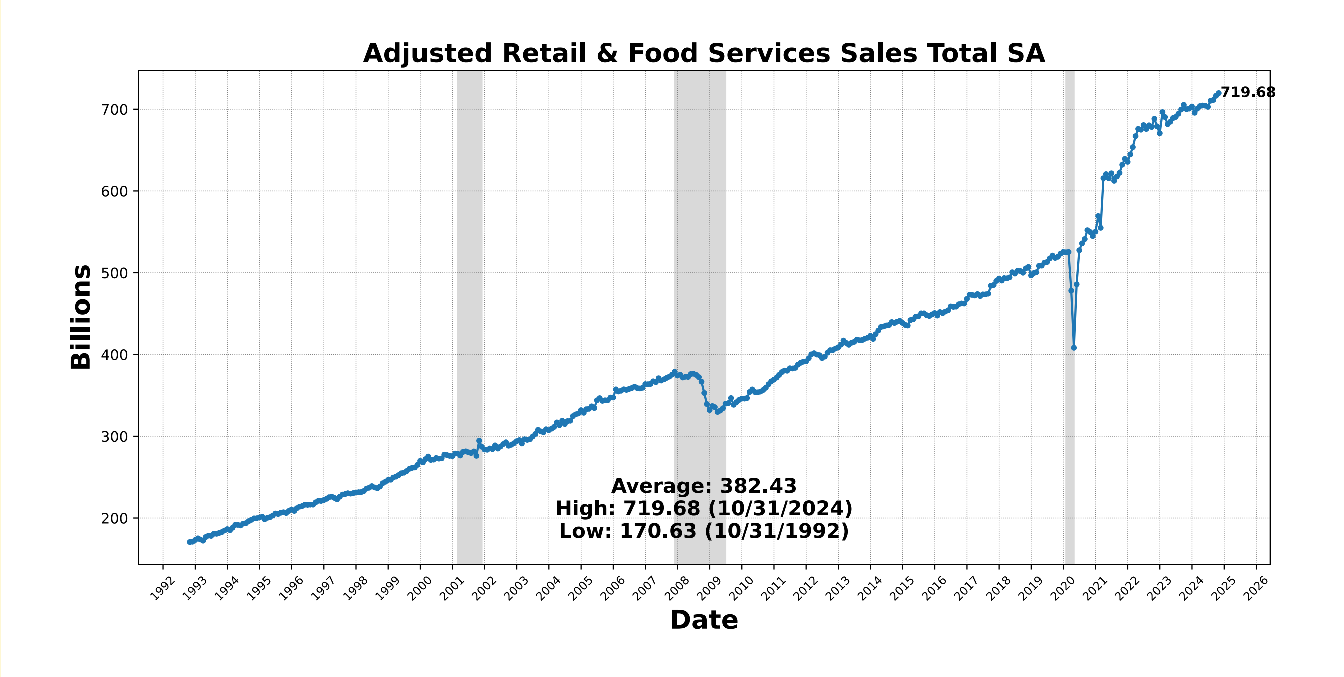
November retail sales outpaced expectations, driven by strong vehicle purchases and the appeal of online discounts, while consumers scaled back spending on dining out — a key indicator of discretionary service consumption. Overall, consumer spending is projected to grow at an impressive **3.0 percent** for the fourth quarter. This growth appears to rely more on temporary factors, however, such as the wealth effect from a stock-market rally and "buy-in-advance" behavior, rather than robust economic fundamentals like job creation. Headline retail sales increased by **0.7 percent**, exceeding both consensus estimates and the previous month's upwardly revised **0.5 percent**. Excluding autos and gasoline, sales rose by **0.2 percent**, falling short of expectations for **0.4 percent** growth. Control-group sales, a closely watched measure that excludes autos, gas, food services, and building materials, rebounded to **0.4 percent** after a **0.1 percent** decline in October, aligning with forecasts. Gains were led by motor vehicles and parts, which jumped **2.6 percent**, and non-store retailers, up **1.8 percent**. But contributions from other discretionary categories were mixed, with sporting goods and electronics rising modestly while clothing and restaurant spending declined. In the short term, spending may be supported by improved consumer sentiment following the election and ongoing stock market gains. Political polarization shapes sentiment, however: Democrats and independents express concerns over tariffs fueling inflation, driving preemptive spending, while Republicans largely anticipate inflation to ease. These dynamics underscore the fragile and uneven foundation of current consumption growth.

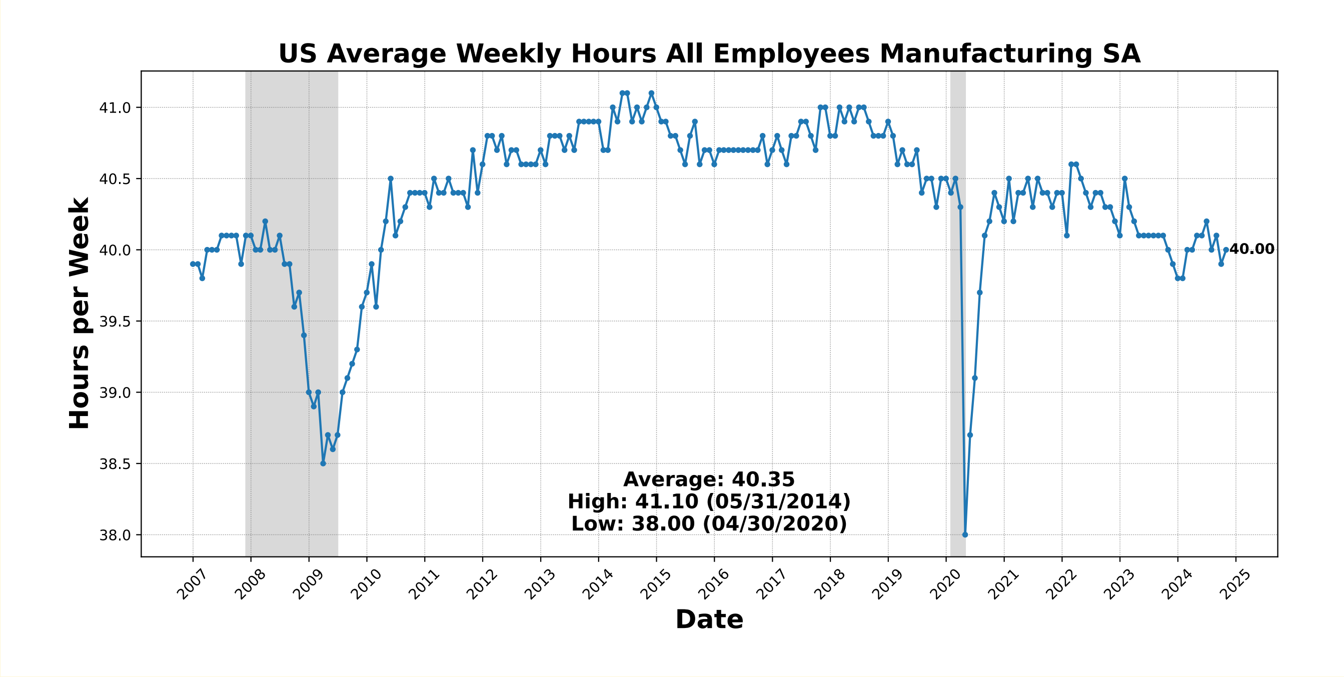
November's ISM Manufacturing PMI rose to 48.4 from 46.5, exceeding expectations, driven by a surge in new orders, which entered positive territory for the first time since March. Supply conditions also improved, with quicker delivery times and slower inventory reductions helping to ease producer price pressures. Yet manufacturing/industrial employment remained in contraction, likely reflecting the ongoing impact of restrictive monetary policy. The improvements point to softening inflation pressures in the pipeline, although it remains uncertain whether stronger demand will lead to renewed inflation risks. The data reflects modest demand recovery amid continued caution by manufacturers overall.

We turn now to the stock markets, the most visible and immediate economic feedback mechanism for American households beyond their wages and jobs. Equity markets have delivered stellar returns with the S&P 500 up **23 percent** year-to-date, albeit driven largely by a handful of technology stocks. Sky-high expectations for earnings growth in 2025, however, may signal a shift in the market narrative. Analysts expect S&P 500 earnings to grow by **23 percent** in 2024, the fastest rate since 2018 (excluding the 2021 post-pandemic rebound). But the market's implied expectations far exceed that pace, particularly in the tech sector, where valuations suggest nearly **40 percent** growth is priced in. This disparity between expectations and likely outcomes raises concern about increasing prospects for investor disappointment. Additionally, revisions to forward earnings estimates in the tech sector have been negative for several weeks, reflecting increasing caution among analysts — partially in recognition of the aforementioned discrepancy. The market has also leapt far ahead of historical trends in performance during easing cycles. Since 1971, the average Fed rate-lowering cycle has lasted between eleven and twelve months, with the stock market returning an average of **15 percent**. Three months into the current expansionary phase, the S&P 500 has leapt **37 percent** on an annualized basis, more than double the usual increase.

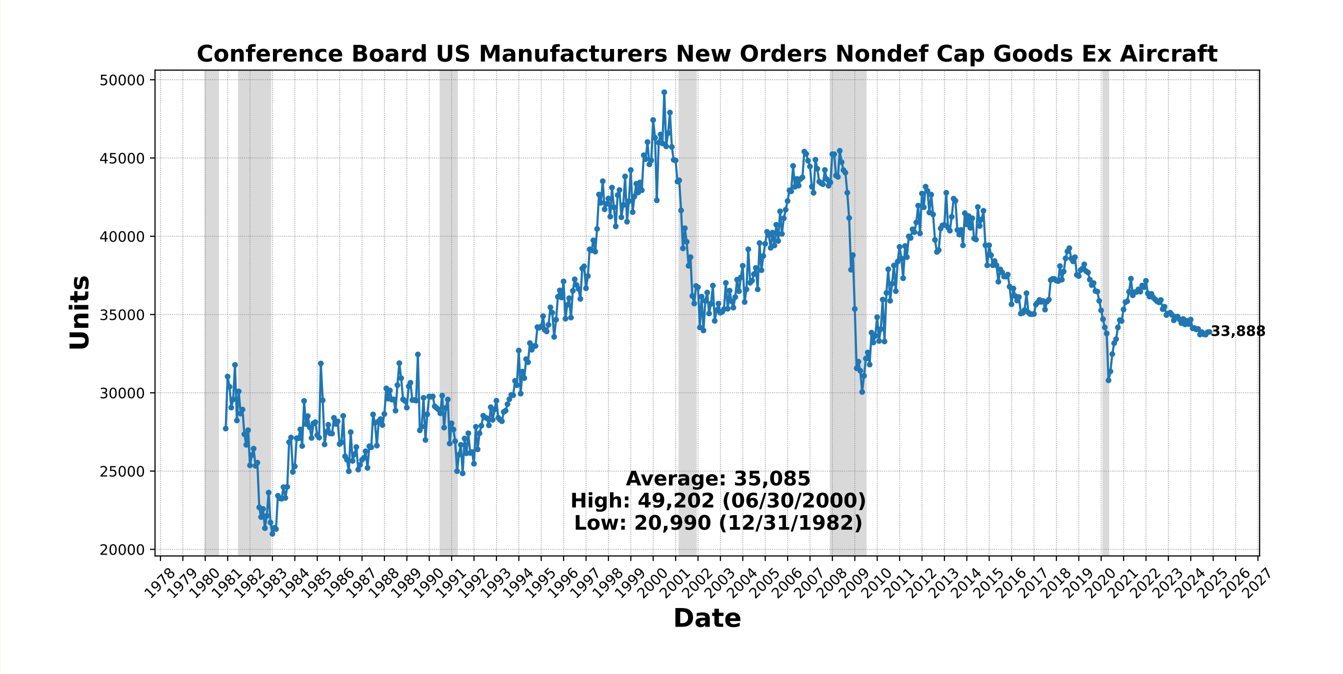
Economic prospects for 2025 hinge on continued disinflation, stable employment adjustments, and the extension of fiscal policies like the Tax Cuts and Jobs Act. But macroeconomic risks such as tariffs and overestimations of the consonance of a Republican-held Congress may challenge expectations for accelerating growth and rising output. Stock market valuations are another source of concern, appearing increasingly detached from underlying fundamentals. While the outlook for 2025 is cautiously optimistic, it is tempered by significant risks that could disrupt the unfolding soft landing.

