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BUSINESS CONDITIONS MONTHLY

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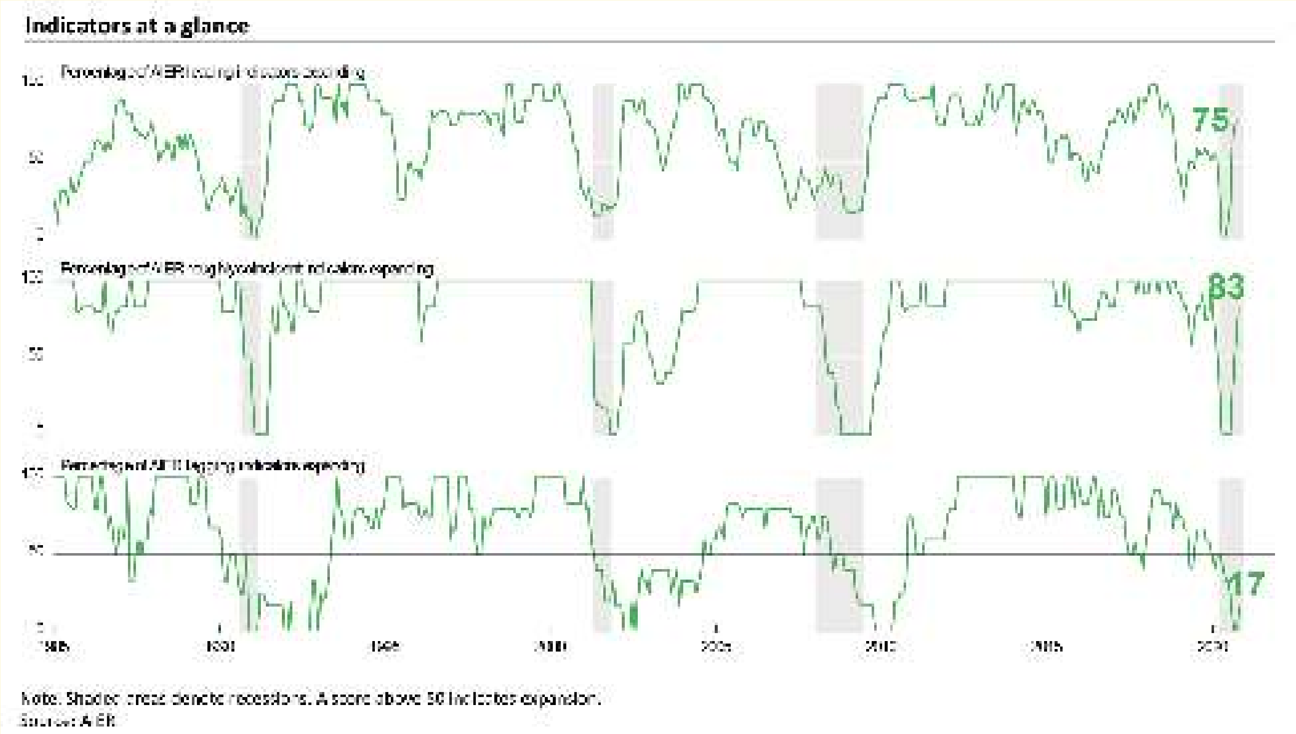
AIER’s Leading and Roughly Coincident Indexes Were Favorable in November



The U.S. economy likely expanded again in November, continuing the recovery from an unprecedented economic contraction caused by government policy. However, doubts are rising regarding the outlook for continued growth as the potential for renewed lockdown policies increases.

AIER’s leading and coincident indexes remained solidly above neutral in November with the Leading Indicators index holding steady at 75 and the Roughly Coincident Indicators index increasing to 83. The Lagging Indicators index posted a gain for the month but remained well below neutral at 17. Though the Leading Indicators index was unchanged for the month, three consecutive months above the neutral 50 level suggest the economy is likely to continue expanding in coming months (see chart). Furthermore, two consecutive months above neutral for the Roughly Coincident Indicators index suggest the economy is already growing and that the recession that began in February may be over.

However, with Covid-19 cases surging around the country, new restrictions on consumers and businesses are a growing threat to continued expansion. While most policymakers have learned that widespread lockdowns are not the most effective course of action, even target restrictions represent a significant threat to the economy.

These threats are reflected in surveys of small businesses that were especially hard hit by lockdowns, as well as surveys of consumers. The surveys show improving views of current conditions as economic activity picks up but declining views of the future as the potential for restrictions grows. The views of improving current activity are backed up by economic statistics. However, a number of economic statistics also reflect the uneven recovery and suggest caution as the risk of a double-dip recession lingers.

AIER Leading Indicators index points to continued expansion

The AIER Leading Indicators index held steady at 75 (on a scale of 0 to 100) in November, the third consecutive month above the neutral 50 threshold. The October and November results are the highest readings since November 2018.

There were no changes among the 12 leading indicators in November. The overall results among the 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 in September.

The Roughly Coincident Indicators index increased to 83 in November, up from 58 in October. November was the second consecutive month above neutral and suggests the economy is expanding.

Two roughly coincident indicators changed signs in September: industrial production and the Consumer Confidence index for the present situation from The Conference Board. Industrial production improved from a negative trend to a positive in the latest month while the consumer confidence indicator improved from a neutral trend to a positive trend.

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

AIER's Lagging Indicators index rose to 17 in November, matching the result from August and following two months at the lower bound of zero in September and October. One indicator changed in November as the composite of short-term interest rates moved from an unfavorable trend to a favorable trend. The remaining five lagging indicators remained in negative trends in November.

Overall, consecutive months above neutral for both the Leading Indicators index (three) and the Roughly Coincident Indicators index (two) suggest that the end of the recession may have occurred or is imminent and that continued expansion is the most likely path. 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. With new Covid-19 cases on the rise again, the potential for renewed restrictive policies suggest the outlook for the economy remains highly uncertain.

Small-Business Survey Shows Mixed Expectations in October

The small-business-optimism index from the National Federation of Independent Business was unchanged at 104.0 in October. The latest result is about in line with results from 2019 and reflects a substantial recovery from the 90.9 reading in April 2020. Details within the report suggest that small-business owners remain fairly optimistic about future general economic conditions but are somewhat less optimistic about their own business.

Within the details of the small business survey, the net percentage of respondents expecting better economic conditions ("better" minus "worse") fell to 27 in October versus 32 in September. While the monthly decline suggests some deterioration in expectations, the index remains at a reasonably favorable level.

