THE ECONOMIC SITUATION

September 2024

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Getting Started

With September's arrival, those who love college football are again enjoying tailgating, touchdowns, the sound of marching bands, and crowds cheering and singing their alma mater. Hope for a conference championship reigns supreme. Nothing beats winning.

But for this particular September, those who get their thrills from politics, cheering crowds, music, and political cheerleaders can enjoy an endless flow of speeches, debates, promises, and constant TV commentary as each competing White House candidate tries to convince an American majority that only he or she can save the republic from extinction. Each major party hopes to win the Super Bowl of politics: four years in the White House. Nothing beats winning.

Of course, it is "crazy season" when politicians seeking office do all they can to satisfy the public's demand for politically determined benefits and a lot of entertainment. Along with dramatically different offerings for taxes, regulation, and immigration policy, both major party candidates—Republican Donald Trump and Democrat Kamala Harris—agree on one thing. They promise a heavy dose of gatekeeper, top-down capitalism. Well . . . I am not sure about the capitalism part. There is not much talk about free markets. As Rodney Dangerfield may have put it, those concepts "don't get no respect."[1]

But while both candidates have their own ideas about how they can push and pull the economy to satisfy their favored special interest groups, there is no doubt about their desire to stand at the nation's gate, determine who and what may enter, and remedy middle-class problems with command-and-control solutions.[2]

Both Trump and to a less degree Harris, with her administration connection, are long on tariffs, particularly for goods from China, and other border restrictions, and to varying degrees promise to reduce

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the flow of refugees across the southern border. As they seem to see things, they hold the keys to the kingdom. Their ability to control entry may be used as a bargaining device to assist in accomplishing presidential goals. For her part, Harris is calling for a federal law against price gouging, without defining the term or indicating how the prohibition would be monitored and enforced, along with increased tax credits for children and federal grants to help first-time homebuyers.[3]

Unfortunately for America's seemingly forgotten consumers already burdened with the previous rounds of Trump–Biden border taxes, the promised higher tariffs, which may benefit organized labor and specialized communities, will simply make the average American poorer. "The forgotten men and women" to whom the 2024 Republican platform is dedicated and who were mentioned in Donald Trump's 2016 inaugural address will show up in speeches but otherwise remain politically out of mind.[4]

In the June "Economic Situation" report's summary of the economic landscape, I indicated that we were figuratively walking an economic tightrope where a serious economic shock from any direction could have consequences. So it remains with the current political push for autarky—closing doors to the US economy for goods and people—along with other disturbances that might be introduced in the year ahead. We'll see how the tightrope holds.

The economy's improving heartbeat

But while the presidential candidates may suggest that our nation's future existence hangs in the balance, as perhaps, in the darkest sense, it always does, we recently received mixed signals suggesting that even though the nation's heartbeat may be weakening, the prospects of a recession are remote. Perhaps the tightrope economy is better able to sustain serious shocks, if they occur, even though the Federal Reserve has been hitting the brakes since March of 2022.[5]

Indications of a weaker economy were seen in the Bureau of Labor Statistics employment data for July.[6] The month's job growth came in at 114,000, one of the weakest numbers in a year, along with downward revisions for the previous two months, and the unemployment rate rose to 4.3 percent from June's 4.1 percent. It should be noted, though, that an increase in people looking for work, not layoffs, explains the higher unemployment number. Another weakness is seen in the June Consumer Confidence Index, which turned south for both the current and future outlook.[7]

On the positive side, promises of brighter prosperity are seen in the Department of Commerce's July 2.8 percent estimate for second-quarter real gross domestic product (GDP) growth, a healthy number that was driven by strong consumer spending on services and goods.[8] Another dose of good news came when the annual growth of the Personal Consumption Expenditures Price Index, the Federal Reserve System's favorite inflation measure, rolled in for June at 2.5 percent, a tad lower than May's 2.6 percent, and perhaps making the Fed's 2.0 percent target seem achievable in our lifetime, if not sooner than expected.[9]

In table 1, I provide an update for three GDP forecasts I follow. These are from the Philadelphia Federal Reserve Bank, *The Wall Street Journal*, and Wells Fargo Economics. The prospects are tepid at best. The three forecasts are remarkably similar but show no evidence of a pending recession. I should point out that the Philadelphia Fed and *The Wall Street Journal* forecasts were published prior to the just mentioned Department of Commerce 2.6 percent second-quarter real GDP growth estimate.

TABLE 1. GDP growth forecasts

SOURCE OF FORECAST	THIRD QUARTER 2024 (%)	FOURTH QUARTER 2024 (%)	FIRST QUARTER 2025 (%)	SECOND QUARTER 2025 (%)
Philadelphia Fed	2.0	1.5	1.8	2.0
Wall Street Journal	1.6	1.5	1.7	1.9
Wells Fargo Economics	2.4	1.3	1.2	2.1

Sources: Federal Reserve Bank of Philadelphia, "Second Quarter Survey of Professional Forecasters," May 10, 2024, https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/survey-of-professional-forecasters/2024/spfq224.pdf; Anthony DeBarros, "Economic Forecasting Survey," *The Wall Street Journal,* updated July 18, 2024, https://www.wsj.com/economy/economic-forecasting-survey-archive-11617814998?mod=article_inline; Wells Fargo Economics, "US Economic Outlook: August 2024," August 7, 2024, https://wellsfargo.bluematrix.com/links2/html/777ed9e3-4b81-4f27-a2fa-55ac6a68f8c6.

