HARWOOD Economic Review

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

SUMMER 2020 Volume 4, Issue 3

MODELING & ITS FAILURES
3  In This Issue
   Edward Peter Stringham

4  That's One Way to End a Lockdown
   AIER Staff

6  SimCity-Style Modeling Flunks the Real-World Test
   Phillip W. Magness

10  How Wrong Were the Models and Why?
    Phillip W. Magness

13  Delayed Medical Procedures:
    Stories from the Front Lines
    Jeffrey A. Tucker

16  Fed Lending Programs Might Be Legal,
    but They're Still Bad Policies
    Alexander W. Salter

17  The Fed Wants to Become a Financial
    Central Planner
    Alexander W. Salter

19  Pandemic Policy in One Page
    David Hart

22  Liberalism Was Born and Grew During
    Centuries of Pandemics
    Jon Murphy

24  There Really Is a Solid Reason for Optimism
    Michael Munger

26  The Office Will Come Back
    John Tamny
In This Issue

Edward Peter Stringham, President

Readers have come to rely on AIER’s coverage of the virus and the political response. We are willing to swim against the tide. We’ve continually exposed what’s happening at the Fed, decried the wild spending sprees from Congress, and investigated carefully the models that drove the lockdown, mostly made from fictional computer-generated scenarios. As a result of this coverage, AIER’s web traffic has soared so much in the last three months that among U.S.-based traffic, we were even ahead of The Economist magazine. That’s quite the achievement for our small but dedicated staff.

As I write, the country is gradually coming out of lockdown but we are nowhere near as free as we were in February before all this began. Depending on the state, the city, and even the city block, enterprise is being constrained in an unprecedented way. Quarantines even for the asymptomatic are being enforced with jail time. The federal government is pressing for extended bans on travel, on visas, and imports.

Have we gotten used to all this? I sincerely hope not. The enterprising commercial society needs freedom. This is so that entrepreneurs can be creative as they strive for excellence in the service of others. The consumer, not the government, is supposed to be in charge. The genius of the commercial society and its core contribution to history was to put common people in charge.

The lockdowns were and are a grave threat to all these values, and to the American dream itself. We are seeing more people turn even against what America has contributed to the world in terms of prosperity and the better life for all.

I’m optimistic in the long term that our society will learn the right lessons from the trauma we’ve experienced these months. It can be difficult to see that in the midst of change but we could come out of this with a renewed skepticism for experts in government and new appreciation for our hard- won freedoms. In any case, the publications of AIER are directed toward helping people learn that lesson.

I hope you enjoy this issue of the Harwood Economic Review, and thank you always for your support.

Edward Peter Stringham
There’s an old 18th-century saying about the best-laid plans of mice and men. From such plans—the most prestigious public health professionals working with the most powerful people, deploying for the first time a new way to control disease—we now stand in the midst of rubble.

It seems hard to believe. It was only a few months ago that the United States had a strong economy and a bright future. How we went from domestic peace and prosperity in February 2020 to the madness—cities on fire, military rule, curfews, economic desperation—we see today will be the subject of historical reconstruction for many decades hence. We are already seeing the first drafts written now.

The people in the streets are said to be protesting or rioting, but in other ways this has elements of a rebellion. It’s a rebellion against controls over the population that should never have been imposed—based on law, precedent, and human rights. The American people put up with it for more than two months, even as the strictures and regulations were building a nationwide powderkeg.

The disgusting murder of George Floyd, a man forcibly disemployed under lockdown and passing a counterfeit $20 bill to escape poverty, was all too familiar. It was the fuse that lit up that powder. The outrage against such police abuses stretches back decades and is reason enough for people from coast to coast to scream: enough.

At the same time, there is much more going on here than police abuse of power. Floyd became such a powerful symbol for people of all races and classes. He could have been any one of us. The boot on the neck smacks of Orwell’s chilling prediction of life under government plans: If you want a vision of the future, imagine a boot stamping on a human face—forever.

Americans of all classes, races, and political affiliations refuse to acquiesce to that future. Enough is enough.

The fires that burn in our cities today were born long ago with government impositions in every aspect of our lives. The impositions date back many generations. In the course of three months, the lockdowns stacked the wood; Floyd’s murder was the match.

In mid-March 2020, for fear of a virus, schools were forcibly closed, workers and businesses were arbitrarily divided by governments into essential and nonessential, police powers were deployed to enforce human separation under the strangely clinical name of social distancing, stay-home orders went into effect, travel restrictions internationally and even domestically locked us down and separated us (as if viruses care about lines on a map), and hospitals shut for anything but COVID-related illnesses.

It was a perfect central plan, the deployment of a real-life version of plans first laid out in 2006, at least on paper. The plans included no reference to legislatures, public opinion polls or elections, concern for the Bill of Rights, private property, commercial functioning, family rights, religious freedom, or basic freedoms of association—and certainly never accounted for the reality that people don’t like to be muscled by dictators local, state, and federal.

All of this massive apparatus of compulsion and coercion, of course, became our new regime for our own good and our health, or so they have repeatedly said. What’s fascinating looking back is how little of what we’ve done to our beloved country had anything to do with the realities of the virus called COVID-19.

This particular virus—different from the last one and next one—turned out to be mostly brutal on older populations with comorbidities, particularly vicious in long-term care facilities. For more than 99% of everyone else, it is not much of a disease at all. People are coming to realize this, though it is rarely admitted on your television screens. When you throw out all concerns for human decency in the name of virus control, you have to keep doubling down on the rationale for the panic. Weeks stretched into months, and the excuses kept changing.

It’s no surprise that many of the protesters and rebels on the streets were glad to tell of their incredulity to the media. The truth about this outrageous government overreach was going to leak out, despite near uniformity of a pro-lockdown position among major media. The trouble is, and perhaps this is a good thing, people have stopped believing. Even the mask mandates backfired: they were universally worn by the protesters.
People do not believe the media, the politicians, the public health professionals. They stopped believing in the need to follow the plan. They have started to believe that perhaps freedom offers a better way, even in the presence of a virus.

Now 48 days into the lockdown, and still oppressed by overly formalized models of an organized and scripted re-opening, and 48 hours after our cities lit up and streets filled with angry rebels, there are vast remaining problems.

First, it’s not at all clear whether and to what extent any of the political elites in this country have the slightest clue about what has happened or what to do about it. Second, the economy is now burdened with terrible debt, awful spending plans, and egregious monetary policy. Third, we continue to live with unnecessary and burdensome regulations on our movements and rights.

All three problems need desperately to be addressed.

It’s also time we look toward the future, perhaps with some optimism. Hundreds of unneeded regulations have been suspended in the crisis. New forms of education and health-care delivery have been innovated and practiced. The political class is largely discredited. Many of the overly confident planners who hatched this disaster are hunkered down in hiding. People are unlikely ever to hold the mainstream media in high regard, at least not for a very long time.

The best laid plans: inspired by myopic modelers, eschewing of expert opinions of dissident scientists, disregarding of essential rights, fueled by media fabrications and irresponsibility, imposed by governments at all levels. It’s a new chapter of *The Road to Serfdom*.

Let us write yet another chapter in which we learn something from this calamity and re-embrace the idea of human freedom.
SimCity-Style Modeling Flunks the Real-World Test

Phillip W. Magness

June 1st was supposed to mark a dreary milestone in the coronavirus pandemic. It is the day that the now-notorious Imperial College London (ICL) model predicted that Sweden would peak at 95,000 COVID-19 deaths in the absence of a lockdown. In reality, Sweden currently sits at 4,395 deaths—a tragic loss to be certain, but also less severe than many other Western European nations under full lockdown.

Sweden’s shortfall from this expected death toll is good news for supporters of its comparatively mild and voluntary social distancing approach to the pandemic. But it also represents a complete failure of the predictive model that jarred much of the world including the United States and the United Kingdom into imposing draconian shelter-in-place policies that have now persisted for over two months.

Back in early April, a team of epidemiologists at Uppsala University adapted the Imperial College model designed by crystal physicist Neil Ferguson to Sweden in an attempt to dissuade the country’s government from its hands-off approach. Their results, like the more famous US and UK iterations of the ICL model, predicted disaster if the country did not change course immediately.

A key graph from the study is depicted below, with markers to indicate where it was supposed to stand on June 1st. Point A represented what would happen if Sweden maintained its milder policies without a lockdown, yielding as many as 95,000 deaths. Point B shows their prediction for what would happen if Sweden changed course by April 10th and adopted a European-style lockdown similar to the strategy that their neighbors employed. As a relative latecomer to the lockdown game, Sweden would incur only 40,000 deaths by June 1st if its government fell into line with the rest of the world.

