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RESEARCH REPORTS

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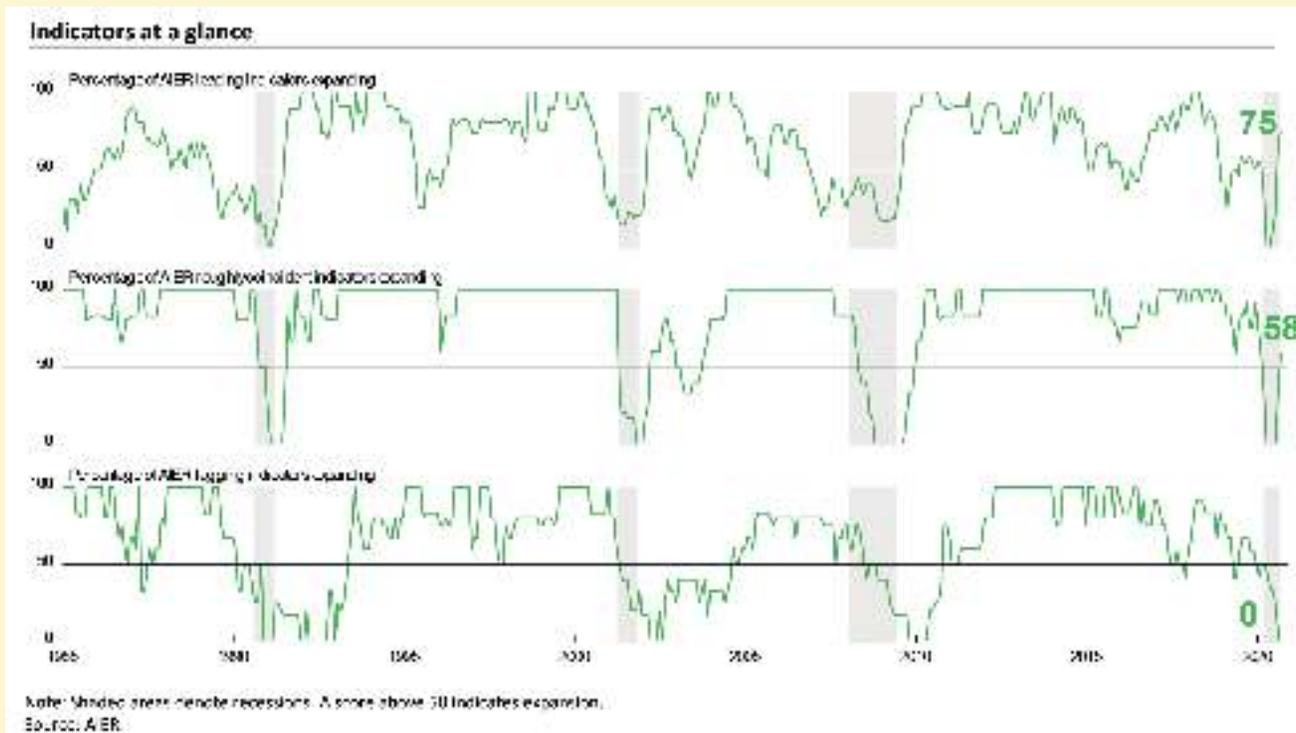
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BUSINESS
CONDITIONS
MONTHLY

Robert Hughes

SENIOR RESEARCH FELLOW

AIER's Leading Indicators Index Improves Again in October



The U.S. economy continued to recover in October from the historic plunge in economic activity in the first half of the year. However, the pace of recovery in some areas has slowed. Furthermore, fallout from continuing restrictions (small business and personal bankruptcies) as well as the potential for renewed lockdown policies remain ongoing threats to future growth.

AIER's leading and coincident indexes rose again in October with the Leading Indicators index rising to 75 and the Roughly Coincident Indicators index increasing to 58; the Lagging Indicators index, however, remained at zero for the second consecutive month. Four consecutive increases in the leading index suggest the recovery continues to broaden and may signal the end of the recession (see chart).

Real gross domestic product grew at a record pace in the third quarter rebounding from a historic plunge in the second quarter. While the economy has begun to expand again, measures of economic health vary widely, with some areas fully retracing or exceeding prior peaks and others remaining well below. Furthermore, there are a number of areas that continue to experience disruption, suggesting that while the recession may be over, some areas remain weak.

AIER Leading Indicators index points to expansion

The AIER Leading Indicators index rose to a reading of 75 (on a scale of 0 to 100) in October, up from 67 in September and 21 in August; the September increase was the second largest monthly gain on record. The October result is the highest reading since November 2018.

One leading indicator changed signals in October. Total heavy-truck unit sales improved from a negative trend to a positive trend. The overall results among the 12 leading indicators show nine indicators in uptrends, three indicators still in downtrends, and none in neutral trends compared to eight indicators in a positive trend, four in negative trends and none with neutral trends last month.

The Roughly Coincident Indicators index increased to 58 in October, up from 33 in September and following four consecutive months at the lower bound of zero from May through August. 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. The Roughly Coincident Indicators index is now at the highest level since March 2020.

Two roughly coincident indicators changed signs in September: real personal income excluding transfers and the Consumer Confidence index for the present situation from The Conference Board. Real personal income excluding transfers improved from a negative trend to a positive in the latest month while the consumer confidence indicator improved from a negative trend to a neutral trend.

Overall, three roughly coincident indicators had positive trends in October while two remained in negative trends and one was in a neutral trend versus two indicators trending favorably, four trending unfavorably and none with a neutral trend last month.

AIER's Lagging Indicators index held at 0 in October, the second month at the lower bound. The last time the index held at the lower bound was a seven-month run from November 2009 through May 2010.

Overall, consecutive gains for both the Leading Indicators index (four consecutive gains) and the Roughly Coincident Indicators index (two consecutive gains) suggest that the end of the recession

may have occurred or is imminent. However, the National Bureau of Economic Research is unlikely to declare an official end to the recession for some time as the risk of a double dip recession remains. Some areas of the economy benefited from the initial push to reopen and posted sharp rebounds in recent months following massive drops in March and April. However, the latest data indicate that growth may be starting to falter in some areas. Furthermore, with Covid-19 on the rise again, the potential for renewed restrictive policies as well as the potential for a rise in personal and business bankruptcies suggest the outlook for the economy remains highly uncertain.

Third quarter gross domestic product sets a record

Real gross domestic product surged at a historic 33.1 percent annualized rate in the third quarter, up sharply from a historic 31.4 percent pace of decline in the second quarter. Over the past four quarters, real gross domestic product is still down 2.9 percent, and 3.4 percent, or \$659 billion, below the previous expansion trend. On a nominal basis, gross domestic product rose 38.0 percent in the third quarter, putting the change from a year ago at -1.8 percent.

Real final sales to private domestic purchasers, a key measure of private domestic demand, jumped at a 38.1 percent annualized rate in the third quarter, versus a 32.4 percent pace of decline in the second quarter. The rebound still leaves this important measure 4.2 percent below trend.

Gains were widespread across the economy

Real consumer spending rose sharply in the third quarter, increasing at a 40.7 percent pace compared to a -33.2 percent rate in the second quarter. The gain was the result of rises in spending on durable-goods (up 82.2 percent) nondurable-goods (28.8 percent), and services (38.4 percent).

Business fixed investment increased at a 28.5

percent annualized rate in the third quarter of 2020. That gain was led by a 70.1 percent surge in spending on equipment while spending on structures fell 14.6 percent, the fourth consecutive decline, and Intellectual-property investment fell at a 1.0 percent pace.

Residential investment, or housing, jumped at a 59.7 percent annual rate in the third quarter compared to a 64.4 percent drop in the prior quarter. Housing has shown resilience in the current environment as extremely low interest rates combined with the desire by some people to move away from virus epicenters have created demand.

Businesses liquidated inventory at a \$1.0 billion annual rate (in real terms) in the third quarter versus liquidation at a \$287.0 billion rate in the second quarter, adding 6.62 percentage points to third-quarter growth after subtracting 3.5 percentage points in the prior quarter.

Exports rose at a 59.7 percent pace while imports rocketed at a higher at a 91.1 percent rate. Since imports count as a negative in the calculation of gross domestic product, a gain in imports is a negative for GDP growth, subtracting 7.99 percentage points. Net trade, as used in the calculation of gross domestic product, subtracted 3.09 percentage points from overall growth.

Government spending fell at a 4.5 percent annualized rate in the third quarter compared to a 2.5 percent gain in the second quarter, subtracting 0.68 percentage points from growth versus a 0.77-point contribution in the second quarter of the year.

Uneven recoveries

Despite the rebounds in the third quarter, several key components of domestic demand remain well below their fourth-quarter 2019 level. Consumer spending on durable goods and on nondurable goods as well as new home construction are the three areas that are above prior peaks while consumer services, all three

major components of business fixed investment, and exports are all well below the fourth quarter. High levels of uncertainty, especially regarding policy, are likely to sustain an elevated level of caution among businesses, resulting in weak investment and slow recovery for the labor market.

The U.S. economy suffered a historic contraction in the second quarter as government shutdowns intended to fight the Covid-19 outbreak sent economic activity plunging and unemployment soaring. Reopening has spurred a historic rebound in the third quarter, but some areas of the economy remain below pre-pandemic levels. A resurgence of new cases and deaths attributed to Covid-19 as well as extreme partisanship in the governing process is sustaining a very high level of uncertainty, confusion, and risk aversion among consumers and businesses.

Early Fourth quarter data are mixed

Initial claims for regular state unemployment insurance totaled 751,000 for the week ending October 31, down 7,000 from the previous week's revised tally of 758,000. Claims have posted a third consecutive week below 800,000 though the level is still high by historical comparison. The four-week average was 787,000, down 4,000 from the prior average. The latest week is the 33rd week of historically massive claims. Prior to the lockdowns, initial claims were running around 230,000. Persistent initial claims at such a historically high level remain a troubling sign for the labor market recovery and the economy.

The number of ongoing claims for state unemployment programs totaled 7.436 million for the week ending October 17, down 601,929 from the prior week. For the same week in 2019, ongoing claims were 1.417 million. Continuing claims from state programs have trended lower since the peak in early March. Over the same period, continuing claims in all federal programs have trended higher, reaching 14.092 million for the week ending October 17.

The total number of people claiming benefits in all unemployment programs including all emergency programs was 21.509 million for the week ended October 17, down 1.153 million from the prior week. While there has been improvement from the catastrophic results in March and April, the current levels of weekly initial claims and continuing claims in all programs are still very high.

Unit auto sales slowed slightly in October

Sales of light vehicles totaled 16.2 million at an annual rate in October, slightly below the 16.3 million pace in September but the second month in a row back in the 16 to 18 million range following plunges in March and April. 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 October, light-truck sales totaled 12.4 million at an annual rate versus a 12.6 million rate in September but well ahead of the 6.7 million rate in April. Car sales posted a modest gain, rising to a 3.8 annual rate versus 3.7 in September and 2.0 in April.

The light-truck share stood at 76.5 percent for October, below the 77.9 percent record high in May, but still completely dominating the car share of 23.5 percent. The dominant share of light-trucks continues a long-term trend. As recently as February 2013, the split between cars and light-trucks (SUVs and pick-up trucks) was about even, with both segments selling about 7.8 million at an annual rate. Breaking down sales by origin of assembly, sales of domestic vehicles fell to 12.7 million units versus 12.8 million in September while imports were essentially unchanged at 3.5 million.

Consumer Sentiment Remains Subdued in October

The latest results from the University of Michigan

Surveys of Consumers show overall consumer sentiment was little changed in October and remains well below pre-pandemic levels. Consumer sentiment increased to 81.8 in October, up from 80.4 in September, a 1.7 percent gain. From a year ago, the index is still down 14.3 percent and is 15.8 percent below the average level from 2018 through 2019.

The sub-indexes posted mixed results in October. The current-economic-conditions index fell to 85.9 from 87.8 in September. That is a 2.2 percent drop and still leaves the index with a 24.1 percent decrease from October 2019 and 23.7 percent below the pre-pandemic two-year average. The second sub-index — that of consumer expectations, one of the AIER leading indicators — rose 3.6 points or 4.8 percent for the month but is 5.9 percent below the prior year and 9.3 percent below the pre-pandemic average.

According to the report, “Fear and loathing produced this false sense of stability. Fears were generated by rising covid infection and death rates, and loathing was generated by the hyper-partisanship that has driven the election to ideological extremes.”

The report goes on to add, “Moreover, the impact of the covid virus and the extremes of hyper-partisanship will continue long past next week’s election, with the potential to permanently alter the economic and political landscape. As noted when Trump won over Clinton in 2016, the economic expectations of Republicans and Democrats shifted in opposite directions and by large amounts given that two-thirds of all consumers incorrectly anticipated a Clinton victory. Since a Biden win over Trump (53% vs. 42%) was anticipated in the October survey, it should be no surprise that optimism among Democrats about their future finances rose substantially compared with Republicans. Importantly, for the first time in nearly four years, the financial expectations of Republicans and Democrats were nearly equal. Compared with three months ago, the Expectations Index rose by 50% among Democrats

but just 7% among Republicans.”

The path of recovery may ultimately depend on progress understanding the virus that causes Covid-19 and the ability to develop and deploy a vaccine. The survey notes, “The outcome of the election can accelerate or narrow these partisan shifts, but unlike the 2016 election, renewed optimism now requires progress against the coronavirus and mitigating its uneven impact on families, firms, and local governments.”

CAPITAL MARKET PERFORMANCE

(Percent change)

	October	Latest 3M	Latest 12M	Calendar Year			Annualized		
				2019	2018	2017	3-year	5-year	10-year
Equity Markets									
S&P 1500	-2.4	0.1	6.5	28.3	-6.8	18.8	7.6	9.1	10.5
S&P 500 - total return	-2.7	0.4	9.7	31.5	-4.4	21.8	10.4	11.7	13.0
S&P 500 - price only	-2.8	0.0	7.7	28.9	-6.2	19.4	8.3	9.5	10.7
S&P 400	2.1	2.0	-2.8	24.1	-12.5	14.5	1.2	5.6	8.7
Russell 2000	2.0	3.9	-1.5	23.7	-12.2	13.1	0.8	5.8	8.1
Dow Jones Global Large-Cap Index	-2.8	-0.1	3.7	23.8	-10.4	42.9	3.9	6.3	5.7
Dow Jones Global Large-Cap ex-U.S. Index	-1.9	-0.6	-4.3	18.2	-15.7	41.0	-2.2	1.9	0.9
STOXX Europe 600 Index	-5.2	-3.9	-13.7	23.2	-13.2	7.7	-4.7	-1.8	2.6
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-3.5	-7.9	11.6	11.5	-4.2	6.5	8.2	5.1	4.6
iShares AAA - A Corporate Bond Fund	-0.9	-3.2	4.6	9.1	-5.2	2.9	2.8	2.2	NA
Commodity Markets									
Gold	-1.0	-4.8	24.5	18.7	-1.7	12.6	14.0	10.5	3.4
Silver	-0.4	-1.8	30.9	16.7	-8.3	3.8	12.0	8.6	-0.1
Refinitiv equal-weight commodities index	-0.9	4.3	1.5	7.6	-7.1	0.0	-0.6	0.3	-3.2

Sources: Barrons, Dow Jones, Frank Russell, iShares, Standard & Poor's, STOXX Europe 600, Refinitiv.

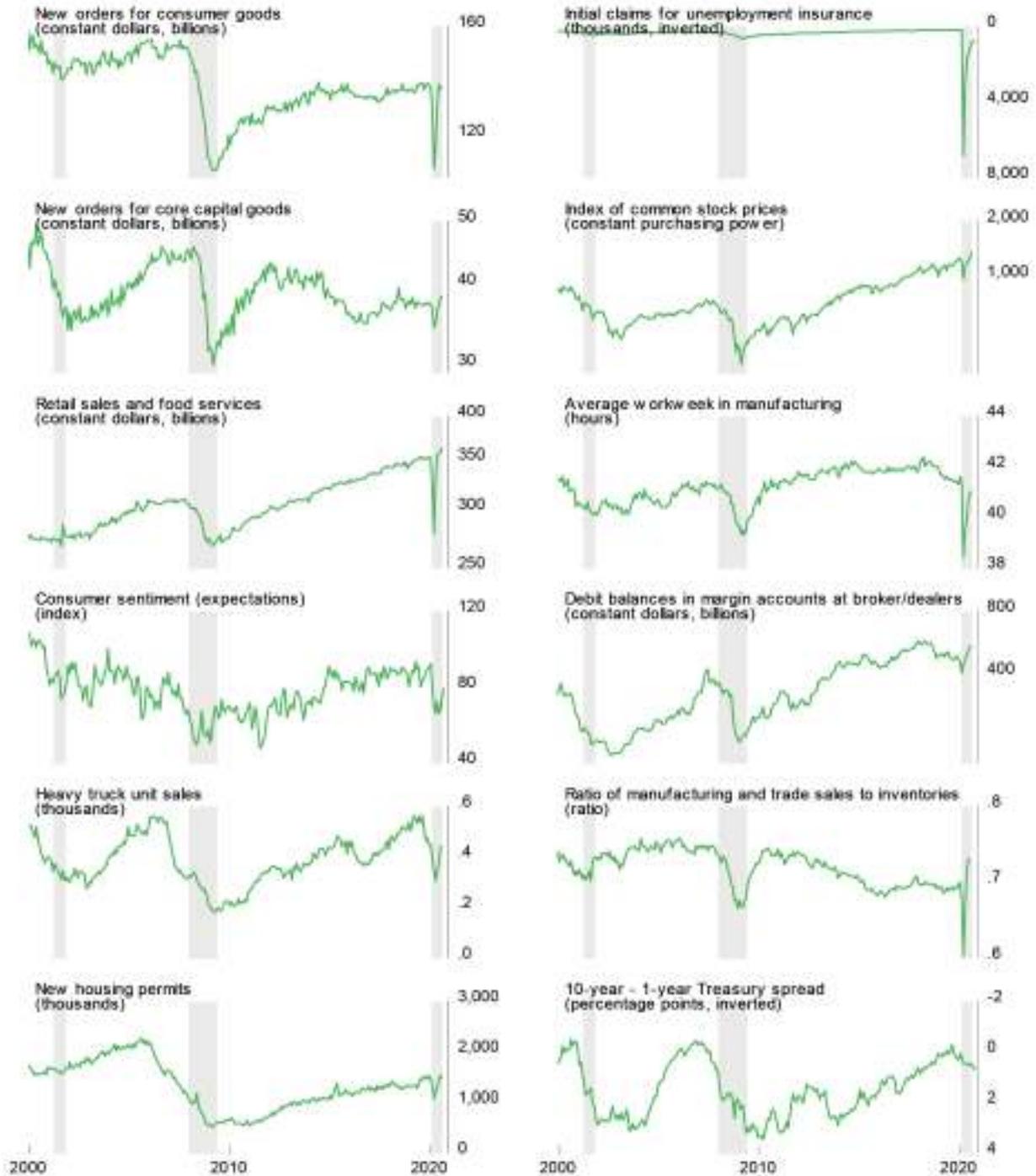
CONSUMER FINANCE RATES

(Percent)

	October	Latest 3M	Latest 12M	Average for Year			Average over Period		
				2019	2018	2017	3-year	5-year	10-year
30-yr. fixed mortgage	2.9	3.0	3.4	3.9	3.7	3.9	4.0	3.9	4.0
15-yr. fixed mortgage	2.4	2.5	2.8	3.4	2.9	3.1	3.4	3.3	3.3
5-yr. adjustable mortgage	3.0	3.0	3.2	3.6	2.9	2.9	3.5	3.3	3.2
48-month new car loan	5.0	5.0	5.2	5.4	4.3	4.2	5.2	4.8	4.8

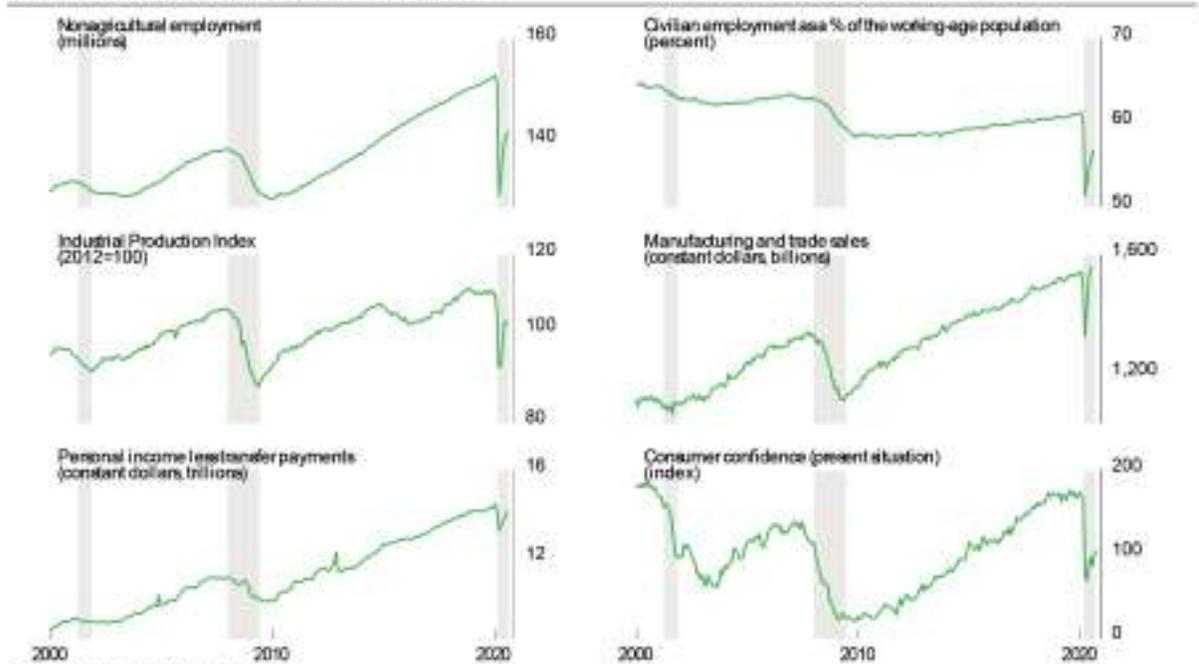
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (2000-2020)



Note: Shaded areas denote recessions.
 Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AER (Refinitiv).

