



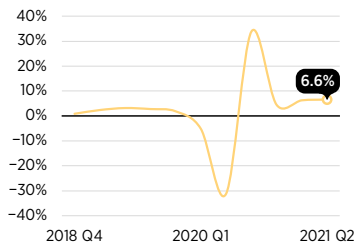
THE ECONOMIC SITUATION

September 2021

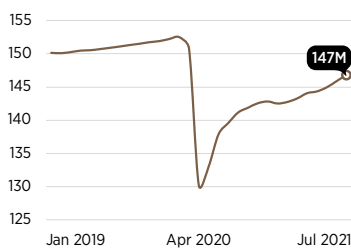
Bruce Yandle

KEY ECONOMIC INDICATORS

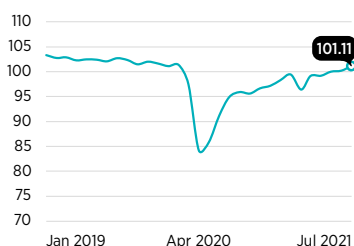
Current Quarterly GDP Growth



Nonfarm Payroll Employment, Seasonally Adjusted (Millions)



Industrial Production Index (2017 = 100)



As 2021's last quarter approaches, some key economic data are smiling on the country.¹ Estimates for real GDP growth for the second quarter are hitting 6.6 percent.² Indeed, the pace of growth has now completely lifted the economy out of the pandemic hole that developed in 2020. The country is where it was when the pandemic-generated collapse started, at least as measured by GDP. Even better, and as shown in table 1, three major estimates suggest that the year's last quarter will be okay, but 2022 prospects are considerably dimmer. As to be expected, the effects of massive stimulus spending do eventually wear out.

Other major prosperity indicators are not glowing so brightly. According to the Bureau of Labor Statistics (BLS) July payroll survey, total employment in July was still 5.7 million below the February 2020 prepandemic level.³ The BLS also reports in its July household survey that "5.2 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic."⁴

Activity measured by industrial production is still lagging. Production for June was up 9.8 percent year-over-year but still 1.2 percent less than before the pandemic.⁵ And the hard-hit services sector, now spinning wheels as it moves forward, is still not where it was when the pandemic hit. July services employment stood at 104.3 million, as compared to February 2020's 108.5 million.⁶ Adding another piece of negative news, all inflation measures that matter show that the price level is on an upward run; there is something like 3.2 percent inflation embedded in the economy.⁷

However, all things considered and given where the country has been, the year ahead looks pretty good, but there are major uncertainties one needs to take into account.

Table 1. GDP Growth Forecasts (Percentage)

	Q3 2021	Q4 2021	2021	2022
Philadelphia Fed	6.8	5.2	6.1	4.4
<i>Wall Street Journal</i>	7.0	5.4	6.9	3.2
Wells Fargo	6.8	6.1	6.2	4.4

Source: "Third Quarter 2021 Survey of Professional Forecasters," Federal Reserve Bank of Philadelphia, August 13, 2021, <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q3-2021>; Gwynn Guilford and Anthony DeBarros, "Higher Inflation Is Here to Stay for Years, Economists Forecast," *Wall Street Journal*, July 11, 2021; "Weekly Economic & Financial Commentary," Wells Fargo, August 27, 2021, <https://wellsfargo.bluematrix.com/links2/html/a24f560c-62bd-4aa7-8386-ed081fd3b1ae>.

How This Report Is Organized

In this report, I first take a closer look at the US economy and explain why I am now calling the US economy "Frankenstein."⁸ Uncertainty being generated by an unpredictable economy is central to the choice of that scary word. My discussion of uncertainty introduces the ideas of Frank H. Knight, which I discuss in that first section. The next section focuses on student loan debt and other debt problems that grew in the highly uncertain economy. Here, I provide some background and then ask why student loan debt commands so much political attention when there are other debt categories that are arguably just as painful for American consumers. Can public-choice economics help explain this political behavior?

After the section on debt, I turn to the Biden administration's newly invigorated stance on corporate income taxes and antitrust. Once again, major doses of uncertainty are being added to an already uncertain economy. In a section that follows, I focus on some of the mischief generated by the tariffs on Canadian timber products imposed by the Trump administration and how, strangely enough, Canadians have turned out to be the winners in this regulatory struggle. I also consider a recent cyberattack that disabled one of the United States' major fuel pipelines and ask how regulatory reform might diminish the harm from such problems in the future. Finally, the report puts

the state spotlight report on New York. I conclude with a visit to Yandle's reading table for a couple of book reviews.

LOOKING CLOSER AT THE RECOVERING ECONOMY

Finding a logical framework to use in describing the current national economy is indeed a challenge. The difficulty comes from the fact that major economic sectors have been and are differentially affected by the pandemic and its remedies. For example, construction was allowed to operate unimpeded in 2020 when other major sectors were closed. Housing construction and sales are now going through the roof, as are housing prices. Manufacturing was unrestrained too, but travel, tourism, and even walk-in healthcare were shut down. The result here brought serious differences in the level of job losses across sectors and firms and, coupled with closed schools, placed a heavier burden on women workers. Along with shutdowns came government subsidies for some sectors. Airlines, for example, made a deal with the White House to limit layoffs in exchange for hundreds of millions in direct transfer payments.⁹ Some of the airlines are now reporting a "profit." Note the quotation marks.

