BIDENOMICS

HARWOOD *Economic Review*

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

JULY 2024 Volume 8, Issue 2

Harwood Economic Review

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

A Letter from the Managing Editor

Peter C. Earle, Ph.D

Greetings from a heat wave-addled Great Barrington.

In this issue of the *Harwood Economic Review*, we focus on the broad economic program that the current administration has claimed as *Bidenomics*. Imagined as a domestic agenda focused on *rebuild[ing] our economy from the middle out and the bottom up, not the top down,* it claims to be doing that through three primary means: *smart public investments in America, empowering and educating workers to grow the middle class,* and *promoting competition to lower costs and help entrepreneurs and small businesses thrive.*

When positive economic numbers have been released, the White House has, needless to say, spared no opportunity to tout alleged evidence of its policies' success. When weak data or negative revisions have emerged, White House officials have either remained studiously quiet or quickly blamed their predecessors. Inflation, primarily the product of massively expansionary monetary policy efforts early in the pandemic, has been blamed on everything from greed to gas station owners, Putin, and corporate profits. And they have attributed the recovery of US labor markets (from lockdowns and other non-medical pandemic responses) to record-setting fiscal spending on unproven green energy projects, a blizzard of new regulations, and an expansion of the social safety net.

But set aside for a moment the trillions of dollars in debt accrued since January 2021, and ignore the crowding out effects of government-financed semiconductor foundries. Public investments may be *smart*—it's unlikely, but possible—but will never be nearly as astute, flexible, or accountable as investments made by private firms competing in price-driven markets. *Empowering and educating workers* sounds inspiring, but requires knowing the likely course of the future of work, in addition to the trajectory of technological innovation, probable changes in the global marketplace, and consumer preferences over all that time. And how in the world will increasing corporate taxes from 21 to 28 percent, throwing Federal heft behind minimum wage increases and unionization, and proposing the highest capital gains taxes in a century in any way *helping entrepreneurs and small businesses thrive*?

Like so much we've observed over the past few years, the gulf between curated political rhetoric and the actual laws passed, or regulations imposed, is vast enough to comfortably pilot an oil tanker through. In this issue of the *Harwood Economic Review*, we aim to highlight the grim realities of Bidenomics with the thorough, insightful analysis you've come to expect from AIER researchers.

Peter C. Earle, Ph.D
Managing Editor, *Harwood Economic Review*

Assessing Bidenomics
The Fatal Conceit of National Commercial Policy

Nikolai G. Wenzel

The advantage of being an economist is that I am utterly disinterested in partisan politics. I am, however, very interested in sound economics and respect for the limited federal powers enumerated in the US Constitution. In the past, I have chided both the Trump administration and the Biden administration for their shenanigans.

The *Economist* recently ran a piece about the prospects for four more years of Bidenomics. Should Joe Biden win a second term, Bidenomics could take one of two faces, depending on the congressional majority. I will set aside the politics, and the likelihood of President Biden's re-election and control of one or both houses—and thus the expected magnitude of Bidenomics over the coming years.

Regardless of November 2024, Bidenomics is already with us. On the fiscal side, the three big bills—the Infrastructure Investment and Jobs Act of 2021, the Inflation Reduction Act of 2022 ($900 billion) and the CHIPS Act of 2022—have contributed to pushing the national debt above 130 percent of GDP.

But the bigger damage of Bidenomics comes from the regulatory side, and the federal government's continuing run for the *commanding heights* of the economy. That expression comes from a 1922 speech, in which Lenin called for Communist party control of key industries (then heavy manufacturing, energy, and transportation) in the new Worker's Paradise.

The goal remains the same, even if the industries have changed: today, they are healthcare, education, housing, with the recent addition of manufacturing and the green industry.

Bidenomics has five pillars: increasing:

1. The strength of workers, especially through unions and regulation. President Biden was the first sitting president to join a picket line, and his Department of Labor is working aggressively to restrict the gig economy, by classifying certain contractors as employees.

2. Social spending, especially on early childhood education.

3. Stricter enforcement of antitrust laws.

4. Federal investment in strategic areas, especially infrastructure and the environment.

5. Taxes on corporations and *the wealthy* to finance it all.

There are three basic problems with Bidenomics
(1) it is unconstitutional, (2) it is misguided, and (3) it is self-defeating.

First, the Constitution. I probably sound like a broken record, as I constantly harp on about constitutional authorization in everything I write. But I think advocates of economic freedom must repeat this over and over again. The US constitution enumerates only about a dozen legislative powers to Congress in article I, section 8. The legislature passes the laws, and the executive enforces them. Even with a generous reading of the patent clause in article 1, section 8, the Constitution does not give Congress—and much less the Presiden—the authority to engage in national commercial policy.

Second, basic economics. Bidenomics is an example of what economist F.A. Hayek called *the fatal conceit*, or the notion that the state can engineer the economy. Prices, through the market process, signal relative scarcity, and allow for rational allocation of scarce resources among competing wants. State efforts are doomed to failure. And, yet, at its base, Bidenomics is a claim that the White House can do better than the free market. Every dollar controlled by Washington is a dollar that is not controlled by entrepreneurs and consumers, with their local knowledge and incentives for proper stewardship. As of 2023, the federal government spent about 24 percent of GDP, with state and local governments spending another 15 percent. If we add to that the estimated 10 percent of GDP spent on regulatory compliance, roughly 50 cents out of every dollar of economic activity in the US is controlled by a government, rather than an entrepreneur, consumer, or investor. That is bad news for efficiency and growth. It's also bad news for liberty.