However, while a net 11 percent expect higher sales over the next three months versus the prior three months, an improvement from the net 8 percent in September, the 11 percent result is generally weak compared to results from 2017 through 2019, suggesting a significant amount of caution. A net 6 percent of all owners (seasonally adjusted) reported higher nominal sales in the past three months, up 12 points from a -6 percent in September.

Along with the somewhat contrasting results from the expectations for the economic outlook (generally favorable) and the outlook for sales (generally weak), the percentage of respondents believing now is a good time to expand came in at 13 in October, unchanged from the previous month, and a generally weak result compared to the 2017 through 2019 results.

Twenty-seven percent of firms have plans for capital expenditures over the next three to six months, down from 28 percent from the prior month but about in line with 2019. Fifty-three percent of small businesses have made capital expenditures during the past six months. That is below the typical percentage in the upper 60s during the late 1990s but above the mid-40s percentages during the 2008-09 recession. The most popular type of expenditure was equipment (36 percent) followed by vehicles (20 percent) and building/land improvement (16 percent). The most popular outlay range was $10,000 to $49,999.

The percentage of firms planning to increase employment fell to 18 percent in October versus 23 percent in September, matching the result from July and about in line with the results from 2017-2019. Surprisingly, 33 percent of firms (down from 36 percent in September) still report having openings they are not able to fill at the moment despite the elevated level of unemployment. The percentage of firms reporting few or no qualified applicants for job openings was 48 percent, down from 50 percent in September but still a high level. The results suggest there is a skills shortage in the U.S.

That skills shortage has 23 percent of firms saying they have already increased compensation over the past three months while 18 percent intend to increase worker pay over the coming months.

The skills shortage is keeping quality of labor at the top of the most important issue for small businesses. Among the 10 issues listed in the survey, quality of labor again ranks first at 22 percent, 5 points below the survey high of 27 percent. Taxes were second at 17 percent while government regulation (red tape) was third at 14 percent and poor sales was fourth on the list at 13 percent.

Overall, the survey suggests that the small-business sector of the economy remains somewhat optimistic about the outlook for the economy but remains a bit more cautious about its own future. Still, while small businesses may not believe it's a good time to expand, they are looking to hire employees and make some capital expenditures. Finally, despite the weak labor market, a shortage of skilled workers continues.

Consumers grow less optimistic about the short-term outlook in November

The Consumer Confidence Index from The Conference Board fell in November, decreasing by 5.3 points to 96.1. The index is constructed so that it equals 100 in 1985. Overall consumer confidence is in the middle of its long-term historical range, but well below the pre-pandemic level.

Both components of the index fell for the month though the drop was much more severe for the expectations component. The present-situation component fell 0.3 points to 105.9 while the expectations component sank 8.7 points, taking it to 89.5 from 98.2 in the prior month.

For the present situation component, The Conference Board report says, "Consumers' assessment of present-day conditions held steady, though consumers noted a moderation in business conditions, suggesting growth has slowed in Q4." The report also noted, "The percentage of consumers claiming business conditions are 'good' declined from 18.6 percent to 17.6 percent, but those claiming business conditions are 'bad' also decreased, from

34.4 percent to 33.5 percent. Consumers' assessment of the labor market was unchanged. The percentage of consumers saying jobs are 'plentiful' held steady at 26.7 percent, while those claiming jobs are 'hard to get' was virtually unchanged at 19.5 percent."

Regarding the expectations component, the report states, "Consumers, however, have grown less optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months decreased from 36.0 percent to 27.4 percent, while those expecting business conditions will worsen increased from 15.9 percent to 19.8 percent." Furthermore, the report adds, "Consumers' optimism regarding the job market also weakened. The proportion expecting more jobs in the months ahead declined from 32.0 percent to 25.9 percent, while those anticipating fewer jobs increased moderately from 19.8 percent to 20.5 percent."

The changes for the month closely match the results from the University of Michigan Survey of Consumers. That report suggests that the resurgence of Covid-19 is increasing uncertainty and exacerbating concerns about the outlook among consumers.

Overall consumer sentiment in the University of Michigan survey decreased to 76.9 in November, down from 81.8 in October, a 6.0 percent decline. From a year ago, the index is down 20.6 percent. The sub-indexes had mixed results in November. The current-economic-conditions index rose to 87.0 from 85.9 in October. That is a 1.3 percent gain and leaves the index with a 22.0 percent decrease from November 2019. The second sub-index — that of consumer expectations, one of the AIER leading indicators — sank 8.7 points or 11.0 percent for the month to 70.5 and is 19.2 percent below the prior year.

According to the report, "The November data were less optimistic than last month due to the resurgence in Covid infections and deaths as well as partisan shifts due to the outcome of the presidential election." Weakening sentiment and resurging infections along with renewed restrictions may act as a restraint on consumer spending and overall economic activity, resulting in a slower and more drawn out recovery.

Overall, consumer attitudes remain cautious. The two surveys suggest that the election and the surging number of new Covid-19 cases are weighing on consumers' minds. Pessimism about jobs and the economy, whether a result of economic policies or the coronavirus, may restrain consumer spending and harm the economic recovery.

Retail spending hits a record in October but breadth narrows

Retail sales and food-services spending posted another gain in October, rising 0.3 percent from the prior month. The October gain was the sixth in a row following two devastating declines in March and April. October is the fifth consecutive record high. Core retail sales, which exclude motor vehicles and gasoline retailers, posted a 0.2 percent gain for the month putting them well above trend and at the fifth consecutive record high as well.

From a year ago, total retail sales are up 5.7 percent while core retail sales show a 6.5 percent rise. Both are back to the growth rates achieved just before the outbreak of Covid-19 and implementation of government lockdown policies. The current 12-month rates are well above the five-year annualized rates of 3.7 percent and 3.9 percent, respectively, for the five years from 2015 through 2019.

Despite posting another record high, results across the various categories of retailers were mostly weaker in October. Eight of the thirteen major categories reported declines in October sales. Decliners were led by clothing and accessories stores and sporting goods, hobby, musical instrument, and bookstores, both posting declines of 4.2 percent.

Gainers were led by a 3.1 percent gain for nonstore retailers, primarily online shopping.

The October results leave five of the 13 categories with sales below their pre-lockdown levels. Gasoline stations and restaurants are both 15 percent below January followed by clothing and accessory stores (14 percent below), electronics and appliances (5 percent below), and miscellaneous store retailers (2 percent below).

On the upside, nonstore retail sales are 29 percent above January 2020 levels. Nonstore retail sales now account for 15.9 percent of total retail sales, up from 12.9 percent in January 2020 (before the pandemic) and about 8 percent at the beginning of 2012. As a share of core retail sales, nonstore sales account for 21.9 percent, up from 17.9 percent in January and 11.7 percent at the start of 2012.

