THE ECONOMIC SITUATION

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INTRODUCTION

With just three months to go before 2023's books close, recession bloodhounds are still sniffing for the scent of the much-expected Fed-induced severe economic slowdown. We've heard much howling, but thankfully, recession predictions of negative growth in this year's latter half have so far proved wrong. The outlook turned more optimistic when the Commerce Department's first-quarter estimate of 1.3 percent real GDP growth was revised upward significantly in June to 2.0 percent.[1] Then, in late July, the department's first estimate for 2023's second-quarter real GDP growth came in at a healthy 2.4 percent.[2] This figure was then revised downward to 2.0 percent on August 30.[3] There's not a sniff of recession in those numbers.

Driven by strong retail sales and increases in nonresidential investment and state government spending, the second quarter's initial estimate also included good news on inflation. The Fed-preferred Personal Consumption Expenditures Index grew at just 2.6 percent in the second quarter, as compared with the previous quarter's 4.1 percent.[4] Now, the previous weaker GDP growth forecasts have been pushed ahead to year-end and early 2024, which is where my recession estimate rested in the June situation report, and it still does.

Even the Federal Reserve Board economists have become a bit more optimistic. Following the July 26 meeting of the Federal Open Market Committee—when interest rates were nudged 25 basis points higher, raising the target range to 5.25–5.5 percent—Fed Chair Jerome Powell indicated the committee members did not expect to see a recession but would look for a significant slowdown later this year.[5] After all, the real interest rate, which is the nominal target rate minus inflation, is now glowing red.

The same thinking is seen elsewhere. The Federal Reserve Bank of Philadelphia's panel of 38 economists raised its third-quarter forecast from negative 0.1 percent to positive 0.6 percent, but it lowered the fourth-quarter forecast from 1.2 percent to zero growth.[6] Wells Fargo economists are now forecasting 1.7 percent growth for this year's third quarter and 0.2 percent growth for fourth quarter.[7] They expect hardly any growth at all for 2024.

Along with better GDP numbers have come reasonably strong employment data: retail sales growth has continued apace, and major investments in US manufacturing facilities were reported. Some of this apparent strength is undoubtedly associated with federal spending increases for infrastructure, large federal subsidies for chip and electric vehicle battery production, and increases in defense industry spending. In short, it may be the case that the GDP roller-coaster economy has been nudged upward just at the point where it was about to make a sudden drop-off. It is hard to read the tea leaves when the teacup is being disturbed by major policy changes.

Our attention seems to be unduly focused on the latest changes in federal fiscal and regulatory policy, which affect the shorter-term economic outlook. Unfortunately, perhaps, not much attention is paid to the continued piling on of federal debt needed to fund the expanding programs over the next three to four years. But Fitch's early August rating downgrade of federal debt from AAA to AA+ may get some attention.[8]

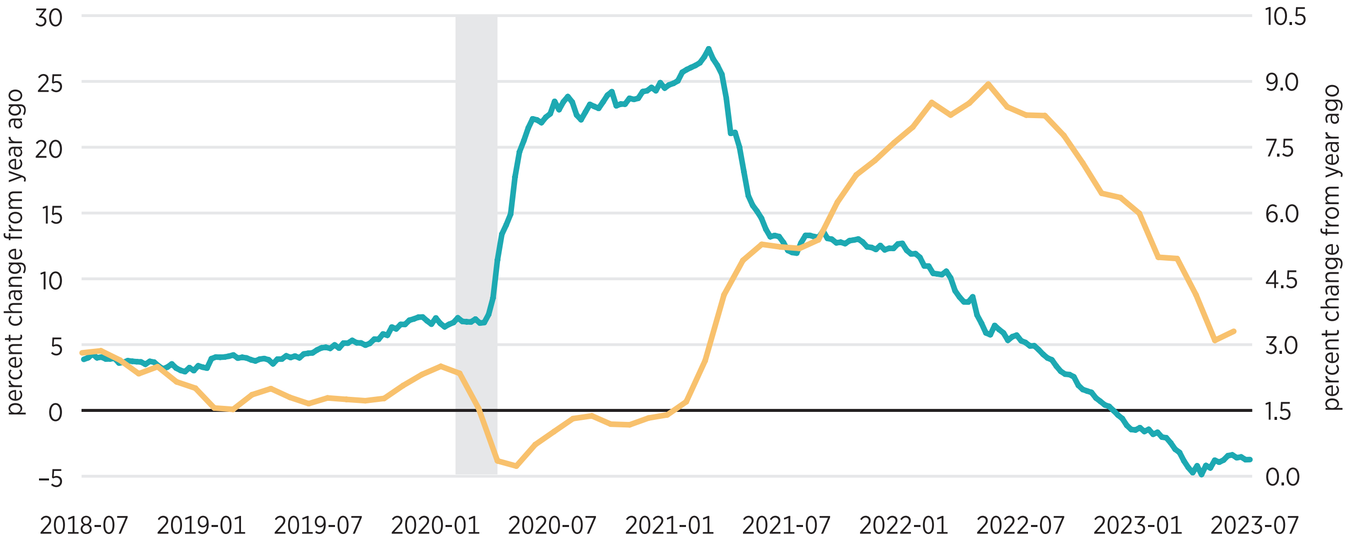
In Fitch's comments on the decision, the rating agency indicated concern about the January 6 insurrection, difficulties in dealing with the debt ceiling, and rapidly growing debt.[9] Yet the White House response to the downgrade put the emphasis where it has been all along, on the short run, suggesting that what is happening this year and next is what matters most. As White House Press Secretary Karine Jean-Pierre put it, it "defies reality to downgrade the United States at a moment when President Joe Biden has delivered the strongest recovery of any country in the world."[10] Others, including Secretary of Treasury Janet Yellen, disagreed strongly with Fitch's decision and raised questions about the basis and timing of the downgrade.[11] Still, not much mention was made of the record runup in debt—the elephant in the room—which has risen from $19.5 trillion in 2019 to $30.9 trillion in 2022.[12] The debt stood at $10 trillion in 2000.

