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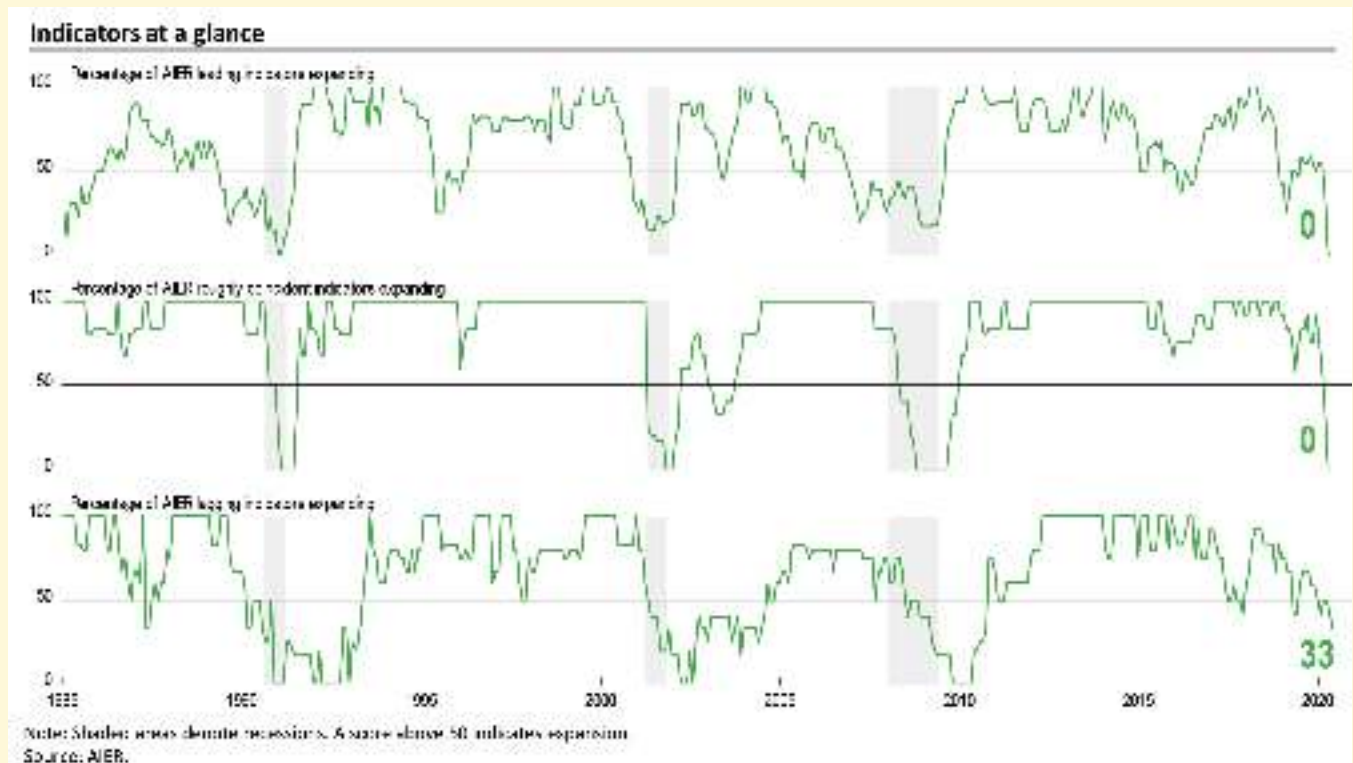
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BUSINESS CONDITIONS MONTHLY

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AIER's Leading and Roughly Coincident Indicators Indexes Remain at 0 in June.

Indicators at a glance

Note: Shaded areas denote recessions. A score above 50 indicates expansion
Source: AIER.

While signs of rebound in some measures of economic activity have started to emerge, the more traditional business cycle indicators that make up AIER's Business Cycle Conditions indexes remain weak. The Leading Indicators index – made up of 12 indicators that have historically been leading signs of pending business cycles – remained at 0 in June. The Roughly Coincident Indicators index also held at 0 while the Lagging Indicators index dropped to 33, the lowest result since 2010 (see chart). The latest results provide conclusive evidence of the widespread devastation caused by the COVID-19 outbreak and policy responses implemented to contain the spread of the disease.

Despite the devastation to the economy, there are reasons to be optimistic. The unique nature of the current recession – self-inflicted policy wounds – requires a unique view of current conditions. The focus needs to be three-fold. First, the progress of the outbreak as well as progress in developing an effective treatment and a vaccine. Second, responses by consumer, businesses, and policymakers to the rapidly changing environment. Third, identifying areas that can and do rebound versus those that may be burdened with longer-lasting damage, enduring new or accelerating pressures for structural change, or facing new regulatory burdens. Developments in all three areas will be critical to the medium-term path of the economy.

While significant damage has been done to many industries, some parts of the economy are rebounding as restrictions are lifted. However, complete recovery is likely to take a significant amount of time. Further complicating the outlook is the resurging number of new cases and the potential for additional declines in employment, spending, and investing, especially if the pace of easing lockdown restrictions is slowed or reversed.

AIER Leading Indicators index remains at zero in June

The AIER Leading Indicators index held at 0 for the second month in a row in June. The back-to-back zeros were the first pair of bottom readings since January and February 1991. The last time the Leading Indicators index posted more than two months at the lower bound was a three-month run from April through June 1980. The index has never stayed at zero for more than three consecutive months.

The Roughly Coincident Indicators index also remained 0 in June. The last time the coincident indicators index spent multiple months at zero was in 2008-09 when the index spent a total of 11 consecutive months at the bottom. The index spent five months at zero in 1991 and four months there in 1981-82.

AIER's Lagging Indicators index retreated to a 33 in June from 42 in May. One indicator, real private nonresidential construction expenditures, changed trend in June, weakening from a neutral trend to a negative trend. Overall, two indicators were trending higher while four had unfavorable trends, and none were neutral.

Overall, the extremely weak results for both the Leading Indicators index and the Roughly Coincident Indicators index confirm the economy is in recession. However, signs of rebound are emerging and are likely to help boost some of the business cycle indicators out of their unfavorable trends in coming months. Government mandates for shuttering of nonessential businesses and sheltering-in-place for workers and consumers are in the process of being eased, providing support for the emerging recovery, though the resurgence of COVID-19 cases in many areas of the country pose a threat to the nascent recovery.

Labor market recovery has begun

U.S. nonfarm payrolls posted a second monthly gain in June, adding 4.8 million jobs following a 2.7 million rise in May, but remain well below prior peaks. As has been the case over the last few months, there were a number of technical issues with the June report including unusually low response rates and improper coding of some classifications (though improper coding is becoming less significant). Nevertheless, the report suggests that the labor market is recovering as restrictive government policies are lifted.

Overall, private payrolls added 4.7 million jobs in June following a gain of 3.2 million in May. Private services added 4.3 million while goods-producing industries gained 504,000. For private service-producing industries, the gains were led by a 2.1 million increase in leisure and hospitality followed by retail which added 740,000, and health care and social-assistance industries with a 475,000 increase. Within the 504,000 gain in good-producing industries, construction added 158,000 jobs, durable-goods manufacturing increased by 290,000, and nondurable-goods manufacturing rose by 66,000. Mining and logging industries lost 10,000 jobs.

The total number of officially unemployed fell to 17.8 million in June, a drop of 3.2 million from May. The number of officially unemployed in February was just 5.8 million. The latest tally puts the unemployment rate at 11.1 percent, down from 13.3 percent in May while the participation rate ticked up to 61.5 percent from 60.8 percent. Despite the improvement, the 11.1 percent rate is still higher than the two next highest cycle peaks, the 10.7 percent peak in November 1982 and the 10.0 percent peak in 2009. Though data collection was much less reliable, the unemployment rate following the Great Depression was estimated to have peaked at about 25 percent in 1933. The Bureau of Labor Statistics also noted that the technical issues with this report likely underestimated the unemployment rate by about 1 percentage point in June, meaning the actual rate was closer to 12 percent. The officially reported

underemployed and unemployed rate, referred to as the U-6 rate, fell from 21.2 percent in May to 18.0 in June.

Total personal income drops but wages rise

Personal income fell 4.2 percent in May, according to data from the Bureau of Economic Analysis. The drop in personal income consisted, in part, of a 2.7 percent increase in wages and salaries. Wages and salaries, which typically account for about half of personal income, rose as some employees went back to work after lockdown policies were eased. Supplements to wages and salaries (primarily employer contributions to pension and insurance funds and government social-insurance programs) which typically account for another 12 percent of personal income also posted a gain, rising 1.2 percent in May.

Proprietors' income jumped 2.8 percent for the month following a 12.7 percent plunge in April while income on assets (interest and dividends) dropped 1.4 percent in the latest month.

Personal transfer payments, which includes stimulus payments, fell 17.2 percent in May after a massive 90.1 percent gain in April. Personal tax payments rose 1.8 percent, leaving disposable income with a drop of 4.9 percent. Adjusting for price changes, real disposable income fell 5.0 percent in May, down from a 13.6 percent rise in April.

Personal savings rate remains elevated

The personal savings rate held at an extremely elevated level in May, coming in at 23.2 percent of disposable income following rates of 32.2 percent in April, and 12.6 percent in March, according to the Bureau of Economic Analysis. A more comprehensive measure of savings is available in the quarterly flow-of-funds data from the Federal Reserve. That measure has typically shown a higher savings rate compared to the measure in the monthly personal-income release. For the first quarter, the savings

rate using flow of funds methodology and data was 20.8 percent versus 9.6 percent using Bureau of Economic Analysis methodology and data. Second-quarter flow of funds data are scheduled to be released on September 21.

Consumer Sentiment recovers but reflects lingering doubts and regional disparities

The Consumer Confidence Index from The Conference Board recovered somewhat in June, rising 12.2 points to 98.1 but is still 21.1 percent below the year-ago level. The index is constructed so that it equals 100 in 1985. Both components rose in June.

The present-situation component increased to 86.2 from 68.4, a 17.8-point gain though the June result is 47.5 percent below June 2019. According to The Conference Board report, "Consumer Confidence partially rebounded in June but remains well below pre-pandemic levels. The reopening of the economy and relative improvement in unemployment claims helped improve consumers' assessment of current conditions, but the Present Situation Index suggests that economic conditions remain weak."

The expectations component added 8.4 points to 106.0 from 97.6 in the prior month. The Conference Board report also noted, "Looking ahead, consumers are less pessimistic about the short-term outlook, but do not foresee a significant pickup in economic activity. Faced with an uncertain and uneven path to recovery, and a potential COVID-19 resurgence, it's too soon to say that consumers have turned the corner and are ready to begin spending at pre-pandemic levels."

The Conference Board results are mostly in line with the final results from the University of Michigan. The final June results from the University of Michigan Surveys of Consumers show overall consumer sentiment rose again following a sharp gain in May. The May rise followed the largest

single-month decline on record in April. While the two consecutive gains are consistent with other signs that the unprecedented plunge in economic activity may be starting to reverse, the survey notes that there were wide disparities regionally, likely caused by new outbreaks of COVID-19 in some states.

Consumer sentiment increased to 78.1 in June, up from 72.3 in May, an 8.0 percent rise. From a year ago, the index is still down 20.5 percent. Both sub-indexes posted gains in June. The current-economic-conditions index rose to 87.1 from 82.3 in May. That is a 5.8 percent gain but still leaves the index with a 22.2 percent decrease from June 2019. The second sub-index — that of consumer expectations, one of the AIER leading indicators — rose 6.4 points or 9.7 percent for the month but is 19.0 percent below the prior year.

According to the University of Michigan report, "Consumer sentiment slipped in the last half of June, although it still recorded its second monthly gain over the April low. While most consumers believe that economic conditions could hardly worsen from the recent shutdown of the national economy, prospective growth in the economy is more closely tied to progress against the coronavirus."

The link between the virus and the economy is becoming apparent in regional sentiment. The report further states, "The early reopening of the economy has undoubtedly restored jobs and incomes, but it has come at the probable cost of an uptick in the spread of the virus. The Sentiment Index rose by just 0.5 Index-points among Southern residents in June, and by only 3.3 Index-points among Western residents. In contrast, the Sentiment Index among residents of the Northeast rose by an all-time record of 19.1 Index-points in June, with residents apparently expecting the later and more gradual reopening to produce at worst a negligible increase in infections."

The report goes on, "The resurgence of the virus will be accompanied by weaker consumer demand among residents of the Southern and Western regions and may even temper the reactions of consumers in the Northeast. As a result, the need for additional fiscal policies to relieve financial hardships has risen. Unfortunately, confidence in government economic policies has fallen in the June survey to its lowest level since Trump entered office."

Auto sales remain well below recent range in June
Sales of light vehicles totaled 13.0 million at an annual rate in June, continuing a partial rebound from the 8.7 million pace in April and 12.3 million rate in May. The pace of sales in April was the lowest on record since this data series began in 1976 and follows a run of 72 months in the 16 to 18 million range from March 2014 through February 2020.

For the month of June, light-truck sales totaled 10.1 million at an annual rate, a slight increase from the 9.6 million rate in May but well ahead of the 6.7 million rate in April. Car sales also had a modest gain, rising to a 3.0 annual rate versus 2.7 in May and 2.0 in April. On a percentage basis, light-trucks posted a 4.8 percent gain in June while cars had an 8.9 percent rise.

Consumer spending bounced back in May following a disastrous April
Retail sales and food-services spending posted a record gain in May, rising 17.7 percent from the prior month following a 14.7 percent drop in April and an 8.2 percent decline in March. Excluding the volatile motor vehicle and gas categories, core retail sales and food services were up 12.4 percent in May after a fall of 14.4 percent in April. Over the past year, total retail sales and food services were still down 6.1 percent in May while core retail sales and food services are 3.9 percent below year ago levels. The May gains still leave total retail sales 7.3 percent below the eight-year trend while core retail sales are 6.3 percent below trend.

Gains were broad-based across industries led by a 188.0 percent surge for clothing and accessory stores, followed by an 89.7 percent rise in furniture and home furnishings, an 88.2 percent jump in sporting-goods, hobby, musical-instrument, and bookstores, a 50.5 percent leap for electronics and appliance stores, a 44.1 percent increase for motor vehicle and motor vehicle–parts dealers, and a 29.1 percent gain for food services.

Nonstore retail sales rose 9.0 percent for the month and along with building materials, gardening equipment and supplies dealers, food stores, and sporting goods, are the only major categories to show a gain from a year ago, rising 30.8 percent, 16.4 percent, 14.5 percent, and 4.9 percent, respectively.