Retail sales rose to another record high in October as widespread quarantines and lockdowns continue to be eased, and shoppers shift more spending to online retailers. Businesses and consumers continue to emerge from the policy-induced economic coma. However, while aggregate retail spending is at a new high, results still vary greatly by industry.

CAPITAL MARKET PERFORMANCE

(Percent change)

	November	Latest 3M	Latest 12M	Calendar Year 2019	2018	2017	Annualized 3-year	5-year	10-year
Equity Markets									
S&P 1500	11.1	4.2	14.6	28.3	-6.8	18.8	10.4	11.4	11.7
S&P 500 - total return	11.0	3.9	17.5	31.5	-4.4	21.8	13.2	14.0	14.2
S&P 500 - price only	10.8	3.5	15.3	28.9	-6.2	19.4	11.0	11.7	11.9
S&P 400	14.1	12.6	7.9	24.1	-12.5	14.5	4.5	8.2	9.8
Russell 2000	18.3	16.5	12.0	23.7	-12.2	13.1	5.6	8.7	9.6
Dow Jones Global Large-Cap Index	11.8	4.8	13.5	23.8	-10.4	42.9	7.3	9.0	7.2
Dow Jones Global Large-Cap ex-U.S. Index	13.2	8.0	7.6	18.2	-15.7	41.0	1.7	4.9	2.6
STOXX Europe 600 Index	13.7	6.2	-4.4	23.2	-13.2	7.7	0.2	0.2	4.0
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	1.6	-1.3	14.0	11.5	-4.2	6.5	8.5	5.7	5.0
IiShares AAA - A Corporate Bond Fund	2.5	1.1	7.1	9.1	-5.2	2.9	3.8	2.8	NA
Commodity Markets									
Gold	-5.7	-9.8	21.4	18.7	-1.7	12.6	11.5	10.8	2.5
Silver	-6.2	-19.0	30.6	16.7	-8.3	3.8	10.2	9.5	-2.0
Refinitiv equal-weight commodities index	6.9	4.7	8.7	7.6	-7.1	0.0	1.3	2.8	-2.6

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

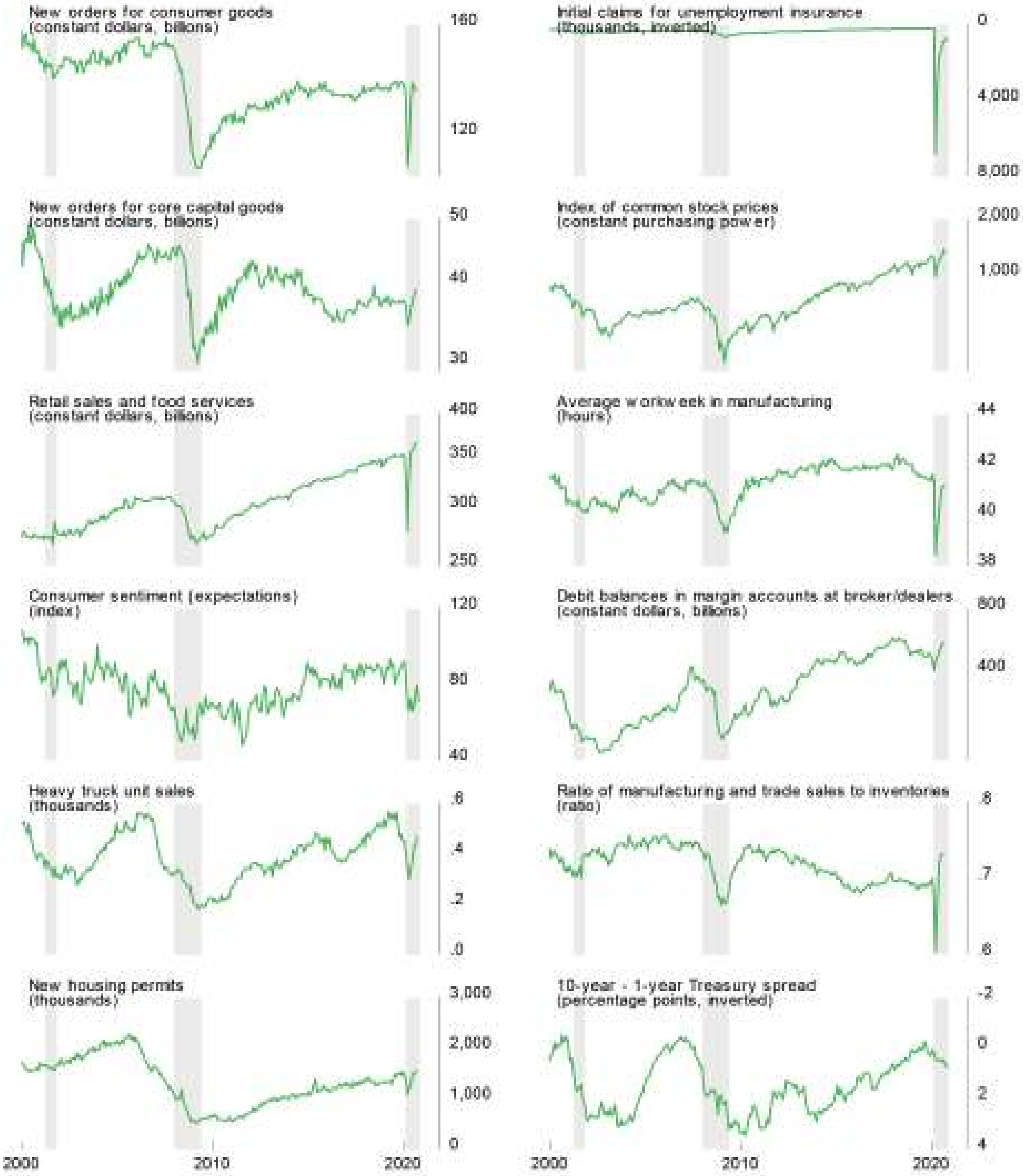
CONSUMER FINANCE RATES

(Percent)

	November	Latest 3M	Latest 12M	Average for Year 2019	2018	2017	Average over Period 3-year	5-year	10-year
30-yr. fixed mortgage	2.8	2.9	3.3	3.9	3.7	3.9	3.9	3.9	4.0
15-yr. fixed mortgage	2.4	2.4	2.8	3.4	2.9	3.1	3.4	3.3	3.3
5-yr. adjustable mortgage	2.9	2.9	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