As it actually stands, Sweden sits at point C, well below either scenario and on a curve that was not even contemplated under the ICL model.

How the Modelers Went Wrong
Ferguson’s ICL study is the most famous and influential example of a relatively recent type of epidemiology model known as an agent-based simulation. Briefly summarized, the ICL approach purports to take known or approximated data about a virus’s infection and fatality rates and subjects them to a simulation of expected transmission within a population.
country or region, calibrated to its population characteristics and related demographic inputs.

The model then runs a succession of computer simulations that allegedly calculate how quickly the virus spreads given what they assume about the frequency of human social interactions. Since the models are probabilistic, they’re usually carried out in repetition so the final result reflects multiple runs of the simulation.

To render the simulations useful for policymakers, modelers such as the ICL team then adjust their runs to account for a variety of proposed scenarios. While the first set of predictions might reflect a do nothing course of no interventions and an uncontrolled pandemic, a second scenario might include what they predict to happen if schools and large sporting events are closed. A third might predict adding voluntary social distancing to the mix. And a fourth might predict a full mandatory lockdown.

Under perfect knowledge of both a virus and human behavior in response to the virus and full understanding of how each affects transmission, a computer simulation of this type could at least—in theory—approximate an actual pandemic. Indeed, modelers such as Ferguson and the ICL team seem to believe they possess such knowledge and can accurately control for such complex scenarios to the point that it yields accurate predictive information about viruses.

In a sense it’s an epidemiological approach that treats the world as a real-life version of the old SimCity computer game, and reports what happens if you play that game in repetition under the conditions of a pandemic.

The simulation approach has a severe deficiency though in that the assumptions and inputs it takes for granted are both unknown and sufficiently complex to render them unknowable. Modelers have to fill in substantial gaps in their knowledge by imposing assumptions into their code—assumptions about the transmissibility of the virus, assumption about its duration and fatality rate, assumptions about the effectiveness of policy responses, and even assumptions about the rate that people will comply with or abide by those policies.

If we look to a key table from the ICL COVID model, we quickly find that these assumptions are little more than guesswork—particularly when it comes to the effectiveness of the proposed policy interventions. The table shows four modeled policy responses that purport to contain COVID-19. Note that all four adopt nice, even, round numbers as their parameters for modeling the proposed intervention: a 70% compliance rate with X, a 50% compliance rate with Y, and a 25% reduction in behavior Z, all allowing precise predictions of how the pandemic will supposedly play out.

### Summary of NPI Interventions Considered

<table>
<thead>
<tr>
<th>Label</th>
<th>Policy Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CI</td>
<td>Case isolation in the home. Symptomatic cases stay at home for 7 days, reducing nonhousehold contacts by 75% for this period. Household contacts remain unchanged. Assume 70% of household comply with the policy.</td>
</tr>
<tr>
<td>HQ</td>
<td>Voluntary home quarantine. Following identification of a symptomatic case in the household, all household members remain at home for 14 days. Household contact rates double during this quarantine period, contacts in the community reduce by 75%. Assume 50% of household comply with the policy.</td>
</tr>
<tr>
<td>SDO</td>
<td>Social distancing of those over 70 years of age. Reduce contacts by 50% in workplaces, increase household contacts by 25% and reduce other contacts by 75%. Assume 75% compliance with policy.</td>
</tr>
<tr>
<td>SD</td>
<td>Social distancing of entire population. All households reduce contact outside household, school or workplace by 75%. School contact rates unchanged, workplace contact rates reduced by 25%. Household contact rates assumed to increase by 25%.</td>
</tr>
<tr>
<td>PC</td>
<td>Closure of schools and universities. Closure of all schools, 25% of universities remain open. Household contact rates for student families increase by 50% during closure. Contacts in the community increase by 25% during closure.</td>
</tr>
</tbody>
</table>
Curiously, there appears to be little effort in these models to test and verify whether the underlying assumptions are correct. They also do very little to account for behavioral changes during the course of the pandemic that will almost certainly alter factors such as compliance rates with policy directives, or even voluntary behaviors that people undertake on their own to mitigate the risks of the disease (think about increased hand-washing). Instead, we have parameters that essentially amount to guesswork, all of it hard-coded into the model. And if any one of those underlying assumptions ends up being wrong, it potentially throws off the entire predictive ability of the model itself.

As the Swedish application of the ICL model reveals, one or more of its underlying assumptions about the coronavirus and the effectiveness of proposed policy interventions were clearly in error. Its predictions were therefore wholly implausible, and have already been invalidated by reality as the June 1st numbers demonstrate.

Yet if we look back to Ferguson’s original paper from 2006 in which he laid out the model that he later adapted to the current pandemic, we find another stunning revelation in its penultimate paragraph:

*Lack of data prevent us from reliably modelling transmission in the important contexts of residential institutions (for example, care homes, prisons) and health care settings; detailed planning for use of antivirals, vaccines and infection control measures in such settings are needed, however. We do not present projections of the likely impact of personal protective measures (for example, face masks) on transmission, again due to a lack of data on effectiveness.*

Among its many shortcomings, the original ICL model lacked a means of accounting for the transmission of viruses in residential institutions such as nursing homes and similar long-term care facilities.

As the last several months have shown however, nursing homes are acutely susceptible to the coronavirus by looking into its history. Ferguson and the other ICL authors first developed this model in the mid-2000s as one of the two major contributions to the computer simulation approach for pandemics. The second came from a team led by Robert J. Glass, a modeler at the Los Alamos laboratory who adopted a similar approach.

Ferguson and Glass were both major figures in the epidemiology community’s shift away from traditional disease-mitigation strategies and toward wide-scale lockdowns, as first proposed in 2006 following a succession of government research inquiries into influenza pandemics and the threat of bioterrorism. The introduction of their modeling approach precipitated a debate among epidemiologists over the effectiveness of unproven strategies such as society-wide lockdowns, as well as lesser interventions such as school closures and event cancellations.

Several figures in the medical wing of the discipline expressed doubts about top-down society-wide approaches such as lockdowns at the time, noting the lack of empirical evidence behind the modeling assumptions as well as the complete absence of a causal identification strategy for the claimed effectiveness of its policy prescriptions. The modeling approach of Ferguson and Glass caught the ears of public health officials at the time though, and has since come to dominate the COVID-19 response.

In fact, we may see evidence that the ICL model was wholly unsuited to the coronavirus by looking into its history. In many countries and US states, nursing homes even account for more than half of all total coronavirus fatalities. In virus hotspots such as New York, the nursing home problem was compounded even further by likely undercounting of deaths and an emerging scandal over Gov. Andrew Cuomo’s order forcing nursing homes to admit known coronavirus carriers as a way of mitigating hospital capacity strains that were never actually realized.

Returning to the question of epidemiology modeling, the nursing home issue may reveal a fatal flaw in the ICL model’s underlying assumptions. If indeed it had no means of accounting for viral transmissions in residential institutions as Ferguson’s 2006 paper indicates, the ICL model completely missed what now turns out to be the single greatest vulnerability point for the coronavirus pandemic (the ICL team has thus far resisted calls to release its original code from the COVID simulation, and public versions of the same code are riddled with bugs and errors. The released version of its COVID paper does not give any indicator though that they modified the 2006 study to account for nursing homes).

Such an oversight would further imply that the predictive scenarios of the ICL model’s policy interventions are not only misdirected away from the primary vulnerability points and onto society at large, but also that the forecasted mortality ranges of its milder scenarios under the lockdown have little basis in reality.
If nursing homes account for the lion’s share of COVID mortality as the statistics now show, the realized death rates in countries that went under lockdown may only be said to follow the ICL model’s milder scenarios as a result of coincidence. Even when the total numbers in some countries appear to match up with the ICL’s milder scenarios, the deaths predicted by the model are not the same types of deaths we are seeing in reality. When it comes to predicting the actual mechanisms of the pandemic, including the danger it poses to nursing homes, the modeling approach appears to be functionally useless and catastrophically off the mark.
How Wrong Were the Models and Why?
Phillip W. Magness

The epidemiology models used to justify and extend the ongoing coronavirus lockdown are starting to come under much-needed scholarly scrutiny. A new working paper published by the National Bureau of Economic Research (NBER) presents a detailed statistical examination of several influential models, and particularly the study out of Imperial College-London (ICL) that famously predicted up to 2.2 million COVID-19 deaths in the United States under its most extreme scenario.