Looking for Inflation

While the recession bloodhounds, as mentioned above, are still searching but not finding, those worried about inflation and the prospects for improvement there have reason to celebrate, as do those few scholars who argue that inflation is formed primarily by growth in the money supply. Yes, as shown in figure 1, year-over-year growth in the Consumer Price Index (CPI) peaked in June 2022 and has consistently fallen every month until July, when there was a small increase over the previous month.[13] There is still a way to go to reach the Federal Reserve Open Market Committee's 2.0 percent target. Figure 1 also shows year-over-year growth for M2, a common measure of the nation's money supply, which is of course controlled by the Fed. As can be seen, CPI inflation follows the M2 growth path about one year later.[14] The charted relationship suggests we will see 2.0 percent inflation in the next 12 months.

Now it seems none of our elected or appointed political leaders are interested in emphasizing the role of money in the economy. When citing the causes of inflation, they would rather talk about

FIGURE 1. CONSUMER PRICE INDEX AND M2 YEAR-OVER-YEAR PERCENTAGE CHANGE, JUNE 2018–JULY 2023



Note: Blue = M2 (left); yellow = Consumer Price Index for all urban consumers, all items in US city average (right).
Source: Generated through FRED, Federal Reserve Bank of St. Louis, http://www.myf.red/g/17QB2.

the war in Ukraine, chip shortages, supply-chain problems, wage-push inflation, or corporate greed—almost as though there are inflation gods who occasionally turn on us. As for those commentators and economists who fail to acknowledge the obvious, that money matters, perhaps some are a little too tied up in political narratives as well. But facts are facts: When it comes to inflation, money matters. And when it comes to politics, money matters a lot.

How This Report Is Organized

This report is organized as follows: With inflation in the headlines and the economy still adjusting from COVID-19 and other major global events, the next section considers America's post–World War II economy, another time when inflation was high and the economy was adjusting to shocking changes. At the time, President Harry Truman was more decisive in coming to grips with the inflation problem than our current leadership has been. The section also examines the impact of tariffs on the economy. With protection of US sugar producers now putting serious pressure on manufacturers of Christmas candy canes and other sweets, it is a good time to look more closely at what happens when our political leaders decide to place figurative rocks in our harbors to keep out foreign goods.[15] The section focuses on protectionism and reviews assessments of the effects of America's 2016 decision to raise tariffs on imported goods, a Trump administration decision that has been maintained by Biden.

Section three focuses on a problem that plagues elected leaders who find they are to serve the public interest but don't really know what that is. They face what is called the knowledge problem, which is a focal point of the section. Unfortunately, many elected officials become convinced that they have command of more information than do ordinary citizens, and this can lead to a showing of disrespect for ordinary people. That is section three's second focal point. The report's fourth section examines the student debt forgiveness question and what happens when government chooses to pick winners and use taxpayer money to subsidize certain production, as with computer chips.

Again, as with previous reports, the report's fifth section turns the spotlight on regulation, with thoughts expressed by Patrick McLaughlin. The report ends with a visit to Yandle's reading stand and a couple of book reviews.

HARRY TRUMAN ON INFLATION AND AMERICA'S PROTECTIONISM

Some Lessons from Harry Truman

The unemployment rate fell to 3.5 percent in July, a 54-year low, serving as another reminder that our post-COVID-19 economy is similar to that of 1947–1949, when America was adjusting to the end of its herculean World War II effort.[16] At the time, as is the case today, there was high inflation and low unemployment. Back then, inflation was brought down without significantly breaking the economy. Should we follow the same roadmap?

In January 1948, the unemployment rate fell to, yes, 3.4 percent. Inflation raged, with the CPI having hit 19 percent the previous April as wartime price controls came to an end.[17] There were concerns that the actions required to cool down a too-hot-to-touch economy would bring a recession. And at the time, nearly everyone had living memories of the Great Depression. Obviously, no one wanted to live through that again.

The domestic economy then was challenged by rapidly rising demand for houses, automobiles, and other consumer goods. These had been pushed to the side during the war, but with peace came demand, thanks to a huge buildup of wartime savings and good jobs. The transition was aided by returning veterans going to work. Meanwhile, war-ravaged European and Asian countries were attempting to recover and rebuild. US producers, including farmers, faced soaring demand and serious supply-chain challenges in getting their goods where they needed to go.