Total personal consumption expenditures (PCE), a broader measure of consumer spending than retail sales, rose a record 8.2 percent in May following a 12.6 percent decrease in April. Among the components, durable goods rose 28.6 percent while nondurable-goods spending gained 7.7 percent and spending on services increased 5.4 percent for the month. After adjusting for price changes, real PCE increased 8.1 percent with a 28.4 percent gain in real durable-goods spending, a 7.9 percent gain in real nondurable-goods spending and a 5.2 percent rise in real services spending. Despite the gains in May, spending is still down from a year ago in nominal terms with total expenditures off 9.3 percent, durable-goods spending down 0.3 percent, nondurable goods down 2.4 percent, and services showing a 12.7 percent drop.

Manufacturing-sector outlook improving
The Institute for Supply Management's Manufacturing Purchasing Managers' Index showed dramatic improvement, registering a 52.6 percent reading in June, up from 43.1 percent in May and the first reading above the neutral 50 threshold since February. The June result follows three months in a row in the 40s. Overall, the report notes, "June signifies manufacturing entering an expected expansion cycle after the disruption caused by the coronavirus (COVID-19) pandemic. Comments from the panel were positive (1.3 positive comments for every one cautious comment), reversing the cautious trend which began in March."

The composite Purchasing Managers' Index gain of 9.5 percentage points was a month-over-month rate of change not seen since 1980 while several of the key components of the Purchasing Managers' Index posted "gains not seen in modern times." The New Orders Index came in at 56.4 percent, up from 31.8 percent in May, a jump of 24.1 percentage points and the first reading above 50 since January. The New Export Orders Index came in at 47.6 percent in June, up 8.1 percentage points from a 39.5 percent result in May. The Backlog-of-Orders Index came in at 45.3 percent in June, up from 38.2 percent in May and suggesting a fourth consecutive month of decline in backlogs. The backlogs index has been below 50 for 13 of the past 14 months.

The Production Index was at 57.3 percent in June, up from 33.2 percent in May and a record-low 27.5 in April. Thirteen industries reported growth in the latest month while three reported contraction.

The Supplier Deliveries Index, a measure of delivery times from suppliers to manufacturers, eased back, falling to 56.9 percent from 68.0 percent in May. Slower supplier deliveries are usually consistent with stronger manufacturing activity. However, the slower deliveries in recent months have been more a result of supply chain and logistical constraints. According to the report, "Suppliers continue to struggle to deliver, although at a slower rate compared to May. Plant shutdowns, transportation challenges and continuing difficulties in importing parts and components continue to be factors, but to lesser degrees. The Supplier Delivery Index currently reflects a healthy supply/

demand balance."

Commerce Department data on new orders for durable goods staged a partial rebound in May, rising 15.4 percent following declines of 18.1 percent in April and 16.7 percent in March. If transportation equipment is excluded, new orders for durable goods increased 4.0 percent in May following an 8.2 percent fall in April and a 1.8 percent decline in March. Durable-goods orders had been holding above the $200 billion level since April 2011 before posting sharp declines in March and April. New orders for May totaled $194.4 billion, about 3 percent shy of the $200 billion level.

New orders for nondefense capital goods excluding aircraft, a proxy for business equipment investment, rose 2.3 percent in May following drops of 6.5 percent in April and 1.3 percent in March. This key category had been trending flat since mid-2018, hovering in the $65 to $70 billion range. The $61.3 billion pace for April was the slowest since August 2017 but the May gain puts the level back up to $62.7 billion.

The major categories of durable goods shown in the report all posted gains in the latest month. Among the individual categories, primary metals rose 9.1 percent, fabricated metal products gained 7.4 percent, machinery orders were up 1.1 percent, computers and electronic products increased 0.7 percent, electrical equipment and appliances added 3.9 percent, transportation equipment orders surged 80.7 percent, and the catch-all "other durables" category was up 3.8 percent.

Within the transportation category, motor vehicles were up 27.5 percent while defense aircraft orders increased 6.0 percent. Nondefense aircraft orders totaled $3.07 billion following two months of net negative orders. Net negative new orders represent cancellation of previously placed orders totaling more than total new orders for the period.

The Federal Reserve's industrial production index rose 1.4 percent in May following a record monthly decline of 12.5 percent in April. The May gain is the largest rise since October 2017. Over the past year, industrial production is down 15.3 percent. Total capacity utilization increased 0.8 percentage points to 64.8 percent.

Manufacturing output, which accounts for about 75 percent of total industrial production, rose 3.8 percent after sinking 15.5 in April. May had the largest monthly gains since December 1959 but that still leaves manufacturing output 16.5 percent below year-ago levels. Manufacturing utilization rose 2.2 percentage points to 62.2 percent.

Mining output posted a 6.8 percent decline for the month, the fourth decline in a row, while utilities output dropped 2.3 percent in May. Over the past year, mining output is down 14.1 percent while utilities output is down 8.0 percent. Materials production (about 46 percent of industrial activity) continued to show weakness as output decreased 0.8 percent for the month and is down 14.0 percent from a year ago.

Services-sector survey suggests expansion

The Institute for Supply Management's nonmanufacturing index posted a record 11.7 percentage-point increase in June, rising to a reading of 57.1 from 45.4 in the prior month. The June result follows two consecutive months below the neutral 50 threshold including a record monthly decline in April. The results suggest expansion for the services sector and the broader economy.

Among the key components of the nonmanufacturing index, the business-activity index (comparable to the production index in the ISM manufacturing report) surged to 66.0 in June, up from 41.0 in May and 26.0 in April (the lowest reading since the survey began in 1997, see top chart). The June result is the highest since January 2004. For June, 15 industries in the nonmanufacturing survey reported expansion

versus 1 reporting contraction.

The nonmanufacturing new-orders index rose to 61.6 from 41.9 in May and 32.9 in April. Fifteen industries reported expansion in new orders in June while just one reported contraction. The new-export-orders index, a separate index that measures only orders for export, was 58.9 in June, versus 51.4 in May and 36.3 in April (the lowest since November 2008.) Seven industries reported growth in export orders, equaling the seven industries reporting declines.

The nonmanufacturing employment index came in at 43.1 in June, up from 31.8 in May and 30.0 in April. Employment remains one of the weaker areas of the economy despite the large gain in jobs reported in the June jobs report.

Supplier deliveries, a measure of delivery times for suppliers to nonmanufacturers, came in at 57.5, down from 67.0 in the prior month and 78.3 in April. It suggests suppliers are falling further behind in delivering supplies to nonmanufacturers, though the slippage has decelerated from the prior two months. Typically, slower deliveries are consistent with a strong economy but in this environment, the slower deliveries are a result of production constraints and transportation difficulties, not strong economic conditions.

Housing activity uneven across regions

Housing activity improved modestly in May as starts and permits posted gains. However, the results were uneven across the major regions. Nevertheless, low mortgage rates and easing lockdown restrictions are giving a boost to homebuilder confidence.

Total housing starts rose to a 974,000 annual rate from a 934,000 pace in April, a 4.3 percent increase. The dominant single-family segment, which accounts for about two-thirds of new home construction, rose 0.1 percent for the month to a rate of 675,000. Starts of multifamily structures with five or more units increased by 16.9 percent to 291,000.

From a year ago, total starts are down 23.2 percent with single-family starts off 17.8 percent and multifamily starts down 33.1 percent.

Among the four regions in the report, total starts fell in two, the South (−16.0 percent) and the Midwest (−1.5 percent), while the Northeast gained 12.8 percent and the West surged 69.8 percent. For the single-family segment, starts fell in the South (−6.9 percent) and the Midwest (−16.0 percent), while the Northeast increased 63.6 percent and the West jumped 21.5 percent.

For housing permits, total permits rose 14.4 percent to 1.220 million from 1.066 million in April. Total permits are 8.8 percent below the May 2019 level. Single-family permits were up 11.9 percent at 745,000 in May while permits for two- to four-family units gained 24.2 percent and permits for five or more units increased 18.3 percent to 434,000. Combined, multifamily permits were issued at a 475,000 pace versus 400,000 in April. Permits for single-family structures are down 9.9 percent from a year ago while permits for two- to four-family structures are up 10.8 percent and permits for structures with five or more units are down 8.4 percent over the past year.

Permits rose across all four regions in the report, with the South, the largest region by volume, up 7.7 percent, the West posting a 12.3 percent rise, the Midwest gaining 18.4 percent and the Northeast surging 82.0 percent. From a year ago, the South is up 14.3 percent, the West is 16.7 percent higher, the Midwest gained 20.3 percent and the Northeast surged 34.6 percent.

Mortgage rates remain near all-time lows and should provide some support as lockdown restrictions ease. That potential likely helped boost the Housing Market Index, a measure of builder confidence from the National Association of Home Builders. The composite Housing Market Index posted a second monthly gain in June, rising to

58 from 37 in May and 30 in April. In February, before the worst of the pandemic and implementation of lockdown restrictions, the index was at 72, and above 70 for the sixth consecutive month. The index rose in all four regions in June.

Like many parts of the economy, housing is rebounding from severe declines following the implementation of lockdown restrictions in response to the rapid spread of COVID-19. Housing is one of the areas that may face structural changes if buyers and renters develop permanent changes to their housing preferences. If it is believed that higher density living represents a higher risk in future pandemics, then there may be some added demand for less dense suburban and rural housing. This trend could be boosted if businesses implement permanent work from home policies, to make employees happy but also to cut down on high-cost commercial real estate, especially in high density, high cost cities.

Why Facts Don't Matter to People

BARRY BROWNSTEIN

Contributor

Frustrated with COVID-19 restrictions on daily life, a friend said to me, "I just want to know the truth."

Like many people, my exasperated friend, and others I know, are mesmerized and frightened by daily news reports on the number of COVID-19 cases. You can cite all the data you want, such as these from the U.S.:

It's good news all around. But you turn on the television and get a different message. People worry about sending their children to school this fall. Some display authoritarian views as they excuse politicians for destructive errors merely because they showed "strong leadership."

If you're wondering why so many people don't see the world the way you do, engage them in conversation. You will find they are as well-intentioned as you are, but they are looking in a different direction. Beneath their opinions and fears, beliefs are shaping how they see the world.

Because of different beliefs, your villains may be their heroes. They may look at the world of effects while you are looking at causes. They're hoping a better leader comes to power, while you're considering how the presidency became so powerful and destructive.

Until their beliefs change, they will never consider how politicians and experts with too much power turned a pandemic into a catastrophe. As Einstein put it, "Whether you can observe a thing or not depends on the theory which you use. It is theory which decides what can be observed."

The "clear guidance" politicians claim to dispense and "the truth" my friend wants to learn are not rooted in the principles of human flourishing. My friend is waiting for a government official to blow the all-clear whistle. My friend doesn't want to believe experts are as fallible as he is, and that the prevailing scientific consensus may be false. For me to explain to him why "defining risk is an exercise in power" would bring a blank stare of disbelief.

When the Only Truth is the Leaders'

In her book, *Without You, There is No Us*, Suki Kim tells the story of teaching English to elite all-male students at Pyongyang University of Science and Technology in North Korea. Kim, who was born and raised in Seoul, immigrated to America with her family when she was 13.

In her classroom in North Korea, conservations were furtive. Any out of line words could cause deportation for an instructor. The consequences of open discussion were far worse for students; imprisonment in one of North Korea's death camps or execution awaited a student with

counterrevolutionary ideas.

Yet, there were encounters over meals at the University where some candor occurred.

One day, a student asked Kim what she thought of "The Song of General Kim-Jong-il." The song was an unofficial national anthem of North Korea and paid homage to the current North Korean despots' father.

Lyrics of this ditty include: "All blossom on this earth tell of his love, broad and warm…The protector of righteousness he is…Brilliant and beloved is the name of our General."

Suki Kim couldn't share her genuine feelings about the song, so she uttered vague words of respect.

The student then asked how the American system of government worked. We pass laws, she said, when the president and Congress "work with one another."

Kim's student was incredulous. "I think the president is the one who should make decisions. He has the power, no?" This student had grown up in a society where only one view could be voiced. "Thinking was dangerous," Kim writes. Even for Kim, "it sometimes felt as though 'I' did not exist," which led her to experience "deeply claustrophobic and sometimes almost unbearable" feelings.

Students did fervently believe lies, such as North Korea is the "most powerful and prosperous [nation] on the planet." They constantly lied too about basic facts of their daily lives. Kim writes, "Lying and secrecy were all they had ever known." She asks, "In a country where the government invents its own truth, how could they be expected to do otherwise?"

Kim was at a crossroads for further conversation with her student. Was the student a spy trying to trap her, or even worse, would the student end up in the gulag for merely discussing the limits of power? Kim responded, "Our country is not for the president but for the people. The president is just the face, the symbol, but the real power belongs to the people. The people make the decisions."

If only what Kim said was true. Have you noticed how many Americans are thinking like North Koreans? They seem reassured and relieved when their favorite politicians behave like North Korean despots issuing "field guidance."

When North Korean despot Kim Jong-un visits a factory or farm, he makes pronouncements for improvements. Such pronouncements are called "field guidance" or "on-the-spot guidance." No matter how nonsensical, the pronouncements of the despot are revered and obeyed.

In North Korea, there is no path forward that doesn't begin with 100% obedience. There is nothing to be discovered, only edicts to obey. To serve the despot is the only purpose of life for North Koreans.

Andrew Cuomo is a beloved politician, despite having issued "field guidance" sending thousands of nursing home residents to their deaths. Even in May, after news of his disastrous nursing home orders were widely available, his approval rating was at 81%.

Today, voices in opposition to the field guidance of politicians and experts are still being heard. But don't take this for granted; tolerance for communicating opposing views is shrinking.

A March 2020 poll of Americans with 3,000 respondents showed strong bipartisan support for criminalizing speech. About 70% of those surveyed supported government "restricting people's ability to say things" deemed as misinformation. Nearly 80% endorsed the conscription of health care professionals. Government seizure of businesses and property was supported by 58%. Over 70% supported the detention of COVID-19 patients in government facilities. The majority of those surveyed did not change their opinion even when told their views may violate the Constitution.

Often Facts Don't Matter

It is tempting to present more facts to those who

don't see the world the way you do. Yet, we have all experienced the truth of John Kenneth Galbraith's famous observation: "Faced with a choice between changing one's mind and proving there is no need to do so, almost everyone gets busy with the proof."

Due to confirmation bias, "we embrace information that confirms [our] view while ignoring, or rejecting, information that casts doubt on it." Those who believe that experts and politicians should lead the way will not question their belief no matter what alternative COVID-19 data is presented.

In his article "Confirmation Bias: A Ubiquitous Phenomenon in Many Guises," psychology professor Raymond Nickerson observes that a "significant fraction of the disputes, altercations, and misunderstandings that occur among individuals, groups, and nations," is due to confirmation bias.

In short, to get through to your friend, you must overcome the human tendency to filter and ignore evidence.

Uncover Beliefs

If facts won't convince others, what's left? Instead of facts, consider helping to uncover beliefs that are driving confirmation bias.