The geographic imprint

In figure 1, I show three data maps for December 2023, March 2024, and July 2024, produced by the Philadelphia Fed.[10] These show the three-month growth for state coincident indicators, which are based primarily on labor and housing market conditions. The maps visualize variations in regional patterns of economic prosperity and whether things overall are getting better or worse. I note that the hues have weakened in the July map, so that it looks more like December than March. The weakness is most pronounced in the Midwest and Great Lakes regions.

Finally, in figure 2, I provide an outline map from the Bureau of Labor Statistics showing state employment growth for 2023. A quick glance reveals that the western states are economically strong, that the southeastern states had the strongest growth east of the Mississippi, and that Wisconsin, Iowa, Illinois, and Indiana form a slower-growth region. Taken together, this last map and the three indicator maps form a picture of where economic growth was strongest in 2023 and where the promise of growth based on current indicators is now brightest.

How this report is organized

The report has four sections including this introductory section. The next section calls for the nation to pause after experiencing a series of turbulent years (including the 2008/09 Great Recession, COVID, inflation, and the effects of wars in Ukraine and the Middle East); take a long breath; and, if possible, reach a consensus on some long-term goals that need to be addressed. Maybe the ongoing presidential campaign will result in some of this.

In a figurative sense, the nation has been stressed by the necessity of fighting a series of economic forest fires that could not be disregarded. Long-term challenges such as ensuring the viability of Social Security, stabilizing Medicare, refreshing basic environmental statutes, dealing with a ballooning deficit, and even renewing a fundamental commitment to freedom and the pursuit of happiness have been pushed to one side.

The need to address long-term issues has also been less compelling because the advanced average age of our political leaders causes them, like all normal people, to be short-term focused. All senior citizens face a horizon problem. ("I don't even buy green bananas anymore.") Take it from one who knows. They tend to be more focused on making things happen while they are still alive, and that horizon shortens with age. In calling for a time of national discussion and reflection, the section describes how this was done in two other periods in the nation's history.

FIGURE 1. Three-month change in state coincident indicators, December 2023, March 2024, July 2024

