AIER Research Reports

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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

Political institutions act to maximize their survival; their purpose tends to come secondary. In the United States, what began as a framework for executing the laws of Congress has, over time, evolved into a dense thicket of agencies, commissions, and offices—each with its own agenda, budget, fiefdoms, and drive for self-preservation. The result is a system that often governs by default, rather than by design, and that resists change regardless of public sentiment or electoral outcomes.

The Department of Government Efficiency, or DOGE, represents the most formidable challenge to that entrenched dynamic ever undertaken. Rather than accepting bureaucratic expansion as inevitable, DOGE is pursuing a course long advocated by economists: reorienting government incentives toward outcomes rather than inputs. In the federal landscape, success has too often been measured by the size of an agency's budget or staff—not by its effectiveness. By confronting that misalignment head-on, DOGE seeks to interrupt the cycle in which institutional growth is equated with achievement, and inefficiency becomes an accepted cost of doing business.

DOGE's early actions—reducing redundant personnel, slashing ideologically-motivated grants, cutting overlooked (but costly) incidentals, and reassessing outdated regulations—represent more than routine administrative reform. They reflect a fundamental reorientation of federal priorities: from preserving institutional privilege to advancing the public interest. It was a strategic masterstroke to begin with USAID, a long-standing symbol of inefficiency, questionable spending, and political favoritism. Targeting such a notorious agency not only guaranteed public attention but sent an unmistakable signal that business as usual was over.

The backlash, however, has been swift and intense. Critics have not confined themselves to op-eds or hearings. Tesla dealerships have been firebombed. Owners of Musk-affiliated vehicles have been harassed. Online threats of injury and death have been directed at both DOGE staff and Musk himself. The message from the foot soldiers of deeply entrenched interests is clear: challenge the status quo, and you will be made to pay for it. But the fury of that response only underscores how embedded not just the administrative state, but its spirit, has become—and how threatening reform truly is to those who benefit from its excesses.

For the first time in a generation there is momentum, and a palpable sense that Washington's inner machinery is being throttled back and reconfigured in meaningful ways.

Real, lasting change won't come easily. It never does. Congress must eventually act to repeal or rewrite the laws that enabled unchecked administrative growth, which they're unlikely to do. To be sure, future administrations may reverse some of DOGE's actions. But some changes will prove irreversible. And perhaps more importantly, many millions of Americans have now seen the rot within; and not only that the rot exists, but that it can be exposed and excised–without so much as a stutter-step in their daily lives. That lesson alone may reshape how the public views the federal government, and what they expect from it, in years to come.

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

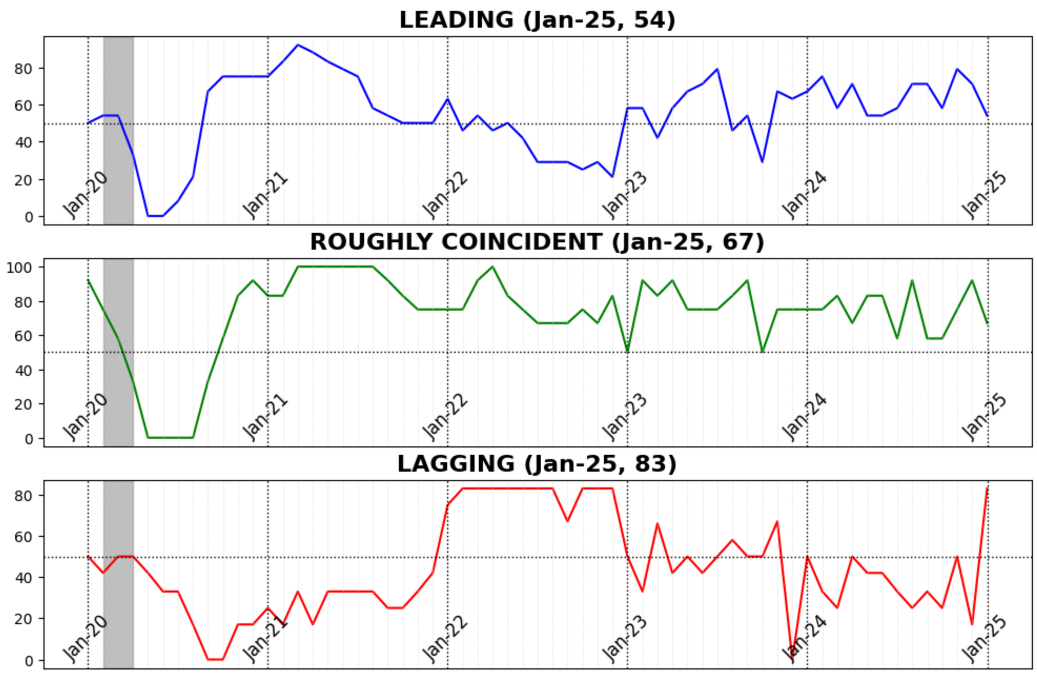
April 2025

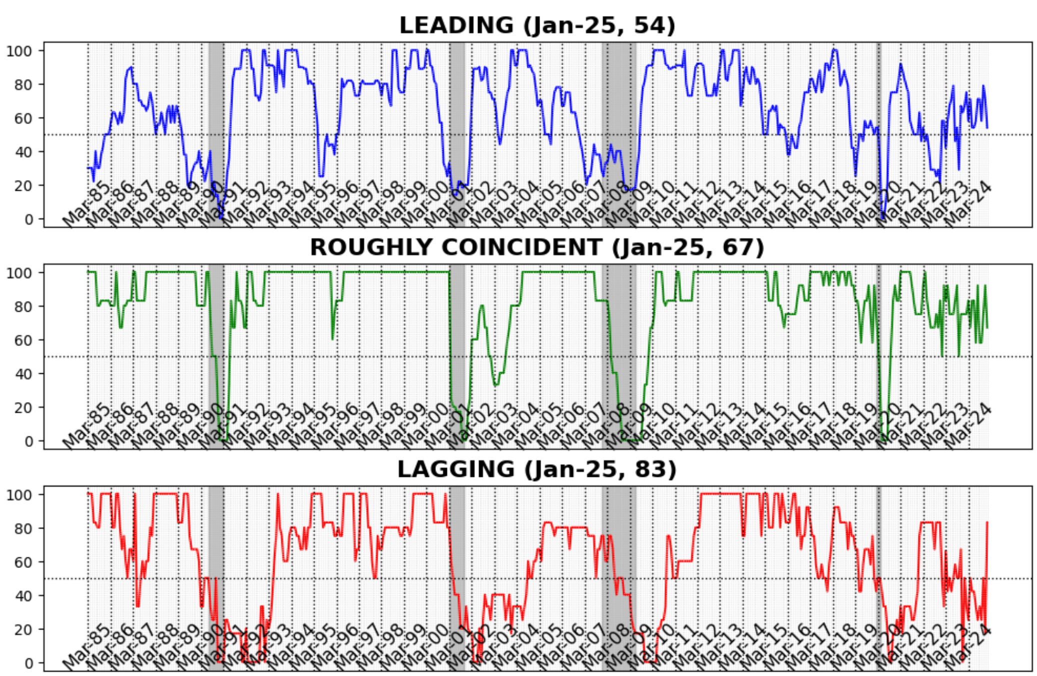
Business Conditions Monthly January 2025

Peter C. Earle
Senior Research Fellow

April 2025

In January 2025, the AIER Business Conditions Monthly indicators showed moderate economic momentum, with leading indicators moderating, coincident measures remaining solid, and lagging indicators rebounding sharply. The Leading Indicator declined to 54, down from 71 in December, reflecting softening forward-looking economic activity. However, the Roughly Coincident Indicator held firm at 67, indicating steady real-time economic conditions, while the Lagging Indicator surged to 83, suggesting improving conditions in longer-cycle economic trends. The divergence between leading and lagging measures indicates short-term uncertainty, though the broader economy shows resilience for now.





LEADING INDICATOR (54)

Of the twelve Leading Indicator components, six rose, one was unchanged, and five declined in January.

The largest increase came from United States Heavy Trucks Sales SAAR, which rose **8.2 percent**, reflecting continued demand for durable goods and business investment in transportation equipment. However, some of this surge may be attributed to forward ordering as firms seek to preempt potential cost increases from upcoming tariffs. US Initial Jobless Claims SA (4.3 percent) and FINRA Customer Debit Balances in Margin Accounts (**4.2 percent**) also increased, indicating a still-resilient labor market and continued risk appetite in equity markets. Manufacturing new orders saw modest gains, with the Conference Board's Manufacturing New Orders for Nondefense Capital Goods (ex-Aircraft) up **0.6 percent** and the Manufacturing New Orders Consumer Goods & Materials Index up **0.12 percent**, suggesting marginal strength in production demand. The Inventory/Sales Ratio rose slightly (**0.01 percent**), pointing to flat inventory management trends.

On the downside, housing activity remained weak, as US New Privately Owned Housing Units Started fell **9.9 percent**, marking a continued slowdown in residential construction. The 1-to-10 Year US Treasury spread declined **8.3 percent**, maintaining its deep inversion, historically a strong recession signal. Consumer sentiment weakened, with the University of Michigan Consumer Expectations Index down **5.3 percent**, and Adjusted Retail & Food Services Sales Total SA down **0.9 percent**, signaling softening consumer demand. Finally, the Conference Board's Leading Index of Stock Prices fell **0.6 percent**, reflecting equity market volatility and investor caution.

ROUGHLY COINCIDENT INDICATOR (67)

Four constituents of the Roughly Coincident Indicator rose and two declined.

The strongest increase came from US Industrial Production SA (**0.5 percent**). Conference Board Coincident Personal Income Less Transfer Payments rose **0.4 percent**, indicating moderate income growth outside of government support. Labor market participation improved, with the US Labor Force Participation Rate up **0.2 percent** and Nonfarm Payrolls increasing slightly (**0.1 percent**). These reflect ongoing, but slowing, job growth in January 2025.

However, consumer sentiment weakened, with the Conference Board's Consumer Confidence Present Situation Index declining **2.9 percent**, reflecting growing uncertainty about near-term economic conditions. Conference Board Coincident Manufacturing and Trade Sales declined slightly (**0.2 percent**), suggesting a modest pullback in real-time business activity.

LAGGING INDICATOR (83)

Of the six components, five rose and one was unchanged. At 83, the Lagging Indicator is at its highest level in 25 months (December 2022).

The strongest gain came from US CPI Urban Consumers Less Food & Energy YoY (**3.1 percent**), reflecting a slowing of the disinflationary trend in core goods and services. Commercial and Industrial Loan activity improved (**0.3 percent**), and Private Construction Spending saw a marginal gain (**0.01 percent**), revealing tepidity in long-cycle business investment. US Manufacturing & Trade Inventories ticked up very slightly (**0.003 percent**), signaling careful, or perhaps hesitant, adjustments to inventory.

The only unchanged measure was US Commercial Paper Placed Top 30 Day Yield, indicating stable short-term credit conditions. The Conference Board's Lagging Average Duration of Unemployment fell **7.2 percent**, suggesting that unemployed individuals are finding jobs faster, a positive sign for the labor market.

The January 2025 AIER Business Conditions Monthly indicators reflect an economy still expanding but more slowly and with mixed signals. The decline in the Leading Indicator from 71 to 54 was driven by weakening consumer sentiment, slowing retail and food services sales, stagnation in manufacturing activity, and pressure from both a deteriorating housing market and tightening financial conditions.Notwithstanding that the Roughly Coincident Indicator (67) remained solid, and the Lagging Indicator (83) improved notably, indicating strength in slower-moving economic components like inflation, credit, and labor market recovery.

The divergence between leading and lagging indicators makes the rapidly escalating uncertainty in forward-looking economic conditions clear, though real-time and lagging measures suggest areas of ongoing resilience. The dual threat of wild, last-minute policy fluctuations ahead of April 2nd and the long-term consequences of what could be the largest tariff increase since the Smoot-Hawley Act of 1930 are now the primary forces shaping economic activity and financial market behavior.

DISCUSSION

February's CPI report highlighted the effects of weakening consumer demand for discretionary goods, reinforcing broader signs of softening consumption. While services disinflation continued, goods price declines stalled, particularly in categories sensitive to tariffs including cars, home furnishings, and apparel. The overall impact of President Trump's trade policies on inflation will depend on whether weaker services spending offsets rising goods prices. For now, the February data suggests that services disinflation outweighed the modest uptick in goods inflation, delaying any significant reacceleration in price growth.

US wholesale inflation stagnated in February, as a **1 percent** decline in trade margins offset rising costs in key sectors, tempering the overall producer price index (PPI), which remained unchanged from January's revised **0.6 percent** gain. Excluding food and energy, PPI declined for the first time since July, though underlying price pressures persisted, particularly in categories tied to the Federal Reserve's preferred inflation gauge, the personal consumption expenditures (PCE) price index. Hospital inpatient care costs rose **1 percent**, portfolio management fees increased **0.5 percent**, and core goods prices (excluding food and energy) climbed **0.4 percent**—the largest monthly gain in over two years. While declining wholesale margins may temporarily shield consumers from higher import and manufacturing costs, sustained weak consumer confidence and pulled-forward durable goods purchases could weaken demand later this year, potentially forcing retailers to accept thinner profit margins. Tariffs imposed by the Trump administration are also set to exert upward price pressures, with an additional **10 percent** levy on Chinese imports introduced in February contributing to notable price gains in iron and steel scrap, machinery, and household goods like furniture and appliances. Meanwhile, food prices surged **1.7 percent**, driven by rising egg costs, while energy prices fell **1.2 percent**. Despite these mixed inflation signals, a separate report showed jobless claims remained stable, reinforcing the resilience of the labor market.

February price data showed broad-based increases in both manufacturing and services, with multiple regional and national surveys reflecting stronger pricing power across industries. The ISM Manufacturing Prices Index surged to 62.4, its highest level since June 2022, up from 54.9 in January, while ISM Services Prices remained elevated at 62.6. S&P Global's US Manufacturing sector recorded its fastest output price growth in two years, while US Services firms raised prices modestly, constrained by competitive pressures and weak demand. Regional Federal Reserve surveys further confirmed rising price pressures, with the Kansas City Fed reporting a third consecutive month of price gains in manufacturing, and its non-manufacturing sector also seeing higher selling prices. The New York Fed's manufacturing prices received index jumped to 19.6 from 9.3, nearly doubling its six-month average, while its services counterpart climbed to 27.4 from 19.4. Similarly, the Philadelphia Fed's manufacturing index increased to 32.9 from 29.7, while the Dallas Fed's manufacturing prices received measure rose to 7.8 from 6.2. The Chicago PMI indicated an acceleration in price expansion, and the Richmond Fed's manufacturing index showed a modest uptick, with prices received rising to 1.62 from 1.21.

While price pressures were broadly higher, select areas saw moderation. The Dallas Fed's services sector reported a decline in selling prices, falling to 7.9 from 13.7, and the Philadelphia Fed's non-manufacturing prices received index turned negative, dropping to -1.1 from -0.3. Richmond Fed services prices edged lower to 3.31 from 3.55. Overall, the data suggests persistent inflationary pressures, particularly in goods-producing sectors, with some signs of price relief in services. This supports a mixed inflation outlook, with price growth accelerating in manufacturing and remaining firm in services, despite isolated instances of easing.

Job growth in February 2025 exceeded expectations, with nonfarm payrolls rising by 151,000, led by gains in construction, manufacturing, health care, financial activities, transportation, and social assistance, while declines occurred in leisure and hospitality, retail, and government employment, particularly at the federal level due to a hiring freeze. The average workweek remained steady at 34.1 hours, contributing to a **0.3 percent** increase in weekly earnings. However, labor market slack widened, with the unemployment rate (U-3) rising to **4.14 percent**, reflecting an increase of 203,000 unemployed individuals. The U-2 rate, which tracks job losses, also climbed, while the broader U-6 measure of underemployment surged to **8.0 percent**, indicating a rise in discouraged and involuntarily part-time workers. The labor force participation rate dipped to **62.4 percent** as employment declined by 588,000, and transitions out of unemployment slowed, signaling weaker hiring momentum. Aggregate labor income rose **0.4 percent**, largely on wage growth, but signs of labor market softening—particularly higher unemployment, an expanding pool of job seekers, and slower re-employment—reinforce expectations for a 75 basis point rate cut by the Federal Reserve in 2025 as economic conditions deteriorate.

US consumer sentiment fell sharply in early March, reaching its lowest level since November 2022, as concerns over tariffs and economic uncertainty weighed on confidence. The University of Michigan's preliminary sentiment index declined to 57.9 from 64.7

in February, marking a steeper drop than any economist forecasted. Long-term inflation expectations surged by **0.4 percentage** point to **3.9 percent**, the largest monthly increase since 1993, while one-year inflation expectations rose to **4.9 percent**, the highest since 2022. As President Trump's tariffs expand, consumers across the political spectrum increasingly fear rising costs, with **48 percent** of survey respondents mentioning tariffs unprompted, expecting them to drive future inflation higher. Households' financial expectations hit a record low, and respondents assigned just a **48.7 percent** probability to stock market gains over the next year, the weakest reading since May 2023.