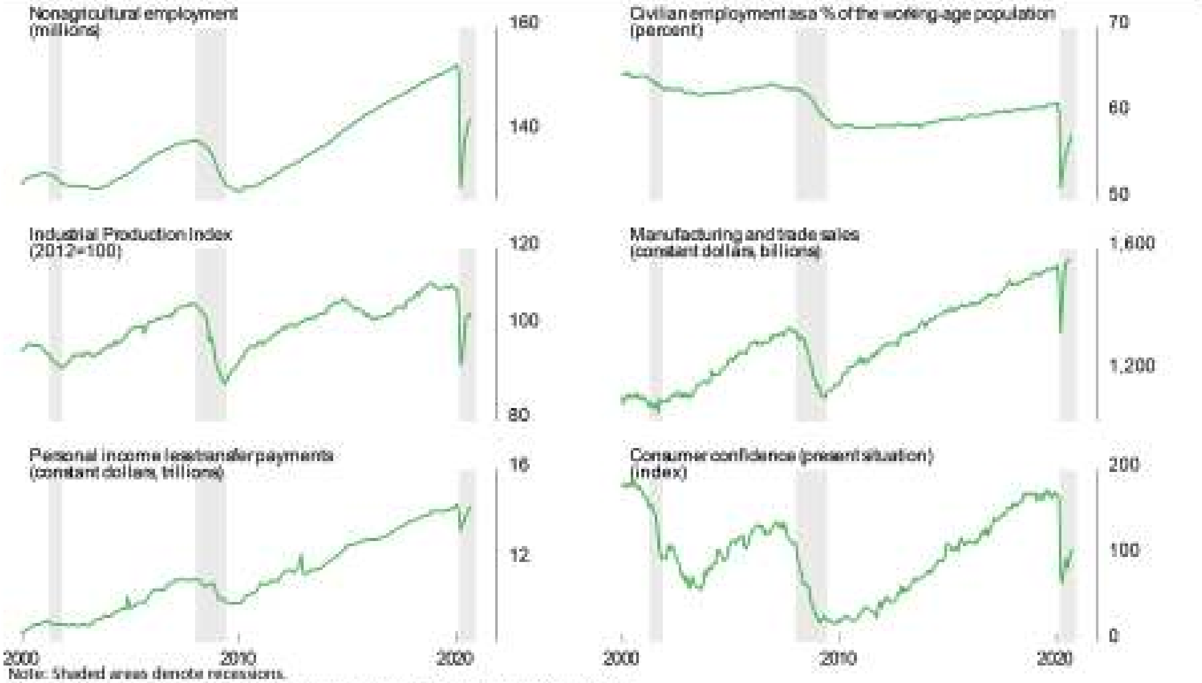
Sources: Bankrate, Federal Reserve.

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, AIER (Refinitiv).

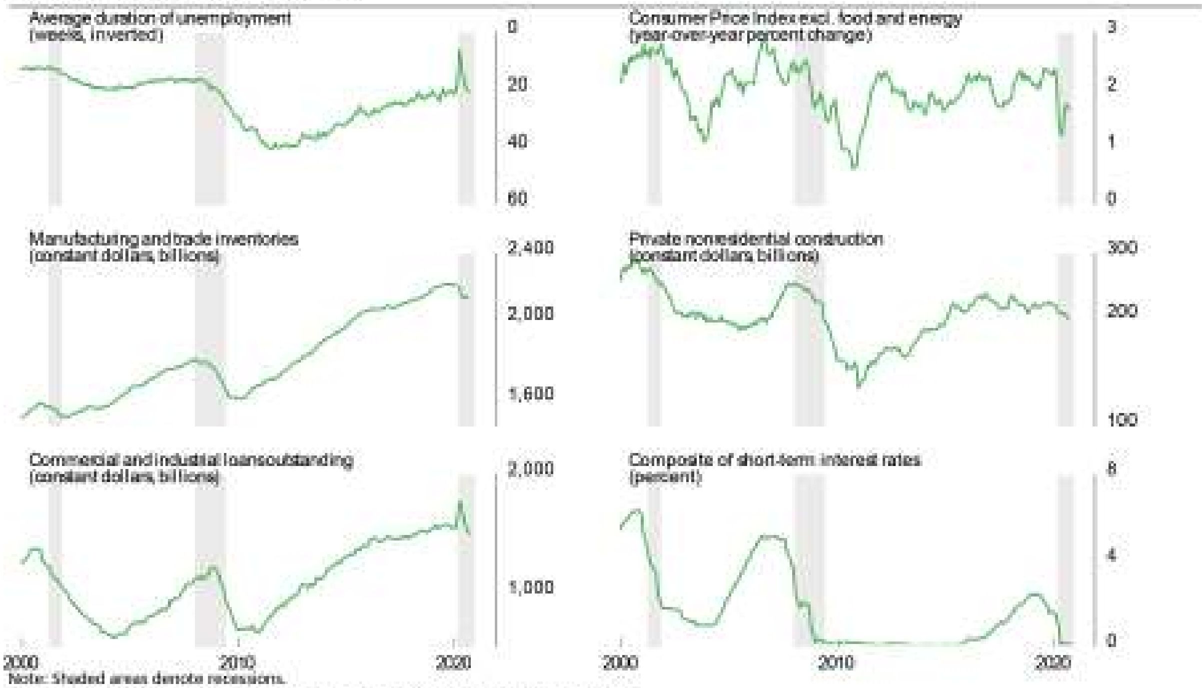
ROUGHLY COINCIDENT INDICATORS (2000-2020)



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, AIER (Refinitiv).

LAGGING INDICATORS (2000-2020)



Note: Shaded areas denote recessions.

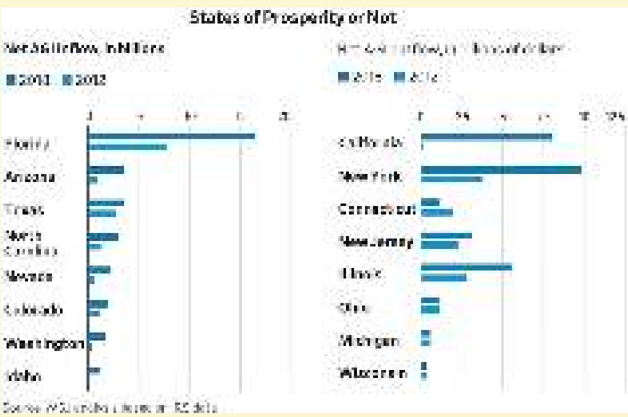
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

State and Local Governments Should Not Get a Bailout – either from Congress or the Federal Reserve

DANIEL J. MITCHELL

Contributor

For years, public finance experts have been warning about fiscal irresponsibility by state and local governments.