Third, Bidenomics is self-contradictory. Countries with more economic freedom grow faster than countries with less; yet Bidenomics claims that it can magically stimulate the economy with bigger government. Bidenomics preaches greater competition, while also suffocating the economy with increased spending, more regulation, and greater union power. Bidenomics would double down on a half century of failed federal investment in K-12 and higher education by increasing federal involvement in early-childhood education. And the architects of Bidenomics seem to forget that the market solves social problems well before the Feds muck things up. Poverty in the US had been declining rapidly after the war economy and the worst excesses of the New Deal, well before LBJ's Great Society (and has not fallen since). Air in the US was already getting cleaner before the Clean Air Act. Markets solve problems.

To these three problems, we can add a fourth

Bidenomics relies on a buffet of lies for marketing purposes. Three examples are most notable.

First, Bidenomics would finance its folly by raising taxes, so that *the wealthy* pay their fare share. But the top 1 percent of taxpayers already pay 42 percent of total tax revenue; the top 5 percent pay 63 percent, and the top 10 percent pay 74 percent of total revenue. Setting aside the economic distortions of higher taxes, Americans with higher income are already paying more than their *fair share*.

Second, a key claim of Bidenomics is a decreased deficit; while this is technically true, it's not quite accurate. . . federal debt is still increasing, if at a (slightly) decreasing rate.

Third, the White House website gloats that *more people are working today than at any point in American history*. But, the Bureau of Labor Statistics reports something different. As of December 2023, the labor force participation rate (the percentage of the able-bodied, adult, civilian population actually working) stood at a mere 62.5 percent. From 2003 to 2009, it was about 66 percent. The rate started dipping with the Great Financial Crisis, down to about 63.3 percent in February 2020. Then COVID hit, and the country hit a low of 60.1 percent in April 2020. In sum, the labor force participation rate is still below pre-COVID numbers. The Biden administration is probably cooking the numbers by focusing exclusively on the numerator (the number of people working), whilst ignoring the denominator (including increases in population and those who have given up looking for work).

Speaking of fudging, economist Bill Shugart pierces the statistical veil of the latest jobs report. The sector with the most growth is the health sector, because of an aging population and government subsidies that inflate demand. Number 2 is government (federal, state, and local). At best, such jobs are a zero-sum game that simply redistributes resources; at worst, they are a negative-sum game, as busybody bureaucrats gum up the economy through regulation. Much as Bidenomics is singing its own praises, one is reminded of the economist Frédéric Bastiat's warning of what is seen, and what is not seen:

You compare the nation to an arid land and tax to bountiful rain. So be it. But you should also ask yourself where the sources of this rain are, and if it is not taxes themselves that absorb the humidity from the earth and dry it out.

You ought to ask yourself as well if it is possible for the earth to receive as much of this precious water through rain as it loses through evaporation.

Bidenomics is bad news for the American economy and constitutional system. It is not just old-fashioned tax-and-spend policy, but an attempt to reshape the economy entirely.

It is high time for friends of liberty to stand athwart national commercial policy and yell **STOP**!

https://www.aier.org/article/assessing-bidenomics-the-fatal-conceit-of-national-commercial-policy/

Uncle Sam, Addicted to Debt, Faces Future Military Bills

Doug Bandow

Washington, DC is going through its annual budget charade. The US Congress is no longer capable of approving individual budgets and appropriations. Instead, a handful of leaders make omnibus deals among themselves and demand the people's representatives rubber-stamp the result. Otherwise, the government shuts down.

It's an idiotic way to govern, or, more accurately, to not govern. And the results speak for themselves. Federal outlays are expected to run $6.5 trillion this year. Last year's deficit—in the absence of a hot war, health pandemic, or financial crisis—ran some $1.7 trillion, the third highest in US history. Interest payments on accumulated debt are forecast to be an incredible $1.1 trillion, about 17 percent of outlays, the highest ever for which data is available. The national debt held by the public (excluding the fake Social Security to Treasury transfer) currently is $27 trillion, more than 100 percent of GDP and climbing.

The latter is almost certain to accelerate in coming years. Interest payments essentially come off the top and, in practice, cannot be cut. Congress would have to either repudiate federal debt or budget responsibly.

The former would solve the problem and prevent its recurrence by stripping Washington of any pretense of creditworthiness. But doing so would impoverish investors and trigger a financial crisis, likely to be seen as at least modest negatives in Washington. Even less practical is reducing annual deficits and accumulated debt, an idea that produces gales of laughter in the nation's capital. The problem is simple but profound: the Congressional Budget Office figures that in 2034 outlays will run 24.1 percent of GDP, while revenues will be just 17.9 percent of GDP. Balancing the budget requires closing that huge gap. Alas, neither the president nor Congress has the will to make any hard decisions, let alone the slate of hard choices required to avoid fiscal Armageddon.