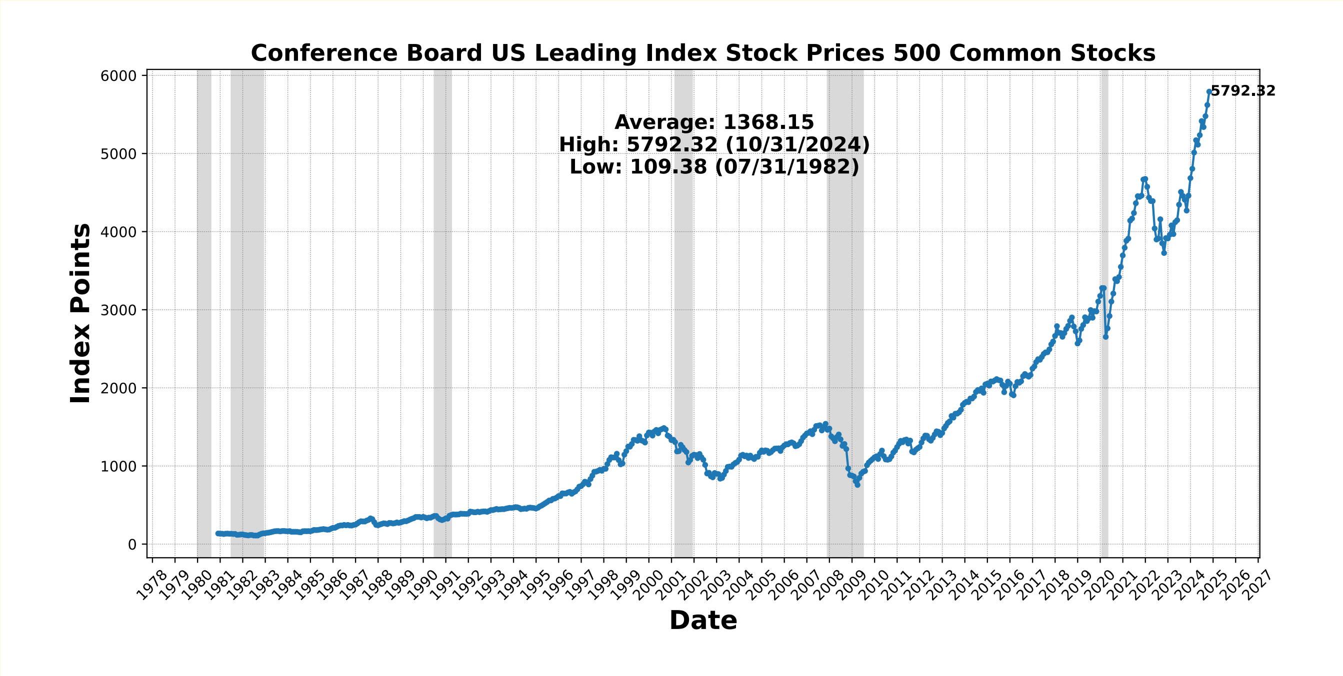
Leading Indicators





(Source: Bloomberg Finance, LP)





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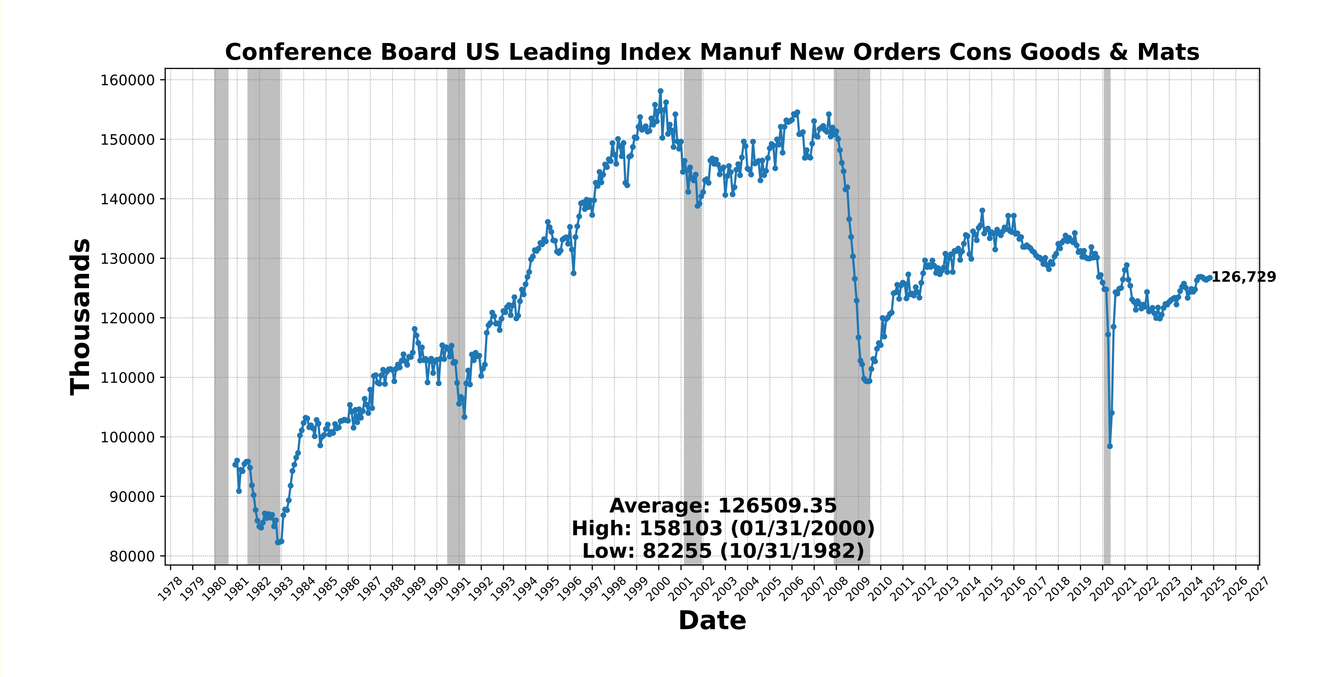

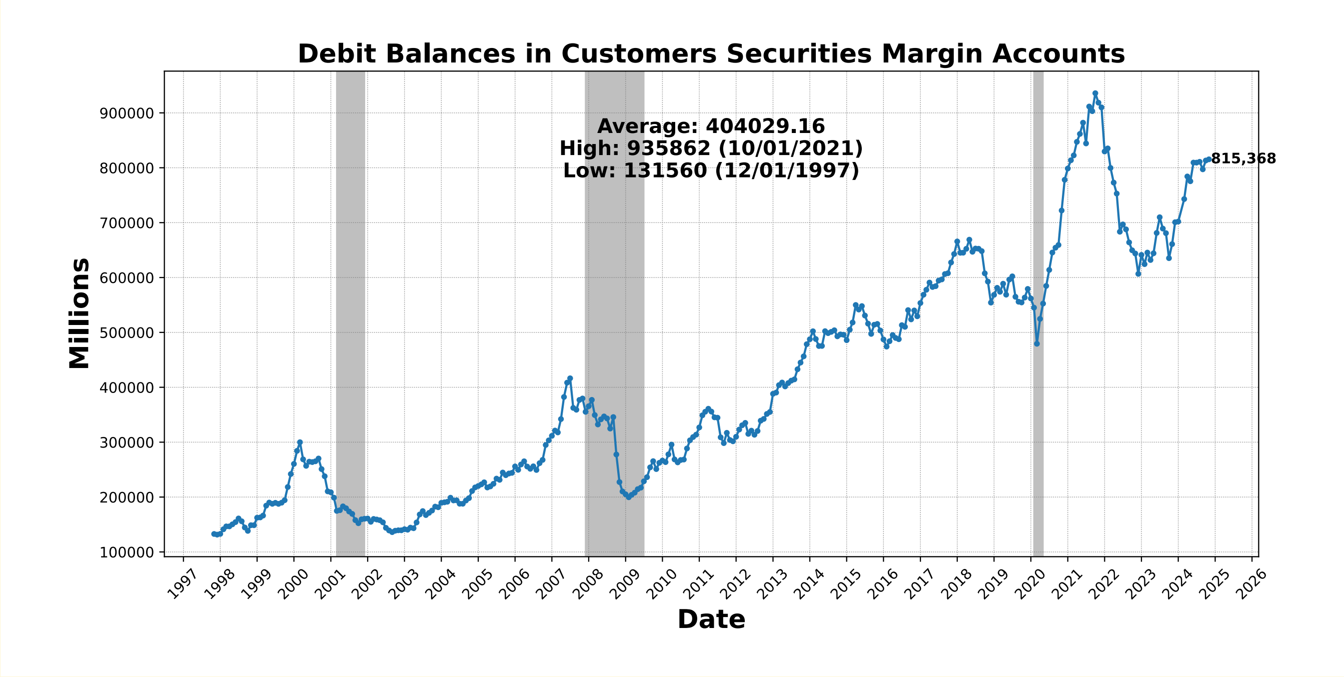

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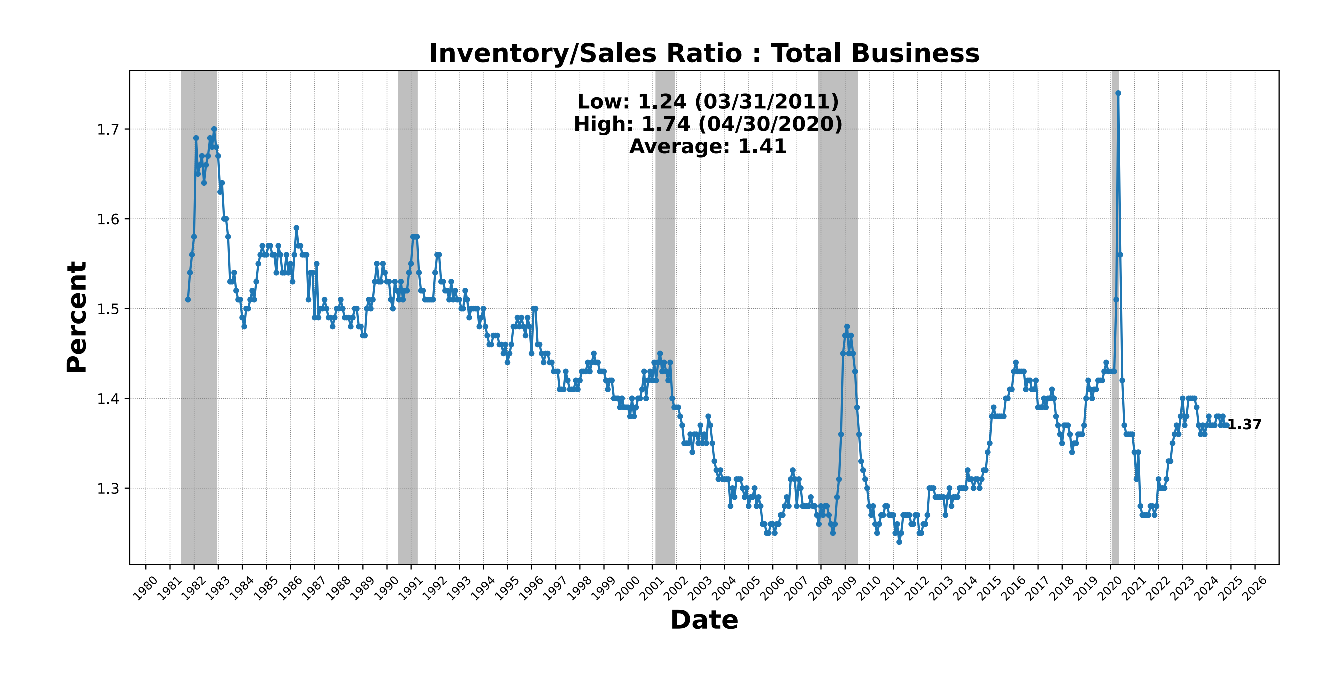