Many of those governments have been spending too much money and making overly expensive promises to interest groups such as government employees. Combined with the fact that these jurisdictions are driving away taxpayers, this leaves them vulnerable to potential crisis if the economy falters.

Which, of course, is exactly what happened with the coronavirus.

As is so often the case, Washington responded in an imprudent manner. As part of multi-trillion dollar emergency legislation (the CARES Act), Congress directly funneled hundreds of billions of dollars to state and local governments.

That legislation also gave the nation's central bank, the Federal Reserve, the authority to steer money to those same governments.

Notwithstanding all this generosity, state and local politicians are now asking for even more money. In part, this is a fight over the provisions of a potential new "stimulus" bill from Congress.

But it's also a battle over the fate of the Federal Reserve's ability to interfere with the allocation of capital by directing money to state and local governments.

In a report for the *New York Times*, Jeanna Smialek and Alan Rappeport explain what's happening.

> A political fight is brewing over whether to extend critical programs that the Federal Reserve rolled out to help keep credit flowing to…municipalities amid the pandemic-induced recession. …Those programs expire on Dec. 31, and it is unclear whether the Trump administration will agree to extend them. The Federal Reserve chair, Jerome H. Powell, and Treasury secretary, Steven Mnuchin, must together decide whether they will continue the programs — including one that buys state and local bonds, another purchasing corporate debt and another that makes loans to small and medium-size businesses. …Mnuchin…has signaled that he would favor ending the one that buys municipal bonds. And he is under growing pressure from Republicans to allow all five of the Treasury-backed programs to sunset. …The financial terms for buying state and local debt…are not generous enough to compete in a market functioning well… Their main purpose has been to reassure investors that the central bank is there as a last-ditch option if conditions worsen.

However, economic conditions have dramatically improved since the coronavirus first hit, so there's no longer any argument that financial markets are dealing with crisis conditions.

But that doesn't seem to matter to politicians who want to subsidize bad fiscal policy at the state and local level.

> Some Democrats had begun eyeing the municipal program as a backup option in the event that state and local government relief proved hard to pass through Congress. While the program's terms are unattractive now, they could in theory be sweetened under a Biden administration Treasury Department. …If a coronavirus vaccine is rolled out in the coming weeks, the Treasury Department may be less inclined to extend the programs. Mr. Trump could also block a reauthorization by pressuring Mr. Mnuchin, leaving Mr. Biden with fewer economic stimulus tools at his disposal. …state and local governments are facing budget shortfalls, albeit smaller ones than some had initially projected.

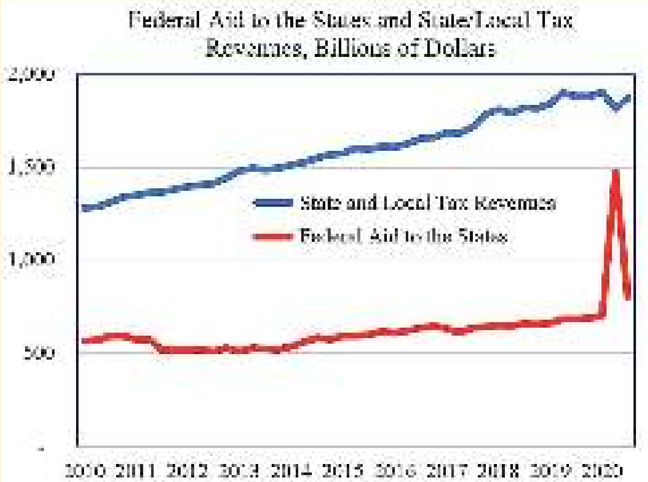
Nick Timiraos reports on the issue for the W*all Street Journal.*

> Divisions over their future are being amplified by partisan gridlock in Congress over whether to provide more economic stimulus. Democrats, looking ahead to President-elect Joe Biden's inauguration in January, see the programs as a potential tool to deliver more aid if Congress doesn't act, while some Republicans are worried about relying on central bank lending powers as a substitute for congressional spending decisions. …A decision not to renew the programs…could also deprive some…governments of access to low-cost credit if market conditions worsen. …If the Trump administration decides not to extend the programs, Mr. Biden's Treasury Department could determine whether to reactivate them in some fashion after the new administration takes office Jan. 20.

The bottom line is that a Biden Administration likely will be able to give states and localities a bailout, even if Congress doesn't approve a new "stimulus," and even if the Trump Administration doesn't extend the Federal Reserve's authority. But at least the incoming Biden people would have to jump through a few hoops.

Which is very unfortunate since it will reward the jurisdictions that behaved recklessly. A classic example of "moral hazard."

I'll close with this critical bit of data from Chris Edwards. As you can see, state and local governments actually have profited from the coronavirus since they got far more money from the CARES Act than they lost because of diminished tax revenue.



For what it's worth, the Federal Reserve has always had the ability to steer money to state and local governments, both as part of normal monetary policy operation and because of its vast emergency powers. The good news is that it has not gone down that path.

And the best way to make sure it doesn't go down that path in the future is to eliminate or restrict such powers. Private markets, which reflect the preferences of consumers, should determine the allocation of capital. We don't want to copy the mistakes of China and have government making those choices.

November 13, 2020

The Prospects for Global Trade under the New US Administration

COLIN LLOYD
Contributor

During the last four years, the prospects for freer world trade have been in retreat. Now, with a new broom about to sweep into the White House, there is renewed hope for progress both in bilateral and multilateral trade negotiations.

Financial markets have been focussed on fiscal stimulus and the prospects for an effective Covid-19 vaccine. They have yet to seriously contemplate the potential for the improvement in international trade and cooperation which might be seen during the next presidential term.

Before looking ahead, it is worth reviewing the current environment for global trade. The General Agreement on Tariffs and Trade (GATT) was signed by 23 countries in October 1947. It was transformed into the World Trade Organisation (WTO) in January 1995 and has grown from 123 members to 164 nations today.

The WTO serves three functions; the provision of a negotiation forum to liberalize trade and establish new rules; the monitoring of trade policies: and resolving disputes between members. In all three areas it has been facing challenges which long predate the arrival of the current pandemic.

The WTO's Appellate Body and dispute settlement system are in particular crisis since they were effectively suspended in December 2019 after the US blocked appointments, leaving the Appellate without a quorum of adjudicators. US concerns, which have also been voiced by a number of other WTO members, need to be addressed.