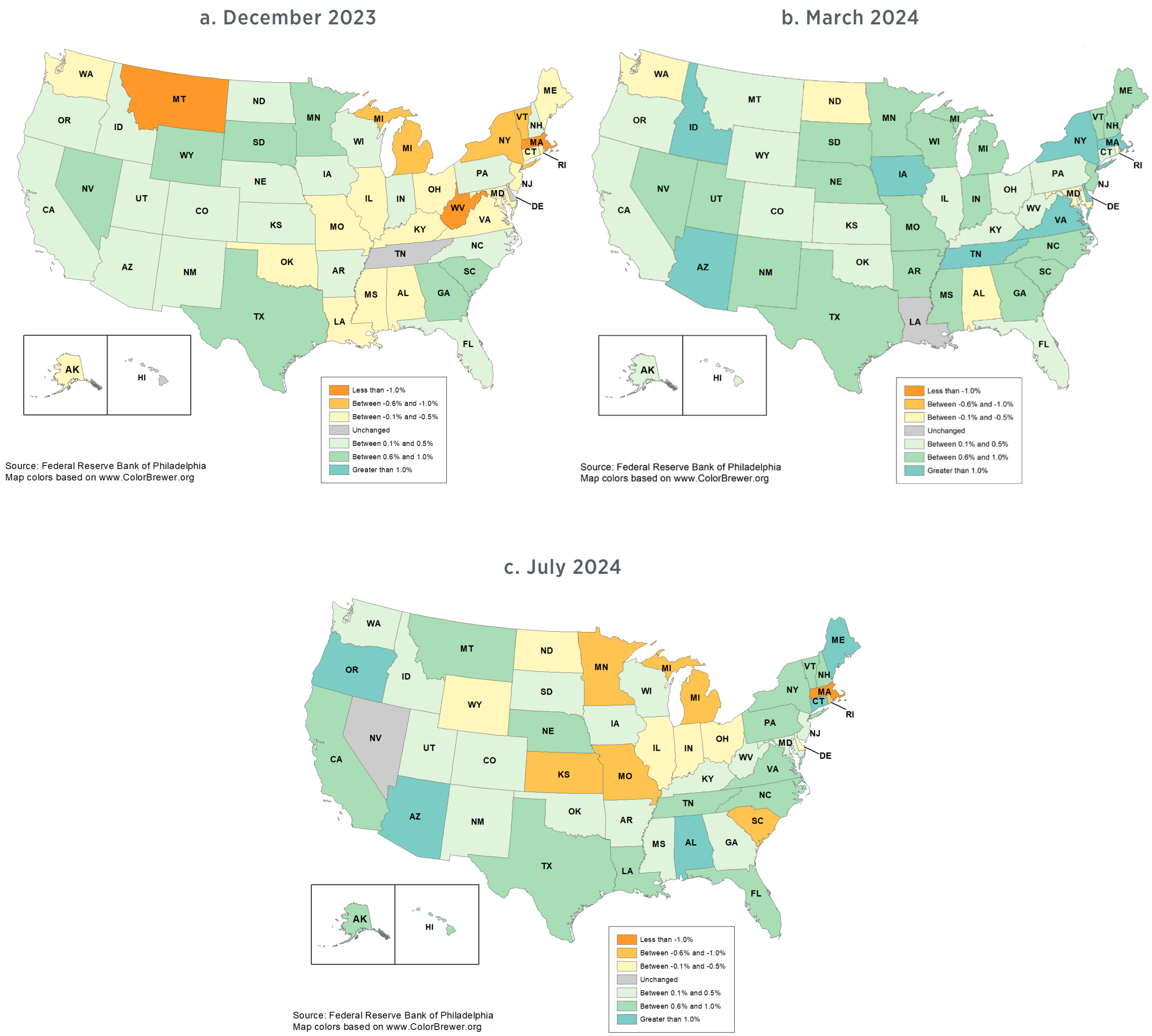
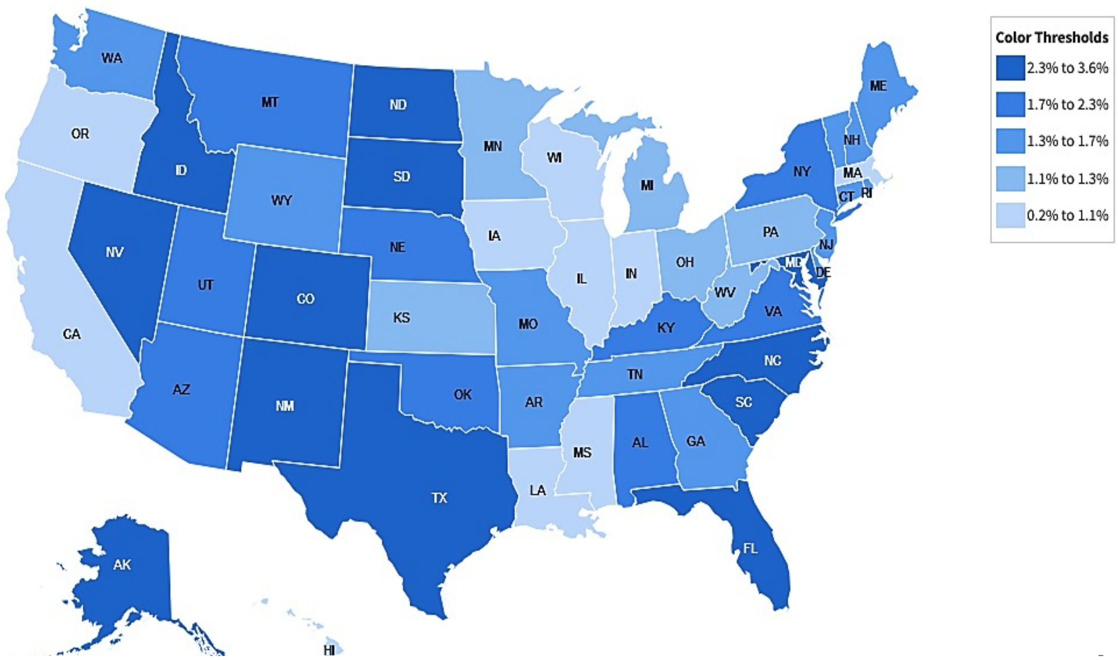


FIGURE 2. Employment growth, all industries, year-over-year, December 2022–December 2023



Source: US Bureau of Labor Statistics, "QCEW State and County MapQCEW," accessed August 20, 2024, https://data.bls.gov/maps/cew/us.

Section three focuses on what appears to be an anomaly. A nation inspired by the Boston Tea Party's opposition to tariffs seems now to be embracing border taxes at every turn. The section explains why and directs attention to election-year game playing by both political parties and the ongoing effort by politicians to do things for important interest groups that will gain their ballot-box support. Yes, bread and circuses still seem to be in vogue.

Section four zooms in on a related topic: ongoing political efforts to regulate prices and punish Big Oil. Once again, public-choice economics is applied to these two regulatory topics in the hope of shedding light on what seems to be going on.

Finally, the report ends with Yandle's Reading Table and a discussion of—what could be more appropriate for this time of policy turbulence?—a biography of Milton Friedman by Stanford historian Jennifer Burns: *Milton Friedman: The Last Conservative* (Farrar, Straus and Giroux, 2023).

Time to Pause and Develop a National Prosperity Agenda

To most everyone's concern, the US economy is still recovering from the combined effects of the devastating 2008/09 recession; the 2019 COVID pandemic, which was followed by a severe and unusual 2020 recession and a serious, lingering bout of inflation; and ongoing Russia–Ukraine and Israel–Hamas wars that, in addition to causing horrible death and destruction, disrupted global energy markets and rearranged trading patterns worldwide.