The ICL model presented an array of scenarios based on different policy responses, but this extreme projection—also referred to as its do nothing scenario—grabbed all the headlines back in March. Although the ICL paper described its own do nothing scenario as unlikely given that it assumed the virus’s spread in the absence of even modest policy and behavioral responses, its astronomical death toll projections were widely credited at the time with swaying several governments to adopt the harsh lockdown policies that we are now living under.

The Trump administration specifically cited ICL’s 2.2 million death projection on March 16th when it shifted course toward a stringent set of social distancing policies, which many states then used as a basis for shelter-in-place orders. In the United Kingdom, where the same model’s do nothing scenario projected over 500,000 deaths, the ICL team was directly credited for inducing Prime Minister Boris Johnson to shift course from a strategy of gradually building up herd immunity through a lighter touch policy approach to the lockdowns now in place.

Plainly, the ICL model shifted the policy responses of two leading world powers in dramatic ways.

Indeed, the ICL team played no small role in hyping the projections of its do nothing scenario, even as its own report downplayed the likelihood of that outcome in favor of more conservative projections associated with an array of social distancing policies and suspensions of public gatherings. On March 20th ICL lead author Neil Ferguson reported the 2.2 million death projection to the New York Times’s Nicholas Kristof as the worst case scenario. When Kristof queried him further for a best case scenario, Ferguson answered About 1.1 million deaths—a projection based on a modest mitigation strategy.*

It’s worth noting that even at the time of its March 16th public release, the conditions of the ICL’s do nothing scenario were already violated, rendering its assumptions invalid. Most governments had already started to do something by that point, whether it involved public information campaigns about hygiene and social distancing or event cancellations and the early stages of the lockdown, which began in earnest a week earlier. Voluntary behavioral adaptations also preceded government policies by several weeks, with a measurable uptick in hand-washing traceable to at least February and a dramatic decline in restaurant reservations during the first two weeks of March. When read in this context, Ferguson’s decision to hype the extreme death tolls of the do nothing scenario to the press in mid-to-late March comes across as irresponsible.

Nonetheless, the alarmist death toll projections dominated the public narrative at the time and—citing the ICL model—the United States went into lockdown.

A month later, it has become readily apparent that the 2.2 million death projection was off by several orders of magnitude, as was its UK counterpart of 500,000 projected fatalities. Ferguson and the ICL team shifted their public commentary to emphasize other scenarios with more conservative projections in the tens-of-thousands (in some cases this was misleadingly depicted as a revision to their model, although it actually used the milder scenarios in the original March 16th paper).

Nonetheless, the damage from the over-hyped ICL do nothing scenario was already done. Indeed, as of this writing, President Trump is still citing the 2.2 million projection in his daily press conferences as the underlying rationale for the lockdowns. The New York Times’s COVID reporter Donald McNeil was also still touting the same numbers as recently as April 18th, and even a month later it remains something of a social media taboo for non-epidemiologists to scrutinize the underlying statistical claims of credentialed experts such as Ferguson.

Stay in your own lane, we’re told, and let the experts do their own work. Epidemiology has its own proprietary methods and models, even as their most alarmist scenarios—the ones that Ferguson publicly hyped to the media a month ago—faltered in visible and obvious ways.

Enter the new NBER paper, jointly authored by a team of health economists from Harvard University and MIT. Its authors conduct a measured and tactful scrutiny of the leading epidemiology forecasts, including the ICL model at the heart of the lockdown policy decisions back in March.

Among their key findings
The most important and challenging heterogeneity in practice is that individual behavior varies over time. In particular, the spread of disease likely induces individuals to make private decisions to limit contacts with other people. Thus, estimates from scenarios that assume unchecked exponential spread of
disease, such as the reported figures from the Imperial College model of 500,000 deaths in the UK and 2.2 million in the United States, do not correspond to the behavioral responses one expects in practice.

As the authors explain, human behavior changes throughout the course of an epidemic. Even basic knowledge of the associated risks of infection induces people to take precautionary steps (think increased handwashing, or wearing a mask in public). Expectations about subsequent policy interventions themselves induce people to alter their behavior further—and continuously so. The cumulative effect is to reduce the reliability of epidemiological forecasts, and particularly those that do not account for behavioral changes.

If this sounds familiar, it is the critique that my colleague Will Luther made on March 18th, only two days after the ICL model came out. He similarly noted this implication when Ferguson shifted the emphasis of his public commentary to the more conservative scenarios in his model at the end of March. I also pointed to the importance of behavioral adaption around this time when considering the many policy responses to COVID-19, from public health advice to lockdowns to border checkpoints in certain states.

The NBER paper authors further critique the ICL paper and four other epidemiology models for overstating their own certainty about their many projection scenarios. Behavioral adaptation, among other factors, reduces the accuracy of long-term forecasting. The presentation of multiple scenarios also requires the adoption of a multitude of underlying assumptions about how these factors will play out given each policy choice made. Unfortunately, none of the epidemiology models they considered took sufficient steps to account for these complications.

The NBER study thus concludes

In sum, the language of these papers suggests a degree of certainty that is simply not justified. Even if the parameter values are representative of a wide range of cases within the context of the given model, none of these authors attempts to quantify uncertainty about the validity of their broader modeling choices.

Epidemiological expertise may convey specialized knowledge about the nature of disease transmission that is specifically suited to forecasting a pandemic’s spread. But it does not exempt the modelers from social scientific best practices for testing the robustness of their claims. Nor does it obviate basic rules of statistical analysis.

It would be a mistake to pit epidemiology as a field against its outside critics though, as the ongoing COVID-19 debates actually reveal a much more complex scientific discussion—including among medical experts and other specialists in pandemics. Around the same time the ICL model was released in March, distinguished medical statistician John Ioannidis issued a strong warning for disease modelers to recognize the severe deficiencies in reliable data about COVID-19, including assumptions about its transmission and its essentially unknown fatality rates.

More recently, a team of epidemiologists based at the University of Sydney examined the performance of the influential Institute for Health Metrics and Evaluation (IHME) model out of the University of Washington at predicting next-day fatalities in each of the 50 states. Looking at daily results from March and early April, they concluded that as much as 70% of the actual daily fatality totals fell outside of the model’s 95% confidence interval, by either being too high or too low. This finding is not necessarily discrediting of
the IHME researcher’s approach, but it does speak to the need for further refinements in their techniques while also cautioning against using its predictions as a basis for policymaking while uncertainty about its accuracy remains high.

As these examples reveal, epidemiology, health economics, and related fields that specialize in medical statistics are not a single consensus to be deferred to as a monolithic voice of expertise. Rather, they host necessary and sometimes sharply divided debates—including over COVID-19.

To illustrate the importance of statistical scrutiny, it helps to look to past epidemics and observe what similar debates tell us about the accuracy of competing epidemiological forecasts. In the late 1990s and early 2000s one such example played out in Great Britain concerning Creutzfeldt Jakob Syndrome, better known by its common moniker of Mad Cow Disease.

In 2001 the New York Times ran a story on different epidemiological projections about the spread of Mad Cow Disease, highlighting two competing models.

The first model came from a team of Jerome Huillard d’Aignaux, Simon Cousens, and Peter Smith at the London School of Hygiene and Tropical Medicine (LSHTM). Using a variety of assumptions about the disease’s existing prevalence (some of them hotly contested) as well as observational data about the disease’s incidence prior to its highly publicized 1996 outbreak, the LSHTM model offered a variety of scenarios depicting an overall mild transmission pattern for the disease.

As Cousens told the Times in 2001, No model came up with a number exceeding 10,000 deaths and most were far lower, in the range of a few thousand deaths spread over the next decade. While the Mad Cow Disease literature continues to debate some of the underlying assumptions of their model, the LSHTM team’s mortality projections ended up fairly close to reality—at least compared to other models.

An estimated 177 people died from Mad Cow Disease in the UK in the wake of the 1996 outbreak. Disease mitigation measures persist in an ongoing effort to prevent a future outbreak from cattle-to-human transmissions including import/export restrictions on beef and the slaughter of cattle to contain the infection in livestock, but for the past two decades annual Mad Cow fatalities in humans have remained extremely rare.

When the 2001 Times story ran however, a different model dominated the headlines about the Mad Cow outbreak—one that projected a wide-scale pandemic leading to over 136,000 deaths in the UK. The British government relied on this competing model for its policy response, slaughtering an estimated 4 million cows in the process. The competing model did not stop at cattle either. In an additional study, they examined the disease’s potential to run rampant among sheep. In the event of a lamb-to-human transmission, the modelers then offered a worst case scenario of 150,000 human deaths, which they hyped to a frenzied press at the time.