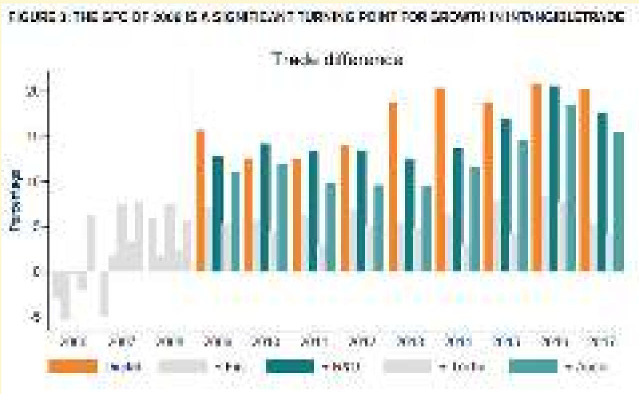
The dispute settlement function is closely linked to the negotiation function. This is also in crisis. Finally, the nature of global trade has changed significantly over the past 25 years, and WTO rules have not kept pace. Effective and efficient dispute resolution is of international importance. In a February 2020 paper entitled, Structural Change and Global Trade, the Federal Reserve observed that the ratio of world trade to GDP increased from 19% to 48% between 1970 and 2015. Over the same period, however, services rose from 50% to 80% of that expenditure. The authors conclude that structural change (increased consumption of services rather than manufactured goods) has reduced global economic growth substantially over the past forty years.

The European Experience

Over the past decade, in a similar vein to the US, across the EU a consensus has been forming that globalization went too far. This view has only been strengthened by the Covid-19 crisis, where a shortage of medicines and medical goods, such as PPE, reinforced the opinion that Europe's citizens must be protected by reshoring production. Recent research by ECIPE – The European Centre for International Political Economy – finds this consensus to be built on erroneous foundations in that Europe's principal trade is with itself.

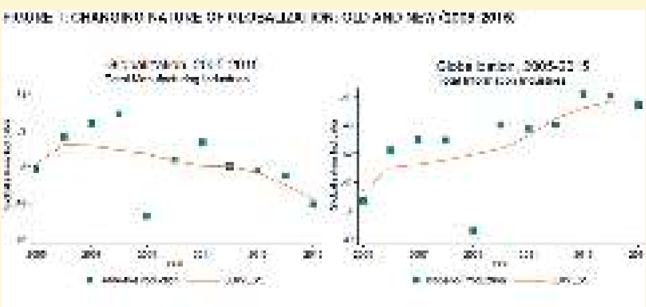
They identify just 112 products (1.2 % of total imports) for which the four largest suppliers during the recent crisis were non-EU countries. This compares with 2,000 products for which the four largest suppliers are EU domicile. They were unable to identify a single Covid-19 related good for which all EU imports came solely from non-EU countries. ECIPE recommends that the EU, rather than reshoring, embrace more open international trade to create diversified and robust supply chains.

In Globalization Isn't in Decline: It's Changing – ECIPE picks up on the same theme as the Federal Reserve, noting the transformation of trade from manufactured goods towards services. This chart shows how the structure of global trade has evolved since the great financial crisis: –



Source: ECIPE, van der Marel

The next chart shows the overall picture more clearly: –



Source: ECIPE, OECD, TiVA, van der Marel

The WTO needs to establish new rules for dealing with digital trade and e-commerce, and it must also strive to deal more effectively with China and other high growth, mercantilist economies, particularly in contentious areas such as state-owned enterprises and industrial subsidies. There are other goals, such as environmental sustainability, which could also be progressed. For the present, however, the organisation, which, by some estimates, has raised more people out of absolute poverty than any other in the history of mankind, is no longer fit for this purpose.

The first step towards reform requires an agreement on the definition of a 'developed,' as opposed to a 'developing,' country: self-designation is open to widespread abuse. Then there are the issues of transparency and compliance. A complete overhaul is in every nation's interest; on this, at least, the US and EU are generally agreed. The devil, naturally, is in the detail and the largest gulf between the two economic giants revolves around reform of the Appellate Body. Even if the US and EU manage to agree to work together, however, the WTO still requires China to actively engage; it is the world's largest trading nation and without its commitment, reform will be futile.

From a purely economic perspective, multilateral tariff reductions among all members of the WTO is preferable to bilateral agreements. In an August 2020 op-ed published in *The Wall Street Journal*, US Trade Representative, Robert Lighthizer, described his strategy for – How to Set World Trade Straight – arguing that, in many cases, FTAs perpetuate protectionism and undermine the core WTO principle of most-favoured-nation (MFN). So much for the theory; in practice, since the WTO's creation in 1995, almost all tariff reduction has been effected via bilateral free-trade agreements (FTAs), the number of which has tripled since 2000.

RCEProcity

How likely is WTO reform? This question should be linked to the likelihood of the new Biden administration focussing on trade. In their election campaign, the Democrats indicated that they would not negotiate any new trade deals before first investing in American competitiveness at home.

Throwing down the metaphorical gauntlet, however, earlier this month (and after a decade of wrangling) China signed the Regional Comprehensive Economic Partnership (RCEP) an alternative to the Trans Pacific Partnership (TPP) which the US signed in 2016 (President Trump pulled the US out) – and from which China was excluded. The new deal – which itself excludes India, which has a massive trade deficit with China – has been signed by the members of ASEAN together with Japan, South Korea, Australia and New Zealand.

The RCEP group of countries, with a combined GDP of over $26trln – roughly 30% of the global total – 25% to global exports and a third of the world's population, make this new FTA more than just symbolic. Global trade appears to be moving on despite the US and EU. The RCEP deal aims to reduce a range of tariffs on imports over the next 20 years, reducing costs and time for companies within the bloc. It meets some WTO commitments and fixes a number of regulatory objectives. There are dedicated chapters covering small and medium-sized enterprises, e-commerce, dispute settlement and technical cooperation between member countries.

RCEP is not the first 'Asian' FTA, following in the wake of AFTA, SPARTECA, SAFTA, BIMSTEC and the TPP, and it is also more of a harmonisation exercise than a radical push to end protectionism. However, it is estimated that it will increase world income by $200bln and add $500bln to world trade by 2030. This is enough to compensate for the entire cost of the recent US-China trade war. It is a sharp wake-up call for the new US administration. President-elect Biden's response to the news was immediate: –

> *We make up 25% of the world's trading capacity and we need to be aligned with the world's other democracies so we can set the rules of the road instead of allowing China and others to dictate outcomes because they are the only game in town.*

Biden's appointment of Antony Blinken as head of the US State Department also bodes well for foreign policy in general; the sooner the US becomes reengaged the better. The pandemic prompted serious questions about China's dominance in global manufacturing, especially in sensitive sectors such as rare earth minerals and medical supplies. It has also heightened the tension between China and the West over technology transfer. In response to the pandemic – and the truncation of global supply chains that it precipitated – import-substitution policies have been introduced by many developed and developing countries, along with a significant increase in state aid. These policies need to be rolled back as the global economy normalises in 2021.