A common mistaken belief, invisible to a believer, is that individuals can be trusted with unchecked power. Driven by that unexamined belief, some focus on getting the "right" individuals into power.

John Adams wrote: "There is danger from all men. The only maxim of a free government ought to be to trust no man living with power to endanger the public liberty."

With this principle of liberty in mind, bring into your conversations the idea that all humans are fallible. Dr. Anthony Fauci, President Trump, Governor Cuomo, and all the rest are fallible. Politicians or "experts are not angels. Individuals, no matter how well-intentioned, cannot be counted on to know or do the right thing.

In Federalist Paper No. 48, Madison warned, "A mere demarcation on parchment of the constitutional limits of the several departments, is not a sufficient guard against those encroachments which lead to a tyrannical concentration of all the powers of government in the same hands."

Rights wherein viability varies depending upon how people feel are not rights at all. Such rights are empty promises, quickly withdrawn by authoritarian politicians.

In her book *The Girl with Seven Names* North Korean defector Hyeonseo Lee reflected on why basic human rights are absent in North Korea:

"I started thinking deeply about human rights. One of the main reasons that distinctions between oppressor and victim are blurred in North Korea is that no one there has any concept of rights. To know that your rights are being abused, or that you are abusing someone else's, you first have to know that you have them, and what they are."

Like North Koreans, many Americans don't know the natural rights they have and so do not know when their rights are being violated.

The frightened believe some politician or expert must decide COVID-19 policy. They see no other way to deal with the threat and experience more order.

Read Hayek's famous observation about order, replacing the words "that in complex conditions" with the words "during a pandemic:" "To the naive mind that conceives of order only as the product of deliberate arrangement, it may seem absurd that in complex conditions [during a pandemic], order and adaptation to the unknown can be achieved more effectively by decentralizing decisions."

With that simple substitution, we expose a core belief shared by many Americans. They believe centralizing decision-making is effective in unknown,

complex conditions and they want their politicians to do something. Like Dr. Fauci, they believe the path forward is obedience.

If major league baseball is played this summer, games will be in empty outdoor stadiums. Despite the low risk, Dr. Fauci recently felt compelled to interject himself in contentious negotiations to issue field guidance on when the baseball season should end. Will better outcomes come from following Fauci's field guidance or from decentralized decision-making based on what Hayek calls "the knowledge of the particular circumstances of time and place?" Your answer depends on your belief system.

COVID-19 has forced many of our well-intentioned friends into what some call *liminal* space—"a space where you have left something behind, yet you are not yet fully in something else." In such a space, old beliefs are questioned, and new beliefs have not yet formed.

Those who have entered such a space don't need more facts; they are probably exhausted processing the ephemeral, self-proclaimed "truths" of politicians and experts. Before introducing more facts, engage a friend in conversation to uncover and point to the eternal truth of liberty.

<div align="right">June 24, 2020</div>

What Spike? Hospitalization Data Show No Indication of a Second Wave

STEPHEN C. MILLER

Chairman of the Standing Committee

Are we on the verge of a second wave of coronavirus infections? Is there a spike in infections in states that reopened first?

The only way to answer that question is to watch as the data roll in. Arguably the best data to look at to see if a second wave is beginning are the hospitalization numbers. The media frequently reports the biggest and most dramatic numbers, often devoid of context. The number of cases has been reported regularly since the early days of the pandemic, and yet we know that the number of cases can be misleading.

As more people are tested and re-tested for the virus, more results will come back positive, with the current number of confirmed cases exceeding 2 million in the U.S. But if we know anything, it is that increases in the number of confirmed cases do not accurately convey how quickly and widely the virus is spreading. Antibody tests and even the examination of sewage in some cities suggest that the number of infections is likely much higher than the number of confirmed cases.

But on the other side, some of the confirmed cases are double-counted in some states partly because both antibody and active virus tests are being counted separately but then combined in the total number of cases. While the antibody tests have been criticized for their false positive rate, another criticism has been that the antibody studies can *underreport* infection rates because they are not sensitive enough to detect a past mild infection.

Overall, because the bulk of testing is focused on people who are the sickest and who face the greatest exposure, it seems reasonable to conclude that the true number of U.S. infections is substantially higher than the reported figure. But an attempt to estimate the true number of infections would be little better than a guess.

And this presents a problem with the daily updates. To say that a particular state or city is seeing a "spike" in cases is to say that recently they have had an uptick in positive test results. That could be due to more testing and more ways of testing, or it could be a hint of growth in the infection rate.

Better Data are Available

Rather than focus on test results, i.e. "cases," it would make more sense to focus on how the virus affects society and our institutions, particularly the strain the virus puts on health care facilities and health care providers. An obvious measure, tracked since the beginning of the pandemic, is the number of deaths. As I and others at AIER have noted, the number of deaths is hard to interpret without important context.

The coronavirus is obviously deadly, but how deadly it is seems to depend greatly on how it enters a population and the characteristics of that population. The virus has been far deadlier in New York than it has been in California, and has been most deadly in U.S. long-term care facilities. Among children, the coronavirus is considerably less deadly than seasonal influenza.

Nonetheless, deaths tell us something important about the virus's impact on society. They profoundly affect entire social networks and are rightly emphasized in pandemic reporting.

When it comes to seeing how things are going now, whether the pandemic is growing worse or fading, deaths are a lagging indicator. They do not

begin to spike until infections have already been accelerating rapidly for many days, and they do not decline until well after the virus's spread has slowed.

The chart below shows that overall, deaths are clearly declining, although there is a weekly cycle where Sundays seem to result in relatively low death counts and Tuesdays and Wednesdays usually have the highest reported numbers. Overall, the past two weeks have had lower death totals than have been seen in the two months prior. But if a second wave were coming soon, we would not see the deaths from it yet.

COVID Deaths Per Day in U.S.

Here is another look from the *Washington Post*.

New deaths reported per day
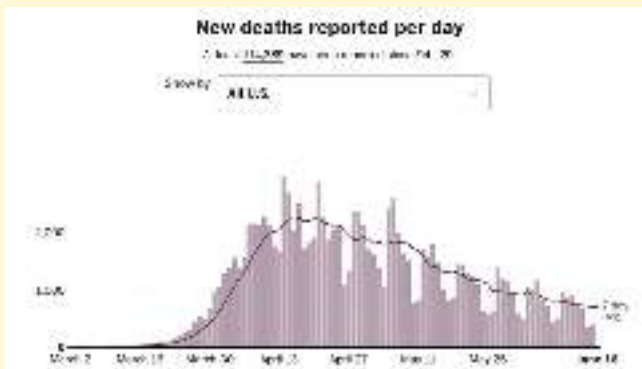
In addition to deaths, more attention has shifted to measuring coronavirus-related hospitalizations. Frustratingly, these data tend not to go back as far as numbers on confirmed cases or deaths, but in most states there are hospitalization figures going back

over two months. The hospital data are measured two ways, the first being a cumulative measure, similar to the way confirmed cases and deaths are measured.

The number can only go up as more hospitalizations are added to the total. From that number, the daily number of hospitalizations can be plotted; however that number is very noisy because the numbers are submitted at the state level in a variety of ways and do not seem to reflect the true numbers per day.

In other words, the hospitalization numbers seem to come in in clumps. They can be reported as weekly totals or weekly averages, as well. But a weakness of the cumulative data is that they do not tell us much about the burden on hospitals and health care workers. The total number of coronavirus hospitalizations increased dramatically, from zero to nearly 60,000 in a month nationally, and stayed high for weeks afterward. The chart below shows that the decrease in hospitalization has been fairly steady, and overall there is far less strain on the health care system than there was in mid-April.

Total Number of COVID Hospitalizations in US by Date
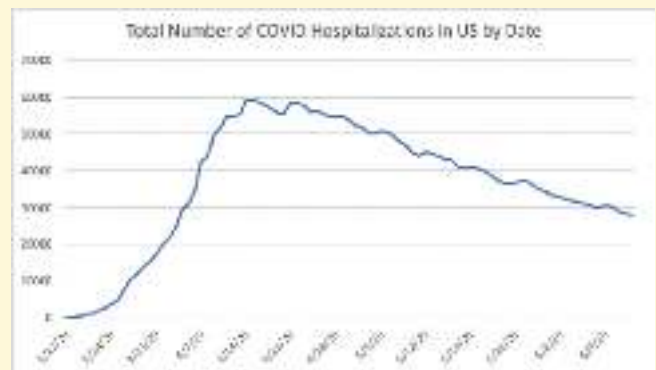
The northeastern U.S. was hit hardest, but most states are either seeing declining or flat trends in hospitalizations, with a few notable exceptions such as North Carolina, Texas, and Arizona. But in those states the number of hospitalizations is still relatively

low, a fraction of the totals that New York and New Jersey were seeing in April. Claims that Alabama, Georgia, and Florida are emerging "hotspots" are not supported by the hospitalization numbers despite media reports to the contrary.

There are some parts of the country still in the midst of the first wave of coronavirus infections, states that had very low numbers of hospitalizations and deaths in April, but are now beginning to see the virus spread more quickly. But those states are unlikely to see the kind of spread Northeastern states did, and there is hope the virus can be far less deadly going forward if policies can be implemented to better-protect the elderly and vulnerable, especially those living in long-term care facilities.

June 16, 2020

Again, What Were the Benefits of Locking Down?

EDWARD PETER STRINGHAM

President

The school closures, stay home orders, shuttering of businesses, banning of elective surgeries, closure of physical entertainment events, blocked flights, and sudden imposition of a central plan – it all happened suddenly from mid-March in the course of only a few days, and to enormous shock on the part of people who had previously taken their freedom and rights for granted.

Despite enormous pressure from Washington, eight states did not lock down or used a very light touch: South Dakota, North Dakota, South Carolina, Wyoming, Utah, Arkansas, Iowa, and Nebraska.

After 100 days, we are in a position for some preliminary analysis of the performance of locked down states versus those that did not lock down. AIER has already published the evidence that lockdown states had higher rates of unemployment.

The Sentinel, a nonprofit news source of the Kansas Policy Institute, confirms our research by reporting the following data: locked down states have overall a 13.2% unemployment rate, while open states have a 7.8% unemployment rate.

Source: Bureau of Labor Statistics

But perhaps this better economic performance came at the expense of health?

In terms of health, locked down states have nearly four times the death rate from COVID-19.

State	Cases	Deaths	Mortality Rate	Case/M	Death/M
States Not Shut Down Have Better COVID Outcomes - June 17					
North Dakota	3,190	75	2.3%	4,190	98
South Dakota	6,109	78	1.3%	6,908	88
Nebraska	17,226	234	1.4%	8,906	121
Iowa	24,805	679	2.7%	7,862	215
Arkansas	13,928	208	1.5%	4,615	69
Oklahoma †	8,904	364	4.1%	2,250	92
Wyoming ‡	1,114	18	1.6%	1,922	31
Utah *	15,839	152	1.0%	4,940	47
totals	91,118	1,808	2.0%	5,208	103
All others	2,110,153	116,501	5.5%	6,791	375

Source: Worldometers, Census. *lockdowns in certain metropolitan areas but not statewide. Population is July 2019 estimate

The results do not prove that staying open

necessarily caused the good outcomes, but should certainly lead us to question the notion that "lockdowns are necessary or else we all are going to die."

To be sure, many mitigating factors may exist. Open states may have had fewer long-term health facilities housing people with low life expectacies; in every state, these account for roughly half of all deaths from COVID-19. In fact, "deaths among a narrow 1.7% group of the population are greater than deaths from the other 98.3%."

Population density between the states also varies and that could have been an explanatory variable. The open states also lacked governors who mandated that nursing homes accept active COVID-patients. Earlier this month, we published some more detailed research "Unemployment Far Worse in Lockdown States, Data Show" by economist Abigail Devereux who found similar results.

A routine trope in the media is that people who oppose lockdowns are pushing freedom and wealth over safety and health. But as we can see from this clean examination of the results, the open states experienced less economic pain and less pain from the disease itself.

We are seeing desperate attempts by politicians, public health officials, and media commentators somehow to make sense of why the United States pursued the course it did with the closures, stay-home orders, travel bans, and near-universal quarantine, in violation of every principle that America has celebrated in its civic culture.

With the evidence coming in that the lockdowns were neither economically nor medically effective, it is going to be increasingly difficult for lockdown partisans to marshal the evidence to convince the public that isolating people, destroying businesses, and destroying social institutions was worth it.

June 25, 2020

Smart Society, Stupid People

JEFFREY A. TUCKER

Editorial Director

We've lived through the most bizarre experience of human folly in my lifetime, and perhaps in generations. Among the strangest aspects of this has been the near universal failure on the part of regular people, and even the appointed "experts" (the ones the government employs, in any case), to have internalized anything about the basics of viruses that my mother understands, thanks to her mother before who had a solid education in the subject after World War II.

Thus, for example, are all governments ready to impose new lockdowns should the infection data turn in the other direction. Under what theory, precisely, is this supposed to help matters? How does reimposing stay-home orders or mandating gym closures mysteriously manage to intimidate a virus into going away? "Run away and hide" seems to have replaced anything like a sophisticated understanding of viruses and immunities.

So I decided to download *Molecular and Cell Biology for Dummies* just to check if I'm crazy. I'm pleased to see that it clearly states that there are only two ways to defeat a virus: natural immunity and vaccines.

The book completely left out the option that almost the entire world embraced in March: destroy businesses, force everyone to hide in their homes, and make sure that no one gets close to anyone else. The reason that the text leaves that out is that the idea is essentially ridiculous, so much so that it was initially sold as a strategy to preserve hospital space and only later mutated into a general principle that the way to beat a virus is to avoid people and wear a mini-hazmat suit.

Here is the passage:

For all of recorded history, humans have done a deadly dance with viruses. Measles, smallpox, polio, and influenza viruses changed the course of human history: Measles and smallpox killed hundreds of thousands of Native Americans; polio killed and crippled people, including US President Franklin Delano Roosevelt; and the 1918 influenza epidemic killed more people than were killed during all of World War I.

For most viruses that attack humans, your only defenses are prevention and your own immune systems. Antibiotics don't kill viruses, and scientists haven't discovered many effective antiviral drugs.

Vaccines are little pieces of bacteria or viruses injected into the body to give the immune system an education. They work by ramping up your own defensive system so that you're ready to fight the bacteria or virus upon first contact, without becoming sick first. However, for some viral diseases no vaccines exist, and the only option is to wait uncomfortably for your immune system to win the battle.

A virus is not a miasma, a cootie, or red goo like in the children's book *Cat in the Hat*. There is no path toward waging much less winning a national war against a virus. It cares nothing about borders, executive orders, and titles. A virus is a thing to battle one immune system at a time, and our bodies have evolved to be suited to do just that. Vaccines can give advantage to the immune system through a clever hack. Even so, there will always be another virus and another battle, and so it's been for hundreds of thousands of years.