Deteriorating confidence presents a growing risk to consumer spending, particularly in big-ticket purchases like homes, vehicles, and discretionary goods. The current conditions gauge fell to 63.5, a six-month low, while the expectations index dropped to its lowest level since July 2022. Political divisions were evident, with confidence among Democrats falling nearly 10 points, independents down 5.4 points, and Republicans slipping nearly 3 points. Economists warn that increased uncertainty over policy shifts and economic conditions is making it difficult for consumers to plan for the future, reinforcing fears that slowing confidence could curb household spending and contribute to economic downside risks in the months ahead.

Small-business optimism declined in February as inflation, policy uncertainty, and concerns over tariffs weighed on sentiment. The NFIB Small Business Optimism Index fell 2.1 points to 100.7, slightly below expectations, with the sharpest declines in economic outlook (-10 points), expected sales (-6 points), and expansion plans (-5 points). While job openings (+3 points), earnings trends (+1 point), and expected credit conditions (+1 point) improved, overall optimism remains well below December's peak of 105.1, though still higher than the pre-election level of 93.7 in October. Hiring plans softened, with only **15 percent** of owners planning to add jobs in the next three months, down 3 points from January, as retail, construction, and manufacturing faced the greatest labor shortages. Just **19 percent** of businesses plan to expand in the next six months, reflecting lower expected sales (**14 percent**, down 6 points) and weak profitability trends (-**24 percent**). Inflation pressures intensified, with **32 percent** of firms raising prices, a 10-point jump and the largest increase since April 2021, though businesses held off on preemptive pricing adjustments ahead of tariffs. Despite tax cuts and deregulation boosting the long-term outlook, high uncertainty is keeping small businesses in a wait-and-see mode, limiting hiring and expansion.

February retail sales fell short of expectations, reinforcing concerns about a slowdown in consumer spending, while weaker manufacturing and homebuilder sentiment further signaled softening economic momentum. Retail sales rose marginally, but seven of the 13 categories declined, including motor vehicles, electronics, apparel, and gasoline, with restaurant and bar sales posting their sharpest drop in a year. January's figures were revised downward, marking the largest decline since July 2021. While e-commerce activity and healthcare spending lifted control-group sales by **1 percent**, economists noted that seasonal adjustments played a significant role, limiting optimism for first-quarter GDP. Weaker income growth and rising job insecurity are likely curbing discretionary spending, particularly among lower-income consumers, while wealthier households may also cut back on major purchases following recent stock market volatility. Business caution is rising as New York state manufacturing activity dropped to its lowest level since early 2024 and homebuilder confidence fell to its weakest reading since August. Mounting uncertainty over tariffs, slowing wage growth, and deteriorating consumer sentiment increase the likelihood of weaker economic expansion, with some analysts warning that first-quarter GDP growth could contract.

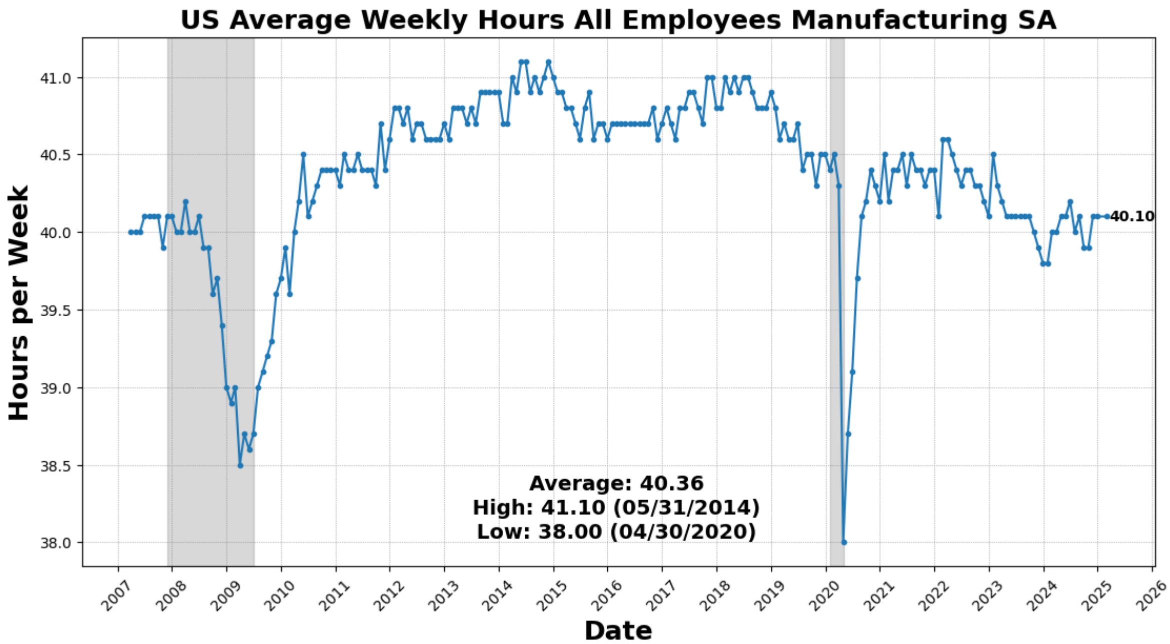
US manufacturing activity in February edged closer to stagnation, with orders and employment contracting even as input costs surged. The ISM Manufacturing Index slipped 0.6 points to 50.3, while prices paid for materials jumped 7.5 points to 62.4, the highest since June 2022, signaling renewed inflationary pressures. New orders fell 6.5 points to 48.6, the first contraction since October 2024, and factory employment dropped 2.7 points to 47.6, marking contraction in eight of the past nine months. Rising costs, largely driven by tariff-related supply disruptions, are creating backlogs and inventory imbalances, with businesses struggling to pass on price increases amid softening demand. Imports climbed to 52.6, the highest since March 2024, as firms ramped up orders ahead of Trump administration tariffs on Mexico and Canada set to take effect Tuesday. Meanwhile, headline industrial production surged **0.7 percent**, largely due to a **4.3 percent** jump in consumer durable goods output, led by a sharp rise in automotive production. Manufacturing production expanded **0.9 percent**, while business equipment output rose **1.6 percent**, continuing its strong growth since November. Capacity utilization increased to **78.2 percent** from **77.7 percent**, as factories ramped up activity. The surge in production may reflect firms front-loading output before tariffs disrupt supply chains, suggesting a potential slowdown ahead. However, with Trump administration policies focused on onshoring and boosting domestic manufacturing, industrial activity may continue to receive moderate tailwinds despite near-term volatility.

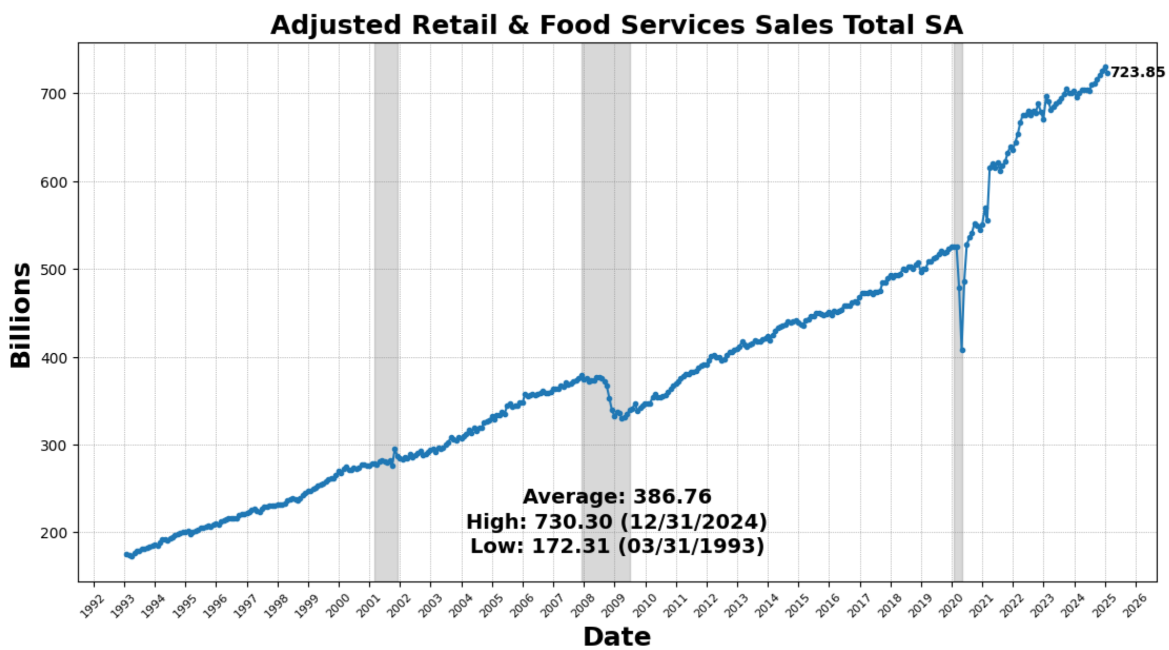
In February and early March of 2025 the US economy showed mixed conditions. Moderate consumer spending growth, stable vehicle sales, and resilience in financial services were evident but clear signs of strain in manufacturing, construction, and agriculture are becoming clear. Holiday retail sales exceeded expectations, and nonfinancial services, including leisure, hospitality, and transportation, expanded modestly, particularly in air travel. Commercial real estate saw slight gains, and lending activity remained steady with little deterioration in asset quality. However, construction activity declined as high material and financing costs dampened growth, and residential real estate remained stagnant due to elevated mortgage rates. Manufacturing slipped slightly, with firms stockpiling inventories in anticipation of higher tariffs and truck freight volumes fell, signaling weaker goods demand. Rising delinquencies among small businesses and lower-income households raised concerns about financial stability and the overall disposition of consumers. Agricultural conditions remained weak, with low farm incomes and weather disruptions adding pressure.

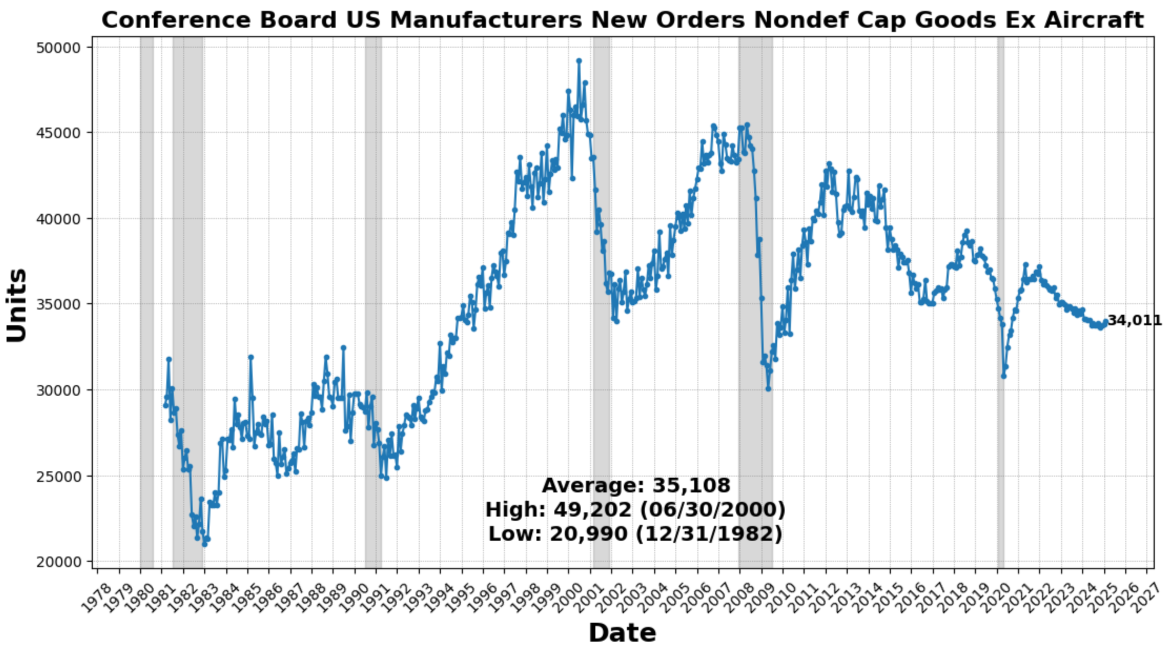
The huge surge in consumer and business optimism seen in November 2024, driven by disinflationary progress and strong corporate expectations of pro-business policies has steadily eroded in the face of skyrocketing uncertainty. By February and early this month stubborn inflation, weakening employment trends, and clear signs of consumer distress have fueled a sharp reversal in sentiment. Record levels of policy instability—marked by an unprecedented pace of executive orders, shifting tariff threats, and mounting regulatory uncertainty—has further compounded economic unease, disrupting business planning and investment. With the Trump administration's full slate of tariffs set to take effect on April 2nd, trade flows, input costs, and corporate strategies face the potential for significant upheaval.

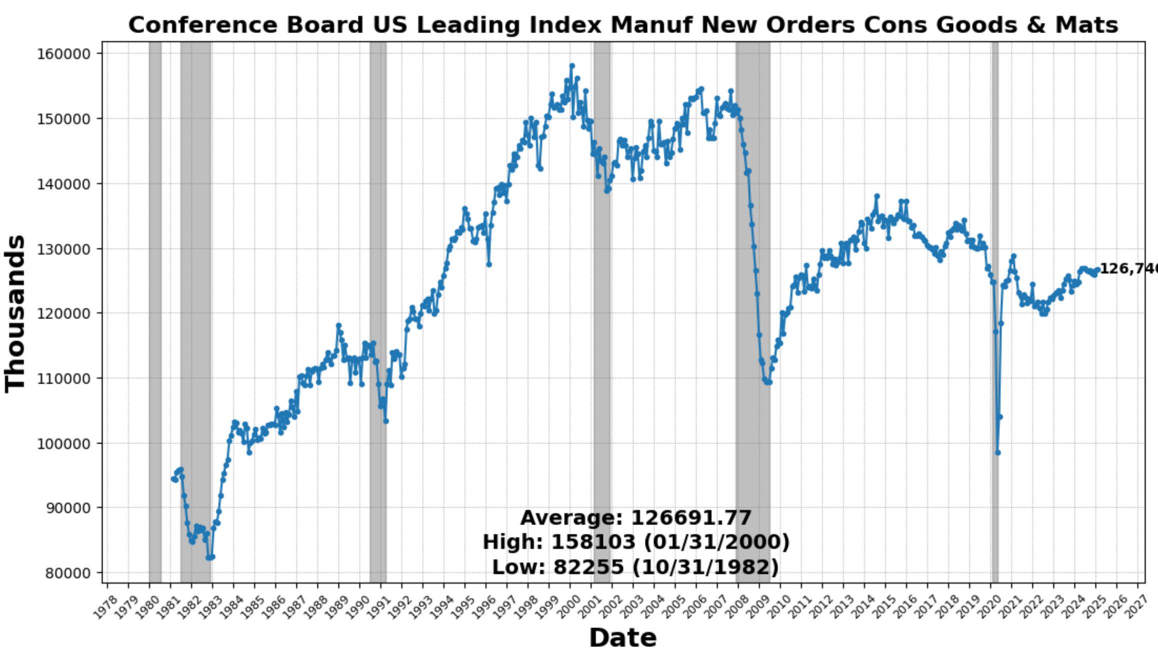
With businesses and households increasingly moving to the sidelines amid mounting economic uncertainty, concerns over the likelihood of a recession have risen sharply. Public discourse on the subject has intensified, and while the ultimate outcome remains uncertain, these concerns may not be premature. Given the current policy and economic landscape, strong caution is warranted.