As difficult as it will be, now is the time to change our mindset. We need to do more than reactively deal with the crises of the moment. To improve the prospects for America's prosperity, we need to focus significant attention on long-run economic fundamentals.

For years the nation has been caught in a blizzard of these short-run crises. Like wildfires that must be controlled, the recurring emergencies tend to generate a bunker mentality that allows pundits, activists, and elected officials to exaggerate the importance of government command and control. As a result, instead of paying what might be called a prudent amount of attention to short-run problems, we treat them with excessive attention. For too many years, "crisis" has become an overused word in White House briefings.

Aging decision makers compound the problem

This myopic tendency is magnified by the fact that the average age of US senators and house members is rising to new highs and the Republican candidate for the White House is 78, this after Joe Biden, who is 81 years old, was replaced by 59-year-old Kamala Harris as the Democratic presidential contender. With shortened time horizons, political decision makers, like other normal people, want to make things happen before their personal expiration dates.

When attention is biased to the short run, low priority is given to long-term, bedrock issues such as the threatened viability of Social Security and Medicare,[11] the exploding federal debt, the economic drag imposed by obsolete environmental and immigration statutes, or the need to reorganize government to better respond to artificial intelligence opportunities,[12] cyber-attacks,[13] and growing regional conflicts over water supply.[14]

I believe this is the time to pause, take a deep breath, and—with government agencies joining in—open a yearlong national conversation on what matters for our long-run prosperity. We should heed the advice of Voltaire's Candide, the optimist besieged by all kinds of trials and tribulations, and take time to "cultivate our garden."

Consider this: The 2008/09 recession generated an unemployment rate of 9.9 percent in 2009's second quarter, laid waste to financial institutions, and spurred sharp revisions to US financial market regulation. There were bank panics. The house was on fire. Then, with resulting institutional change still in progress, the COVID pandemic shutdowns of large swaths of the economy delivered a 2020 recession with unemployment hitting 13.0 percent in 2020's second quarter. COVID shutdowns also inspired the rise of at-home work habits that have upended parts of the economy and are not likely to change.

The cumulative effects of these two recessions and disruptions were accompanied by unprecedented federal efforts to send trillions in deficit-financed cash to beleaguered citizens and businesses—for-profit and nonprofit alike. The flood of printing-press dollars contributed to high levels of inflation and was followed by Federal Reserve efforts to bring inflation down by way of economically stifling higher interest rates.[15]

Given all this and given the obvious political and social divisions among Americans, how exactly do we go about organizing a national conversation on prosperity priorities?

Two past experiences to consider

There are two past efforts to consider. First, in 1945, when Harry Truman was sworn in as president, the US economy was challenged by a massive transition from war to peace and the return of more than 13 million veterans.[16] President Truman called on Congress to organize hearings on taxation, spending, inflation, and the conversion of government-owned war production facilities to peacetime operations.[17]

Truman also asked for a fundamental reorganization of the executive branch[18] and cooperated with Congress in the 1946 development of the Council of Economic Advisers and Joint Economic Committee, which would monitor and report on the forthcoming transition process.

At times, the Truman-era reforms look like one step forward and two back—after all, we are talking about democracy, which is messy—but the related hearings and conversations invigorated new thoughts on how government might become more effective and led to the modernization of executive branch agencies and the identification of new priorities for prosperity. Taken together, the Truman-era actions and the response of America's reinvigorated economy delivered a prosperous transition without a devastating level of unemployment and inflation. It's worth remembering that in 1943 future Nobel economics laureate Paul Samuelson had predicted that without continued wartime regulation, the US economy would experience "the greatest period of unemployment and industrial dislocation which any economy has ever faced."[19] None of that happened.

In 1975, just 30 years after Harry Truman's heydays, the "accidental president," Gerald Ford, had to deal with 12.2 percent inflation following the 1973 Arab oil embargo, an economy operating with a system of clunky wage and price controls, and a nation shocked by Watergate and the failed Richard Nixon presidency.[20] Ford called for a national conversation on inflation and other problems.

Hearings were held in each state, and the findings were shared with the American people. I participated in one of those hearings and then worked within the next two administrations to bring to fruition some of Ford's regulatory reform commitments. During those years, price controls were lifted, airline and natural gas pricing was completely deregulated, the Civil Aeronautics Board closed, major functions of the Interstate Commerce Commission were eliminated, and the Federal Trade Commission accelerated active national fraud prevention and consumer advocacy programs.

History suggests the prospects for prosperity can be improved. Once again, this is the time to open a vigorous conversation about the nation's future and develop a positive agenda for long-term prosperity. Let's hope the conversation begins soon.

From Tea Party to Targeted Tariffs: What Happened?