As the Federal Reserve unwinds its essentially zero interest *quantitative easing* policy, Uncle Sam is now paying higher rates. Moreover, Washington must refinance maturing debt. Explained CBO: *The projected increase in 2024 occurs primarily because the average interest rate that the Treasury pays on its debt is higher this year and is expected to rise further as maturing securities are refinanced at rates that exceed those that prevailed when the securities were issued.* As a result, interest costs are rising faster than any other federal program and have doubled since 2020. This year, interest payments on the debt will exceed the cost of every federal program other than Social Security.

This process will only worsen in the future. Higher interest rates are the new normal and likely to rise further along with borrowing. Noted Lee Ferridge of State Street Global Markets: *All else equal, a bigger government deficit means higher short-term and long-term interest rates.* The growth in interest costs *is equal to about three-quarters of the increase in the deficit from 2024 to 2034*, said CBO Director Phillip Swagel.

Absent spending cuts elsewhere, higher interest costs will force more borrowing, crowding out private investment and slowing economic growth, leading to a higher debt burden. A steadily increasing federal debt also will increase doubts about Washington's ability to service its obligations, further inflating interest rates. And on it is likely to go.

Washington's main response has been to understate the problem, publicizing *net interest,* by which interest payments to Uncle Sam are used to reduce reported outlays. Even these cooked numbers cannot hide the problem, showing $1.6 trillion in *net interest* payments by 2034.

In that year, outlays are expected to run more than $10 trillion. Total interest costs will be around $2 trillion, or a fifth of expenditures. The deficit likely will hit around $2.6 trillion. Over the decade, Uncle Sam will run up a cumulative $20 trillion in red ink. The national debt will jump from $28 billion to $48 billion, expected to be about 116 percent of GDP, well above the record of 106 percent set in 1946, as America exited the worst war in human history.

The Living Uncle Sam. 19,000 Officers and Men. Camp Lee, VA. Major General, Omar Bundy, Com'd'g.

Under more negative deficit assumptions, that Congress preserves expiring tax cuts and relaxes controls over discretionary outlays, the debt could run 131 percent of GDP. Of course, in theory the situation could get better. But the greater long-term pressure will be to increase spending. Demography will inflate Social Security and Medicare expenditures, both of which will nearly double over the coming decade. Health care inflation will drive up Medicaid and other federal health program outlays. The president continues to write off federal educational loans. States and cities face a collective pension deficit of $1.49 trillion and may end up pressing for a federal bail-out. With both Republicans and Democrats supporting a borrow, borrow, spend, spend philosophy, there is little hope for fiscal control in other areas.

To highlight the economic risks, CBO offers a sobering warning about the consequences of escalating debt:

> *Borrowing costs throughout the economy would rise, reducing private investment and slowing the growth of economic output; Rising interest costs associated with that debt would drive up interest payments to foreign holders of US debt, decreasing the nation's net international income; . . . The United States' fiscal position would be more vulnerable to an increase in interest rates, because the higher debt is, the more an increase in interest rates raises debt-service costs. . . . All else being equal, an increase in government borrowing reduces the amount of money available to other borrowers, putting upward pressure on interest rates and reducing private investment.*

If growth consequently slows, the debt burden will become even tougher to bear. Which in turn could trigger a financial crisis, like that which hit Greece a decade ago. Creditors might come to believe that even the US isn't able to pay its debts. *Financial Times* columnist John Plender warned that:

> *Bond vigilantism is resurgent in the market for sovereign debt. . . . Could the fiscal disciplinarians of the global investment community now turn their disruptive talents to the US Treasury market? As well as savaging the president of the day, such a challenge could devastate the US's role as the world's chief provider of safe assets during global crises, while simultaneously threatening the dollar's status as the pre-eminent reserve currency.*

What to do? One option is higher taxes, but virtually no Republican wants to hike levies on anyone, while Democrats only want to tax *the rich* while the real money is with the middle class. What of the spending side? Legislators tend to concentrate their fire on domestic discretionary outlays, about $1 trillion in annual appropriations for everything from the Washington Monument to congressional salaries. But even wiping out this entire category—which obviously won't happen—would not balance the budget. And further cuts will come only grudgingly: CBO already assumes virtually no growth in these outlays over the next decade.

The biggest spending boulders are almost politically impregnable. Proposals to cut Social Security and Medicare run into the active and growing block of elders and retirees. Medicaid and other federal health care programs oriented toward poorer Americans are not as popular, but already provide inadequate care to a growing number of recipients. Interest payments can only be cut through responsible fiscal practices elsewhere.

Which leaves military expenditures as the most obvious target. Despite the hysteria which greets proposals to reduce military outlays, they are not equivalent to *defense* spending. Much of the money goes to war-fighting equipment, but few of those conflicts have much to do with protecting America. Last year Congress passed a record $858 billion Pentagon spending bill. This number didn't include some important national defense expenditures, like those for nuclear programs, which lie within the Department of Energy, and veterans' health care.

The US spends far more than its chief antagonists. The disparity grows vastly larger when outlays by Washington's allies in Asia, Europe, and the Middle East are added. America is the most secure great power ever, with oceans east and west and peaceful neighbors north and south. Why do Americans spend so much to defend allies who spend so little?