As a result of all this and more, some markets are struggling to meet surging demand for goods and services, and relative prices for important

commodities such as crude oil and lumber have risen but now appear to be stabilizing. Then, there are consumer products such as autos, cat food, paint, and even plastic pipe for plumbing that are in short supply and subject to rationing. Meanwhile, “now hiring” signs are seen outside practically every business. The cost of hiring workers—which is not the same as wages¹⁰—is rising, and so is inflation, as measured by the Consumer Price Index, which showed a 6.5 percent June increase for the all-items index; the Federal Reserve’s preferred core Personal Consumption Spending index, which excludes food and energy, showed a June year-over-year increase of 3.5 percent, the largest since 1991.¹¹

For those making important business decisions, the big questions are these: Where is the real economy in all this? Which data should I accept as being reliable indicators of present and future prospects? How will I know when the “real” economy finally dominates the fabricated economy constructed from pandemic command-and-control policies, subsidies, and regulation?

The Frankenstein Economy and Knightian Uncertainty

Because of these and other uncertainties, I have decided that the United States has a Frankenstein economy. No, I don’t mean the economy is a Boris-Karloff-esque, out-of-control monster that could turn on its masters and do great harm—or just scare the wits out of them. I mean that the United States has an economy whose major parts have been stitched together by experts in the hopes of getting a truly functional form that reliably produces prosperity. It is not a naturally evolving economy based primarily on voluntary transactions of buyers and sellers operating in open markets. No, this economy is a product of stimulus money; the Pay-

check Protection Program; government-approved delays for rent and mortgage payments; outright grants to threatened industries, such as airlines; and more interventions.

Mercifully, as already mentioned, the Frankenstein economy has delivered some real economic growth, and the prospects for the year ahead look pretty good. But one must recognize that the spread of the latest virus variant could change all that, and this underlines a critically important topic: Knightian Uncertainty, a concept focused on and enriched by Frank H. Knight in his 1921 book, *Risk, Uncertainty, and Profit*.¹²

A World Chock-Full of Uncertainty

Knight’s key idea has to do with the difference between risk, which can be estimated and accounted for by economic decision makers, and uncertainty, which cannot be estimated and therefore cannot be adjusted for readily by decision makers. For example, the owner of a fleet of 100 delivery trucks can estimate accurately, based on experience, what to expect each year in losses from accidents. With the estimate in hand, the owner can either self-insure or purchase commercial insurance. With that done, the owner has offset the risk, and the business may continue profitably. But then there are things that impose costs that may not be estimated with any accuracy at all. For example, the spread of a coronavirus that wipes out half the truck drivers. Having no experience with such an event, the owner has no way to insure for the losses. When the losses hit, the business just takes it on the chin. Bankruptcy or injection of more capital by the owner are two options the owner might consider.

While thinking about Knightian uncertainty, one must also consider the brighter side of the picture. Unexpected positive outcomes may occur

that enhance business and sweeten the bottom line. Continuing with the trucking example, it's possible that a serious rail accident shuts down a railroad bridge, ending for six months the shipment of rail freight to the area and enabling truckers to handle the freight. So the presence of Knightian uncertainty can bring profit and loss. But if private decision makers can somehow shift uncertainty's loss to government, they can then focus more gingerly on the profit side of the equation.

As suggested in this example, the COVID-19 pandemic has generated a lot of uncertainty, and major steps were taken early in the pandemic by the federal government in an attempt to protect citizens from their uncompensated losses. I mention some of these actions in my introduction, but now I look closely at just one of these. The topic is debt (from student loans and other borrowings), a subject I discussed narrowly in my March "Economic Situation" report but will examine more fully now.

FORGIVING DEBT: WHY NOT PAST-DUE RENT AND CAR LOAN DEBT?

When the pandemic hit, university students—present and past—like other debtors, were caught in an unexpected financial squeeze. Perhaps "Bootleggers and Baptists" lobbying had an influence.¹³ After all, people seemingly are more sympathetic to the plight of students than they are to electricians, plumbers, or just people down on their luck who can't pay their rent. In addition, universities and colleges, often thought of as special places, were also caught in a bind. In any case, the March 2020 Coronavirus Aid, Relief, and Economic Security Act, still in effect until October 2021, suspends payments and collections on defaulted federal student loans and brings interest rates down to 0 percent. The program covers

\$1.5 trillion of federal student loan debt, which is about 94 percent of the total, according to Bank of America.¹⁴

At the time, student loan debt was about equal to the total debt outstanding for car and pickup truck loans in America, but no one seemed noticeably worried about those debtors. As pointed out in a Brookings Institution study of the problem, the largest share of student debt, some 60 percent of the total, is owed by families with incomes above \$74,000 a year, and the bulk of those families are well educated.¹⁵ In short, the student loan debt problem is not about an impoverished segment of the US population; it may be more about presidential politics.

Student Loan Debt and Presidential Politics

As the pandemic-induced recession rolled on and presidential politics got hotter, presidential hopefuls Bernie Sanders and Elizabeth Warren in 2020 embraced the student loan cause and made it their own.¹⁶ They both called for loan forgiveness—total or partial—and, after being eliminated in the contest for the presidency, argued that President Biden had it in his power, as a sitting president, to eliminate the debt with the stroke of a pen. More recently, New York Senator Chuck Schumer joined their chorus arguing that "all President Biden has to do is flick his pen, sign it. Make America a happier, better, more prosperous place."¹⁷ In a way, the three senators, Sanders, Warren, and Schumer, have signaled a willingness to rig the system in favor of those who owe student debt to the federal government as opposed to offering broader debt-relief review and relief that might embrace all Americans caught in a pandemic downdraft.