In the 2001 Times article, the lead author of this more alarmist projection responded to the comparatively tiny death toll projections from the LSHTM team. Such numbers, he insisted, were unjustifiably optimistic. He laid out a litany of problems with the LSHTM model, describing its assumptions about earlier Mad Cow Disease exposure as extremely naïve and suggesting that it missed widespread underreporting of disease by farmers and veterinarians who did not understand what was happening to their animals. He conceded at the time that he had since revised [the 136,000 projection] only very slightly downward, but expressed confidence it would prove much closer to the actual count.

The lead author of the extreme Mad Cow and Mad Lamb Disease fatality projections in the early 2000s is a familiar name for epidemiological modeling.

It was Neil Ferguson of the ICL team.

As with the present crisis, a high degree of uncertainty has loomed over epidemiological forecasts in the past. Such uncertainty is likely unavoidable, but it also produces a wide range of competing projections. When governments design policy based on epidemiological forecasts, their choice of the model to use could be the difference between a mild mitigation strategy and a large proactive intervention, such as the mass slaughter of livestock in the case of Mad Cow Disease or aggressive and wide-scale societal lockdowns in the case of COVID-19.

That choice, often made amid severe data limitations, is often presented to the public as an unfortunate but necessary action to forestall an apocalyptic scenario from playing out. But we must also consider the unseen harms incurred when politicians base decisions on a modeled scenario that is not only unlikely but also wildly alarmist and likely exaggerated by the dual temptations of media attention and gaining the ear of politicians.

Given the high uncertainties revealed by statistical scrutiny of epidemiological models including among other medical experts, the presumption should go the other way instead. What is warranted is not bold political action in response to speculative models generated with little transparency and dubious suppositions, but rather extreme caution when relying on the very same models to determine policy.

* Correction. An earlier version identified the 1.1 million projection with the ICL “do nothing” scenario. It reflects a scenario with moderate set of mitigation policies.
Last month, there was a bit of a chill in my right molar. My left molar was already capped after a root canal. So I wondered if the same was happening on the other side. I called some local dentists. None were in operation but for emergencies and mine didn’t qualify. They said they would be opening in a few weeks but only for established patients. I’m not among them.

No problem, I thought. I will visit my mother in another state and go to a dentist there. No luck: there was a mandatory two-week quarantine for out-of-state visitors. I couldn’t be there waiting for two weeks. Plus when one of these teeth starts to go bad, as I recall, you are in severe pain within a few days. I could ask my mother to lie for me, but that’s not nice.

Fortunately, it was a false alarm and my tooth is fine. Even so, it was scary. Imagine living in a world in which essential dentistry was forbidden by governments for three months. It’s like living in the 18th century, or the 12th.

Unbelievable.

It’s not just about dentistry. By executive orders around the country, all nonessential medical procedures were ended to preserve hospital capacity around the country. It was part of the pandemic plan, don’t you know. This was also the reason for flattening the curve and social distancing. Hospitals can’t scale, don’t you know. The planners know what’s best.

Then something strange happened. All over the country, hospitals emptied, waiting and waiting for floods of COVID-19 patients but few arrived. Only in parts of New York City did resources become temporarily thin. Elsewhere in the country, hospitals almost entirely stopped doing business. Then the financial crisis hit. So far, 266 hospitals have furloughed workers. Then you have the enormous problem of delayed treatments, postponed checkups, bypassed diagnostics—all the things we use the medical system for on a normal basis.

The results are explained in detail by Zaria Gorvett:

Across the globe, patients have reported being denied cancer care, kidney dialysis and urgent transplant surgeries, with sometimes fatal results. In the Balkans, women have been driven to try dangerous, experimental abortions themselves, while experts in the UK have reported a rise in DIY dentistry, as people turn to toe-curling improvisations involving chewing gum, wire-cutters, and superglue. Panic-hoarding of the drug hydroxychloroquin, which is normally used to treat malaria and autoimmune conditions, and has recently been found to increase deaths from Covid-19, has led to shortages.

And as with all crises, the current pandemic looks set to hit the poorest countries the hardest. Scientists have warned that, in some places, disruption to the control of diseases such as HIV, tuberculosis and malaria could lead to losses on the same scale as those caused directly by the virus. Similarly, experts fear that deaths from illnesses such as cholera could far exceed those from Covid-19 itself.
Vaccinations are a particular concern. The World Health Organization has calculated that at least 80 million children under the age of one are now at risk of diphtheria, polio and measles, after the pandemic disrupted programmes in at least 68 countries. Polio is expected to make a comeback, despite a multi-billion dollar effort stretching back decades which meant it was tantalisingly close to joining the exclusive club of viruses that are extinct in the wild, whose sole member is currently smallpox.

The tragedies here are countless, and should have been expected. If you impose a governor’s plan over the experience of hospital management, and do so under a coercive threat, in the name of public health, you are likely going to see the opposite emerge.

So I asked my Twitter feed for some examples. Many I can’t print due to privacy concerns but here are just a few:

Just before lockdown I had abdominal pain and days of constipation. (Wish my issue was more glamorous.) I saw the lockdown looming so I went to the emergency room (March 11, 2020). Diagnosed with diverticulitis. Given antibiotics, for the abdominal infection, and referred to a Gastroenterologist for a colonoscopy. I keep attempting to make the appointment for the colonoscopy and they are telling me to try to schedule again at the beginning of June. In the meantime I have been trying to get my body to keep things moving by taking laxatives at times. I went 100 hours without a bowel movement.

I think I am getting my body back into a good routine. I can still go to work and play disc golf most of the time. So it’s not debilitating 95% of the time. I’ve lost 15 pounds (flattening my curve). I imagine much more serious issues occurring for others.

I fractured my collarbone in a road bike crash in May 2018. Being in Canada, I had to wait several painful days before surgery was scheduled to fix a metal plate to the broken bone. I was told that it was possible to have the plate removed after approximately six months when the bone would have healed. The discomfort from the plate rubbing under the skin, and from the tension of 9 screws in the small bone, made it an easy decision to request surgery to remove the plate.

My surgeon added my name to the waiting list in January 2019. At the time he said the average wait was about five months. After six months, I phoned the hospital and was told that I was still on the list but that they were scheduling people who had been on it for over a year. I was finally contacted in March 2020 (!) with a date two weeks later for the surgery. The day before, they called to ask if I had been out of the country or in contact with anyone who had been during the previous two weeks. The answer was yes, so they cancelled the surgery and said they would call me back. I’m still waiting.
I have extreme sciatica pain and my pain doctor after months has determined that I need a nerve block in my sacrum. This is an injection that literally can be done in less than ten minutes, but I have had to wait over 8 weeks in excruciating pain while they wait to get me in after the backlog in elective surgeries. They refuse to give me opioids.

Not my personal story, but comes from our lawn care folks, a husband and wife team. She had a wisdom tooth that was pushing up too much and starting to be bothersome, and she had an appointment scheduled to have it removed. Then along comes COVID, and all non-essential medical treatments, including teeth extractions, are cancelled by executive fiat. (We are in Michigan, so this is Gretchen Whitmer, our governor who issued this order). Anyway, the tooth keeps bothering her. In short order an abscess forms, which goes septic, which leaks into her bloodstream. Oral antibiotics do not seem to cut it, and she ends up in ICU in hospital for 17 days on IV antibiotics.

I just spoke to her husband this morning, and she is now home though still very weak. According to him the hospital thought she was about 10 hours away from dying before they found the antibiotic combination that seemed to work.

Also anecdotal, our neighbors have two doctors in the family. One of them, a pediatrician, told me last week that basically he was bored because he had nothing to do with all non-essential appointments cancelled. The other one, an ER resident, told us that the word in the University of Michigan hospital system was that they are on track to lose about a billion dollars in Q1 of 2020.

I’ve had a knee meniscus surgery delayed because of the virus, as well as follow up treatment for my recently operated on knee.

This is only a small look. An informal poll of my friends shows that almost everyone has faced some kind of delay or neglect, as a medical system designed to deal with such problems came to be victimized by the shutdowns.

God help you if you had a stroke over these months.

New research published in the Journal of NeuroInterventional Surgery (JNIS) shows ischemic stroke patients are arriving to hospitals and treatment centers an average of 160 minutes later during the COVID-19 pandemic, as compared with a similar timeframe in 2019. These delays, say stroke surgeons from the Society of NeuroInterventional Surgery (SNIS), are impacting both survival and recovery.