Americans today still have purses partly packed with stimulus money following the war against COVID and associated shutdowns. Shoppers have been eager to replace the family clunker and move on to better housing. But there have been serious supply-chain challenges as well and not enough workers available to fill all the jobs. And of course we have good reasons to worry about CPI-measured inflation, even though our recent high of 9.1 percent, which came in June 2022, tumbled to 3.0 percent a year later.[18] As yet, however, the desires of politicians and the public to meet the inflation challenge and avoid a recession have not led to a presidential call for nationwide hearings or a White House conference devoted to finding a better path forward.

But that's just what happened in 1948, when—prodded by President Harry Truman, a Democrat working with a Republican-controlled Congress—the nation's political leaders attempted to coordinate taxation, spending, and regulatory and monetary policy to improve the situation. The effort included two special sessions of Congress to address inflation.[19]

Truman unsuccessfully pushed for price controls, and other actions were taken that were in conflict with the goal, but ultimately policies put in place included tougher monetary policy with higher interest rates, increased taxes, and lower government spending. It was a bumpy road—maybe a case of muddling through—but inflation fell from 19.0 percent in January 1947 to 12.0 percent in June 1948.[20] By 1950, the rate was only 1.26 percent. The victory involved a short, mild recession with a 1.7 percent fall in real GDP.[21]

Truman, importantly, held to the Employment Act of 1946, which called for "maximum employment, production, and purchasing power." The act established the Council of Economic Advisers and the United States Joint Economic Committee (composed of seven members each from the House and Senate), which was charged with monitoring economic activity.[22] Unlike later presidents, Truman provided a report from the council every six months, and each was first reviewed and criticized by the joint committee so that Congress might have its voice.

A Change Might Do Us Good

Many analysts of the current picture suggest that the Fed may keep tightening until something breaks and then will focus on fixing the broken economy.[23] Perhaps this is the best we can hope for in such a politicized era, where partisanship does not stop at the economy. But it's unfortunate that we don't try for Truman's more collaborative approach. And it might be a good idea to have the Joint Economic Committee review and criticize the president's economic report and make those comments part of the now-annual Economic Report of the President.

A change, after all, might do us all some good.[24]

America's Protectionism: Positive or Negative?

How many times have you heard someone say, "If I had known then what I know now, I would have done things differently"?[25] Or, on the sunnier side, "That was the best decision I ever made"? As individuals, we must rely only on the information at hand when making decisions affecting our futures. Sooner or later, we'll know if we did the right thing. Business decision makers face the same challenge and get either a reckoning or an affirmation for their decisions, often rather quickly.

But what about the body politic? How many instances can you recall of a national political leader expressing remorse? Saying that in retrospect, when hard data are reviewed, the decision made three or four years ago doesn't look so smart? Specifically, what about remorse for Trump-era trade policies that have continued almost unchanged in the Biden years? So far, none of our political leaders has given us the benefit of a retrospective analysis.

Interestingly enough, a retrospective analysis was done recently by a group of National Bureau of Economic Research (NBER) scholars, who in a large series of independent papers reviewed the economic effects of President Donald Trump's 2017–2019 eight-step expansion of tariffs on US imports from the rest of the world. These tariffs, particularly directed toward China, have generally been maintained by the Biden administration.[26] The breadth and level of Trump's tariff increases were unprecedented for modern times, raising weighted-average import tariffs from less than 2 percent in 2015 to more than 5 percent in 2019, covering $280 billion in imports, and leading to overall US income losses of between $7.2 billion and $8.2 billion.[27]

Famously dubbing himself a "tariff man," President Trump justified all of that as a way to leverage America-friendly policy reforms out of China, noting that the burden of the tariffs would fall on Chinese producers.[28] But the NBER researchers found that the "US tariffs were largely passed through into higher prices for US firms and consumers, with little evidence of reductions in the prices received by Chinese exporters."[29]

So, while the data indicate that US consumers have suffered significantly from the Trump-now-

Biden tariffs, we now have strong evidence that US exporters have suffered as well. The import tariffs led to losses of export markets for US firms as countries hit by our tariffs retaliated. Other studies indicate that those effects resulted in a loss of 250,000 US jobs and an expansion of the US trade deficit with China.[30]

After all is said and done, it's hard to identify any winners in the tariff man's struggle against trade. If we knew then what we know now, would we have supported the tariff expansions? Let's hope not. But protectionism has long held enough political appeal to counter hard data.

THE KNOWLEDGE PROBLEM AND SHABBY POLITICAL BEHAVIOR

In a recent interview with MSNBC's Stephanie Ruhle,[31] President Biden responded to a question regarding his age (now 80 years old) and how that might affect his performance should he have a second term in office.[32] "I have acquired a hell of a lot of wisdom and know more than the vast majority of people," Biden responded, "and I'm more experienced than anybody that's ever run for the office."

His was a positive response to a tough question, but one that deserves more examination. No presidency—especially one so active with industrial policy and economic planning—can get by on this answer.