If you read the above carefully, you now know more than you would know from watching 50 TED talks on viruses by Bill Gates. Though having thrown hundreds of millions of dollars into cobbling together some global plan to combat microbes, his own understanding seems not to have risen above a cooties theory of run away and hide.

There is another level of virus comprehension that came to be observed in the 1950s and then codified in the 70s. For many viruses, not everyone has to catch them to become immune and not everyone needs a vaccine if there is one. Immunity is achieved when a certain percentage of the population has contracted some form of virus, with symptoms or without, and then the virus effectively dies.

This has important implications because it means that vulnerable demographics can isolate for the active days of the virus, and return to normal life once "herd immunity" has been realized with infection within some portion of the non-vulnerable population. This is why every bit of medical advice for ederly people has been to avoid large crowds during the flu season and why getting and recovering for non-vulnerable groups is a good thing.

What you get from this virus advice is not fear but calm management. This wisdom – not ignorance but wisdom – was behind the do-no-harm approach to the polio epidemic of 1949-1952, the Asian flu of 1957-58, and the Hong Kong flu of 1968-69. Donald Henderson summed up this old wisdom beautifully: "Communities faced with epidemics or other adverse events respond best and with the least anxiety when the normal social functioning of the community is least disrupted."

And that's what we did for the one hundred years following the catastrophic Spanish flu of 1918. We never again attempted widespread closures or lockdown precisely because they had failed so miserably in the few places they were attempted.

The cooties theory attempted a comeback with the Swine flu of 2009 (H1N1) but the world was too busy dealing with a financial crisis so the postwar strategy of virus control and mitigation prevailed once again, thankfully. But then the perfect storm hit in 2020 and a new generation of virus mitigators got their chance to conduct a grand social experiment based on computer modeling and forecasting.

Next thing you know, we had this new vocabulary shoved down our throats and we all had to obey strangely arbitrary exhortations. "Go inside! No, wait don't go inside!" "Stay healthy but shut the gyms!" "Get away from the virus but don't travel!" "Don't wear a mask, wait, do wear a mask!" (Now we can add: "Only gather in groups if you are protesting Trump")

People started believing crazy things, as if we are medieval peasants, such as that if there is a group of people or if you stand too close to someone, the bad virus will spontaneously appear and you will get infected. Or that you could be a secret superspreader even if you have no symptoms, and also you can get the virus by touching almost anything.

Good grief, the sheer amount of unscientific phony baloney unleashed in these terrible three months boggles the mind. But that's what happens in any panic. Apparently.

Now, something has truly been bugging me these months as I've watched the incredible unravelling of most of the freedoms we've long taken for granted. People were locked out of the churches and schools, businesses were shuttered, markets were closed, governors shoved through shelter in place orders meant not for disease control but aerial bomb raids, and masks were mandatory, all while regular people who otherwise seem smart hopped around each other like grasshoppers.

My major shock is discovering how much sheer stupidity exists in the population, particularly among the political class.

Forgive a defense of my use of the term "stupid"

but it is technically correct. I take it from Albert Camus and his brilliant book The Plague (1947). "When a war breaks out, people say: 'It's too stupid; it can't last long.' But though a war may well be 'too stupid,' that doesn't prevent its lasting. Stupidity has a knack of getting its way."

Indeed it is true.

It was only last February when we seemed smart. We had amazing technology, movies on demand, a smartphone in our pockets to communicate with everyone and reveal all the world's knowledge. There was peace more or less. There was prosperity. There was progress. Our medical systems worked. It seemed that only a few months ago, we had it all together. We seemed smart. Until suddenly stupid took over, or so it seemed.

Actually we weren't smart as individuals. Our politicians were as dumb as they ever have been, and massive ignorance pervaded the population, then as always. What was smart last February was society and the processes that made society work in the good old days.

"Please explain."

I shall.

Consider the social analytics of F.A. Hayek. His major theme is that the workings of the social order require knowledge and intelligence, but none of this essential knowledge subsists within any individual mind much less any political leader. The knowledge and intelligence necessary for society to thrive is instead decentralized throughout society, and comes to be embedded or instantiated within institutions and processes that gradually evolve from the free actions and choices of individuals.

What are those institutions? Market prices, supply chains, observations we make from the successful or unsuccessful choices of others that inform our habits and movements, manners and mores that work as social signals, interest rates that carefully coordinate the flow of money with our time preferences and

risk tolerances, and even morals that govern our treatment of each other. All these come together to create a form of social intelligence that resides not in individual minds but rather the process of social evolution itself.

The trouble is that a well functioning society can create an illusion that it all happens not because of the process but rather because we are so damn smart or maybe we have wise leaders with a good plan. It seems like it must be so, else how could we have become so good at what we do? Hayek's main point is that it is a mistake to credit individual intelligence or knowledge, much less good governments with brainy leaders, with civilizational achievements; rather, the real credit belongs to institutions and processes that no one in particular controls.

"To understand our civilisation," Hayek writes, "one must appreciate that the extended order resulted not from human design or intention but spontaneously: it arose from unintentionally conforming to certain traditional and largely moral practices, many of which men tend to dislike, whose significance they usually fail to understand, whose validity they cannot prove, and which have nonetheless fairly rapidly spread by means of an evolutionary selection — the comparative increase of population and wealth — of those groups that happened to follow them."

The lockdowns took a sledgehammer to these practices, processes, and institutions. It replaced them nearly overnight with new bureaucratic and police-state mandates that herded us into our homes and arbitrarily assigned new categories: elective vs non-elective medical procedures, essential vs non-essential business, permissible vs. impermissible forms of association, even to the point of measuring the distance from which we must be separated one from another. And just like that, via executive order, many of the institutions and processes were crushed under the boot of the political class.

What emerged to take its place? It's sad to say

but the answer is widespread ignorance. Despite having access to all the world's knowledge in our pockets, vast numbers of politicians and regular people defaulted back to a premodern cognition of disease. People did this out of fear, and were suddenly and strangely acquiescent to political commands. I've had friends tell me that they were guilty of this back in the day, believing that mass death was imminent so the only thing to do was to shelter in place and comply with the edicts.

The seeming intelligence that we had only in February suddenly seemed to turn to mush. A better way to understand this is all our smartest institutions and practices were crushed, leaving only raw stupidity in its place.

Truth is that we as individuals are probably not much smarter than our ancestors; the reason we've made so much progress is due to the increasing sophistication of Hayek's extended orders of association, signalling, capital accumulation, and technological know how, none of which are due to wise leaders in government and industry but are rather attributable to the wisdom of the institutions we've gradually built over decades, centuries, and a millenia.

Take those away and you reveal what we don't really want to see.

Looking back, I'm very impressed at the knowledge and awareness that the postwar generation had toward disease mitigation. It was taught in the schools, handed down to several generations, and practiced in journalism and public affairs. That was smart. Something happened in the 21st century to cause a kind of breakage in that medical knowledge chain, and thus did societies around the world become vulnerable in the presence of a new virus to rule by charlatans, hucksters, media howlers, and would-be dictators.

With lockdown finally easing, we will see the return of what seems to be smart societies, and the gradual loss of the influence of stupid. But let us not deceive ourselves. It could be that we've learned nothing from the fiasco that unfolded before our eyes. If economies come to be restored, eventually, to their former selves, it will not be because we or our leaders somehow beat a virus. The virus outsmarted everyone. What will fix what the political class has broken is the freedom once again to piece back together the institutions and processes that create the extended order that makes us all feel smarter than we really are.

June 21, 2020

What the Data Say About Civil War Monuments

PHILLIP W. MAGNESS

Senior Research Fellow

The long-simmering controversy over Confederate symbolism in the Southern United States has boiled over in the wake of anger over police brutality against African-Americans, obliterating any notion that overcoming America's tragic past of slavery and segregation is no longer relevant today. Long-standing calls on government officials to remove statues associated with pro-slavery figures have given way to protest-fueled iconoclasm–statues and monuments once protested are now defaced and toppled in convulsive anger.

In the immediate wake of this anger lies a fork in the road. Many purporting to speak in the name of fighting racism present the monument controversy as a cut and dry issue. The dead end of mutual recrimination to which this choice leads is already clear. Applauding mob violence leads to indiscriminate attacks increasingly dissociated with any historical context.

The wave of mass vandalism quickly spreads to whatever statue happens to be next in line– targets have already included such figures as George Washington, Thomas Jefferson, Christopher Columbus, Theodore Roosevelt, Miguel de Cervantes, and Winston Churchill. With no small irony, these new targets include figures that several leading historians and journalistic outlets took pains to differentiate and insulate from the Confederate statue controversies only a few years ago.

This time, even abolitionists and other anti-slavery figures have not been spared from the mob's destruction. Protesters in Boston damaged the monument to the 54th Massachusetts Regiment, the African-American Civil War troops featured in the movie Glory. In California, protesters defaced

a statue of abolitionist John Greenleaf Whittier and tore down San Francisco's monument to Ulysses S. Grant, the Union general most associated with winning the Civil War. In Philadelphia they damaged a monument to abolitionist Matthias Baldwin.

Protesters in Washington, DC tagged both the Lincoln Memorial and the National World War II Memorial with graffiti, and scrawled obscenities on a statue of Union admiral David G. Farragut. Vandals also damaged a statue of Abraham Lincoln in his namesake city in Nebraska. In Duluth, Minnesota they even targeted a memorial to three African-American lynching victims.

A number of journalists and commentators have even embraced the politics of vigilantism associated with statue destruction. The New York Times's Nikole Hannah-Jones recently tweeted (now deleted) that it "would be an honor" if these incidents were named "the 1619 Riots" in reference to her error-riddled yet also prize-winning set of essays, the 1619 Project.

Another path acknowledges the hard work that remains while also understanding when and why monuments were built, including commemorations from the distant past that have fallen from favor as well as new subjects of public art that once suffered neglect. The economic history of Civil War monuments, rather than making issues of race sanitized and academic, can lead to understanding and real progress. By looking at the history of these monuments we see even more clearly the dangers of ignoring the legacy slavery, the points of our past when reactionary forces gained steam, and more recently some cause for hope.

It is not my purpose here to offer advice on what

should be done with specific statues, save to note that the point of decision-making needs to occur through input into normal and democratic processes – not mob action, and especially not the type that indulges violent and indiscriminate destruction. That much noted, political discussions about public monuments of all types could benefit from a firmer grounding in historical evidence and data. What emerges is a more complex picture that tells its own story of changing beliefs and attitudes about how we commemorate our past.

The Empirical Side of the Monuments Debate

So what does economics have to say about historical memorialization? It turns out quite a bit, with results that offer empirical insights into this heated subject matter.

Over the past year I have been working on a larger project (along with my co-author Frank Garmon Jr. and colleague Micha Gartz) to build a national database of monuments, memorials, place names, and other public commemorations of figures and events associated with the Civil War era. These include not only Confederate military statues and markers, but also their less-discussed counterparts on the Union side as well as a separate database of monuments to abolitionists and anti-slavery figures.

So far, we have catalogued over 4,000 Civil War-era monuments and memorial designations across the United States. More than 2,100 of these come from the Union side of the Civil War, plus an additional 160 abolitionist statues and commemorations. The database also contains Confederate monuments found in a 2017 report by the Southern Poverty Law Center; however we are in the process of expanding it to include battlefield memorials and a number of sites that they missed to ensure a comprehensive accounting of markers and designations associated with the war and the struggle over slavery.

It is not possible to capture every dimension of monument construction from a strictly empirical approach, as a detailed examination of specific monuments reveals. Most were constructed in the decades following the Civil War itself, particularly around major war commemorations such as the 50th anniversary from 1911 to 1915. This period also overlapped with the Jim Crow era of state-enforced racial segregation, as well as successive waves of accompanying violence against African-Americans. That context is important for interpreting the historical purposes of monuments, and cannot be easily parsed away from military and other motives.

The data nonetheless give us a broader context of how monument construction patterns have evolved over time, including the shifting balances of emphasis on the southern, northern, and abolitionist causes. Several clear trends emerge from the numbers of monuments over time.

The Economics of Memorialization

First, when we restrict our scope to physical statues and plaques, we find clear parallels between the construction patterns of Union and Confederate monuments. The peak year for the construction of both types was 1911, the beginning of the 50th anniversary of the war. Monument construction dates also clearly cluster in the years around this period, as depicted below.
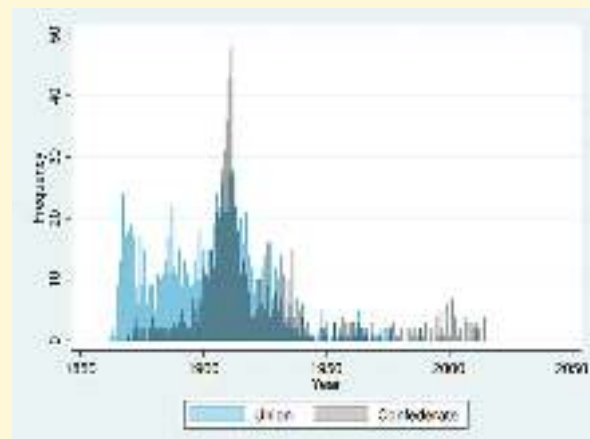
Union monuments substantially outnumber Confederate monuments in total, although the annual number of Confederate statues briefly overtook the Union totals in the cluster of dates around the 1911 anniversary. Likely explanations include the northern states being comparatively wealthier after the war and thus able to afford commemorations at earlier points, as well as the country's coalescing around a reconciliationist narrative of how the war was remembered in the lifetimes of its participants. Although this narrative tapped "reunification" and a nationalist concept of the union, it was also intertwined with the elevation of the southern "Lost Cause" myth that intentionally downplayed slavery. With a few notable exceptions, monuments in this era often neglected or omitted the presence of African-Americans entirely, including the United States Colored Troops that fought on the northern side of the war.

At the same time, the statistical patterns for both types of monuments likely has a deeper explanation tied to the influence of Civil War veterans as a sizable political constituency. The influx of public and private expenditures on monuments coincides with the lifespan of veterans from the conflict, as well as a pattern witnessed in other wars that commemorates major anniversaries. The 50th anniversary of the battle of Gettysburg in 1913, for example, drew over 50,000 elderly veterans to the site. It coincided with a monument building spree across the country, including hundreds of local ceremonies and veterans reunion events.

Part of this pattern reflects the political clout of veterans themselves in the late 19th and early 20th centuries. Other researchers have documented the role of these same constituencies in securing pensions for Union veterans and their dependents, creating a direct precursor to the modern social safety net in the process. As Union pensions grew at the federal level, southern states followed suit and began implementing similar expenditures on behalf of Confederate veterans, their widows, and their children.

Civil War statue-building follows a nearly identical pattern on both sides, and may thus be explained in part as an overture to the same constituencies as the pension recipients. Although they remain the products of an era fraught with discrimination, Confederate and Union monuments alike appear to have followed a fairly typical pattern of veterans' commemorations aimed at cultivating support among this constituency and their families.