As the pandemic difficulties continued into 2021 and nothing was done to address student loans, Senator Warren mounted her debt-forgiveness soap

box again, noting that 30 million Americans would have a student loan due by October; she called out to all who would listen: “Tick tock, tick tock . . . the payment pause is running out, and the size of these payments for many borrowers is the size of their rent or car payment.”¹⁸

The good senator made no mention of another distressed group of American debtors, the more than 100 million with car payments due each month, among whom those younger than 30 years old owe more than \$39 billion.¹⁹ She also did not touch on the plight faced by more than 6 million families facing eviction, with an estimated \$23 billion of unpaid rent outstanding, or that of their landlords who are in the business of providing housing.²⁰ Sometimes, people seem to forget that landlords are people too. Many of those unable to pay their rent had been protected temporarily by a 2020 Centers for Disease Control and Prevention (CDC) directive that temporarily prevented landlords from evicting financially distressed tenants. Sadly for struggling renters, the CDC ban, which expired briefly at the end of July 2021, was extended until October 1, 2021.²¹ Even perhaps more frustrating for landlords and distressed tenants, the proceeds from some \$50 billion in federal renter distress funding were slow to make their way through the bureaucratic maze. It is interesting, to say the least, that Senators Warren, Sanders, and Schumer have not visibly taken up the troubled renters’ cause.

A Public-Choice Interpretation

For reasons easy to understand, the vocal virtue-signaling senators have mounted no soap boxes to offer sympathy for struggling renters, landlords, or other ordinary Americans who, according to loan delinquency data, are struggling to pay their monthly car payments.²² The lessons from pub-

lic choice are that politicians are tuned to serve the people who put them in office and address attention to concentrated groups that are well organized. For Warren, Sanders, and Schumer, holders of student debt qualify. Indeed, College Students for Bernie was a well-organized support group for Senator Sanders in his 2016 presidential nomination run,²³ and it continues to be active.²⁴ In 2016, there was a network of College Students for Bernie groups across 260 university campuses.²⁵ Obviously, the less organized plumbers, electricians, and waitresses who are missing pickup truck and rent payments are more costly for politicians to serve.

Yes, as mentioned in the introduction, the United States has a Frankenstein economy that is still trying to find balance and direction. Constructed by political actions in response to pandemic hardships, the unreal economy is producing new wealth, but in unbalanced ways. Because of its construction and odd trajectory, the Frankenstein economy generates lots of uncertainty, and that, in turn, offers opportunities for profits and losses as economic agents adjust to forces they cannot control. In the midst of all this, issues such as the student loan debt problem arise and become an ideal cause for canny politicians to embrace as they seek to scale the political mountains they love so much.

The student loan debt problem is real, just as any debt problem might be, but that alone doesn’t mean that the rest of society should pick up the burden of paying a debt that was voluntarily agreed to by consenting adults. Furthermore, if taxpayers are going to lift debt burdens for fellow citizens, they should look closely at all burdens, including the load being carried by those being evicted for nonpayment of rent and, in an even-handed way, try to offer assistance—always, of course, recognizing that some future groups of taxpayers will

ultimately pay the bill. One should avoid rigging the system to favor special interest groups.

TAKING ON THE CORPORATIONS: TAX REFORM, ANTITRUST, AND FAIRNESS

I turn now to another uncertainty-generating dimension of the emerging Frankenstein economy,²⁶ new initiatives on corporate tax and antitrust reform. In each case, I emphasize fairness. First, corporate taxes. It was with a feeling of deep disappointment, that I read that Treasury Secretary Janet Yellen is still pushing to form an international cartel of governments that would implement a minimum corporate income tax rate.²⁷ Now, instead of 21 percent, Yellen is calling for a bare minimum of 15 percent.

That may relieve some heartburn for concerned corporate executives, but they're not the only ones who should be troubled. The proposal is just one part of the Biden administration's effort to generate prosperity by forcing costs and prices to increase.

Yellen's push reflects an avowed effort to avoid tax revenue leakages when corporations move their operations to lower-tax jurisdictions. It's also an attempt to make certain that corporations, as well as the people they keep wealthy, pay their fair share for the administration's ambitious spending plans.

During the same week, newly named Federal Trade Commission (FTC) Chair Lina Khan announced that the FTC would be initiating investigations of major internet platforms, such as Google, Facebook, and Amazon, with a primary focus on fairness, not on seeing if the firms in question had imposed costs on consumers or otherwise engaged in harmful behavior.²⁸ Calling attention to the agency's originating 1914 statute, Chair Khan reminded her audience that the Federal Trade Commission Act of 1914 called for the then-new agency to take

actions against unfair methods of competition. She did not go on to say that since 1914, the agency has been continually seeking to define fairness.²⁹

Along another tangent, several weeks before the FTC and the Treasury secretary's announcements, President Biden indicated that the United States would be going after trade partners who engaged in unfair practices.³⁰ To address this, the administration has created a task force "to strengthen American supply chains to promote economic security, national security, and good-paying, union jobs here at home." Fairness seems to be the desired political flavor of the time.

There's surely nothing wrong with promoting fairness as an appropriate standard for judging human action. But one has to recognize that what in this case sounds good becomes impossibly complicated when proposed as a standard for employing the coercive powers of the federal government to adjust behavior. One has to admit that, unless defined in measurable terms, what is deemed to be fair will always rest in the mind of the observer. Ask five people, and one may get five answers.

Because of intense global competition, corporate managers constantly seek lower-cost locations and better methods of doing business. Obviously, the search involves more than just lower taxes. Infrastructure, property rights enforcement, and labor supply matter a lot too.