We all recognize that a person who's lived 80 years will have had more life experiences than one who has trod the planet for 70, 60, or 50 years. And it's easy to see that Mr. Biden, who has devoted his entire adult life to politics, is armed with countless stories and lessons learned about the nation's political economy. But granting this does not support the idea that Biden knows more than the vast majority of us, all topics considered—nor that it matters much if his administration consistently fails to account for the vast majority of the people's knowledge taken together.

"I'm Not Young Enough to Know Everything"

As one who has just turned 90, I'm more inclined to think that life's experiences make us realize how little we really know about the way the world works. Yes, we 90-year-olds may excel at Trivial Pursuit, but I sympathize more with the character Ernest in J. M. Barrie's comic play *The Admirable Crichton*.[33] When asked to explain why he's unaware of some important events, Ernest responds, "I am not young enough to know everything." Anyone calling on a granddaughter to help set up a new smartphone can relate.

Biden's comment raises fundamental questions about what type of knowledge we need from a president. Writing in 1944, Friedrich A. Hayek penned what became a classic article: "The Use of Knowledge in Society."[34] Hayek, who later received the Nobel Prize in Economics, explained that human communities face a severe knowledge problem: knowledge is dispersed across countless individuals, each of whom knows more about his particular circumstances than can anyone else.

The point is simple but profound: neither Biden nor any other person has sufficient knowledge of material extraction, refining, manufacturing, transport, and on and on to make an automobile tire, a ballpoint pen, or even a paperclip from scratch. I emphasize "from scratch," a point made famous by Leonard Read in his 1948 essay "I, Pencil."[35] Anyone creating even so simple a product must find ways to tap into humanity's collective knowledge. Cooperation, interaction, and trade across a vast number of people are required. Not even a vast presidential administration can duplicate the efforts of so many involved players—or even know who every player is.

For an administration so invested in influencing resource use to get the right stuff produced in the right amount for the right folks—whether it's microchips, metals, energy, vehicles, or any of the things legislatively deemed "infrastructure"—it's fruitless to simply assemble the brightest and best, find a consensus, and mandate that a solution be applied to all economic agents. Hayek famously termed this belief a "fatal conceit."[36] Instead, he suggested the refreshingly simple idea that broad goals and institutional guardrails be set. How to accomplish those goals is best left to the creativity of the people closest to the situation.

The Biden administration's recently announced air quality regulations for electricity generators provide a convenient example.[37] Briefly stated, the Environmental Protection Agency (EPA) has proposed a 90 percent reduction in carbon emissions from power plants across the years 2024–2042.[38] But instead of just setting a clear benchmark—even a difficult one—and enforcing the standard, the Biden rule imposes what the EPA terms a "technology-based" standard, or a specific fix to be applied by fossil fuel–burning plants nationwide.[39]

The more the administration uses a command-and-control approach to dictate *how* firms go about achieving reductions, the more it relies on its own knowledge rather than the collective ingenuity of the "vast majority" of people. It assumes Biden officials know more than anyone else about solving this problem, not only now but also in the future.

Wouldn't the administration see more success defining property rights to limited amounts of carbon emissions and allowing markets to set a price on emissions, as was done years ago for sulfur dioxide control?[40] As these rights are bought, sold, and traded, a market determines who gets to discharge emissions and how much. "Users" of air quality can consider endless opportunities—now and in the future—to reduce emissions, since doing so would pay. This approach even allows environmental interests to buy emission rights and retire them.

Whatever one thinks of Mr. Biden and his faculties, we all have a knowledge problem—to some extent of our own making. Instead of demanding clear goals and functioning markets to get us there, we millions of creative Americans question whose knowledge is greatest and allow the so-called best and brightest to attempt the whole job themselves. This, too, is a fatal conceit.

Why Do "Smart" Politicians Treat Bank Executives Shabbily?

Back in the early 1980s, when I was Federal Trade Commission (FTC) executive director, the agency was involved in controversial matters that often led to hearings before congressional oversight committees.[41] Most of these were cordial, though still not thought of as happy hours. They served the important purpose of keeping the agency in harmony with the elected officials' beliefs about what the FTC should be doing.

The hearings went with the territory. After all, we were government bureaucrats funded by and answerable to "we the people."

These memories and other less pleasant ones came to mind recently when former executives of large failed regional banks—Silicon Valley Bank (SVB), First Republic, and Signature—and free American citizens, as well, testified before congressional committees.[42] Former SVB president and CEO Greg Becker became the focal point of the hearings.

There's apparently lots of blame to be assigned, and some of the players in the bank closings, including bank officials as well as regulators, may be held accountable. Yet while making this point, the hearings seemed to be more about opportunities for expressions of schadenfreude than learning how to avoid future financial calamities. When Greg Becker apologized for the misery and cost generated by his bank's collapse, there was no sympathetic response.[43] Indeed, it was just the reverse. He was treated shabbily.

As an FTC senior staff member, I participated in hearings where those testifying were treated condescendingly, if not rudely, by otherwise civil elected officials. Sadly, this was inevitably the case when news cameras were in the room. Indeed, when FTC hearings were televised, we would sometimes hear the same questions or loud-voiced criticisms repeated as the camera moved from one committee member to another.