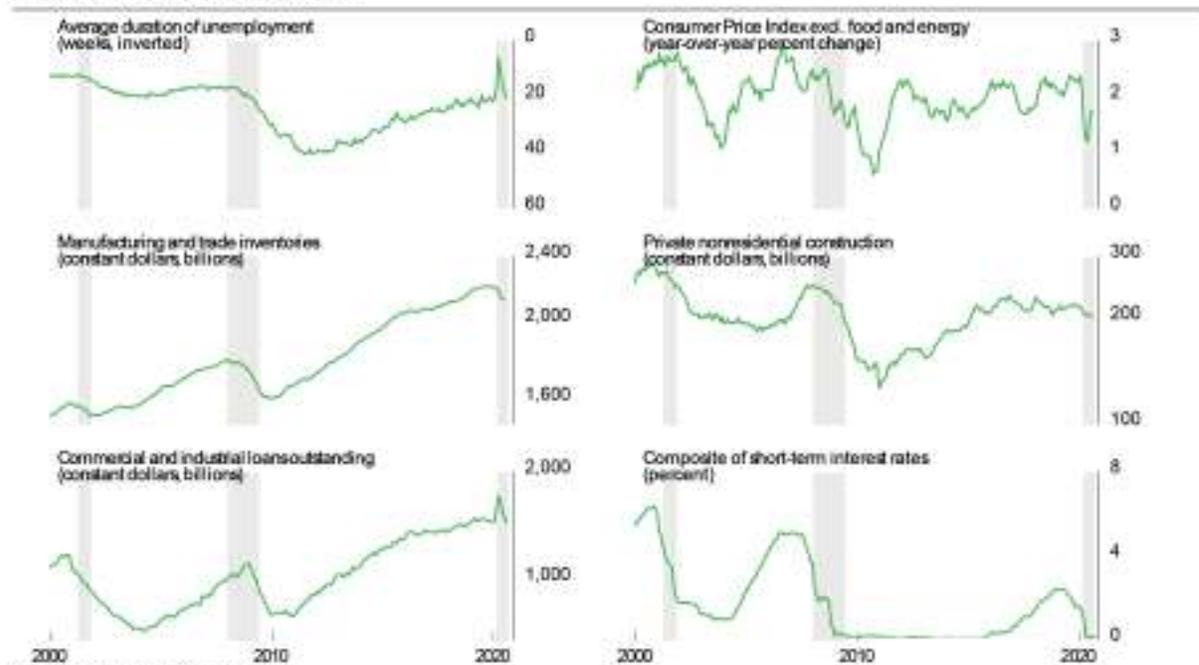
ROUGHLY COINCIDENT INDICATORS (2000-2020)



Note: Shaded areas denote recessions.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AJER (Refinitiv).

LAGGING INDICATORS (2000-2020)



Note: Shaded areas denote recessions.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AJER (Refinitiv).

The Year of Disguises

ROGER W. KOOPS

Contributor

2020 is a year of disguises. Some examples include computer models/modelers disguised as “science/scientists,” Tyrants/Dictators/Totalitarians disguised as “elected officials,” propaganda machines disguised as “news sources,” brainwashing disguised as “information,” censorship disguised as “public health safeguard,” panic and fear disguised as “social responsibility.”

Even the virus itself has been disguised by humans as an “apocalypse.” But, the last part is not the doing of the virus, but the doings of a select number of humans who are responsible for many of the other disguises as well. And if you look at the totality of events in 2020, it is clear that the average citizen has been treated generally less than human, certainly not as adults in any case.

I believe we are in as great a crisis as a species as we have ever been. The crisis is not from some *seasonal virus* (which is a health issue), but *it is from ourselves and what we have devolved into as a species* (social, cultural, ideological issues).

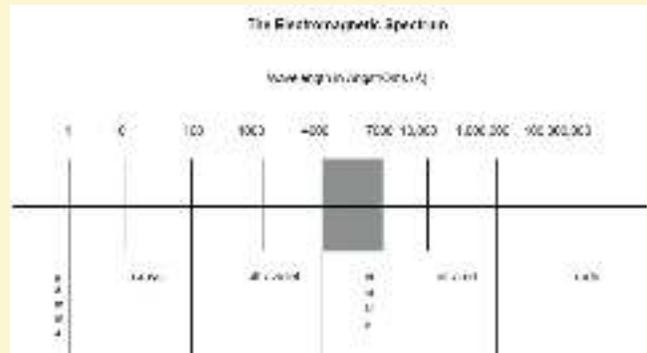
I have debated with myself on how to approach the following essay. Under normal circumstances, it would be easy. But, the topic has been so warped and sensationalized into political and social hyperbole, it is difficult to get a handle on it. I could go at it strictly from a scientific perspective, but that would tune many people out.

After about two weeks of my own internal debate and several versions, I have decided to treat the readers of this essay as Human Adults. I will try to not get too technical but rather use rational arguments to approach the issue of a viral infection from the perspective of the virus molecule outside of the host, i.e., the natural environment.

Computer modeling is “a” tool, not “the” tool. The model is only as good as the assumptions put into the model. It has been clear from the start that the modelers have NO idea of how a virus works in the natural world. They have based their modeling on the assumption that the culprit is the human being. The human being must be controlled in order to control the virus. This is completely wrong. I hope to present arguments that illustrate the weaknesses of the modeling concepts.

Human Perception

The natural perceptive abilities, i.e. the physical senses, of human beings are quite poor. For example, we can see only a very, very small part of the electromagnetic spectrum, illustrated as follows:



Consequently, humans have difficulty understanding that which is not directly observable by their senses. Size and mass we do okay at, providing we can see it. We tend to have better abilities with larger things that we can observe. But, even size perception has its limits. For example, many people cannot grasp the scope of our universe.

Smaller things, things we cannot see we have trouble with. We live, and have always lived, in

a world with things that are far smaller than our ability to detect without some instrumental aid. For example, when I tell people that their bodies are mostly empty space, they scoff. We have solid substance, they say, we can feel it. I respond that the reason we feel it is solid is because that is how our brain interprets it.

For example, neutrinos are subatomic particles with no mass. They do not interact with matter. We are bombarded by interstellar neutrinos throughout our lives. They pass right through us. It makes no difference where you live because they pass right through the Earth, too. You can live a whole lifetime and never have experienced a collision of a neutrino with a cell in your body. Think about it; is it difficult to grasp?

Yes, neutrinos are exotic and basically of interest to physicists. But we exist in a constant interaction with other not-so-exotic things.

Bacteria and fungi, at the cellular level, exist at the micron scale (see the scale diagram below). But, they have the cellular machinery to grow on their own, i.e., their cells will divide and multiply as long as they have nutrients. We cannot see them normally without a microscope. But, if they keep growing, eventually we can see them (as things such as moldy bread, or mildew on the wall), or even feel them (old vegetables that get a “slimy” feeling actually have a bacterial plaque on their surface). Both bacteria and fungi can form “spores” to protect themselves under harsh conditions. It is a form of hibernation.

We have bacteria and fungi in our bodies constantly. Our immune system usually keeps them at bay, or more accurately, keeps them in balance. However, if our immune system weakens, or if a balance is shifted towards the bacteria/fungi, the balance can tip in their favor and we can experience disease. We tend to have more difficulty with control of bacterial/fungal infections than viral infections. In fact, the most common cause of a fatal outcome

due to viral infection, including coronavirus, is a bacterial infection.

The reason the second week of infection is considered the worry stage is NOT because of the virus; rather this is the time when a weakened immune system, either by exposure or by losing the balance battle cannot prevent the bacteria/fungi from taking off. Most people who die from influenza, coronavirus, even rhinovirus, do so primarily from pneumonia (bacterial infection) or some other systemic bacterial infection.

Other things, besides fighting a virus, can weaken the immune system. Aging, diabetes/obesity, liver disease, kidney disease, cancer, lung disease, other infections (viral/bacterial/fungal), stress, circulatory problems, cardiovascular disease, and several others all can cause weakened immune systems (that is why they are called “comorbidities”). Clearly, the number and degree of conditions that weaken your immune system greatly increase the risk of severe disease or death from any infectious disease (bacterial, fungal, or viral).

All of these things occur at a level where our senses cannot perceive them. Fortunately, our bodies recognize these things at the molecular level and it is our own chemistry (we call “biochemistry”) that intervenes, mainly in the form of our immune system.

The Virus: What are we dealing with?

My Doctoral degree is in “organic” chemistry, specifically, chemistry involving carbon-based compounds. Chemistry is about working with problems at a molecular level. Guess what a virus like coronavirus is? It is a complex organic molecule. Organic chemists would call it a “macromolecule” where “macro” means large. It is only considered “large” in comparison to small molecules. I am naturally inclined to look at a virus like coronavirus as an organic molecule.

Coronavirus (CV) and influenza (IF) are very

similar at the molecular level. Both are ribonucleic acid (RNA) viruses and both are enveloped helical (meaning that they have a similar 3- dimensional structure with a protein outer part and the RNA inside). CV is a positive strand RNA and IF is a negative strand RNA. This means they have opposite structures much like you have a left hand and a right hand. Their viral class identification is different partly for that reason.

Both CV and IF behave almost the same outside of the body and this is due to their size, structure, and relative chemical similarities. On average, both are about the same size, ranging around 100 ±30 nanometers or nm (CV can range smaller in size than IF). For consistency purposes, I will refer to both of them at the 100 nm size, which is reasonably accurate (nm is 10⁻⁹ meter (0.000000001 meter), a micron (µm) is 10⁻⁶ meter (0.000001 meter). The meter is about 10% longer than a yard, or 39.37 inches so 1 micron is 0.00003937 inch.

I have created the following scale for a reference point using font sizes, and I hope that the fonts are reasonably accurate. Note that our eyes cannot see 5 micron, so this is enhanced.

Relative Size Visual Comparison Chart					
Size	100 nm	100 nm	1 micron	2.5 micron	5 micron
					
Scale:	CVIF Original Size	50 Micron New	Microscopic View July 1, 2017	Microscopic View	Microscopic
Material	Acetone		Laser Printer/3D Printer		Engraved

As the chart shows, both CV and IF as a molecule outside of the body are VERY, VERY small. They

are undetectable without the use of an electron microscope. We simply cannot detect it in the natural environment. The tip of your finger, maybe 1 square millimeter, can literally pick up tens of millions of virus particles and you could not see any of them.

Because of the small size, we really do not know how they truly exist in the environment. They could be floating around as individual molecules, i.e. as single CV/IF particles. They could “aggregate,” meaning that they form clumps of molecules (again, too small to detect). They could attach to any other particle in the environment. Since they are so small, they could hitch rides with dust particles, pollens, leaves, just about anything that they may have an affinity for. The list of possibilities extends to anything you could think of in the environment, including living creatures. In short, they simply could be anywhere and everywhere.

Molecules can react with other molecules (reactivity), or they can remain as they are or fall apart into smaller molecules (stability). For the purpose of this essay, I will focus mainly on stability.

Most molecules have conditions that can render them either more stable or less stable. Clearly, with an infectious disease molecule, we would want to try and break it apart, or not give it stability. Breaking it apart usually renders it inert; i.e. non-infectious.

In an outdoor environment, we know that the CV/IF molecule will start to break apart within minutes or maybe last an hour or two. The local environmental conditions will determine how fast the molecule breaks up. We know that heat and ultraviolet (UV) radiation are pretty good at breaking it up.

There are things that chemically will help break it up. For example, saline conditions, like in an ocean are good (it may be considered a “natural disinfectant”). There are man-made disinfectants such as bleach. We know that CV/IF are not stable under pH of 3 or over a pH of 10. So if the molecule encounters either natural or man-made conditions

that deal with these pHs, the molecule will break up. Common soaps are good for breaking up the molecule. This is why there is the recommendation to wash with soap and water.

Likewise, there are conditions that increase the stability of the molecule. Both CV/IF survive longer under colder conditions. This is probably one reason why they tend to favor winter months and colder climates.

We know that certain types of surfaces can make it more stable. For example, CV has good stability on plastic (1/2 life of almost 8 hours) and has even been detected up to one week on surgical masks. Some types of metals, such as copper, can speed up decomposition and some metals lend stability (such as stainless steel).

Skin can actually be good at destabilizing because of not only sweat but also the natural oils and detergents that are produced in the skin can break apart these types of molecules. That is a reason that skin absorption is not considered a vector of infection. Serious breaks in the skin, however, such as from burns or injuries, could lead to infection due to the decreased natural inhibition.

So, in general, we would want to try and increase exposure of the molecule to conditions that destabilize while trying to minimize the stabilizing conditions.

The Virus in Disease Transmission

The “rationale” for lockdowns, masks, distancing, etc. all rest on the assumption that human direct transmission is the greatest risk for disease. Anyone, at any given time, in any place can pass the virus to another. It sort of reminds me of the character “Cofi” in the movie “The Green Mile.” People seem to be convinced that somehow, the only way to catch this virus is because it makes a beeline from person to person. In other words, we are the culprits.

But, is this really the case? In short, “No” and

here is why.

Because of the modeler’s view, if we imprison people (“lockdown” – a term used in penal institutions when prisoners become unruly), cover their faces (“masking”), and keep them from doing what people do, i.e. socializing (“distancing”), we can stop the virus. This concept is what “wannabe” dictators all over the world have embraced.

This is NONSENSE. Certainly, you can get infected that way but that is only one way of many ways. It may not even be the main way. It is “losing sight of the forest for the trees.”

To examine the path to infection more closely, let’s make the following assumptions (which you can see are more or less worst case assumptions):

Assumption 1. A person has CV/IF and is shedding, i.e. releasing virus from their bodies. Further, let’s focus on the nasal/oral route for shedding as the only route, even though we know that the virus can be shed from feces.

Assumption 2. All shed virus is infectious. This may sound like a strange assumption but we really do not know HOW infectious shedding viruses truly are. What is being shed could be combinations of fragmented virus and more intact virus. The reason it is not clear is because a main method that is used for identification of samples is PCR. PCR cannot tell whether what is being amplified is actually infectious or not.

When we exhale breath, speak, sing, laugh, cough, shout, sneeze, hiss, scoff, grunt, etc., air is expelled from our, mostly, upper respiratory tract. This air MAY or MAY NOT contain particles of moisture (mostly water). These moisture particles MAY or MAY NOT contain mucus, cellular debris, bacteria etc. from our respiratory tract. These moisture particles MAY or MAY NOT contain virus particles. In other words, there MAY be virus particles hitching a ride or there may be NONE.

There is no scientific evidence that when a person

is infected that they are continually expelling virus, but that goes to a different essay. Please note, I am not referring to the playground use of the “spitball,” which is a massive collection of saliva, which may or may not contain any of the above. However, I think that we all can agree that amorous kissing when there is an infected person involved runs the highest risk of transmission. But this has more to do with direct contact. I want to deal with indirect routes of transmission.

The expelled moisture particles range in size from very, very small to much larger and for scientific purposes are divided typically into two categories: (1) aerosols, which are the very small particles usually below 1 micron, and (2) droplets, which are particles larger than 5 micron. The range between 1-5 micron is sometimes ambiguously defined either as an aerosol or a droplet but that is not really important for this discussion. You can see the whole range is involved.

Once expelled (egress) away from the nose/mouth, moisture particles will travel certain distances depending on their sizes. Larger droplets fall closer to the individual while aerosols can travel much farther or remain suspended. We have imaging techniques to see droplets using special high speed cameras, but we cannot visualize aerosols.

Clearly, independent virus particles that are NOT hitching rides are expelled as nanoparticles and go out into the environment. We cannot begin to see these. But, as nanoparticles, we should assume that they can remain air suspended for long periods of time and are taken up by the local air movement patterns.

Aerosols and droplets, after leaving the mouth/nose will quickly lose their moisture, i.e. the water base will evaporate. The smaller the particle, the quicker this will happen. With aerosols, it may be within a fraction of a second. Environmental conditions will also affect the timing. Warmer and dryer conditions will speed up evaporation while

colder and more humid conditions will slow it down. Studies have indicated that under most normal temperature conditions, aerosols and droplets less than 100 micron in size evaporate before they hit the ground.

What happens to the hitchhiking virus? IT IS STILL THERE! It does not evaporate. It has lost its ride but it is still there.

What happens to it now? It can go anywhere, i.e. it can be dispersed just like the free molecule. It will last as long as it is stable. It can be carried by the wind (outdoors) or by air movements or HVAC (indoors). It can hitch a ride with other carrier things (outdoor examples such as above). It can land on surfaces, any surface, whether indoors or outdoors. Animals or even insects can carry the molecule if it lands on them. If it lands on another person, it can land on their clothes, hair, skin, etc. and be carried by them. If it happens to get sucked into the respiratory tract or absorbed on the eye, it may eventually lead to infection if it can survive the body defenses. The possibilities really are endless.

Indoors, the picture becomes even more complicated because now the vectors of movement, displacement, and contamination possibilities increase. Air handling units can redistribute the molecules to other areas far from the original source. Surface contamination is now a real consideration. Simple items can become sources of infection.

For example desk pens and pencils, office equipment, telephones, notebooks, furniture, electronic devices, cups/glasses, dishes, light switches, etc. Just look around the room that you are sitting in and remember about when you (or someone) “dusts.” At least anywhere that a “dust” can go so can a molecule like a virus. In fact, the very act of “dusting” could reintroduce the molecule back into the environment. Anything in that environment that you touch is a potential source.

It should be easy to see why a lockdown is disastrous. A single sick person can spread a virus

throughout a whole building and no one would know it until too late. Clearly, air handling, sanitation, people movement, shared items, all will play a significant role in transmission risk.

Further, indoor conditions are better generally for stability and survival of the molecule. Why are meat processing/packing plants at risk? They are refrigerated facilities. There are many people so there is a lot of movement. There are many surfaces for the molecule to sit, like carcasses, that are handled often and routinely.

I think people can start to see the problem that we are dealing with and why the virus doesn't just go away so easily.

Don't "Masks" Make A Difference?

Before going into that question, I want to provide both some personal background and maybe a little comic relief.

The photo below was taken about 30 years ago, and yes, that is me. I was being fit tested for my own respirator. In my first position after the Ph.D., I was given charge of developing a molecule that was so lethal (yes, it is used medicinally but in very dilute solutions and under strict controls) that even the tiniest of amount contacting my skin, nose, eyes, etc., could knock me out and kill without my ever knowing it; the risks I faced were far greater than any coronavirus. I had to undergo serious Personal Protective Equipment (PPE) training as a result. When your life hangs in the balance, you learn all that you can. I was also a member of an isolator design team to develop a manufacturing unit to contain the production process.

Yes, I do know something about PPE.

The type of respirator that I am wearing in the photo is designed to protect the wearer from chemical agents, mostly, although there are biological filters available. It has unidirectional airflow. That means that the air that I would breathe in would be pulled

through a series of filter cartridges (the round canisters on the sides) in order to remove the potentially offending compounds. After inhalation, a valve would close off the incoming air (ingress) and my exhaled breath would exit via another one way valve (egress), which you cannot see but it is located in the middle of the canisters directly in front of my mouth. Of course, this was used with other head and body protection since ALL physical contamination had to be guarded against.

This kind of respirator required both fit and physical certification. I had to be certified on an annual basis to show that my lungs were capable of breathing with this apparatus since the pressure differential was great. That means, I had to be able to suck in the air through the filters as well as deliver out through the valve. Lung capacity was very important; it was NOT a normal breathing experience. You also had to take periodic breaks, as well as a thorough and careful decontamination after each use. The respirator worked only as long as the filter cartridges were effective. They could reach a saturation point or a point where the cartridge was spent and beyond that there would be no protection.

The idea of "masks" on people did not suddenly appear in March of 2020. The usage of face protection with infectious diseases has been well studied, especially with influenza. Do not forget, the mechanics of these two viruses (CV/IF) are essentially the same so what works or doesn't work for one is the same for the other.

The understanding has been that a "mask," and that term usually refers to either a SURGICAL mask or N95 mask, has no benefit in the general population and is only useful in controlled clinical settings. Further, it has been considered a greater transmission risk than a benefit in the general population. If people still have a memory, you may recall that this was still the advice in February 2020. That understanding has not changed and I will explain why.