Then there was another problem: the fear of the hospitals themselves.

The hospital was an ominous, nerve-racking and scary place for patients even before COVID, said Dr. Lisa VanWagner, a transplant hepatologist at Northwestern Medicine in Chicago. Now you take a stressful situation like a pandemic and you tell people that they cannot have their normal support system while they’re in the hospital, and that really magnifies those fears.

The issue of delayed medical care, like countless others, was never mentioned in the glorified plans that public health professionals cobbled together over the last 14 years. They also failed to account for other major consequences, such as the psychological toll of being treated like animals, or riots in the streets.

The history of central planning is replete with failure. The lesson pertains in every area of life, not excluding matters of public health. One might think we would learn from the past rather than continuing to conduct such experiments with people’s lives.
The Federal Reserve’s mandate has expanded significantly over the last few months. In addition to its traditional role of ensuring monetary stability, which seems to have taken a backseat, it is now charged with allocating credit to a much greater extent than ever before.

In response to criticisms, some Fed watchers have correctly noted that the Fed’s new activities are authorized by Congress. The CARES Act specifically permits the Fed to loan to small- and medium-sized businesses, as well as municipal and state governments. They acknowledge that the Fed’s emergency lending prerogative has been expanded considerably. But the Fed is a creature of Congress, they say. And expanding its lending prerogative is well within the rights of Congress.

Let’s be clear: whatever the legal justification for such policies, the Fed’s new lending programs are nonetheless bad policies. The problem is not merely that the Fed’s programs vastly exceed its traditional mandate. It’s that they render the Fed more prone to political meddling and less capable of accomplishing its primary objective: providing monetary stability. It’s puerile to reply to claims that a policy is bad by noting that it’s legal.

Congress sets a dangerous precedent by expanding the Fed’s emergency lending powers in the absence of any signs of panic in the financial system. It signifies that the central bank can be commandeered by politicians on short-term election cycles to pursue whatever ends they see fit. However bad a tinkering technocrat might be, technocrats who take their marching orders from populist rabble-rousers will surely be worse.

The Fed’s new activities obliterate the distinction between fiscal policy and monetary policy. In some ways, it’s more worrisome, not less, that they are occurring at the behest of Congress.

In order to reach a fiscal decision, those in Congress must negotiate various political tradeoffs associated with taxing and budgeting. If members of Congress can accomplish some of their fiscal goals by using the Fed’s balance sheet, however, they can pay significantly less attention to constituent demands.

Suppose members of Congress want to bail out a fiscally irresponsible municipal organization. Taxpayers might be incensed by the thought of footing the bill. And, fearing reprisal at the voting booth, members of Congress might think better of it. If that organization can get a loan through the Fed’s Municipal Liquidity Facility, though, the same goal is achieved while obfuscating the link between cost and choice. It is, in other words, an effective strategy for undermining democratic checks on policy.

The Fed is—and should be—accountable to Congress. But Congress should exercise its oversight by handing the Fed a narrow mandate to achieve nominal stability, as well as taking the Fed to task when it fails to meet that objective. In other words, Congress should force the Fed to focus on what it can actually achieve. It should not use the Fed to accomplish fiscal goals through monetary means. There is no good reason to give the Fed a free pass just because their irresponsible decisions come with statutory cover. Monetary and financial economists should be outraged. That many of them support these new efforts is troubling. They ought to know better.
The Fed Wants to Become a Financial Central Planner

Alexander W. Salter

Of all the policy responses to the COVID-19 pandemic, the Federal Reserve’s is the most extraordinary. Many people are unaware of the Fed’s recent behavior. Monetary policy is not the most visible of government actions, after all. But this time, the public cannot afford to ignore what the Fed is doing. In short, the US central bank has completely abandoned the long-established norms and procedures for conducting monetary policy. Its new interventions threaten to undermine the integrity of financial markets for years to come.

Some of what the Fed has done is in line with monetary policy orthodoxy. For example, it has cut both its target for the federal funds rate (the usual policy lever for conducting monetary policy) as well as the discount rate (the interest rate the Fed charges for loans). It has also cut reserve requirements. Read any monetary economics textbook, and these three policy options will be prominently discussed. However, and more worryingly, the Fed is also revamping some of its programs from the 2007-8 financial crisis. It has resumed direct purchases of longer-term government debt and mortgage-backed securities, a policy known as quantitative easing. It also brought back a host of other loan facilities, such as the Primary Dealer Credit facility, whereby the Fed makes loans directly to its most important counterparties, and the Term Asset-Backed Securities Loan Facility, through which it extends loans to those with specific kinds of collateral.

These were troubling enough a decade ago, and it does not bode well that they’re back. But in terms of importance, they pale in comparison to the Fed’s truly novel policies.

In an unacceptable breach of established central banking practices, the Fed is now making loans directly to US corporations. The vehicle it uses to do this is called the Primary Market Corporate Credit Facility, and through it the Fed is purchasing newly issued corporate debt. The Fed also uses the Secondary Corporate Market Facility to purchase existing corporate debt as well as exchange traded funds that invest in corporate debt. The Fed currently plans to channel up to $750 billion through these facilities.

In addition, there’s the Main Street Lending Program: up to $600 billion in small- and medium-sized business loans. In short, the Fed is no longer maintaining any sort of pretense to limiting the assets it buys, or the loans it will make. The entire financial sector is now fair game for the Fed, as is the corporate-business sector. Gentlemen, start your engines!

Here’s another thing: for each of these programs, the Treasury is committed to backstopping up to $75 billion in losses. In other words, if these investments go bad, it’s ordinary taxpayers who have to pay for it.

All told, the Fed’s COVID-19 response program comes to $2.3 trillion. But there is no reason to suppose it will stop there. As has been the case since the 2007–8 crisis, the Fed’s balance sheet is now expected to backstop anything and everything. Fed Chairman Jerome Powell admitted the extraordinary breach of precedent when he remarked, We are deploying these lending powers to an unprecedented extent. . . We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery. Powell sounds confident, but he has no reason to be. These actions by the Fed portend only disaster.

In macroeconomic theory, there is a clear distinction between monetary policy and fiscal policy. Monetary policy is about giving markets the liquidity it needs to allocate resources on its own. Fiscal policy, in contrast, is direct resource allocation. For much of its history, the Fed conducted monetary policy by limiting its asset purchases and sales to short-term government debt. Because short-term government debt was a fairly close substitute for cash in most financial portfolios, the Fed could use these assets to change the money supply with minimal allocative effects.

The Fed started to move away from the Treasuries only policy in the financial crisis, and now the chickens are coming home to roost. The precedent set by the Fed during the 2007-8 crisis is now being used to destroy any meaningful distinction between monetary and fiscal policy.

The Fed is directly allocating resources. This is fiscal policy. Period.
The problem—and it’s a serious one!—is that the Fed is an archetypal Big Player: it’s hierarchical, not bound by any meaningful rules, and can significantly affect market outcomes. Private financial organizations, such as banks, are ultimately constrained by profitability requirements. The Fed is not; because it has a monopoly on the creation of high-powered money, it can generate purchasing power out of thin air and use it to buy whatever it likes. The more the Fed acts as a credit allocator, instead of a liquidity provider, the more control the Fed has over the entire system’s balance sheet. The Fed undermines market discipline by completely subjugating the pricing process for financial assets to the whims of whoever sits on the Fed’s Board of Governors. This makes markets much less predictable, and much more reliant on Fed largesse.

There’s no point in mincing words: what the Fed is doing is a significant move to outright financial central planning. As always, this sows the seeds of future crises. The dynamics of interventionism tell us that misguided government policy, in trying to solve one problem, inadvertently creates more problems down the road. In this case, Fed policy permanently impedes the ability of financial markets to operate smoothly. Expect political considerations, rather than market discipline, to play an increasingly large role in the allocation of credit for the foreseeable future.

To Chairman Powell, and all those who sit on the Board of Governors, I have only one thing to say: shame on you. You should know better. Your actions in recent weeks are flagrant violations of the rule of law.

To monetary and financial economists everywhere, I implore you: the public needs you now, more than ever, to explain what the Fed is doing. Reasonable people can disagree about the means and ends of monetary policy. But this is crony capitalism, plain and simple. Don’t let Fed apologists get away with abusing their credentials to blind the public with (pseudo)science.