Though we understood the role we were playing in a kind of strange Shakespearean drama, it still felt a bit odd to be answering the same question multiple times. But we recognized committee members each needed to signal to folks back home that they were doing their job keeping unelected bureaucrats at bay. We also learned that there were favorite topics of inquiry that apparently the good home folks could more readily relate to than theories of antitrust law enforcement. Among these were salaries and bonuses, travel expenditures, conferences attended in exotic locations, and redecoration of offices.

As I observed and read about the recent banking hearings, I realized that TV cameras were not the predictors of the tough talk that occurred. No, now it's Twitter feeds and other social media postings. This seems to imply members of Congress can be expected to be uncivilized all the time in hearings, even toward fellow citizens, and that their urgent messages will be heard and seen by those who matter most, the voters who keep them in office.

For example, when it was his turn to address former SVB CEO Becker, Senator John Kennedy (R-LA), referring to the sudden March 2023 bank failure, said, "You made a really stupid bet that went bad. . . . What happened with Silicon Valley Bank was bone-deep, down-to-the-marrow stupid. . . . Unless you were living on the International Space Station, you could see that interest rates were rising and you weren't hedged."[44] In the same session, Senator John Fetterman (D-PA) asked Becker if there shouldn't be work requirements for bailed-out bank executives. "Republicans want a work requirement for SNAP, for hungry families. . . . Shouldn't you have a working requirement after we [bail out] your bank?"[45] In a challenging way, Senator Elizabeth Warren (D-MA) asked CEO Becker how much of his $40 million salary he planned to return to the Federal Deposit Insurance Corporation to help offset the $20 billion the deposit insurance fund had paid out to SVB depositors.[46]

Although Senator Warren has been a frequent and highly charged critic of the Federal Reserve's effort to reduce inflation and deal with related bank failures, she had not previously expressed concern for what happens to the value of fixed-yield assets held by banks and their solvency when Fed-determined interest rates rise through the roof.[47] Yet many of us remember, perhaps painfully, what happened to almost the entire savings and loan (S&L) industry when inflation and interest rates shot to the moon in the early 1980s and rattled the rafters of S&L associations nationwide.[48]

While Senator Kennedy may believe that most people knew that the Fed would raise rates continually in its battle against inflation, that was not what the Fed itself believed. Indeed, until November 2021, the Fed had argued that inflation was transitory[49] and higher rates were not needed. Questions about what the Fed would do at its meetings were staple content in the financial press, and they still are.[50] In fact, as recently as March 22, 2023, respected financial analysts were still arguing that an important part of the inflation surge is transitory and that the Fed should take a relaxed stance.[51]

What we seem to know is that a combination of COVID- and war-induced economic difficulties and central bank responses led to the painful collapse of some important but vulnerable banks. Yes, the banks likely made some serious errors and the political response is never perfect, but this does not justify sullen and impolite treatment of citizen-witnesses by members of Congress.

We might do well to review and apply one of George Washington's 110 rules of civility, which he wrote when he was 14. The first rule says, "Every Action done in Company, ought to be with Some Sign of Respect, to those that are Present."[52]

Maybe it is time for us to become a kinder, gentler nation.

FORGIVING DEBT AND SUBSIDIZING CHIPS

The recent Supreme Court decision striking down President Biden's student loan debt forgiveness effort was greeted with disappointment from some of the 43 million borrowers who hoped to escape at least part of their burden—one already suspended since 2020 because of COVID-19.[53] Then, there were sounds of acclamation from those who felt it appropriate that borrowers of taxpayer money who voluntarily sign a loan document pay up as promised.

In any case, the pause has passed. Payments are to resume in September, unless Biden pulls another debt forgiveness bunny out of his hat. In reacting to the Court reversal, Biden said, "I'm not going to stop fighting to deliver borrowers what they need."[54]

Let's be clear, then: This conversation is not over, and it's about more than the obligation, or lack thereof, to pay back the sticker price for an education. The effects of all this may be with us for a while. Take, for example, the possibility that some of the debt holders' worry now stems from a desire to see that old IOU eliminated after adding new debt during the pause.[55]

Mr. Biden's invalidated push for partial forgiveness, a 2019 campaign promise,[56] would have left roughly $430 billion to be paid by all US taxpayers, which is not small potatoes. Indeed, $430 billion is about what is needed to rebuild all of war-torn Ukraine, according to World Bank estimates;[57] it's equal to almost half of the pending 2024 defense budget; and it's enough to give a meaningful shot in the arm to the 52 million Americans receiving Social Security retirement benefits, now predicted to expire in 2033. The $430 billion is also about four times as large as the total medical debt owed by American citizens.[58]

Though seldom discussed, the debt itself wasn't ever to be canceled; it was to be shifted. After all, the United States is a deficit-financed nation. Yes, we pay lots of taxes to fund the federal budget, including making loans to students. But bonds have also been issued to help fund the student debt and everything else, and the bonds still must be paid off, or so it seems. Senators Elizabeth Warren (D-MA) and Bernie Sanders (I-VT) had promised complete forgiveness of student debt when seeking the Democratic Party's 2019 presidential nomination.[59]