The term “mask” by itself means nothing. It is like saying “car.” You have to identify it more specifically because there are many different types and varieties, just like cars. So, for this essay, I will use two terms as follows:

1. Face Coverings: In this category I will include homemade cloth, dust, non-fitted utility, custom stylish, and any other common “mask,” i.e. something that is intended to cover your mouth and nose and that is by and large used in the general population (because they are cheap and inexpensive).
2. Mask: In this category, I am referring specifically to the SURGICAL mask and N95 mask (which is recommended for use in clinical settings by health care workers). If necessary, I will specify between them.

One of the big mistakes by modelers is the concept of a face covering or mask as a “barrier.” I see many references to so-called “experts” who make this claim. This is completely false. No face covering or mask is a barrier. Either they do not know what they are talking about or they are misleading people.

Masks and “Face Coverings” ARE:

1. FILTERS, *not barriers*. They FILTER only the things that *they are designed to filter*, to a level of efficiency based upon design, usually not at 100% efficiency. For example, the N95 mask is designed and rated to filter particles greater than 300 nm at 95% efficiency (note: there are masks with greater efficiency than 95%, such as the N99 and NHEPA, but these are very expensive).
2. Bidirectional, or two-way street flow (unlike my respirator above). That means the air is intended to go in and out through the same place – breathe in, breathe out. The filtering

ability affects both ingress and egress, but MOST are intended to be used towards ingress, i.e. to protect the wearer (Surgical masks are the exception).

3. Designed for *normal breathing patterns*, not exertive force (although the Surgical mask has a pressure rating). This is an important point!
4. NOT designed to filter infectious agents but rather inert particulates (except the Surgical mask which is intended to preserve a sterile/sanitary operating field).
5. Designed for minimal usage time. They are NOT intended to be stuck on your face for hours.

I understand the *psychological crutch* that people feel with something covering their mouth/nose. I am sorry, but that is a false sense of security. Perception is NOT reality, just like the neutrino. The mind says that you have some solid thing covering your mouth and nose but that is not really the case, it is porous; things get through (or go around)..

I could spend time on the viral transmission ineffectiveness of the variety of face coverings and fitted masks based upon the material, pore size, non-fit, etc., as well as the studies. I will say that there has been only ONE type of mask, the SURGICAL mask, which has shown any ability to reduce, not eliminate, virus transmission because it is actually rated to a 100 nanometer pore size AND it is rated for ingress and egress. But, the SURGICAL mask is not intended for use outside of a controlled, sterile hospital surgical field where its use and function can be controlled. It has limitations.

In Part III above, the expulsion of the virus into the environment was examined. So, what happens if a person wears a mask/face covering? There are two different views of how the mask operates depending on whether it is ingress (protecting the wearer) or egress (protecting the environment). But, both add up to more or less the same thing.

First, what happens on EGRESS. We will look at droplets because most face coverings will not stop an aerosol and the 2020 propaganda has been focused on droplets.

Assuming that a person is shedding virus and they produce droplets that contain hitchhiking virus, and *assuming* the face covering actually stops ALL droplets (best-case scenario), the following molecular pathway will likely occur:

1. The droplet will lose its moisture. The timing may be different than just going out into the environment but moisture will be lost. However, the expelled droplets may accumulate faster than evaporation. If that happens, the facial covering starts to become saturated with moisture, mucus, cellular debris, bacteria, etc. as well as virus molecules.
2. The virus molecule DOES NOT EVAPORATE and no matter what happens as far as the droplet is concerned, the virus is now on the face covering, at least initially. This means that the face covering is now contaminated and is a possible source of transmission, both contact and airborne.
3. The virus is not somehow magically “glued” to the mask but can be expelled, whether or not there is still moisture. This can happen the next time a person breathes, speaks, coughs, sneezes, hisses, grunts, etc. So, the virus can be expelled out INTO THE ENVIRONMENT from the face covering.

So, the face covering acts as an intermediary in transmission. It can alter the timing of the virus getting into the environment, but it now acts as a contact source and airborne source; virus can still get into the environment. Since we know that the stability is good on most covering and mask materials, it does nothing to break down the virus

until the covering is removed and either washed or discarded (appropriately).

Here is an important point, as more virus molecules accumulate, more are expelled. The face covering is not some virus black hole that sucks the virus into oblivion.

Second, what about INGRESS?

What works for egress works for ingress. So, if a person is wearing a face covering and they encounter virus, aerosols, or droplets, the virus and aerosols will likely penetrate. If the droplet is stopped, the surface is now contaminated. This means that if the surface of the covering touches the mouth or nose, you can become contaminated, i.e. infected.

This is a common sight with most face coverings, including the “stylish” coverings that people are wearing (I often see the covering moving back and forth against their mouth and nose even as they breathe, like a diaphragm), as well as with the cheaper dust masks and homemade cloth masks. If you inhale, you can become contaminated. If you touch the face covering, such as pulling it up and down, you can become contaminated.

Further, because the surface is contaminated, a person can also expel the virus back out into the environment just as with egress. This can be done by talking, breathing, coughing, etc.

Stopping a *droplet* is NOT the same as stopping the virus!

This molecular evaluation only assumed the best case contact scenario; that is, 100% contact between the face covering and any virus particle that may be encountered. I have NOT examined low efficiency coverings, inappropriate use and handling, non-fit (air will circumvent the covering and go around it since air flow follows the path of least resistance – where the air goes so does a virus). I have NOT examined the eyes or ears as entry points. I have NOT examined the other modes of molecular movement on the surface of face coverings, such

as osmosis. I have NOT examined the almost 100% misuse of any covering by the population at large simply because they have not been trained and have been misinformed and are using ineffective coverings.

It boggles my mind when there is some notion that by wearing a face covering you are actually doing a “service” to your neighbor and therefore everyone has to protect everyone by this. Actually, the opposite is true. You are now becoming an additional potential source of environmental contamination. You are now becoming a transmission risk; not only are you increasing your own risk but you are also increasing the risk to others.

To better illustrate, let’s look at my respirator above. If I had been exposed to the molecule that I described, the filters would have protected my breathing function (my other protective equipment such as gowns, hoods, etc. would protect the rest of me). But, the respirator surface would have been contaminated (as would the other gown surfaces). If I had gone out into an uncontrolled environment with that respirator (and/or gown, etc.), I could have released those molecules into the environment endangering any person, possibly fatally. I had to de-gown and decontaminate, very carefully, in a controlled environment to prevent that possibility. Even though I had been protected, I was still a risk to others.

Before March 2020, the standard Good Respiratory Practice (GRP) was to cover your mouth/nose when coughing or sneezing. It is especially effective if you use a tissue or handkerchief as a receptacle and cup your hand around them. The hand now actually DOES serve more as a barrier.

Plus, you will more likely remove the potential virus molecule from the environment by proper disposal of the tissue or washing the handkerchief. That is a practice we should be getting back to. I see people now who believe the misinformation and do nothing to shield their cough or sneeze because

they believe that wearing a face covering is a barrier on its own. This is not good. So, at the very least, cover your face covering with your hands if you cough or sneeze!

I cannot tell people to not wear a face covering. I chose not to wear face coverings for two reasons, the first is all of the above, and the second is that I have experienced this virus. When I see people with them, I think of virus heaven. But, I am also not afraid because this virus does not frighten me.

I cannot tell people not to erect plastic sheets. But, when I see them, I see a virus motel-check in, stay a while, and then leave. This concerns me more because of the much larger surface area that can act as a virus repository. I have actually advised some places that have done this to either disinfect regularly, or move to glass where disinfection is easier. If there is virus stuck to these surfaces, there is both contact risk and expulsion risk back into the environment.

My view of dealing with the virus is at the molecular level. Do what we can to actually deplete the molecule, not give it stability.

We cannot eliminate this or any other upper respiratory virus. Maybe someday we can advance our immunological techniques to the point that it might be possible to make it a minor player in humans, but we are not there yet. But, we can defend against it by our immune systems and by trusting those with stronger immune systems to protect the weaker. Despite the propaganda, herd immunity was the standard before March 2020; it is not a “fringe” concept.

Here are some important points to consider:

1. People who have experienced this virus do NOT need to wear face coverings, period.
2. In the open environment, no one should be wearing face coverings. This is the one place where we can get an assist from nature to help reduce the virus molecules. Considering

that less than 5% of transmissions have been associated with open environments (and identifiable activities not random encounters), the risk is truly small.

3. A face covering may be useful when visiting an at-risk elderly person or in a controlled health care setting such as a hospital or nursing home. But, I think that these should be dispensed by trained personnel and should be focused on using Surgical masks wherever possible. The protection is not so much from viruses but face coverings may be more effective in preventing the spread of bacteria and fungi.
4. Children should not be wearing face coverings. We all need constant interaction with our environments and that is especially true for children. This is how their immune system develops. They are the lowest of the low risk groups. Let them be kids and let them develop their immune systems..
5. The “Mask Mandate” idea is a truly ridiculous, knee-jerk reaction and needs to be withdrawn and thrown in the waste bin of disastrous policy, along with lockdowns and school closures. You can vote for a person without blindly supporting all of their proposals!
6. There may be other health risks associated with continued use of face coverings. While this is anecdotal, I have many physician acquaintances and they are all reporting increases in conditions that may be associated with face coverings, such as facial skin infections, nose/throat and sinus infections, even anxiety conditions. An area of concern is the change in breathing patterns that can be directly associated with face coverings. I train regularly. The only time that I wear a face covering is to gain entrance to the public gymnasium where I train (because it is required). The mask is discarded immediately when I start training, as most other people

also do. The staff members do not make a fuss because they understand the dangers of doing exertion with a face covering.

7. We also do not know enough about the possible consequences of forcing whole populations to adopt face coverings for extended periods. There may be both health and social consequences that we cannot consider at this time. Humans have developed as creatures whereby we interact with our environment. Our whole upper respiratory tract has developed immense defensive systems because of that. I am worried personally about “unnatural selection.” This is when human actions force a direction of evolution that would not otherwise occur. Often, the result is not good. But that is a whole different subject that needs to be considered.

I think that people can see how truly complex and difficult it is to deal with a nanoparticle. It is something too complex for modeling, at least on the environmental scale. It should be clear that humans are only a small part of the equation.

Stopping humans from being human will not stop the virus from being a virus!

We certainly should not have let modeling be experimented with on a worldwide scale directing policy that we had no idea of the outcome; but we did. It should be readily apparent by this time that all of the lockdowns, masking, distancing, closures, etc. have had no effect on the virus. It is time to reverse course.

Modeling could be useful in evaluating conditions in very limited and controlled settings. For example, it could be helpful to design infectious disease care units in hospitals. We could use modeling to examine our knowledge and use of air-handling, people movement and interactions in combination with molecule destruction, PPE, etc. to maybe develop better procedures to protect health care workers but

also help reduce viral loads of patients.

For example, would a simply designed, single pass individual exhaust unit that carries the expired air from a patient to a chemical scrubber help reduce the viral load of the environment? Could it also help the patient by reducing the local viral and bacterial load? Could it help reduce or eliminate the molecule from those environments? These and others are questions that can be modeled and then tested. Then, maybe it can be tried on a pilot scale. If that works, maybe we can expand the scale, fine tuning as we go, and maybe reach a point where it works well and it can be used on a larger scale. That is how science works. Start small, gain understanding, finetune, and expand. You do NOT use the whole world as a laboratory on the first shot!

It is time for human beings to be human beings again. Stop trying to lay blame and guilt on people for a natural virus.

If governments want to be helpful in reducing severe disease and deaths, imposing more laws and restrictions is not the answer. Rather, focus on educating people on how to better maintain their immune systems. Encourage healthier lifestyles through education and wellness programs, especially in the less fortunate of our society. Provide or encourage businesses to consider better sick leave alternatives for people in ALL jobs/vocations so that people are not driven by the choice of work to live or stay home and be sick.

The healthy people in our society should not be punished for being healthy, which is exactly what lockdowns, distancing, mask mandates, etc. do. This goes completely against the principles on which the United States of America was founded. We have lost the meaning of “Land of the Free, Home of the Brave” to “Land of the Imprisoned, Home of the Afraid.”

October 16, 2020

AIER Hosts Top Epidemiologists, Authors of the Great Barrington Declaration

AIER STAFF

From October 1-4, 2020, the American Institute for Economic Research hosted a remarkable meeting of top epidemiologists, economists, and journalists, to discuss the global emergency created by the unprecedented use of state compulsion in the management of the Covid-19 pandemic. The result is The Great Barrington Declaration, which urges a “Focused Protection” strategy.

After a brief explanation of the strategy, and a discussion of the astonishing costs of lockdown, the Declaration concludes: “Schools and universities should be open for in-person teaching. Extracurricular activities, such as sports, should be resumed. Young low-risk adults should work normally, rather than from home. Restaurants and other businesses should open. Arts, music, sport and other cultural activities should resume.”

The document is now open for signing by medical professionals and practitioners as well as the general public. You can sign the document.

The American Institute for Economic Research was founded in 1933 in the midst of an economic crisis in the United States. Its purpose was and is to research and promulgate evidence-based solutions to social and economic problems, with a particular focus on the importance of functioning markets. The crisis of the policy response to Covid-19 drew AIER’s close attention from late January 2020 and following. The hosting of this crucial meeting was in the interest of backing the best science, promoting essential human rights, and reviving a focus on the common good.

The primary authors and signers of the document are

- **Dr. Martin Kulldorff**, Professor, Medicine, Harvard Medical School.
- **Dr. Jay Bhattacharya**, Professor, Medicine, Stanford University.
- **Dr. Sunetra Gupta**, Professor, Theoretical Epidemiology, University of Oxford.

The document is also co-signed by 43 Medical and Public Health Scientists and Medical Practitioners.

The document is now open for signing by medical professionals and practitioners as well as the general public. You can sign the document at gbdeclaration.org.

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October 5, 2020

The Great Barrington Declaration

The Great Barrington Declaration – As infectious disease epidemiologists and public health scientists we have grave concerns about the damaging physical and mental health impacts of the prevailing COVID-19 policies, and recommend an approach we call Focused Protection.

Coming from both the left and right, and around the world, we have devoted our careers to protecting people. Current lockdown policies are producing devastating effects on short and long-term public health. The results (to name a few) include lower childhood vaccination rates, worsening cardiovascular disease outcomes, fewer cancer screenings and deteriorating mental health – leading to greater excess mortality in years to come, with the working class and younger members of society carrying the heaviest burden. Keeping students out of school is a grave injustice.

Keeping these measures in place until a vaccine is available will cause irreparable damage, with the underprivileged disproportionately harmed.

Fortunately, our understanding of the virus is growing. We know that vulnerability to death from COVID-19 is more than a thousand-fold higher in the old and infirm than the young. Indeed, for children, COVID-19 is less dangerous than many other harms, including influenza.

As immunity builds in the population, the risk of infection to all – including the vulnerable – falls. We know that all populations will eventually reach herd immunity – i.e. the point at which the rate of new infections is stable – and that this can be assisted by (but is not dependent upon) a vaccine. Our goal should therefore be to minimize mortality and social harm until we reach herd immunity.

The most compassionate approach that balances the risks and benefits of reaching herd immunity, is to allow those who are at minimal risk of death to live their lives normally to build up immunity to the virus through natural infection, while better protecting those who are at highest risk. We call this Focused Protection.

Adopting measures to protect the vulnerable should be the central aim of public health responses to COVID-19. By way of example, nursing homes should use staff with acquired immunity and perform frequent PCR testing of other staff and all visitors. Staff rotation should be minimized. Retired people living at home should have groceries and other essentials delivered to their home. When possible, they should meet family members outside rather than inside. A comprehensive and detailed list of measures, including approaches to multi-generational households, can be implemented, and is well within the scope and capability of public health professionals.

Those who are not vulnerable should immediately be allowed to resume life as normal. Simple hygiene measures, such as hand washing and staying home when sick should be practiced by everyone to reduce the herd immunity threshold. Schools and universities should be open for in-person teaching. Extracurricular activities, such as sports, should be resumed. Young low-risk adults should work normally, rather than from home. Restaurants and other businesses should open. Arts, music, sport and other cultural activities should resume. People who are more at risk may participate if they wish, while society as a whole enjoys the protection conferred upon the vulnerable by those who have built up herd immunity.

On October 4, 2020, this declaration was authored and signed in Great Barrington, United States, by:

Dr. Martin Kulldorff, professor of medicine at Harvard University, a biostatistician, and epidemiologist with expertise in detecting and monitoring infectious disease outbreaks and vaccine safety evaluations.

Dr. Sunetra Gupta, professor at Oxford University, an epidemiologist with expertise in immunology, vaccine development, and mathematical modeling of infectious diseases.

Dr. Jay Bhattacharya, professor at Stanford University Medical School, a physician, epidemiologist, health economist, and public health policy expert focusing on infectious diseases and vulnerable populations.

The Great Barrington Declaration and Its Critics

JENIN YOUNES

Contributor

Early this week, three of the world’s top epidemiologists published the Great Barrington Declaration, a short treatise that advocates a controversial approach to managing the coronavirus pandemic. Professors Jay Bhattacharya of Stanford University, Sunetra Gupta of Oxford University, and Martin Kulldorff of Harvard University argue that societies across the globe should reopen immediately and completely.

Instead of observing measures designed to slow the spread of the virus, the young and healthy should resume normal activity in order to incur herd immunity and thereby protect those vulnerable to severe illness. The authors urge the adoption of this strategy, which they call “Focused Protection,” in light of increasing evidence that “current lockdown policies are producing devastating effects on short and long-term public health. . . . Keeping these measures in place until a vaccine is available will cause irreparable damage, with the underprivileged disproportionately harmed.”

As of this writing, the Declaration has been signed by 3,089 other medical and public health scientists, 4,532 medical practitioners, and around 70,000 members of the general public.

While these scientists are not the first to express such views, given the degree to which their stance conflicts with the prevailing wisdom that everyone has a moral obligation to participate in efforts to “stop the spread,” it is not surprising that they have already encountered significant opposition. Among their primary detractors is Yale epidemiologist Gregg Gonsalves, who considers their proposal akin to a suggestion that society “cull[] the herd of the sick and disabled. It’s grotesque.”

It is hard to see where Gonsalves reads into the

Declaration, which seeks to balance the interests of all demographics, a call to “cull[] . . . the sick and disabled.” This accusation is merely part of the drama in what has become coronavirus theater.

Gonsalves’s more measured, and conceivably legitimate, argument is that, since around fifty percent of the United States population is vulnerable, those most likely to experience severe illness cannot simply be separated out from the rest of society. Some version of this notion – that the strategy is logistically unfeasible and therefore must be discarded– is the most prevalent critique of the document. Gonsalves and others, for instance Dr. Michael Head at University of Southampton, also contend that the declaration’s premise is false, because no one in the scientific community is calling for either extended or extensive lockdowns.

But this latter claim is simply untrue. Many prominent scientists have called for extreme lockdowns in the United States, as recently as last month. While they claim this would eradicate the virus entirely, it is becoming increasingly evident that such suppressive measures last only as long as they are in place.

Once lifted, the virus simply resurges, as has been demonstrated by countries such as Peru, which initially implemented one of the world’s most extreme lockdowns and now has one of the worst outbreaks. Melbourne, Australia, has been under a severe lockdown for over a month, despite having declared early victory against the virus. The United Kingdom has been enacting various forms of shutdown for several weeks after having been more or less open for the summer, and the mayor of New York City and governor of New York State have

been threatening to impose localized lockdowns in Brooklyn and Queens neighborhoods in which cases are rising. Thus, whether endorsed by the scientific community or politicians, forced closures of schools and businesses are the default mechanism for managing rising cases in many parts of the world.

Lockdowns are no strawman, contrary to the claims of Gonsalves et al.

As for Gonsalves's more compelling concern, it is true that protecting vulnerable members of society who do not reside in nursing homes, while allowing the rest to go about their lives, is not a simple feat. But the many scientists who conclude that, therefore, Focused Protection is not viable are woefully misguided. Initially, some portion of the vast resources that societies are expending to lock down could be diverted to this project. But more importantly, the critics' position drastically underestimates the harm lockdowns inflict on a society.

Oxfam recently published a report concluding that 130 million more people will be pushed to the brink of starvation due to supply chain disruptions resulting from lockdowns around the world. As Time magazine explains, that is exponentially more people than will succumb to the virus itself. The CDC has estimated the probable occurrence of more than 93,000 "non-Covid 'excess deaths' this year, including 42,427 from cardiovascular conditions, 10,686 from diabetes and 3,646 from cancer. Many are due to government shutdowns of non-essential medical care." That is in this country alone.

Likewise, mental health is deteriorating; substance, child and domestic abuse are increasing; and children, especially those who come from families without means, are falling behind in school. Countless businesses have closed, many for good, spelling financial disaster for their owners and hardship for employees. All of this is due to lockdowns, despite the common misattributions in headlines to the "coronavirus" itself.

While Gonsalves and the other critics are quick to argue that Focused Protection is "grotesque," at no point do they address the crux of the matter, which is that the harms of locking down and social distancing, especially to the young, outweigh the benefits. Their opposition stems from the myopic worldview that led to lockdown and social distancing strategies in the first place: that the pandemic is a uniquely horrible problem that justifies sidelining all others in the quest to solve it.