THE CORPORATE SEARCH FOR LOWER COSTS

The corporate search is a challenge for policymakers but also nothing new. Scanning the globe for competitive locations puts pressure on governing bodies to find lower-cost ways of operating, lest they lose out to more appealing destinations. Efforts to cartelize taxation among nations will reduce options for lowering costs and, all else equal, lead to a higher-cost world economy.

When the corporate tax cartel is coupled with the administration's call for a \$15 national minimum wage, one has the makings of a modern version of President Franklin Delano Roosevelt's National Recovery Administration (NRA) and related efforts to fight the Great Depression. The Roosevelt administration encouraged all US industries and farmers to raise prices in the similarly mistaken view that doing so would lead to prosperity.

It did not work then, and it won't work now. It's like suggesting that everyone at a crowded football game stand so that all can better see the action on the field. A standing crowd gains little or nothing in visual perspective but also grows weary sooner. In a similar way, higher prices cause people to buy less, not more, perhaps while also agitating for higher wages and retirement income (things a weary economy is less able to deliver).

When industries cartelized in the 1930s under government auspices, Roosevelt rewarded cooperating corporations with flags bearing the NRA Blue Eagle and slogan "We Do Our Part." The Biden administration speaks of paying one's share, which is an implicit endorsement of expanding federal programs across most dimensions of American life.

The short-lived NRA efforts were struck down by the Supreme Court, but Roosevelt's cartelizing continued by way of legislation that penalized price cutting. Meanwhile, the many NRA-spawned trade associations that formed at the time became a major lobbying force.

Instead of searching high and low for ways to raise costs in the hope that more federal revenue and spending will follow, one should hope that national leaders work harder to find better, more efficient ways to govern and serve the people. Doing so will give more people a much better chance at prosperity.

Google, Facebook, and Amazon: So Good at What They Do That America Must Get Rid of Them?

The announced efforts by antitrust authorities to crack down on Google, Facebook, and Amazon, while maybe justifiable, raises an ironic question:³¹ Is this what happens in a free enterprise system when creative owners and managers become highly successful? To set the stage for addressing the question, consider a story: Many years ago, airlines typically offered an attractive in-flight menu of choices when meals were to be served. The much-pampered passenger—even when flying tourist—faced some tempting options. Some items were so popular that passengers served later had to settle for second-best, which wasn't all that bad. And sometimes, the favored item would counter-intuitively disappear from the menu. On one such occasion, so the story goes, when asked what happened to the delicious salmon salad dish that used to be on the menu, a flight attendant replied, "It was just so popular that we had to get rid of it! We never had enough."

So popular, we had to get rid of it!

Now, this may just be an apocryphal story, but chew on it a bit more. If the popular salmon salad disappeared from the menu, chicken salad's market share may have expanded. Consumers would still have choices, and competitive jockeying for menu space would continue. Who knows? Consumers may have learned that chicken salad is even better than they expected. So maybe the story could have a happy ending. Still, one is left with an uneasy feeling about overall human happiness. After all, the salmon salad lovers were denied a choice.

I thought about this story when reading about the current antitrust stance being taken by the Biden administration's two enforcement agen-

cies—the FTC and the antitrust division of the US Department of Justice. Leaders of both agencies, chosen because of their unabashed enforcement preferences, are in accord on at least one topic: firms that have been so successful in providing what consumers will voluntarily buy—such as Google, Facebook, and Amazon—run the risk of being broken apart or severely regulated. I know, there’s a lot to the story, and President Biden’s executive order on the matter provides plenty to think about.³² But fundamentally, the three targeted firms are so good at satisfying consumers that the US government guardians feel compelled to get rid of them or at least remove some items from their menus.

In a somewhat strange but undoubtedly accurate summary of the emerging new antitrust philosophy, *New York Times* reporters Cecelia Kang and Jim Tankersley say, “Mr. Biden’s antitrust picks have argued that Facebook, Google and Amazon have monopoly power and have used their dominant positions . . . to squash competitors, leaving consumers with fewer options, even if that doesn’t result in higher costs.”³³ The sentence captures the nub of a critical issue.

If a firm offers goods and services that consumers voluntarily consider to be superior—as revealed by their patronage—and if in so doing they charge the same consumers costs that are no higher and often lower, and even if doing so means that competing firms now shunned by consumers are struggling and thus the count of competitors is falling, how can one argue that consumers are being harmed?

One can surely argue that the number of competitors is smaller or that the products that were once offered on the shelves of other vendors are now offered by the new giant suppliers, but how does that hurt the overall well-being of

society? Arguments to support the new antitrust theory will no doubt flourish, at least as long as the new antitrust team is in place, but the larger question about human well-being still remains to be answered.

Granted, the presence of highly successful firms and owners raises questions about political influence and power that may need to be addressed, but these are matters for Congress to debate, not for unelected antitrust officials to attempt to resolve or for sitting presidents to manage through executive orders.

Yes, it seems, Google, Facebook, and Amazon may have become so popular that America will just have to get rid of them.

MAGA TARIFFS, RICHER CANADIANS, AND CYBER ATTACKS

As mentioned early on, the Frankenstein economy is constructed from subsidies, regulations, and border controls, not from what might be termed naturally evolved human action. Two examples of this are seen in tariffs imposed on Canadian timber products and regulations of transportation that helped make the United States vulnerable to cyber attacks that shut down a major petroleum pipeline. I will discuss the timber story first.