For a nation that started with a rambunctious 1773 Boston Tea Party over tariffs, it may seem ironic that both major-party White House contenders are trying to outdo each other with promises of higher tariffs.[21] As proposed, these import taxes, along with limiting the flow of chips, batteries, solar panels, and steel, will prevent Americans from having access to Chinese-produced hybrids—capable of traveling over 1,000 miles on a full tank and charge—and $10,000 electric vehicles (EVs). (Think about that for a few minutes. A $10,000 car!)[22] These vehicles are on the road and heading out of factories, but not here. Of course, China is viewed by our political leadership as an adversary, and tariffs may be a geopolitical tool. But why EVs?[23] Why chips? Why not hit a full range of imports and really sock it to them? Why targeted tariffs?

As always, there is more to the story.

Those eager Boston patriots weren't worried so much about tea tariffs as taxation without representation. The resulting revolution delivered a new order that promised life, liberty, and the pursuit of happiness. The new order also yielded a political process that enables special interest groups to gain at the expense of other less adept members of the body politic. Taxation with representation was the key.

Mancur Olson's insight

While we always see through a glass darkly when trying to understand the workings of the political economy, Mancur Olson's 1965 seminal work, *The Logic of Collective Action*, provides some helpful insights.[24] Olson points out that political efforts to pass out pork tend to be most successful in situations where the benefits of the largesse are targeted to members of relatively small, highly organized, winning interest groups and the costs are dispersed across a vast number of widely dispersed consumers. The unorganized consumers are rationally ignorant about what government may be doing and logically don't take the time in their busy lives to read *Federal Register* notices. They are most likely unaware that they are carrying a slightly heavier load when tariffs are imposed on imports or taxpayer-funded subsidies are given to members of an organized interest group.[25]

A typical example of this may be found in the support of milk producers through US Department of Agriculture (USDA) programs. With a US 2022 population of 333.3 million, and many of them consuming milk products, the nation that year had 27,900 licensed dairy operators[26] who benefit from federal payments when milk prices fall below feed and related production costs.[27] Now, it's beyond belief that any US consumer could notice the difference the program makes in the price of a half-gallon of milk or in their tax liabilities when credits are issued. But you can bet your boots that each one of the 27,900 recognized dairy operators can quote chapter and verse on where the subsidies lie this year. Looking at the national picture, one finds that $1.2 billion of taxpayer money was paid by the USDA in 2023 under their dairy margin program,[28] and that "ain't hay," though most ordinary Americans don't even know the program exists.

We see this with the high tariffs proposed for Chinese EVs. When the tariffs were proposed, the new $10,000 EV produced by the Chinese firm BYD was not being sold in America. Thus, the announced 100 percent tariff had no effect on current market prices.[29] When asked about the tariffs, Secretary of the Treasury Janet Yellen explained, "They're very carefully targeted at sectors that we're supporting through legislation that President Biden passed with Congress, the clean energy sector, semiconductors, sectors where we consider it critical to create good jobs."[30] Put another way, the United Auto Workers (UAW) should love the targeted tariffs, and consumers won't know what's happening.[31] But is there no effect when products that American consumers might just like are blocked totally from entering the country? Shouldn't a president be required to justify such actions?

To those who favor the tariffs, like the UAW, Biden and Trump's love affair with targeted tariffs provides consumers with "the right kind of nothing."[32] We don't get the fuel-efficient cars. We get nothing, while the highly organized UAW gains from blocked shipments, and the vast, unorganized sea of American auto consumers will not know what they are missing. I note that there were 380,000 UAW members in 2023 who may gain from the Biden/Trump tariffs. There were 10.0 million vehicles produced domestically by the Big Three in 2023.[33] These provided opportunities for dispersing the cost of UAW gains. It's also worth noting that now the UAW has joined hands with the US auto and steel industries to put pressure on Canada to join America in imposing higher tariffs on Chinese products.[34] Targeted tariffs may be spreading.

If all the newly proposed targeted tariffs and even more take hold, we ordinary unorganized Americans will learn to live with the right kind of nothing inside the tariff walls while the politicians and special interest groups smile as they gain office and go to the bank. It's amazing what taxation with representation can do!

When Harris and Trump agree, consumers should worry

Kamala Harris and Donald Trump agree on at least one thing.[35] I know what you're probably thinking: a little more consensus might be good for the country. But when we're talking about the top-of-the-ticket candidates for both parties calling to limit the flow of goods to US consumers, shouldn't we be worried?[36] Each has been touting trade policies that could lead to even higher prices, another challenge to an already stressed Federal Reserve, and slower growth for the country.

Couched broadly in terms of countering China's aggressive efforts to stimulate its industrial economy,[37] Biden, earlier when a candidate, and Trump wanted wide-ranging, higher tariffs on that nation's EVs and other products. Kamala Harris, by comparison, has not given a full-throated statement on tariffs, but has supported tariffs when they achieve environmental goals.[38] Relatedly, both tickets—Republican and Democrat—express concerns about maintaining American manufacturing muscle for national security purposes and gaining a more favorable outcome from the ongoing leadership struggle among the world's great powers.

The fact that we're now hearing similar protectionist appeals from the candidates from both major political parties is new and worrisome.