To everyone as outraged by this process as I am: it’s time we shouted far and wide what the Fed is up to. If we let them get away with it, politicians and macroeconomic policy experts will be able to control financial markets, and hence our lives, to a degree never before obtained in a free society. We must demand the Fed restrict itself to the confines of ordinary monetary policy. There is no stable outcome between this and a completely politicized financial sector. This is our Little Round Top. We must hold the ground at all hazards.
Anybody who wishes to argue for a government monopoly which will centrally plan any industry or service (in this case public health during a pandemic) needs to come up with some very good reasons. So far, looking at both the theory and reality, I’ve seen no strong case for government to exercise monopoly controls during a pandemic, to say nothing for lockdowns, closures, travel bans, and controls on the population generally. Nothing about the presence of a virus, whether mild or severe, negates the problems with coercive central planning.

In fact, all the sound reasons why central planning does not and cannot work in the case of the general economy apply equally in this case, along with a few other reasons which are specific to epidemics.

Here are some of those reasons.

1. **The Knowledge Problem** Central Planners need to know an almost infinite amount of knowledge concerning consumer demand, the resources controlled by producers, the level of prices, production processes, and the infinite variables of time and place. This they can never and will never have for good Hayekian reasons.

Central Planners of Public Health need to know who is sick, where they are, how sick they are, what strain of the virus they are suffering from, what are their other physical conditions, what medical facilities they have access to, how they will change their behaviour once they know they are sick, how they got sick, how to stop the spread, and what happens to the virus if it is stopped (since viruses don’t just disappear).

The nightmare we have been watching unfold about the inadequate and often contradictory, and certainly partial information available to Central Planners of Public Health all over the world should be a warning to us that the knowledge problem here is as insurmountable as anything faced by the Stalinists and Maoists in the past.

2. **The Weakness of Mathematical Models** It was a pipe-dream of the original Central Planners that computers would solve the knowledge problem, or at least make a good fist of processing the huge amount of data that governments and state managers had collected. This was never able to be put into practice because the amount of knowledge was too great (even for computers) and it kept changing faster than they could process it, and because the models they drew up were flawed and did not (could not) adequately describe how the economy worked.
The same is clearly the case with the mathematical models which have guided the decisions made by the Central Planners of Public Health. The Imperial College London models have had an abysmal track record going back nearly 20 years; their predictions have been astronomically wrong, and it is astonishing that they would have been used today to make such important decisions. The incompetence of the data gatherers in the US and Europe is breathtaking, not to mention the dodgy data being given out by the Chinese government. How do we (could we) know that any future Central Planners would do any better? Would they (could they) come up with a better model? I would say never in a million years.

\textbf{The One-Size-Fits-All Problem} Given the national, regional, ethnic, behavioural, and climatic differences which exist (Hello! it was summer in Australia and not the winter flu season when all this began!) it is again not surprising that the \textit{one size fits all} solution hasn’t worked. It is always the first choice of the Central Planners because it is the most manageable one. If one wants to argue that the future Central Planners would allow more local solutions to be tried and implemented then it would no longer be a \textit{central} plan or a (central) government monopoly, depending on how granular you wanted it to be.

For a government solution to the problem to work, what is the optimum geographical area for this to work: the empire (the US or the EU), the nation, the state, the region, the city (the big city or the small city?), the county, the street, the household? What the bumbling of the past couple of months has clearly revealed is that the solution which might suit Brooklyn in NYC is not suitable for the lakeshore town of Dunkirk in upstate NY.

Calculating machine designed by Blaise Pascal
4 The Problem of Cost and Expenditure Like any Central Planner, Public Health Planners would not know what to spend what amount of money on what district to do what things or on/for whom, not to mention when to start and when to stop. They might say something as general as a lockdown or quarantining only the sick would not cost much, but anything beyond that becomes so complex and politicized as to be almost impossible to carry out. All sorts of public choice issues will (and have) occurred, such as Cuomo's political ambitions, Trump's hubris, Fauci's reputation, pharmaceutical manufacturers, the high voting turnout of the elderly, Neil Ferguson's sex life, etc. Not to mention the irrational panic among the general public fanned into flames by an irresponsible and ignorant mainstream media.

As part of this calculation, you have to consider missed surgeries and medical appointments, deaths from suicide and drug overdoses, depression and famine in other parts of the world, far-reaching economic costs of shutting down businesses, layoffs, enforced isolation, ending freedom of movement, explosion in the debt, monetary expansion and resulting distortion, the ratchet effect of the increase in government power, and other effects of the plan.

5 The Problem of Political Responsibility If there is one day a government monopoly in the provision of public health, will the Central Planners of Public Health be held legally liable for the mistakes they are bound to make? If their mathematical model of the epidemic is wrong, if the unintended consequences (the costs in money and lives lost) is worse than the disease, can they be sued in court for damages, or at least voted out of office if they are elected officials? Governments are not good at admitting error much less arranging compensation for the victims of their policies.

6 The Problem of Unintended Consequences How do the Central Planners of Public Health calculate the cost-benefit analysis of their proposed measures? At present it seems they were too panicked to give this a second thought, or even if they had the thought to begin with (which I doubt). The all-seeing, all-knowing Planners would have to show how they could do this in a just and reasonable way, which I believe would be impossible to do. They would have to make calculations on how to spend scarce resources which might mean some officials (elected or appointed?) making some Benthamite calculation about who or what constitutes the greatest number and what their greatest happiness would look like.

7 The Problem of Individual Liberty I won't say more on this than state it. To me it seems rather obvious.
Liberalism Was Born and Grew During Centuries of Pandemics

Jon Murphy

There Are No Libertarians in an Epidemic, The Atlantic proudly declared in March. The message, echoed often since then, has been the same: classical liberals (henceforth in this essay simply referred to as liberals) have no place in this world. A global pandemic must be met with global action, which can only be coordinated by governments. Individualism and liberalism are unable to solve the problem because of externalities or just plain selfishness.

Socialism, whether it be the explicit form of the Left or the implicit form of the Right, is the only way forward. Combine this pandemic with a changing political world (the rise of China and increasing aggression of Russia), and liberalism must get relegated to the ash heap of history. It is a philosophy that has long outlived its usefulness and we need more modern, or post-modern, philosophies to guide the way.

Such critiques, however, badly misunderstand the history and formation of liberalism. Liberalism was not formed in the comfort of peace and security. It is true that, in recent times, peace and prosperity have generally ruled over the world. There hasn’t been a major war since the 1940s and the last threat of a major war was in the 1950s. Of course, there still have been wars and conflicts, some of which have lasted a long time (I have some students in my college classes now whose parents served in Afghanistan). There are students in high school and early college who have never known a world where the US wasn’t occupying Iraq and Afghanistan. But, in the grand scale of things, these conflicts have been small in scale. Nothing like the wars that existed in the 1800s and the first half of 1900s.

With the near-century of relative peace and prosperity, brought on largely by the spread of liberal ideas, the critics of liberalism claim that those ideas must then rely on a peaceful world. That those liberal ideas cannot answer for political turmoil and epidemics. But that is confusing cause and effect.

Liberalism, as we know it today, was formed not in recent times of peace and prosperity, but in the crucible of the 1600s and 1700s. Indeed, some authors trace liberalism’s roots all the way back to the fall of the Roman Empire (see Inventing the Individual by Larry Siedentop). The 1600s witnessed some of the most horrific religious wars the world has ever seen; it was a dangerous time, far in contrast to the relatively peaceful world we have now: the Thirty-Years War, repeated invasions by the Ottoman Empire, the Defenestration of Prague, the Bohemian Revolt, the English Civil War and English Restoration, just to name a few. Not to mention disasters like the Plague of Seville (about 25% of the population died) or the Great London Fire.

During these momentous events, Hugo Grotius was writing his treatise The Rights of War and Peace, one of the first great liberal works of political philosophy. John Locke was writing his Treatises. Samuel Pufendorf was working on his various jurisprudence treatises. The foundations and arguments for liberalism were being laid in response to the turbulent times as a means of considering peaceful coexistence.

The 1700s were much of the same. There were the Jacobite uprisings and the political turmoil of England that concerned Adam Smith and David Hume very much. There was the American Revolution and French Revolution, which spawned much liberal writing and discourse, especially between Edmund Burke and Thomas Paine. The leading liberals of the time were actively engaging in the turmoil of their day, not hiding away from it. As deadly plagues swept through major cities, these thinkers continued to think and spread liberal ideas. And their ideas did spread as well.