Reactions to the Court decision were predictable. Cody Hounanian, director of the nonprofit Student Debt Crisis Center, said "he and millions of other student loan borrowers are 'devastated' with the Supreme Court's decision."[60] Republican senator Bill Cassidy—leader of the Senate Health, Education, Labor, and Pensions Committee—applauded the decision, saying, "President Biden's student loan scheme does not 'forgive' debt, but unfairly transfers the burden from those who willingly took out loans onto those who chose not to attend college or already fulfilled their commitment to pay off their loans."[61]

Student Debt Relief: A Hot Potato That Spurred Even More Borrowing

Each case is an individual story, but as a group, debt holders enjoyed three years free from loan payments and as a result may have gone even deeper in debt.[62] According to a 2023 NBER study, a large sample of the those who held the paused debt significantly increased mortgage, auto, and credit card borrowing and even increased the level of student loan debt.[63] Deeper in debt due to the pause, some are understandably depressed by the Court setback.

All these data, of course, carry less weight with much of the political class than does the fact that student debt is ideal policy fodder for running for office. The 43 million debt holders form a large, organized, voting-age interest group primed and ready to receive a political payoff. Today, they are apparently even more deeply in debt, and perhaps even more motivated, than they were when the whole debt forgiveness business first started.

As for inspired politicians who think—or wish us to think—that they can create a world with less debt just by passing laws and issuing executive orders, let's remind ourselves of Adam Smith's 1759 comment:

> The man of system [as Smith termed such politicians] seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it.[64]

How Subsidizing Chips and Everything Else Became a Losing World Habit

How many times have you experienced it at a crowded football game?[65] Hoping to get a better view, the fans seated in front of you stand. Then, with your view blocked, you and others in your row stand tall. The wave continues. Very quickly, everyone is standing and getting a bit weary, and no one has gained an advantage. So it may be with the global response to the US 2022 CHIPS and Science Act, which established $52 billion of US taxpayer money to subsidize computer chips built on American soil.[66]

Yes, planned US chip production ramped up and construction expenditures on computer, electronics, and electrical manufacturing plants surged.[67] But so is the case in the European Union, India, Japan, South Korea, the United Kingdom, and elsewhere.[68] In total, it is estimated that $200 billion is being given away to chip producers, with the European Union alone dishing out $47 billion in subsidies to firms that will build facilities in Europe.[69]

The result? With massive subsidies surging, there's a global chip-making fruit basket turnover under way as the industry finds a new equilibrium. Just where it all ends is yet to be determined, but one thing is certain: taxpayers are losing and chip company shareholders are laughing all the way to the bank. But it doesn't end with chipmakers.

While the chip industry is expanding and regrouping, the subsidized surge has expanded to include producers of other goods and services that are part of the chipmakers' supply chain.[70] Now chemical manufacturers, tool makers, and other producers, small and large, can add their requests to the subsidy line. Meanwhile, American politicians see this as an opportunity to introduce some new rationing devices. All those who receive $150 million or more in subsidies must provide a childcare plan as well as adopt Joe Biden's commitment to diversity, equity, and inclusion.[71]

As might be expected, just as with a standing football crowd, there is a movement under way to get everyone to sit down. Back when political and industrial leaders worldwide were alarmed by the rising scarcity of computer chips and decided to do something about it, hardly anyone seemed to expect that industrialized nations worldwide would all decide to subsidize chipmakers. Efforts are now under way to coordinate and to avoid excessive subsidies. As European Commissioner for Competition Margrethe Vestager put it: "We hope to agree on high levels of subsidies—that they will not be more than what is necessary and proportionate and appropriate."[72]

But maybe the resulting mess should have been expected. After all, subsidizing favored producers has become a government habit. According to the Lowy Institute's summary of a 2021 Global Trade Alert report, "since 2008, China, the United States, and the European Union have implemented more than 18,000 subsidy programs for their industries, with the number of identified programs split roughly equally between the three. Together, China, the United States, and the European Union account for more than half the number of total world subsidy interventions since 2008."[73]

With so many subsidies and so much taxpayer money being given away, there is little doubt that the US deficit will continue to grow and that efforts will be made to avoid cutting taxes. We'd best get used to it.

PERSPECTIVES ON REGULATION

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More than 2,000 federal regulations are behind paywalls. How? The answer is a method of creating regulations called "incorporation by reference."

Incorporation by reference (IBR) is when a law or regulation references another document and makes it a part of the law or regulation. This occurs fairly regularly in state and federal laws and regulations. For example, state regulations will often reference portions of federal regulations rather than either creating a duplicate set of regulations on the state's books or creating a new standard. Importantly, when regulatory agencies use IBR in regulations, it usually means that the secondary document is given the full force of the law. In other words, IBR'd documents become regulations.

Consider this example. Four hundred and eighty-six different federal regulations refer to the *Boiler and Pressure Vessel Code*, which is produced by the American Society of Mechanical Engineers.[74] The *Boiler and Pressure*

Vessel Code, which is 19,808 pages long, describes modern standards used in the safe design, manufacture, inspection, testing, and maintenance of boiler and pressure vessels, power-producing machines, and nuclear power plant components. If prevailing price is any indicator, then it must be a useful set of standards, because it costs about $20,000 to purchase.[75] In fact, if these standards were to become freely accessible to all people, they'd arguably be a public good.