Clear racial overtones enter a second area of the Confederate memorialization debate, and do so in pronounced ways associated with later events of the civil rights movement. Specifically, if we take the subset of commemorations that consist of schools named after Confederate figures, a clear break emerges from naming patterns on the Union side. That break occurs around the 1954 Supreme Court decision of *Brown v. Board of Education*, ordering the desegregation of public schools.

As the chart below shows, schools named after Confederate figures were at best sporadic and infrequent for the first 90 years after the war. By contrast, Union-named schools happened at more or less a steady pace throughout this period. The pattern changed though in 1954 with a sudden and sharp spike in schools named after Confederate generals and politicians. This spike persisted for another 15 years, with at least 48 out of roughly 110 Confederate-named schools being built in this narrow period.
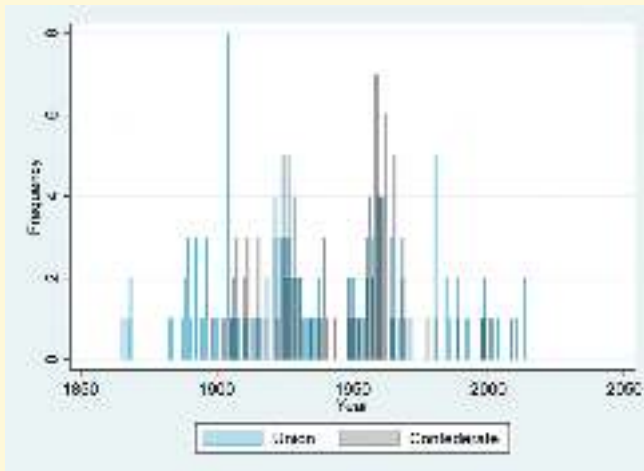
(Note: this chart excludes schools named after Abraham Lincoln, because they vastly outnumber any other Civil War-era figure on account of his popularity as a historical president. Including Lincoln results in a sustained pattern of naming schools after him from the Civil War era to the present day.)

The post-1954 spike in Confederate-named schools suggests an unsettling political reality. During the aftermath of *Brown v. Board*, multiple southern state governments put forth an aggressive political resistance to court-ordered integration that persisted for roughly the same period.

In short, it appears that naming public schools after Confederate generals became another tool in the segregationists' arsenal to politically signal this resistance and to further discourage African-American families from attempting to register at segregated all-white schools.

After the collapse of "Massive Resistance" in the wake of subsequent court orders and civil rights legislation, the number of new schools bearing Con-federate-themed names dwindled away to a trickle. Union-named schools continue more or less apace of their earlier trends, with Lincoln remaining the most popular choice by far. Consistent with this hypothesis, other research has shown that a surge in Confederate battle flag usage coincided with the civil

rights era. School names and flags may therefore evince a clearer racial motive in connection with Confederate iconography than the older statues, which were more closely intertwined with the politics of veterans' commemorations and pensions.

A third pattern emerging from the monuments database offers a glimmer of hope relative to the segregation-tainted legacy of school name patterns. Abolition-themed memorials and commemorations appear to be on a clear rise from the early 1990s to the present day.
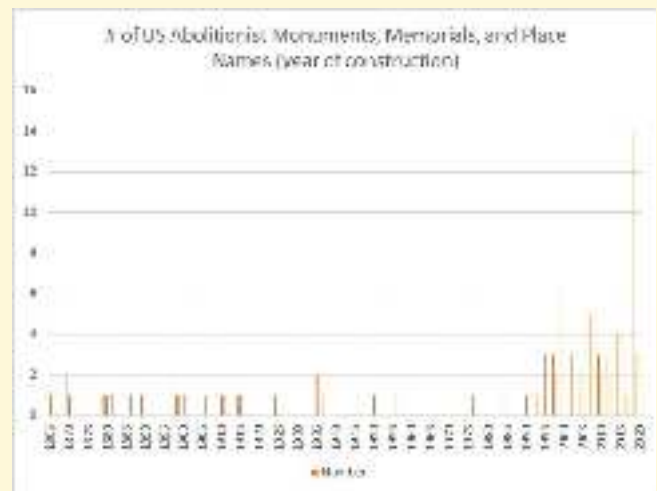
Although this section of the database is still undergoing expansion, roughly 160 abolition-themed monuments and place names have been identified so far. Memorials of this type appeared sporadi-cally in the 19th and early 20th century, with the most common examples consisting of historically black colleges and universities (HBCUs) that bear the name of an abolitionist figure or philanthropist.

Since the 1990s however, a growing movement to commemorate abolitionists through public markers and memorials has taken off. At the present, these constructions outpace the trickle of new Union and Confederate markers that occasionally appear. They likely reflect a growing sense of commemoration and celebration for figures that were first neglected in the wake of the war, and later vilified as part of the

Lost Cause ethos. The growing support for public commemoration of abolitionists and anti-slavery causes therefore signifies a clear and continuing shift in attitudes that has largely gone unnoticed from the monuments debate.

With the current politicization of statues, including multiple high-profile acts of vandalism against abolitionist and anti-slavery figures, it is important to stress this final insight from the data. The course in public memorialization of anti-slavery figures and events is at long last moving in a positive direction. It can and should be sustained, provided that the mob, now haphazardly targeting almost any form of public statuary, does not make those same monuments into additional casualties of iconoclasm.

June 23, 2020

The Modelers Thought of Everything Except Reality
AIER STAFF

As a site focused on economics, AIER would rather have stayed away from commentary on diseases and their mitigation. In normal times, we would have.

The archives of AIER dating back to 1933 show that we had no comments on the polio epidemic (1948-1951), the Asian Flu (1957-59), the Hong Kong flu (1968-69), the Avian bird flu (2006), or the Swine flu pandemic of 2009, which was a strain most like 1918 and therefore, one might suppose, would have caused panic but did not.

We had nothing to say because disease mitigation is a job for medical professionals, not economists and certainly not politicians.

The problem is that this time, the disease mitigators (some of them, the ones in power and with the ear of politicians) didn't stay out of economics. Indeed, their plans for mitigation trampled all over commerce, life, and the freedoms that are necessary to make it function. For a few months in 2020, the presumptuous model-building disease mitigators became central planners, overriding the wisdom of not only medical professionals but also economists, philosophers, political scientists, historians, and everyone else including legislatures and voters.

Our first piece on the topic ran January 27. The focus was on the quarantine power and the argument was simple: because people are not ridiculous and know how to deal with disease in consultation with medical professionals, this state power should not be deployed. At the time, people said we were being alarmist even for saying this. Nothing like this could ever happen in the U.S. because we have a Constitution and courts and a tradition of trusting the people.

It turns out, of course, that we underestimated the threat of coercion. It wasn't just about quarantining the sick. It was about putting the whole of the country (but for a few governors who heroically resisted) under lockdown. This brought about economic collapse (and increasingly social and cultural collapse too). We chronicled the disaster in real time on this site, which became an essential go-to source for factual information and rational analysis – in contrast to the mainstream media which was pushing for panic and lockdown.

On April 2, we published our first set of commentaries: Coronavirus and Economic Crisis, edited by Peter C. Earle. Amazon would not permit the Kindle edition to go live. They have admitted to us that they "incorrectly blocked" the book. There is no going back but it remains a reality: AIER's influence was blocked when it was most needed. It's the fourth time in our history we've been censored.
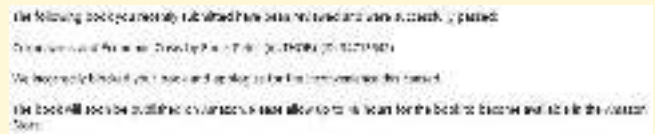
Those were censorious times. It is however available now.

Much of the commentary focused on the absurd failures of the models being used by a handful of statisticians and epidemiologists. They predicted as many as 2.3 million deaths in the United States (the New York Times went one better and predicted 8.25 million deaths) if government didn't crack down and shutter nonessential business, and lock hospitals down to become COVID-only zones.

Economists know something about the incredible failure of forecasting models. They have been deployed often in the postwar period. They came

under heavy fire from economists of the Austrian and classical schools. They don't grapple with certain facts of reality: second and third tier responses to policies, unpredictabilities of human choice, and the uncertainties of the future. There are too many variables operating in a complex system like a socio-economic order for any mechanistic model to capture them all, especially when dealing with an unknown and unknowable future.

The same forecasting failures afflicted the models that panicked politicians into locking down. They are too aggregated. They don't consider population diversity and how novel viruses affect different groups in different ways. They presume that planners can know things that they cannot know, such as disease severity in the midst of an epidemic. Slogans like "flatten the curve" massively over-simplify social processes and human choices, and presume to know far too much about cause and effect.

It turned out of course that the models were horribly wrong, not only about the large death numbers but also about hospital capacity, unseen costs, economic effects, and even the demographics of the affected population. Remarkably, none of the models even considered the impact of the virus on long-term care facilities, and hence contributed to gross neglect of the population that should have received the bulk of the focus.

The Wall Street Journal sums up the blizzard of data rather sharply:

> About 80% of Americans who have died of Covid-19 are older than 65, and the median age is 80. A review by Stanford medical professor John Ioannidis last month found that individuals under age 65 accounted for 4.8% to 9.3% of all Covid-19 deaths in 10 European countries and 7.8% to 23.9% in 12 U.S. locations.
>
> For most people under the age of 65, the study found, the risk of dying from Covid-19 isn't much higher than from getting in a car accident driving to work. In California and Florida, the fatality risk for the under-65 crowd is about equal to driving 16 to 17 miles per day. While higher in hot spots like New York (668 miles) and New Jersey (572 miles), the death risk is still lower than the public perceives.
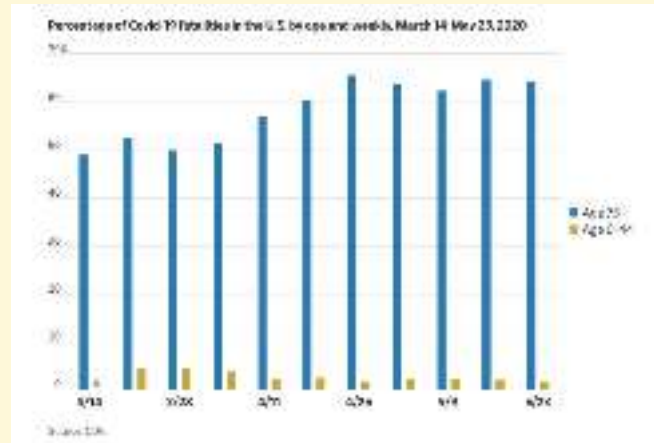
Future historians will be astonished to ruminate about what we did here. We shut down schools, sports, theaters, bars, restaurants, and churches – government ignored the rule of law and put individual rights on hold – but it is more than obvious now that this was all a huge distraction. The focus should have been on the aged with underlying conditions living in nursing homes.

The models nowhere included what ended up being our reality, even though that reality was upon us as early as February when people in nursing homes began to die in Washington State. We should have seen it long before the lockdowns began.

Now the modelers in the epidemiological profession need to learn what the economists figured out long ago. Human life is too complex to be accurately modeled, much less predicted. This certainly pertains to a novel virus.

Economics in the 18th and 19th century focused on logic and principles. Economists sought to discern laws that operate in the material world,

how incentives affect human choice, where wealth comes from, how production works, the function of prices, and they sought to introduce to the human mind accurate and realistic theories of the relationship between the material world and the human experience. Over the centuries, economics became a beautiful science.

In the 20th century, that way of understanding economics came under scrutiny as a new generation of thinkers began to imagine a better way. John Maynard Keynes in the 1930s famously rejected classical theorems but the problems had begun much earlier and lasted much longer. Eventually, economics was saddled with a thing called modeling — a technical approach that eschewed real-world data and experience for computer simulations.

The American Institute for Economic Research has been fighting against this way for its entire history. Along with our work has been some of the best economic minds of the 20th century: Ludwig von Mises, F.A. Hayek, Benjamin Anderson, Joseph Schumpeter, and so on.

It seems like epidemiology similarly took a turn for the worse around 2006, when agent-based modeling strategies displaced the accumulated wisdom of the ages as summed up by Donald Henderson in this beautiful piece we republished.

It is not implausible to think that we can all get smart again about modeling and viruses. Consider the words of South Dakota Governor Kristi Noem. She never locked down. She resisted.

> So this brings me to the question of modeling. While modeling certainly has a place, models have two major shortcomings. No model can actually predict the future. Especially when it is based on data that is incomplete. And no model is capable of replacing human freedom as the best path to responding to life's risks, including this virus.

> That is why central planning of the economy has failed every time the government has tried it. In South Dakota, we saw modeling as a tool, and we used it to be prepared for a worst case scenario. I thank God that the worst case hasn't happened. But we were ready, and we are still ready, if it does.

> But there is no model that can take into consideration all of the factors that make real life work. A blind reliance on insufficient modeling has led some politicians to institute disastrous lockdowns, that have not only jeopardized their people's health, and their welfare, but also created conditions for a financial catastrophe, that will cause untold burdens and costs on their people for generations.

A powerful June 5, 2020, editorial in the Journal of the American Medical Association makes the core point:

> Both modelers and public health policy makers should recognize that COVID-19 is not a unitary epidemic; in the US and other countries, it likely consists of multiple, contemporaneous, and intertwined suboutbreaks prominently including those in LTC settings. Distinguishing the rates and pattern of disease occurring in the general population from those in LTC facilities is both feasible and critical to control of infection in these high-risk settings. Creating separate models that reflect how COVID-19 has affected these different populations could provide more accurate evidence to guide mitigation efforts in the community and in LTC facilities, and could be helpful to better understand and reduce the morbidity and mortality this infection has caused among the most frail and vulnerable individuals.

We doubt the ability to create better models, however. Viruses do not behave in real life as they do in World of Warcraft and Hollywood movies. People are not automatons. They are choosing minds capable of intelligent adaptation to new realities, even pandemics. Instead we absolutely must recapture the wisdom of the past if we are going to deal intelligently with viruses in the future.

We cannot centrally plan an economy. Computers are no help. We cannot centrally plan a response to a new virus. Computers are of no help. For the sake of health, prosperity, human rights, and liberty, leave disease mitigation to the professionals and get it out of the hands of modelers and the politicians they intimidate into implementing their plans.

June 14, 2020

Unemployment Far Worse in Lockdown States, Data Show

ABIGAIL DEVEREAUX

Contributor

The novel coronavirus has done severe economic damage all over the globe. The Congressional Budget Office (CBO) stated on June 1, 2020 that it could take nearly a decade for the economy to grow back to levels forecasted this January. As economists, we want to understand just how much damage has been done to what people and sectors and how that damage was perpetrated. There's usually more than one perp in a Depression.