After all, Russia has yet to best Ukraine while studiously avoiding war with the US. The Europeans already spend more than Moscow on defense and are more than capable of containing the latter. China suffers from multiple weaknesses and does not threaten America militarily. Instead, Washington is attempting to impose its will on Beijing near its border thousands of miles away. Better for friendly states in the region, led by Japan, to copy China's anti-access/area denial strategy for their own defense. Iran and North Korea would face destruction if they attacked America and can be contained by their neighbors.

Defense is the federal government's most essential responsibility. But that means protecting the American people—their lives, liberties, constitutional system, and territory. Alliances should be a means to an end and, as George Washington famously warned, should not turn into permanent attachments: *nothing is more essential than that permanent, inveterate antipathies against particular nations, and passionate attachments for others, should be excluded.*

Red ink will accumulate at an accelerating rate. When the inevitable crisis hits, it will be even more difficult to reach a rational solution. Better to start now with the misnamed Defense Department. Washington should focus on genuine defense. The US can no longer afford to treat the Pentagon as a welfare agency for the influential and well-connected abroad.

https://www.aier.org/article/uncle-sam-addicted-to-debt-faces-future-military-bills/

Biden's 'Strike Force' Recalls Nixon's Economic Plan

Peter C. Earle

It's most likely that sinking poll numbers, more than anything else, prompted the Biden Administration's latest deflective policy initiative. A *Strike Force on Unfair and Illegal Pricing*, to be jointly run by the US Department of Justice (DOJ) and Federal Trade Commission was announced in early March, charged with pursuing *unfair and illegal* pricing. Disinflation has slowed notably throughout the first two months of 2024 and with an election coming, a pivot was essential. Characterizing stubbornly high prices as *gouging* not only angers financially beleaguered Americans, but deters inquiries regarding the effectiveness of the much-touted, and now seldom-mentioned, 2022 spending bill opportunistically titled the *Inflation Reduction Act*.

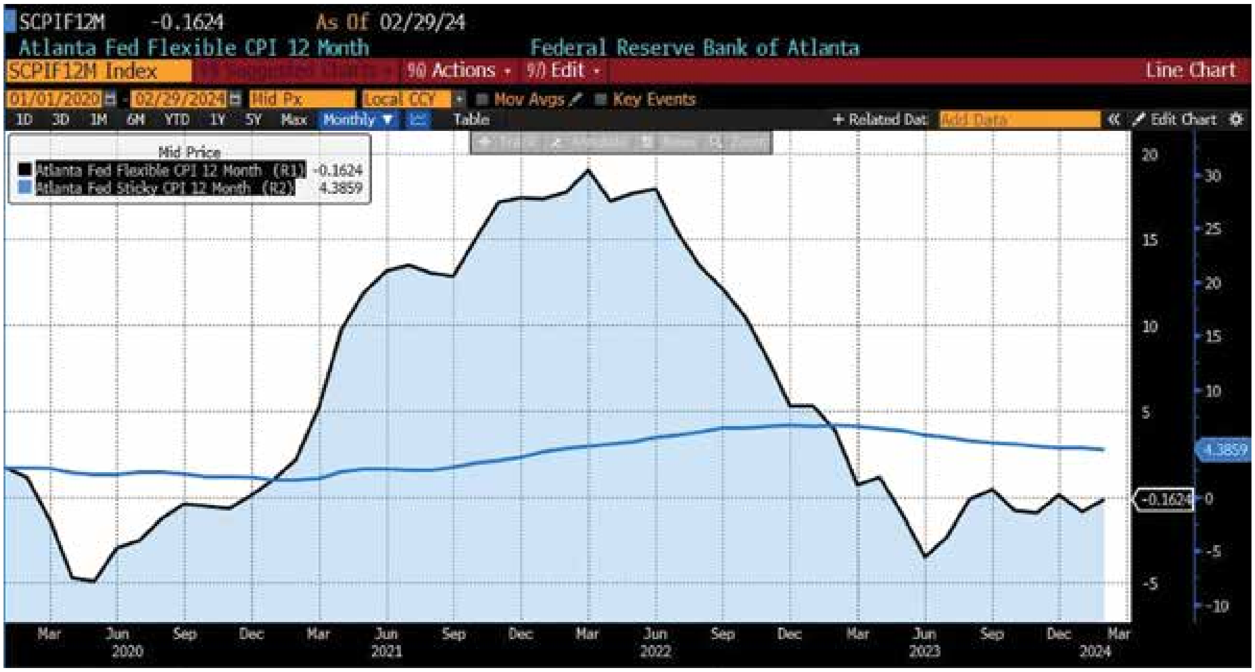
It cannot be stressed enough that prices have continued to rise since the Inflation Reduction Act was passed in August of 2022. The White House website itself refers to that legislation as the *most significant action Congress has taken on clean energy and climate change in the nation's history*.

A look at the last 12 months of Consumer Price Index trends, broken into flexible and sticky prices, makes clear the primary source of the recent gumming-up of price deceleration. As a refresher, sticky prices are those which adjust slowly in response to changes in supply and demand—often due to contractual agreements, menu costs, regulatory requirements, and other sources of rigidity.