But these standards, and many other standards developed by similar standard-developing organizations, are not free, and that's understandable. Their production requires the inputs of many engineers, scientists, and other subject matter experts from an array of companies and organizations.

A governance problem arises when standards such as these become regulations via IBR and are behind a paywall. That's right—many, many of the standards that are IBR'd are behind paywalls.

Just how many IBR'd standards are behind paywalls? For that matter, how often are standards such as the *Boiler and Pressure Vessel Code* IBR'd in the first place? I recently set out to answer these very questions and was dismayed at the results.

First, I searched the *Code of Federal Regulations* for the term "incorporated by reference" and similar phrases. I got more than 23,000 hits. In other words, it appears that external documents are given the power of regulation at least 23,000 times in federal regulations—and it's worth noting that this is federal only. We know this practice is prevalent at the state and local levels too, although we don't yet know how prevalent. I like to compare the costs of regulations to an iceberg, where there is some visible portion sticking out above the water, but there is also a hidden part of the iceberg lurking beneath the waves. For regulatory costs, there are some obvious and visible costs, such as paperwork hours or the outlays related to the purchase of new safety equipment. But there are also some hidden costs—innovation that didn't happen, for example. Apparently, the iceberg analogy can also be used to describe the body of regulations themselves. Many are readily visible in the *Code of Federal Regulations* itself, but many others are at least somewhat hidden in the sense that you have to look into some other document to find them.

It gets worse. I was able to find a database maintained by the National Institute of Standards and Technology that lists the standards incorporated by reference in federal regulations. That database has about 25,000 entries, but many of them are duplicates—the average standard in this database is incorporated by reference about five different times. After getting rid of duplicate rows, I was left with 5,689 standards that are IBR'd at least once. If each of those standards is 10 pages long, that means 56,890 pages of regulations are not actually on the books but have legal force. (In reality, they're probably much longer on average.) The *Code of Federal Regulations* itself was 188,343 pages long as of 2021, so if the 10-page assumption is anywhere close to right, that means about 30 percent of federal regulations are not actually printed in the code.

It gets even worse. I tried to track down each of these 5,689 IBR'd standards and found that 2,269, or about 40 percent, are behind paywalls. The average cost to access the paywalled standards is $122.09, and if you wanted to purchase all 2,269 paywalled standards, it would cost you about a quarter million dollars.

Law should be accessible to all, not just those with the ability to purchase it. If regulatory agencies want to use privately developed industry standards as regulations, they should ensure the standards are freely accessible. That might mean compensating the standard developers in another way. It should not be via paywalls on the public.

YANDLE'S READING STAND

Erik Larson's 2020 *The Splendid and the Vile: A Saga of Churchill, Family, and Defiance during the Blitz,* brings an astoundingly informative and entertaining focus on Winston Churchill's first year or so in office, which began on May 10, 1940. The book concludes with events surrounding Japan's December 7, 1941, bombing of the US fleet at Pearl Harbor; with Germany and Italy declaring war on America; and with America, three days later, declaring war on Germany, Italy, and Japan. The die was cast, and the United States aggressively joined Britain and the rest of the western world to engage in what became known as World War II.

Larson's page-turner at times reads like a novel, but it is loaded with direct quotes gleaned from the diaries of the book's leading characters, news stories, official records, and other commentary. There are regular diary entries woven into the story from Winston Churchill's articulate daughter Mary, who, an important character in the story, was coming of age at the time; from Churchill's chief of staff, Phillip Colville; from leaders of key government agencies; and from a host of British diary writers who were engaged in an organized writing project to record the thoughts of ordinary citizens. Added to these regularly were the extensive diary comments of Adolph Hitler's chief of air power, Hermann Goering. Goering played a critical Nazi role in what became known as the Battle of Britain.

Larson weaves into his story the regularly expressed Hitler hope of bringing a surrendering Churchill to the negotiating table and thereby allowing him to focus on what would become a horribly failed effort to conquer Russia. But a British surrender was not to be, this in spite of the obliterating bombing raids that constantly hit major parts of London—including the House of Commons—and, memorably, the industrial city of Coventry.

Some of the book's more gripping episodes involve the detailed description before and after bombing of air raid shelters, night clubs, military barracks, and residential areas. There is also an unexpected irony encountered as people report their reactions to the constant nightly bombing terror and tell how they were energized by engaging with their fellow citizens in dealing with the oppressing hardships. They were seemingly more excited just to be alive.

Sixty-five years old and seasoned in British government, having been First Lord of the Admiralty, Churchill took leadership at a time when Britain had already declared war against Germany. Hitler's forces had stormed across Austria, Norway, Holland, Belgium, and Luxembourg and were rolling without much opposition into France and North Africa. Hermann Goering's massive and well-equipped Luftwaffe was bombing London and other British cities, and German U-boats were begging to take a severe toll on British shipping. Meanwhile, Churchill's hope for repelling Germany's expected invasion and for ending the Hitler nightmare rested on America—a nation still recovering from the Great Depression, then committed to isolation—and on President Franklin Delano Roosevelt to assist Churchill, a man he barely knew.