First, the coronavirus obviously causes direct health effects that can impact economies. Note that economists like myself are not suggesting illness or death is bad primarily because of their economic effects; the social and personal costs of pandemics are devastating on their own. Second, people voluntarily change their consumption, work, and personal behavior in reaction to pandemics, without the need for any intervention. Third, political interventions like stay-at-home orders and business closures coercively change consumption, work and personal behaviors in ways that impact economies.

In this study, I'm interested mostly in the effects of political interventions. No one person can do much to affect mass, decentralized behavioral changes. But political officials taking advice from epidemiological and economic experts can directly and severely affect state and regional economies.

The numbers I use to track these intervention-based effects are state-specific insured unemployment claims from March 1, 2020 until May 9, 2020, the most recent reflected week at the time of writing. I group states by their lockdown status circa the most recent reflected week. Generally, I index insured unemployment rates to 0% on March 1, 2020, so what you're seeing in these charts is the difference between the unemployment rates in each state reflecting the two weeks ending on March 1, 2020 and the unemployment rates in each state reflecting the two weeks ending on May 9, 2020.

First, let's look at the series for all states from March 15, 2020 (rates are extremely stable before that) and May 9, 2020. Each thin line is a state's own series, colored by group. States locked down but with stated lockdown end dates are red, states locked down with no stated end dates are orange, states partially or fully reopened are blue, and states with no official lockdown are green. Thick lines in the series represent group averages.
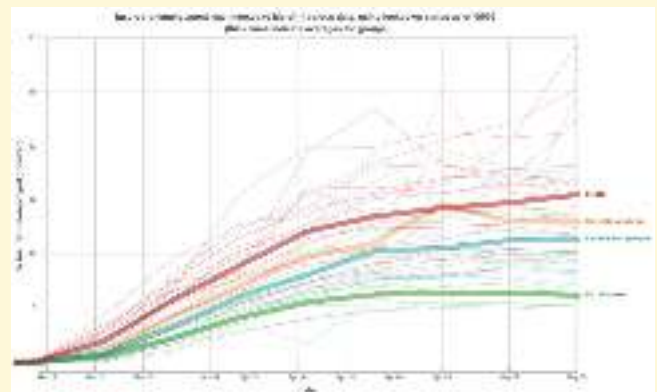

Next, let's take a look at each group. I start with states that were still locked down on May 9, since their group average (15.5% insured unemployed) is the highest of all the groups.
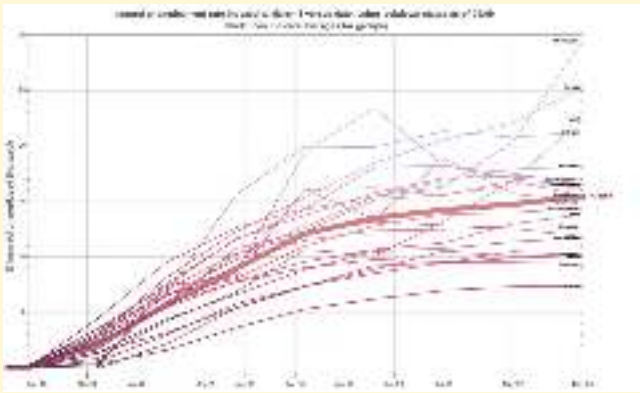
Washington (29.5% indexed to March 1 and 31.2% unindexed unemployment), Nevada (25.3% indexed to March 1 and 26.75% unindexed unemployment), and Hawaii (22.45% indexed to March 1 and 23.42% unindexed unemployment) have the highest levels of unemployment in the closed group.

In the next graph, I look at the states locked down on May 9 whose lockdowns didn't have definitive end dates.
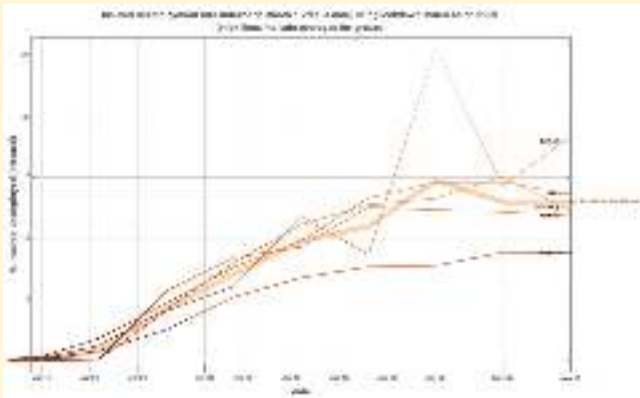
There aren't many states in this group as of May 9. It's important to note that some states started their lockdowns in March and April with indefinite lockdowns and by May 9 had formulated plans with on-paper end dates or phased reopenings.

The next graph looks at states amidst a partial or full reopening as of May 9. Note that this group consists of both states whose reopenings were weeks old and states whose reopenings were brand new as of May 9. For the sake of rigor I disincluded states that reopened *on* May 9, and kept those states in the "closed" group.
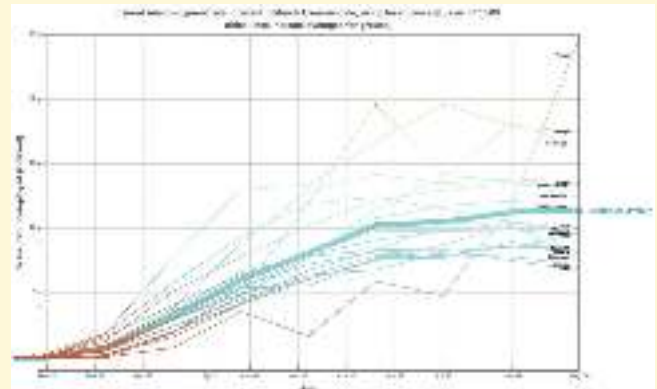

Florida is the obvious outlier of this graph, with 29.5% indexed to March 1 and 31.2% unindexed unemployment.

The final graph looks at the states with no formal shutdown orders, or what I call "no lockdown" states.
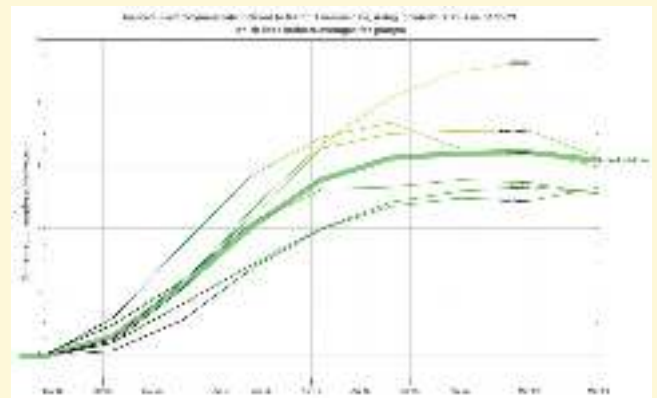
While the outlier of this small group, Arkansas, did not have a formal lockdown order, it did shut down restaurants, elective surgeries, casinos, venues and salons throughout the state.

Here are the group averages on their own graph:
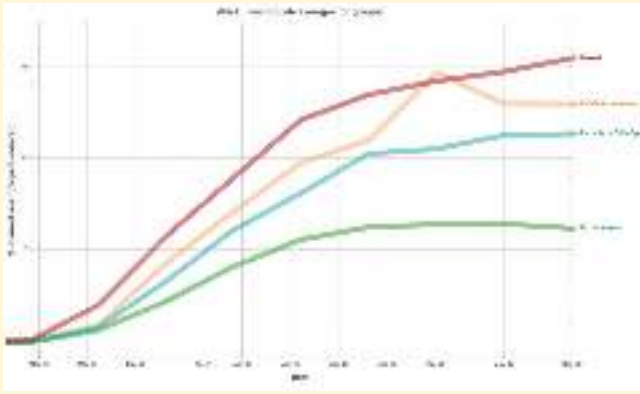
What story do these graphs tell? An incomplete story, to be sure, like watching a very small part of a crime scene in which there are several perpetrators unfold before one's eyes. Here's a summary table of where group averages were on May 9:

Lockdown Status as of 05/09/2020	Average Unemployment %
Closed	15.4886
Indefinite	13.982
Fully or Partially Open	11.0919
No Lockdown	6.16167

In general, states that were still closed on May 9 had the highest average insured unemployment rates relative to the average for that same group on March 1. The unemployment rate of fully locked down states was at least double than states that had no formal lockdown. States that were fully or partially opened by May 9 fared better than fully locked down states, but as a group had almost double the average insured unemployment rate of states without a formal lockdown.

It's important to issue a few caveats upon further study of this unfolding scene.

First: many states are still today (the beginning of June 2020) in the middle of reopening. Some states like Washington and Wisconsin have seen challenges (in the case of Wisconsin, successful) to their ongoing lockdown.

Second: there is no *direct* tradeoff between economic health and population-level health. It isn't clear to what extent lockdowns will reduce COVID-19 fatalities and infections in the long run, as the imposition of general quarantines naturally slow the rate at which a population reaches herd immunity given that they are designed to slow the spread of the virus.

If general quarantines damage the economy enough to send it into its worst depression since the Great One our grandparents lived through, but do not significantly reduce fatalities and infections in the long run, get us foreseeably closer to a workable vaccine, or protect the most vulnerable in particular, then lockdowns might maximize economic pain for minimal health gains.

This is what the unemployment data seem to say at the moment. Economists should continue to look at this and other numbers for clues that can help us understand how best to put together the story of this unfolding scene, so that if some kinds of interventions turn out to be perpetrators instead of panaceas, we know to advise against employing them in the future.

June 4, 2020

Surrounded by Government Failure, Why Do People Still Believe?

VERONIQUE DE RUGY
Senior Fellow

Iam always amazed by the faith that people have in government. Scour the newspaper any day of the week and you will read stories detailing the many failures of the federal, state, and local governments or agencies, and of their stupendous ability to commit the same mistakes over and over again. Yet these agencies are the one that people turn to in times of troubles or needs.

Astonishing.

Take the June 26th edition of the *Wall Street Journal*. There you'll find a piece on how the Small Business Aid program has a significant fraud risk, according to the Government Accountability Office. That's unfortunate for a program riddled with implementation problems that leave many small businesses unable to apply, while many large ones had no problems getting one of the available small-business loans.

And then there's the report about how the IRS paid $1.4 billion in stimulus payments to dead people. That's correct: *dead* people. According to the report, "The IRS, which was trying to get the money out quickly, didn't use death records from the Social Security Administration as a computerized filter in the first three rounds of payments, according to GAO."

One common reaction to these two stories is that Congress was rushing, everyone was panicking, and pundits were clamoring that we must go big or even bigger than big. But if that's the problem, how to explain the $137 billion in improper payments made in 2018? For the record, this staggering level of improper payments happens every year. And then there's the fact that we can't even measure how many improper payments take place in the

Department of Defense because that agency fails its audits on a regular basis—hence no one really knows where all the money goes. Yet here we are, always trusting the same government to somehow do better this time around.

On that same page in the *Journal* you can also read how "Battered U.S Wine Importers Brace for Higher Tariffs." As the *Journal* reports, "The U.S. Trade Representative's office, which imposed 25% tariffs on wine, cheeses, olives and other products from the European Union in October, is now considering raising levies to 100%, citing a lack of progress in negotiating a settlement and eliminating subsidies for Airbus SE." Never mind that the president has finally hinted that he knows full well that Americans—the same Americans who have nothing to do with the Boeing-Airbus dispute—are paying the tariffs.

Yet, President Trump, and pretty much everyone in the Democratic Party, happily contributes to this new protectionist wave. Sadly but predictably, barely anyone in the Republican party is pushing back against the president and his protectionism sidekicks, Peter Navarro, Robert Lighthizer, and Wilbur Ross.

Scanning further down the page of the *Wall Street Journal* report you learn that thanks to government-imposed lockdowns, "140,000 Businesses Listed on Yelp are still Closed Because of Covid-19 Pandemic." Depressingly, you read, "A large minority of that set, 41%, has shut for good, according to Yelp."

It is not surprising: businesses cannot be kept closed for months and then survive having done nothing. Yet many states haven't reopened fully in

order to allow businesses to survive by reorganizing their activities to keep consumers and employees safe.

That's in spite of the academic evidence that lockdowns were a mistake. In fact, upon hearing that the number of cases—which as Don Boudreaux points out is quite different from the number of deaths— is increasing, some states are now announcing that they'll pause reopening.

Yet, the fact that the number of cases will go up as the economy reopens was fully expected since as a share of the population few people have actually been exposed to the virus. If a rising number of *cases* is reason enough to stop everything – reason enough to again coerce the economy and life into deepfreeze – while we await a vaccine quickly that might, or might not, arrive, what do we think is going to happen?

Governors around the country should end the lockdown and give businesses a shot at saving their businesses by reinventing some of the ways they serve their customers. Full reopening is no guarantee at all that consumers will come back quickly, of course.

New data confirm what we already knew; namely, that many people did not wait for the governments to lock down the economy to stay home and shelter in place. Such fear-based behavior contributed much to the economic collapse. That means that most consumers will be careful and watch out for their health and that of others without government decrees telling them to do so this time around too. But at least give consumers and businesses a chance to find what works for them once the economy is reopened.

I conclude with a report from the *Washington Post*. One is about Trump's refusal to encourage people to wear masks. This, of course, comes on the tail of Dr. Fauci's admission that he had intentionally misled the public about the usefulness of wearing masks so that they could be directed to health-care professionals.

And here is Fauci explaining how and why he lied:

"He also acknowledged that masks were initially not recommended to the general public so that first responders wouldn't feel the strain of a shortage of PPE. He explained that public health experts "were concerned the public health community, and many people were saying this, were concerned that it was at a time when personal protective equipment, including the N95 masks and the surgical masks, were in very short supply."

It's interesting that Americans started wearing self-made masks long before this Fauci admission showing that maybe they were buying it. However, for the most part, Americans continue to trust Fauci. David Henderson, though, does not.

Seriously, reading the newspaper on a daily basis should make everyone question government's intervention in our lives. But based on the support for both a populist protectionist Republican like Trump and his Democratic opponent for the presidency, Joe Biden, it doesn't. So what are we to do?

I believe we should continue fighting the battle of ideas because when we are deep into the mess that both parties, and their underlying ideologies, are creating, some people will look for answers and for solutions outside the state. As Milton Friedman once said, "That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable."

I take that task seriously.

Finally, I certainly feel obligated to intellectuals of the past who have fought for our freedoms in what were arguably even more depressing times. For that reason, I dedicated my professional life to answering Friedrich Hayek's call to action that

"We must make the building of a free society once more an intellectual adventure, a deed of courage…. Unless we can make the philosophic foundations of a free society once more

a living intellectual issue, and its implemen-
tation a task which challenges the ingenuity
and imagination of our liveliest minds, the
prospects of freedom are indeed dark. But if
we can regain that belief in the power of ideas
which was the mark of liberalism at its best,
the battle is not lost."