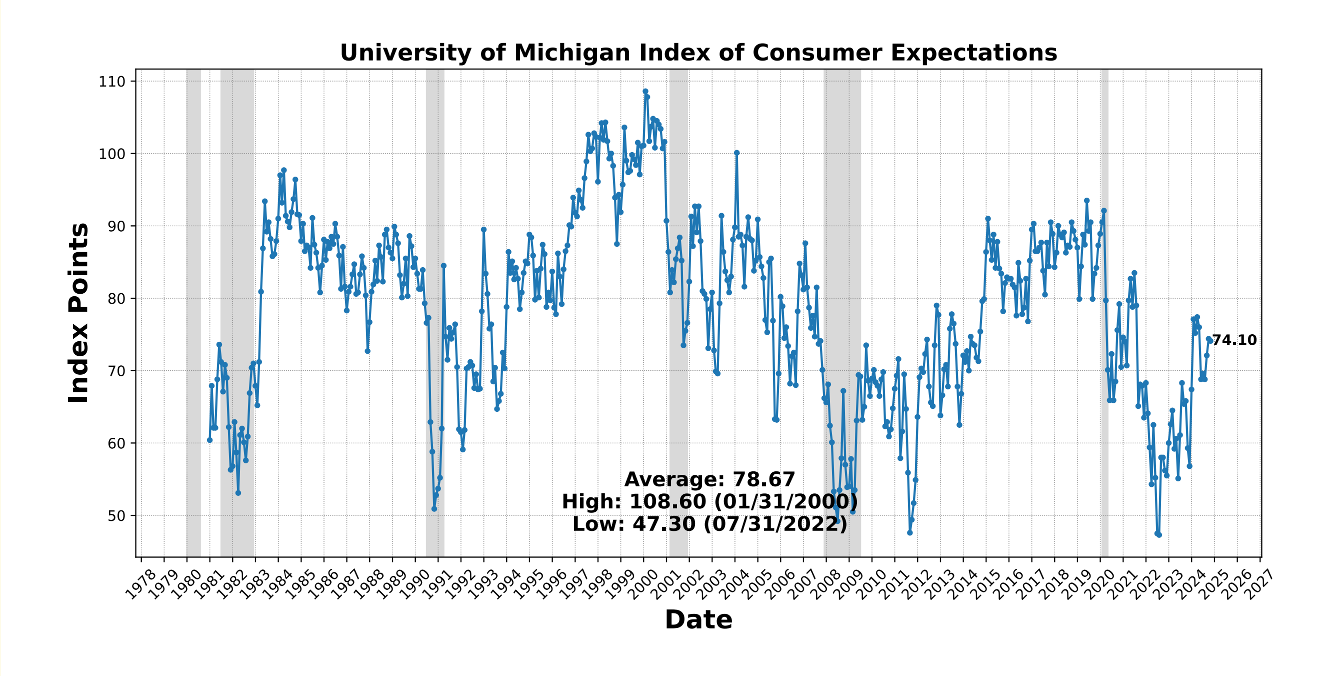

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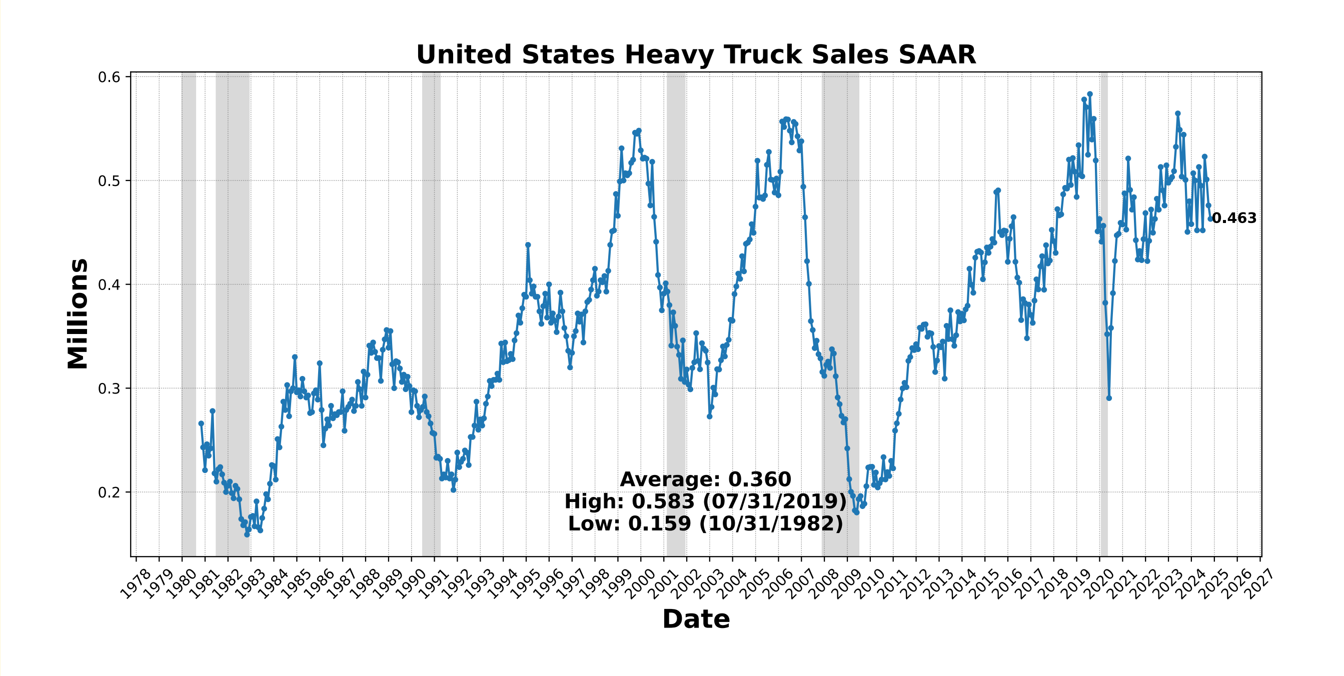

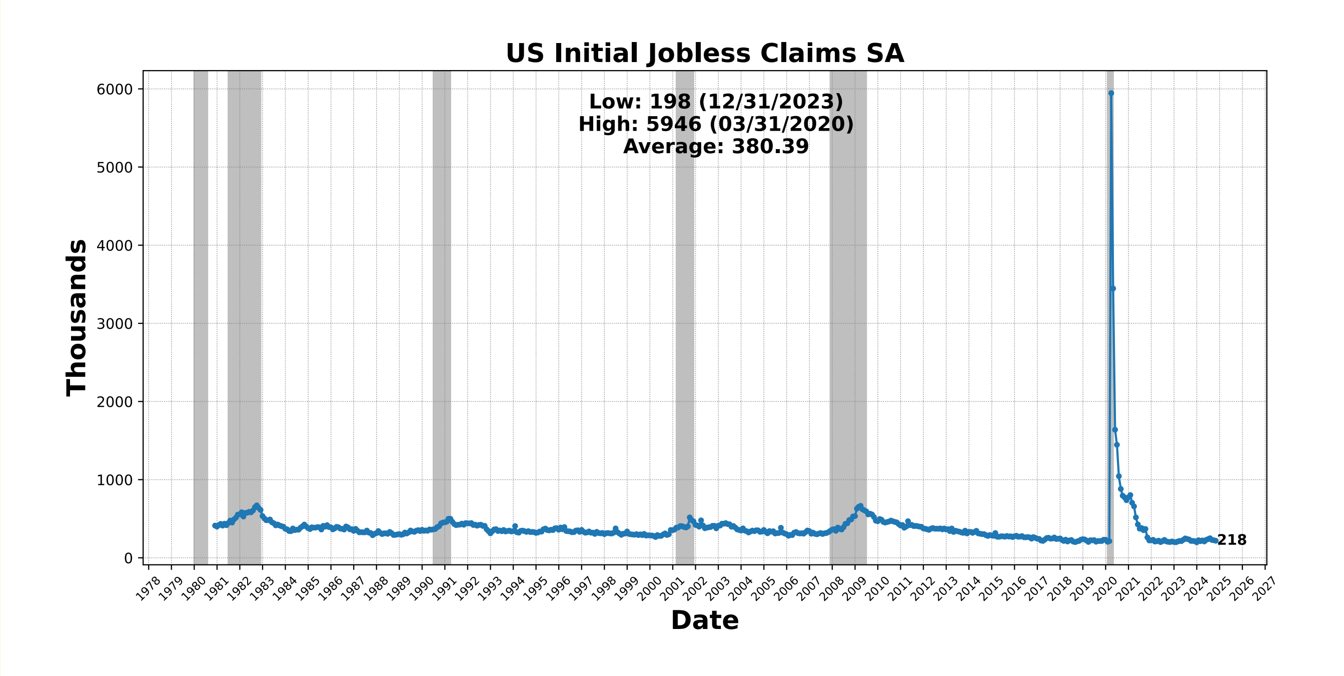

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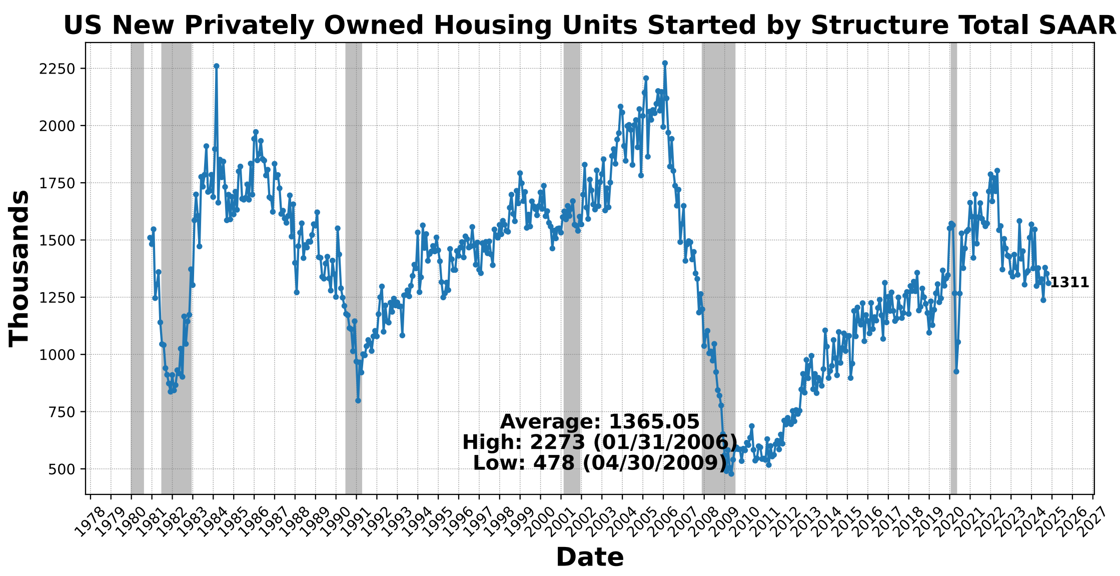

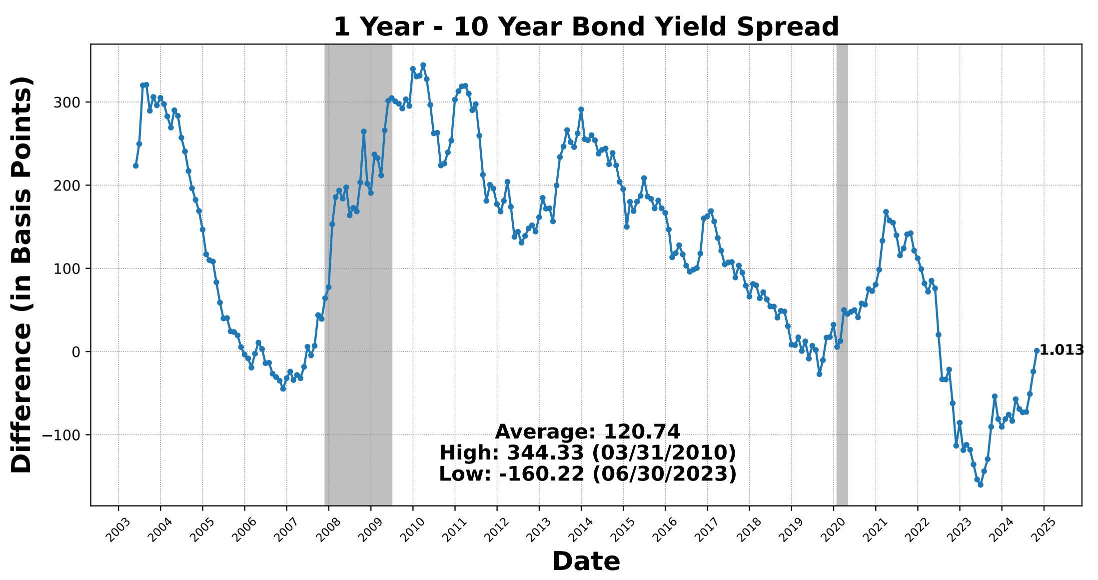

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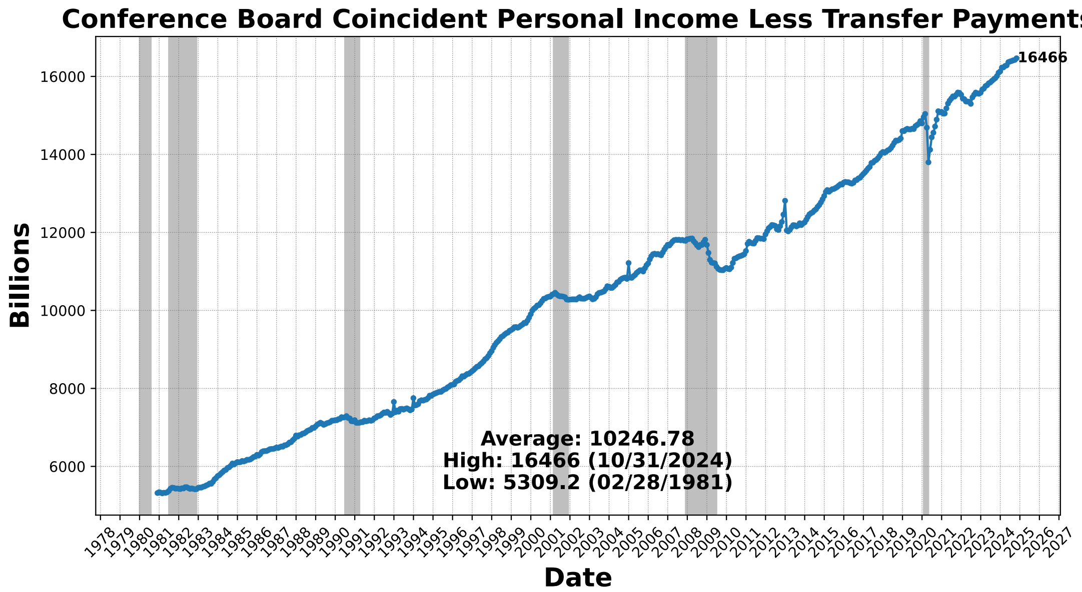
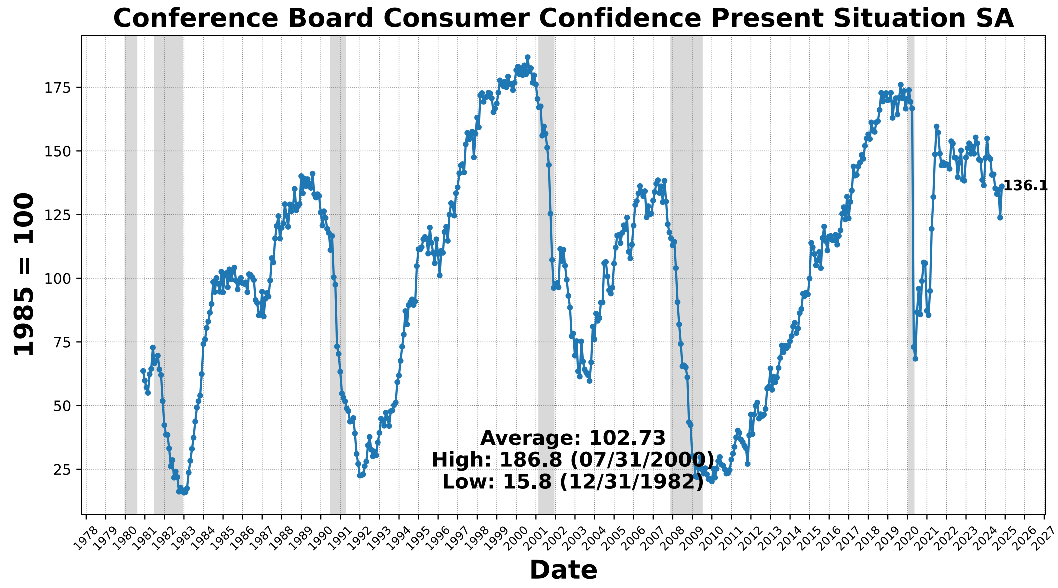
Roughly Coincident Indicators