The book's discussion of Churchill's regular and carefully written communications with FDR highlights the power of these two experts in the persuasive use of the King's English. Churchill attempts to persuade without begging, though he is desperate, and FDR seeks to offer a positive response, though he knows that going too far will make his troubled relationship with the US Senate even more fractious. In all this we get an insider's story of how America's Lend-Lease program, Britain's lifeline, was invented and how the diary writers in Churchill's small circle of family and officials reacted. In reading through these comments and the larger Battle of Britain story, one is constantly reminded of the current world struggle to assist Ukraine against Russia's destructive invasion.

Larson's descriptive treatment of Churchill at times borders on hilarious. The famous prime minister exuded strange behavior. Constantly with a cigar or on his way to have another glass of champagne, always doing business over large and late dinners, and dressed in strange self-designed romper suits, Churchill seemed to be always on stage and capturing the attention of all within hearing or sight. Mrs. Churchill, Clementine, was his opposite in these attention-getting ways. Armed with high intelligence and wit, she played a major role in keeping the ship of state steady and on course.

I wish to point out that this book was so enjoyable that I insisted that some of my special friends and kin get a copy and read it. If I were rating it in a five-star system, it would get five golden ones.

If we think of the time required to read a book as the cost we pay, then John Brooks's *Business Adventures*—an old but 2014-updated collection of "twelve classic tales from the world of Wall Street"—is well worth the cost. Each of its 12 chapters makes for an easy read. In some cases, the stories are from the distant past but with an interesting twist, which means the reader will get a refresher or a first shot of history while having the mind put at ease before nodding off at the end of the day.

Chapter 2, the Edsel story, is one of my favorites. Drawing on original research and personal communications with major players, Brooks gives a detailed story of the massively failed Ford Motor Company's 1958 effort to launch the Edsel. The size of the financial commitment made and all that went into design, marketing research, and corporate effort made the Edsel failure one of the largest in marketing history. Brooks emphasizes that the venture developed out of the belief that Ford's middle-weight lineup was limited to just one car, the Mercury. The Mercury had a narrow hot-rod following and was not able to attract upward-bound buyers such as young lawyers, doctors, and executives in competition with the General Motors Buick, Oldsmobile, and Pontiac lineup.

In a few words, GM was eating Ford's lunch. As a witness to some of this, I recall all too well how the Studebaker dealer in my city made the big commitment to join the ranks of Edsel dealers and bring an inventory of shiny, high-powered Edsels with their distinctive, large, oval-shaped front grills and gull wing–decorated rear trunk covers. For its time, the new entrant was loaded with gadgets, including an automatic turning radio antenna and push-button gear shifts mounted in the steering wheel center. Unfortunately, the fancy technology did not prove to be happily reliable, and car shoppers seemed to be more interested in lighter-weight, more agile, and better-known brands. Reputational capital and the used car aftermarket mattered a lot. And then there was the name.

As Brooks points out, Edsel was named for Ford founder Henry Ford's only son, a talented man and auto executive who had always struggled in his father's shadow. The selected name came following massive marketing research that had started with instructions not to recommend the name "Edsel." The author strongly argues that while the name did not convey much meaning to potential buyers, the automobile's failure had to be chalked up to much more. After a disastrous introduction, Edsel went through some design changes that improved sales in subsequent years, but very quickly the vehicle began to look a lot like some of its shiny Ford brothers and was shifted to the auto company's back burner, eventually becoming an undistinctive part of the Mercury–Edsel–Lincoln division. Meanwhile, countless dealers nationwide bit the dust.

From Brooks's interesting collection, I also recommend "The Last Great Corner," which is a story of that very Memphis-founded supermarket chain, Piggly Wiggly (PW), and its founder's (Clarence Saunders) successful effort to corner the market for PW stock, wipe out some too-wise stock market manipulators, and pocket several million in doing so. The time is the early 1920s, and Saunders's innovation was the grocery cart, open shelves, and cashier-staffed checkout lanes. Why the highly successful venture was named Piggly Wiggly will never be known. Saunders indicated it was so people would ask why.

The Piggly Wiggly corner story is interesting for several reasons. First, Brooks does an excellent job explaining the concept itself: how short-sell transactions are organized and implemented, and then how an investor might conceivably gain control of so many shares of a stock that short sellers (who must cover their shorts and deliver) find they have only one source of supply available when it is time to close their contracts. Brooks explains the few times corners have developed in the financial world and why they develop. Of course, in the PW case, Securities and Exchange Commission rules left far more leeway for promotional advertising than they do today. Still, you will want to learn how Saunders played his hand and how his corner worked.

Another noteworthy chapter focuses on the life and times of David Lilienthal, first president of the Tennessee Valley Authority, Franklin D. Roosevelt's dream, which at the time was America's largest industrial enterprise. Viewed suspiciously by most capitalists as the worst example of a turncoat socialist operator, Lilienthal leaves the authority and after an almost born-again experience becomes one of America's leading and much-happier capitalist dealmakers.

The diversity of *Business Adventures* makes it unusual and offers the reader a collection of tales that illustrate the breadth, depth, and perhaps in some cases the shallowness of what we still call the American free enterprise system. It's an interesting read.

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