That's not to say that calls from one candidate or another to pull up the gangplank, raise prices, and reduce the movement of goods and people from elsewhere to our shores are unfamiliar. It's especially common during crazy season, when aspiring political candidates try to outdo each other before an election. When it comes to where goods and services will be produced, union workers and most other people generally prefer less competition from abroad.

Here's where economics and politics diverge. Nationalism may attract a meaningful political following, but higher tariffs mean higher prices for the directly affected goods and even more widespread price effects later. A substantial, conclusive body of research tells us as much.[39] Along with the higher prices on imported goods, we should be aware that tariffs are shown to lead to slower economic growth. This is the last thing we should want for an economy that's been skirting a recession.

But are consumer voices being heard?

So, what about ordinary consumers, the forgotten man and woman? Don't they matter?

Somehow the voices of inflation-weary American consumers no longer seem to be heard when tariffs on Chinese and other goods enter the picture. Moreover, lots of people who lack economics degrees understandably don't realize what protectionism does to their pocketbooks. Neither major political party apparently cares about telling them or protecting the ability of these individuals to make real marketplace choices about which cars to buy, which shoes to wear, or which services to obtain.

Instead, many politicians speak as though the decisions we make while shopping for ourselves and our families are mostly about favoring one country or another. Even after years of supply-chain interruptions, high inflation, and resulting high interest rates stretching millions of budgets, they strangely refuse to recognize that international competition helps the American voter and consumer or that there is something fundamentally welfare-enhancing about being free to choose.

Yes, there are global issues to worry about, and some consumers may willingly show a preference for the national origin of the goods they buy. More often than not, though, they are choosing between products and prices.[40] If, then, there is to be a major political debate regarding whether to discourage the movement of goods and services across national boundaries by artificially raising those prices, consumers need to hear all of the facts and have a voice in the matter.

At one time, in a program I coordinated as its executive director, the Federal Trade Commission (FTC) actively intervened in proceedings before other federal regulatory agencies to advocate for the consumer.[41] Where is the FTC now, when its voice is needed?[42]

An analysis of consumer well-being—yours and mine—should also accompany any White House effort to mandate price increases. After all, the Fed's constantly discussed ongoing effort to put a squeeze on inflation, which has been aptly described as a tightrope walker's challenge, is far from over.[43]

Any further emergence of higher prices becoming embedded in the Consumer Price Index could send a troubled signal to the Fed and cause it to renew its commitment to higher interest rates. This and any tariff-induced slowdown, in a low-growth economy, could finally tip the scales toward recession.

The Call for Price Controls and Big Oil Punishment

It is almost inevitable that periods of inflation will inspire politicians to call for price controls of one form or another. But calling for price controls to bring down inflation is like having a baby—easy to conceive but hard to deliver.[44] In an ironic but understandable turn of events, prior to stepping away from his presidential run, President Biden announced a White House effort to impose IRS-administered controls on rents charged by landlords in major markets across the United States.[45] A few weeks earlier on another front, Senate Budget Chair Sheldon Whitehouse and House Oversight and Accountability member Jamie Raskin indicated they wanted to go after the petroleum industry.[46] And then, in August, without providing details about how it would work, Kamala Harris called for a federal statute against price gouging in the sale of groceries.[47]

Let's face it, the idea of just outlawing unconscionable price increases, as Kamala Harris has suggested,[48] has superficial appeal, and Big Oil has no fans among those who worry about climate change. But the proposals for more regulation should be dismissed for what they are: clumsy election year attempts to (1) attract some more votes by appearing to quench inflationary fires that ironically Biden and his fellow Democrats ignited and (2) sound a clarion call to the climate-change coalition. Since details on the Harris proposal are lacking, let's consider the other two proposals.

The Biden administration's rent control proposal

The Biden administration's rent control proposal intends to limit rent increases to no more than

5 percent per year and applies this limit to landlords nationwide with 50 or more rental units in their portfolios. One can expect to see lots of portfolios with 49 properties. Those who fail to comply will lose valuable income tax–depreciation write-offs. But, of course, the mischief comes in managing the price control nightmare that follows.

During the failed Nixon/Ford/Carter wage and price control efforts of 1974–78, I was a senior economist on the staff of the President's Council on Wage and Price Stability.[49] There were hundreds of analysts involved in managing the controls. Of course, an escape mechanism had to be provided for situations where economic shocks would raise costs that somehow had to be covered. Aggrieved parties could appeal to the secretary of the treasury.

A much-discussed appeal involved the Girl Scouts of America, who faced rising costs for their cookies. They won. But did it make sense to have the US Treasury Secretary dealing with Girl Scout cookie prices, or now, to have the president of the United States telling landlords how to price their services?