Instead, as we have seen over the past seven or eight months, the coronavirus is just one among countless difficulties that the world faces; when contemplated dispassionately, it does not stand out the way that, for instance, nuclear war or a truly apocalyptic pandemic would. At 1.05 million deaths over the past nine or ten months, the coronavirus appears to be a problem along the lines of, for example, traffic accidents, which cause 1.35 million deaths per year, or tuberculosis, which results in 1.5 million deaths annually.

Most of us understand and accept that preventing these deaths must be balanced against other interests. If, for instance, we banned vehicular travel in order to avoid deaths resulting from traffic accidents, but doing so caused 130 million deaths from supply chain disruptions, we would immediately recognize this as a failing proposition. Clearly, the same logic ought to apply here.

Critics of the Great Barrington Declaration correctly observe that we will not be able to prevent every death from coronavirus among the vulnerable. But their argument rests on the false assumption that preventing coronavirus deaths is more important than anything else, and while efforts can be made to mitigate collateral damage, in the end all must give way to this overarching goal.

Rather, like all else in life, mitigation efforts must be balanced against the injury those measures cause. Since lockdowns will probably cause more deaths by

starvation alone than the coronavirus, never mind the myriad other harms, the critics' position simply does not withstand any scrutiny. By contrast, the writers of the Great Barrington Declaration expressly recognize both sides of the equation and seek to minimize coronavirus deaths among the vulnerable *and* suffering inflicted upon the nonvulnerable. It should be obvious which is the better approach.

October 7, 2020

Reddit's Censorship of The Great Barrington Declaration

ETHAN YANG

Editorial Assistant

Earlier this week The Great Barrington Declaration went live garnering over 100,000 signatures at the time of this writing. The declaration, which has now been highlighted by celebrities and intellectuals across the world, called for a “Focused Protection” approach to combating Covid-19. The declaration explains

“The most compassionate approach that balances the risks and benefits of reaching herd immunity, is to allow those who are at minimal risk of death to live their lives normally to build up immunity to the virus through natural infection, while better protecting those who are at highest risk. We call this Focused Protection.”

Such a policy is grounded in the traditional response to pandemics emulated by countries such as Sweden rather than the experimental lockdown approach that has characterized much of the world’s response to Covid-19. It takes a more realistic approach to the pandemic, understanding that there are certain tradeoffs that must be weighed and affirms the necessity of preserving to the best extent possible the normal functioning of society. The original architects of the declaration are three highly respected figures in the field of epidemiology.

They are Harvard Professor Dr. Martin Kulldorff, Oxford Professor Dr. Sunetra Gupta, and Stanford Professor Dr. Jay Bhattacharya.

The signatories include thousands of public health officials and researchers as well as members of the general public. You can read more about the signatories as well as view the entire declaration on the website.

Reddit Censorship

The declaration appeared on the Reddit channels r/COVID-19 and r/Coronavirus, both large online communities with over 300,000 and 2.3 million members respectively. Shortly after both posts were removed by moderators.



This seems rather strange given that these are Covid-19 discussion forums filled with news and research reports relating to the virus. The declaration was crafted and signed by the world’s leading experts in medicine, particularly epidemiology. It is surely more important than this subreddit post about Lana Del Rey being criticized for wearing a mesh mask.

The reasons listed for the declaration’s removal are also unclear. Reddit’s content policy shows no

clear guidelines for the removal of content such as the Great Barrington Declaration.

The explanation given from the moderators of r/COVID19

“Posts and, where appropriate, comments must link to a primary scientific source: peer-reviewed original research, pre-prints from established servers, and research or reports by governments and other reputable organisations. Please do not link to YouTube or Twitter.

News stories and secondary or tertiary reports about original research are a better fit for r/Coronavirus.”

The website features an original statement from three of the world’s leading epidemiologists advocating for a drastically different approach to the prevailing policy response to Covid-19. It has over 25,000 signatures including thousands of other public health experts. It is literally a piece of history and the moderators believe it should be viewed as a “news story or tertiary report” meant for the more general channel.

Unfortunately, the moderators of r/Coronavirus, a channel with over 2.3 million members, did not look too kindly on the declaration either. As shown above, the post was removed and the rationale given was

“Content must not be spam or be promotional in nature. Spamming the same or very similar posts or comments, as well as self-promotion of any kind will likely lead to a ban. Scams will be reported to authorities.”

The article is clearly not spam and it is not self-promotion. Although the website certainly features a section for individuals to become signatories, it is an original statement with educational material regarding the world’s most pressing issue.

In fact, that is the declaration’s primary purpose; to announce to the world a viewpoint and suggest further discussion along with reconsideration. The admins of the more academic-focused r/COVID19 channel even suggested it be posted in r/coronavirus.

The r/coronavirus community description reads

“In December 2019, a novel coronavirus strain (SARS-CoV-2) emerged in the city of Wuhan, China. This subreddit seeks to monitor the spread of the disease COVID-19, declared a pandemic by the WHO. Please be civil and empathetic. This subreddit is for high-quality posts and discussion.”

What better quality post (leading to a presumably robust discussion) than an original and profound statement from the world’s top epidemiologists? Whether or not you agree with the contents of the letter, this is a serious proposal that will likely leave its mark on history. Oxford’s Professor Gupta, one of the original signatories, has already lectured about her belief in the doctrine advocated by the declaration. The idea of opening up the economy and pursuing herd immunity is a position that experts from different professions across the world endorse. Whether or not that is a good policy can only be decided by implementation and debate.

Yet the Reddit moderators have opted to stifle what would have been a tremendous discussion opportunity on a website that purports to facilitate such a venue. Again I must reiterate that in r/coronavirus there is currently a post about Lana Del Rey and her mesh mask but the Great Barrington Declaration was taken down.

The declaration has appeared uncensored in other subreddits such as r/LockdownSkepticism, a much smaller and narrower audience.

Lockdown is an Ideology

Although this development is unfortunate and disappointing it should not come as a surprise. If one even peruses the headlines regarding Covid-19 all one sees are narratives that forward anxiety and despair. The conversation surrounding policy is overwhelmingly skewed towards more lockdowns, more masks, more hysteria. AIER has covered how quickly the media is to jump on conclusions that further their narrative and attack their enemies, even if it means using faulty information in our coverage of the Sturgis Motorcycle Rally in South Dakota.

There is little conversation surrounding the tradeoffs of lockdowns, let alone an alternate proposal. Those who deviate from the script like former Stanford professor and now White House advisor Scott Atlas or Governor of South Dakota Kristi Noem are immediately demonized. They are called “unscientific” among many other slanderous names while the scientific and empirical discussion has yet to be seen. People seem to get a little too offended when you question the holy word of lockdowns.

Don’t just take it from me; Professor Gupta literally called lockdown a religion at a policy symposium. She noted the constant preaching, the ridiculous proposals, to the outright hostility of even a basic discussion that challenges the prevailing regime.

There can be few other logical explanations for why the conversation surrounding Covid-19 has become the way that it has. Silencing debate and demonizing those who disagree with you has more of a place in the Spanish Inquisition than it does in the halls of science. Public policy is informed not just by experimental theories but real-world observations and input from a variety of perspectives. The Great Barrington Declaration is a piece of history and an intellectual force that seeks to change the world for the better. It is not a generic petition or an obscure piece of misinformation.

Although Reddit, as a private entity, has more than a right to police content in any way they choose, they should at least attempt to stay true to their mission statement. By stifling debate on such an important topic they are not only tarnishing their brand but contributing to the problem. I pray that this was an honest mistake and that Reddit users will be able to engage in a robust conversation regarding the Great Barrington Declaration.

October 8, 2020

The Sketchy Claims of the Case for a Mask Mandate

PHILLIP W. MAGNESS

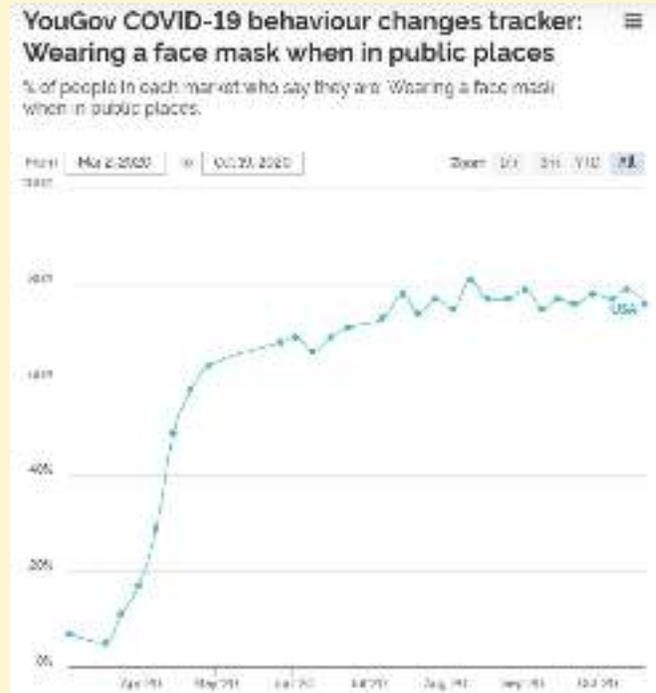
Senior Research Fellow

New coronavirus cases are spiking again as we head into the colder months. While this pattern likely reflects the long-anticipated seasonality of the disease, the lockdown-aligned American news media is currently peddling a different narrative.

Not enough Americans are doing their duty to defeat the virus by wearing masks, we're constantly hectored. To this end, the Washington Post ran a flashy visual display purporting to show that high-mask use states are faring better than the rest (conveniently omitting mention that many of those same states were the hardest hit during the first wave last spring, albeit at a time when mask use was less common).

Anthony Fauci – yes, the same Anthony Fauci who publicly discouraged mask use last March and later acknowledged he was lying at the time for political reasons – is now claiming that only a national mask-wearing mandate will save us from the months ahead. Further stoking the flames, the doomsayer modelers of the University of Washington's IHME team have even published an updated forecast warning of an additional 500,000 deaths unless we all mask up.

There's a fundamental problem however with the media's current mask frenzy: the American public has already adopted mask-wearing at an extraordinarily high rate. In fact, we hit almost 80% mask use back in July according to a survey tracker of behavioral changes in response to the pandemic. Furthermore, the United States has consistently hovered in the 80% mask compliance territory ever since.



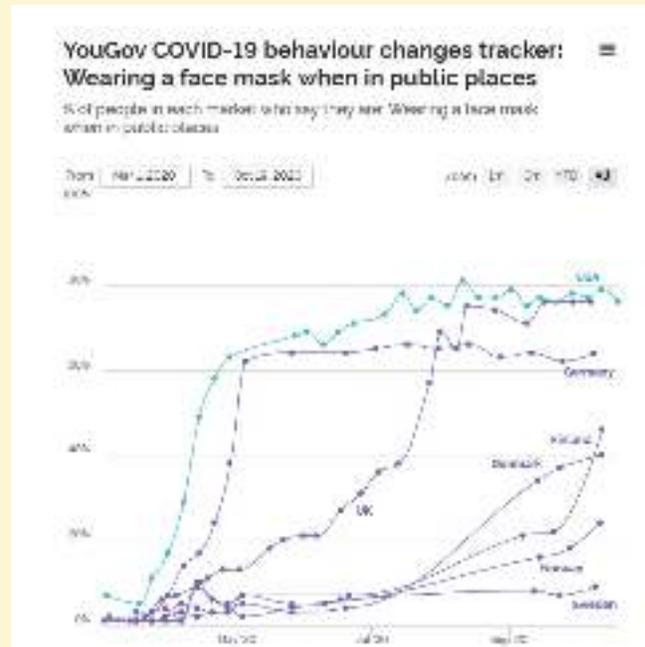
To give you a sense of perspective, the 80% mask use threshold is also where Thailand, Vietnam, and Taiwan have hovered since the beginning of the pandemic. These three Asian countries have thus far weathered the COVID-19 outbreak with only modest case counts – an outcome that is often attributed to their widespread adoption of masks after similar experiences in past regional epidemics such as SARS.

It took the US from March until mid-July to catch up with these countries – again, in part due to the misinformation given by Dr. Fauci and other public health officials early in the pandemic – but we've maintained near-parity with these supposed masking success stories for the last three months now.

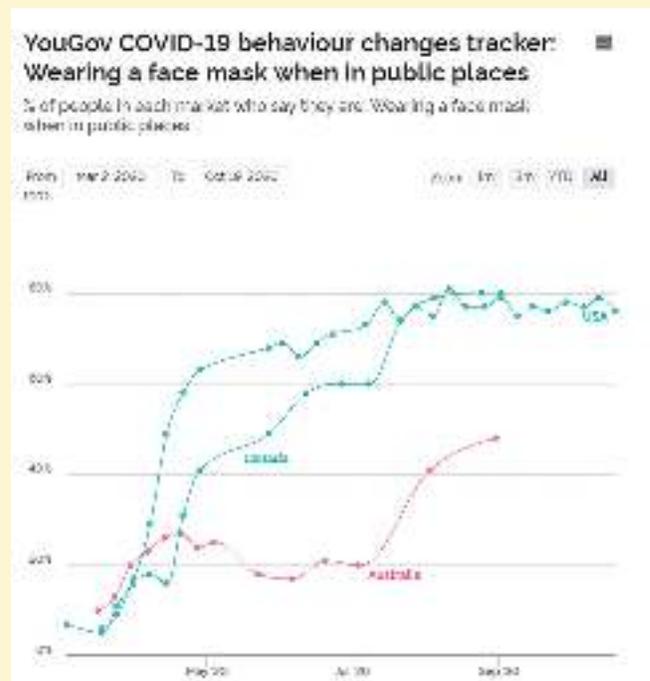


So how does masking in the United States stack up against other parts of the world? You would not believe it based on a prevailing media narrative that depicts “American individualism [as] an obstacle to wider mask wearing,” to quote a deeply misleading study by the Brookings Institution.

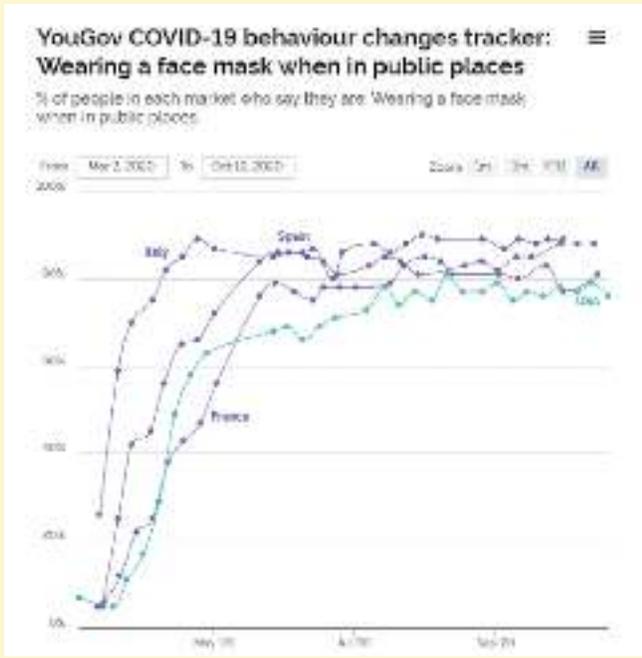
Yet again, the survey data belie the talking points. Since the start of the pandemic, United States’ mask adoption patterns have consistently outperformed such “socially responsible” nations as Germany, the United Kingdom, and the four Nordic countries.



American mask usage rates also sit at parity with our northern neighbor Canada, and well exceed the lockdown-addicted dystopia of Australia.



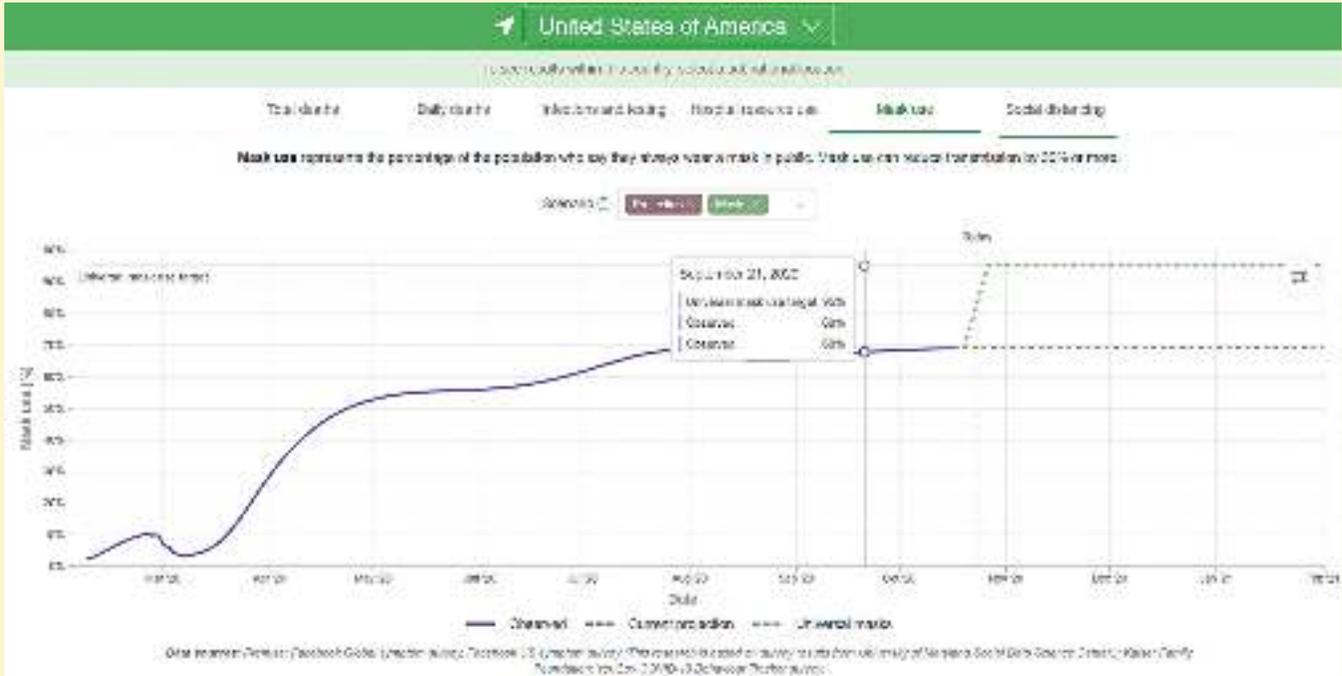
Mask use in some countries does exceed the United States pattern, but only slightly. Spain, Italy, and France have all hovered around 85 to 90% mask adoption since the late spring.



But there’s a hitch. Europe is currently undergoing a fall surge and, as of mid-October, has far overtaken the United States in daily new cases. As of this writing the surge appears to be indiscriminate, playing out in both the heavy mask regions of southern Europe and in countries that have lagged in mask adoption such as Germany and the United Kingdom. Widespread mask usage in France, Italy, and Spain clearly did not stop the European second wave, but neither did the European countries that lagged behind on mask adoption.

What then are we to make of these data on masking patterns? Keep in mind that the most recent epidemiological forecasting, such as the IHME model, places heavy weight upon the effectiveness of masks as a primary tool for COVID mitigation.

As an interesting aside, the IHME group recently published a new paper in the top science journal Nature where they claim that “the national [US] average for self-reported mask wearing was 49% as of 21 September 2020.” The citation for this figure however goes to the IHME’s own website, where they list a much higher 68% mask compliance rate for September 21st. By all appearances, the IHME paper’s conclusion is based on a simple typographical error that led them to severely understate the level of mask use in the United States.



The typo is no small matter to their thesis. Citing the erroneous 49% figure, its authors assert that there is “a considerable population health benefit to mask use with great potential for uptake in the United States” and predict that almost a hundred thousand lives could be saved by increasing this number to their target level of 85%.

It now appears that they undershot their own mask compliance data by almost 20 percentage points, which in turn is another 10 percentage points below the latest survey data for the United States.

Curiously, the heavy focus on masks as a catch-all “solution” to COVID-19 was not the case only 8 months ago. The now-infamous lockdown forecast from Neil Ferguson of Imperial College even intentionally omitted masks from its equations. As Ferguson explained in his 2006 paper describing the model he then adapted to COVID-19, “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.”

Some time in the intervening months however, masks became a magic bullet in both the media narrative and the epidemiology literature – and along with it a mythical perception that mask use remains uncommon.

As we see in the survey data above though, mask adoption is now widespread. It simply isn’t the silver bullet we were promised. Masks do appear to offer some benefit in reducing transmission under specific circumstances. For example, a comprehensive focused protection strategy would likely advise mask use in the presence of vulnerable populations and in certain indoor public settings, or even subsidize the provision of N-95 masks to senior citizens and other high-risk persons.

But the American population has already widely adopted masks to the tune of 80% usage for the last three months, with no signs of dissipating. Insofar

as these practices help, they are likely to reduce exposure in the presence of vulnerable persons in certain settings. That much should be acknowledged and encouraged as part of a new focused protection strategy.

Yet as we are now seeing in Europe and parts of the United States though, the fall 2020 case surge came many months after the widespread adoption of masks in these regions. Masks are not the next big policy step to take, but rather one that most of the afflicted regions have already taken. They simply weren’t the universal panacea that our media and parts of the epidemiology profession promised.