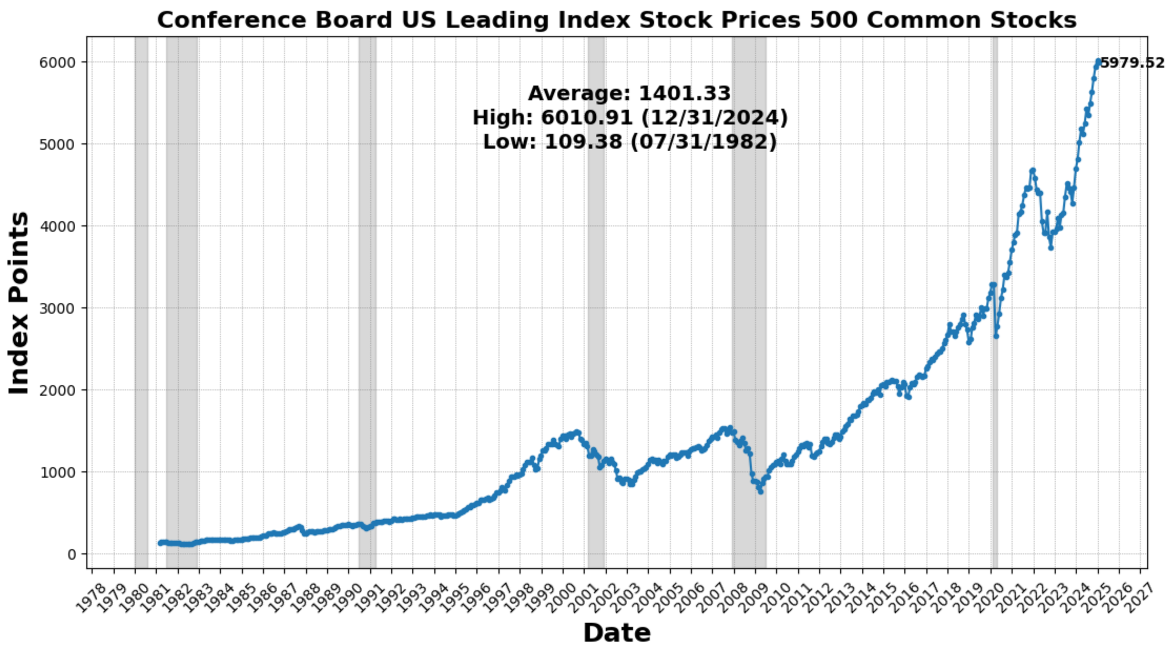
Leading Indicators

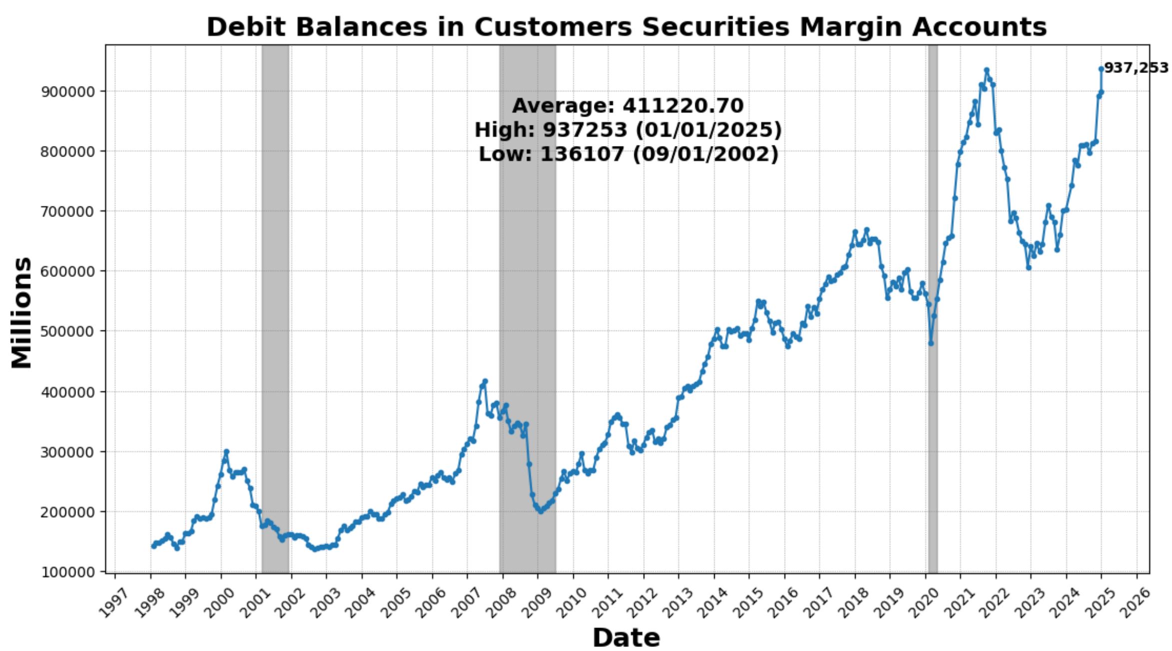


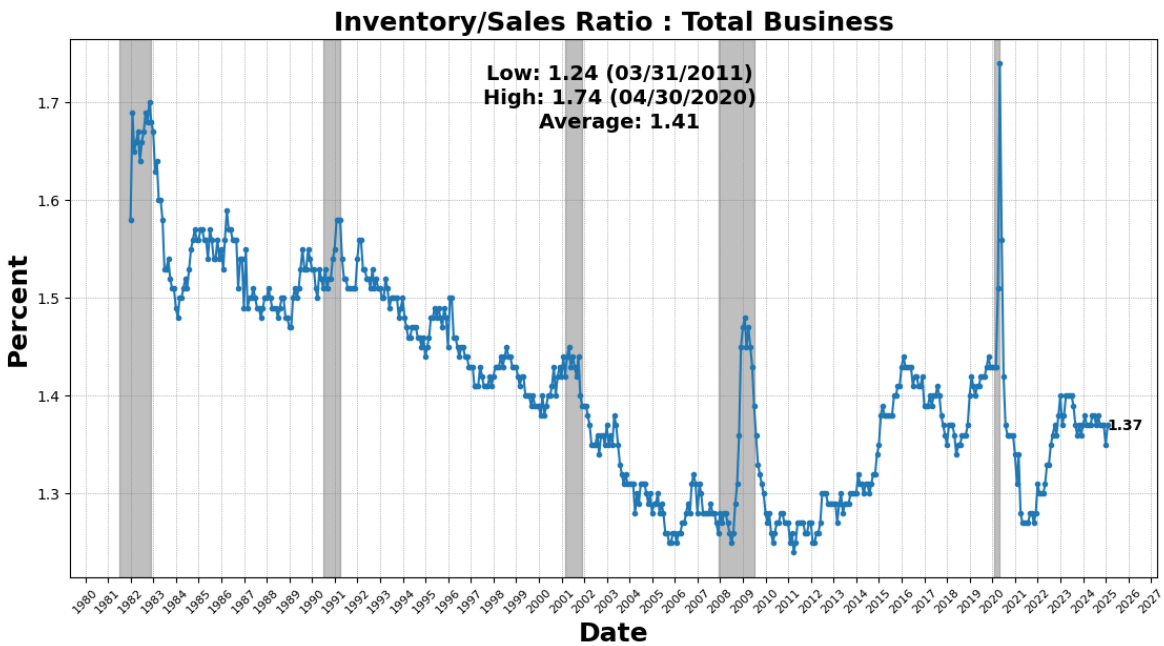


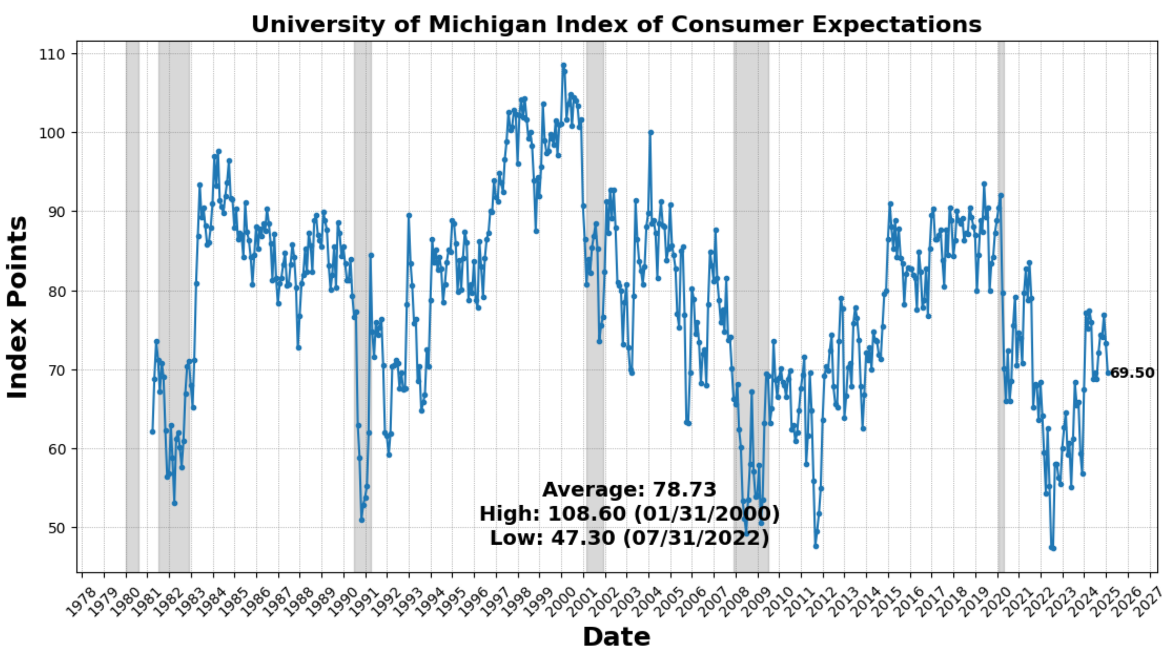

Conference Board US Manufacturers New Orders Nondef Cap Goods Ex Aircraft
Units
Date
34,011
Average: 35,108
High: 49,202 (06/30/2000)
Low: 20,990 (12/31/1982)

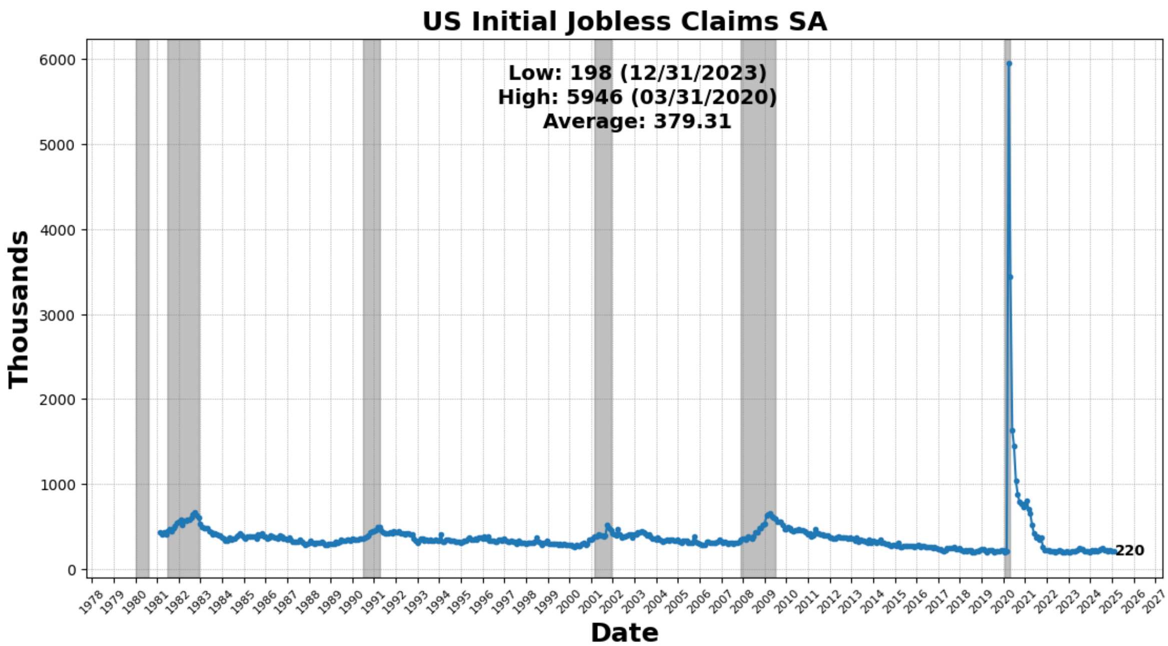

Conference Board US Leading Index Manuf New Orders Cons Goods & Mats
Thousands
Date
126,740
Average: 126691.77
High: 158103 (01/31/2000)
Low: 82255 (10/31/1982)

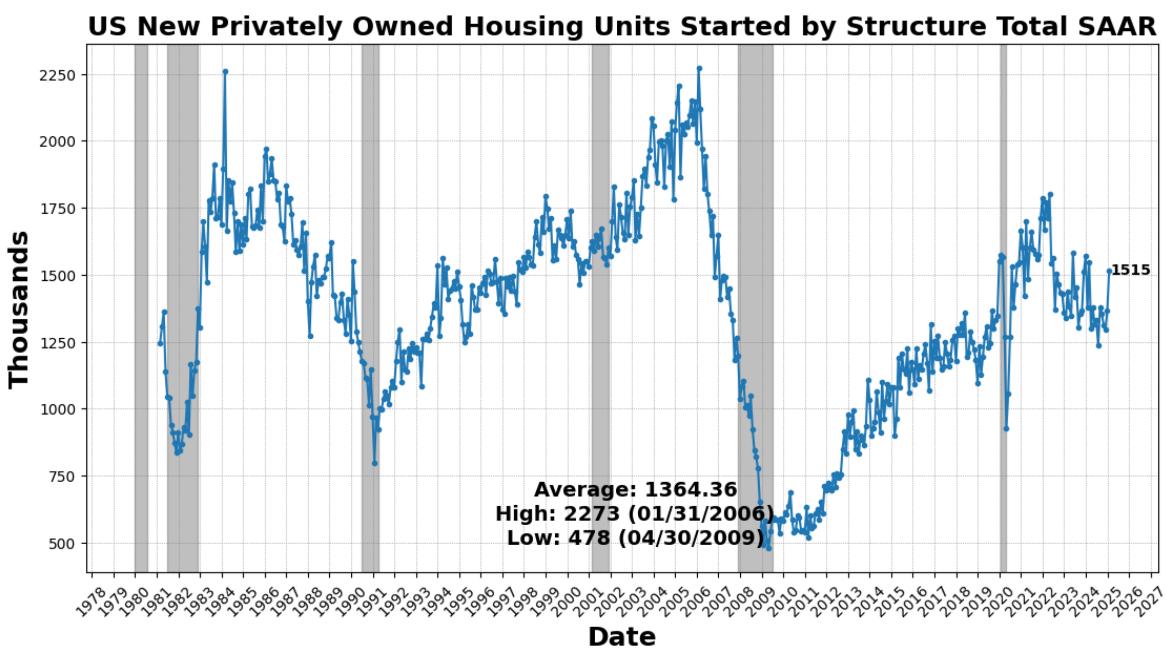

Conference Board US Leading Index Stock Prices 500 Common Stocks
Average: 1401.33
High: 6010.91 (12/31/2024)
Low: 109.38 (07/31/1982)
5979.52
Index Points
Date

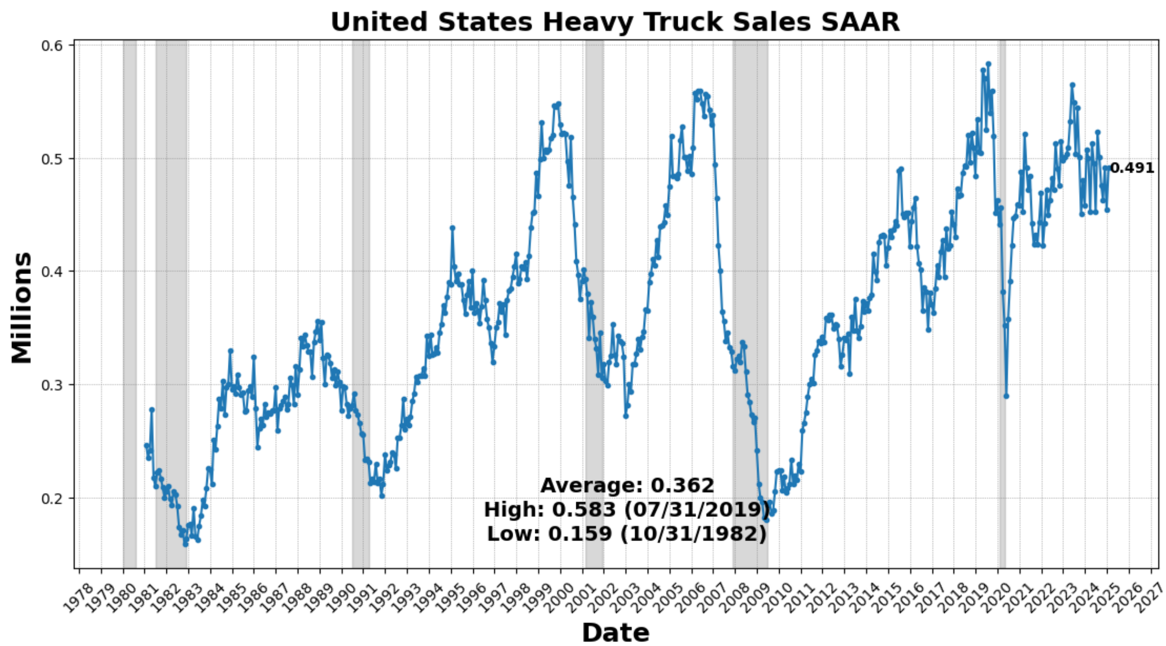

Debit Balances in Customers Securities Margin Accounts
Average: 411220.70
High: 937253 (01/01/2025)
Low: 136107 (09/01/2002)
937,253
Millions
Date