Without WTO reform, economic nationalism and trade protectionism will continue to rise and with it global poverty. Supply chain disruption will become a permanent feature rather than a temporary inconvenience. The US and EU need to drive negotiations forward; Japan, the UK and Canada (among others) are obvious allies in this process. China must be engaged along with other key manufacturing countries such as India and Brazil.

Back in July, in testimony before the US Senate Committee on Finance, entitled – The United States Needs a Reformed WTO Now – Jennifer A. Hillman, Senior Fellow for Trade and International Political Economy, Council on Foreign Relations and Professor, Georgetown University Law Center concluded: –

> *Given the global economic pain from the coronavirus pandemic and the likely emergence of a post-pandemic wave of protectionism, the world needs a strong and effective WTO more than ever. Successfully confronting a rising China with its state-run economy also requires a fully functioning WTO. The best way to achieve that is to start by fixing the dispute settlement system which underpins the rules-based trading system. Doing so will*

require U.S. leadership that moves beyond simply tearing the Appellate Body down. Now is the time to rebuild it. A revitalized dispute settlement system can then serve as a catalyst to broader reforms of the WTO itself.

Conclusion

The Sino-American trade war and the Covid pandemic have damaged the cause of free trade, but hanging onto the coattails of technology, the nature of trade has actually been in transition for more than a decade. Trade in intangible services is expanding rapidly. As economies and industries digitise, demand for these services will continue to expand. Barring government measures to impede this growth, trade in data and information services has the potential to support an enormous improvement in economic well-being globally. Those countries which attempt to shield themselves from the new global economic exchange will suffer, while those that embrace change will thrive.

The incoming US administration has many issues to confront in the wake of the worst economic event in decades, but the benefits of freer trade should not be overlooked. A return to the pre-Covid world is impossible, but indiscriminate trade wars benefit no one. At 78 years old it is generally expected that Joe Biden will be a one-term president, and this presents him with a golden opportunity to embrace reform in many areas of policy. He has been afforded the chance to leave a lasting legacy: an overhaul of the WTO is one such reform.

November 26, 2020

Student-Loan Cancellation Shouldn't Happen, But It's Not The 'Working Classes' Bailing Out The Rich

JOHN TAMNY
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There are rumblings that a Joe Biden administration, in an effort to throw a bone to a hard left that helped put it in the White House, will forgive federal student loan debt. This possibility has many on the right up in arms, though arguably for the wrong reasons.

To be clear, the debts shouldn't be canceled. Americans to varying degrees borrowed monies borrowed on the backs of American taxpayers, and they shouldn't be given a free pass on the backs of those same taxpayers. If they owe money they should pay it back. Plain and simple.

Not only is federal lending toward college education evidence of obnoxious mission creep, it occurs under the pretense that what's learned in college somehow prepares those who attain it for life and career beyond. Please. Such a view isn't serious. Precisely because the U.S. economy is the most dynamic one in the world, the nature of work and life is constantly changing. Translated, it's increasingly true that the jobs of tomorrow won't resemble the jobs of today. Dynamic economies are that way because they relentlessly destroy the work of the present in favor of new, much better forms of toil. College education is on its very best day about teaching certain aspects of yesterday's skills.

If kids really wanted to prepare themselves for the future, they would simply apprentice in their chosen field. Except that most don't and they don't because most businesses don't even require it. As opposed to employers caring about what's taught in school, college for them is a signaling device (you got into Harvard, you must be pretty smart) for high-potential employees in much the same way that it's a signaling device for those who attend it. Young people aspire to college not for the learning, but because acceptance at an elite institution signals something elite about them. College is also fun. Except that it's not the job of taxpayers to fund our bait money, or what's enjoyable. Get government out of it.

Still, the left want student debts canceled. How odd. Wasn't the whole point of Biden's campaign that he was for the guy from Scranton? He claimed those from his former hometown are so humble that they're not even in the stock market. Ludicrous, but political rhetoric usually is. The main thing is that if they're not in the stock market, do they have gargantuan student debt?

Naturally some of Biden's opponents aren't much better. Republicans routinely – and very correctly – point out that tax hikes on the rich are a fool's errand. The top 1% already account for 40 percent of federal tax revenue, so the idea that they should be hit up for more of their earnings seems immoral, surely hysterical, but also unrealistic. It's unrealistic because to raise taxes isn't the same as raising revenues. The rich are mobile. Overtax them and they'll migrate away from the grasping hands of politicians.

Again, all of the above is what Republicans, conservatives and libertarians routinely – and correctly – point out. Except for when it's inconvenient to state the obvious about the economically unequal funding most everything including economic progress (companies and the jobs they create are consequence of unspent wealth —- yes, the wealth of the rich), along with governments that are reliant on the unequal to fund their own largess.

Which brings us to the silly side of the right's approach to student-debt cancellation. Cato Institute educational analyst Neal McCluskey complains that

"Massive loan cancellation would primarily help well-off people," plus it would mean that taxpayers would "bear even more of the cost of 'education' that for many students is also kind of 'luxury cruising.'" McCluskey's probably right about the beneficiaries of loan cancellation, but leaves out that federal waste is primarily funded by "well-off people" who enjoyed or will enjoy "luxury cruising." Really, where does he think politicians attain the means to fund ridiculous waste on learning that has nothing to do with future achievement? Rest assured that it's not from people in Scranton, Flint, and Milwaukee, or from factory workers romanticized by Biden, Donald Trump, and all-too-many policy types who've never been inside a factory.

The great Jonah Goldberg published a downcast piece in the New York Post that described debt cancellation as the "working class" subsidizing "the elite." Except that such an assertion isn't true. Indeed, it's not unreasonable to speculate that Goldberg himself has at some or many points in his writing career pointed out where federal revenues come from. It's a reminder that erasure of any federal debts of the well-to-do amounts to the well-to-do subsidizing the well-to-do.

Goldberg goes on to write that "If you only have $1.5 trillion to spend, what policy would help the most people struggling right now? I don't think canceling student loans would rank in the top 20." Goldberg is shooting fish, while also missing the point. The problem is the federal spending. To pretend that there's "better" when it comes to making politicians the allocators of wealth always and everywhere produced in the private sector is to misunderstand what powers economic growth.