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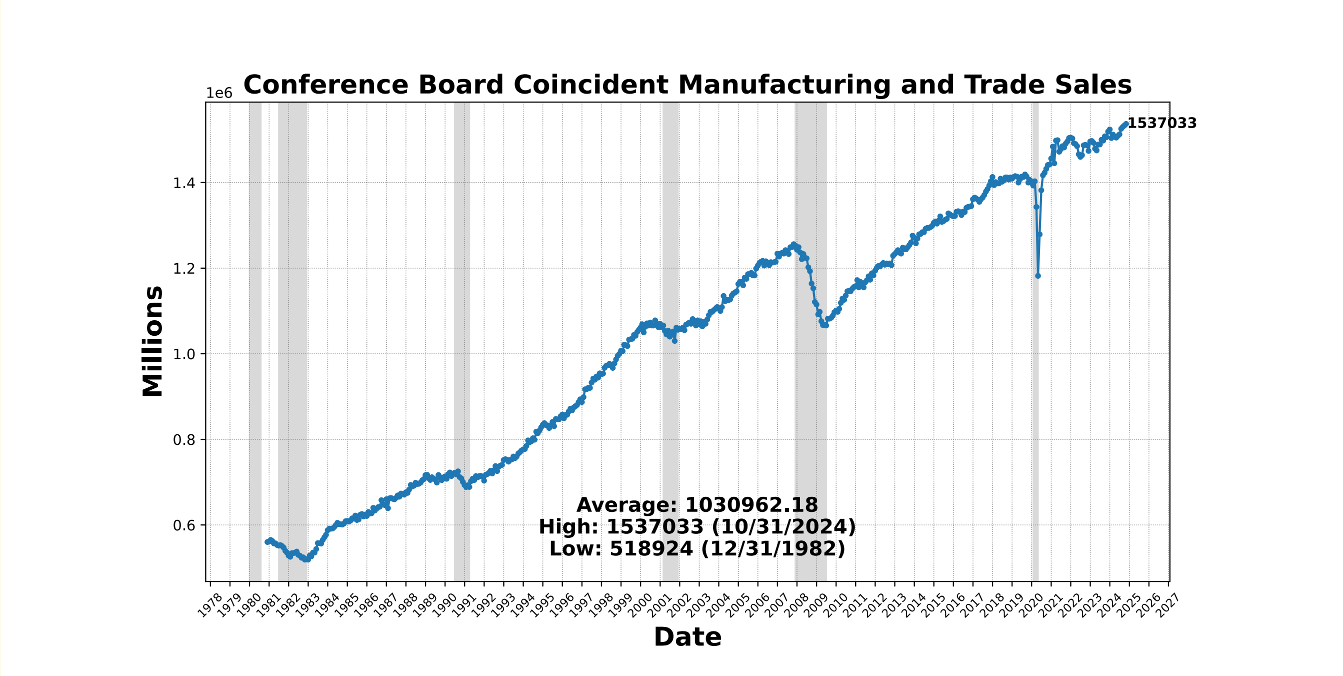

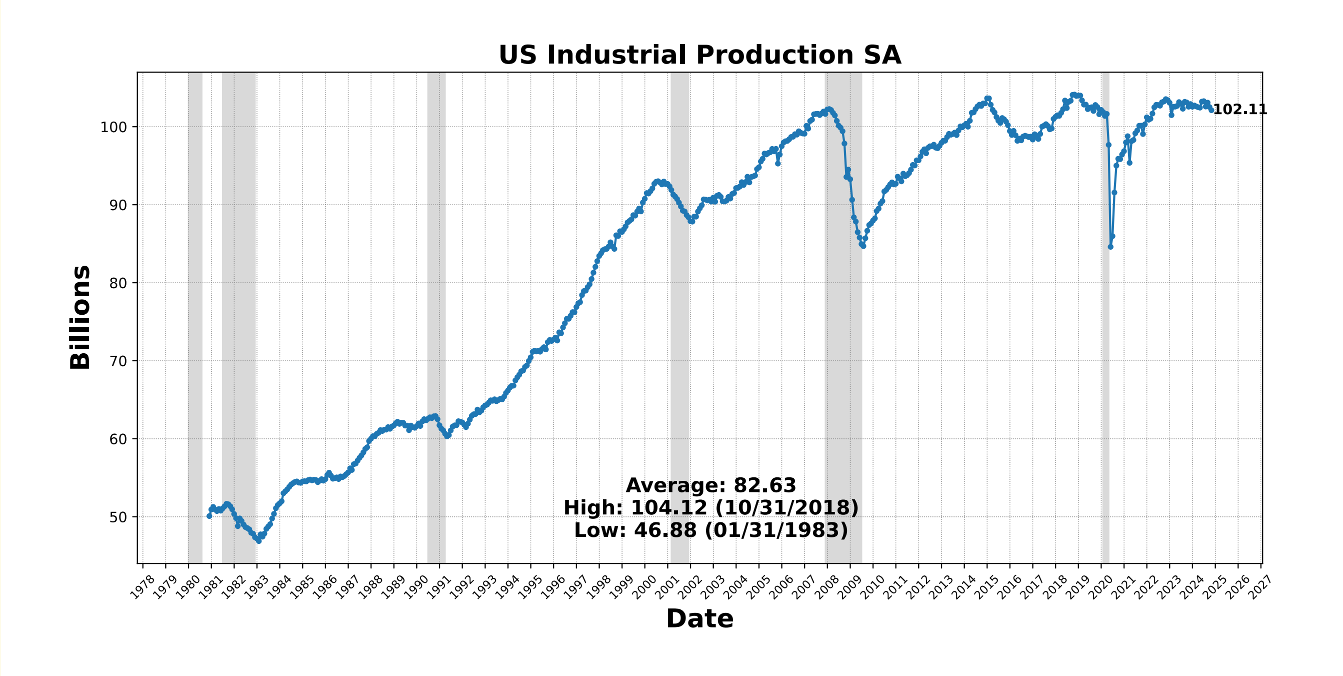

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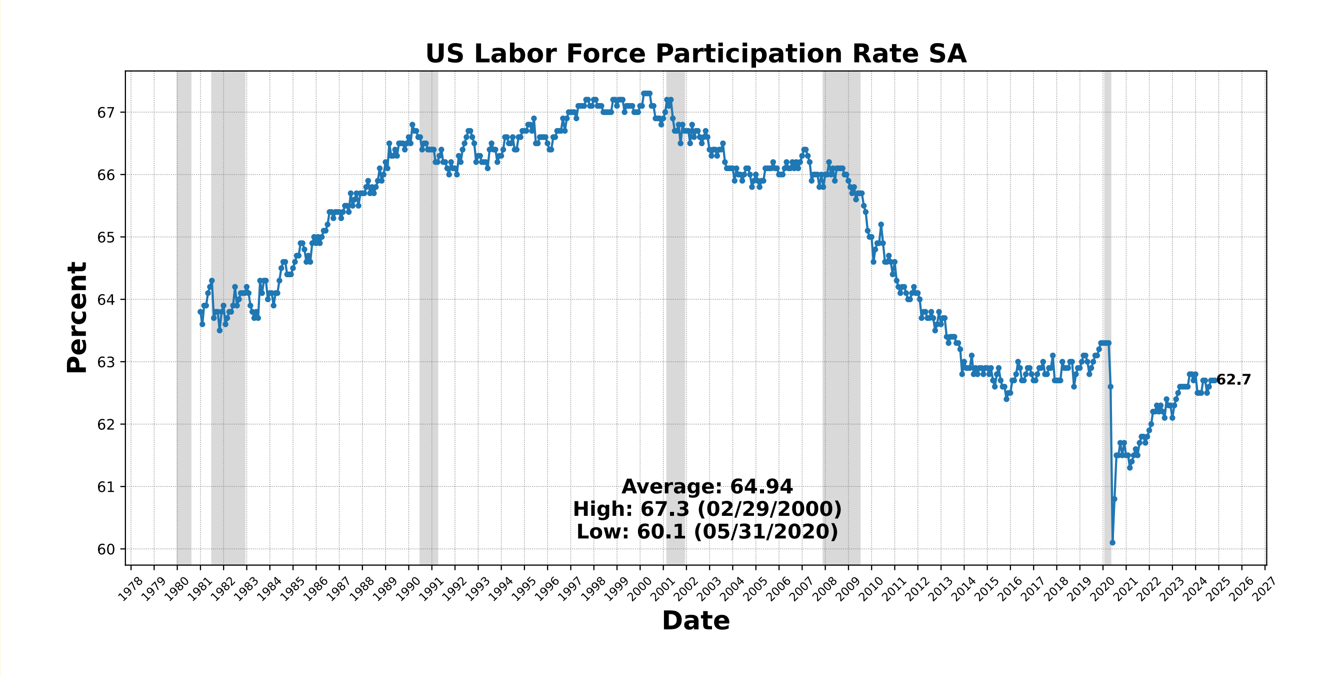
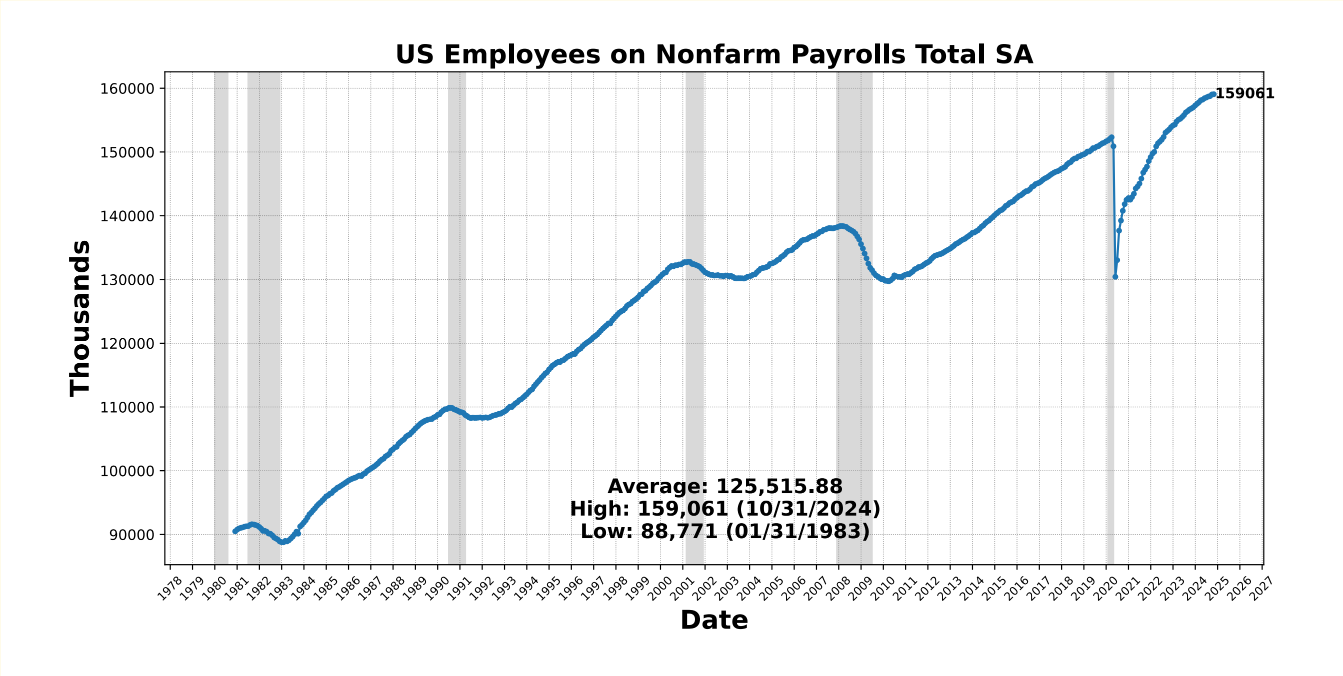
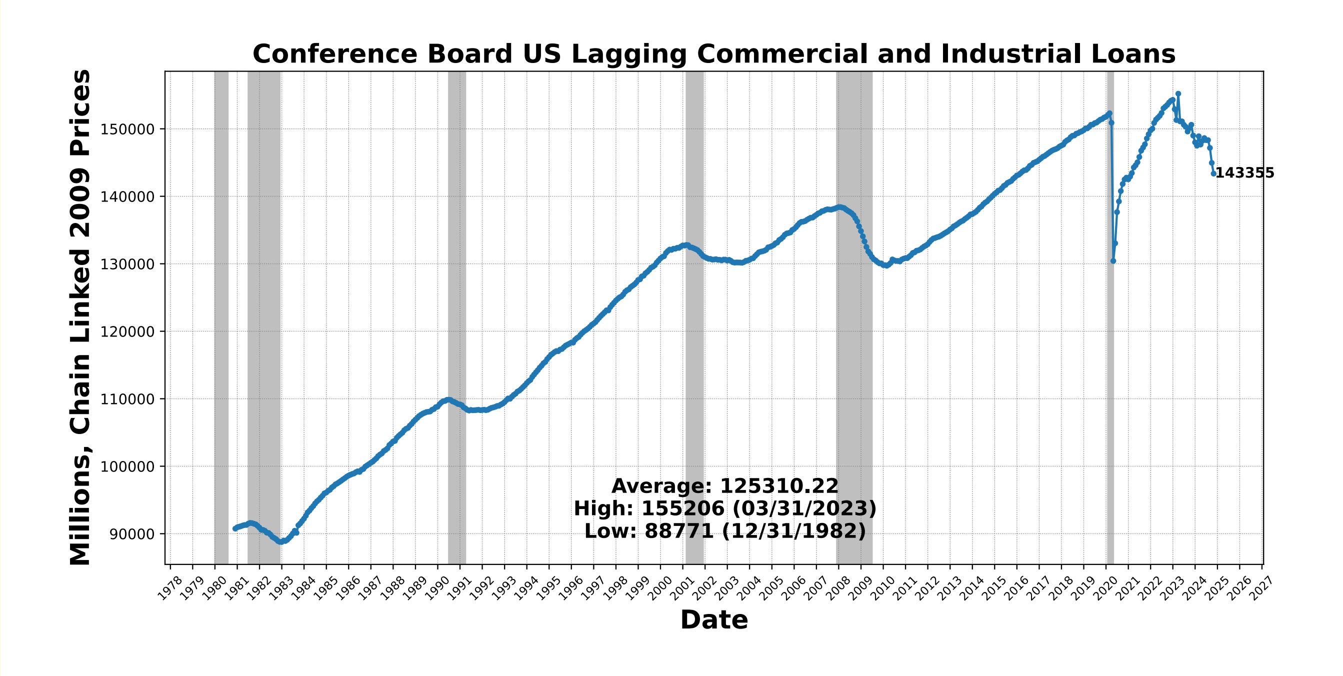
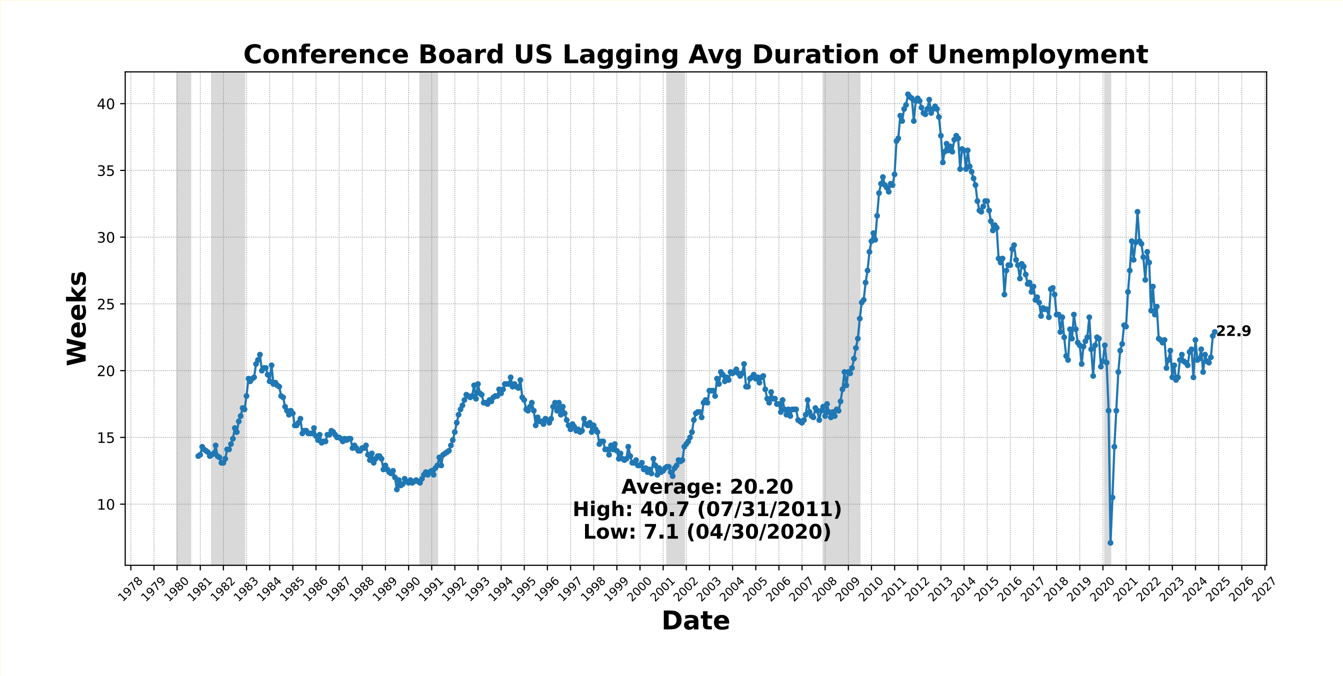