As if homebuyers, contractors, and do-it-yourselfers don’t have enough to think about in this summer’s hard-to-read economy, the price of framing lumber skyrocketed from \$600 per thousand board feet to more than \$1,400 in summer 2021 and has now fallen to a more normal level.³⁴ Higher-cost lumber has added an estimated \$36,000 to the average price of a new home. Some may wonder about President Trump’s 2017 decision to impose 20 percent tariffs on Canadian timber products and why high tariffs remain in place. Though softened to 9 percent in the early days of the Biden administra-

tion, the tariffs caused US consumers to bear the brunt of a misguided effort that, oddly enough, put substantial sums in the pockets of Canadian-owned US lumber producers as well as their US-owned competitors.³⁵ How all this could make America great again is difficult to imagine.

The Trump decision was extraordinary at the time because it imposed higher tariffs on the products of specific Canadian firms that exported to the United States (while also laying an overall tariff on all producers, which is more typical protectionism).³⁶ US interests favoring the tariffs, which were primarily American-operated Pacific Northwest mills, pointed to Canadian government subsidies, which they claimed unfairly assisted Canadian firms to obtain logs from government-owned forestland.

Those who were opposed to the tariffs, such as American homebuilders, argued that the subsidy allegation was hard to prove and that higher tariffs would surely impose high costs on American consumers.³⁷

All of this was in conjunction with failed efforts by trade negotiators to resolve a decades' long US-Canadian dispute regarding Canada's tariffs on US dairy products. While the war of words roared away, no one seemed to point to the fact that Canadian-owned US lumber mills would be counted among the big winners in the Make America Great Again trade skirmish. But that's exactly what happened.

The COVID-19 Pandemic and Exploding Demand for Building Materials

When the pandemic hit and trillions of dollars of federal stimulus funds began making their way into the bank accounts of hard-hit (and not-so-hard-hit) American consumers, the options for spending money were rather limited. With millions working

at home for the first time ever, countless families decided this would be a good time to add a deck, another room, or move up to new home. Demand for building materials shot skyward as did prices for lumber, steel, and copper.

Meanwhile, domestic lumber producers—whether US or Canadian owned—banked substantial profits. Of the top 10 US-based 2020 lumber producers, 3 were Canadian owned, and their combined volume accounted for more than 30 percent of the total top-10 production.³⁸

What Can Be Learned?

Is there a lesson to be learned here? Most people understand that tariffs leave some winners and some losers. A somewhat-smaller group that includes most economists who study such things recognizes that tariffs impose far greater costs on all consumers combined than benefits provided to the interests they protect. This is nothing new; it has been known and commented on for ages. It's also no secret that politicians respond to organized interests. Consumers (in this case, home buyers and deck builders) are not especially well organized politically.

But there is a harder lesson to heed: no group of Washington's brightest and best can have enough knowledge to predict what will actually happen—who will benefit and who will pay—when major policy interventions occur. Try as one might, one just can't get it right. But one can perhaps learn to acknowledge the difficulties in predicting outcomes and be more cautious before pulling a tariff trigger.

Even now, the Biden administration is attempting once again to settle the Canadian-US timber controversy, and along with it the dairy products trade problem. And even now, the Office of the US Trade Representative is calling for

20 percent lumber tariffs, up from the recently reduced 9 percent level, perhaps as part of a negotiating strategy.³⁹

Meanwhile, Canadian owners of US lumber producers smile all the way to the bank.

Colonial Pipeline Cyberattack: “Take a Sad Song and Make it Better”

“Hey, Jude, don’t make it bad. Take a sad song and make it better.” I could not get the words from that beautiful Beatles song from my mind as I read how, following a crippling cyberattack that shut down Colonial Pipeline, federal regulatory constraints were interfering with the use of alternate methods to move gasoline from refineries along the Gulf of Mexico to American consumers in the Northeast.⁴⁰ Yes, I wondered if, once again, regulatory reform might be inspired by economic adversity.

Colonial Pipeline carries 45 percent of the gasoline consumed in the nation’s Northeast. There’s storage at terminals along the way so that brief service interruptions do not have dire consequences. But pipeline executives warned that getting things up and running again would take days or longer. With that in mind, gasoline buyers and sellers immediately began exploring alternate ways to connect to other refinery locations or ship fuel from refineries to customers by other means. Unfortunately, shifting to refineries in other regions is not an option. There has not been a new refinery built in the United States since the 1970s, largely because of environmental constraints.

What about shipping by rail and truck? Yes, there is some relief available, but not enough. What about using tanker ships to move the fuel from the Gulf of Mexico along the coast to New Jer-

sey? Sorry, that option is limited by the capacity-constraining Jones Act, which requires all coastal shipping be done in American-made vessels.

Gasoline prices are headed north, which was the case before the pipeline shutdown partly because of the federal regulation requiring ethanol blends of gasoline across the nation, and that requirement plus increased world demand for food have caused the price of corn to rise by 50 percent this year.⁴¹

It’s a sad song, and it looks as though consumers in the Northeast are stuck, at least temporarily. But can’t America make it better?

Regulatory reform sometimes comes when regulatory constraints become so binding that something has to be done. Most recently, pandemic emergencies have led to relaxation of state laws limiting the ability of medical doctors to practice across state lines.⁴² Medicare reimbursement rules have been changed so that doctors could expand the use of telemedicine, thereby limiting the use of face-to-face diagnosis.⁴³ Looking back in history, one knows that state usury laws that capped interest rates that could be charged on mortgages and other consumer loans had to be wiped off the books when inflation pushed up rates and shut down lending. Indeed, inflation led to thoroughgoing financial deregulation.⁴⁴

Why not take this opportunity to revisit the Jones Act, to reassess the permitting process that sharply limits expansion of refinery capacity, and to ask again if it makes sense to require ethanol additives when there are serious questions regarding their beneficial effect on air quality?⁴⁵

Maybe this is one of those times when America can “take a sad song and make it better.”