October 24, 2020

Lockdown: The New Totalitarianism

JEFFREY A. TUCKER

Editorial Director

Every political ideology has three elements: a vision of hell with an enemy that needs to be crushed, a vision of a more perfect world, and a plan for transitioning from one to the other. The means of transition usually involve the takeover and deployment of society's most powerful tool: the state. For this reason, ideologies trend totalitarian. They depend fundamentally on overriding people's preferences and choices and replacing them with scripted and planned belief systems and behaviors.

An obvious case is communism. Capitalism is the enemy, while worker control and the end of private property is the heaven, and the means to achieve the goal is violent expropriation. Socialism is a softer version of the same: in the Fabian tradition, you get there through piecemeal economic planning.

The ideology of racism posits something different. The hell is ethnic integration and race mixing, the heaven is racial homogeneity, and the means of change is the marginalization or killing off of some races. Fascism imagines global trade, individualism, and immigration to be the enemy while a mighty nationalism is heaven: the means of change is a great leader. You can observe the same about certain brands of theocratic religious traditionalism.

Each of these ideologies comes with a primary intellectual focus, a kind of story designed to occupy the mind. Think about exploitation. Think about inequality. Think about race theory. Think about national identity. Think about salvation. Each comes with its own language to signal one's attachment to the ideology.

Most of the above ideologies are well worn. We have plenty of experience to draw on from history to observe the patterns, recognize the adherents, and

refute the theories.

This year has given us a new ideology with totalitarian tendencies. It has a vision of hell, of heaven, and a means of transition. It has a unique language apparatus. It has a mental focus. It has signalling systems to reveal and recruit adherents.

That ideology is called lockdown. We might as well add the *ism* to the word: lockdownism.

Its vision of hell is a society in which pathogens run freely. Its heaven is a society managed entirely by medical technocrats whose main job is the suppression of all disease. The mental focus is the viruses and other bugs. The anthropology is to regard all human beings as little more than sacks of deadly pathogens. The people susceptible to the ideology are the people with various degrees of mysophobia, once regarded as a mental problem now elevated to the status of social awareness.

This year has been the first test of lockdownism. It included the most intrusive, comprehensive, and near-global controls of human beings and their movements in recorded history. Even in countries where the rule of law and liberties are sources of national pride, people were put under house arrest. Their churches and businesses were closed. The police have been unleashed to enforce it all and arrest open dissent. The devastation compares with wartime except that it was a government-imposed war on people's right to move and exchange freely. We still cannot travel.

And remarkably, after all of this, what remains missing is the empirical evidence, from anywhere in the world, that this shocking and unprecedented regime had any effect on controlling much less stopping the virus. Even more remarkably, the few places that remained fully open (South Dakota,

Sweden, Tanzania, Belarus), points out Will Jones, “lost no more than 0.06% of their population to the virus,” in contrast to high deaths lockdown New York and Britain.

Early on, most people went along, thinking that it was somehow necessary and short term. Two weeks stretched to 30 days which stretched to 7 months, and now we are told there will never be a time when we don’t practice this new public-policy faith. It’s a new totalitarianism. And with all such regimes, there is one set of rules for the rulers and another for the ruled.

The language apparatus is now incredibly familiar: curve flattening, spread slowing, social distancing, targeted layered containment, non-pharmaceutical intervention. The enemy is the virus and anyone who isn’t living their life solely to avoid contamination. Because you can’t see the virus, that usually means generating a paranoia of The Other: someone unlike you has the virus. Anyone could be a super spreader and you can recognize them by their noncompliance.

If Robert Glass or Neil Ferguson deserve to be called the founders of this movement, one of its most famous practitioners is Anthony Fauci of the National Institutes for Health. His vision of the future is positively shocking: it includes restrictions on who you can have in your home, the end of all large events, the end of travel, perhaps an attack on pets, and the effective dismantlement of all cities. Anthony Fauci explains:

“Living in greater harmony with nature will require changes in human behavior as well as other radical changes that may take decades to achieve: **rebuilding the infrastructures of human existence**, from cities to homes to workplaces, to water and sewer systems, to recreational and gatherings venues. In such a transformation we will need to prioritize changes in those human behaviors that

constitute risks for the emergence of infectious diseases. Chief among them are reducing crowding at home, work, and in public places as well as minimizing environmental perturbations such as deforestation, intense urbanization, and intensive animal farming.

Equally important are ending global poverty, improving sanitation and hygiene, and reducing unsafe exposure to animals, so that humans and potential human pathogens have limited opportunities for contact. It is a useful “thought experiment” to note that until recent decades and centuries, many deadly pandemic diseases either did not exist or were not significant problems. Cholera, for example, was not known in the West until the late 1700s and became pandemic only because of human crowding and international travel, which allowed new access of the bacteria in regional Asian ecosystems to the unsanitary water and sewer systems that characterized cities throughout the Western world.

This realization leads us to suspect that some, and probably very many, of the living improvements achieved over recent centuries come at a high cost that we pay in deadly disease emergencies. Since we cannot return to ancient times, can we at least use lessons from those times to bend modernity in a safer direction? These are questions to be answered by all societies and their leaders, philosophers, builders, and thinkers and those involved in appreciating and influencing the environmental determinants of human health.”

Fauci’s entire essay reads like an attempted lockdown manifesto, complete with the fully expected longings for the state of nature and an imagined purification of life. Reading this utopian plan for a society without pathogens helps explain

one of the strangest features of lockdownism: its puritanism. Notice that the lockdown particularly attacked anything that resembles fun: Broadway, movies, sports, travel, bowling, bars, restaurants, hotels, gyms, and clubs. Still now there are curfews in place to stop people from staying out too late — with absolutely no medical rationale. Pets are on the list too.

If an activity is fun, it is a target.

There is a moral element here. The thinking is that the more fun people are having, the more choices that are their own, the more disease (sin) spreads. It's a medicalized version of Savoranola's religious ideology that led to the Bonfire of the Vanities.

What's remarkable is that Fauci was ever in a position to influence policy through his closeness to power, and he did in fact have a strong influence over the White House in turning an open policy into a lockdown one. Only once the White House caught on to his real agenda was he removed from the inner circle.

Lockdownism has all the expected elements. It has a maniacal focus on one life concern — the presence of pathogens — to the exclusion of every other concern. The least of the concerns is human liberty. The second least concern is the freedom of association. The third least concern is property rights. All of this must bow to the technocratic discipline of the disease mitigators. Constitutions and limits on government do not matter. And notice too how little medical therapeutics even figure in here. It's not about making people get better. It's about controlling the whole of life.

Note too that there is not the slightest concern here for trade-offs or unintended consequences. In the Covid-19 lockdowns, hospitals were emptied out due to restrictions on elective surgeries and diagnostics. That suffering from this disastrous decision will be with us for many years. The same is true of vaccinations for other diseases: they plummeted during the lockdowns. In other words, the lockdowns don't

even achieve good health outcomes; they do the opposite. Early evidence points to soaring drug overdoses, depression, and suicide.

This is sheer fanaticism, a kind of insanity wrought by a wild vision of a one-dimensional world in which the whole of life is organized around disease avoidance. And there is an additional presumption here that our bodies (via the immune system) have not evolved alongside viruses for a million years. No recognition of that reality. Instead the sole goal is to make "social distancing" the national credo. Let us speak more plainly: what this really means is forced human separation. It means the dismantlement of markets, cities, in-person sports events, and the end of your right to move around freely.

All this is envisioned in Fauci's manifesto. The entire argument rests on a simple error: the belief that more human contact spreads more disease and death. In contrast, Oxford's eminent epidemiologist Sunetra Gupta argues that globalism and more human contact have boosted immunities and made life vastly safer for everyone.

The lockdowners have had surprising success in convincing people of their wild views. You only need to believe that virus avoidance is the only goal for everyone in society, and then spin out the implications from there. Before you know it, you have joined a new totalitarian cult.

The lockdowns are looking less like a gigantic error and more like the unfolding of a fanatical political ideology and policy experiment that attacks core postulates of civilization at their very root. It's time we take it seriously and combat it with the same fervor with which a free people resisted all the other evil ideologies that sought to strip humanity of dignity and replace freedom with the terrifying dreams of intellectuals and their government sock puppets.

October 1, 2020

What's Behind The WHO's Lockdown Mixed-Messaging

STACEY RUDIN

Contributor

Last week, in a major departure from months of pro-lockdown messaging, Britain's envoy to the WHO Dr. David Nabarro called for world leaders to stop locking down their countries and economies as a "primary method" of controlling COVID19. "I want to say it again: we in the World Health Organization do not advocate lockdowns as the primary means of control of this virus," Dr. Nabarro told *The Spectator*.

"The only time we believe a lockdown is justified is to buy you time to reorganise, regroup, rebalance your resources, protect your health workers who are exhausted, but by and large, we'd rather not do it." Dr. Nabarro's position aligns with the Great Barrington Declaration, of which he spoke favorably, in which 30,000 scientists and public health experts have joined in advocating an immediate return to normal life for those at low risk. Nabarro and the thousands of signees of the Declaration opine that this approach will minimize overall mortality and lessen the disproportionate burden of lockdowns on the working class and underprivileged.

The day after Nabarro made his remarks, WHO director-general Dr. Tedros Adhanom Ghebreyesus flatly contradicted him, declaring that lifting lockdowns would be a recipe for "unnecessary infections, suffering and death." Tedros claims that herd immunity can only be "safely" achieved through vaccination, a conclusion premised upon the frightening assumption that the development of a safe and effective vaccine is guaranteed, and the dubious premise that natural infections can be held back "as long as it takes" to prepare and distribute the vaccine. However, according to Tedros, there is no other way: "allowing a dangerous virus that

we don't fully understand to run free is simply unethical. It's not an option."

It's difficult to reconcile this stance with the data from states and nations which did not lock down for COVID19. For example, Swedish all-cause mortality is on average for 2020 — incredibly, the nation had higher per-capita mortality just five years ago, in a year in which there was no pandemic. This undeniable, easily-verifiable fact is shocking in light of the decimation of world economies on the premise of "stopping" a "highly deadly" pathogen. Far from "unethical," allowing the virus to "run free" produced a much **better** result than tight lockdowns such as those imposed in Argentina and Peru — yet Tedros is ignoring this. The question is: why?

The China-Paved Path to WHO Director-General

In 2017, Nabarro and Tedros competed for the WHO Director-General role. For the first time, the position was filled by a direct vote of the member-states, and not by the WHO executive board. Tedros's candidacy was mired in several scandals. Ethiopians and concerned global citizens pleaded with the countries voting in the election to reject Tedros because he was a representative of a repressive political regime who had helped to build and maintain a surveillance state with a total lack of government transparency. Critics pointed out that Tedros was "comfortable with the secrecy of autocratic states" — a characteristic that could wreak havoc on the world if he assumed a position of power within the WHO.

Tedros also received criticism for his role in covering up cholera epidemics while he was Ethiopia's Health Minister from 2005 until 2012.

Tedros summarily dismissed the complaint, raised by one of Nabarro's advisers, likening it to James B. Comey's reopening of the investigation into Hillary Clinton's private email server just days before the 2016 presidential election. He also attributed racial and elitist motives to his accuser, claiming "Dr. Nabarro's backers have a 'typical colonial mind-set aimed at winning at any cost and discrediting a candidate from a developing country.'"

However, the undisputed facts depict a Health Minister who is doing one of two things: grossly neglecting cholera testing, or intentionally prioritizing his nation's economy over protecting people from cholera. Tedros claimed that outbreaks of what he called "acute watery diarrhea" in 2006, 2009, and 2011 were not cholera, although he could not produce a test ruling out the deadly pathogen, and neighboring Somalia and Kenya disclosed cholera as the cause of their own simultaneous outbreaks. Tedros claimed that testing in his country was "too difficult," but this was belied by the fact that outside experts were able to test and find the cholera bacteria in stool samples. Testing for cholera bacteria is simple and takes less than two days. It is hard to fathom why outside experts and other countries would be able to test while the Ethiopian government could not.

Cholera can kill a person in as little as five hours. News of cholera outbreaks can have a quick and devastating impact on a country's economy, so African nations sometimes fail to declare cholera emergencies even when they know for a fact that they have one. During the 2006 outbreak, for example, Ethiopia "did not share the results of lab tests since [the outbreak started]" because "it can mean some serious economic losses, especially in terms of international trade and tourism," said Kebba O. Jaiteh, emergency officer in Ethiopia with the WHO.

During earlier outbreaks of cholera in Ethiopia (or "acute watery diarrhea," depending on who you

believe), The Guardian and The Washington Post investigated and reported that Ethiopian officials "were pressuring aid agencies to avoid using the word 'cholera' and not to report the number of people affected." Research by Human Rights Watch found that the Ethiopian government "was pressuring its health workers to avoid any mention of cholera, which could damage the country's image and deter tourists." Despite this accumulation of evidence, Tedros stood by his denial, preventing aid from being delivered to Ethiopia: the UN cannot act without permission and a declaration of an outbreak.

Vaccines are also unavailable when a country fails to declare a cholera outbreak, so Tedros refused his countrymen this option even when their neighbors in Somalia and Kenya received it. This seems to have escaped the notice of Dr. Seth Berkley, CEO of Gavi, the vaccine alliance, who praised Tedros's "commitment" to human health and vaccination: "Tedros's commitment to immunization is clear . . . His work with Gavi as Ethiopia's health minister helped boost the proportion of children reached by vaccines from less than half to more than two-thirds." Other defenders of Tedros included former CDC director Tom Frieden, who was appointed by Barack Obama to head the Agency for Toxic Substances and Disease Registry. Frieden praised Tedros as "an excellent choice to lead the WHO," and today vocally agrees with Tedros on lockdowns, masks, and social distancing.

Tedros's strongest and most important backer throughout these controversies was not an individual, but a government: China. As an opinion writer in the Indian press described it, "China propped Tedros." American apathy in the public health arena had allowed China to "colonize" global health:

"One reason that Tedros has gotten away with so much brazen cronyism is that America pays little to no attention to global public health,

save pouring in money as a sugar daddy . . . **China started a scheme for global health colonisation and won because America didn't think it was important enough.** The Chinese leveraged their investments across Africa to force the African Union to back Tedros, [and] also got Pakistan to withdraw its candidate who was opposing him, sources say . . . India's diplomatic credentials helped in covering up Tedros' shady past and the fact his main backer was a Communist dictatorship."

"I've Got Your Back, and You've Got Mine": Tedros Backs the Chinese COVID19 "Suppression" Strategy

Fast-forward to the COVID19 epidemic. In early 2020, Tedros went to great lengths to congratulate China on its response to the "novel coronavirus." On January 30, the WHO issued a statement effusively praising China's response, highlighting the Chinese government's "commitment to transparency" and efforts to "investigate" and "contain" the outbreak. The statement declares that China's novel "lockdown" strategy — wherein dictator Xi Jinping welded people inside their apartments in the name of "disease control" — are "good not only for that country but also for the rest of the world." Tedros followed this up with a tweet: "China is actually setting a new standard for outbreak response." During this time period, hundreds of thousands of social media posts later traced to China praised the lockdown, and criticized and ridiculed world leaders who failed to follow suit.

The WHO's resounding praise of China continued into February 2020, when it convened a "Global Research and Innovation Forum" on the novel coronavirus to study "the origin of the virus, natural history, transmission, diagnosis, infection prevention and control," among other things. On February 24, the group's Joint Mission held a press

conference to report on its findings, during which it declared, "**there is no question that China's bold approach to the rapid spread of this new respiratory pathogen has changed the course** of what was a rapidly-escalating and continues to be deadly epidemic." The stated basis for this unequivocal declaration on the effectiveness of lockdowns was as follows:

"And there's a couple of other graphics . . . here's the outbreak that happened in the whole country on the bottom. Here's what the outbreak looked like outside of Hubei. Here are the areas of Hubei outside of Wuhan. And then the last one is Wuhan. And you can see this is a much flatter curve than the others. **And that's what happens when you have an aggressive action that changes the shape that you would expect from an infectious disease outbreak.**

This is extremely important for China, but it's extremely important for the rest of the world, where this virus you've seen in the last few days is taking advantage to explode in certain settings. And it wasn't easy because what I didn't mention on this slide is **every one of these lines represent a huge decision by policy makers and politicians in this country and leaders to actually change the shape with big measures such as, you know, the suspension of travel, the stay-at-home advisories, and other incredibly difficult measures**; to make decisions about, but also to get a population to follow. And that's why, again, the role of the individual here in China is so important as well."

The Joint Mission's conclusion that China's actions "worked" is a perfect depiction of the classic logical fallacy *post hoc, ergo propter hoc*: Latin for

“it happened after, so it was caused by.” While it is indeed possible that a “more flat” curve in Wuhan could be attributed to government mandates, there are equal or greater possibilities: one, that testing protocols differed; two, that China simply witnessed the natural course of this “novel” pathogen. The latter is particularly likely since there was no baseline with which to compare the proffered epicurves.

It should be obvious that the mere issuance of government mandates does not automatically mean they were effective — this is particularly true here, since the global scientific community had previously considered and rejected large-scale quarantines as a method for controlling epidemics. Respiratory viruses never spread evenly throughout countries, provinces, or states, so it was nothing short of reckless to conclude that the noted variance in spread — which again, could be nothing but a recording error due to testing aberrations — was due to anything but natural factors. It was criminal to summarily conclude on this evidence that the Chinese government’s draconian actions led to a “favorable outcome,” and then use that patently illogical conclusion to sell lockdowns to the rest of the world. But that’s just what the WHO did.

“China didn’t approach this new virus with an old strategy for one disease or another disease. It developed its own approach to a new disease and extraordinarily **has turned around this disease** with strategies most of the world didn’t think would work . . . **What China has demonstrated is, you have to do this. If you do it, you can save lives and prevent thousands of cases of what is a very difficult disease.**”

The Joint Mission repeated this assertion — “lockdowns work, they can and do save lives” — in various ways throughout its press conference,

recalling to mind the words of a famous propagandist named Joseph Goebbels: “repeat a lie often enough and it becomes the truth.” Research shows that this illusion of truth effect “works just as strongly for known as for unknown items, suggesting that prior knowledge won’t prevent repetition from swaying our judgements of plausibility.” Our parents never heard of lockdown, and understood and accepted that humans sadly cannot “stop” a highly contagious infectious disease like the flu — even with a vaccine — yet suddenly most of the planet was behaving as if this were not only a reasonable mission, but something for which it was rational and desirable to sacrifice social lives, relationships, smiles, businesses, and educations in service of.

At the helm of the WHO, Tedros undoubtedly played a key role in the creation of this perception. Thanks to the many individual worldwide lockdown experiments, we now know that he was dead wrong: no lockdown was ever needed to “flatten the curve” — in fact, lockdowns spiked the curve. No-lockdown Sweden’s epicurve was much flatter than many areas with tight lockdowns, including New York City, Italy, and Spain. While this may be adequately explained by Hanlon’s Razor, it is very interesting that the Joint Mission took great pains to protect China’s trade and travel interests despite advocating simultaneous lockdowns for other nations:

“And this brings us to what I think is one of the most important recommendations we would make in respect to getting China fully back on its feet after this crisis. **The world needs the experience and materials of China to be successful in battling this coronavirus disease.** China has the most experience in the world with this disease, and it’s the only country to have turned around serious large-scale outbreaks. **But if countries create barriers between themselves and China in**

terms of travel or trade, it is only going to compromise everyone’s ability to get this done. And those kinds of measures need to be anything that goes beyond what’s been recommended by the IHR committee, has got to be reassessed, because **the risk from China is dropping, and what China has to add to the global response is rapidly rising.**”

The human rights community did not share this enthusiasm for China, its draconian lockdown, or its offer to “help” other nations contend with the virus. On February 2, The Guardian published an opinion piece by a human rights advocate outlining the lockdown’s serious human rights violations and opining that the WHO broke its own commitment to “human rights and health” by praising China. The WHO’s commitment reads in part:

“Human rights are universal and inalienable. They apply equally, to all people, everywhere, without distinction. Human Rights standards — to food, health, education, to be free from torture, inhuman or degrading treatment — are also interrelated. The improvement of one right facilitates advancement of the others. Likewise, the deprivation of one right adversely affects the others”

To protect these “universal and inalienable” human rights during a public health emergency, international law requires that restrictions on human rights be based on legality, necessity, proportionality and grounded in evidence. Similarly, the Siracusa Principles — in which the United Nations outlines an overarching international covenant on civil and political rights — state that restrictions on rights and freedoms in the name of public health must be **strictly necessary** and the **least intrusive available** to reach their objective:

“In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society.”

“Lockdown” goes far beyond these basic human rights boundaries. They are proven now to only damage societies — they even worsen COVID19 outcomes. When *The Economist* analyzed all recorded epidemics since 1960, it concluded that “democracies experience lower mortality rates for epidemic diseases than their non democratic counterparts.” This finding holds true at all levels of income.

Tedros aligned himself not with democracies and their fundamental principles but with an autocratic dictatorship, the same dictatorship that helped him assume power within the WHO. Together, using logical fallacies and pseudo-science, they betrayed international law governing human rights, the WHO’s own stated principles, and committed crimes against humanity on a massive scale. Should we continue to listen to Tedros, or should we turn to Dr. Nabarro, another qualified expert who — like the thousands who signed the Great Barrington Declaration — urges a return to democratic norms as necessary to minimize human suffering?