The 1800s saw some of the most devastating plagues mankind has ever seen as cholera gripped much of the world. But that did not stop liberalism; instead, it strengthened it. As cholera ripped through SoHo in London in 1854, Richard Cobden was advocating for free trade to alleviate the poor. As governments rose and fell in France (some lasting just a few months), Frederic Bastiat was agitating for a more liberal and cosmopolitan France. The ideas and efforts of these two men would ultimately form one of the modern world’s first free trade agreements between England and France and lay the groundwork for these two age-old enemies to become staunch allies in the coming century.

As disease spread through the faulty sewers of London, AV Dicey was working on his Introduction to the Study of the Law of the Constitution, which would become the handbook for liberal rule of law study for centuries to come. Dicey, Cobden, and Bastiat all wrote, not in ignorance of the events surrounding them, but actively engaging in them.
The 1900s saw two major world wars and the rise of socialism. And during this period, modern liberal writers, such as FA Hayek and Ludwig von Mises were debating with socialists like Abba Learner and Oskar Lange on the practicability of socialism. The great Socialist Calculation Debate (as it was known) was won so strongly by the liberals that socialists had to change the definition of the word. As the flu raged around him, the unfortunately poorly known American jurisprudence scholar James Coolidge Carter was preparing his lectures on *The Law: Its Origin, Growth, and Function* (Carter would unfortunately die before he could give these lectures).

Over the course of these four turbulent centuries, liberalism grew and engaged with the times. The ideas, first relegated to the discussions of only learned men concerned with jurisprudence and political economy, become commonplace. As the aforementioned Dicey notes in his *Lectures on the Relation Between Law and Public Opinion in the Nineteenth Century*, liberalism was the prevailing force of thought in English law in the early 19th century, and much of that was due to public opinion.

COVID-19 has once again brought unique challenges to liberal thought. But COVID-19 ain’t our first plague. Liberalism survived and thrived despite the Great Seville Plague, the Broad Street Cholera Outbreak, the Spanish Flu, and countless other plagues and times of distress. Plagues are distressingly common in human history. What made some previous plagues unusual were not their rarity, but rather their devastation or timeline.

The Broad Street Outbreak, for example, was not devastating because it was cholera (London saw almost yearly outbreaks of Cholera) or even due to its body count (other plagues hit London even harder), but because of the severity with which it killed. COVID-19, by early indications, is not the deadliest plague to ever hit the world; it may not even go down as a Top 10 contender. What makes it unique and scary is its novelty. But liberalism has dealt with novelty before.

Liberalism is not some fly-by-night feel-good philosophy that developed in a bubble free of war, disease, and unrest. It was forged in the crucible of the 1600s and 1700s. It has survived multiple plagues, outbreaks, world wars, academic fights, and political upheavals. To borrow and alter a phrase from David Henderson: liberalism is a hardy weed, not a delicate flower.
Things seem grim. But there is cause for optimism, perhaps even enthusiasm, for the adjustment process that we face after the virus. The source of that optimism, surprisingly, is a very pessimistic book, *The Rise and Decline of Nations* by Mancur Olson (Yale, 1982).

Olson argued that there is a strange dynamism in societal success, but an unavoidable accretion of forces that leech away the ability to sustain success. Eventually, great civilizations fail. Over the time of quarantine here in North Carolina, I read Edward Gibbon’s famous *Decline and Fall of the Roman Empire*. It was better than I expected, full of examples of the problems of public choice and matching private incentives and public disaster.

Olson extends the logic decline to other nations, noting that there appears to be what we might now call a common pool resource problem in budgets and the energy of the public sector. Over time, more and more latent groups become organized interests, and they use the political power of organization to secure rents from the public purse. The problem is that once rents are secured, it is essentially impossible to take them back. Large latent groups may be difficult to organize to eliminate rents, because the individual benefits are negligible.

But the real problem is that organized groups will fight to the death to preserve their ill-gotten portion. The reason is Gordon Tullock’s simple but powerful insight about the transitional gains trap. Once a rent or entitlement is secured by an organized interest, there is a one-time wealth increase. But the expectation of the rent is capitalized in asset prices immediately: land prices, or the price of a taxi medallion or occupational license, increases to the point where the owner makes only a normal return. But the activity is expensive, and sucks out some of the life juices of the economy.

Individually, this leech-like rent-seeking has only limited impact; that’s why each separate act of thievery can succeed: the tiny marginal impact has costs that are so widely dispersed as to appear invisible. But in the aggregate, as with any common pool resource, the effect of each separate taking adds up to collapse the society. Interest groups overfish the budget, and there is nothing left. California cities have no effective budget remaining, after they pay the inflated pension obligations snatched by public unions. Overall, the ratchet of government growth, which once expanded in an area cannot be cut, is constantly forcing nondiscretionary spending upward, leaving less and less ability to respond to needs of infrastructure and normal services.

**The Upside: Saltation**

The reader may be wondering, Jeez, where’s the optimism? This sounds terrible. And that’s right, it is terrible. My optimism is more of the silver lining than the what good luck! sort. There has always been a tendency among the economically illiterate (and I have to include Paul Krugman among those) to see destruction as an economic stimulus. Frederic Bastiat long ago identified this as the broken window fallacy, but it won’t disappear: every time there’s a catastrophe, someone says, Well, actually... No. NO, NO, NO. Destruction does not create wealth.

Except that sometimes, destruction may create an opportunity for future growth, if the destruction includes the piled-up layers of interest group guano that coats the gears of the system. We sometimes talk about technology as having this function; in my book (*Platforms: Perils and Promise, IEA 2020*) I give the example of how GPS has made a huge amount of human capital nearly worthless. For decades, an entry license to drive a black cab in London required the ability to recite from memory the street location of and directions to any address in the city. And the driver needed to know at least a snippet about every tourist stop in the city. As a result, the salaries of black cab drivers were high, and it was difficult to increase the number of drivers in response to changes in demand.

But the value of what drivers called The Knowledge was destroyed in less than a decade. A smart phone with GPS, combined with increasingly accurate apps such as WAZE that give constantly updated information about construction and accidents en route, means that rides can be provided at a 50% discount compared to black cabs, with little difference in arrival times. I have called this kind of change saltation, meaning a re-sorting or leapfrogging transformation.

Which brings us back to Mancur Olson. He noticed that catastrophes caused saltation in institutions, because all
the layers of interest group rent commitments were breached. Either the group did not exist in the same form, or political change was so dramatic that their implicit and morally illicit commitments to a share of taxpayers’ efforts were no longer enforceable. The most obvious way of breaking the stranglehold of organized interests was war, according to Olson. And not winning a war; that likely makes things worse. The solution is to lose a war, catastrophically, so that the society gets to start over free of the accretion of parasites and second-handers that had thrived on the work and thrift of others.

On p. 76 of Rise and Decline, Olson argues that the reason that Germany and Japan did so well after World War II is that they lost completely and abjectly, and had new institutions imposed from outside in ways that abrogated the commitments that would have been honored if choices had been made internally. Olson points out that the other major Axis power, Italy, managed a negotiated peace that preserved its institutions, and the result was a crippled and anemic postwar recovery compared to Germany and Japan.

Olson is quite careful to avoid the broken window fallacy, I should note. He does not conclude, And therefore complete destruction following a lost war is what we want! His point is that there is little hope for normal political processes to break up the interest group rent carnival short of losing a war, which means that the decline of nations is inevitable: either their dynamic energies are slowly choked off by institutional sclerosis (bad), or they lose a war (very bad now, later good, but overall more bad than good).

But there it is. That is the optimistic part. I would never have advocated for the intentional destruction of many of the supply chains, cronyist partnerships, and cozy iron triangles that the state has nurtured in the past 50 years. Right or wrong, though, we did that. Our economy in the fall of 2020 will look more like an economy emerging from a bitter war than any time since the fall of 1945. All those interest group commitments that normally would be sapping our national vitality will be up for grabs.

Our systems of occupational licensing—always a mook’s game, but now clearly preventing rapid response to emergencies in other states—drug and medical equipment certification, and regulating employment in the gig economy, have all been shown to be catastrophic. The economic justification for these grants and set-asides was never persuasive. Let’s get rid of them! Olson’s argument is that a fresh start on regulation is actually a great tonic for economic anemia.