STATE SPOTLIGHT: NEW YORK

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Each quarter, we select one state and analyze its economic and regulatory outlook. Last quarter, we put the spotlight on Alabama. This quarter, we focus on New York.

The state of New York, located in the northeastern part of the United States, is bordered by Pennsylvania and New Jersey to the west; Connecticut, Massachusetts, and Vermont to the east; and the country of Canada in the north. The state is 54,556 square miles in size, with a population of about 20.2 million and a population density of 405 people per square mile.⁴⁶ These statistics are all above the average for US states.

With the third-largest state economy,⁴⁷ New York is driven by its finance, real estate, education, professional services, healthcare, and trade industries. It should not come as a surprise that the finance industry is New York's largest industry because the state is home to the world-famous Wall Street and the New York Stock Exchange. Outside of being an economic leader, the state of New York has also led all other states in the cultural diversity of its population for the better part of the past century.

NEW YORK'S EARLY HISTORY AND DEVELOPMENT

New York is one of the 13 original American colonies and therefore has an interesting economic and political history. This history is important to explore so that New York's current economic prowess can be put into perspective. Originally, the area that would eventually be known as New York was occupied by a variety of indigenous tribes who used the land for hunting and fishing. This occupation would soon come to a halt after the arrival of Henry Hudson in 1609. After Hudson's arrival, colonial occupation by the Dutch of the area (called New Netherland) in 1624,⁴⁸ and the subsequent arrival of war and disease brought by the Europeans, surviving local tribes were forced to move to the north and west. In 1664, the English took control of New Netherland because of its importance and value as a commerce and trade port; they chose to rename the land New York.

Between 1781 and 1800, the population of New York City skyrocketed and became one of the largest cities in America.⁴⁹ During this time, trade continued to grow, and the abundance of British merchandise helped New York City to consolidate its economic positioning. During the mid-1800s, New York City imported and exported more goods and saw the migration of more people than all other American ports combined. Around this time, cotton was an extremely valuable export product, and it accounted for nearly 40 percent of all goods that were shipped out of the city's port.

In the years following World War II, New York would remain an economic leader, but it would see its economic dominance start to decline. A large contributor to this decline was the fact that New York's ports were no longer a prime choice for Atlantic trade routes.

NEW YORK STATE INDUSTRY AND FINANCIAL TRENDS

New York's GDP recently approached \$1.5 trillion, which is 7.7 percent of total US GDP.⁵⁰ Throughout New York's history, commerce and trade have been extremely important to the state's economy and have contributed the majority to the state's GDP. Today, New York's economy leans heavily on finance, insurance, and real estate. New York accounts for 12.7 percent of US GDP for these industries,⁵¹ just short of California, which accounts

for 15.4 percent. The financial services industry alone accounts for 29.1 percent of New York's GDP and is the state's largest industry.

New York's manufacturing industry has been changing dramatically in recent years. A finance and economics report for the state reveals that manufacturing produced only 4.4 percent of New York's GDP in 2020.⁵² This is a stark contrast to 1963, when manufacturing dominated New York's economy, accounting for 22.2 percent of GDP.

New York ranks second in outstanding state government debt nationwide,⁵³ following California, which ranks first. Analysts and economists often disagree about the consequences of high levels of state debt, but the statistics for New York's debt are interesting: since fiscal year 2016, New York has seen a decrease in constitutionally authorized or voter-approved general obligation debt of 22.2 percent, an increase in state-supported debt of around 7.9 percent, an increase in debt reported with generally accepted accounting principles of 7.4 percent, and an increase of state-funded debt of 5.1 percent. We find it concerning that the growth of state spending has exceeded the rate of inflation during the past five years, especially in the program areas of health and education, which take up about 72.4 percent of total spending.

DEMOGRAPHIC AND EDUCATION TRENDS

Immigration, chasing the American Dream, and being a huge melting pot of different cultures have always been defining characteristics of the state of New York. According to the Census Bureau,⁵⁴ the demographic makeup of New York is 69.6 percent White, 17.6 percent Black, 9.0 percent Asian, 2.7 percent who identify as two or more races, 1.0 percent American Indian and Alaska Native, and 0.1 percent Native Hawaiian and Pacific Islander.

These data are proportional to the rates of education by race and ethnicity. The New York State Education Department says that the makeup of K–12 enrollment in school is 42 percent White,⁵⁵ 28 percent Hispanic or Latino, 17 percent Black, 10 percent Asian or Native Hawaiian or Pacific Islander, 3 percent of mixed race, and 1 percent American Indian or Alaska Native. New York has a high school graduation rate of 87 percent and ranks 42 of the 50 states.⁵⁶

TAX POLICY

Following the 2014 corporate tax reform package that reduced the tax rate incrementally every year beginning in 2016 and ending in 2020, New York recently repealed their capital stock tax. The Tax Foundation ranks New York first in the categories of state and local tax burden (12.7 percent of income) and state and local individual income tax collections per capita (\$2,877).⁵⁷

Individual income tax rates range from 4.00 percent on income from \$0 to \$8,500 to 8.82 percent on income above \$1,077,550.⁵⁸ The state sales tax ranks 40th, at 4.00 percent; the average local sales tax rate is 4.52 percent; and the combined sales tax rate ranks 10th, at 8.52 percent. By comparison, the combined sales tax rates in the neighboring states of New Jersey, Pennsylvania, and Connecticut are ranked 30th (6.60 percent), 34th (6.34 percent), and 33rd (6.35 percent), respectively.⁵⁹

THE EFFECTS OF THE COVID-19 PANDEMIC ON NEW YORK'S ECONOMY

In prepandemic New York, less than 10 percent of people in the service and manufacturing sectors worked from home. A survey in June 2021 shows that the postpandemic rate of people working from home is greater than 10 percent in the manufacturing sector, but not by much.⁶⁰ In services, over 30 percent are working remotely. These data suggest that employers have noticed that the efficiency gained by working from home may be enough to justify overhauling an entire culture of working in the office. Firms have more room to grow in the future by hiring candidates who work remotely.