(Source: Bloomberg Finance, LP)

Lagging Indicators





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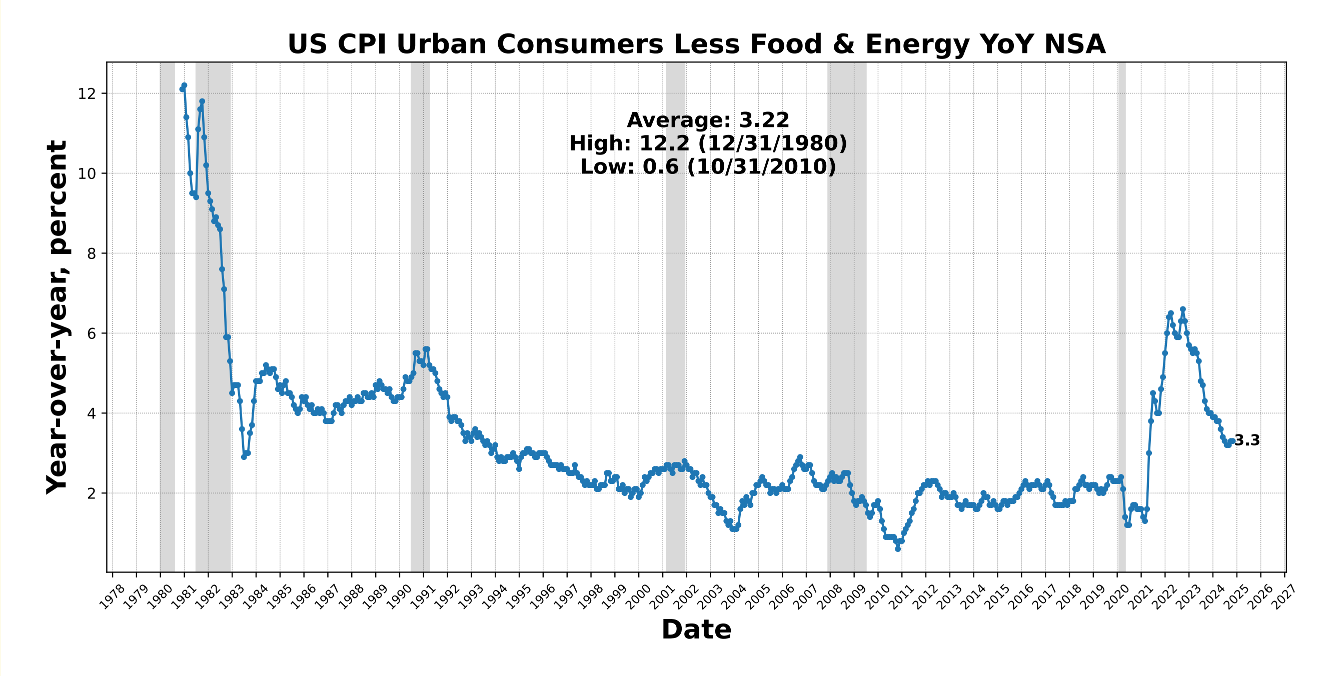

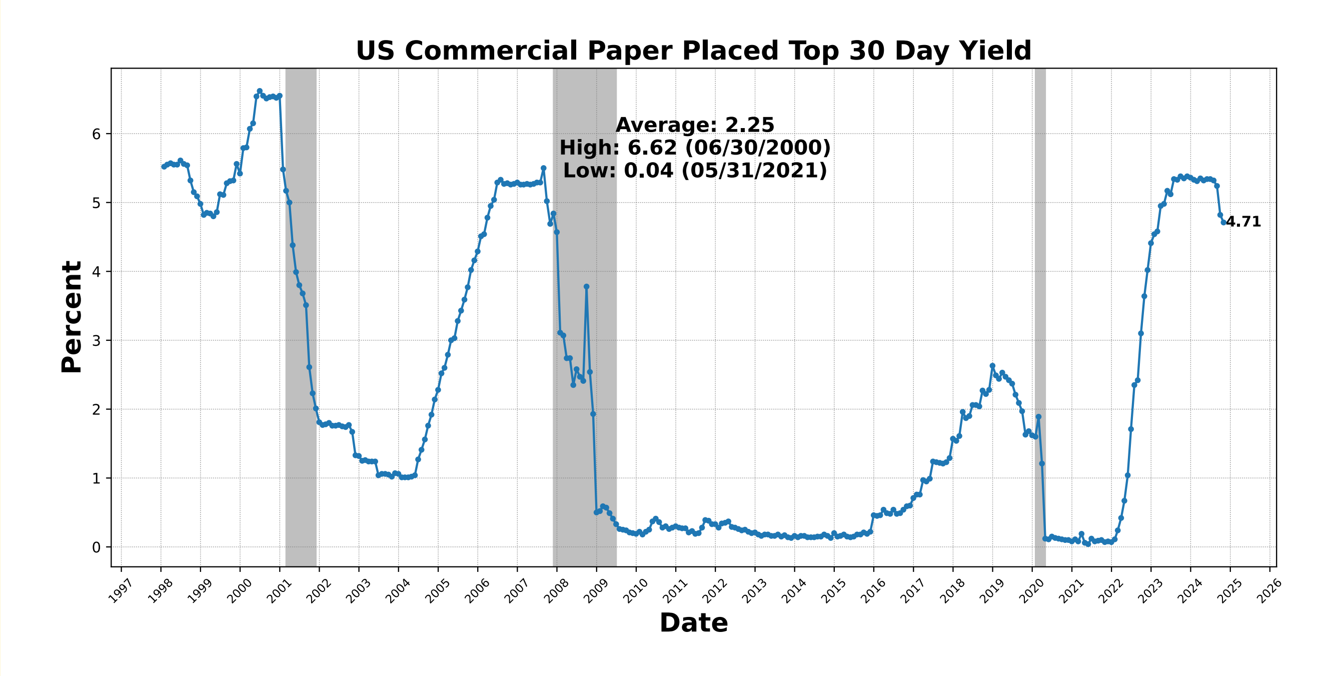

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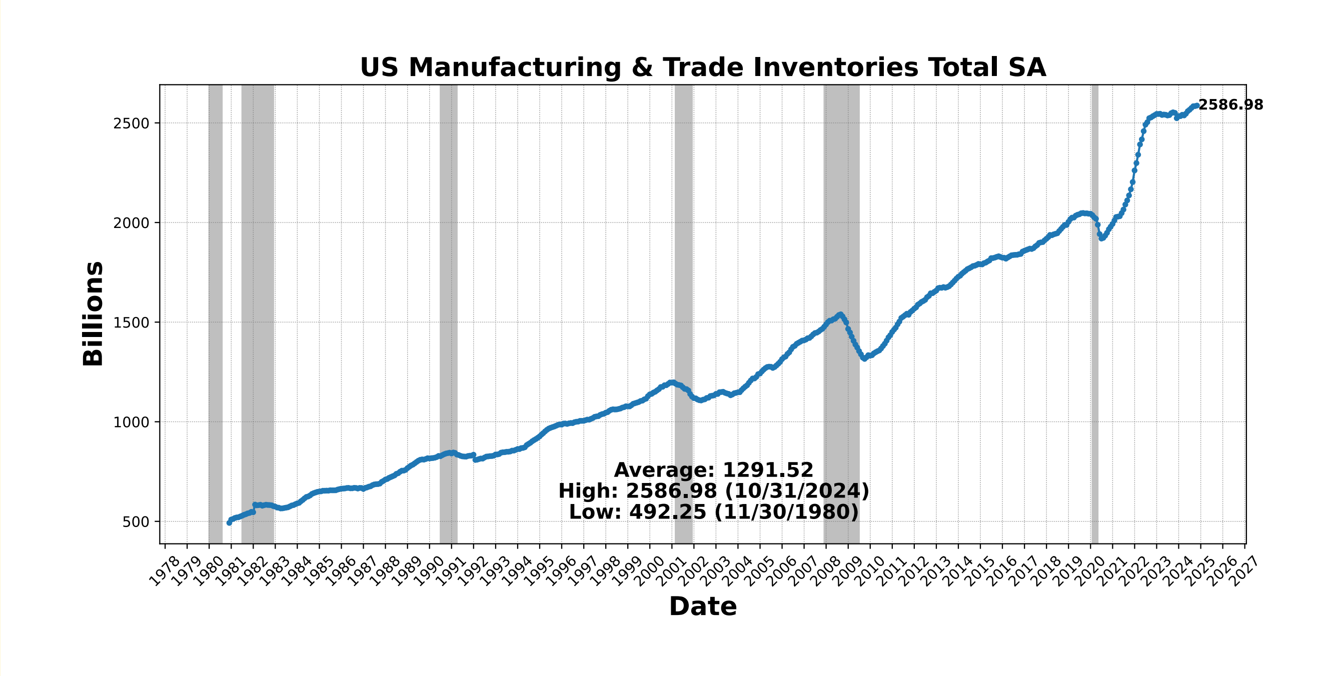
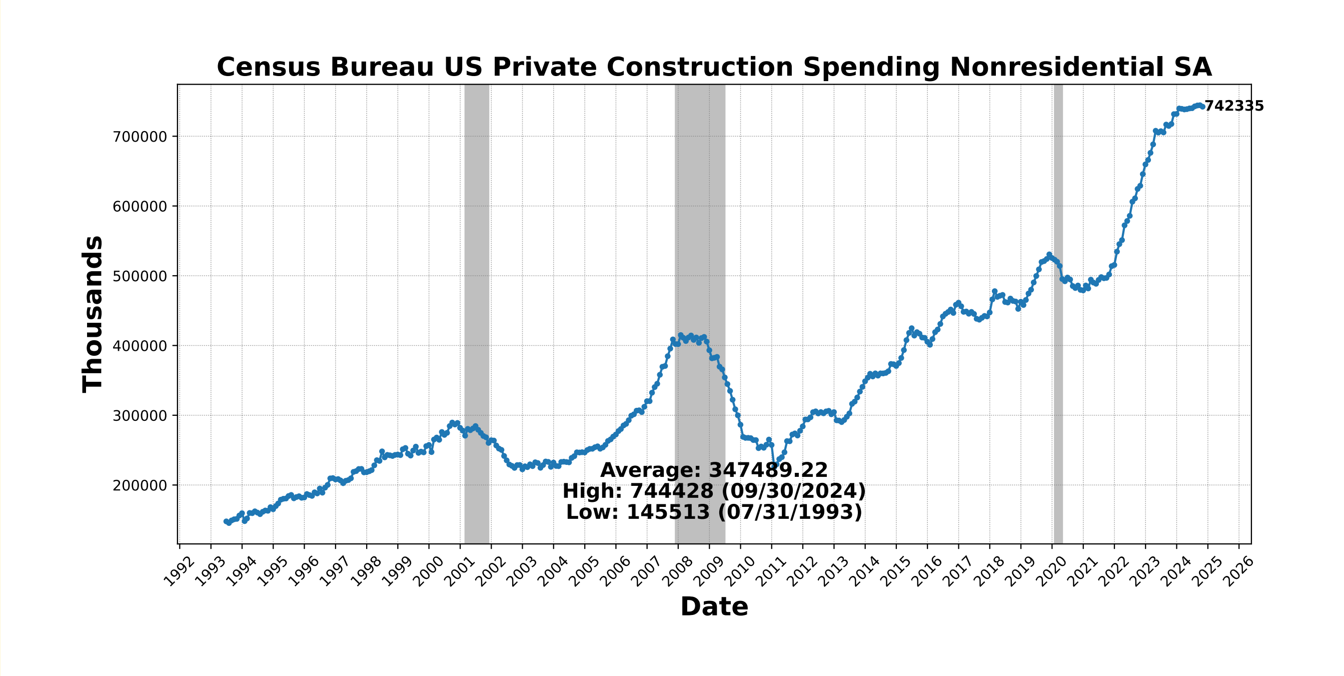