“Lockdowns just have one consequence that you must never, ever belittle, and that is making poor people an awful lot poorer. Just look at what’s happened to smallholder farmers all over the world. Look what’s happening to poverty levels. It seems that we may well have a doubling of world poverty by next year.”

— Dr. David Nabarro

It is no longer possible to ignore Tedros Adhanom Ghebreyesus's long history with suppressive autocratic regimes, including China. Whatever the motivation behind his advocacy for continued lockdowns, the data invalidates his position unequivocally. Lockdowns do not save lives — lockdowns kill. The reign of tyranny must end, immediately and forever, with a full restoration of the rights and privileges of each individual citizen to choose what level of risk he or she will accept as a law-abiding member of a functioning, democratic society.

WHO, what, where, and why? We don't yet have all of the answers, but we do know that the WHO director-general is on the wrong side of the lockdown debate.

October 14, 2020

Covid Is Not Categorically Different

DONALD J. BOUDREAUX

Senior Fellow

Since March, the coronavirus has been treated as if it is a danger categorically different from other dangers, including other viruses. But this treatment is deeply mistaken. The coronavirus is not a categorically different danger. It occupies a location on the same spectrum that features other viruses. Reasonable people can and do debate just where this location is – that is, how much more dangerous is the coronavirus than are ordinary flu viruses and other ‘novel’ viruses that plagued us in the past. But the coronavirus is well within the same category as other viruses.

Yet humanity has reacted – and continues to react – to the coronavirus as if it is a beast that differs from other health risks categorically. The hysterical overreaction by the press, public-health officials, and politicians – an overreaction undoubtedly supercharged by social media – has convinced many people that humanity is today being stalked by a venomous monster wholly unlike anything to which we are accustomed.

Only by assuming that this virus differs fundamentally from other risks can governments continue to get away with unprecedented and arbitrary restrictions on peaceful human activities – restrictions on activities such as working at the factory or office, on dining out, on attending religious services, on going to school, and even on seeking medical treatments for non-Covid-related ailments. Only by being convinced that the coronavirus poses a threat categorically unique are ordinary men and women led to change their ways of living and interacting as fundamentally as many have done, and to tolerate the categorical change in governments’ responses to epidemics.

Quaking with fear that the angel of death lurks as never before in every stranger’s breath, on every person’s fingertips, and around every corner, people today treat each other categorically differently from how they treated each other until this past March. They leap frantically away from approaching strangers on sidewalks. They “meet” their co-workers only online. Neighbors no longer visit each other’s homes, while those who still dare to chat outside stand far apart, as if each is about to morph any moment from a Dr. Jekyll into a Mr. Hyde. When they stage athletic events, the stands are filled not with human beings but with eerie cardboard cutouts.

Other human beings are no longer treated as potential partners in productive social cooperation, whether for work or pleasure. Now regarded as meaty and mobile vials of unprecedented poison, other human beings are treated by so many of us in a way that differs categorically from how we treated them for centuries up until just a few months ago. “Social distancing” is undermining social cooperation – which means that it’s undermining civilization itself.

Is there any evidence to justify this categorical change in behavior?

Covid’s Risks

My always wise friend and sometime co-author Lyle Albaugh has from the start understood that Covid, while certainly no nothingburger, is not remotely close to being the extraordinary monster that it has become in the popular mind. And so he’s having the following information printed on business-card-sized notices:

COVID-19
INFECTION SURVIVAL RATES (per CDC)

Ages 0-19: 99.997%

Ages 20-49: 99.98%

Ages 50-69: 99.5%

Ages 70+: 94.6%

*Seasonal Flu Infection Survival Rate
(for population as a whole): 99.90%*

This single slice of information should be sufficient to put Covid-19 in proper perspective. It makes plain that the risk that this disease poses to humanity as a whole does not differ categorically from the risk of seasonal flu – or, for that matter, from any of the many other perils that we humans routinely encounter. And because these figures show the estimated chances of survival of those who are infected with Covid, even for persons 70 years of age or older Covid obviously is not a categorically unique threat.

And yet, again, humanity has reacted to Covid in a manner categorically unique. It's as if a hornet rather than a honeybee found its way into our home, and so to protect ourselves from the somewhat-more-threatening invader we commenced to frantically scour every room of our home with a flamethrower.

But I despair that the information shared by Lyle – or even the more extensive information shared by my courageous colleagues at AIER – will have any noticeable impact. Very many people today seem almost eager to be misled about the danger posed by Covid. Much of humanity today appears to perversely enjoy being duped into the irrational fear that any one of us, regardless of age or health, is at the mercy of a brutal beast categorically more lethal than is any other danger that we've ever confronted. I hope that my despair proves misguided.

October 13, 2020

The Devastating Economic Impact of Covid-19 Shutdowns

AMELIA JANASKIE (Research Intern) & PETER C. EARLE (Research Fellow)

To this point, the destruction caused by state and Federal Covid-19 lockdowns has largely been expressed in aggregates. Yet along the same line as a popular critique of Keynesianism, economic aggregates present a greatly truncated story by smoothing over minute but revealing evidence at lower levels. Looking at the policy impact on a smaller scale – regionally, and in terms of industries/sectors – exposes the impact of mandated shutdowns in greater detail.

In response to the Covid-19 pandemic, widespread lockdown restrictions were imposed, ostensibly to keep hospitals from being overwhelmed and medical resources from being consumed to exhaustion. Whether policymakers purposely or out of ignorance disregarded them, the tradeoffs of stay-at-home orders were immediate and severe: a massive spike in unemployment, rivaling the Great Depression; similarly historic drops in GDP, and others. By looking at disaggregated data, though, the devastation of lockdowns becomes all the more apparent.

Organization

We examined the US economy in the period leading up to the Covid-19 policy implementations in two ways: regionally and in terms of industries.

For our analysis, U.S. geographic regions are broken into the following areas: New England, Mideast (Midatlantic), Great Lakes, Plains, Southeast, Southwest, Rocky Mountain, and the Far West. These were compared using data on GDP, imports, exports, business formations, and unemployment.

In the second section, industries are grouped and analyzed in a two-fold manner, by specific sector,

and by location on the vertical supply chain. The following metrics were used:

Industrial Production Index: This index (IPI) represents the output of industrial sectors, specifically: consumer goods, non-industrial supplies, materials, and mining. As an index, industrial production is measured against the baseline, which is that 2012 levels were set to 100, and subsequent years compared against it.

Capacity utilization: Capacity utilization (CU) is denoted as the percentage maximum potential output that is actually utilized. Functionally, this is

$$\frac{\text{Actual Industrial Output}}{\text{Maximum Potential Output}}$$

Sales/inventory: Sales figures represent, as a dollar figure, the operating revenue of goods sold or services rendered. Inventory is, as a dollar figure, the amount of product that has been produced and stored, but not yet sold.

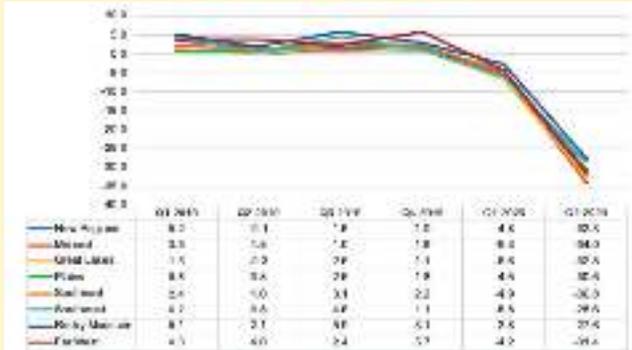
GDP Value-Add: This metric is the dollar amount that a certain sector/region has on the United States' Gross Domestic Product (GDP).

Change in employment: This value represents the number of jobs gained/lost in a particular measuring period compared with that of the preceding period.

Although the lockdown clearly and incontrovertibly damaged industries in aggregate, the breakdown shows clearly that the effects were by no means universal.

GDP by Region

Needless to say the United States as a whole suffered economically from the lockdown measures; the degree of economic loss, however, varied widely between regions and their constituent states.



Gross Domestic Product measures the monetary value of all the finished goods and services in a given place and time.

Although NBER dated a recession as having begun during or just after February 2020, Q1 2020 GDP shows only small declines for each region. Yet with the start of the lockdowns, the Great Lakes saw the largest drop in seasonally adjusted annualized rate of GDP by 6.6% between Q4 2019 and Q1 2020. Within the Great Lakes, durable goods and manufacturing GDP contribution dropped furthest negative compared to other US regions: by -0.76% between Q4 2019 and Q1 2020.

Manufacturing is the region's top industry as it serves as home to a disproportionate number of the top auto and aerospace companies: Ford, Chrysler, GM, Bombardier, Magna International, GE Aviation, and others. The Rocky Mountain region, comparatively, saw the smallest decrease in GDP of 2.8% from Q4 2019 to Q1 2020: that probably owes to its dominant industry, mining, being substantially distanced from the direct impact of lockdowns. It contracted by only 0.05% in Q1 2020.

Q2 2020 reveals massive damage among all regions, with Midwest GDP plummeting the most

(34%) and Rocky Mountains the least (27.6%). Among Midwest states, New York's GDP declined the most: 39.3%. This owes not only to the presence of manufacturing within the Empire State, but the singularly detrimental and long-lasting nature of lockdowns on New York City.

Yet compared against all other U.S. states, Hawaii and Nevada's GDP plummeted the most: both by 42.2%. Hawaii and Nevada are both heavily dependent on the tourism industry, which in turn rely heavily upon the accommodation, recreation, and food service sectors. This was exacerbated by widespread flight and route cancellations among the major airlines (Delta cut flights by 85% in Q2) as well as suspended services to specific airports – one of which, notably, was Las Vegas McCarran International Airport.

Delaware's GDP dropped the least of any U.S. state between Q1 and Q2 2020 with a decline of 21.9%. One explanation is the prevalence of financial, insurance, and other administrative jobs in Delaware, a large percentage of which can easily shift to a work from home basis.

Imports by Region

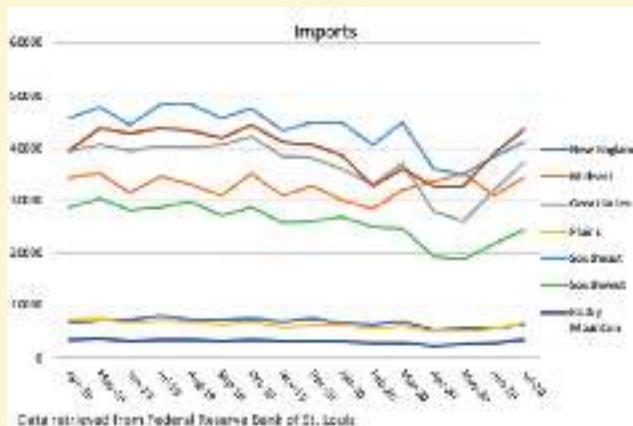
The Southwest, Great Lakes, and Rocky Mountains experienced traumatic shocks to imports between Q1 and Q2 2020. Within these regions, the greatest effects were experienced by Oklahoma (-29.85%), Michigan (-46.83%), and Hawaii (-63.98%).

A number of extremely uncommon events in the global oil industry as lockdown policies were being imposed exacerbated the declines in several of these areas. Oklahoma is part of the Permian Basin, and depends disproportionately upon the oil drilling and processing industries; Michigan depends, as previously mentioned, upon the automotive industry and other heavy manufacturing operations (which in turn is sensitive to trucking). Hawaii, as also mentioned, depends upon air and sea transportation.

One other state not included in these regions, Rhode Island, had a 46.83% drop in imports as well. The steep drop is due to less imports of passenger and commercial vehicles, gasoline, petroleum, and motorboats at the Providence, RI port.

As for best-performing states, New York saw imports vault by 61.93% between Q1 and Q2 2020; this, however, had everything to do with massive shipments of medical supplies to New York City and Long Island hospitals and medical facilities. (Despite an initial, taxing spike in novel coronavirus cases, the greatly feared torrent of desperately ill New Yorkers never materialized.)

Alongside New York State, Idaho’s state imports increased by 19.98% and South Dakota’s by 7.82% between Q1 and Q2 2020.

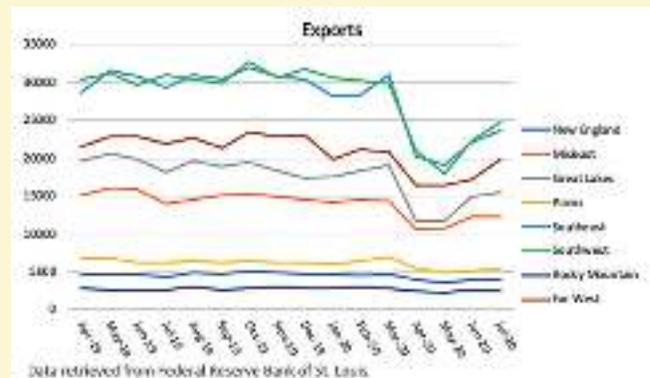


Exports by Region

State exports are comprised of goods and services leaving the state for both domestic and international destinations. The Great Lakes, Southwest, and Southeast U.S. regions saw the biggest drops in the number of exports; within those regions, Michigan, Texas, and South Carolina suffered the most. For each of those states, their major exports are derived from several of the sectors hardest hit by lockdowns: plummeting output in Michigan’s automotive industry; the extreme conditions which

erupted in the oil sector roiled firms in Texas, described in further detail below; as was aircraft/aerospace production in South Carolina.

Conversely, the Rocky Mountain and New England regions experienced less of a decline in exports from April 2019 to April 2020 when compared to other regions despite all still having generally large negative impacts. Although not in these regions, the only state to see a slight increase in exports was Alaska. According to the Anchorage Economic Development Corporation, the Anchorage Airport was the “busiest airport on the globe on some days over the past few months” of 2020 due to the reliance on US-Asia cargo trade.



Additionally, when comparing manufactured versus nonmanufactured imports and exports, we can glean a few insights. The Midwest performed well for manufactured imports with a 15.73% increase over the previous quarter, but this is likely due to medical supplies shipped to New York. Non-manufactured imports, such as farm products or other raw materials, contain the lowest drops. The Great Lakes and Southwest, however, appear to have experienced the greatest blows to overall trade (imports and exports). The Great Lakes accounts for a large majority of US-Canada trade, which has been suppressed by lockdowns. The chart below details the percent change in manufactured and non-manufactured imports and exports between May

2019 and May 2020. Manufactured goods are products that were mechanically, chemically, or physically transformed, while nonmanufactured refers to raw materials.

	New England	Midwest	Great Lakes	Plains	Southeast	Southwest	Rocky Mountains	Far West
Manufactured Imports	-24.52%	5.41%	-32.49%	-22.78%	-25.13%	-39.57%	-17.34%	-23.89%
Non Manufactured Imports	-12.30%	-61.33%	-59.31%	-57.14%	-33.75%	-44.35%	-31.77%	-35.01%
Manufactured Exports	23.58%	25.09%	-42.85%	-27.37%	-42.70%	41.70%	16.69%	-31.84%
Non Manufactured Exports	-27.70%	-44.66%	-43.37%	-28.36%	-17.07%	-44.86%	-6.57%	-7.38%

Imports, Exports, and the Oil Factor

In early spring 2020, Oil Producing and Exporting Countries (OPEC), Russia and Saudi Arabia found themselves at an impasse, unable to agree upon production levels. Without delving into the minutia of their contention, Russia initiated a price war by entering into unlimited production of oil, driving world oil prices down. In an effort to maintain market share, Saudi Arabia and soon thereafter other OPEC nations “opened the spigots,” so to speak, flooding world markets with oil, sending prices on commodities, futures, forwards, and other markets plunging.

At this point, worldwide demand for oil was plunging due to lockdowns; in April of 2020 more people worldwide were under some form of lockdown than there were people on Earth at the end of World War II. A large portion of Americans were either at home, unemployed, or working from home; business and vacation travel evaporated.

The combination of nonexistent demand and skyrocketing supply led to a spectacle unseen in financial market history: on April 20, 2020, the May 2020 West Texas Intermediate futures contract plummeted 300% to close at -\$37.63. The crude oil industry which had since the 1950s developed as an oligopoly (and thus only had to bear supply within predetermined, agreed-upon price ranges) overnight became a *de facto* free market, and storage disappeared. WTI crude oil, for a limited time, was not only “free,” but traders would pay \$37 per barrel to buyers to take physical delivery as the glut filled tank farms and sea tankers.

At the intersection of historically low interest rates and high variable costs of extraction, transportation, refining, and marketing of each barrel, oil firms assumed copious amounts of debt throughout the post-9/11 era. A working assumption is that oil prices would stay above \$30 or \$40/bbl indefinitely, or at least near the long-term norm. With the colossal collapse in oil prices, many such firms were suddenly unable to service debt obligations.

In addition to the immediate damage of the lockdowns, CNN estimates that the second-order effects will result in 100 firms in the oil industry declaring bankruptcy in subsequent quarters. British Petroleum has already pledged to lay off 10,000 employees by the end of 2020 and Marathon Petroleum has announced that 12% of its staff will be laid off. Chesapeake Energy, long a Fortune 500 company, was delisted from the New York Stock Exchange. Oasis Petroleum, only a few years back trading at roughly \$16 per share on NASDAQ, lost 90% of its value; it currently trades at 18 cents per share. Oil firms Noble Energy, Halliburton, Marathon Oil and Occidental Petroleum all lost over 2/3 of their value. Many more jobs, and the jobs that depend upon those, will likely be lost.

Business Applications by Region

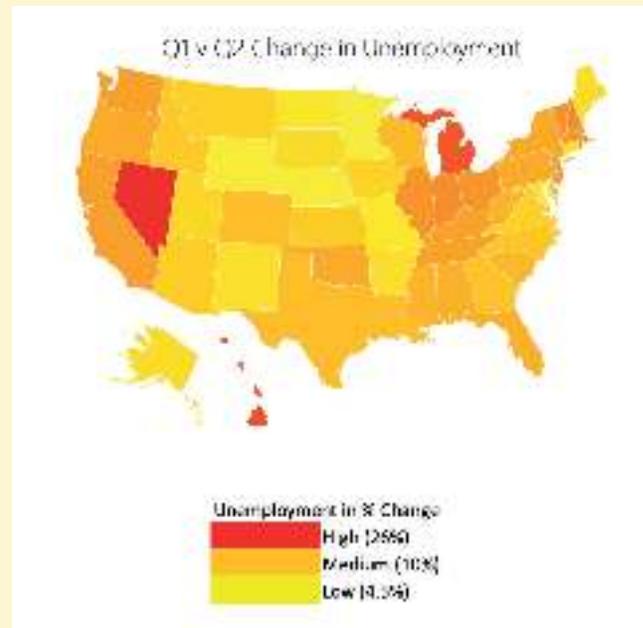
Curiously, business applications have actually risen in some regions; notably in the Southeast where an increase of 14.90% between Q1 and Q2 2020 has occurred. The Great Lakes, Plains, Southwest, and Rocky Mountain regions have seen increases as well. The Mideast region evinced a decrease in business applications by 5.85% between Q1 and Q2 2020.

Some explanations for this heartening (if counterintuitive) spike include the following: delays in processing previously-submitted applications once lockdowns went into effect; opportunistic purchases of existing businesses; increased entrepreneurship in the wake of massive regional layoffs; a response to shifting demand in certain products and services owing to Covid-19 and/or the policy responses; or, most likely, some combination of all of the aforementioned.

Unemployment by Region

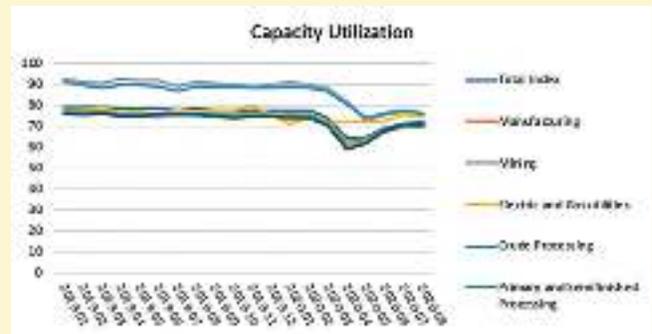
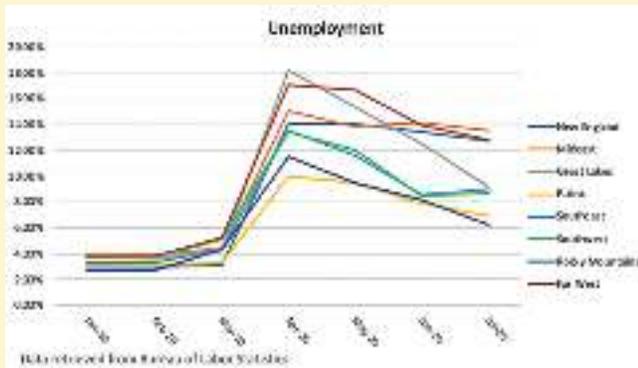
In April, the Great Lakes region experienced the highest levels of unemployment (18.24%) while the Plains region saw the lowest: 9.99%. Within the Great Lakes between March and April 2020, Michigan saw the greatest increase in unemployment rates (19.75%). Other Great Lakes states also significantly increased between March and April: Illinois by 12.95%, Indiana by 14.48%, Ohio by 11.82%, and Wisconsin by 10.5%. Michigan's construction, manufacturing, and leisure and hospitality industries experienced the deepest impact.