There is no doubt about it: Rising housing prices are a real issue. As noted in the Bureau of Labor Statistics June 2024 Consumer Price Index report: "The index for all items less food and energy rose 3.3 percent over the past 12 months. The shelter index increased 5.2 percent over the last year, accounting for nearly 70 percent of the total 12-month increase in the all items less food and energy index."[50]

Interestingly, though, just a few days prior to Biden's rent-relief announcement, Secretary of the Treasury Janet Yellen, in congressional testimony, never mentioned greedy landlords but indicated that rising housing costs are the result of efforts by the Federal Reserve to reduce inflation by way of higher interest rates. After all, the Fed tightens, mortgage rates rise, and housing becomes more expensive. Yellen stated: "Elevated prices and the high interest rates designed to fight them have made housing prices rise over the past few months." She had earlier announced administrative changes designed to facilitate improved access to housing finance.[51]

It can be argued strongly that the inflation spiral that delivered higher-priced housing resulted from President Biden's 2021 decision to send $1.9 trillion of newly printed dollars to US citizens to ease their unhappy COVID encounters.[52] Very quickly, the new dollars started chasing a limited supply of goods and services. Inflation increased, and the Fed responded. Calling for price controls to remedy the situation will likely bring less housing and more mischief than improved well-being.

Proposals to regulate big oil

On May 22, Senate Budget Chair Sheldon Whitehouse and House Oversight and Accountability member Jamie Raskin called for a Department of Justice Investigation of Big Oil for a long-running "disinformation campaign to mislead the public about the climate effects of fossil fuels."[53] If charged and found guilty, the major oil companies could be required to pay billions in damages to the 50 states. Big Oil was already involved in multiple state lawsuits alleging the same misbehavior.[54] It may indeed be true that Big Oil has sought to avoid clean air regulation based on scientific claims about the connection between human activity and climate change, but a quick review of the federal government's stance on the matter makes one wonder if the federal government skillet may be calling the Big Oil frying pan black. More on this later.

Raskin pointed out that Big Oil's behavior paralleled that of Big Tobacco in denying the negative health effects of smoking. Since being sued and settling with the 50 state attorneys general over the matter in 1998, Big Tobacco is on schedule to pay $246 billion to the states.[55] While the prospect of obtaining hundreds of billions in damages from Big Oil might bring visions of fiscal sugar plums dancing in his head, Raskin did not point out that the Big Tobacco settlement was accommodated by relaxing antitrust laws and allowing the tobacco firms to collude, raise prices, and operate a cartel that blocked entry of new sellers and assured higher tobacco profits than otherwise would have been the case.[56] Big Tobacco was also given immunity to future state and federal suits. Share values in Big Tobacco rose markedly with the settlement.

As to the record of the federal government on climate change, it is noteworthy that April 2024, just this year, was the first time—because of climate concerns—that the US Environmental Protection Agency (EPA) issued rules that directly regulated carbon emissions.[57] Carbon was just being treated as a pollutant. It is also worth noting that the United States did not ratify the 1997 Kyoto Accord[58] in which countries worldwide sought to commit to reducing carbon emissions, and while President Biden has personally committed to the 2015 Paris Climate Agreement[59] calling for substantial carbon emissions reductions,[60] the US Senate has not endorsed the action, and the next president can easily reverse the decision, just as Trump did when he followed Obama.[61] The politicians seem to talk climate change pretty well, but consistent action does not seem to be part of the political playbook. Is it possible that the federal government itself has misled the nation on the linkage between human activity, carbon emissions, and climate change? Would that make it easier for Big Oil to do the same?

A regulatory paradox

Looking back, some federal action turns out to be downright strange, at least for those who are concerned today about carbon emissions and the climate. For instance, in the wake of the 1973 Arab oil embargo, the United States banned the burning of natural gas to produce electricity and subsidized the production and burning of coal.[62] At the time, I was a senior economist on the staff of the President's Council on Wage and Price Stability, charged with making a regular assessment of the pending changes. In a meeting with an EPA scientist, I was told that due to the massive increase in carbon emissions associated with the ban on natural gas and subsequent burning of coal, the predicted carbon loads could have devastating climate effects. At first, we see through a glass darkly but then find ourselves face to face with the problem.

The statute that banned the burning of natural gas also established the first fuel-economy standards. The standards were designed so that trucks and large truck-like vehicles would enjoy less strict standards than conventional sedans enjoyed. The standards were about conservation, not environmental protection. Because of their design, SUVs and trucks now account for 20 percent of the US fleet, which yields far more carbon emissions than might a fleet without the large-vehicle advantage.[63] Tariffs on foreign-produced pickup trucks imposed by Lyndon Johnson[64] helped shelter US truck producers from import competition. Was the US public misled?

Continuing with what might be termed a cavalier if not misleading attitude about carbon emissions and climate, in 1977, at about the same time that major research on carbon and climate change was published,[65] Congress passed amendments to the Clean Air Act that favored producers of dirtier coal in competition with the newly developed production of clean coal in the western states. In order to appease the restive eastern coal workers union, Congress required that scrubbers—massive air pollution control devices—be installed on all modified electric generating plants no matter what coal they might choose to burn. The required scrubbers neutralized the western coal advantage, increased production of dirty coal, and contributed to an increase in carbon and sulfur emission. It might be noted that West Virginia Senator Robert Byrd was chairman of the US EPA oversight committee. The first multinational convention on humanmade climate change was held in 1979.[66]

The beat goes on. Recently, Biden, with tariffs, blocked American consumers' access to highly environmentally friendly and inexpensive vehicles.[67] Somehow, it seems, politicians who express the deepest concern about carbon emissions and climate change are like church members who sing in the choir on Sunday but go the way of the world the rest of the week.