US CPI Urban Consumers Index (blue), US CPI Urban Consumers Ex Food & Energy Index (red), passage of the Inflation Reduction Act (green)

Source: Bloomberg Finance, LP

Atlanta Fed Flexible CPI (12 month, black) vs. Sticky CPI (12 month, blue)



Source: Bloomberg Finance, LP

Any enforcement action by this new investigatory body will necessarily be arbitrary, as all characterizations of pricing as excessive or predatory (or reasonable, for that matter) are subjective. Historically, official attempts to define gouging have pursued different approaches, but primarily refer to prices rising to a degree that generates politically actionable complaints. At times a *price increase threshold* has been cited, defining some dollar amount or percentage increase as excessive. Elsewhere, the designation of goods and services as *essential* has been used to justify interfering in the function of markets. Emergency circumstances have also been invoked—ironically, precisely when unfettered prices are at their most critical—to justify invalidating the decentralized workings of the price system.

Prices are vastly more, both in their derivation and economic function, than the simple exchange ratio they are sometimes dismissed as. They facilitate economic calculation and the rational allocation of goods absent command control. Some sixty-one years ago, Oskar Morgenstern gave an example of exactly how complex prices may be beneath the surface. Quoting from a contract for iron ore summarized as "$4.60 per ton," the price is:

not merely $4.60 a ton but $4.60 per gross long ton of 2,240 pounds of Mesaba Bessemer ore containing exactly 51.5 percent iron and 0.045 percent phosphorus, with specified premiums for ore with a higher iron content or a lower phosphorus content and with specified discounts for ore with a lower iron content or a higher phosphorus content; samples to be drawn and analyzed on a dry basis by a specified chemist at Cleveland, the cost being divided evenly between seller and buyer; 48,000 tons to be delivered at the rate of approximately 8,000 tons per month during April-September, inclusive, on board freight cars of the New York Central Railroad at Cleveland, Ohio; the purchaser to pay all charges involved in moving ore from the rail of the lake steamer to the freight car and other port charges such as unloading, dockage, storage, reloading, switching and handling; ore to be weighed on railroad scale weights at Cleveland; payment to be made in legal tender or bank checks of the buyer to the Cleveland agent of the mining company on the 15th of the month for all ore received during the previous month.

In the case of this single price, anything from the iron content of the resource, to the location of the assaying chemist, to the time and method of delivery, to the basis of payment could change the balance of inputs, necessitating a change of price. If more than one of those many factors change simultaneously, the price may change notably. And this is the price of a single good in a vast market constantly upended and resettled in a furious clash of rigid scarcity and unbound demand. The notion that a bureaucrat can decide, simply by looking at numbers or a change in numbers, that a change in price is excessive or reasonable is rooted in the same esotericism by which a bartender, suddenly elected to public office, instantaneously becomes an expert on economics, political science, law, international relations, civil-military affairs, and so on.

The so-called Strike Force—not a task force, but a *strike* force, indeed—is likely to act as a bludgeon for government attacks on private interests, and in particular, those viewed as adversaries to the administration. Here are three forecasts pertaining to the nascent numerology junta.

First, its announcements regarding enforcement actions will be timed to coincide with CPI or PCE releases (perhaps employment releases as well, given the recent trend): particularly, while perhaps not exclusively, when those releases are less-than-rosy. Second, that those companies taken to task for *gouging* will fall within at least one of three major categories:

A Firms or industries whose cost structures are dominated by sticky prices

B Firms or industries regarded as hostile to prevailing political philosophies

C Select political targets

In Category A, one would expect to see accusations and punitive measures directed at housing/shelter, healthcare, and utilities firms, among others. Category B targets are likely to include the energy sector (oil, natural gas, and what remains of the coal industry), legacy automakers, large retailers and food chains with a history of resisting collective-bargaining efforts, and certain banks and financial institutions. The Category C may include interests headed or owned by well-known or outspoken billionaires, media firms opposed to the ideologies of the Biden Administration, large companies with ownership based in Israel, Russia, or other nations at odds with current foreign policy objectives, entities or organizations donating or providing support to the other side of the aisle, and vocal opponents of the ESG and DEI wave.

The third and final prediction is that two prominent sources of sticky prices, union wage contracts and government-imposed costs, will be ignored or overlooked in whatever form of scrutiny is brought to bear on private companies.

In one sense, the introduction of the Strike Force on Unfair and Illegal Pricing represents a retreading of the Nixon Administration's ruinous Economic Stabilization Program, yet an escalation in its replacement of price controls and wage freezes with an administrative cudgel to harass and assail US citizens: owners, managers, and ultimately shareholders of for-profit firms. It shifts blame from monetary central planners to the most productive members of American society. By employing subterfuge, arrogance, and cowardice all at once, it is perhaps the quintessential political maneuver—a brand of awfulness for which there is no price, but nevertheless, tremendous cost.

https://www.aier.org/article/bidens-strike-force-recalls-nixons-economic-plan/

Unrealized Gains Tax is an Economic Fallacy

Vance Ginn

Taxing unrealized capital gains on property, stocks, and other assets is not just a bad idea, it's an economic fallacy that undermines economic growth and personal liberty. Unfortunately, President Biden's $7.3 trillion budget proposes such a federal tax. Vermont and ten other states have made similar moves.

This tax should be rejected, as it is fundamentally unjust, likely unconstitutional, and would hinder prosperity and individual freedom.