This, I believe, is why we continue fighting.

June 27, 2020

The Real Pandemic Was a Nursing Home Problem

PETER C. EARLE

Research Fellow

Over the last week, many governors have reinstituted coronavirus policy implementations which had been in various phases of cessation. Why? This is because of an alleged "spike" in new COVID-19 infections. Other states have abbreviated their phased lifting of lockdowns. This is despite the fact that current US deaths from COVID-19 are now 90% off their peak.

Washington State is considering criminalizing the refusal to wear a mask. New York State governor Andrew Cuomo has imposed new out-of-state visitor bans (with the comment that "in addition to law enforcement, [he] … expect[s] individuals such as hotel clerks … to question travelers from select states"). Democratic Presidential candidate Joe Biden's comments that if he were to win the presidency, a federal mask mandate may follow. The Speaker of the House quickly voiced her support for that measure.

These and other developments suggest that rather than approaching the end of the government-created crisis, we may be at the threshold of a new beginning. That the recent rise in infections is mostly an artifact of massively expanded testing capabilities seems to occur to no one in the government or media. Equally unnoticed is that the apparently much wider spread of COVID-19 infections, many of which show middling symptoms or are treated as annoyances, should result in a decrease of concern: it appears that many times the number of people estimated early on have been infected by the novel coronavirus to little or no consequence.
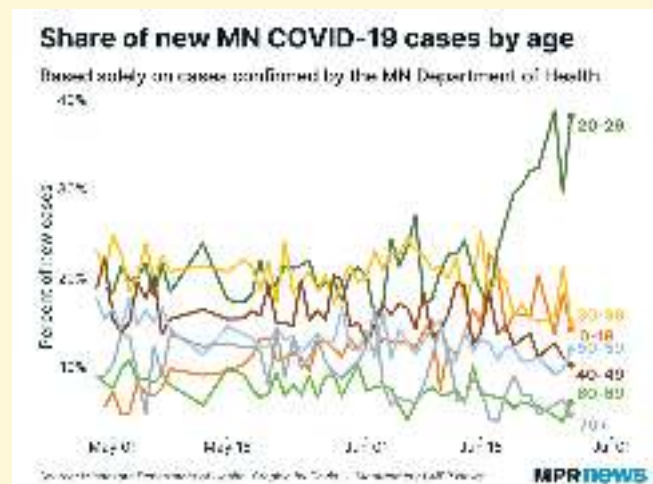
And further still, that some of the spike is accountable to the civil unrest in the wake of the murder of George Floyd. The prevalence of new COVID-19 infections among mostly Gen-Zs and Millennials (beside their prevalence in jobs that require COVID testing, such as in the fast food and service industries) undoubtedly had much to do with the disingenuity of political officials who ordered them to stay home, out of work and away from social occasions, yet responded with deafening silence as protests, demonstrations, and rioting broke out.

Note the recent data trend in California:

Or in Minnesota:

As other statistics regarding the toll of the novel coronavirus outbreak firm up, certain patterns are beginning to come into focus. With increasing certainty we can say that locked down states have seen four times the death toll of those which did not. The effectiveness of masking is, as well, being

revealed as suspect, as is social distancing in the absence of testing and contact tracing (the efficacy of the latter of which is additionally questionable).

A more important revelation of the ongoing deluge of data has been either missed (or ignored) by the press. At AIER, we noted the stunning death rates in long-term care facilities back in the third week of May.

Just a few days ago, the New York Times reported that 54,000 deaths due to COVID-19 — 43% of all deaths in the United States — occurred in nursing home residents and workers:

> In 24 states, the number of residents and workers who have died accounts for either half or more than half of all deaths from the virus. Infected people linked to nursing homes also die at a higher rate than the general population. The median case fatality rate – the number or deaths divided by the number of cases – at facilities with reliable data is 17 percent, significantly higher than the 5 percent fatality rate nationwide.

New York State was only one of several states, though, which enacted orders increasing the virus death tolls.

> States that issued orders similar to Cuomo's recorded comparably grim outcomes. Michigan lost 5% of roughly 38,000 nursing home residents to COVID-19 since the outbreak began. New Jersey lost 12% of its more than 43,000 residents. In Florida, where such transfers were barred, just 1.6% of 73,000 nursing home residents died of the virus. California, after initially moving toward a policy like New York's, quickly revised it. So far, it has lost 2% of its 103,000 nursing home residents.

And keep in mind that this 43% average is massively dragged down because five states had zero deaths in nursing homes while other states had as many of 80% of their deaths in nursing homes.

Cases and deaths in long-term care facilities, by state

				AS OF COVID-19 DEATHS
United States	17,000	282,000	54,000	43%
New Hampshire	28	1,967	203	80%
Rhode Island	64	2,746	716	77%
Minnesota	853	5,777	1,107	77%
Connecticut	358	8,836	3,124	73%
Pennsylvania	678	20,849	4,518	68%
North Dakota	55	560	58	64%
Massachusetts	656	23,321	6,116	64%
Maine	30	373	56	62%
Maryland	358	12,841	1,624	61%
Virginia	238	8,714	1,039	61%
Kentucky	172	2,626	350	61%
Washington	358	4,376	778	60%
Vermont	6	172	32	57%
Ohio	930	9,926	1,290	57%

This development is magnified in its awfulness upon close inspection of the document which informed the lockdown policies. The second-to-last paragraph in the original 2006 *Nature* article — the blueprint for the lockdowns, entitled "Strategies for Mitigating an Influenza Pandemic" reads,

> Lack of data prevent us from reliably modeling transmission in the important context 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.

The apparent omission of considerations regarding individuals in long-term care facilities by epidemiologists and policymakers, and the consequently disproportionate number of total fatalities among that same population, provides context for a series of hasty, surreptitious actions by politicians to duck accountability (and harvest more power).

It thus becomes increasingly clear that despite driving the U.S. economy into an artificial depression, destroying tens of thousands of businesses and the lives of millions of citizens, and elevating rates of domestic violence, divorce, substance abuse, and suicide, US government policies failed to protect the most vulnerable segment of the population: individuals in nursing homes and other long-term care facilities.

And furthermore, that despite 14 years between the publication of the "Strategies" paper and its real-world implementation, apparently no research was conducted that would have extended its conclusions to those particularly at-risk populations.

This, of course, is a vastly more fundamental issue than the inability of even the most complex computational methods to incorporate and account for social science phenomena. The susceptibility of the elderly and institutionalized, and in particular those with pre-existing conditions, was a ubiquitous consideration of virtually all medical protocols. Yet somehow between the 1970s and today, human knowledge regarding disease prevention and control — a product of informal institutions and cultural mores — was lost or forgotten; and into the vacuum swept the rigidities of top-down edicts informed by scientism: technocrats wielding agent-based models.

Americans expect government agencies to lie and their prognoses and diagnoses to fail. Policy failures are vastly more common than successes, and successes — where they may be found — are always and everywhere a veritable font of unintended consequences.

Far from producing better responses, models and simulations used as detailed outlines (rather than for high-level, mostly abstract insights) amplify, rather than attenuate, the failures of central planning. The model-driven response to the coronavirus pandemic, which now includes directly sacrificing the most vulnerable segment of the population to the virus, is only the latest. And it joins a growing heap of episodes which include the Fed's response to the late 1920s financial boom and more recently the destruction of Iraq over WMDs that scarcely existed and the botched emergency response to Hurricane Katrina.

Why do we continue to listen?

June 30, 2020

The Fed Is Not Independent, But It Should Be

THOMAS L. HOGAN
Senior Resident Fellow

A fundamental tenet of macroeconomics is that central banks should be allowed to conduct monetary policy independent of short-term politics. Separating monetary policy from fiscal policy allows the central bank to manage the economy's money supply without picking winners and losers and without circumventing the Congressional process. The Federal Reserve is not fully independent, but its recent actions are tantamount to fiscal policy, which exposes it to greater political pressures that might influence its policy decisions.

There is broad agreement among economists that central banks should be independent. It is taught in virtually every macroeconomics textbook and widely discussed in the academic literature. A 2016 survey of macroeconomists asked whether "it is desirable to maintain central bank independence" and found that 94% percent either agreed or strongly agreed. As the Fed's website describes, "Experience around the world has also shown that countries with independent central banks that are able to make decisions free from political influence have better economic outcomes for their citizens."

Independence has many aspects, but the most fundamental rule is that the central bank's monetary policy decisions should not be determined by the government's fiscal policy objectives. If a legislature or executive can order the central bank to print money, then the government can spend without limit. Increasing the quantity of money reduces its value, which can lead to hyperinflation and economic disaster as seen in countries such as Zimbabwe, Venezuela, and Argentina.

Even when not at risk of hyperinflation, fiscal and monetary policies are best kept separate. The money supply is a broad instrument that affects the entire economy. Every central bank faces the challenge of providing the optimal quantity of money demanded in the economy without creating an over- or under-supply. Fiscal policy, by contrast, is more targeted and also more subjective since some people benefit while others are harmed. The questions of who should be taxed and how the funds should be spent are value-based decisions that should be openly debated and decided by democratic means.

Central banks should restrict their attention to monetary policy and leave fiscal policy to be determined by the democratic process. They should also seek to prevent political interference in their monetary policy decisions. Political incumbents, for example, might pressure central bankers to pursue stimulative monetary policy before an election, even if it may lead to a recession thereafter. President Nixon famously pushed Fed Chairman Arthur Burns to help him win reelection in 1972, which kicked off a period of economic stagflation. As former Fed Chairs Volcker, Greenspan, Bernanke, and Yellen together wrote, "The economy functions best when the central bank is free of short-term political pressures."

This is not to suggest that the Fed should be beyond reproach. The agency was established by Congress, which sets its goals and provides oversight to ensure its actions are consistent with those goals. Congress could, for example, require the Fed to follow a monetary policy rule, even if only as a nonbinding benchmark. The rules and objectives set by Congress should ideally offer transparency and democratic accountability while helping the Fed maintain independence from short-term political pressure.

Although no central bank is fully independent, Fed officials generally resist pressure to politicize their policy decisions. Chair Powell, in particular, has defended Fed independence and deflected constant criticism from President Trump. His commendable resolve has helped lower the Fed's political profile. The Fed's recent actions, in contrast, have heightened its political exposure by venturing into the realm of fiscal policy.

In response to the coronavirus outbreak and ensuing lockdown, the Fed created a series of emergency lending programs in areas there were previously outside its authority. The Coronavirus Aid, Relief, and Economic Security (CARES) Act authorizes the Fed to make up to $2.3 trillion in loans to state and local governments, small and medium-sized businesses, and even to large corporations. The Municipal Liquidity Facility (MLF) provides funds to state and local governments, something previous Chairs Bernanke and Yellen said the Fed should never do. The Main Street Lending Program (MSLP) provides loans to small and medium-sized businesses, which is not the Fed's job. The Secondary Market Corporate Credit Facility (SMCCF) allows the Fed to buy junk-grade corporate bonds while the Primary Market Corporate Credit Facility (PMCCF) provides funds directly to large corporations, neither of which has anything to do with ensuring the liquidity of financial markets.

These programs vastly exceed the Fed's mandate. They require the Fed to engage in fiscal policy and, as such, open the door to political pressures. On the MLF, for example, the Fed faced immediate pressure to expand its list of eligible municipalities, to which it has already acquiesced, and was then pressured further to increase the number and types of bonds it would buy. The Fed loosened the eligibility requirements of the MSLP to include a wider range of businesses and is likely to extend it further to include nonprofit organizations. The SMCCF was expanded to create the Fed's own bond market index and increase its portfolio to include any corporate bonds that meet its minimum rating and maturity criteria.

The Fed's new lending programs have nothing to do with its missions to manage the money supply and support liquidity in the banking system. Far beyond simply coordinating policy with the Treasury, the Fed is being asked to conduct policy *as if it were the Treasury.*

Nor have these programs been forced upon the Fed. The CARES Act gives the Fed permission to pursue these facilities, but it does not require the Fed do so. In contrast to previous Chairs Bernanke and Yellen who publicly opposed the Fed funding municipal governments and other fiscal policy actions, presiding Chair Powell seems to be an enthusiastic supporter of such programs. However, it is not too late to close these fiscal-policy facilities before causing further harm to the Fed's reputed independence.

These new lending programs are just getting started. The MLF did not begin purchasing bonds until early June. The MSLP is still not fully operational. The SMCCF has thus far purchased exchange-traded funds (ETFs) but no individual bonds. While the Fed has already promised some funds to awaiting businesses and municipalities, it could still choose not to allocate the remaining credit. Doing so seems especially prudent given recent signs that the economic recovery has already begun.

To be an effective central bank, the Fed must strive to remain independent of short-term political influence. A strict separation of monetary and fiscal policies helps bolster central bank independence. In contrast, the Fed's new emergency lending programs go well beyond its mission and open it up to undesirable political influence. Fed officials should bring an early end to its new lending facilities in order to avoid the politics of fiscal policy and to maintain independence in their own policy decisions.

June 19, 2020

The Fatal Conceit of COVID-19 Epidemic Models

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Chairman of the Board

With apologies to Friedrich Hayek, I find there is a fatal conceit amongst purveyors of epidemiological information that imply they know more than they can know when forecasting the outlook for a new infection. Of course, we have to do the best we can with limited information, but we should be humble in forecasting and reluctant to support politically inspired prescriptions of how society and the economy should be regulated in the face of uncertainty. We have to be very conservative because, more often than not, the first words out of a politician's mouth is "what's the worst case?" From that answer comes policy recommendations.

Be skeptical in the following sense. Long ago the great Austrian economist, Fritz Machlup, observed that in order to understand an economist (you can substitute the word 'scientist;') you need to know what interests he serves. For example, an economist from the chemical industry is unlikely to say anything negative about the outlook for that industry. So, it can be true for scientists due to the influence of funding sources they depend on.
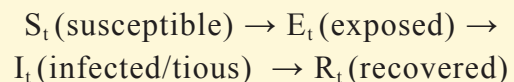
Basic Model

Ever since the modelling work of Kermack and McKendrick in 1927, the mathematical description of how epidemics spread has grown in complexity, but the basic form remains the same. Below is described the five most basic equations that are extensions of their original work. It will be kept simple, but there is a major point to be made that is best understood if one has some understanding first of the equations used.

The key to validity is not the form of the equations, but the parameters to the equations. In early days those parameters need to be estimated with sparsely available data; therefore it is easy to reach conclusions that depend less on the certainty of facts than on the assumptions made. You get what you assume rather than getting what is justified by the facts to become known. Massage the input parameters and you get the outputs you desire. Recall the advice of Machlup.