In the Plains region, Nebraska and Minnesota's unemployment rates increased to 8.7%. Overall, the highest unemployment rate in the US in April was in Nevada at an estimated 30%, with the leisure, recreation, and hospitality-intensive economies of Las Vegas and Reno utterly devastated through Q2 2020.



While some regions' unemployment rates have been falling since their peak in April, several have stayed somewhat level; the Mideast, for example. It is likely that where small and service-oriented businesses are dominant (such as in New York City and certain cities in Florida and California), unemployment rates rose steadily as time drew on.

Overall, the Great Lakes and Southwest regions appear to be struggling the most in terms of imports and exports. As previously mentioned, Michigan, Oklahoma, and Texas rely to a large extent upon industries which are being hammered – manufacturing, auto, and petroleum. Further, though, the proximity of these states to Canada and Mexico (nations with whom trade also slowed to a near-standstill) also contributes to explaining the commercial decline.

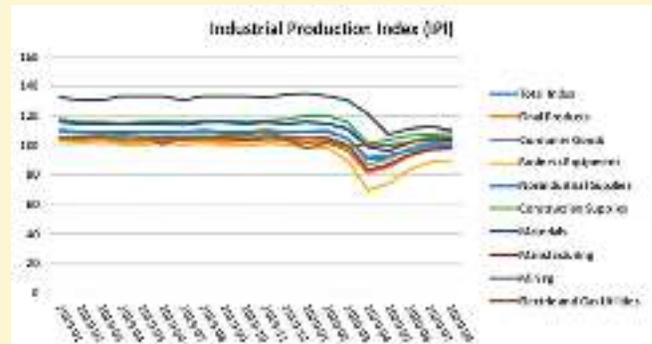


Industrial Production and Capacity Utilization

Although the lockdown has had a negative impact on all industries, the magnitude of the damage is not universal. In evaluating the disparity between respective impacts on various industries in the United States, we will use two sets of measures: industrial production & capacity utilization and sales & inventory. As previously noted, the Industrial Production Index (IPI) measures the supply of manufactured goods, and is therefore a strong predictor of GDP.

While the Industrial Production Index (IPI) measures the supply of industrial products, Capacity Utilization (CU) is a measure of demand for goods. Although influenced by consumer sentiment, both industrial production and capacity utilization are influenced by real interest rates.

On March 15, 2020, the Federal Reserve, in response to the coronavirus pandemic, cut the Fed Funds Rate to 0% and initiated a number of 2008-era liquidity programs, in addition to a \$700B quantitative easing facility. With tremendous liquidity entering world money and financial markets one would expect both IPI and capacity utilization to increase commensurate with a reduction in the opportunity cost of saving, thus making investments in capital goods, expanded production capacity, and inventories more appealing. And yet beginning in March and at an increasing pace throughout April, both metrics saw sizable declines (see below).



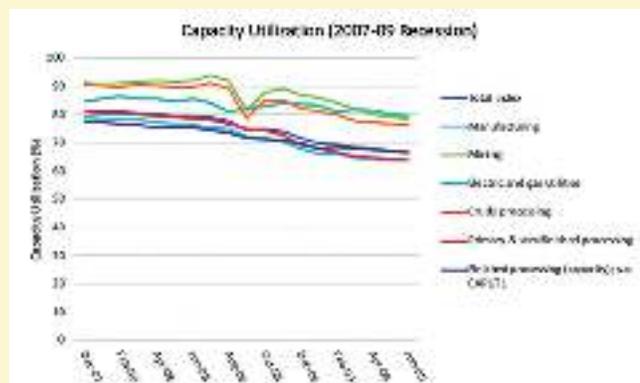
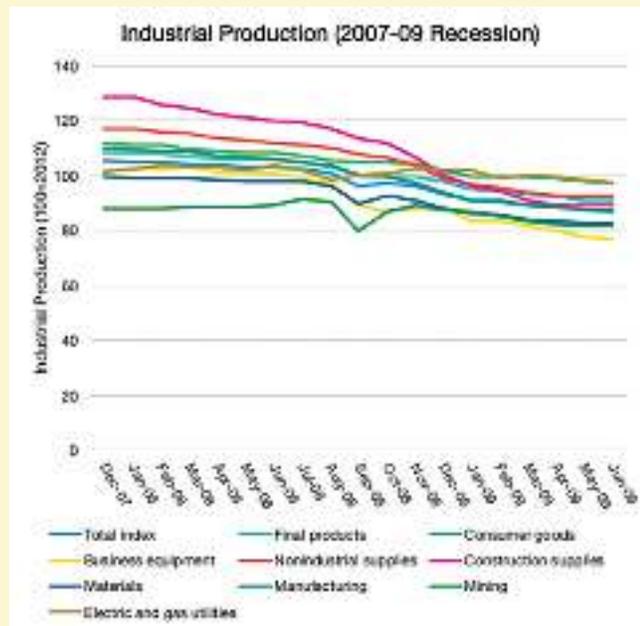
This highlights both the overwhelming degree of uncertainty and the withdrawal of consumers, retail and institutional, from markets as the simultaneous and sudden destruction of both supply (lockdowns forcing the shutdown of plants, etc) and demand (lockdowns resulting both in mass layoffs and widespread sheltering at home, reducing both discretionary spending and overall consumption) collided in the U.S. economy.

Yet not all sectors were damaged equally: business equipment and final products (consumer goods) took the biggest hit whereas the effect on mining, materials, and utilities (capital goods) was milder. With respect to the IPI, between the months of February and April 2020, though business equipment declined a staggering 29.3%, the damage to the utilities sector was just 1.2%; mining lost 8.9% and materials 13.7%.

What is most interesting and unique about this specific recession is that the lockdown impact created a significant ‘kink’ in both IPI and capacity utilization trends. In fact, this sort of disjoint movement in

Q2 2020 is vastly and visually different, and more importantly more severe, than even that of the Great Recession between 2007 and 2009. This comparison suggests that a simple, artificial economic slowdown imposed by government policy can have a broader, more devastating effect than what the US endured just over one decade ago: the greatest financial collapse in nearly one century.

So much for Wall Street and its alleged financial “weapons of mass destruction:” a seemingly innocuous, ‘temporary’ lockdown, even if successful in suppressing the daily case curve, will quickly permeate and destroy the economy in ways that even the riskiest derivatives couldn’t come close to.



Industrial Value-Add

Regarding the Value-Add of the Gross Domestic Product, although the aggregate U.S. GDP grew 3.4% from Q1 2019 to Q1 2020, not all industries saw growth.

Of 14 private industries tracked by the Bureau of Economic Analysis (BEA), four declined. While the agriculture, forestry, fishing, and hunting sectors enjoyed a 12.0% growth within this period, the mining industry actually declined 20.3%. However, in Q2 2020, net value-add/loss by sector became more grim. Agriculture, forestry, fishing, and hunting sectors endured a 36.4% loss of on its GDP value-add (which is to say, those sectors’ contributions to GDP decreased) compared to the preceding period; in that same time period the mining sector continued its downward trend, losing 40.7% of its value-add to GDP.

Despite that, the hardest hit sectors were the arts, entertainment, accommodation, and food services – unsurprisingly, due to the strict stay-at-home orders – which lost a staggering 91.5% of contribution to GDP versus Q1 2020. This is particularly noteworthy considering the overwhelming predominance of small, thinly-capitalized and narrowly financed firms within these sectors. Indeed, Yelp estimates that a staggering 61% of restaurants will ultimately close permanently as a result of lockdown policies.

The finance and insurance industry did well, increasing the value generated from Q1 2020 by 11.9% – in no small part, likely, due to the ability of most financial industry employees to work from home.

Industrial Sales and Inventories

Industry sales and inventory provide another angle to gauge both consumer spending habits and supply-side production. Sales data is perhaps the most clearcut way of determining demand; in a strong economy, sales ought to also be high. Inventory is a

signal of both supply and demand; it moves directly with production and inversely with sales. Normally, in a recession, one would expect sales to decline, and with it inventories too, as businesses respond to the lack of latent demand, for all industries. Yet, this recession is different in a major way; although both inventories and sales stayed relatively constant upstream (e.g. in manufacturing and wholesale sectors), this was not the case downstream (e.g. retailers). Regarding retailers, inventories tended to decrease significantly during the lockdown whereas sales had little movement, if not slightly increased. This phenomenon can be directly attributed to the lockdown.

ABCT and the Term Structure of Production

An interesting contrast can be made between the Austrian Business Cycle Theory (ABCT) explanation of recessions and the “artificial” nature of the policy-driven lockdown recession. To summarize, ABCT demonstrates that sustained periods of artificially low interest rates and credit creation lead to a distortion in the balance between savings and investment. Lower rates drive borrowing and tend to lead to spending on capital goods; which is to say, goods with longer term structures of production that are used to produce other goods. Examples of these are mining, resources, heavy manufacturing, financial markets, and other such goods which tend to be capital intensive and durable, used in the production of other goods. Less affected by the credit expansion, typically, are consumer goods: those which are usually nondurable have no future use after production: food, clothing, and other nondurables typically intended for immediate or near-immediate consumption.

The shift to longer-term production processes is ultimately unsustainable, and with the end of the credit expansion, no further investments can be found which provide sufficient returns at the

prevailing rates of interest. A sharp contraction follows in which malinvestment is liquidated: a cluster of error realized, with firms filing for bankruptcy, projects being abandoned, and assets moving from overly extended concerns to more financially solid enterprises. Unemployment tends to rise as well.

The classic case is depicted in the Great Recession (2007 – 2009). After years of progressively lower interest rates starting not long after the dot-com bust and 9/11, a credit bubble concentrated in mortgages, financial assets, and other sectors had grown, as demonstrated here in the Fed’s “Changes in Monthly Industrial Production by Process Stage” from x to y, the Crude/Processing stage – representing capital goods with the longest term structures of production fell the most when the credit bubble popped. Other stages fell as well, but the degree of distortion driven by low rates and ease of credit is seen to be less severe as the term structure associated with the category of goods decreases. The red periods in the following table depict that shift:

Changes in Monthly Industrial Production Index by Process Stage (2007-2009)

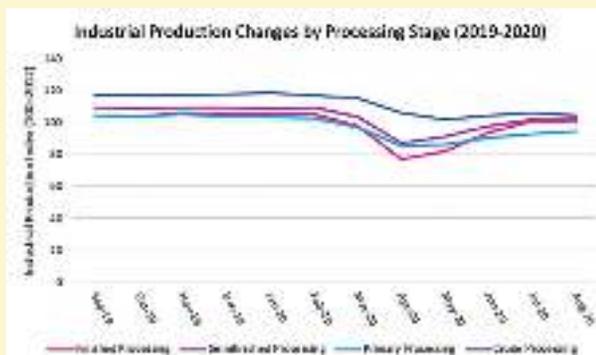
Month	Finished processing	Semi-finished processing	Primary processing	Crude processing
Dec. 2007	0.43%	0.66%	0.06%	0.30%
Jan. 2008	-0.23%	-0.01%	0.00%	-0.00%
Feb. 2008	-0.77%	-0.58%	-0.06%	-0.55%
Mar. 2008	-0.25%	-0.01%	0.00%	0.47%
Apr. 2008	-1.71%	-0.89%	0.00%	-0.81%
May 08	0.07%	0.00%	0.00%	0.07%
Jun. 2008	-0.27%	0.07%	-0.88%	-0.88%
Jul. 2008	-0.24%	-1.82%	-0.88%	0.33%
Aug. 2008	-2.15%	-1.27%	-0.28%	-0.51%
Sept. 2008	-2.85%	-1.19%	0.00%	-0.00%
Oct. 2008	-1.41%	-1.73%	0.22%	0.10%
Nov. 2008	-0.27%	-0.02%	0.10%	-0.07%
Dec. 2008	-1.70%	-0.89%	-0.88%	-0.88%
Jan. 2009	-5.15%	-3.31%	-0.15%	-0.82%
Feb. 2009	0.83%	1.80%	0.11%	0.01%
Mar. 2009	0.31%	2.00%	0.64%	0.50%
Apr. 2009	-1.01%	-1.02%	-0.04%	0.01%
May 09	-1.07%	-0.60%	-1.05%	0.00%
Jun. 2009	-0.25%	-1.18%	0.88%	0.10%



Whereas, in the present case, the deep and sudden recession (and by some measures economic depression) were caused not by the collapse of credit expansion but by policy-dictated business closures, a near total cessation of trade, and the immobilization of the population-at-large. Sudden skyrocketing levels of unemployment fell immediately upon consumers and, with historically low savings rates the opposite pattern materialized (at least initially): consumer goods fell the most, with less of an impact on progressively longer term structures of production as seen here in red:

Changes in Monthly Industrial Production Index by Process Stage (2019-2020)

Month	Finished processing	Semi-Finished processing	Primary processing	Crude processing
Sept 2019	+1.51%	0.02%	0.67%	0.29%
Oct 2019	+0.92%	-0.17%	-2.73%	0.16%
Nov 2019	+2.77%	0.75%	-1.05%	-0.49%
Dec 2019	+0.51%	0.49%	-1.22%	0.55%
Jan 2020	+0.84%	-0.20%	-2.07%	0.34%
Feb 2020	0.02%	0.70%	-1.18%	-1.20%
Mar 2020	-12.22%	-4.10%	-3.81%	-1.82%
Apr 2020	-21.22%	-16.35%	-13.61%	-7.34%
May 2020	-2.71%	-1.75%	-2.72%	-1.42%
Jun 2020	+1.54%	-1.16%	-4.32%	0.59%
Jul 2020	0.48%	-1.20%	-2.42%	1.27%
Aug 2020	0.16%	0.70%	-1.15%	0.05%



Conclusion

Even broken down from the aggregate economic statistics into which they are usually combined, these disaggregated economic measures nevertheless gloss over the massive damage caused to the majority of firms that aren't captured in government data: the Small Business Administration states that 99.7% of all US businesses are small businesses (less than 500 employees) and that 48% of American workers are employed by a small business.

State-enforced lockdowns create uncertainty, which impacts business investment, winnows savings, and destroys consumption at every point along the term structure of production. With the additional factors of price volatility and reduction of resources (e.g. less retained earnings), business owners are likely to become more averse to risk and withdraw from the market, reducing their expenses (reducing headcount and expenditures, cancelling planned investments, etc) as well. Lockdowns – a policy implementation with virtually no precedent throughout American history – have essentially induced an artificial economic recession (and by some measures, a depression). Virtually every business concern, from the much-celebrated “mom and pop” shops to multinational corporations were at some point, and often at several, forced to contemplate and plan for the cessation of business activities, fully or in part.

The lockdown, imposed at various levels, has had a profound impact on every aspect of commerce. Unlike models and other popular representations of business activity, the economy is not a machine and cannot be ‘shut down’ and ‘restarted’ at will; many of the firms which have closed will never reopen, and for uncountable others reacquiring former levels of productivity will be a daunting task, if even possible. So too will many of the unemployed see an inexorable change in the lifetime trajectory of their earnings and wealth.

Although the pandemic itself may have caused some degree of economic retrenchment, the U.S. policy response at all levels tended to emulate the policies of vastly less market-oriented economies although far better examples were readily available. U.S. states with brief or no lockdown measures (e.g. South Dakota and Nebraska) experienced the smallest degrees of economic damage. And predictably, in industries that are most sensitive to lockdown – small firms generally, where most job creation takes place; service industries, which now dominate the US economy; and more broadly any company with jobs that don't readily convert to a work-from-home basis – the result is wanton destruction and loss.

October 10, 2020

Will Things Ever Go Back To Normal?

JOAKIM BOOK

Contributor

Early in the pandemic I advised readers to zone out, take a break, and read fiction and other works of art that have stood the test of time. There's only so much crazy we can deal with and there's only so much mental benefits to be had from intensively monitoring a pile of political trash.

Over a long enough time frame, the madness of 2020 will fade. However awful the damage is now and however many people's lives are ruined by asinine government policies, the world will recover. Poverty will resume its downward stroll; Capitalism will provide.

Or will it?

I have degrees in history: I am at least a bit more familiar than the average person with the abject poverty that until a few generations ago was the norm for humans everywhere, and the technological improvements that have powered and propelled our societies into the wonders they are. Through disease, genocides, world wars, rebellions and revolutions, state power, civil wars and cold wars, humanity – even the darkest moments of the 20th century – we prevailed, and came out better than ever. I write for a wonderfully optimistic site called *HumanProgress*, dedicated to displaying misperceptions about the state of humanity. I adore the “New Optimists” and their relentless work in showing us exactly how much progress we've made.

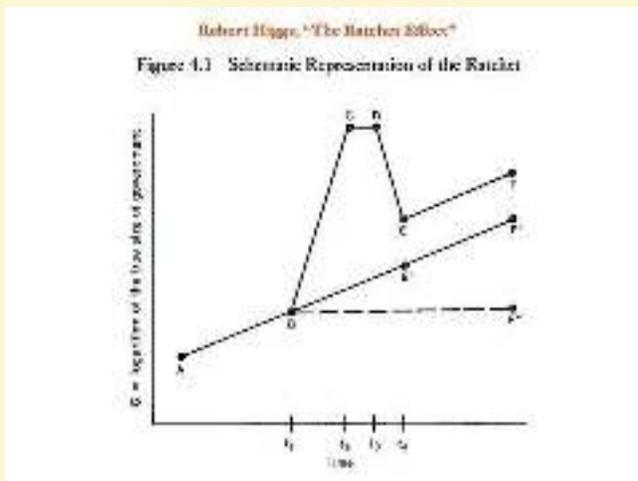
But I confess: this year, I'm afraid. I fear the “new normal” and the “next normal,” and how easily we surrendered hard-earned freedoms. I fear the people who, loudly and unironically, push for states to restrict life even more, to throw everything and the kitchen sink at what looks like a bad flu season. Do we honestly think we'll get back the freedoms

that we have lost?

In ‘Can We Talk About Something Else Now?’, I gave a shout-out to the great economic historian and political economist Robert Higgs, and called his work “an eerie reminder of the long-run interplay between government and freedom.” What propelled Higgs to fame in libertarian circles was his principled, unwavering critique of state power. He didn't mince words about the government. When I first met Dr. Higgs six years ago, he struck me as a little too cynical and a little too paranoid; surely, the things he professed about the overreach of American government couldn't happen? We're past such monstrosities. We have checks-and-balances that still work – for now, anyway.

With the disaster of this year, Higgs' words look remarkably prescient. And I'm not the only one painfully reminded of his work: Don Boudreaux and Veronique de Rugy are just some examples.

One of Higgs' central contributions is the idea of state power ratcheting up over time. During every emergency, be it war or civil rights disputes or climate change or pandemics, the state introduces “temporary” one-off measures. Closing of borders, \$1,200 checks, restrictions that harm people and kill businesses – all in the need of preserving our way of life over the long run. But we know, as Milton Friedman often pointed out, that there's “nothing more permanent than a temporary government policy.”



Ask Sweden and its recently deceased star economist Assar Lindbeck, fighting as he did his entire career against rent control – a “temporary” measure introduced after World War II. Or the punitive marginal income tax on top incomes, levied as a “temporary” public finance effort during the banking crisis of the 1990s. Even after public finances had been under control and in good shape for at least twenty years, the worst portion of this expropriation was rolled back only this year – sending Sweden to a meagre third place in the league of highest marginal tax rates. James Buchanan predicted as much in *Public Finance in Democratic Process* from 1967.

How much will state power ratchet up?

Let me engage in some speculation, hopefully entirely off and ridiculed in three to six months.

Part of Higgs’ ratchet is that after the immediate emergency passes, the state surrenders some of its extended powers – but not all of them. Like the examples of Sweden’s rent control and top marginal tax, some of them linger for decades. The rest of us grow used to them, and forget that we could ever live without them.

As winter rolls over the Northern Hemisphere, the corona cases will increase – relatively slowly for now, then faster and faster. Death rates might

move up with it, and everyone will freak out. Most governments are already losing their minds, reintroducing heavy restrictions on what its “free” people may or may not do. They cover this in increasingly Orwellian euphemisms (“circuit breaker” sounds technocratic and harmless, right?). Some, like the editorial writers at *The Guardian*, don’t even pretend any longer:

“The most obvious advantage of one rule for everyone is its simplicity. Arguably, the sense of being ‘in it together’ from March onwards also made a positive difference in terms of people’s sense of wellbeing, their willingness to tolerate hardship and offer help and appreciation to others.”

It’s not about what works and what doesn’t, a disease or how best to combat it. It’s not even about weighing one set of ills against another. It’s about feeling good and about being in it together – suppressing everyone’s rights and freedoms together.

Air travel won’t return to its 2019 peak. Fewer people will fly, eschewing the wonders of Elsewhere for the safety of Somewhere. The prospects of mandatory quarantines, sometimes in both directions of travel, will sway all but the most dedicated people from traveling. Those who venture into these remarkably safe wonders of civilization will find themselves going through an additional ordeal – not unlike what happened after 9/11 (another set of freedoms never returned to us). We’ll be wearing masks for many years to come, possibly forever; food and drinks will not be served; hand sanitizers and wipers ensure that nothing ever touches your skin. The slight silver lining is some extra space as under no circumstances will seat neighbors be permitted – which means that airlines will struggle with profitability, see more future bailouts, and some of them probably nationalized.