A tax on unrealized capital gains means that individuals are penalized for owning appreciating assets, regardless of whether they have realized any actual income from selling them.

If you purchased a stock for $100 this year, for example, and it increased to $110 next year, you would pay the assigned tax rate on the $10 capital gain. You didn't sell the asset, so you don't realize the $10 appreciation, but must pay the tax regardless. The following year, it dropped to $100, so there was a loss of $10. Would you be able to deduct that loss from your tax liability?

The devil is in the details of the approach to this tax, but the devil is also in the tax itself.

Adam Michel of Cato Institute explained two types of unrealized taxes in President Biden's latest budget:

> *Under current law, capital gains are taxed when the gain is realized—when the investment is sold and there is an actual profit to tax. . . The budget proposes eliminating step-up in basis, making death a taxable event. The change applies to unrealized capital gains over $5 million for single filers ($10 million married).*

And secondly,

> *The budget proposes a new minimum tax of 25 percent on income and unrealized capital gains for taxpayers with more than $100 million in total wealth. This new minimum tax would be a third, parallel income tax system, adding to the existing alternative minimum tax. The new minimum tax applies to two entirely new tax bases—wealth and unrealized capital gains. Defining and taxing wealth and unrealized capital gains pose numerous practical challenges and high economic costs.*

Taxing unrealized capital gains contradicts the basic principles of fairness and property rights essential for a free and prosperous society. Taxation, if we're going to have it on income, should be based on actual income earned, not on paper gains that may never materialize.

Moreover, taxing unrealized gains hurts economic activity by discouraging investment and capital formation, the life-blood of a dynamic economy. When individuals know their unrealized gains will be taxed, they have less incentive to invest in productive assets such as stocks, real estate, or businesses. This leads to a misallocation of resources and slower economic growth.

Additionally, this tax reduces the capital available for entrepreneurship and innovation. Start-ups and small businesses often rely on investment from individuals willing to take risks in the hope of eventually earning a return on their investment. By taxing unrealized capital gains, we discourage risk-taking and stifle innovation, essential elements for improving productivity and raising living standards.

The tax undermines personal liberty by infringing on individuals' property rights and financial privacy. It gives the government unprecedented control over people's assets and creates a powerful disincentive for individuals to save and invest. This is particularly troublesome in an era of increasing government surveillance and intrusion into private affairs.

Proponents of taxing unrealized capital gains argue that it is a way to address income inequality and raise revenue for social programs. This argument can't withstand scrutiny. This tax does little to address the root causes of income inequality, such as government failures in fiscal and monetary policies. Instead, this new tax would merely redistribute wealth from productive individuals to the government, thereby further misallocating hard-earned money.

Furthermore, the tax revenue raised from this tax will be far less than proponents anticipate, as individuals will work less, invest less, and find ways to avoid such taxes through legal paths. This would result in less economic prosperity and a resulting decline in tax collections.

From an economic and moral perspective, taxing unrealized capital gains from property, stocks, and other assets is a bad idea. It undermines economic growth, stifles innovation, and infringes on personal liberty. Instead of resorting to the misguided policies of the Biden administration and some states, we should remove barriers created by the government. These include reducing spending, taxes, and regulations. We should also impose fiscal and monetary rules.

Achieving these goals and ending the bad idea of a new tax on unrealized capital gains will encourage investment, entrepreneurship, and economic opportunity for all. Only then can we truly unleash the potential of a free and prosperous society.

https://www.aier.org/article/unrealized-gains-tax-is-an-economic-fallacy/

EPA Phase Out of Gas-Powered Cars Has Ominous Historic Echoes

Jon Miltimore

The Biden administration last week rolled out new emissions regulations that the *New York Times* said will *transform the American automobile market*.

In what the paper called *one of the most significant climate regulations in the nation's history*, the Environmental Protection Agency (EPA) is mandating that a majority of new passenger vehicles sold in America be hybrids or EVs by 2032.

The Biden administration and defenders of the policy argue that the EPA's regulation is *not a ban* on gas-powered cars, since carmakers are not prohibited from producing gas-powered vehicles. Instead, automakers are required to meet a government-mandated *average emissions limit* across their entire vehicle line, forcing them to produce more EVs and fewer gas-powered cars.

It's a clever ruse in that it allows the Biden administration to use regulatory power to force automobile manufactures off of gas-powered vehicles while denying that they are banning them.

Make no mistake, the *Wall Street Journal* noted. *This is a coerced phase-out of gas-powered cars*. This might be music to the ears of those who see fossil fuels as evil, but economics and history suggest the White House's plan to force Americans off of gas-powered cars could be a disaster.

What's Holding Up EV Adoption?

A major reason why the White House is forcing this *transformation of the American automobile market* is that Americans aren't voluntarily adopting EVs quickly enough to satisfy the White House.

Though Americans purchased more than a million EVs last year, that still represents less than 8 percent of total vehicle sales in the US. The government's current target is 56 percent. Despite massive subsidies encouraging consumers to purchase EVs, Americans didn't buy them as rapidly as predicted, causing auto companies to pump the brakes. Ford recently announced it was halving production of its most popular EV, the F-150 Lightning. General Motors and Toyota, the first and second-largest US automakers also announced significant reductions in EV output.