(Source: Bloomberg Finance, LP)

Capital Market Performance

Ticker		Short Name	%1M	%3M	%1YR	3 Year Annualized	5 Year Annualized	10 Year Annualized
SPR		S&P 1500 Composite Index	+2.88%	+7.22%	+27.25%	10.5502	15.1508	13.0720
SPXT	d	S&P 500 Total Return	+3.61%	+8.15%	+30.50%	10.8676	15.5336	13.3313
SPX	d	S&P 500 INDEX	+3.16%	+7.48%	+28.33%	10.8472	15.5132	13.3154
MID	d	S&P 400 MIDCAP INDEX	+1.21%	+5.73%	+18.24%	7.9270	11.6277	10.5502
RTY	d	RUSSELL 2000 INDEX	+1.47%	+6.00%	+17.77%	4.6193	8.8534	9.0206
SXXP	d	STXE 600 (EUR) Pr	+2.13%	-.65%	+7.81%	6.2156	7.6421	7.4636
TLT US	d	ISHARES 20+YR TR	+.68%	-10.07%	-8.53%	-12.6725	-5.7444	-.1632
QLTA US	d	ISHARES AAA - A	+.44%	-3.75%	-.96%	-2.2667	.0358	2.1383
CRY	d	TR/CC CRB ER Index	+4.83%	+5.23%	+10.62%	8.8605	9.6130	1.2109
XAU		Gold Spot $/Oz	+1.01%	+2.68%	+30.15%			
XAG		Silver Spot $/Oz	-2.41%	-.91%	+27.79%			
ILMBNAVG		Bankrate 30Y Mortgage Rates Na	-2.86%	+8.04%	-.84%			
ILMINAVG		Bankrate 15Y Mortgage Rates Na	+.15%	+9.18%	+1.08%			
MB301ARM		5 Year ARM	-3.97%	-.68%	-10.20%			
ILA3NAVG		Bankrate 30Y Fixe Mtg Refis Na	+.83%	—	-5.34%			

Is Inflation in 2024 Fueled by Supply or Demand?

William J. Luther
(*Director of AIER's Sound Money Project*)

Inflation picked up in October, but remains more or less on track. The Personal Consumption Expenditures Price Index (PCEPI), which is the Federal Reserve's preferred measure of inflation, grew at a continuously compounding annual rate of **2.9 percent** in October 2024. It has grown at an annualized rate of **2.1 percent** over the last three months and **2.3 percent** over the last year.

Core PCEPI inflation, which excludes volatile food and energy prices but puts more weight on lagging housing services prices, was **3.3 percent** in October 2024. It averaged **2.8 percent** over the last three months and **2.8 percent** over the last year.

Pandemics, Hurricanes, Strikes, and Supply Shocks

Why did inflation pick up in October? Adverse supply conditions are at least partly to blame. Hurricane Helene ripped through north Florida, Georgia, the Carolinas, and Tennessee in late-September, leaving those in its wake to deal with debris and high water in the weeks that followed. Dockworkers went on strike in early October, disrupting roughly half of the country's ocean shipping. Then, Hurricane Milton crossed Florida. These factors all worked to constrain supplies, resulting in a temporary surge in prices.

Many will recall a similar constrained-supplies explanation offered to account for the high inflation in late 2021, 2022, and early 2023. But, unlike the current situation, the inflation then had much more to do with demand-side factors.

Prices rise as output falls, but prices return to trend as output recovers. Of course, prices did not return to trend as output recovered from the COVID-19 pandemic and corresponding restrictions on economic activity. They remained permanently elevated. For this, we know something other than constrained supplies is required to explain the excess inflation observed in that period.

Some researchers continue to claim post-pandemic inflation was largely supply-driven. In a recent Washington Post article, Peter Orszag summarizes the results of his work with Robin Brooks and William Murdock as follows:

> *The results show that supply-chain variables directly accounted for 79 percent of the rise in underlying inflation in 2021. These effects then continued into 2022, with ongoing supply issues directly explaining 60 percent of the rise in inflation that year. The rest was more than accounted for by spillovers from the 2021 supply-driven inflation. All of which leaves only a modest role for demand-driven effects like the covid relief package.*

Not so fast! As Josh Hendrickson explains, micro data — like increased shipping times or CEO testimonials — are not typically useful for determining whether inflation is supply- or demand-driven. Instead, we must look at macro spending data.

With a simple identity, we can produce counterfactual forecasts of the price level in order to estimate the extent to which the post-pandemic inflation was supply-driven.

The Identity

Let's start with the identity. The total amount of spending in an economy has to equal the nominal value of all purchases. This is just two sides of the same transaction. When you spend money, you get goods or services. If you hand over too much money, the seller gives you change. If you hand over too little money, the seller calls the police. So, the amount of money spent equals the nominal value of the goods or services sold.

Furthermore, we can note that the nominal value of goods or services sold is equal to the price of the good or service multiplied by its real value. Hence, for the macroeconomy, nominal spending is equal to the price level times real output.

The Counterfactual Forecast

Next, consider how high prices would be today if we had *only* experienced supply disturbances — that is, if nominal spending were stable.

Nominal spending grew at an annualized rate of **4.1 percent** over the five-year period just prior to the pandemic. Real Gross Domestic Product (GDP) grew at an annualized rate of **2.5 percent**. Inflation, as measured by the GDP deflator, averaged **1.5 percent**.

Real GDP growth averaged just **2.3 percent** from the start of 2020:Q1 to the end of 2024:Q3. If nominal spending had continued to grow at its pre-pandemic rate, inflation would have averaged **1.7 percent** over the period. That's about 20 basis points faster per year over the last 4.75 years.

Comparing the Forecast with Reality

If only we had been so lucky! Actual inflation, of course, was much higher than the counterfactual forecast implies. The GDP deflator has grown at an average rate of **3.9 percent** since the start of 2020:Q1. That is about 220 basis points faster than the counterfactual forecast implies. Since the forecast only allows for supply-driven inflation, any additional inflation realized must be attributable to demand.

How much of the excess inflation realized in the post-pandemic period can be attributed to constrained supplies? Recall that the forecast implies an additional 20 basis points per year, while excess inflation has been around (220 + 20=) 240 basis points per year. Hence, only about (20/240=) one twelfth — or, **8.3 percent** — of the observed excess inflation can be attributed to supply-side factors. In other words, about **91.7 percent** of the excess inflation realized in the post-pandemic period was demand-driven.

Supply-driven Inflation, Now

Might the recent uptick in inflation also be demand-driven? It is certainly possible. But I think that is unlikely. Monetary policy remains tight. Nominal spending has slowed.

With the right data we can test whether the recent inflation is supply driven. To the extent that adverse supply disturbances pushed prices higher in October, we should see lower inflation rates as those supplies recover in the months ahead. Time will ultimately tell. But the supply-driven inflation view looks much better now than it did then.

December 2, 2024

The Commercial Mortgage Crisis Deepens

Peter C. Earle
(Senior Research Fellow)

The delinquency rate for commercial mortgage-backed securities (CMBS) tied to office properties reached 10.4 percent in November 2024, approaching the **10.7 percent** peak reached during the 2008 financial crisis. The ascent is the fastest two-year increase on record, with rates climbing **8.8 percentage** points since late 2022, significantly outrunning the 6.3-point rise seen during the financial crisis nearly 15 years ago.

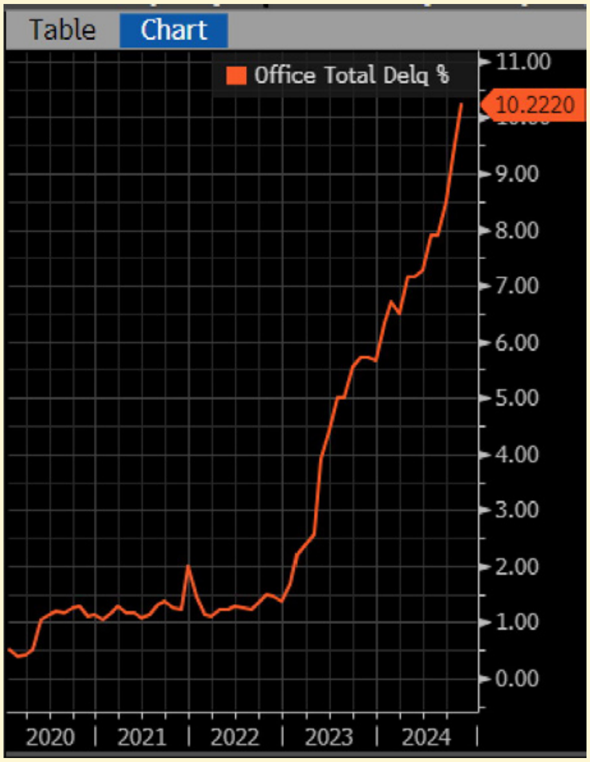
The office real estate sector has been grappling with a severe downturn for several years now, but are accelerating recently as they are driven by persistently high vacancy rates and declining rents. Property values, particularly for older office buildings, have plummeted, with many losing 50 to 70 percent of their market value and in some cases becoming effectively worthless. Those conditions have left real estate portfolio managers and building owners unable to borrow, refinance or sell properties, contributing to rising delinquencies and foreclosures. (Mortgages become effectively delinquent when payments are missed beyond a standard 30-day grace period.)

(Source: Bloomberg Finance, LP)

Three key factors contributed to the widespread impairment of office properties and, in turn, securitized mortgage products: malinvestment due to artificially low interest rates and excessive credit expansion, zoning restrictions hampering property repurposing, and the widespread adoption of remote work following COVID-19 lockdowns.

During the 2020–2022 period of near-zero benchmark rates (and in real terms, negative interest rates), lenders underwrote commercial real estate loans with minimal debt service coverage ratios, frequently projecting property income to just cover interest payments. Those assumptions faltered as rates rose, exposing the speculative nature of many of the core suppositions undergirding those loans. Adding to that, rigid zoning and building regulations (in addition to obstinance among owners, in some cases) have slowed the transition of obsolete office spaces to other uses, such as residential conversions. Lastly, the COVID-19 pandemic accelerated a long-term shift toward remote work, reducing demand for traditional office spaces.

Loans can be removed from delinquency lists through resumed payments, foreclosure sales (typically at steep losses to investors), or loan restructuring under the so-called "extend-and-pretend" strategy, which defers foreclosures into future years. This approach has been widely employed, pushing questions about the financial health of some real estate investment entities to 2025 and beyond.



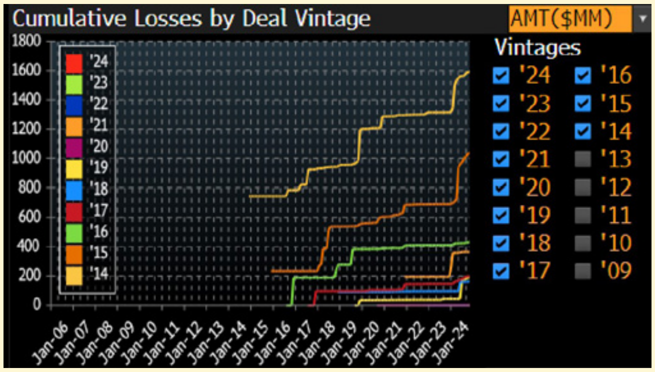
(Source: Bloomberg Finance, LP)

Among commercial real estate (CRE) segments, office properties are the most troubled, with delinquency rates significantly outpacing lodging (**6.9 percent**), retail (**6.6 percent**), and multifamily housing (**4.2 percent**). Of particular note, the industrial sector remains robust with a delinquency rate of just **0.3 percent**. However, the distress is not confined to office properties. CRE-CLO (commercial real estate collateralized loan obligation) bonds, which include short-term floating-rate loans across various property types, are seeing distress rates hit record highs. Office loans account for nearly one in five distressed CRE-CLO loans, but multifamily loans are also at risk, with distress rates reaching 16.4 percent in Q3 2024. The weakness stems from the collision of soaring financing costs and underperforming properties. Indeed, as Austrian Business Cycle Theory (ABCT) predicts, artificially low interest rates stimulated aggressive underwriting during the pandemic, a large portion of which has proven wholly unsustainable.