Who has misled the American public most? Big Oil or Big Government?

Yandle's Reading Table

Following a discussion focused on the political economy of federal regulation, what could be more appropriate than a review of Stanford historian Jennifer Burns's *Milton Friedman: The Last Conservative* (Farrar, Straus and Giroux, 2023)? With 482 pages of text, the Burns book is the first Friedman biography based on substantial archival research. The research materials include not just manuscripts, books, speeches, and academic papers, but also lecture notes with scribbling in the margin, volumes of correspondence between Friedman and colleagues as well as family members, and, of course, countless news items. It is a powerful book, and I recommend it enthusiastically.

A reader traversing the book is reminded that Friedman, a monumental public figure in his long lifetime, which spanned from 1912 to 2006, was an astoundingly successful academician and Nobel laureate who laid the modern foundation for monetary economics and more. One also learns that he was constantly engaged intellectually, by letter and otherwise, with scholars and colleagues as he sought to gain a clearer understanding of issues he was exploring.

Friedman was a precocious fourth child of a Brooklyn, New York, Jewish, storekeeping couple who had fled a Hungarian village in what is now Ukraine to come to America. At the time Friedman joined the academy, after earning a Rutgers bachelor's degree, a Chicago master's, and a Columbia University doctorate, economists across the profession were engaged in two struggles. One was a methodological struggle that was pitting newly crowned mathematical economists who favored high-tech, theoretical reasoning to draw conclusions against low-tech, more commonsense economists, who, relying on the logic of price theory, favored empirical real-world studies. Friedman occupied the pole position in the latter group. Indeed, he defined it.

The other struggle involved a revolution in macroeconomics, or one that defined macroeconomics, generated by John Maynard Keynes's 1936 *General Theory*. Keynes's elegant theory proposed a powerful role for government management of the economy but lacked an empirical justification for its central arguments. Friedman eagerly contested the theory's argument that government could, and should, intervene to manage the economy toward higher prosperity levels.

As Friedman lived the academic life, ultimately earning a key leadership position that defined the Chicago school of economics, he was associated with young and established scholars who now form a veritable garden of the gods. These include Gary Becker, James Buchanan, Arthur Burns, Ronald Coase, Aaron Director, Friedrich Hayek, Frank H. Knight, Warren Nutter, Paul Samuelson, Henry Simons, and George Stigler, of which six became Nobel laureates.

Jennifer Burns's account of Friedman's life makes the case, at least for this reader, that more than anything else, Friedman was a teacher, one dedicated to explaining and thereby justifying how the power of market-based economics could illuminate and give policy direction for complex social and political problems. He was equally at home when speaking from the pages of *Newsweek* magazine, at the White House, or as a lecturer in the countless academic conferences that featured his work. I know from personal experience that he was always ready to engage politely in a carefully stated discussion of a problem with an eye toward correcting what might seem to be a small but still important theoretical mistake. In even the most casual setting, every conversation was an opportunity to teach.

We also learn that family occupied a preeminent place in Friedman's life. He was far more than a loving husband to his wife, Rose, who was also a powerfully productive PhD economist, but helped her build an academic life away from the halls of Ivy, which, because of her gender, offered no meaningful opportunities. I should add that the Friedmans' Jewish faith, as Burns reports, was also a serious barrier to Milton's and Rose's professional advancement. In any case, I was surprised to learn that Rose, not Milton, organized and wrote *Capitalism and Freedom*, the 1962 best-seller that defined Milton's persona for most of the world.

The book put forward a free-market agenda for appropriate government action at the high point of newly elected president John F. Kennedy's "New Frontier" that asked what Americans should do for their country. The book also staked out what were then novel and controversial calls for an all-volunteer army, negative income tax, school choice, and floating exchange rates. Needless to say, many of Friedman's then controversial ideas became part of our world.

Friedman's deep family engagement also included Aaron Director, Rose Friedman's brother and founder of the law and economics program at the University of Chicago law school. Never a publisher, but always an incisive scholar and innovative legal scholar, Director and his family lived for a time in the same apartment building with the Friedman family. There Friedman and Director held an ongoing conversation about applied economics and the vital importance of freedom for the flourishing of the human spirit.

I should point out that other academics who had difficulty completing a PhD dissertation may take comfort in the book's account of Friedman's struggle to have his National Bureau of Economic Research work on professional earnings accepted, first as a special report and later as a dissertation. And most, if not all, academics will not be surprised to learn of the department trench warfare that arose at the University of Chicago, first when Milton Friedman was attempting to join the faculty and later when one of his inspiring lights, Friedrich Hayek, sought be included as a tenurable member of the department. Friedman, we learned, greatly admired Hayek but gave his faculty petition a thumbs down.

Jennifer Burns has written a delightful and instructive book. Her writing comes across not as that of a Friedmaniac or someone troubled by Friedman's policy positions, but as that of a dedicated historian/scholar who takes great delight in discovering and telling a powerful story about an amazing man.

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