The weak demand for electric vehicles no doubt has several sources, but the BBC identified a few primary reasons, two of which appear over and over in consumer surveys: price and charging reliability.

Ford's F-150 Lightning starts at $50,000. Its popular Mach-e starts at $40,000, and that's after a recent $8,100 markdown. GM's top-selling EV, the LYRIQ, starts at $59,000. On average, EVs sell for about $5,000 more than similar gas-powered cars. And EV prices are rising, not falling.

In 2011, the inflation-adjusted price of a new EV was near $44,000. By 2022, that price had risen to over $66,000, said Ashley Nunes, a senior research associate at Harvard Law School, in her testimony to Congress in 2023.

The second problem is that Americans have serious concerns about how they'll charge their EVs. With gas-powered cars, they are not worried about where they'll fill up when their fuel runs low. Gas stations are ubiquitous in the US. But charging stations are another matter. Federal efforts to expand charging infrastructure, including $7.5 billion in new spending to build half a million stations, have been embarrassingly slow.

'Subsidizing EVs With Profits From Gas-Powered Cars'

Since Americans are not voluntarily adopting EVs as quickly as the government would like, the EPA is trying to hasten the transition. This could be a disastrous move.

As the *Journal* noted, Ford last year lost nearly $5 billion on its EV business. Yet the company still managed to generate a $4.3 billion profit in 2023. It doesn't take a math genius to deduce how this happened.

[Automobile] companies are heavily subsidizing EVs with profits from gas-powered cars, the *Journal* notes.

Forcing automobile companies to expand production of their least-profitable product lines at the expense of their best-performing ones calls to mind collectivized agricultural policies in the Soviet Union, where central planners embraced the worst farming methods.

While Stalin's collectivization of farms in 1929 was a massive failure that led to the deaths of millions, agriculture in the USSR of course continued during and after his lifetime. But two distinct sectors emerged: a tiny private sector that produced a bumper crop of food, and a massive collectivized sector that produced very little.

The late economist James D. Gwartney (1940–2024) explained that families living on collectives in the USSR were allowed to farm on small private plots (no more than one acre) and sell their produce in a mostly free market.

Historians point out that in the 1960s these tiny private farms, which accounted for just 3 percent of the sown land in the USSR, produced 66 percent of its eggs, 64 percent of the potatoes, 43 percent of its vegetables, 40 percent of meat, and 39 percent of its milk. By 1980, private farms accounted for just one percent of sown land in the USSR, but a quarter of its agricultural output.

The productivity per acre on the private plots was approximately 33 times higher than that on the collectively farmed land! they wrote.

In a free-market economy, farmers within the Soviet Union would have been allowed to shift toward private production—just like US automakers today would be allowed to shift away from EVs until the industry becomes more profitable.

But. . . the Environment?

Supporters of the Biden policy are likely to respond that we have no choice but to transition to EVs because of climate change. There are several problems with this argument.

EVs are not the green panacea they seem to be. Manufacturing electrical vehicles requires a massive amount of mining and energy. Half a million pounds of rock and minerals have to be mined to build just one battery, on average. Building EVs requires far more energy, and causes far more pollution than building gas-powered automobiles does.

[I]t's true that the production of a BEV (battery electric vehicle) causes more pollution than a gasoline-powered counterpart, the *New York Times* admitted in a 2022 article headlined *EVs Start With a Bigger Carbon Footprint. But That Doesn't Last*.

If you weren't aware that EVs cause more pollution on the production side than gas-powered cars, don't be embarrassed; few do. It's one of the dirty secrets of EVs: they start with an enormous carbon footprint. At a climate summit a few years ago, Volvo noted its C40 Recharge had to be driven about 70,000 miles before its total carbon footprint was smaller than the gas-powered version.

As the Times says, the footprint of EVs shrinks over time. But not as fast as many think. One big reason for this is that the bulk of the electricity produced in the US is produced by. . . you guessed it. . . fossil fuels. As the Energy Information Administration points out, fossil fuels generate about 60 percent of the electricity in the US, which means that most people charging their EVs are using electricity generated from fossil fuels.

Reducing that carbon footprint is also exacerbated by the fact that people tend to rack up fewer miles with EVs than gas-powered vehicles, which makes it more difficult to offset the large carbon footprint on the production side. All of this helps explain why a 2023 *Wall Street Journal* analysis found that shifting *all* personal US vehicles to electric power would barely make a dent in global CO_2 emissions, reducing them by less than 0.2 percent.

Who Chooses?

Forcing US automakers to expand their least-profitable autolines is backward economics. It puts automakers, workers, and shareholders at risk.

The higher profits automakers are reaping from gas-powered vehicles isn't an accident. It's a signal that consumers prefer them at the prices being offered, and heeding consumers is what separates capitalism from the failed collectivist systems of the past.