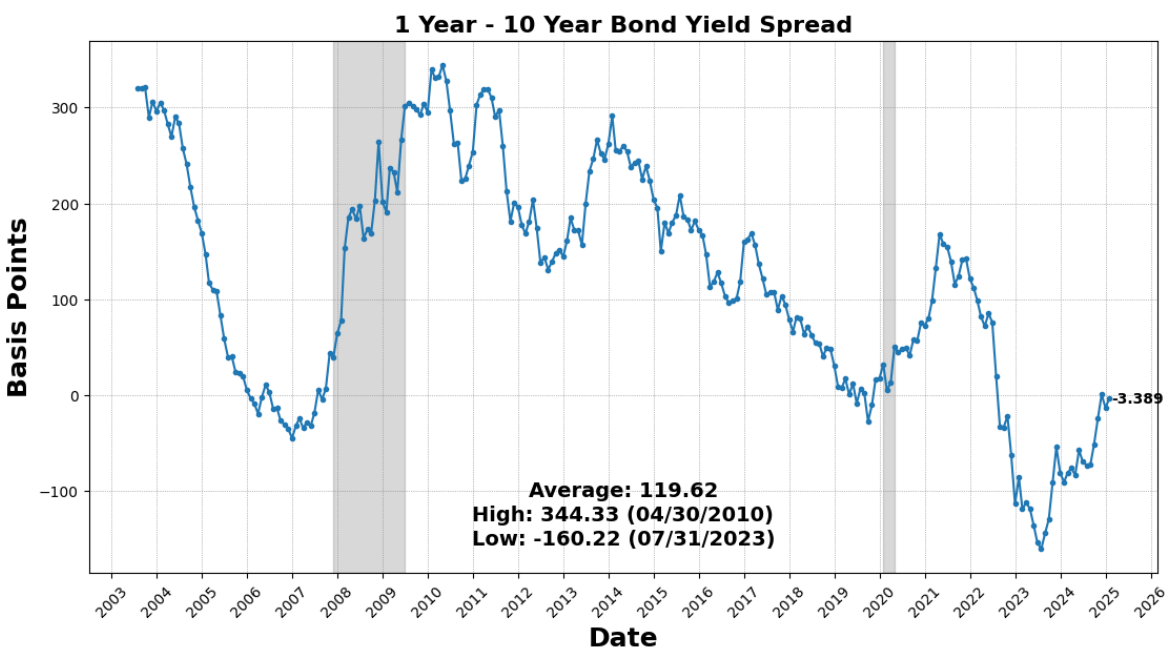

Inventory/Sales Ratio : Total Business
Low: 1.24 (03/31/2011)
High: 1.74 (04/30/2020)
Average: 1.41
Percent
Date
1.37


University of Michigan Index of Consumer Expectations
Average: 78.73
High: 108.60 (01/31/2000)
Low: 47.30 (07/31/2022)
Index Points
Date
69.50

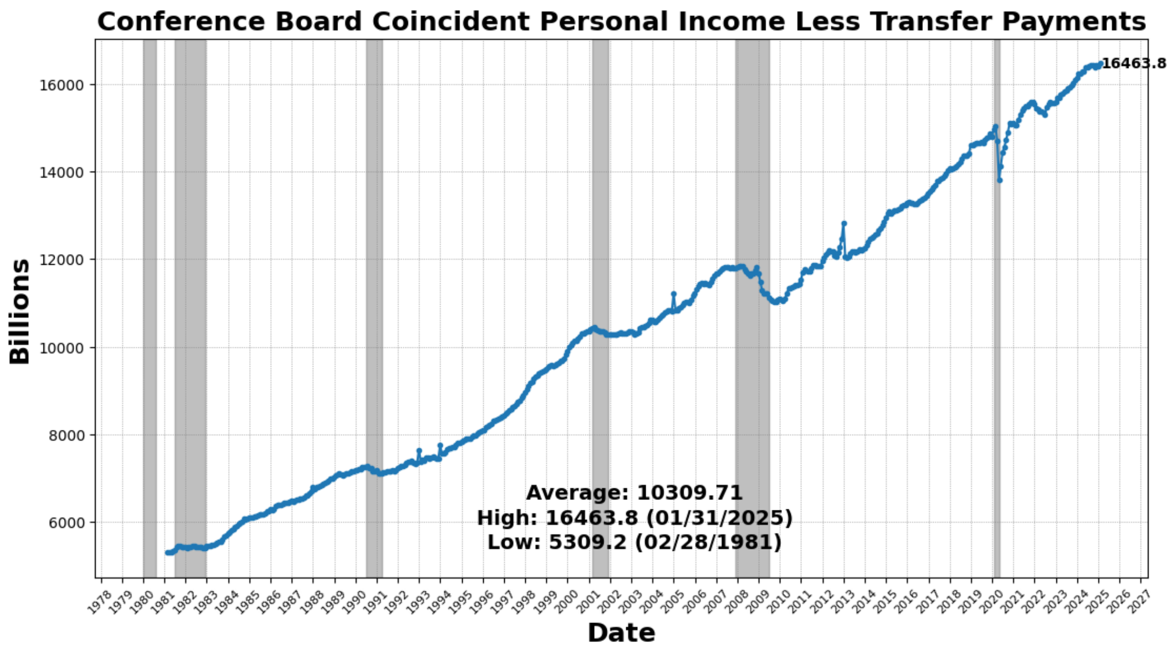

US Initial Jobless Claims SA
Low: 198 (12/31/2023)
High: 5946 (03/31/2020)
Average: 379.31
Thousands
Date
220

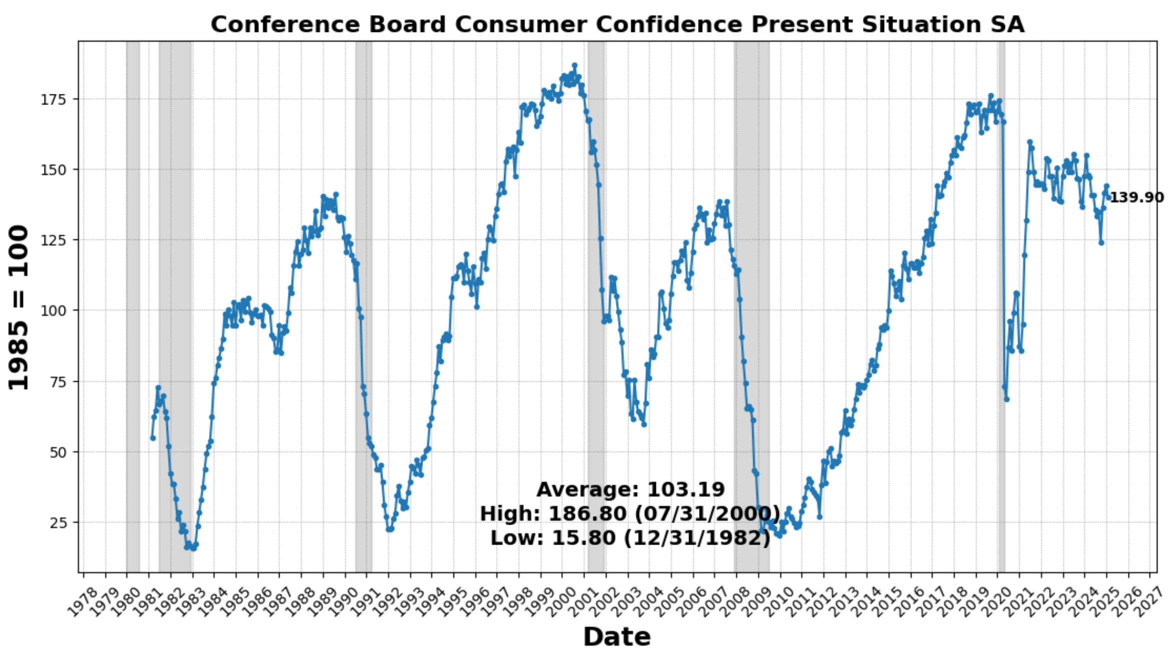

US New Privately Owned Housing Units Started by Structure Total SAAR
Average: 1364.36
High: 2273 (01/31/2006)
Low: 478 (04/30/2009)
Thousands
Date
1515

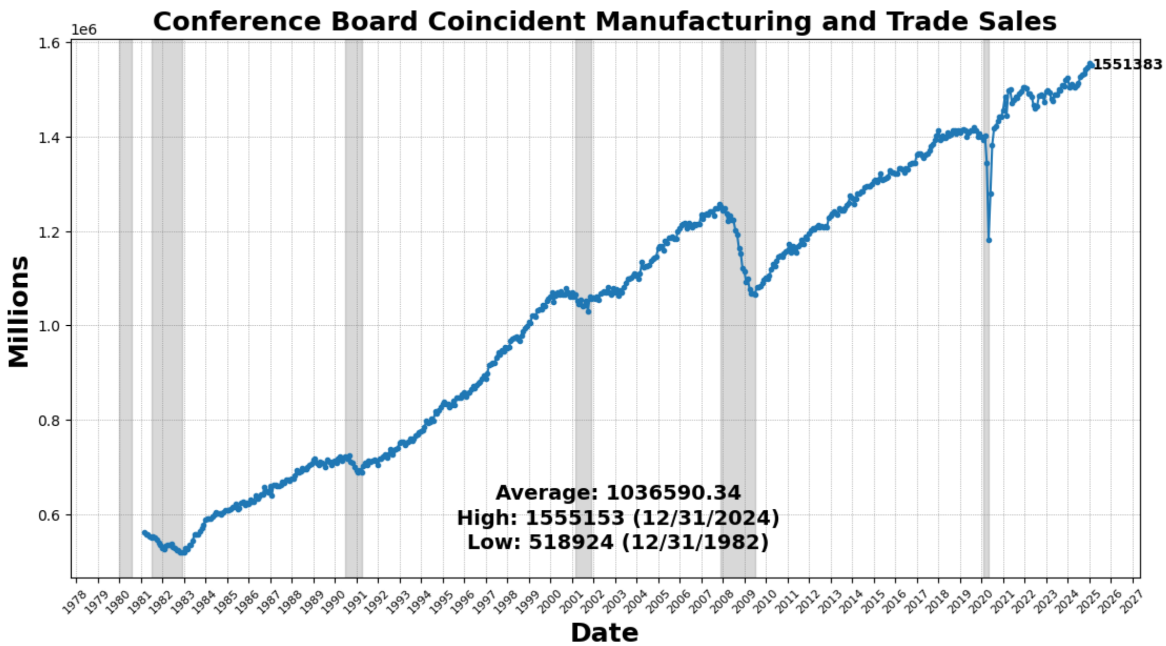

United States Heavy Truck Sales SAAR
Millions
Date
Average: 0.362
High: 0.583 (07/31/2019)
Low: 0.159 (10/31/1982)
0.491

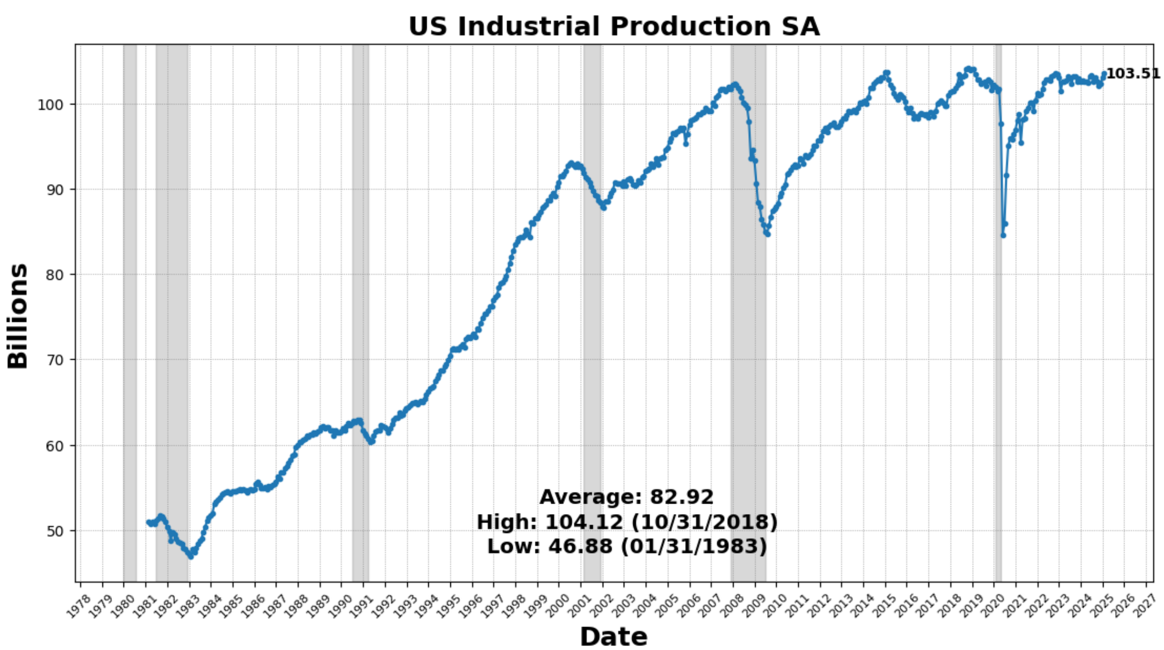

1 Year - 10 Year Bond Yield Spread
Basis Points
Date
Average: 119.62
High: 344.33 (04/30/2010)
Low: -160.22 (07/31/2023)
-3.389