The point is clear: the economy lost the war. Many of our industries and normal ways of doing business got blown up. That’s done; we lost a war we did not even want to fight. But it happened, and now we have an opportunity for saltation. We can make the rebuilt political economy better than the bloated, creaky rent-selling machine that we had at the start of 2020.
The Office Will Come Back

John Tamny

Our tenuous capital was the hours in the day, less the few we slept, and we spent that capital at a frenzied pace. I’d drop everything to get you the right cardiac surgeon, the right car, a place for your kid at John Thomas Dye or Harvard-Westlake schools—whatever you needed. I was everyone’s chief psychiatrist, legal adviser, financial adviser, fixer, cultural translator, and shoulder to cry on. With so many clients’ very lives seemingly our responsibility, I obsessed about what might go wrong for them—and for the agency. Those are the words of Michael Ovitz, from his spectacular 2018 memoir, Who Is Michael Ovitz? He was describing the lengths that Creative Artists Agency went to in order to meet the needs of clients.

Fascinating about Ovitz was that he noticed. As in if you didn’t show up in the morning on time to CAA’s I.M. Pei-designed headquarters, he would call you to find out why. Crucial is that it wasn’t at all about spying on his employees. It was about grooming the firm’s most important assets. CAA purposely overpaid its employees because it wanted to overpay the clients of a talent agency that eventually morphed into an advertising shop, an investment bank, and realistically all things to most of the entertainment industry’s most successful people. If a CAA employee was tardy, Ovitz needed to know in consideration of what the firm was trying to deliver to clients each day.

Notable about the Beverly Hills-based firm was that flights to New York were strictly red eye. Work hours were to be spent aggressively making sure the firm’s clients were yet again being taken care of. Ovitz himself rarely ate dinner at home.

All of this is ideally a reminder that rumors of the death of office space, corporate headquarters, and gleaming cityscapes are grossly exaggerated. The brilliance of CAA is instructive in this regard. What made CAA great was a culture that Ovitz, Ron Meyer and others painstakingly built. Cultures aren’t built by remote workers rolling out of bed in pajamas each morning to the home office. No, the truly excellent cultures that up and coming businesses aim to mimic are forged by people working alongside one another.

Among other things, CAA invented the packaging concept whereby the agency sourced great scripts only to attach the best writers, directors, cinematographers, actors and others to the production. No doubt this packaging was an effect of CAA’s energetic agents bumping into each other at headquarters, only to discuss ways to put the firm’s clients to work.

The late Steve Jobs well understood the importance of corporate culture. His biographer Walter Isaacson made plain that Jobs, in designing the firm’s present headquarters, did so with his employees running into each other at the office top of mind. Much as the division of labor breeds specialization that results in exponentially more production than the kind that occurs among workers toiling all alone, so does division of thought promote exponentially greater innovation. Essential is that the thinkers cross paths in random ways that can’t be randomized on Zoom. Nothing against the latter for it facilitating exchange, but producers and thinkers can’t wait on Zoom all day for unexpected connections.

Thinking about the brilliant investment firm Oaktree Capital, the office setting is how it figures out whom it needs to groom for impressive growth, and whom it needs to jettison. Notable about Oaktree is that its founding partners instituted at the firm’s creation a no a-hole policy. One way in which they maintain the latter is through a firmwide rule about closed office doors. It’s not allowed. Though doors are sometimes understandably closed during particularly sensitive calls, the rule is that closed doors are opened right after. It doesn’t matter if you’re a founder, or a newbie. Doors are open. This way those who operate Oaktree can find out who the a-holes are so that they can take their objectionable qualities elsewhere. This is difficult to achieve if everyone’s remote.

Goldman Sachs’s offices around the world are famously bereft of too many actual enclosed offices. There are many reasons for this.
For one, the view among senior people there is that if there are no offices there will exist a greater incentive among employees to be out visiting with existing and potential clients. Offices with doors are also too easy to hide in, whereas the pods at GS force visibility. If you’re not producing on the pod, you’re out and about looking for ways to be more productive on the pod.

After that, Goldman prides itself on the culture carriers it breeds within the firm. So focused on culture is the firm that it actually arms new associates with credit cards upon commencement of employment with an order that those new to GS take out mid-level and senior people to dinner each night. Explicit in all this is the belief at Goldman that collegiality breeds successful outcomes for the clients that the firm cultivates with great vigor.

These anecdotes about highly successful businesses will hopefully quiet all the knowing commentary from the chattering classes about how that which panicked politicians and the chattering classes (the new coronavirus) will soon enough reveal itself in a major shift toward work-at-home businesses. What a laugh.

Those who would conclude something so ludicrous are implicitly admitting that they’ve most likely never worked at a great company; that, or they never understood what made the company they worked for great. Corporations don’t get that way via thousands and tens of thousands working alone; only to check in on occasion with Portal. Implicit in the view that they could achieve greatness sans offices and headquarters was that all this time businesses spent enormous sums on the right location just because.

More realistically, there’s enormous value to the clustering of talent. Which explains why corporations don’t just put enormous time, effort and money into building corporate cultures crafted inside offices, but also that up-and-coming corporations cluster around those already established. Culture spreads.

It’s so easy amid political panic for the all-knowing to contend that this time is different. Not really. Some things never change. One thing that won’t is the value gained by people working alongside one another. Ignore the work-at-home futurists. They know not of what they speak.
Why You Should Include Charity In Your Will

Andrew Palmer

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

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

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

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

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

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

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

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

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

SEE PAGE 31 TO GIVE TO AIER
What was at first touted as 15 days to flatten the curve slowly gave way to endless life-altering lockdowns. Events were canceled and conferences postponed.

In times like these, our shared mission to research, train, and communicate the principles which support and advance true freedom—even in the face of overzealous bureaucracies run amok—with even-handed consistency and calm is more crucial than ever.

With no end in sight, our diverse and decentralized program structure proved to be our biggest advantage. As top-down organizations struggled to adapt, our program staff and chapter directors quickly embraced new strategies.

Just 14 days after the lockdowns began, we announced our virtual speaker series on the COVID-19 situation. Hosting well over 40 events during the lockdowns, AIER was by far the most active nonprofit in our space. Additionally, we were able to reschedule every on-site conference that was affected by gathering or travel restrictions.

Thankfully, in-person events are restarting as some countries and states begin to reopen. But until everyone is free to gather in person again, AIER continues to offer a selection of virtual events to our chapters and other audiences.

Crisis Forecasting and the Tyranny of Experts
Epidemiological forecasting played a central role in guiding the political response to COVID-19. After months of lockdowns and event cancellations, most of the world is still under heavy restrictions on free movement and even basic economic activity. How have the COVID-19 forecasts performed in the time since they were used to shutter the global economy? This data-driven look at epidemiological modeling will assess where the predictions went wrong and why we continue to be guided by their errors.

Politicization of Lockdowns
When did disease mitigation become a political issue? Lockdown proponents quickly claimed the moral high ground while those asking to weigh the costs were labeled as greedy and heartless. Now in our fourth month of severe economic trauma, we will discuss how your life and the ability to work became a right vs left issue.

Impacts on Higher Education
Universities are in crisis. With COVID-induced closures and uncertainty about reopening, the future of higher ed itself looks bleak. In this talk, we will look at ways that universities are coping with the pandemic, the implications for students and their parents, and how restricted operations will affect the political climate on campus.

Speakers on the following topics
Crisis Forecasting and the Tyranny of Experts, Politicization of Lockdowns, and Impacts on Higher Education
Each one of us already has a default estate plan—one dictated to us by the government. The government doesn’t know who we were; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

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

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

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

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

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

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

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

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

To get started please contact us at 888-528-1216
SUPPORT AIER

Researching, articulating, and advancing the importance of markets

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

—Arnold Van Den Berg, Longtime AIER Donor

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

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

To donate, call AIER at 888-528-1216, visit www.aier.org/donate, or mail in the form below. Thank you!

YES! I WANT TO SUPPORT AIER TODAY.

- $50
- $100
- $250
- $500
- Enclosed is my additional tax-deductible donation of $______________

NAME ___________________________________________________________

STREET _______________________________________________________________________

CITY __________________________ STATE ______ ZIP _______________________

EMAIL _____________________________________________________________

PAYMENT METHOD

- Personal check or money order payable to “AIER”
- MasterCard
- American Express
- Visa
- Discover

CREDIT CARD NUMBER: ____________________________ CSV # ______

EXPIRATION (month/year) ____________

TELEPHONE ( ) _______________________

SIGNATURE __________________________

ORDER ONLINE aier.org or CALL TOLL-FREE 888.528.1216
We do not share or sell your personal information under any circumstance.

Mail to: AIER PO Box 1000 Great Barrington, MA 01230-1000
FROM THE ARCHIVES

E.C. Harwood (top) overseeing the library concrete pour, 1963