(Source: Bloomberg Finance, LP)

Efforts to convert office buildings into residential spaces are increasing but remain limited by structural and economic constraints. Many office towers are unsuitable for conversion due to their large floor plates or prohibitively high retrofitting costs which often exceed the cost of demolition and rebuilding. In 2024, 73 office-to-residential conversions were completed, with an additional 30 underway. Despite plans to increase the pace in 2025, the cumulative impact remains minimal, addressing just 7.9 percent of the 902 million square feet of vacant office space nationwide.

The "survive till 2025" mindset dominates market sentiment, with landlords hoping for substantial Federal Reserve rate cuts to alleviate financial pressures. However, while the Fed has reduced rates, they remain between **4.5 percent** and **4.75 percent**, with the Secured Overnight Financing Rate (SOFR) at **4.57 percent**. Moreover, concerns regarding $36 trillion in US government debt, tariff threats, and signs of slowing disinflation have pushed long-term Treasury yields back to pre-cut levels, undermining hopes for refinancing relief. Those conditions have left many properties — especially those tied to bridge loans — on the brink of financial distress.



(Source: Bloomberg Finance, LP)

The financial risks associated with office mortgage losses are widely dispersed among global investors, thus diminishing the potential threat to the US banking system. Office mortgages are held by a vast array of investors, including CMBS and CRE-CLO investors, insurance firms, Real Estate Investment Trusts (REITs), private equity firms, and international financial institutions. While US banks have some exposure and have already recognized significant losses, no major collapses have occurred. Smaller banks with geographically and/or commercially concentrated mortgage portfolios remain at heightened risk, and escalating stress could precipitate systemic consequences.

The commercial real estate market's troubles are not a temporary phenomenon but a structural crisis rooted in monetary policy-induced overbuilding, regulatory barriers, and a permanent shift in work patterns vastly accelerated by pandemic lockdowns. Vulture investors have emerged, but sparingly. The sector faces profound challenges which will unfold both against and in response to the forward trajectory of monetary policy, the consequent shape of the US Treasury yield curve, and broad macroeconomic developments. Hopefully the stage is not being set for the next in an increasingly annualized procession of crises.

December 4, 2024

Capping Credit Card Interest Rates is a Bipartisan Blunder

Thomas Savidge
(*Research Fellow*)

In a show of bipartisanship, Senator Josh Hawley reshared a post from Senator Bernie Sanders hoping to work with incoming President Donald Trump on capping credit card interest rates at **10 percent**.

> *An anti-usury bill capping outrageous credit card rates ought to be a top priority of the next Congress* https://t.co/rPGfSEgVsB
>
> — Josh Hawley (@HawleyMO) November 16, 2024

All parties involved are rightfully concerned about Americans struggling with debt payments. A recent survey of Americans shows that the average household's credit card balance is $9,706, just $1,416 below the record high in 2008. In addition, **40 percent** of households now rely on credit cards to pay bills. All the good intentions in the world, however, do not guarantee good outcomes. An interest rate cap is going to hurt Americans by limiting their access to credit. The poorest Americans will be hit the hardest.

Some Basic Definitions

Before we dive into the debate, it's important to clarify what's being discussed. Interest is the price people pay to have resources now rather than later. An interest rate measures the price that borrowers pay to have resources now and the reward a lender receives for delaying consumption of resources to a future date (expressed as a percentage).

Interest is a natural result of human interaction. The late George Mason University economist Walter Williams explained this to myself and others who took his microeconomics class: Imagine you were to visit a country that has effectively outlawed all lending and borrowing. Despite the prohibition on lending and borrowing, you could still get a rough estimate of the market rate of interest by comparing the present price of present goods to the present price of future goods. One can get a sense of the interest rate by looking at the difference between the price of milk and the price of cheese. If we have to use milk to make cheese, then milk is a present good and cheese is a future good. Further, if the price of milk rises relative to cheese, then we know that the interest rate must have fallen. If the price of cheese rises relative to milk, then we know that the interest rate must have risen.

Both Senators Hawley and Sanders mention usury. Definitions of "usury," whether from Merriam Webster, US Law, and even The Catholic Church tend to label usury as charging "exorbitant interest." Unfortunately, "exorbitant" is in the eye of the beholder.

Like all other prices, interest rates are determined by supply and demand. People's willingness to save impacts the supply of loanable funds. If the inflation rate is expected to rise, lenders will ask for a higher interest rate to compensate. The riskiness of the borrower and the length or duration of the loan also determine the interest rate as well as the rate at which interest income is taxed. Allowing these and other factors to influence interest rates uninhibited allow credit markets to adjust to changes in supply and demand.

Interest Rate Caps Are Price Controls

A cap on interest rates is a price control and, like all other price controls, end up failing miserably. Price controls are appealing because they claim to protect the low income people who struggle to afford price increases. A price, however, provides information about the relative scarcity of a good or service and motivates buyers and sellers to adjust their behavior accordingly. What's truly amazing is that this information gets updated in real-time. Price controls, therefore, prevent the information about relative scarcity and buyer/seller behavior from being portrayed accurately. This means that decisions about how to consume and produce are made on non-price margins.

Capping credit card interest rates would play out in the same way. As Heritage Foundation Research Fellow Joel Griffith discusses, lenders will be stuck between a rock and a hard place: "Either extend credit at a rate that doesn't include all the default risk, or deny credit to a large swath of potential borrowers." Although the senators lambast credit card companies for "record profits," the annual return on assets (ROA) has fallen for the second straight year in a row, down from **4.7 percent** in 2022 to **3.33 percent** in 2023. The record-high ROA of **6.93 percent** in 2021(beating the previous twenty-first century high of **6.73 percent** in 2003) appears to be more of an anomaly than an indicator of where profits are headed.

As I mentioned earlier this year, profits are a sign that a business is providing people with a good or service they want at a price they are willing to pay. Both parties that engage in a transaction do so because they are better off than if the transaction had never occurred. Whenever the ability to profit is inhibited, it is likely that the business will stop providing the good or service because the cost of doing so exceeds any potential benefits.

In the same respect, lenders will opt to not offer a line of credit at all instead of taking on additional risk by being forced to charge an interest rate that doesn't accurately reflect the risk of engaging in the transaction. For those who already have a credit card and are paying interest rates above the cap, credit card companies can reduce credit limits at will in response to changing economic conditions.

These results will end up hurting many Americans, especially the nearly 2 in 5 cardholders who have maxed out a credit card or are near their credit limits. As many of the poorest Americans are cut off from the already limited sources of credit, they will likely turn to illicit sources of income or black-market lending via organized crime. Alternatively, many may choose to pay bills late or not pay them at all, which will cause them to either lose services or get entrapped in the welfare system to cover those necessities.

The efforts exerted by politicians to save struggling Americans with price controls will inevitably result in Americans being kicked while they're already down.

December 6, 2024

The FOMC Should Hold Rates Steady

Alexander W. Salter
(*Senior Fellow, AIER's Sound Money Project*)

Another disinflationary hiccup: The Bureau of Labor Statistics (BLS) announced the Consumer Price Index (CPI) rose **0.3 percent** in November and **2.7 percent** over the last year. Year-over-year prices grew faster in November than in September (**2.4 percent**) and October (**2.6 percent**).

Core CPI growth, which excludes volatile food and energy prices, remained largely unchanged. It rose **0.3 percent** in November, the same as in September and October. Year-over-year growth of **3.3 percent** has also been steady over the same period.

Most of the increase was driven by shelter prices. "The index for shelter rose **0.3 percent** in November, accounting for nearly forty percent of the monthly all items increase," BLS reported. This is the silver lining. We know that shelter price increases tend to lag price increases for other goods and services.

The overall CPI grew faster than its shelter component from February 2021 until November 2022. CPI shelter growth peaked at **8.2 percent** in March 2023 and has been falling ever since. It remains above overall CPI growth, and its rate of decrease has moderated. Shelter is heavily weighted in the CPI (roughly one-third of the index), which explains why shelter price growth matters so much for inflation. Although the CPI is supposed to measure general price increases, it's currently driven largely by supply and demand in housing and apartment markets.

What does the inflation data imply for monetary policy? The current target range for the fed funds rate is 4.50 to **4.75 percent**. Adjusting for inflation yields a real rate range of 1.80 to **2.05 percent**. The natural rate of interest, which is the inflation-adjusted rate that monetary policy attempts to track, was probably between 0.77 and **1.26 percent** in Q3:2024. The range for market rates exceeds the estimated range for the natural rate, suggesting monetary policy remains tight, albeit not as tight as in previous months.

Monetary data tell a similar story. M2, the most commonly cited measure of the money supply, grew about **3.7 percent** over the last year. Broader aggregates, which weight money supply components based on liquidity, grew 2.64 to **2.97 percent** over the same period. Remember, money supply growth does not imply loose money. We need to know how fast it's growing compared to money demand.

Like the natural rate of interest, we can only estimate money demand. A reasonable proxy is population growth plus real GDP growth. The most recent data we have says the US population is growing at approximately **0.5 percent** per year and real GDP is growing at about **2.7 percent** per year. The sum of the two is **3.2 percent**, which is faster than all the growth in the monetary aggregates. Again, this looks like moderately tight money.

The FOMC next meets December 17-18. They should not cut interest rates. We have enough data to see a (hopefully temporary) stall in disinflation. Loosening monetary policy further would be inappropriate. The FOMC should keep the rate target at 4.50 to **4.75 percent**, and perhaps even prepare for a rate hike in early 2025 if subsequent data confirms we've lost ground on the return to **2 percent** inflation.

December 12, 2024

What Happened at the 2024 AIER Monetary Conference: Building a Better Fed Framework?

Lydia Mashburn Newman
(*Managing Director of Monetary Economics*)

In December, AIER held its inaugural monetary conference, Building a Better Fed Framework, at The George Washington University in Washington, DC. As the Federal Reserve embarks upon its monetary policy and strategy framework review, AIER brought together leading monetary scholars to examine the Fed's framework, past and present, and explored opportunities for creating a better monetary future.

The conference featured Federal Reserve Board Governor Christopher J. Waller as the keynote speaker, an opening address by former St. Louis Fed President Jim Bullard, and three sessions that asked: "How Did We Get Here?," "What Have We Learned?," and "How Can the Fed Do Better?"

A lot has changed in the economy since the Fed's last review concluded in 2020. Prior to the pandemic, central banks across the globe worried about interest rates at the zero lower bound and inflation consistently below target. Looking to pack in more monetary policy punch, the Fed adopted its current monetary framework, Flexible Average Inflation Targeting or FAIT, and added that its maximum employment goal was "broad-based and inclusive." To what extent these changes played a role in the runup in inflation in 2022 and its persistence still today was a key point of discussion in the day's proceedings.

Opening Address

Opening the conference, Jim Bullard, former St. Louis Fed President and CEO and current Dean of the Mitch Daniels School of Business at Purdue University, laid the groundwork. He described what the Fed's framework is: a statement of the Fed's longer run goals that is meant to be "constitutional in nature." He mentioned the limits of what the review can cover. Bullard also shared ideas on what can be included in the Fed's next framework. He recommended that the Fed include a statement on what it will do in times of higher inflation that FAIT is not geared towards, as well as including statements about the Fed's balance sheet, financial stability, and global influences, where agreement exists.

Session 1: How Did We Get Here?

The first session asked, "How Did We Get Here?"

Carola Binder, associate professor of economics at the University of Texas at Austin, looked at how historically framework reviews were necessary and useful—and did not always originate from the Fed. Cato Institute's George Selgin offered insights into how the Fed's views on achieving its dual mandate can help or hinder monetary policy goals, and offered an alternative that could improve the Fed's framework: SAIT, "see-through" average inflation targeting. William J. Luther, associate professor of economics at Florida Atlantic University, took a deep dive into the pandemic-fueled inflation and whether it stemmed from greedflation or the Fed's FAIT framework.

Session 2: What Have We Learned?

Session 2 explored lessons learned from the Fed's current monetary policy framework as well as changes to its operating framework dating back to the financial crisis. Bank Policy Institute's Bill Nelson, a former Fed economist, looked deeply into the Fed's move from a corridor to a floor system in executing monetary policy. Thomas Hogan, associate professor at The University of Austin, explored the heightened role (and shortcomings) of the Fed's tool of forward guidance. David Beckworth of the Mercatus Center and host of the MacroMusing podcast rounded out the session with a survey of various critiques of the Fed's FAIT framework.

Session 3: How Can the Fed Do Better?

The last session of the day put on the table some novel—and arguably better—framework options to help the Fed achieve its mandate of maximum employment and stable prices. Athanasios Orphanides, professor of practice at MIT and former governor of the Central Bank of Cyprus, highlighted the importance of monetary rules and how a simple rule, such as a modified Taylor rule or a natural growth rule, could improve Fed policymaking. Evan Koenig, recently retired vice president and senior advisor at the Dallas Fed, went into detail on the merits of nominal GDP targeting, including how it would offset wage stickiness, avoid zero lower bound problems, and improve financial stability, among others. Lawrence H. White concluded the session by putting paid to any calls for the Fed to raise its inflation target above 2 percent, noting its economic harms and contrasting it with the benefits of a zero or even a negative inflation rate.