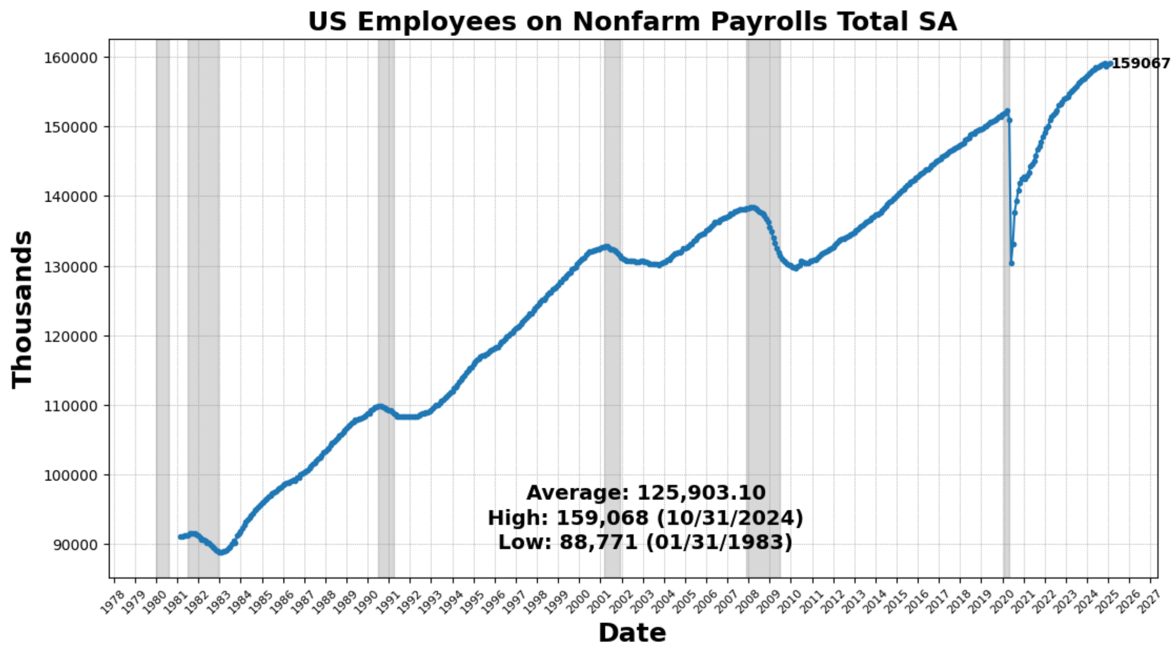
Roughly Coincident Indicators

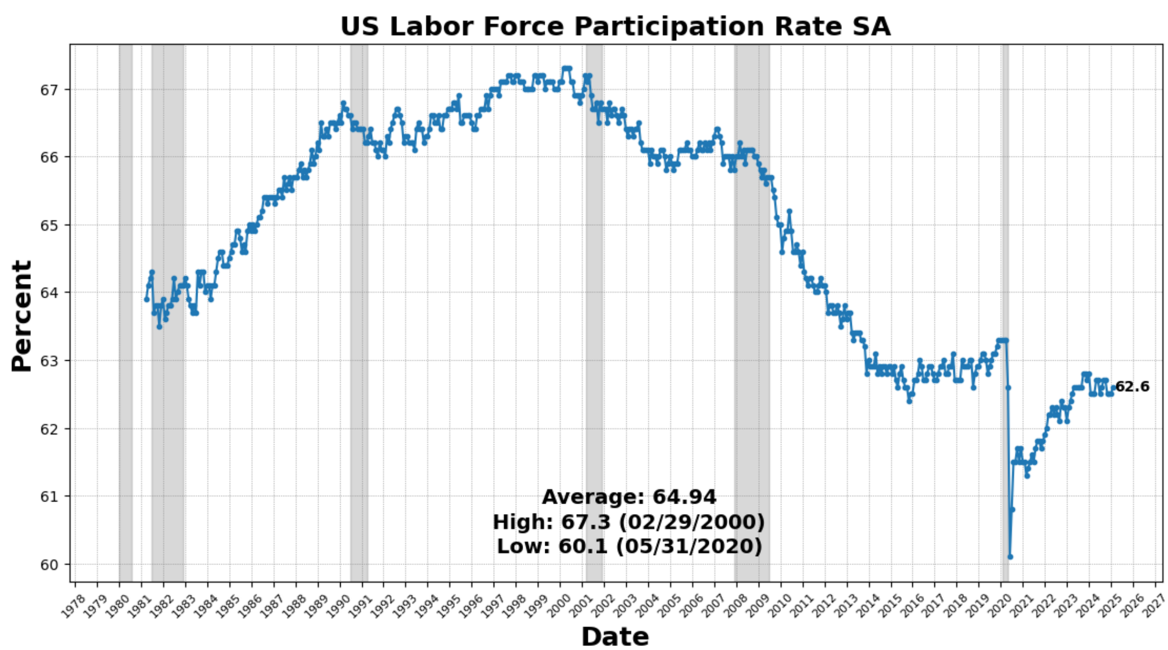




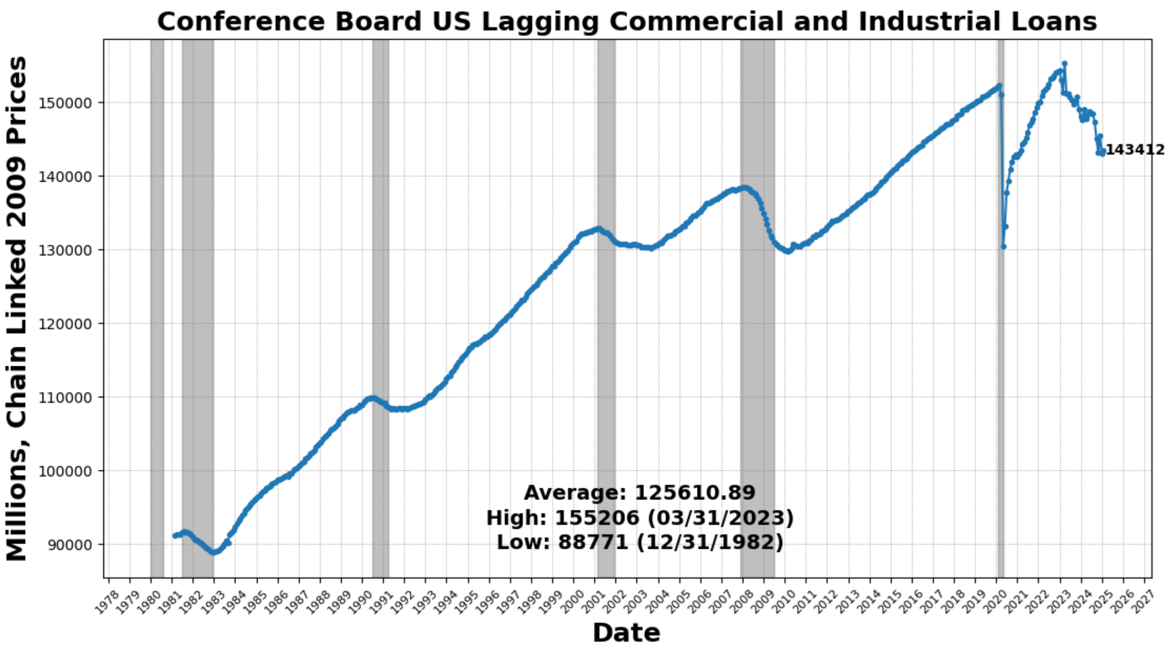

Conference Board Coincident Manufacturing and Trade Sales
1e6
Millions
Date
1551383
Average: 1036590.34
High: 1555153 (12/31/2024)
Low: 518924 (12/31/1982)

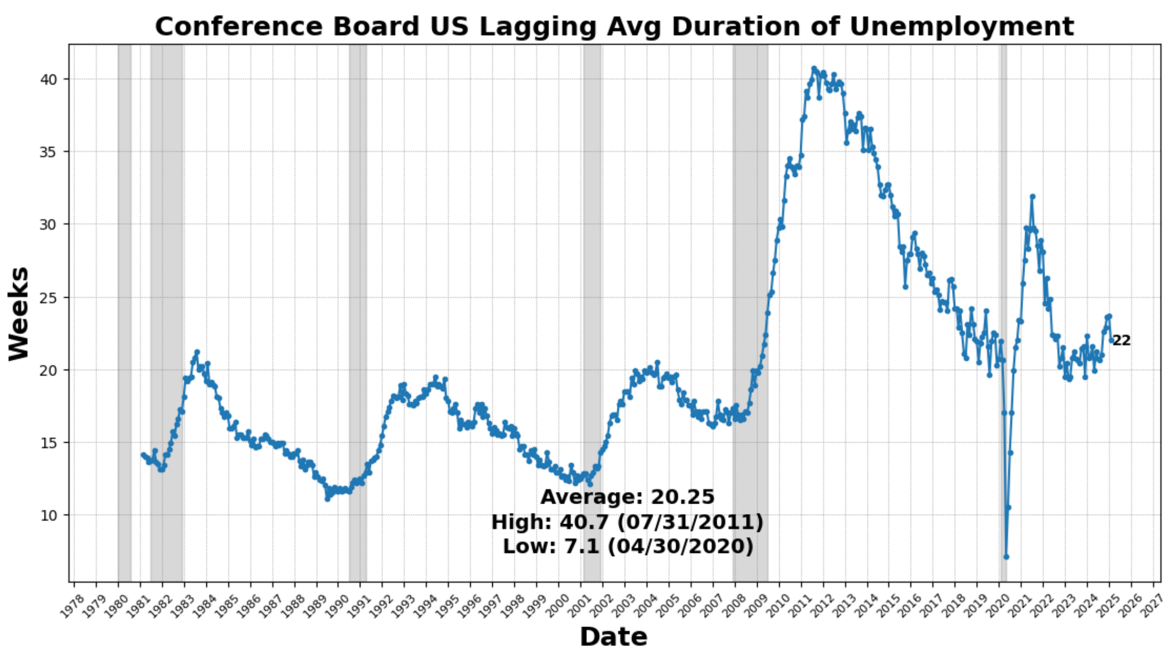

US Industrial Production SA
Billions
Date
103.51
Average: 82.92
High: 104.12 (10/31/2018)
Low: 46.88 (01/31/1983)

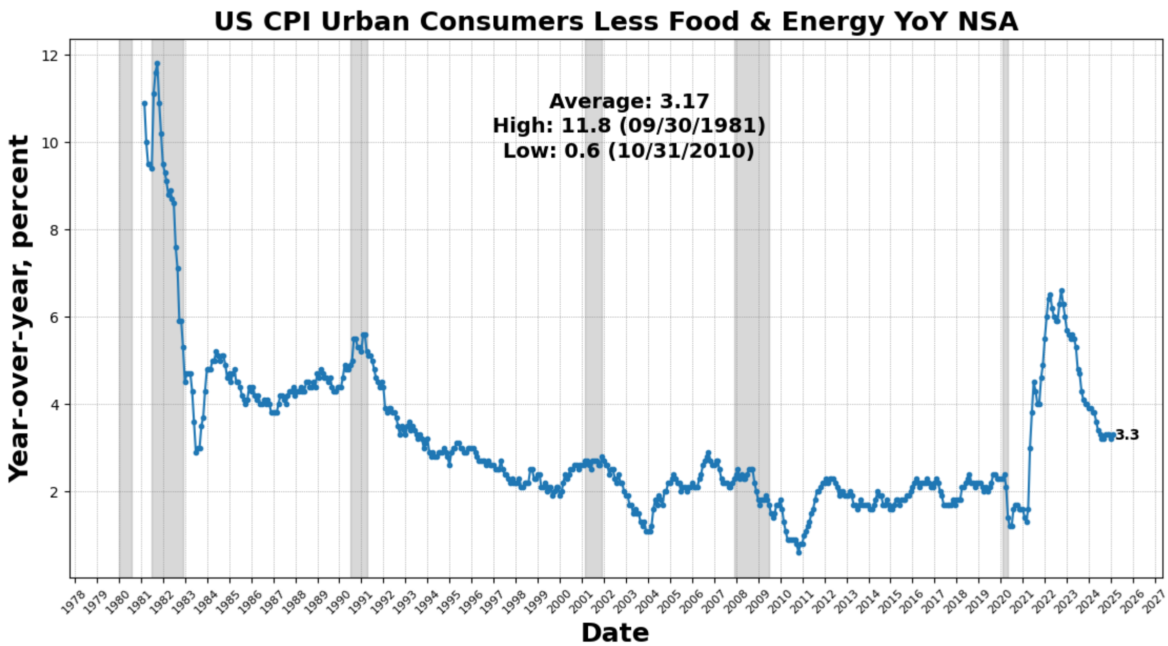

US Employees on Nonfarm Payrolls Total SA
Thousands
Date
159067
Average: 125,903.10
High: 159,068 (10/31/2024)
Low: 88,771 (01/31/1983)

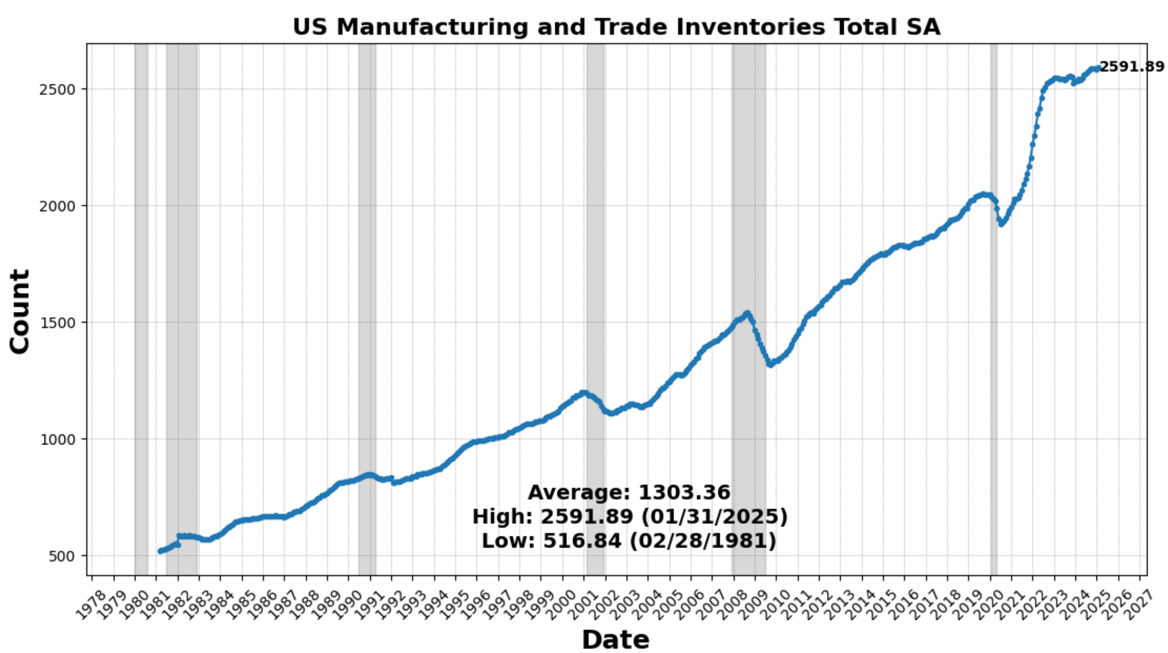

US Labor Force Participation Rate SA
Percent
Date
62.6
Average: 64.94
High: 67.3 (02/29/2000)
Low: 60.1 (05/31/2020)

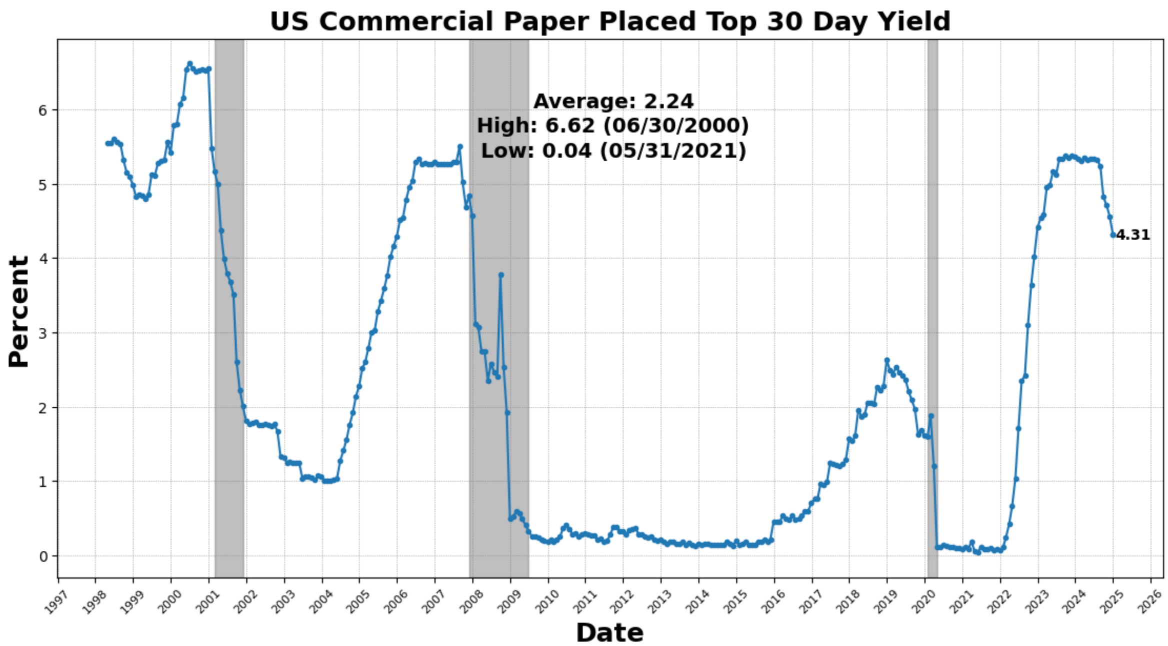
Lagging Indicators






US CPI Urban Consumers Less Food & Energy YoY NSA
Average: 3.17
High: 11.8 (09/30/1981)
Low: 0.6 (10/31/2010)
Year-over-year, percent
Date
3.3


US Manufacturing and Trade Inventories Total SA
Average: 1303.36
High: 2591.89 (01/31/2025)
Low: 516.84 (02/28/1981)
Count
Date
2591.89


US Commercial Paper Placed Top 30 Day Yield
Average: 2.24
High: 6.62 (06/30/2000)
Low: 0.04 (05/31/2021)
4.31
Percent
Date
0
1
2
3
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1997
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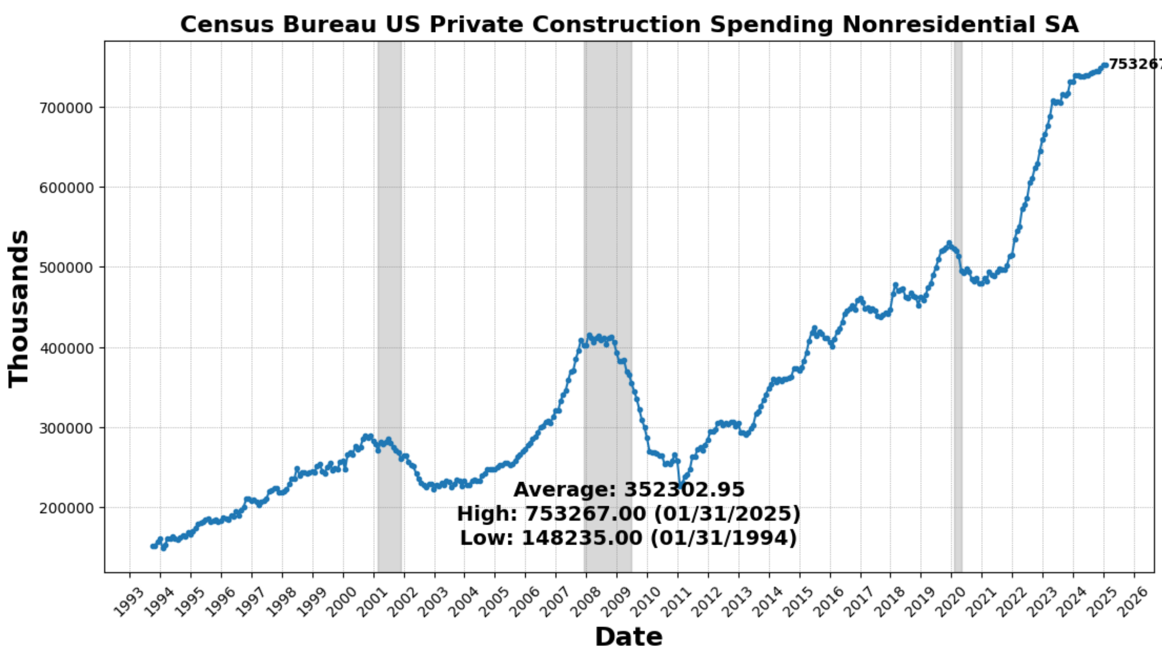
Census Bureau US Private Construction Spending Nonresidential SA
753267
Average: 352302.95
High: 753267.00 (01/31/2025)
Low: 148235.00 (01/31/1994)
Thousands
Date
200000
300000
400000
500000
600000
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Capital Market Performance

Ticker	Short Name	%1M	%3M	%1YR	3 Year Annualized Total	5 Year Annualized Total	10 Year Annualized Total
SPR	S&P 1500 Composite Index	-7.90%	-3.69%	+8.60%	9.0770	20.3157	12.5977
SPXT d	S&P 500 Total Return	-8.50%	-3.98%	+9.89%	9.6200	20.3894	12.9620
SPX d	S&P 500 INDEX	-7.83%	-3.47%	+9.36%	9.5982	20.3680	12.9454
MID d	S&P 400 MIDCAP INDEX	-7.45%	-4.38%	+1.02%	4.5355	20.3512	9.1515
RTY d	RUSSELL 2000 INDEX	-9.40%	-6.91%	+1.58%	.8577	17.1534	7.2012
SXXP d	STXE 600 (EUR) Pr	+.66%	+9.69%	+10.00%	10.4677	18.3192	7.0991
TLT US d	ISHARES 20+YR TR	+2.74%	+3.21%	-2.46%	-9.0416	-6.4505	-.8379
QLTA US d	ISHARES AAA - A	+.74%	+1.56%	+.62%	.2864	2.1869	1.9659
CRY d	TR/CC CRB ER Index	-3.96%	+4.78%	+6.00%	1.3304	20.3565	3.0202
XAU	Gold Spot $/Oz	+3.46%	+16.99%	+40.66%			
XAG	Silver Spot $/Oz	+2.60%	+15.49%	+34.66%			
ILM3NAVG	Bankrate 30Y Mortgage Rates Na	-6.13%	-7.54%	-5.73%			
ILM1NAVG	Bankrate 15Y Mortgage Rates Na	-8.73%	-7.76%	-7.76%			
MB301ARM	5 Year ARM	-3.95%	-3.15%	-7.74%			
ILA3NAVG	Bankrate 30Y Fixe Mtg Refis Na	+2.28%	+4.81%	-3.05%			

April 2025

The Fed's Triple Mandate Problem: It's Time to End the Confusion

Alexander W. Salter
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What is the Federal Reserve's job? The standard answer is to maintain full employment and stable prices. This is what economists and commentators mean when they talk about the "dual mandate." But there's a problem—as a matter of law, the Fed's mandate has three parts, not two.