The use of symbols is not to impress but to provide a sense of what we are talking about in a structured way. The first four equations are differential equations that describe the non-linear path of progression (in units of daily change). Specifically, they describe the propagation of an infection as it works its way through a population causing people to transition between four states starting with S, those that are susceptible, to E, those who are exposed, to I, those who are infected (also described as those who are infectious) and finally, R, those who have recovered. The states and the transitions from one to the next are pictured this way:

$$S_t \,(\text{susceptible}) \rightarrow E_t \,(\text{exposed}) \rightarrow$$
$$I_t \,(\text{infected/tious}) \rightarrow R_t \,(\text{recovered})$$

The changes (that's what ∂ means) in the number of people in each state per unit of time is described as follows:

1. $\partial S/\partial t \;=\; \mu N - \mu S - \beta \, SI/N$
2. $\partial E/\partial t \;=\; \beta \, SI/N - (\mu + \alpha)E$
3. $\partial I/\partial t \;=\; \alpha \, E - (\gamma - \mu)I$
4. $\partial R/\partial t \;=\; \gamma I - \mu R$
5. $R_o \;=\; \alpha/(\mu+\alpha) * \beta/(\mu+\gamma)$

The trajectory of the growth in deaths is derived indirectly by the difference between the infected (I) and the recovered (R).

The number of people in each group varies over time as people transition from group to group according to the probability of contact with someone who is infected, the probability the contact will result in an infection and the probability they will recover from the infection. The 'Greek' symbols are expressions of the transition probabilities and have the following meaning:

β = contact rate, i.e., the average number of contacts of a susceptible person per day, that is sufficient for disease transmission.

μ = mortality rate (% of group)
α = 1/average incubation period (as a % of a year)
γ = 1/average infectious period (as a % of a year)

The R-Naught Bugaboo

The 5th equation shows the calculation of a single number, the dreaded "reproduction number." Also referred to as R naught, it is the number of people that one person – that is, the first person to contract the disease – will infect at the onset of the disease. (Notice the letter R is in bold italics, so as to distinguish it from R, the number of recovered patients).

R naught was made popular in the movie *Contagion*, so a large number of people have a passing familiarity with the concept. In the movie and in life there is a lot of anxiety over the correct value of R naught because in the movie it would determine the fate of mankind in the absence of a cure.

In fact, R naught (R_o) is not directly measured. No one knows how many people were infected by the first infectious person. So, it has to be estimated as a point estimate, meaning it is a single number; that is derived from other numbers, which are themselves inimical to driving the entire hypothetical disease propagation. Though it is an initial condition which determines the behavior of the spread of an infection from the onset we will never directly measure it. It is very important that R_o and its confidence interval are estimated as accurately as possible. However, several other equation parameters come into play, which they themselves are also estimated, and greatly affect the course of an epidemic.

An even bigger question, left unanswered in most academic papers you may read, is how did they come by this simple equation for R_o? Can it be observed directly or is it the byproduct of calculations solving the integrals for the differential equations 1-4, to determine the steady state outcome from initial assumed values of the parameters? This latter approach results in a so-called reduced-form derivation. Since, in the real world for a new disease, most of the parameters (the 'Greeks') are unknown, a simulation can be run based on early tracking to estimate the parameters. Those estimates are improved upon over time as more data is obtained. Once the steady state outcome is calculated from the initial assumptions, a contact number, R_o, can be backward-derived. Many simplifying assumptions are made along the way.

In early days epidemiologists can try to estimate R_o using contact tracing data obtained at the individual level. Who was the first to infect others is uncertain, so you search for the earliest patients who were diagnosed as infected. Their contacts are traced backward and each tested. R_o is then computed by averaging the results for many diagnosed individuals. It is a crude approach.

The other approach is to obtain R_o from cumulative data. This involves making assumptions based on ordinary differential equations that describe the dynamics at the population level of the number of people in each state without actually tracking specific individuals. It is very important to note that one method cannot be used to validate the other method. Mathematically, the relationship between the two calculations is considered complex

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and unknown.

From this point forward there is no need to further reference the differential equations 1-4 shown above. Instead, the focus will be on the calculation of the dreaded R_o. It is derived from four other values that are unknown at the onset of a new disease such as COVID-19. In fact, these values are not only difficult to estimate, but two of them are sure to change over time as the infected population adjusts to the reality of the infection. So whatever value is initially assumed for R_o it is sure to change over time as well as with better data.

But here is the odd thing. The convention amongst epidemiologists is to leave R_o unchanged; it is considered a 'threshold' value. It is kept constant. They know that once over the 'threshold' the reproduction rate will 'evolve' but they call it something else. Furthermore, as will become clear from examples given below, very small errors of measurement of the inputs to the calculation of R_o will have very large effects on the estimated "reproduction number" R_o.

It becomes obvious that any shortcomings in the objectivity and reporting of the early estimates of R_o can set off considerable fear and therefore likely result in wrong-headed personal and policy responses.

Early Estimates of Ro

Health department spokesmen have given enormous emphasis in the press to the reproduction number R_o. It is treated with reverence and fear because, all other things being equal, if it is greater than 2 the infection can rapidly spread and lead to very high infection and death rates.

It seems like such a simple number with such high certainty attached to it. It is used in a way that it can be compared to the pass accuracy rate of a football quarterback. So-and-so has a 98% pass accuracy. But anyone who follows the game knows

that you need to know a lot more if they are going to gain yardage on the field. You need to know if the intended receiver catches it, fumbles it, is bumped off, or it is intercepted. Just as it is true that you need to know more variables than just pass accuracy, it is equally the case for a disease. But it is even harder because a new disease is a one-time thing; it has no history. The rate of spread and lethality will not be known accurately until the end of the disease's propagation. As in football, there are defenses against an accurate passer, so is it true that many things will affect the course of a disease other than simply the R_o.

What have we been told about COVID-19's R_o?

- An early study for the CDC by a group of scientists at Los Alamos, using Chinese data, estimated R_o at 5.7 with a confidence interval of 3.8 to 8.9. A frighteningly high number.
- A later study based on data from Italy put the R_o at 2.43 to 3.10.
- In another study a Harvard scientist suggested R_o was in the 5 to 6 range.

For further perspective, calculations of R_o for Rubella (German measles) was 6.4, for mononucleosis 2.2, for H3N2 (Hong Kong flu) 1.44 and for H2N2 (the Asian flu) 1.33.

Keep in mind that if R_o is less than 1 there will not be an epidemic. It will die out quickly. If it is greater than 2 it is a very serious epidemic.

At this point serious work is no longer focused on estimation of the threshold value of R_o. That is considered yesterday's problem and it doesn't matter anymore, even if the estimate was wrong in the first place. Furthermore, the reproduction rate declines naturally anyway since the contact rate will decrease as the number of recovered cases increases thus reducing the number of people who can still be infected. Today the focus of politicians is to further reduce the reproduction rate by social engineering;

that is, to force a reduction in contacts between the susceptible by social distancing.

Also, keep in mind that R_o is a 'statistical on average number.' It can have about as much meaning as the statement that you will not drown crossing a river with an average depth of 3 feet. We all know how that can go wrong. At the individual level, the number of contacts vary widely based on age, region, occupation, etc. For example, for some spreaders (infectious people) the initial reproduction rate might be 12 and for others 0.

Even more important to the outcome of a disease is the recovery rate and the susceptibility rate. Those two factors are also not known until after the fact. Whether exposure will lead to an infection depends on the precautions taken on both sides of social intercourse. That is why people are encouraged to be extra careful in their sanitary habits because that likely will result in a significantly lower infection transmission rate.

As for the susceptibility rate, most epidemiologists assume that some portion is likely to have some sort of natural immunity. They can't be sure. They start with a zero assumption but as time goes on it is often discovered that exposure to some other disease has given some people an immunity or a decreased susceptibility to the new disease.

Homemade Estimates of R_o
OK, let's look at what goes into the estimation of R_o. From equation 5 (repeated below for convenience) we see that α, β, μ, and γ went into the calculation.

Recalling the reduced-form formula derived from the four partial derivative equations, and the parameter definitions:

$$R_o = \alpha/(\mu+\alpha) * \beta/(\mu+\gamma)$$

β = contact rate, i.e., the average number of contacts of a susceptible person per day, that

is sufficient for transmission.

μ = mortality rate (% of group)

α = 1/average incubation period (as a % of a year)

γ = 1/average infectious period (as a % of a year)

Notice there is a circularity in the calculation. At the get-go we need as an input the death or mortality rate (μ). It is certainly a very important number to know, but we won't know it until the epidemic has played out. The average infection period (γ) can be observed and averaged across patients if you know when the infected person became infected and how long it took for him to not be infectious. It means a lot of daily tests. The incubation period (α) can also be measured if you know when they were exposed and when they came down with symptoms. Finally, there's the contact rate (β). That too is a guess. The contact rate is a number that estimates the average number of contacts a susceptible person experiences in a day that is sufficient for the transmission of the disease. It is not the total number of contacts one has but only that subset with those who are infectious and that those contacts must be serious enough that there could be transmission.

First, let's make some guesses at each parameter to get a feel for magnitudes and sensitivities. The values used in each of the cases described next are also recorded in the Table below.

Case #1
Assume the average incubation period is 10 days, then α is 0.1.

Assume a susceptible person comes into contact with 30 people in a day and 5% of them are infected and in close enough contact to cause transmission. Then the contact rate β would be 1.5.

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Further, assume the mortality (death) rate, μ is 1%.

Finally, assume the infection period is 5 days, then γ is 0.2.

Solving for R_o we get:

$$R_o = .1/(.01 + 0.1) \text{ x } 1.5/(.01 + 0.2)$$

$$= 0.1/0.11 \text{ x } 1.5/0.21$$

$$= 0.909 \text{ x } 7.143$$

$$= 6.49$$

That value is similar to the early estimate based on Chinese data cited earlier.

Case #2

Evidence suggests the incubation period may be somewhat longer, e.g., 14 days. That causes R_o to decrease slightly to 6.27.

Case #3

If the number of contacts 'susceptibles' have with people who are infected, and where the contact is significant at 5%, drops to 20, then R_o falls to 4.18.

The remaining 4 of the 7 cases show different combinations of assumptions of the parameters. Primarily the infection period is lengthened and the likelihood of an infection from a contact is reduced. By the 7th simulation, the initial estimate of R_o drops to below 2.

Conclusion

The epidemiological world has published countless articles and studies warning against the tendency and ease with which one can overestimate R_o. We have fallen prey to this tendency once again. The Fatal Conceit of bureaucrats in the service of politicians is that they imagine they know more than they actually need to know to design appropriate policy. They employ many scientists who struggle to maintain objectivity, but it is easy for those who control their budgets to pick and choose whose work they will support. Small errors of assumptions can produce large errors of policy.

When it is argued that it is "better to be safe than sorry," the response should be "how do you measure the value of 'safe?'" Number of sick, number of deaths, loss of freedom, loss to the economy? Is a loss of profits or GDP ever worth more than the loss of a life?

In war a general can ask for people to risk their lives for an objective. In peace time that ask can never be made.

The best answer would be to allow freedom of choice; that is, people should be granted the freedom to pursue personal preferences and arrangements. That freedom will result in manifold decisions. If left to the politician there will be only one decision, one that most assuredly will lead to a loss of personal and economic freedom.

June 10, 2020

To End an Era of Brutality, End Qualified Immunity

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Rodney King. Timothy Thomas. Michael Brown. Keith Lamont. Breonna Taylor. Philando Castile. George Floyd. This is an utterly incomplete list of individuals whose often fatal interaction with the police have been followed by mass protest and civil unrest. America keeps reliving the same episode of racial tension. Perhaps intensified by months of home confinement and a sustained bout of involuntary unemployment for many, this episode is reminiscent of the response of many to Rodney King in 1992.

As I write, I am listening to explosions outside of my window (whether firecrackers or the sound of rubber bullets, I don't know) as protests have made their way even to small cities. The problem that we face is not germane only to Minneapolis, nor is it only present in large cities. This tension being felt across the United States has been boiling for decades.

Jay Schweikert at Cato Institute points to qualified immunity as a significant input into the unraveling of relations between police and many in the communities that they serve. In theory, the law is supposed to protect officers who take appropriate precaution, but perception is that it grants boilerplate protection in practice.

Being American, I am familiar with the periodic flare ups in cities across the U.S. that result from indignation among minorities concerning their treatment by police. The theory that qualified immunity plays a vital role in instances of police brutality, like that observed in Minneapolis with George Floyd this week, posits that protection of police from legal consequences when their engagement becomes brutal incentivizes officers to act carelessly.

If this interpretation is correct, then qualified immunity acts as a legal insurance for police officers. Each day, officers face the possibility that their lives could be taken in violent conflict, even if they perform their duties perfectly. Even an officer as kind as Andy Taylor from The Andy Griffith Show faces this threat. Qualified immunity is supposed to protect officers when a situation escalates due to no fault of their own. Schweikert notes that qualified immunity has, in practice, led to systemic acceptance of misbehavior by police officers, noting that even Fox News and CNN agree that the legal doctrine is problematic.

If Schweikert is correct, police brutality is an institutional problem, as opposed to an inherent bias in your average police officer. It is especially problematic as it promotes an increase in the severity and rate of occurrence of violent outlier events. The consistent, if periodic, occurrence of episodes akin to the recent incident with George Floyd and resultant civil unrest seem to bear this out.

In economics, we refer to incentivization of poor behavior from insured parties as moral hazard. Taking as given that qualified immunity incentivizes moral hazard, we must inquire concerning a reasonable path away from what appears to be a suboptimal equilibrium. Insurance provides protection from extreme events. Absent insurance, individuals must bear risk, which is to say that they are subject to increased costs.

If qualified immunity has been acting as insurance for police officers, to retire the legal doctrine would lead officers to bear greater legal risk. The theory goes that in bearing this risk, officers will

be incentivized to engage in their service more carefully. But this does not change the fact that the officers will be bearing greater cost than they would otherwise.

Gordon Tullock taught us that gains provided by institutional arrangements to specific parties at a cost to the broader population are especially difficult to remove. He called this the transitional gains trap. The obvious way to transform an institution that incentivizes suboptimal outcomes for those not benefited by it is to compensate those who are benefited by the existing institutional arrangement. This will incentivize widespread acceptance of the transformation of the institution, potentially promoting superior outcomes for those who had not benefited from the previous system.

Without qualified immunity, officers would likely demand higher compensation to offset the increase in risk that they bear as a result of the retirement of the legal doctrine. This might come in the form of higher wages and promise of legal support for officers in cases where conflict leads to legal dispute. This would encourage officials to openly support the end of qualified immunity while communicating to officers that the community supports them. To ensure that officers are compensated says, in effect, that we appreciate the risk to their own lives that they take each day in service of their communities.

Building support that could effectively end QI would also build political capital among those upset at the current state of relations between their communities and the officers that police them. It could bring us peace when we need it most, as the nation emerges from social and economic burdens brought by the COVID-19 pandemic and the response.

June 2, 2020