Keynote: Christopher J. Waller, Federal Reserve Board of Governors

Concluding the day was Fed Board Governor Chris Waller. In his prepared remarks on the economic outlook, he said he felt “like an MMA fighter who keeps getting inflation in a choke hold, waiting for it to tap out yet it keeps slipping out of my grasp at the last minute.” But he concluded, “submission is inevitable—inflation isn’t getting out of the octagon.” In conversation afterward, Waller talked about the importance of observing real-world activity, not just models, in reference to his Beveridge curve work that led him to the view that rates could tighten sooner than others at the Fed. He touched on the Fed’s floor system and the role of the neutral rate of interest. Waller also commented that the long and variable lags of monetary policy refer to its “maximum” effect—a policy statement can affect the market immediately.

Conclusion

It was a jam-packed day with a smattering of monetary history, monetary theory, real-world effects of monetary policy, and monetary ideas for the future. Hate that you weren’t there? Don’t worry. Thanks to CiVL you can watch the show!

But next time, we hope to see you in person.

December 19, 2024

The Social Security Fairness Act Is a $200 Billion Handout to Government Employees

David Rose
(*Senior Research Fellow*)

The election of Donald Trump, coupled with Republican majorities in the House and Senate, means that there is a great deal to report and analyze in the domestic news cycle. But the outgoing government is not done yet, so the stage is set for some very important things to sneak under the political radar.

One such thing is HR 82, the Social Security Fairness Act, which passed the House by an overwhelming margin (327-75) on November 12. This bill contains a great deal of fine print, but one provision should be more than sufficient to produce opposition by anyone who claims to care about sustaining the long-term health of Social Security. It also demonstrates how the lack of a clear vision for the Social Security Program has led to *ad hoc* changes to the program that are long on political gaming and short on fiscal responsibility.

Section 3 of the Social Security Fairness Act repeals the Windfall Elimination Provision (WEP) of the 1983 Social Security Amendments to the original law created with FDR's signature in August of 1935. The Social Security program got into trouble in the early 1980s and a number of changes were instituted to stabilize the program. The most well-known change was to phase in an increase in the full-benefit retirement age from 65 to 67, to adjust the program for the fact that Americans were living longer.

One of the lesser-known changes made in 1983 was the WEP. It addressed a bias in the procedure for calculating a given person's monthly benefit that led to an unfair outcome while also creating additional stress on the budget.

Most state and local government employees have generous pensions provided either by their government employer or their labor union. Workers covered by such pension programs were generally not required to participate in the Social Security program, which was fine with these workers since this meant they would not have to pay Social Security payroll taxes. It was also fine with unions that managed these pensions because money paid into the Social Security program was not under their control, while money paid into their pension plan was.

If all workers worked in covered employment, and therefore paid into Social Security over their earnings lives, or if all workers worked in uncovered employment and therefore did not pay into Social Security but got a generous pension instead, none of this would be problematic. But a common situation was that a person would work for years without paying any Social Security payroll taxes because he or she would be getting a generous pension, but would then retire and go to work in another capacity that was covered by Social Security. If they worked for more than 10 years in such covered employment, they would qualify for a Social Security pension, too.

This is where things get a little tricky. Social Security computes a monthly benefit level based on prior earnings. This begins with adjusting every year's earnings upon which Social Security payroll taxes were imposed to account for the effects of inflation to express all of these amounts in terms of the purchasing power of the year the individual turns 60 (someone who made $150,000 per year in 1980 made much more money in real terms than someone who made $160,000 in 2010). Social Security then selects the 35 highest-valued years and converts this into a monthly average by dividing by 420 (35 years times 12 months per year). Social Security then applies a generous replacement rate of **90 percent** for the first X dollars of this number, **32 percent** for the next Y dollars, and **15 percent** for any remaining monthly income.

The X and Y numbers are called bend points. Because they account for the effects of inflation, they are different for every year. These replacement rates function like progressive income tax rates, because the idea is that those who have the least money need the most generous treatment (at **90 percent** benefit, these workers get nearly all they were earning replaced in retirement) and those who have the most money need the least generous treatment (at **15 percent**, these workers get comparatively little of what they were earning before in retirement).

The problem with this procedure is that when people have uncovered income for which they paid no Social Security payroll taxes, and also have 10 or more years of covered income for which they did, many of their top 35 years will be filled with zeros because the calculation of the average monthly income only accounts for covered income (income earned that was subject to the Social Security payroll tax).

This means that a person who has a very large government pension over employment years in which they paid no Social Security payroll taxes, and also has 10 or more years over which did, they *appear* relatively poor because of all of those zeros in the 35 years in the benefit calculation. Since the program replaces more of their income if they are poor (90 versus 32 or **15 percent**), people with a large pension paid for with uncovered employment might also get the most generous terms on their additional Social Security pension.

To see why this is unfair, imagine you and I are exactly the same age, and that we started our second job at the same company at the same time doing the same thing for the same pay. Suppose we then retire on the same day and start collecting Social Security immediately. Without some kind of adjustment, our Social Security checks would be identical, even if the pension I now get for my first job is huge and yours is tiny or non-existent.

If the replacement rate were, say, **75 percent** for everyone and all income, perhaps that would be fair. But that's not the case. Since the most generous tier (**90 percent**) covers the first X dollars of average income, retired government employees can collect pension dollars for the years they didn't pay into Social Security, while receiving payouts as if they had. These double-dippers could keep more total income than workers who paid in over their whole lives, and likely earned much less. Social Security was paying the relatively rich at a very generous rate, and in so doing costing the budget dearly.

In 1983, the WEP tried to address this unfairness by discounting the replacement rates for double-dippers. That fix was *ad hoc* in nature and its implementation was (and is) complicated, but suffice it to say that since 1983 much of the advantage enjoyed by double-dippers due to their being three different replacement rates is now removed. This means that, after we adjust for inflation, double-dippers today get lower Social Security monthly checks than their identical twins who retired in, say, 1975.

Paying less to double-dippers saved the Social Security Program's budget a great deal of money. As recently reported in The Wall Street Journal, the Congressional Budget Office estimates that over the next 10 years the cost of eliminating the WEP will cost the Social Security budget $196 billion. To put this in perspective, this is more than double what could be saved by increasing the full benefit retirement age from 67 to 70.

As often happens this time of year, especially right after elections, foolish bills are introduced with too little time for proper consideration. The more complex the program involved, the easier it is to sneak something by.

While the WEP is far from perfect, it at least pushes back against a bias introduced by having monthly income replacement rates that are aimed to redistribute income from the relatively wealthy to the relatively poor.

There is profound irony in all of this. If we do nothing, the Social Security Administration estimates that benefits will have to be trimmed by about 20 percent across the board in the future (the earlier they are reduced, the less they need to be reduced). Those who are poorest will be harmed most by this outcome.

With an imminent vote in the Senate and an outgoing president who will surely sign the Social Security Fairness Act into law, public sector pension employees who double-dip will be the only ones helped by removing the WEP. This will worsen the already insolvent Social Security budget and require that benefits be trimmed even sooner than otherwise and/or by a greater amount than otherwise. This will harm those at the bottom the most. It will effectively transfer wealth from the poorest recipients of Social Security benefits to the richest, hardly what supporters of Social Security claim to favor.

No matter how one feels about Donald Trump, it is clear that many who voted for him did so in part because they have grown tired of this kind of last-minute budget game playing. Too often, as now, it benefits a relatively small interest group (fewer than 3 million public-sector double-dippers will receive a windfall from the rule change) at the expense of everyone else, while worsening our budget problems.

December 20, 2024

Why Big Oil Is Now Fighting to Keep the Inflation Reduction Act Alive

Laura Arce
(*Research Associate*)

Ryan Yonk
(*Director of Education and Senior Research Fellow*)

At the time The Inflation Reduction Act was passed it was clear that one of the major political opponents was the fossil fuel and oil industries. Over the last few months, however, the rhetoric has changed and the new refrain has come that "Big Oil urges Trump not to gut Biden's climate law", so what changed?

As usual with laws and sausages, it's better not to see exactly how they get made. When the IRA was being debated, the American Petroleum Institute and almost 60 other trade groups in the natural gas and oil industry sent a letter to Congress, urging lawmakers to reconsider its regulatory policies, but said nothing about the subsidies the Act provided. Lobbyists were especially concerned about the tax imposed on crude oil and petroleum products, new constraints on oil companies' production, and the failure to address fossil fuel permitting. Major conglomerates argued that the provisions of the act were an attack on the oil industry, and especially objected to increased regulations on tailpipe emissions and regulations on methane emissions from oil and gas.

But when all was said and done, the final bill included $369 billion in tax breaks that the industry has taken advantage of — and doesn't wish to lose.

The claimed purpose of the Inflation Reduction Act was (as the name suggests) reducing inflation through a mixture of policies. But that mix grew to include a veritable smorgasbord of pork for many industries, especially for "cleaner" energy, and initially included regulatory provisions hostile to the fossil fuel industry. In total, the Joint Committee on Taxation estimates these handouts come at a cost of almost $633 billion, and it became clear over time that major fossil fuel companies would get access to at least some of this pork through their "clean energy" focused subsidiaries.

Oil companies' losses to regulatory costs could be offset by some of the tax cuts, but getting them required costly investments in energy types and technology favored by the Biden Administration and its backers.

Indeed as late as July of this year Dan Eberhart, CEO of Canary, an oil field services company, said "Trump's energy policies — less regulation and favoring fossil fuels — are better for business and the economy." Noticeably, even companies who felt "targeted" by the bill's regulations didn't object to the large subsidies their "clean energy" focused subsidiaries could receive.

In late 2024, that balance of interests necessitated a major change in rhetoric. Big Oil shifted from strongly rejecting the IRA to trying to protect at least parts of it from being eliminated by the new administration.

To capture the IRA's generous subsidies, Exxon Mobil pledged to invest $15 billion to reduce its carbon emissions. Chevron invested $45 million in carbon capture in April of this year, one of the favored practices for which the bill offered tax breaks. ExxonMobil acquired Denbury Inc, a carbon-capture-focused company, for almost $5 billion in July 2023.

Such actions are easily predicted by Public Choice economics, which acknowledges that self-interest drives not only actions in the market but also actions in politics. Business decisions that don't make financial sense on their own can instead be paid for with other people's money in the form of subsidies. Suddenly, what didn't make financial sense for a company before becomes a goal, as political and financial priorities shift toward harvesting the full amount of those subsidies for as long as possible. Even a company that didn't want to may feel pressured to game the system, as its competitors offset regulatory losses by raking in public dollars.

In the wake of the IRA, the oil industry has invested at least $128 billion in renewable fuel, carbon capture, and similar technologies, and expects a large return on those projects in the form of tax credits and publicly funded subsidies. Without the subsidies, those investments make little financial sense and ultimately leave the oil companies holding the bag. As a result, they've joined the voices to protect at least some of the IRA's provisions.

None of this comes as a surprise to those fluent in public choice economics. Naturally, individuals in politics and in the market people and companies follow their own self-interest. But unlike in markets, the machinations of politics (the expectation that other people will pay the costs) lead to riskier decisions. Resources are directed toward harvesting subsidies rather than producing value for consumers. That is a very expensive proposition for taxpayers.

December 23, 2024

Congressional Republicans Will Undermine DOGE if They Won't Budge on Spending

Jason Sorens
(*Senior Research Fellow*)

Congressional Republicans look set to go on a spending spree. According to reporting from the Wall Street Journal, congressional Republicans are moving away from the idea that tax cuts need to be paired with spending cuts. Republicans also look set to boost agricultural subsidies by $10 billion.

These signs bode ill for DOGE, the Department of Government Efficiency effort led by Elon Musk and Vivek Ramaswamy. It's hard to find a more wasteful program than the farm bill, with 80 percent of crop insurance subsidies going to corn, soybeans, wheat, and cotton, which are usually monocropped with environmentally destructive consequences. Americans' health suffers too: Americans who eat fewer subsidized foods have lower risk of becoming obese. If Republicans can't even hold the line on ag subsidies, what will they cut?

Republicans' caving on spending was predictable. My research shows that when Republicans take unified control of the federal government, they on average increase the federal budget by nine percentage points more than the average increase under divided government. (When Democrats take over, they increase the budget by **10 percentage** points more than the divided-government average increase.) Congressional Republicans clearly expect 2025 to be business as usual: busting the budget on the priorities of their favorite special interests.

But President Trump's priorities should be different from those of congressional Republicans. A big spending binge now will cause headaches down the line. Already interest on the debt exceeds defense spending. Federal debt held by the public is at 96 percent of GDP, and when you add in state and local (which you need to do for international comparisons), government debt is around **108 percent** of GDP, only about **25 percentage** points below where debt-burdened Italy sits and now above Spain, formerly one of the biggest debt risks in Europe.

Along with the significant costs it imposes on everyday people, the rising debt removes any leverage President Trump might have had to stimulate the economy or to provide tax cuts later on. If Republicans lose the 2028 election because of a bad economy, it will bode poorly for President Trump's legacy.

Keynesian economists like Paul Krugman say we shouldn't worry about the debt, because it's well below where Japan is. But since Japan's debt exploded, its GDP per capita has essentially flatlined. US GDP per capita is now 59 percent higher than Japan's. The only other large developed country with a twenty-first century growth record as bad as Japan's is… Italy.

If Republicans want to kill the American growth machine, by all means they should continue to spend like drunken sailors. But if they want to super-charge the American growth machine, they will slash spending. Cutting federal spending will increase growth now, because it will reduce future expectations of tax increases. Right now, every investment advisor is urging people with higher incomes to convert their savings into Roth IRAs — they are betting taxes will go up in the future. Imagine what businesses are doing, what long-term investments they're foregoing because they don't want, or can't predict, the future tax liability. Firms have increased their cash holdings over time to deal with macroeconomic uncertainty, including possible future tax increases and higher interest rates caused by the surging debt. Imagine if that cash were freed up for investment in research and development and fixed capital.

Cutting spending and deficits could make it happen.

December 23, 2024

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