The Federal Reserve Reform Act of 1977 established the Fed's objectives as we know them today. In addition to job promotion and price stability, the central bank is responsible for "moderate long-term interest rates." It's supposed to conduct monetary policy with all three goals in mind.

You almost never hear about the interest rate plank. There's a tacit agreement among policymakers that this portion of the mandate is redundant. The Fed does all it can for interest rates when it achieves its employment and price stability goals.

As a matter of economic theory, this is a strong argument. Interest rates are prices for capital. These ultimately depend on the supply of and demand for loanable funds. We want markets to price capital such that the last additional amount supplied is just as valuable as the last additional amount demanded. This is a standard efficiency result from basic economics. Markets are good at pricing and valuation. Besides maintaining price stability, meaning a stable value for the monetary unit—prices are denominated in dollars, after all—there's not much monetary policy can do to improve it.

But there's a problem here. The law of the land requires the Fed to care about interest rates. Even if economists are right about the redundancy of the interest rate plank, nobody elected them to write the nation's laws. You can't substitute the judgment of a few macroeconomic experts for that of elected legislators without violating the democratic process.

Furthermore, the reasoning behind the alleged irrelevance of interest rates proves too much. The same arguments also imply the Fed shouldn't care about employment! Everything we said about capital markets also applies to labor markets. Supply and demand for labor finds the right balance between additional benefits and costs of working. The Fed does all it can for workers by focusing on price stability. If we truly believe the interest rate plank is redundant, logic compels us to come to the same conclusion about the employment plank.

The Fed has just as much reason to start ignoring the employment plank as it has for ignoring the interest rate plank in recent decades. If the central bank announced it would henceforth interpret the employment and interest rate parts of its mandate as fully covered by the price stability part of its mandate, you can bet economists, public intellectuals, and policy experts would raise a stink. For some reason, everyone views promoting employment as more important than stabilizing interest rates. Something tells me this reflects political biases more than reasoned reflection.

Fortunately, there's a way around this dilemma. We can improve Fed policymaking while also respecting basic democratic norms. The solution is to amend the Federal Reserve Act once more. The economists are, in fact, right about the irrelevance of the interest rate plank. They would also be right about the irrelevance of the employment plank if they would only follow their logic to its necessary conclusion. It's time to end the capital-labor asymmetry by striking these parts of the Fed's mandate.

But economic theory, even good economic theory, does not deserve citizens' obedience. Duly ratified law does. Hence, democratically accountable legislators should narrow the Fed's goal to price stability only.

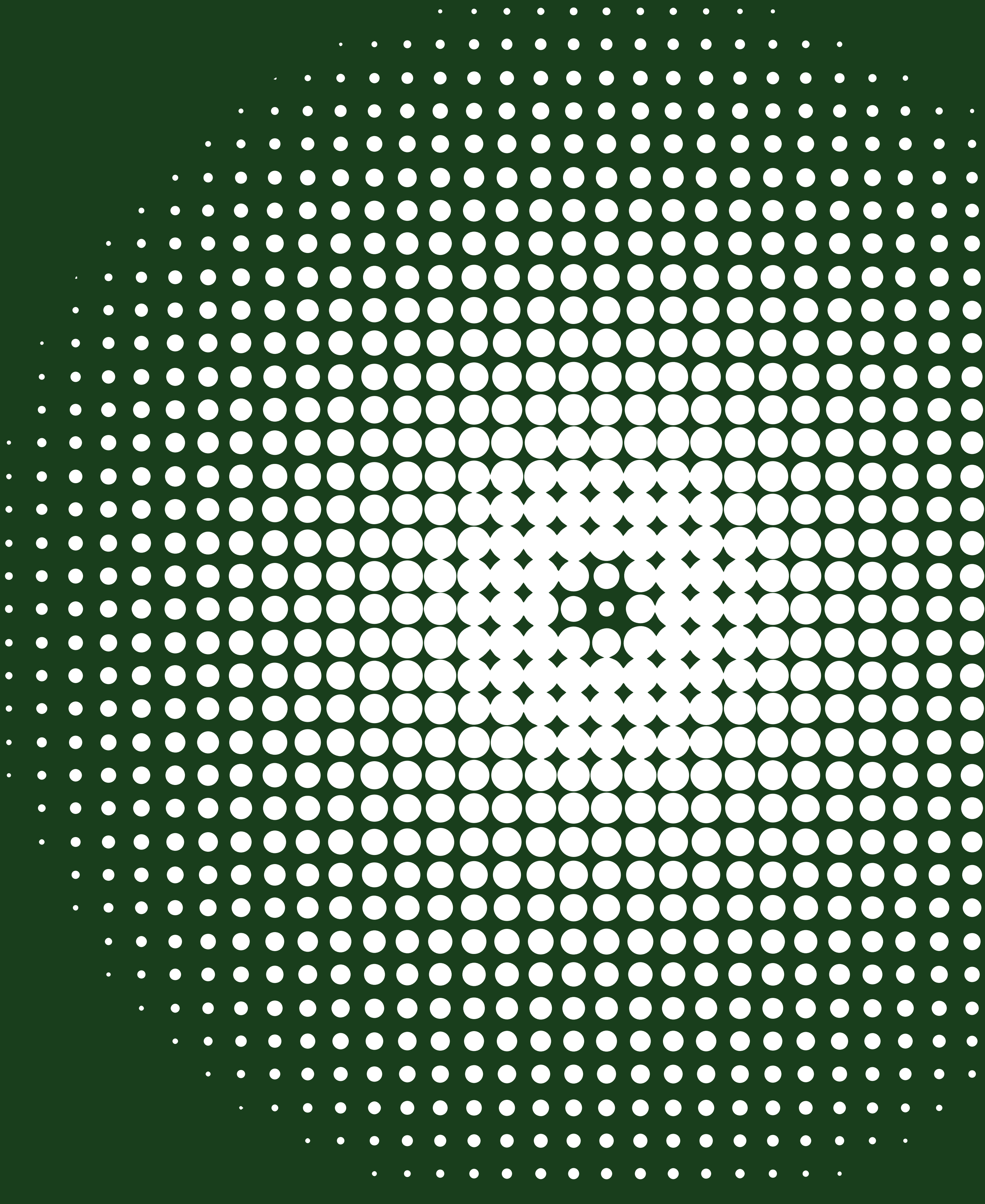
This shouldn't be a hard sell, politically. We're less than three years out from crippling inflation. Prices during the summer of 2022 were rising at almost **10 percent** per year. Even now, Americans are hopping mad about high prices. Eggflation, anyone? While many of these prices reflect non-monetary factors, the overall level of prices is much higher than it would have been had the Fed not overreacted to COVID-19. Frankly, it's an indictment of our elected representatives—especially the Republicans, who campaigned on this—that they haven't already refocused the Fed on one of the few things it can control.

Central banking as a matter of law conflicts with central banking as a matter of policy. Resolving the tension is hopeless unless we both change the relevant statutes and stop selectively applying the economic way of thinking. Let's fix both problems by making the Fed responsible for stable prices alone.

April 2025

Tariffs are Pushing Our Neighbors – and Prosperity – Away

David Hebert
Senior Research Fellow



Imagine that a longtime friend complains that you've repeatedly tracked mud into his house and threatens to trash your house in return. You endeavor to wipe your feet, perhaps even taking your shoes off altogether, yet the threats continue. Eventually, you have to question the friendship. This is where the US stands with Canada and Mexico, our closest trade partners, as the threat of tariffs continues to erode generations of economic goodwill.

Despite both Canada and Mexico attempting to accede to US demands, they are now faced with renewed saber-rattling. While both countries will likely try to placate, it is becoming clear that both countries have begun questioning the role they want the US to play in their economies.

Canada's Trade Minister, Mary Ng, continues to pursue a "trade diversification strategy." In an interview, she noted that she was recently in Europe and has plans to visit "Australia, Singapore, and Brunei" and is bringing "hundreds of Canadian businesses… with [her]." She's even encouraging Canadian businesses to find sources for "[parts] or whatever it is that you need for your business" other than the United States, in countries "where Canada has a trade agreement." Mexico, by comparison, has a new free trade deal with the European Union and President Sheinbaum has met with leaders from powerhouses like China and Japan. Both Canada and Mexico are also partners of the Trans-Pacific Partnership – which President Trump withdrew the US from in 2017 – which is looking to add as many as nine new members, including China and Taiwan.

This is a massive shift in US international relations.

For context, Canada sends over **75 percent** of its exports to the US. Mexico, **84 percent**. The US receives **29 percent** of its imports from these two countries alone. Canada's diversification strategy has been long in the making, but its intent has changed. Now, they are less focused on supplementing US trade, but in supplanting it. Mexico's efforts reveal similar logic. Neither country wants to be held hostage by America's whims.

Tariffs have been sold to the American people as a means of boosting the US economy and as a panacea for virtually all our ills, from our grotesque national debt to our opioid crisis. Unfortunately, they stand to backfire spectacularly, not least the recent plunge in stock prices. Tariffs drive costs and uncertainty up for American businesses, particularly in manufacturing, which relies heavily on raw materials and intermediate goods imported for their production processes. This, in turn, reduces job growth and the number of jobs available in this important sector. The deleterious effects of this are already evident, with stock markets plunging immediately following their implementation. It is only a matter of time until the labor market catches up with the stock market.

Tariffs also raise prices for consumers, who are already beleaguered by high prices thanks to the high inflation following the pandemic. Higher prices and lower job prospects are not a recipe for economic success. Now, we're seeing two of our major trading partners actively trying to do less business with the US overall.

The economic damage of higher prices and reduced job growth can be reversed pretty easily. But the damage to trade relationships, like with friendships, can take years to rebuild and is often never quite the same. The Canadian (and Mexican) people have placed tremendous faith in the continuation of free trade between the three North American countries. That faith, as some have come to realize, may have been misplaced. As Justin Trudeau said, "Today the United States launched a trade war against Canada, their closest partner and ally, their closest friend." The events of the last six weeks have already put a strain on the friendship between Canada and the US; Trudeau told reporters, "This is a time to hit back hard and to demonstrate that a fight with Canada will have no winners." The same will be realized with Mexico, with President Sheibaum announcing retaliatory measures on Sunday.

Once Canada and Mexico secure new trading partners, they will be less likely to come back in force with the first olive branch from the US. China stands ready to fill the gap left behind in both countries from reducing their trade with the US.

It's time to put the hammer that is tariff policy to bed once and for all. Instead, we should be seeking bilateral reductions in overall trade restrictions where possible and unilateral reductions where they are not. Doing so would boost domestic manufacturing, lower prices for all Americans, and create new, viable jobs for all Americans – exactly what President Trump promised on the campaign trail.

April 2025

Did Inflation Really Elect Trump? The Case for a Deeper Economic Frustration

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

When asked why Donald Trump won the presidency last November, most people point to inflation. That's understandable. Prices soared under the Biden administration. In the run up to the election, voters cited inflation as a top concern — and most thought Trump would do a better job bringing inflation back down. "Nothing did more to deliver the White House to Donald Trump than inflation," Greg Ip recently wrote in *The Wall Street Journal*.

It looks like an open and shut case. But I am not convinced. High inflation was salient. However, voters *continued* to cite high inflation *even after* their wages caught up and inflation declined. I suspect voters were actually disappointed in the slow real wage growth they experienced under the Biden administration. This slower real wage growth was not entirely attributable to higher inflation: real wages continued to grow more slowly than they had in the pre-pandemic period even after inflation began to fall and workers renegotiated their wages to account for the excess inflation.

To make my case, let me start by taking on what I believe is the best evidence against my position: people say they voted for Trump because of high inflation. Why not take them at their word?

People often point to the most salient factor when they are disappointed, even when that factor is not the primary reason for their disappointment. For example, my wife might complain when I forget to take the trash out to the curb for pick up. How bothered could she possibly be about that? (The garbage truck comes twice per week and our garbage can is almost never full.) More likely, she is upset about my general inattentiveness when it comes to such tasks. She is using this specific — and highly salient — failure to remind me that I should care more about the small things that affect her. But she does not say that. Instead, she says: *I can't believe you forgot to take out the trash again!*

Similarly, people might point to high inflation when they are really bothered by slower real wage growth. They recognize that goods and services are harder to afford than they expected they would be at this point. But they do not say that. Instead, they say: *Inflation is too high!*

I do not mean to overstate the point. Certainly, inflation *was* too high. And, since the high inflation was unanticipated, it initially reduced real wages. But that effect was temporary. Workers eventually renegotiated their wages. By February 2023, the average real wage was higher than it had been in January 2020, just prior to the pandemic.

Why, then, were people still upset? There are at least two reasons. First, workers did not generally receive additional compensation to make up for the reduced real wages they had experienced. Inflation *temporarily* reduced real wages, but it *permanently* reduced their wealth.

Second, although real wages eventually caught up to their pre-pandemic level, they have *not* caught up to the level one would have expected to prevail given the pre-pandemic growth in real wages. Instead, real wages appear to be on a lower growth path.

Consider the composition-adjusted average real wage series presented in Figure 1 (next page). As I have explained at greater length before, this series adjusts nominal wages for inflation and also accounts for the changing composition of employment over time. Whereas the conventional average hourly earnings measure drops those who move from employment to unemployment and then includes them again when they move from unemployment to employment, my composition-adjusted real wage preserves the sample over time by assuming those not working earn a wage of $0. For this reason, my alternative measure more closely resembles the microdata.

From December 2014 to December 2019, just prior to the pandemic, the composition-adjusted average real wage grew at a continuously-compounded annualized rate of **2.0 percent**. Since then, it has grown much slower, at just **0.7 percent** per year. Of course, the slow growth in the latter period is partly due to the pandemic in 2020 and inflationary surprise in 2021. But, as noted above and observable in Figure 1 (next page), real wages had caught up to their pre-pandemic level by February 2023. From February 2023 to December 2024, the composition-adjusted average real wage grew at a continuously-compounded annualized rate of just **1.5 percent**. In other words, the level of real wages had not returned to the pre-pandemic growth path. Indeed, since real wages have been growing more slowly than they did in the pre-pandemic period, the gap between the level of real wages and the pre-pandemic growth path has increased since February 2023.

Is the more recent slow real wage growth due to inflation? No. Standard economic theory maintains that inflation only lowers real wages to the extent that it is unexpected — and, even then, only until real wages adjust. Inflation remains a bit above the Fed's **2-percent** target. But that's no longer a surprise. People were initially fooled, but they have come to expect above-target inflation (at least for the near term) and renegotiated their wages with those expectations in mind. If that were not the case, and there was still scope for further renegotiations to make up for high inflation, we would expect to see real wages rising *faster* than they did in the pre-pandemic period as they catch up to where they would have been in the absence of the unexpected inflation. That's not what we see. Instead, real wages appear to have converged on a lower, slower growth path.

With this in mind, it is not difficult to understand why people might say groceries are too expensive, clothes cost too much, or takeout is much pricier than it used to be — even though higher real wages have made those things *easier* to afford. The typical worker is better off today than they were prior to the pandemic. But they are not as well off as *they expected to be*. That's disappointing.

It is also understandable that they would see President Trump as a potential solution to this problem. During his first term, the economy soared. And real wages soared along with it.