Undoubtedly, many industries took a serious hit owing to the pandemic's effects on the job market and the overall economy. For the different industries in New York that were able to find a way to continue to operate through these difficulties by working remotely, there is potential for continued growth. However, for industries and businesses that were more negatively affected, this is an opportunity for strategic growth that considers how to get back to prepandemic levels. Although New York's labor force may take a while to get back to prepandemic levels, if it continues the road to recovery that it is currently on, that return shouldn't take too long.

LABOR MARKETS IN NEW YORK

Data from the Federal Reserve Bank of New York offer a glimpse of the employment situation for recent college graduates.⁶¹ One of the more interesting interactives looks at the differences in unemployment, underemployment, early-career median wage, and mid-career median wage outcomes of graduates by major. Data indicate that general social sciences majors have the highest unemployment rate, at 8.5 percent; physics majors are in second place, at 8.0 percent; public policy and law comes in third, at 6.3 percent; mass media comes in fourth, at 6.2 percent; and political science comes in fifth, at 6.1 percent.

Surprisingly, when looking at underemployment rates, a measurement that looks at how well a labor force is being utilized, one sees that criminal justice majors rank first, at a 74.3 percent underemployment rate; after that are the majors of performing arts, at 67.6 percent; agriculture, at 60.3 percent; and hospitality, at 59.8 percent. These rates of underemployment indicate a paucity of opportunity available in the market, given the number of graduates looking to start their careers in these areas.

REGULATORY OUTLOOK

New York's regulatory code is published online and can be found on Westlaw. The collection of regulatory text referred to as the *New York Codes, Rules, and Regulations* contains 23 titles relating to different industries. Natural language processing can be a useful tool to accurately and efficiently analyze the code's regulatory content.

For this quarter's regulatory outlook, the Policy Analytics team at the Mercatus Center at George Mason University reports State RegData metrics for 2021. As of 2021, New York's regulatory code contained 237,352 regulatory restrictions and 18,566,563 words. Regulatory restrictions are instances of the terms *shall*, *must*, *may not*, *prohibited*, and *required*, which are legally binding in nature. Using RegData, one can rank in terms of total regulatory restrictions. New York comes in second, at 301,442 restrictions, with only California ranking higher, at 399,556 restrictions. Following New York in total restrictions are Illinois (278,475), Ohio (263,349), and Texas (262,763).

The Policy Analytics team also uses machine learning algorithms to estimate the number of regulatory restrictions associated with each industry in New York. In 2021, the industries with the greatest number of regulatory restrictions were administrative and support services (18,444); professional, scientific, and technical services (17,467); religious grantmaking, civic, professional, and similar organizations (12,502); waste management and remediation services (12,336); and insurance carriers and related activities (10,498).

Finally, the Policy Analytics team estimates New York's federal regulatory burden using the Federal Regulation and State Enterprise index. This index measures the industry breakdown of New York's regulations and determines the extent to which the state's economy is affected by federal regulations relative to the other 49 states and the District of Columbia. As of 2021, New York experiences the 36th highest impact of federal regulations.

CONCLUSION

Other indexes show where the New York economy is currently and where it is heading in the future. *U.S. News & World Report* designed a ranking of the best states for growth.⁶² It ranks the states according to multiple factors, including net migration, growth of the young population, and GDP growth. In terms of all these factors

combined, New York ranks 44th. By comparison, Idaho, Washington, Utah, Arizona, and Colorado are the top five states for growth, in that order. In terms of each category individually, New York ranks 17th in GDP growth, 44th in growth of the young population, and 47th in net migration. Ultimately, New York ranks low for economic performance in the future and for being a great location for business and entrepreneurship.

According to the Back-to-Normal Index, created by CNN Business and Moody's Analytics,⁶³ the US economy was 93 percent back to normal economic activity in June 2021; however, New York was only 83 percent back to normal economic activity. Therefore, although New York is trying to reach its prepandemic levels, it is unfortunately not moving fast enough. This presents a grim outlook on the state of the economy for the immediate future. New York is on a long road to economic recovery but should eventually be able to get back to where it was before the pandemic.

YANDLE'S READING TABLE

According to Oxford Languages and Google, the word “fantastic” is defined as “Imaginative or fanciful; remote from reality,” and that makes it an appropriate descriptor for Thomas Hager’s 2021 book *Electric City: The Lost History of Ford and Edison’s American Utopia*. In it, Hager tells how, during World War I, Muscle Shoals, Alabama, located on the Tennessee River, became the location of one of modern history’s most strenuous efforts to build what could have become a record-sized dam, electricity generating stations, and two massive plants for manufacturing nitrate for explosives. But as Hager points out, just as the construction crew of 40,000 was peaking and the dam was partially done, and with machinery being installed in two nitrate plants, the war ended, and the project came to a screeching halt. There stood a partially done project covering a 4,000-acre landscape that contained temporary worker housing; streets; sidewalks; and plans for schools, churches, and all else needed for the aborted industrial community. This would later become Tennessee Valley heartland. But along the way, some fantastic things happened. Most of them involved that Model T mastermind, Henry Ford.