The comparatively harmless plexiglass will be everywhere, as will the masks that make it impossible to read others’ facial expressions and

on occasion hear what they're saying. Social interaction will be inhibited, and not just physically. We'll all make our purchases behind protective veils – or through the pseudo-anonymity of being online – losing the affectionate interactions that make market participants friendlier. Say goodbye to late-night rumblings through the streets – nightclubs and bars will stay closed, permanently, as such frivolity is most certainly not “essential.” If you're even allowed outside, that is – which you won't be – there will be few reasons for you to leave the safety of your home.

Vaccines will arrive, faster than ever before in human history, but the combination of not providing enough protection and a sizable portion of the population refusing to take them, will mean that corona restrictions remain in place.

The madness of 2020 has had a lot of extraordinary firsts: lines in the sand we never thought politicians would cross. We thought they'd never infringe on people's freedom to walk outside, meet others, trade in perfectly harmless and mutually beneficial exchange. We were wrong: at the first sight of (slight) danger, we handed over freedoms left and right – and nobody really cared. Higgs' thirty-year-old words are more relevant than ever.

When even free-marketeers like Tyler Cowen say that opening schools “just doesn't seem worth it,” we don't want to know what he thinks about other activities. In the early days of the pandemic, opponents of freedom said smugly that “There are no libertarians in a pandemic.” Perhaps, we reluctantly conceded as we all feared what we didn't know, before we retorted that there would be no statist coming out of one. Liberty's proponents seem to be losing that one too.

“The benefits of a national lockdown no longer justify the costs,” states *The Economist*, as if they ever did or as if that mattered to power-hungry intellectuals and politicians. The latter have been

enjoying a seven-month high on dominating others – and learned that their subjects didn't really mind. They will fight tooth and nail to hold on to their newly acquired powers, and there will be nobody opposing them.

What Higgs teaches us is that temporary efforts, introduced for whatever high-flying reason, take on a life of their own. They lull the population into a false sense of security and a misplaced appreciation for the now normal. Fast forward ten or twenty years and everyone forgets that the invasive powers we transferred to the state were ever temporary in the first place. Higgs is the intellectual champion we don't deserve, but so desperately need.

Let's just hope that I am wrong, and that progress wins out in the end.

October 18, 2020

Does Anyone Trust the Fed?

THOMAS L. HOGAN

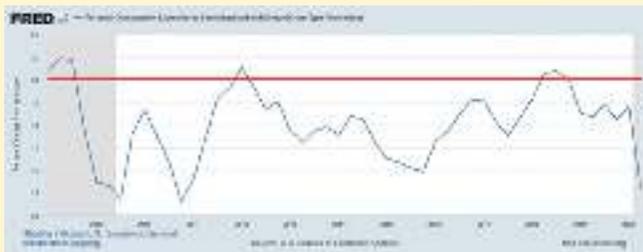
Senior Research Fellow

In August, the Federal Reserve introduced its new monetary policy strategy of Average Inflation Targeting. This measure was expected to increase price inflation in the short run by raising the public's expectations of higher prices in the future. Based on evidence from financial markets and even from the Fed's own forecasts, it does not appear to have done so.

The reason the new policy has failed is that no one seems to trust the Fed to achieve its policy goals. There are, however, tools the Fed could use to improve its credibility and make its monetary policies more effective.

The new policy: Average Inflation Targeting

In 2012, the Fed officially adopted a target rate of 2 percent inflation. Since that time, however, rates of inflation have been consistently below the 2 percent target. The rate of inflation in "core" personal consumption expenditures (PCE), for example, has averaged just 1.6 percent over the past decade and has met or exceeded the 2 percent objective in only four quarters over that period.



The 2 percent target was intended to be symmetric. Any deviations from 2 percent were expected to be random errors due to the imprecise nature of monetary policy. Sometimes inflation would stray above 2 percent, and sometimes it would fall below, but it would average out to 2 percent over time.

Since inflation has repeatedly undershot the Fed's target for more than a decade, it is clear that this symmetry has not been achieved.

The new policy of Average Inflation Targeting explicitly commits the Fed to the symmetric outcomes it had hoped to achieve with its previous policy. The new policy dictates that if inflation has recently been below its 2 percent target, the Fed will intentionally allow inflation to run above 2 percent in the future to make up for its past shortfalls.

This change in future policy should also affect the current rate of inflation. If consumers and businesses believe that prices will be higher in the future, then some consumers will spend more today, and some businesses will begin to raise prices. Thus, by raising expectations of long-run inflation, the policy can increase short-run inflation as well.

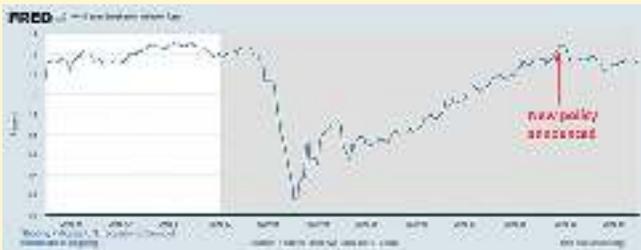
One problem with this strategy is that it will only be effective if the Fed is credible in its commitment to the new policy and, hence, to future inflation. Here the Fed faces a paradox of trust. The policy of Average Inflation Targeting only matters if inflation has been persistently above or below the target rate. But if inflation has persistently missed the target rate in the past, the public might not trust the Fed to achieve its new target rate in the future.

If the Fed has consistently undershot its old target, why would anyone trust it to hit the new one?

The current inflation outlook

Has the new policy of Average Inflation Targeting raised the public's expectations of long-term inflation? If so, we should see an increase in short-run inflation expectations reflected in financial market prices.

One common market indicator of inflation is the breakeven rate on Treasury Inflation Protected Securities (TIPS). The difference between market rates on 5-year Treasury securities and 5-year TIPS tells us what average rate of inflation investors expect over the coming five years. This market rate accurately predicted the below-target rates of inflation over the previous decade. The spread collapsed in March during the early days of the coronavirus crisis, but it has since climbed back to its prior level of around 1.6 percent.



If the Fed’s new policy of Average Inflation Targeting were effective, we should see an increase in inflation expectations around the time of its announcement in late August. But inflation expectations have not increased since the announcement. If anything, they have fallen. This evidence indicates that investors do not trust the Fed to achieve above-target rates of inflation in the future.

In fact, it is not clear that the Fed itself believes it can achieve its inflation goals. At the September 15 meeting of the Federal Open Market Committee (FOMC), which sets the Fed’s monetary policy, the members forecast that the rate of PCE inflation would not reach 2 percent until the year 2023.

The fact that FOMC members did not raise their own expectations of short-run inflation indicates that not even *they* trust the Fed to achieve its monetary policy goals.

What can the Fed do?

To build credibility, the Fed must take actions to show the public it is committed to achieving its

policy goals. Even with its policy rates cut to near zero, and despite undershooting its inflation target for more than a decade, Fed Chair Jerome Powell said in September that the Fed is “not out of ammo” and still has tools for expansionary monetary policy.

One tool is open market purchases which, according to Powell, “total \$120 billion per month.” These purchases, he said, are “providing accommodative financial conditions and supporting growth.” But if they are supporting growth, then why not expand them until inflation moves closer to the Fed’s inflation target?

Another, possibly more effective, method is to reduce the rate of interest on reserves (IOR) that the Fed pays to U.S. banks. A higher rate of IOR reduces the effectiveness of open market purchases since it encourages banks to hold higher excess reserves rather than lending the money out to businesses or individuals. A lower rate, in contrast, encourages lending.

Following the 2008 financial crisis, the Fed used IOR to sterilize its asset purchases to prevent them from creating inflation. Its recent open market purchases have also been muted by this IOR policy. While the current IOR rate of 0.1 percent is lower than the 0.25 percent following the financial crisis, even this low rate makes reserves attractive relative to lending since reserves at the Fed are completely risk-free. Lowering the rate of IOR would make the Fed’s asset purchases more effective and possibly even unnecessary.

Powell’s comment that the Fed is not “out of ammo” was intended to reassure the public that the Fed will do whatever it takes to achieve its monetary policy goals. Unfortunately, the Fed’s actions do not support that sentiment.

Until the Fed acts to build trust and credibility with the public, its policy of Average Inflation Targeting will have little effect on inflation or economic activity.

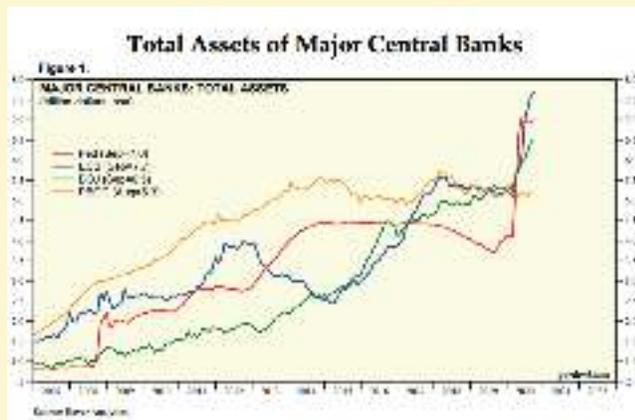
October 29, 2020

QE Goes Global

COLIN LLOYD

Contributor

The original experiment in quantitative easing (QE) began in Japan on the 20th of March 2001, although the Bank of Japan (BoJ) had already been wrestling with the wisdom of embracing QE for several years. By the time of the great financial crisis in 2008/09, the Japanese experiment had attracted several additional adherents. The chart below shows how the balance sheets of the major central banks have grown since then:



Source: Yardeni, Haver Analytics

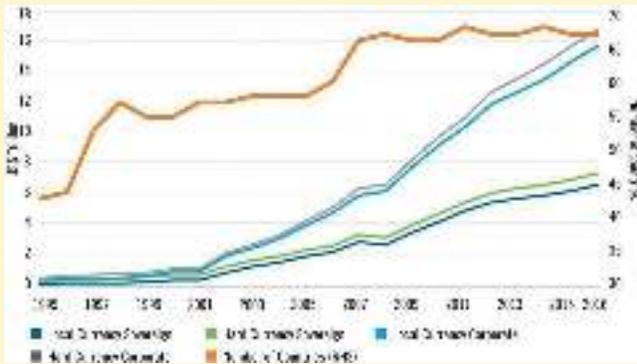
The BoJ remains in the vanguard of policy initiatives, moving seamlessly on from *radical* QE to *ultra-radical* QQE – quantitative and qualitative easing. Armed with this new weapon they have embarked on the provision of, not just temporary liquidity by the purchase of government and corporate bonds, but also, permanent capital, via the acquisition of exchange traded funds of Japanese common stocks. By the spring of this year the BoJ was acknowledged to be the largest holder of Japanese corporate shares.

Where the BoJ leads, other central banks will follow. Interest rates may be at the zero bound, the

government bond yield curve flat and corporate bond yield spreads near historic lows, but the central banks still have plenty of firepower in pursuit of their cherished inflation targets and full employment. Given the global seismic impact of the pandemic which has engulfed the planet, this is a great relief to many world leaders, but now monetary stimulus must go further; it must go global.

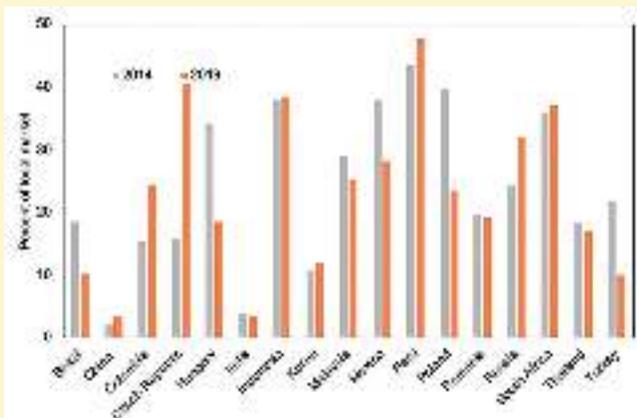
The table below shows the wide array of central banks which have resorted to bond purchases since March and the initial impact this had on both their government bond yields and their currencies: –

Country	Central Bank	Assets Purchased (Bn)	Change in Government Bond Yield (%)	Change in 10-Year Govt Bond Yield (%)	Change in Currency Value (%)
Japan	Bank of Japan	40,000	-0.15	-0.15	+10.0%
USA	Fed Reserve	40,000	-0.10	-0.10	+10.0%
UK	Bank of England	10,000	-0.10	-0.10	+10.0%
EU	ECB	30,000	-0.10	-0.10	+10.0%
Canada	Bank of Canada	10,000	-0.10	-0.10	+10.0%
China	People's Bank of China	10,000	-0.10	-0.10	+10.0%
India	Reserve Bank of India	10,000	-0.10	-0.10	+10.0%
South Korea	Bank of Korea	10,000	-0.10	-0.10	+10.0%
Switzerland	Swiss National Bank	10,000	-0.10	-0.10	+10.0%
Sweden	Riksbank	10,000	-0.10	-0.10	+10.0%
Denmark	Norges Bank	10,000	-0.10	-0.10	+10.0%
Norway	Norges Bank	10,000	-0.10	-0.10	+10.0%
Finland	Bank of Finland	10,000	-0.10	-0.10	+10.0%
Slovenia	Slovenska Banka	10,000	-0.10	-0.10	+10.0%
Czechia	Czech National Bank	10,000	-0.10	-0.10	+10.0%
Hungary	Magyar Nemzeti Bank	10,000	-0.10	-0.10	+10.0%
Poland	Narodowy Bank Polski	10,000	-0.10	-0.10	+10.0%
Slovakia	Slovenská Banka	10,000	-0.10	-0.10	+10.0%
Lithuania	Lietuvių Bankas	10,000	-0.10	-0.10	+10.0%
Latvia	Latvijas Banka	10,000	-0.10	-0.10	+10.0%
Estonia	Eesti Pank	10,000	-0.10	-0.10	+10.0%
Malaysia	Bank Negara Malaysia	10,000	-0.10	-0.10	+10.0%
Singapore	Monetary Authority of Singapore	10,000	-0.10	-0.10	+10.0%
South Africa	Reserve Bank of South Africa	10,000	-0.10	-0.10	+10.0%
Colombia	Banco de la República	10,000	-0.10	-0.10	+10.0%
Chile	Banco Central de Chile	10,000	-0.10	-0.10	+10.0%
Peru	Banco Central de Reserva del Perú	10,000	-0.10	-0.10	+10.0%
Brazil	Banco Central do Brasil	10,000	-0.10	-0.10	+10.0%
Argentina	Banco Central de la República Argentina	10,000	-0.10	-0.10	+10.0%
India	Reserve Bank of India	10,000	-0.10	-0.10	+10.0%
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UK	Bank of England	10,000	-0.10	-0.10	+10.0%
EU	ECB	10,000	-0.10	-0.10	+10.0%
Canada	Bank of Canada	10,000	-0.10	-0.10	+10.0%
China	People's Bank of China	10,000	-0.10	-0.10	+10.0%
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Source: FT, Institute of International Finance

It has been generally accepted by global financial markets that unorthodox policies, such as zero interest rates and QE, favour large, industrialised, globally integrated economies with reasonably open borders and free-trade policies. For smaller, less developed nations the risks remain high. The current crisis, which has accelerated so many nascent trends, has also ushered in a new era where a credible Emerging Market (EM) country, with a flexible exchange rate and well-anchored inflation expectations, may now be able to minimise the risk of a large currency depreciation or spiralling inflation. What may be more difficult to absorb is the selling of bonds by international investors in a *risk-off* environment:



Source: Institute of International Finance

For emerging nations which rely on natural resources, the opportunity for their central banks to embrace unorthodox monetary policy is more limited. As global demand for commodities has waned so prices have fallen, deflationary forces may wreak even greater havoc on the balance of trade. A government’s bonds are only as creditworthy as the stability of its tax base. EM countries that are reliant on tourism will find they face similar challenges. QE will not be the solution to all the world’s ills.

In economic terms, the current pandemic differs from previous *sudden stop* episodes in that it has simultaneously eroded both supply and demand. Financial markets have paid scant attention to judge by the behaviour of EM government bonds. As in 2008, EM bond yields rose, but the global monetary and fiscal response was swifter, more aggressive and more global. EM and Developed Market (DM) central banks joined forces in a concerted intervention:



Source: BIS, EPFR, JP Morgan

The ameliorating effects of the combination of DM and EM QE has percolated down through bonds to equity markets. As at the end of September, EM equities were within 4% of their pre-pandemic peak.

EM debt performance has been more varied in Q3, both across sub-asset classes as well as by country. The modest selloff during the final weeks

of the quarter was probably more a result of position squaring than a change in expectations; nonetheless, the strong upward momentum of Q2 is diminished. Looking ahead, the EM country lockdowns of March, April and May have given way to a more targeted approach to stemming the second wave of infections. EM economies remain open for business and government fiscal support is gradually being withdrawn.

This might encourage cautious investors to moderate their purchases, but for yield-hungry investors, High Yield EM debt at around 700bp remains an alluring alternative to US Treasuries:



Source: Lazard Asset Management, JP Morgan

Concerns about EM exchange rate weakness should always be taken seriously, but, after an initial US\$ *flight to quality* during the early stages of the Covid outbreak in March, the performance of EM currencies has been almost as impressive as the performance of their bonds. I would caution, nonetheless, that this strength is more a function of international capital flows as it is central bank accommodation:



Source: Investing.com, MSCI

What are the limits of EM QE?

Yield compression between EM and DM bonds is unlikely to abate and yet EM economies remain far from equal. The table below provides a useful ranking of some of those strengths and weaknesses:



Source: The Economist

Set against this backdrop the timeline for central bank bond purchases and their justification for the adoption of these programmes was as follows (I have also included their *Rout 66* ranking from the table above):

19-3-20 - (94) Central Bank of Croatia	- to maintain stability in the market of government securities.
20-3-20 - (15) Narodowy Bank Polski	- to change the long-term liquidity structure in the banking sector, increase liquidity in the secondary securities market and strengthen the monetary policy transmission mechanism.
20-3-20 - (91) Banco Central de Chile	- to contain the effects of high volatility events in the fixed income market.
20-3-20 - (18) The Reserve Bank of India	- to ensure that all market segments remain liquid and stable, and function normally with adequate collateral.
20-3-20 - (27) Banco Nacional de Honduras	- to consolidate the structural liquidity in the banking system in order to contribute to the smooth financing of the real economy and the public sector.
21-3-20 - (28) Banco de México	- to promote the proper functioning of the government debt market.
24-3-20 - (8) Banko Sentral ng Pilipinas	- to reassure market participants for demand for Government Securities (GS) should they need to liquidate their holdings, thus encouraging participation in the GS auctions.
24-3-20 - (49) Nemzeti Bank of Hungary	- to restore the stable liquidity position of the government securities market and to improve the long-term supply of funding to the banking sector.
24-3-20 - (29) Colombia's Banco de la República	- to inject government liquidity in order to ensure the proper operation of financial markets.
25-3-20 - (3) Bank of Korea	- to stabilise the bond market, and to intervene the supply and demand of KTBs by expanding the bond-buying capacity of financial companies.
25-3-20 - (47) South Africa	- to add liquidity to the market, to promote the smooth functioning of domestic financial markets, to enhance its Monetary Policy Portfolio.
31-3-20 - (44) The Central Bank of the Republic of Turkey	- to strengthen the monetary transmission mechanism by boosting the liquidity of the government bond market.
1-4-20 - (16) Bank Indonesia	- to assist their government finance the handling of the Covid-19 impact on financial system stability if the market was unable to fully absorb the SBK issued by the Government.
7-4-20 - (7) The Bank of Thailand	- to provide liquidity to and ensure normal functioning of government and corporate bond markets.

It is interesting to note that despite its relative economic strength, Thailand was slow to follow the lead of other EM central banks – perhaps the long shadow of the Asian crisis stayed its hand a while? Also of interest are the actions of Turkey and South Africa. Both the Turkish Lira and the South African Rand had been under speculative pressure during the previous two years or more. Since the spring, the Rand has rebounded somewhat; the Lira, by contrast, continues to decline.

The scale of EM bond purchases has been moderate thus far, but, as central bankers around the world know, their actions will be scrutinised closely. What are the limits of QE for

EM countries? Will economic strength afford sufficient protection from speculators? How important is the level of a central bank's foreign exchange reserves in this delicate equation? The financial markets will seek to discover by testing their mettle.

The table at the beginning of this article, if ranked by economic strength, leaves many questions as to the limits of EM QE. Croatia, for example, which led the way on the 13th of March, saw bond yields rise and their currency decline. Their *Rout 66* rank (34) was fairly low so this may have been predictable, yet Hungary (rank 49) saw yields decline 59bp and the Forint rose 1.8%.

The latest incarnation of unorthodox monetary policy is young. In a fiat currency world the limits of central bank balance sheet expansion remain unclear, but, as the world economy recovers from the largest economic shock in generations, those limits will become clear. For the large, DM, central banks, these EM limits will be noted with care. Japan has been the petri dish of global monetary policy for the last two decades; now it is the turn of EM central banks to test the *willing* suspension of disbelief of global financial markets.

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