Voters may not understand how anti-growth policies hindered production and real wages under the Biden administration. But they experienced it. And they recognized that their real wages had grown faster under the prior Trump administration.

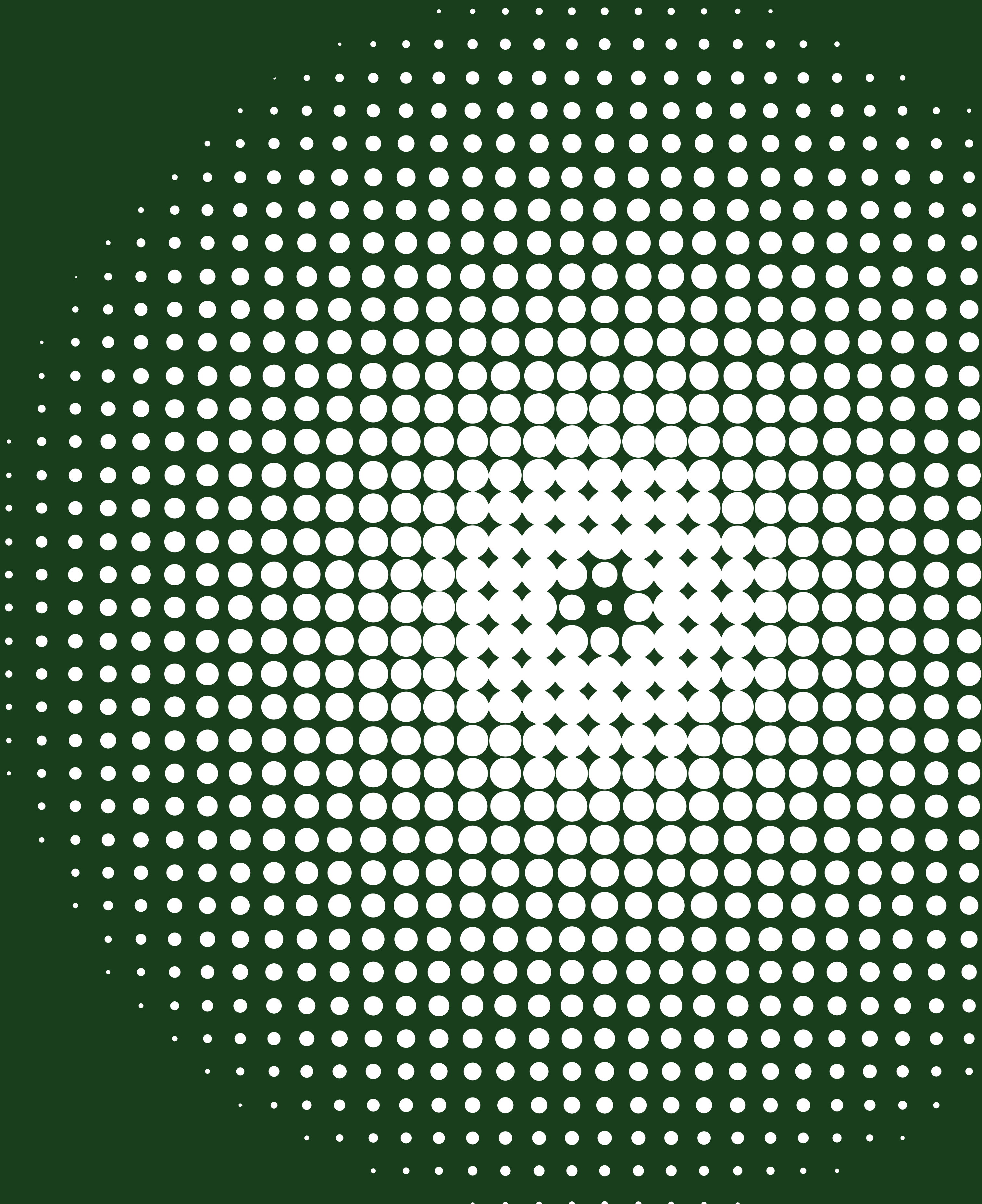
They cast their votes. Let's hope he delivers.

Figure 1. Composition-adjusted Average Real Wage, December 2014 – December 2024

April 2025

The Committee to Destroy the World (Economy)

Paul Mueller
Senior Research Fellow



In the 1990s, *Time* magazine ran a famous story about "The Committee to Save the World" with a picture of Robert Rubin, Alan Greenspan, and Lawrence Summers on the cover. At the time, the enormous hedge fund, Long-Term Capital Management (LTCM), found itself on the losing end of a trade in the Russian Ruble. Its impending bankruptcy threatened the stability of the whole financial system – and so these officials worked to cobble together a rescue package from Wall Street and avert disaster.

When it comes to the advocates of ESG in the world of finance, we find just the opposite: The committee to destroy the world economy. They have actively colluded to drive the global world economy into the ground. Andy Puzder's book: *A Tyranny for the Good of its Victims: The Ugly Truth about Stakeholder Capitalism* exposes the destructive tendencies and the reckless hubris of ESG's biggest advocates.

You may have heard about Larry Fink and Blackrock pushing ESG. You've heard right. Puzder makes it crystal clear that, yes, Larry Fink is in fact the bad guy behind the ESG curtain. But he didn't act alone. Other prominent investors and officials joined Fink's crusade – folks like Michael Bloomberg who chaired the Sustainability Accounting Standards Board and Mark Carney, former governor of the Bank of England and the Bank of Canada, who strong-armed financial institutions to sign onto the Glasgow Net-Zero Alliances.

Carney and Bloomberg are big players in financial markets, so their full-throated advocacy for ESG reporting, goals, and commitments should not be ignored. And of course we shouldn't leave out Klaus Schwab, the long-time advocate, father even, of stakeholder capitalism. These men self-consciously assumed the role of conductors and directors of the investment community's (and corporate America's) forced march to net zero and diversity requirements.

Fink, through his massive asset management firm Blackrock, almost single-handedly imposed his ESG agenda on corporate America. With trillions of dollars of assets under their management, Blackrock was (and still is) the largest single shareholder of most Fortune 500 companies. Through investor "engagement" and the threat of voting against board recommendations, Fink had huge influence in corporate boardrooms. And he wasn't shy about using his influence. He wrote annual letters to CEOs "suggesting" they should prioritize net zero, diversity, and sustainability.

Puzder savors the irony of this radical investor activism being perpetrated by the CEO of a firm specializing in passive investment products. How could an asset manager know the right policies and goals for thousands of companies across dozens of industries? Also, by what right can Blackrock vote the shares they manage on behalf of their clients when those clients have not given their approval?

One challenge of assessing ESG policy is sifting through the jargon of ESG. Fink and others use financial terminology like "risk" and "opportunity" and "value" to justify pushing ESG; yet they could never quite show that ESG investing would yield the best return to their clients. For a few years, ESG fund returns looked pretty good because they were often heavily weighted in technology stocks. But when the stock market correction came in 2022 and 2023, ESG investing took it on the chin. While the S&P 500 index fell by **14.8 percent** in 2022, Blackrock's major ESG S&P 500 index fell over **22 percent**.

Meanwhile, Puzder points out that the "S&P 500 energy sector index rose **54 percent**." The poor financial performance of ESG funds and portfolios poured cold water on the delusion that the entire global economy was undergoing a profound energy transition. It also undermined Fink's prominent claim, echoed by the SEC under the Biden administration, that "climate risk is financial risk."

With the claim that ESG promotes superior financial returns significantly weakened, Fink was less able to resist pressure and litigation. Eventually, Fink dropped the term ESG altogether – though it had been a linchpin of his directives to business executives and a key piece of Blackrock's investment offerings. Furthermore, he didn't even write a letter to CEOs in 2024.

Puzder highlights the many state governments and think tanks involved in rolling back ESG. "The Resistance," as he calls it, scored all kinds of wins in 2023 and 2024 – withdrawing billions of dollars from Blackrock's management, pressuring insurance companies and banks to withdraw from international "alliances,' and separating state business and funds from banks that were actively working to undermine key industries in the state. Many companies also began rolling back their DEI policies in response to pressure from activists like Robby Starbuck, increased legal liability, letters from state officials, and, of course, the new Trump administration.

The ESG debate still rages on shareholder meetings and proxy (shareholder voting) contests. Although the "Big Three" asset managers (BlackRock, Vanguard, and State Street) have scaled back their pro-ESG votes, they continue to support ESG initiatives. Even more problematic are the two proxy advisory firms:

Institutional Shareholder Services and Glass-Lewis. These companies don't seem to have budged from their position recommending that shareholders support every pro-ESG proposal.

Though awareness and activism in proxy-voting has increased, the recommendations of the proxy advisory firms remain the default for trillions of dollars of capital. Compounding the problem, these proxy advisors are privately owned and in foreign hands. They also do not have the same legal fiduciary duties to act solely in the long-term financial interest of their customers. That means they are relatively insulated from public feedback and public pressure.

The broader message of Puzder's book, though, is that free market capitalism brings prosperity while stakeholder capitalism and other forms of collectivism destroy wealth. He sprinkles anecdotes and comments about the nature of economic development throughout the book – talking about the industrial revolution, Hong Kong, China, the Soviet Union, and global GDP growth. The "war on profit" he accuses Fink and his allies of is bad for investors, retirees, and the economy.

Puzder points out that restricting fossil fuel development, which drives up energy prices, doesn't affect wealthy elites nearly as much as it affects the poor:

The net-zero 'transition' is a classic example of a luxury champagne-socialist belief. Larry Fink and his friends have the luxury to push for policies that drive energy prices through the roof because they can and will afford to ride in limousines, yachts, and private jets no matter how high prices get. Their wealth walls them off from the concerns of their inferiors – concerns like paying the rent, staying warm, buying food, or filling up the tank.

The very real costs of the ESG agenda cannot be undone. Fields of expensive and inefficient wind turbines will stand as a testament to a government-engineered renewable energy craze. The diminished economic clout of Europe may never be reversed. And people around the world must adapt to higher electricity prices.

The cultural damage, particularly in the United States, of DEI and other Social initiatives is profound. Of course, companies like Disney, Target, and Budweiser paid a steep price for their social activism – a point Puzder spends a good deal of time making. But DEI, and its sibling identity politics, has increased hostility and polarization more broadly. And they have raised the stakes of "winning" political power. They have also reduced Americans' trust in business and other institutions and have unjustly cast a shadow, as affirmative action did, over the qualifications of women and minorities in corporate America.

The tide has certainly gone out on ESG – leaving thousands of people employed by the ESG industrial complex (analysts, compliance, diversity officers, etc.) scrambling. But Puzder warns market advocates not to declare victory or to relax yet. He argues the past decade of debate over ESG is only the most recent episode in the struggle between collectivists who desire power and everyone else who wants to live a peaceful and prosperous life.

This perennial struggle will never end because neither side can be fully defeated, and so neither can one side ever fully win. The US, though, has "economic freedom and individual liberty….[as] essential parts of our national DNA." Let's hope that DNA holds true and that the body politic becomes increasingly immune to the collectivist virus, which has most recently taken the form of ESG.

April 2025

DOGE's Waste Hunt Can't Fix Social Security — But It's Fixable

David C. Rose
Senior Research Fellow

What, exactly, has DOGE found so far in its investigation of Social Security? For the most part we don't know. But Elon Musk has posted several jaw-dropping items on X that were not what they seemed at first.

Contrary to the programming assumption made by DOGE investigators, for example, the Social Security Administration does not send checks to everyone who qualifies for benefits, is over full retirement age, and is not coded as being dead. This led to the erroneous report that millions of people who are 100 or older – most of whom would presumably be dead – are receiving checks. The actual number is about 44,000.

This number is plausible since it means that about 1 out of 10,000 Americans is both 100 or older and receives a Social Security benefit check. This comports with a related fact from the Social Security Administration's data set, which is that those over the age of 100 comprise about **.1 percent** of those who receive Social Security benefits.

These other budgets, even added up, are too small relative to entitlement budget shortfalls.

In short, some of what looks like news isn't.

Now, some good news.

Given early mistakes, it is good news that DOGE has no authority beyond having access to data, investigating, and then reporting what it finds to the president. It is the president, or Congress, that will change the Social Security program, not DOGE. Executive orders or acts of Congress will be transparent policy changes. Both the president and Congress understand that unless there is a very good reason to make any change to Social Security, there will be a very high political price to pay.

For those concerned that DOGE investigators will have access to private data, there's more good news. Social Security data is not secret, it is confidential. It is common for even low-level employees in the federal government to have access to confidential data. Those in DOGE who have such access are special federal employees bound by all the rules binding others who currently work in the Social Security Administration.

Here's more good news. According to the May 2024 Social Security Trust Fund Report, the unfunded liability for the Social Security Program is 22.6 trillion over the next 75 years. To put this number in perspective, the US GDP for fiscal year ending 2023 was 27.4 trillion. Addressing fraud and waste will shrink the size of this underfunding problem.

It is impossible for the federal government to eliminate the budget deficit by cutting non-entitlement spending, because these other budgets, even added up, are too small relative to entitlement budget shortfalls. For fiscal year ending 2023, for example, mandatory spending (mostly entitlements) was over twice as much as discretionary spending (3.8 trillion versus 1.7 trillion).

This is why researchers like me harp on the need for entitlement reform. But if any significant percentage of the unfunded liability crisis is, itself, rooted in fraud and waste in the entitlement programs themselves, then maybe reforms need not be as drastic as we previously thought.

Now some bad news.

We are very far from being able to reliably estimate the savings to Social Security, so it is premature to think we are out of the woods. The budget hole is very deep: 22.6 trillion dollars over the next 75 years. No serious scholar I know of believes there could possibly be enough fraud and waste to cover the budget shortfalls by only eliminating that. It is therefore imperative that DOGE-related optimism not slow down needed reforms to entitlement. Such reforms are necessary if the federal government is to keep its promises to future generations. The most likely outcome is that it will shrink a very large problem, which is excellent, but the problem that remains will still be large.

In the waning days of the Biden administration, this crisis was worsened by almost 200 billion dollars over the next ten years with the Social Security Fairness Act. In short, an unfair outcome had been detected in 1983, it had been addressed with an alteration to the computation of monthly benefits, and now that alteration has been removed to allow the highest-income people in the program to enjoy the most generous replacement rates which were meant for the lowest-income people in the program. It is very concerning that this incredibly low-hanging fruit has not been seized upon by DOGE. If President Trump leads an effort to repeal Section 3 of this act, it would not constitute his "touching Social Security." It would not allow a last-minute change to the program that came after the president's pledge, a change that undermines the program's ability to keep its promises.

Let's finish with one last bit of good news. It turns out that two modest reforms that will not reduce what people are expecting to receive from Social Security can close *well over* **80 percent** of the funding gap over the next 75 years.

Even if DOGE is only modestly successful at removing waste and fraud, these two modest reforms could conceivably close the gap completely.

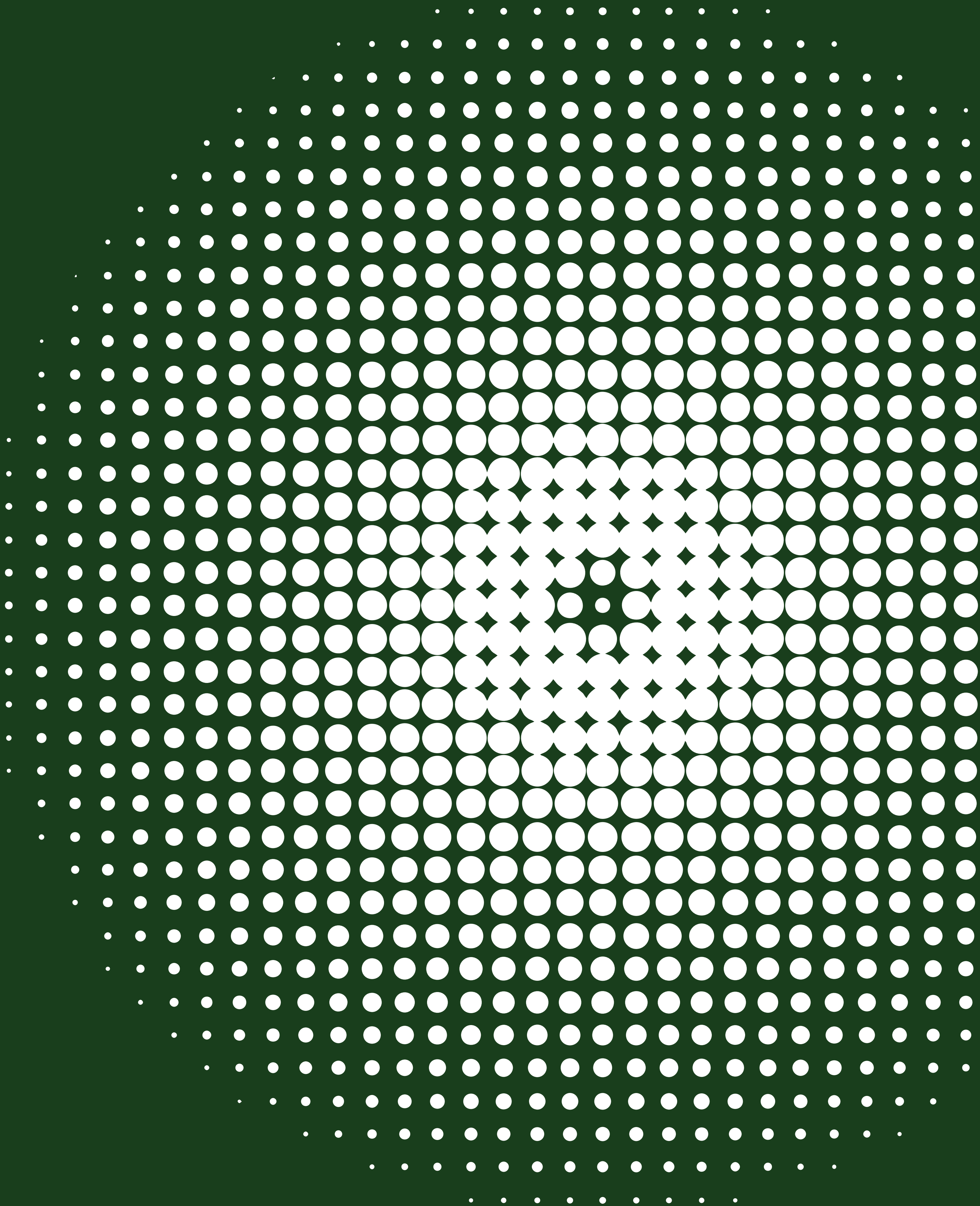
In short, the reforms are to, first, no longer use wage growth data to index prior earnings in the computation of average monthly earnings (this is the first step in computing the amount of monthly Social Security checks) and, second, to use a chain-weighted CPI index for the adjustment of future benefits payments to more accurately account for inflation.