Although this first part of Hager’s story will keep the reader entranced, what follows is even more enticing. What would the US government do with an incomplete but massive hydroelectric plant, two coal-fired electricity generating stations, and two huge plants for producing monstrous amounts of nitrate that no one needed and that—to make matters more challenging—were designed around an obsolete technology that was no longer competitive? Enter Henry Ford, Model T inventor and producer and, as a result, the world’s richest man. Frustrated by his failed effort to negotiate a peaceful end to World War I and considered by some to be beyond eccentric and just a bit wacky, Henry Ford mounted a major effort to purchase the entire Muscle Shoals project and turn it into a sort of modern garden of paradise where thousands of yeoman farmers would be employed making fertilizer at rock bottom prices for American farmers and manufacturing auto parts to produce more Model Ts—all while small communities flourished with model schools, healthcare provision, and retirement communities.

Known for having regular outings with his friends Thomas Edison, Harvey Firestone, and (occasionally) President Warren Harding, Ford systematically worked the political hustings,

gained the support of farm organizations, received Edison's guarded but positive endorsement, and, of course, got the endorsement of Tennessee politicians and community leaders. Ford still had to gain a positive vote from Congress, and his brief bid for the Muscle Shoals assets called for the federal government to pay for completing the dam, which would be leased to Ford for 100 years. There were even more controversial elements in his bid, including what some believed to be a low-ball estimate on the value of the assets to be acquired.

Hager's account of Ford's ultimately failed effort carries the reader through political struggles involving Harding; his secretary of war, John Weeks, who was charged with managing the war-surplus Muscle Shoals project and who was not enthusiastic at all about Ford's plan; Ford's flirt with running for president; and Harding's sudden death and Calvin Coolidge's move to the White House. Throughout the period, what to do with Muscle Shoals was one of Washington's major problems. The stranded assets involved were too large to walk away from, but also deemed to be too large to turn over to a capitalist dreamer like Henry Ford. Ford's inspired and unrelenting effort to win Washington's endorsement ultimately met the challenge of satisfying George Norris, a US senator from Nebraska, who as chairman of the Senate Agriculture Committee became the final arbiter of the fate of the Muscle Shoals project. Norris would not budge in his opposition to privatizing a vast part of the Tennessee Valley, and Ford's dream of an American utopia came to an unhappy ending.

But of course, that was not the end of the story. Out of the struggle, and with the onset of the Great Depression and Roosevelt's New Deal, came the idea of the Tennessee Valley Authority, which would complete the Muscle Shoals project, add even more dams and lakes, and electrify a major

American region. In doing so, many of Henry Ford's ideas found fertile ground that was fertilized not with nitrate but with taxpayer money.

These days one constantly hears about a divided nation, culture wars, rising crime, Blue states against Red states, a return of tribalism, and the erosion of civil behavior. There's plenty of disturbing evidence to support the notion that the nation has changed, but is there something foundational that one might point to as forming the basis of these changes? Economist David Rose believes there is. As indicated by the title of his book, *Why Culture Matters Most*, Rose argues that a flourishing society requires a high degree of trust and that this high degree of trust has to be instilled in the minds of young children, systematically but spontaneously, by parents and guardians. He describes the process this way: "This point about how culture works in intergenerational fashion is so important that it bears restatement. The cultural transmission of moral beliefs—that is teaching them to children as early as possible—separates the decision to hold those beliefs from the cost of abiding by them. . . . [C]hildren cannot possibly imagine the nature of the opportunities that will present themselves in adulthood or the opportunity cost of being unable to act on them."⁶⁴ What Rose describes parallels, to some extent, Adam Smith's argument that moral sentiments become embodied in people as in the form of an invisible person—an impartial spectator—watching, warning, and cautioning the individual who is making decisions about actions to be taken.⁶⁵

To have a high-trust society, Rose says, most individual members must have learned unconsciously to put aside self-interest when considering certain fundamental actions—they don't even think about the fact that, instead of those decisions being made subject to a kind of benefit-cost analy-

sis, such decisions will be subject to a moral standard of right and wrong. In the high-trust society, individuals, without thinking very much, will tend to tell the truth, to keep promises, and to be prudent when entrusted with the goods of other people. If most people behave that way, then cooperation comes easier, markets form more quickly, and trust expands.

The high-trust society can create an extensive market economy where most people will pay their bills—on time—without having a sheriff come to collect, where one can leave a car to be repaired and expect to get the car back—repaired. In a nutshell, the high-trust society is one that almost automatically takes account of what is best for the larger good of the community without individual members thinking that they are sacrificing by doing so. One might conclude by saying that, all else equal, the high-trust society will have higher GDP growth, less crime, more stable families, and longer life expectancy.

Rose lays out his arguments with rigor but in highly accessible language. The book is well written and a pleasure to read. After building his case for forming a flourishing society, he discusses what can happen that erodes the good society's foundation and what it may take to rebuild trust. But I think another step must be taken for a high-trust society to achieve what I call "supercharged performance," and that step involves the actions described by David McClelland in his book *The Achieving Society*. In this intriguing work, using extensive data analysis to support his claim, McClelland argues that high-performing societies are those composed of individuals who desire to achieve and that their desire is formed by stories that contain the theme of achievement, which are read to them as young children. Watty Piper's *The Little Engine That Could* may be a growth engine for a high-trust economy!

I recommend the book, which I think is a book for the times as the nation struggles to regain its footing after a truly difficult period in modern history.

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NOTES

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