The Austrian economist Ludwig von Mises explained that in a free-market economy, it's the consumers who ultimately call the shots, not the state or even the corporations. This idea is known as consumer sovereignty. The real question here isn't about which is better, gas-powered cars or EVs. It's about who gets to choose. This kind of central planning failed miserably in the 20th century. Don't expect it to be any different this time around.

https://www.aier.org/article/epa-phase-out-of-gas-powered-cars-has-ominous-historic-echoes/

Why You Should Include Charity In Your Will

Andrew Palmer

There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That's also not true. The fact is that most gifts by will (bequests) are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn't continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

A Gift By Will Is Easy To Make
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property, or designate a dollar amount, or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

A Gift By Will Does Not Alter Your Current Lifestyle
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn't affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

A Gift By Will Can Change Lives
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

A Gift By Will Creates A Lasting Legacy
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don't have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

Classical Liberalism and Business Seminar

July 21–27
Springfield, IL

AIER will host a seminar exploring classical liberalism, and the voluntary choice those principles are rooted in, and how to apply them in theory and practice to business. Our approach to business teaches undergraduate and early-stage graduate students how accounting, marketing, management, finance, and more function together within the principles of classical liberalism.

***Law and Economics* with G. Marcus Cole**

August 30
Columbia, SC

AIER's Bastiat Society program in Columbia, South Carolina will host an event with G. Marcus Cole, Joseph A. Matson Dean and Professor of Law at the University of Notre Dame. Cole's research explores questions such as why corporate bankruptcies are increasingly filed in Delaware and what drives the financial structure of firms backed by venture capital. His recent research has involved the ways in which the world's poor are using technology to solve their own problems, often in the face of government restrictions hindering such solutions.

***Is Capitalism Sustainable?* with Mike Munger**

September 5
Nashville, TN

AIER's Bastiat Society program in Nashville will host an event with Mike Munger, Professor of Political Science at Duke University. Munger will examine Friedrich Hayek's identification of how central planning and price controls have tendencies to expand into socialism. But capitalism, in a democracy, also has has a worrisome tendency toward cronyism. The US has been moving headlong toward crony capitalism, and advocates for commercial society need to recognize that some of its criticisms hold truths.

Planned Giving

Each one of us already has a default estate plan—one dictated to us by the government. The government doesn't know who we are; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

The only way to make sure that your estate plan reflects your wishes is to design it yourself with competent counsel. Will your legacy be subsumed by faceless bureaucrats as a windfall profit for government programs that you may believe are antithetical to prosperity and justice? Or will it be a responsible transfer of values held dear by the one who earned the money? Make sure that you are the author of your own personal estate plan.

By making a planned gift to AIER—whether it be through your will, charitable trust, or another giving vehicle—you are making an incredible commitment to true freedom, sound money, and private governance. You not only secure your legacy as a champion of free markets, but you ensure that AIER will continue to fight for the principles you hold dear for generations to come.

We are forever grateful for AIER's planned giving supporters who help to ensure that people around the world will always have access to sound economic research, robust education in free market concepts, and practical training from AIER.

Here are some ideas on how to include AIER in your estate plans:

Your Will

If you already have a will, you can generally amend it to create a bequest for AIER and other charities. If you have elected a living trust rather than a will, you can also include AIER and other charities as trust beneficiaries, similar to creating bequests under a will.

Your Retirement Accounts

Retirement accounts—such as an IRA, 401(k), and others—that are left to heirs are double-taxed because (often but not always) they are subject to the estate tax and heirs are also subject to ordinary income tax on what's left. Retirement accounts left to a non-profit like AIER are not taxed at all.

Your Life Insurance

One of the easiest ways to leave AIER in your estate plans is to simply name AIER as a beneficiary of a life insurance plan. Life insurance proceeds, other than when given to a spouse or to a tax-exempt entity like AIER, are generally subject to the estate tax. Therefore, life insurance policies that are no longer needed for financial security are a good choice for enhancing your philanthropic legacy.

Other Giving Vehicles

Several less-common giving vehicles are typically used in complex estates, but might be worthy of consideration. We recommend you speak with your attorney or financial advisor regarding: Charitable Gift Annuities, Charitable Remainder Trusts, and Charitable Lead Trusts.

To get started

please contact us at 888-528-1216

SUPPORT AIER

Researching, articulating, and advancing the importance of markets

I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Donor

AIER donors understand the importance of AIER's mission and want others to understand too.

For nearly a century, the American Institute for Economic Research has educated Americans on the value of personal freedom, free enterprise, property rights, and sound money. Eschewing dogmatic assertions and party politics alike, AIER seeks to scientifically understand and demonstrate the importance of these principles to advance peace, prosperity, and human progress. We support the research of numerous leading economists and share their findings with policymakers, professionals, educators, and the general public through publications, in-person programs, and online outreach that are each tailored to the needs of these audiences. By strategically articulating and promoting the principles of pure freedom, AIER helps to build the intellectual basis for, and popular consensus around, the expansion of individual rights and market freedom, and against the increasing demands for government intervention, central planning, and collectivist policies.

To donate, call AIER at 888-528-1216 or visit **www.aier.org/donate**.

American Institute for Economic Research
250 Division Street
Great Barrington, MA 01230

Reducing, not increasing, Federal revenues would reduce governmental power in the United States. Eliminating uneconomic Federal taxes and substantially reducing revenues and expenditures of the Federal government would enable citizens to choose how and how much wealth the state and local governments would obtain and spend for public purposes. Such steps would help to decentralize government power. Until those steps are taken. . . continuing are the retrogression toward the welfare state and the increasing implementation of the Marxian Socialist principle, 'From each according to his abilities, to each according to his needs.'

—E.C. Harwood, March 1970