This would be an incredible gift to the present and future citizens of America.

April 2025

$3000/Ounce: Why The Oldest Money Just Hit Its Newest High

Peter C. Earle
Senior Research Fellow



Less than a week after breaking the $2,900 per ounce barrier, gold has surged past $3,000 per ounce, driven primarily by deepening economic uncertainty. The S&P 500 has entered correction territory, tumbling over **10 percent** from its recent highs as fears of a slowdown grip markets, with persistent inflation and sluggish growth stoking concerns of stagflation. Trade tensions have escalated once again, with wildly vacillating tariff threats — including a **200 percent** duty on European wines and spirits — fueling uncertainty and rattling global supply chains.

Meanwhile, a growing schism in the political and military ties between the United States and Europe has added to market instability, as diplomatic fractures raise concerns over the future of transatlantic cooperation. Against a backdrop of turmoil, investors are once again flocking to gold as the ultimate safe-haven asset, pushing prices to historic highs.

For 5,000 years, gold has been a bedrock of economic commerce, a constant in the ever-shifting sands of monetary history. Era after era, it has been dismissed as an outdated relic — denigrated by policymakers, sidelined by financial engineers, and declared obsolete by the architects of fiat money — only to rise again with quiet, unshakable resilience when the grand designs of men collapse under their own weight. Time and time again, its eulogies have been written, its relevance pronounced dead, yet, today, it once more stands at the center of the monetary and fiscal universe, not by decree, but by the sheer gravity of economic reality.

Central banks, once dismissive of gold, are now buying it at an unprecedented pace, seeking shelter from the very systems they helped create. Since the Biden administration crossed the proverbial Rubicon, wielding the ubiquity of the US dollar as a geopolitical weapon, nations across the world have been jolted into recognizing the peril of dollar dependency, shifting their reserves toward the one asset that history has never betrayed. Gold, indifferent to ideology and immune to the hubris of policymakers, is reclaiming its throne — not with fanfare, but with the silence of a gravitational presence that has never truly left.

Gold's rise over the decades has been closely tied to economic crises, inflationary pressures, and geopolitical instability. Gold surpassed $500 per ounce for the first time in December 1979 as investors scrambled for safe-haven assets. The 1970s had been marked by stagflation, an oil crisis, and a weakening US dollar, exacerbated by the collapse of the Bretton Woods system in 1971. Inflation in the US had surged past **13 percent**, while geopolitical events such as the Iranian Revolution and the Soviet invasion of Afghanistan contributed to economic uncertainty. These factors fueled fears of currency devaluation, prompting gold

Gold price per ounce USD (1920 – present)

(Source: Bloomberg Finance, LP)

prices to soar. By the end of 1979, the metal had become a preferred hedge against both inflation and instability.

Gold remained below $1,000 per ounce for nearly three decades until March 2008, when the global financial crisis drove investors into safe assets. The collapse of major financial institutions like Bear Stearns and the subprime mortgage crisis led to a severe credit crunch and widespread fear of a banking system collapse. As the Federal Reserve and other central banks responded with massive liquidity injections and interest rate cuts, investors turned to gold as protection against financial instability. The metal breached $1,000 per ounce on March 13, 2008, as concerns mounted over the sustainability of the global financial system.

Just a few years later, in April 2011, gold prices surged past $1,500 per ounce as the aftermath of the financial crisis evolved into the European sovereign debt crisis. Countries like Greece, Portugal, and Ireland faced potential defaults, raising doubts about the stability of the eurozone. At the same time, the US dealt with its own fiscal struggles, including a credit rating downgrade by Standard & Poor's in August 2011, further reinforcing gold's role as a hedge against monetary and financial turmoil.

The next major milestone occurred in August 2020, when gold surged past $2,000 per ounce amid the COVID-19 pandemic. The global economy was upended as lockdowns, business closures, and widespread unemployment forced governments to roll out unprecedented stimulus measures, including trillion-dollar relief packages and near-zero interest rates. These efforts devalued currencies and sparked fears of inflation, leading gold to its then-record high of $2,075 per ounce.

As inflationary pressures seemed resurgent in August 2024, the gold price crossed $2,500 per ounce, driven additionally by rising geopolitical tensions, persistent inflation, and concerns over the weakening US dollar. A combination of central bank purchases, trade conflicts, and shifting global monetary policies contributed to further price gains. And now, gold has hit an all-time high of $3,000 per ounce, reflecting continued uncertainty in global markets. Factors such as renewed gold-buying by central banks, a weaker dollar, tariffs, and global economic instability have cemented — or more aptly, reminded of — gold's role as the ultimate hedge against financial turbulence.

From this point, gold could continue to rocket north, sag back to $2,000 an ounce, or hover around its new record high before establishing a clearer directional bias as political and economic trends unfold. What is certain, however, is that gold has consistently met the rare set of criteria that make it the soundest (according to the market as experienced in real life) form of money in human history. And, just as certain, that truth will continue to be doubted, dismissed, and ultimately reconfirmed, as long as ambitious, power-seeking individuals attempt to manipulate the systems in which it operates. Reality will inevitably prove them wrong, again.

April 2025

Want Starter Homes? Cut Minimum Lot Sizes

Jason Sorens
Senior Research Fellow

One of the big problems in the American housing market today is the dearth of "starter" homes. These are smaller, affordably priced homes available for sale and ownership, often appealing to young families as their first home ownership opportunity. According to Zillow data, the number of US cities where a starter home (defined as being in the lower third of home values in a region) costs at least $1 million tripled between 2019 and 2024. A typical house in the lower third of the market now costs over $1 million in more than 200 cities.

Redfin finds that the income needed to afford a median-priced starter home in the United States fell slightly in 2024 as mortgage rates dropped, even though prices kept growing. But the income needed to buy a starter home is still nearly double what it was in 2019 and more than three times what it was in 2012.

THE VANISHING STARTER HOME: WHY YOUNG BUYERS ARE STRUGGLING

When young people face difficulty in buying their first home, it creates problems: fewer young people are marrying and having kids, possibly because they don't want to raise them in an apartment. And young people who feel shut out are losing faith in (what they perceive as) a free market system.

Why are starter homes so hard to find in much of the nation? Zoning regulations require a large amount of land for each house, known as minimum lot sizes. (Some more abstruse regulations like "floor area ratios," "minimum frontages," and the like have similar effects.) Requiring more land per house makes it harder to subdivide land. For example, if you have a 50-acre lot and the town requires a minimum lot size of five acres, you can only build, at most, 10 homes on that lot. If the minimum lot size were one acre, you could build 50 homes.

The cost per home will be far lower for one of 50 lots rather than one of 10, not just because of the cost of the land that runs with each house, but because of economies of scale. When developers build a few dozen homes at once, they can take advantage of volume discounts and a consistent team of workers who stay on site until the job is done. As Harvard economist Ed Glaeser once noted, "If you want people to have affordable clothing, you don't tell them to get a custom suit on Savile Row. In the same way, it's impossible to have affordable housing if you force every home to be a custom build."

LOT SIZE MINIMUMS DRIVE UP HOUSING COSTS

Minimum lot sizes increase housing costs. A study of eastern Massachusetts found zoning districts that increased minimum lot sizes saw housing prices increase by about **40 percent** after 12 years, compared to similar homes in districts with unchanged minimum lot sizes. Another recent study found that minimum lot sizes reduce housing development and redevelopment of existing neighborhoods. This unpublished study of localities nationwide from a couple of prestigious economists finds that, comparing neighboring communities with and without stringent minimum lot sizes, housing prices are $30,000 higher in the more stringent community and house sizes are larger. Predictably, the density of housing is lower. A recent study of Texas (PDF) found that home-building is concentrated at just above the minimum lot size, implying that these regulations are often binding on developers.

These studies aren't cherry-picked. I found no post-1999 studies that contradicted these findings. Minimum lot sizes don't always bind, but when they do, they reduce the supply of housing and raise the cost, often significantly.

CURRENT HOMEOWNERS DON'T WANT DENSITY

Why do municipalities adopt strict minimum lot sizes? One reason is simply that many homeowners prefer low density. Ideally for the homebuyer, you buy a house affordably when minimum lot sizes are low or nonbinding, and then vote to support tighter zoning restrictions that raise your property value by prohibiting the building of more homes nearby.

There are sometimes legitimate public health and environmental reasons for minimum lot sizes. If everyone is digging wells, it's reasonable to limit residential density to ensure there's enough groundwater for everyone. Septic systems also require enough land to disperse the leachate safely.

But in most of the Northeast, typical suburban minimum lot sizes are far above those justified by public health or environmental considerations. In New Hampshire, the state Department of Environmental Services certifies wells and septic systems and in doing so enforces lot size requirements based on slopes and soils. Additional municipal standards are not necessary, yet most towns enforce them. Under **15 percent** of the buildable land area in the state is available for single-family development on lots of less than an acre, according to the New Hampshire Zoning Atlas. Some cities, like Hartford, Connecticut, allow small-lot single-family on a lot more land, but some, like Flagstaff, Arizona, allow it on very little land.

Figure 1 shows where single-family housing is allowed on lots of less than two acres. The orange areas are zoned residential-only, while the yellow areas allow commercial uses too, and the gray areas are either closed for single-family development, unbuildable, or available for single-family development on lots of two or more acres. Much less than half of the land area of the state is available for single-family development on lots of less than two acres. It tends to be central cities, older inner-ring suburbs, and extremely rural areas in the North Country and along the Appalachian spine that allow it.

Advocates of large minimum lot sizes claim that they "preserve rural character." But large minimum lot sizes promote exurban sprawl by forcing new housing units to be developed farther apart. They therefore undermine the goals of wilderness and farmland preservation. Even a five-acre minimum won't preserve farms, which have to be on a much larger scale. Napa County, California has perhaps the highest minimum lot sizes in the country, at 100 acres. At that scale, minimum lot sizes have the potential to protect farms, but only at the cost of essentially banning residential development and hurting farmers who lose the value of the development option. For these reasons, the American Farmland Trust supports limiting minimum lot sizes, which promote "low-density residential developments" that "fragment the agricultural base and limit production."

MUNICIPALITIES REFUSE ACTION ON AFFORDABILITY

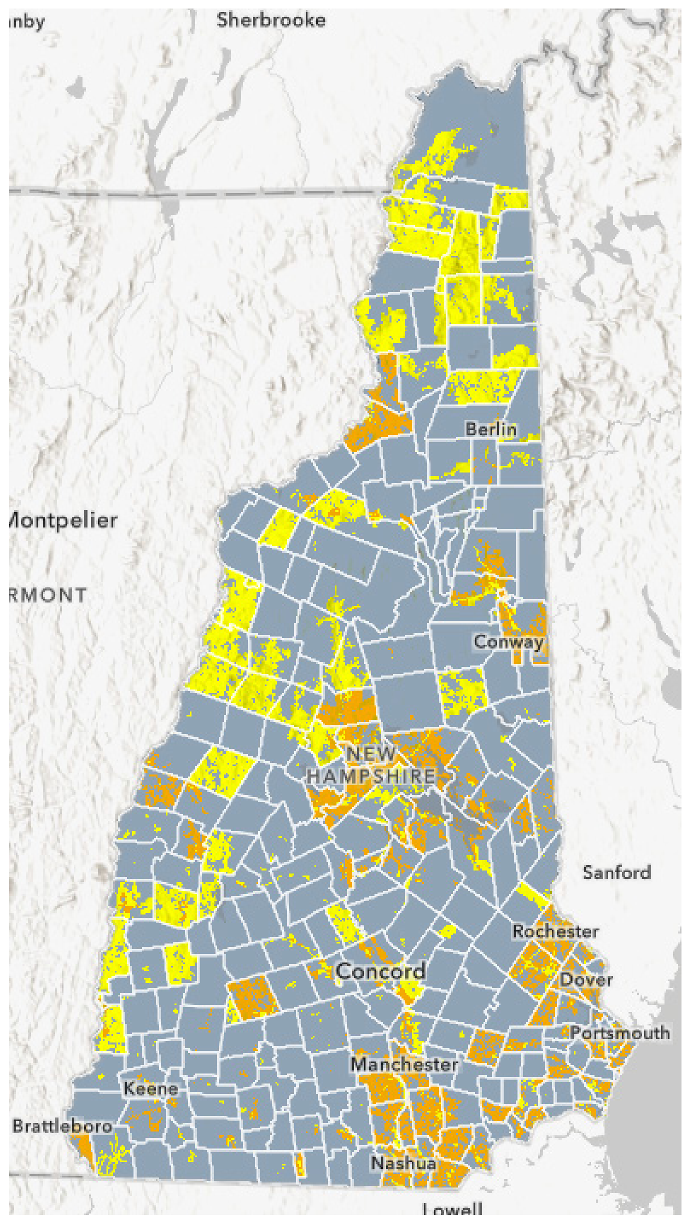
New Hampshire has two pending bills to remedy this problem by limiting minimum lot size requirements. I submitted written testimony to the Senate Commerce Committee on SB84, which would limit minimum lot sizes "on a majority of land zoned for single-family residential uses" to half an acre where sewer service is available, one acre where water is available but sewer is not, and an acre and a half where neither water nor sewer is available. A similar bill, HB459, requires soil-based lot sizing consistent with state standards where utilities aren't available.

If one of these bills passes in more or less its current form, it would go a long way toward freeing up the market for starter homes in New Hampshire. It would also preserve a diversity of neighborhoods for people who really want to pay a lot of money to live in large-lot neighborhoods, because towns could still impose unlimited minimum lot sizes on some of their residential land.

The New Hampshire Municipal Association is pushing back hard against these bills, as local government associations have done in other states, so far successfully. No state has yet enacted into law a statewide limit on minimum lot sizes, though Vermont successfully limited minimum lot sizes in places with existing water and sewer infrastructure.

Without state action, the starter home problem will just get more severe. Municipalities need guardrails on their zoning powers, both to safeguard private property rights and allow the free market to address the housing crunch.

Figure 1: Under-Two-Acre Zoning in New Hampshire



April 2025

Congress Continues Push to Restrict Credit Access

Thomas Savidge
Research Fellow

Last December, I wrote about Senators Hawley and Sanders' call to cap credit card interest rates at **10 percent**. This cause was recently taken up by Representatives Alexandria Ocasio-Cortez and Anna Paulina Luna in the House of Representatives, reminding Americans that even President Trump pitched this idea on the 2024 campaign trail. Their stated goal is to help the growing population of Americans struggling to make credit card payments.

No matter which party or branch of government pitches this idea, the result will be the same: hard-working Americans will lose access to credit. Good intentions do not guarantee good outcomes.

Interest, like any other price, is a natural result of human interaction. Although I've told this example from the late economist Walter Williams before, it bears repeating:

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.

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).

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 allows credit markets to adjust to changes in supply and demand.

When an interest rate is capped at a certain percentage, the cap prevents the information about relative scarcity and buyer/seller behavior from being portrayed accurately. When that happens, credit card companies will fall back on less accurate proxies for insight.

Credit card companies may choose to deny credit cards to those in lower income percentiles. While being in the lowest income percentile does not guarantee that someone will end up in delinquency, lenders will be aware of data that show the poorest households tend to have the highest rates of credit card delinquency. They may end up denying a credit card to someone with a low income who may otherwise have had a reputable history of paying off debt on time.

Additionally, credit card companies can raise or lower credit limits. Many credit card holders may end up unpleasantly surprised when credit card companies lower their credit limit to reflect a **10-percent** interest rate cap.

As I stated before, politicians attempting to "save" Americans with price controls will inevitably result in Americans being kicked while they're already down.

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