Politicians cannot also be investors. Period. The investment that is the source of all economic progress has to be informed by failure, and with government waste there is no failure. There's just more waste.

Republicans are loathe to state the obvious about economic growth, but it's a consequence of unspent wealth. Always. What the rich don't consume rushes the future into the present. Basically the "well-off" power growth, but since they're taxed, they also enable obnoxious waste.

So while it would be wrong to forgive federal student debt, let's not add to what's incorrect with non-sensical allusions to "real America" paying for bailouts of Beverly Hills, Manhattan and Pacific Heights. The rich generally create all progress, certainly fund it, but the tradeoff is that they also fund the doings of politicians whose sole purpose is to redistribute the wealth created by the well off.

November 24, 2020

The Many Ways in Which Freedom Won the Election

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It is usually hard for many people to find any silver lining around the results of any election headlined by a contest between two presidential candidates who are usually indistinguishable from each other in their hostility to liberty and markets. Indeed, big government was on the ballot and big government won big. However, if you look beyond the presidential horse race,we can find a few reasons for good cheer.

For one thing, I enjoyed watching voters deliver a solid slap in the face to the peddlers of wokeness and hardcore progressivism – that is, to much of today's Democratic agenda. It was delivered while getting rid of President Trump, which for many is a benefit. I have to admit that I didn't see those two outcomes coming simultaneously. AIER's Phil Magness puts it best:

> "A complete moron with historically high unpopularity ratings basically fought this election to a draw (or near-draw depending on whatever happens in the counts), and did so facing the most aggressively one-sided media coverage skew against a major party candidate in US electoral history…. The 'blue wave' that was touted as a near-certainty by the same media and pollsters less than 24 hours ago didn't materialize. … Whoever emerges victorious will do so without an electoral mandate, with a divided congress, and with nearly half of the country openly skeptical about the legitimacy of their win."

Divided government is probably the best thing that could have happened to us this week, especially compared to the alternative of a unified Democratic government. This division, if it materialized, doesn't mean that no big government policies will get through. Divided government during the Obama presidency resulted in several shameless Paul Ryan/ Patty Murray budget deals.

Also, most people welcome bipartisanship but in reality, it is often synonymous with big government policies. So it will be this time around too as I predict the bipartisan enactment of many bad policies. Majority leader Mitch McConnell (R-KY) has already signaled that yet another gargantuan Covid relief bill will get through, in spite of the improved economic conditions. Adding insult to injury, it will contain idiotic provisions such as bailouts for state governments.

Still, we can take comfort in the realization that court packing, the Green New Deal, and other radically statist items on the Biden-Harris-Sanders agenda are, at least for now, off the table. Indeed, we should also celebrate the fact that there is now unlikely to be – at least not through the legislative process – a repeal of Trump's corporate tax cut. Democrats are now quite unhappy at this unexpected failure of their dreams to materialize.

But the very best news came from the down ballots. Here are a few things deserving loud cheers.

First, in 2020 the war on drugs was finally won – by drugs. *Reason*'s Jacob Sullum explains here why that is. But I like how CEI's Ryan Young sums it up: "Oregon decriminalized possession of hard drugs. Five other states legalized marijuana for medical or recreational use, including socially conservative Mississippi. Oregon and the District of Columbia also decriminalized hallucinogenic mushrooms.

These are important libertarian victories, and not in the snickering libertine sense. These are victories for the rule of law."

Second, Illinois voters said no by a 55-45 percent margin to a progressive income-tax scheme. The so-called "Fair Tax Amendment" would have amended the state constitution to replace the flat income tax with a progressive one.

Third, California's progressives and big-government lovers got kicked in the butt quite forcefully. Proposition 22 passed, thus defeating an effort to reclassify independent contractors who work for platform-economy companies as full-time employees. Rather than overturn the whole provision, platform companies promised to come up with a compromise. Kevin Williamson at *National Review* explains that

> "The new arrangement will keep ride-share drivers as independent contractors but give them wage guarantees for time spent in the car and make them eligible for health-care subsidies." This compromise is still a big defeat for California's progressives who believe that the government should be in charge of every single aspect of our lives, including our freedom to work and contract.

Then there's the defeat of Proposition 16. The epitome of wokeness, this initiative would have reintroduced overt discrimination into government and public institutions by allowing "preferential treatment to persons on the basis of race, sex, color, ethnicity, or national origin in public employment, public education, and public contracting."

Over at the *Grumpy Economist* Blog, John Cochrane lists more of the initiatives that were defeated or passed that should please libertarian types. Here are some:

> "Prop. 15: Raise property taxes on business. Loses. Prop. 17: Parolees may vote. Wins. Prop. 18: 17 year olds may vote. Loses. Prop. 19: Property tax reduction. Wins. Note, it allows people who have multi-million dollar houses to keep the low property tax base when they move, and pass it on to heirs. So much for "tax the rich." Prop. 20: Complicated. Stricter parole, crime classification. Loses. Prop. 21: Allows cities to impose rent control. Loses dramatically. (Per Swedish economist Assar Lindbeck, "…rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.") Prop. 23: Requires onsite physician at kidney dialysis centers. (Pushed by SEIU union.) Loses. Prop. 25: Eliminate cash bail. Loses."

Will progressives in California learn any lessons from these results? Probably not immediately. The media and the elites learned nothing from the 2016 election. But for now, some pretty awful policies were defeated.

To end on a hopeful note, I will say this: May the utter disaster and election mismanagement unfolding before our eyes in many states right now lead a few people to wonder why on earth they should believe that a government that can't do something as basic as running an election should possibly be in charge of the rest of our lives.

November 6, 2020

Do Not Trust Governments with the Control of Money

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If there one thing that is fairly certain in this life – besides the seeming inescapability of death and taxes – is that once someone is appointed to almost any position in the political and bureaucratic structures of a government they soon discover how important and essential is the organization of which they are a part for the well-being of the nation. The country could not exist without it, along with its increasing budget and expanded authority. This applies to the Federal Reserve, America's central bank, no less than other parts of government.

The news media has reported that the apparently unlikely appointment of Dr. Judy Shelton to the Federal Reserve Board of Governors probably will be successfully maneuvered through the full Senate confirmation process. Shelton would then sit on the Federal Reserve Board filling the balancing a term that ends in 2024 and then made eligible for a 14-year term. Hers has been one of the more controversial nominations to the Fed in recent years, with critics fervently expressing their negative views of her.

For instance, Tony Fratto, a former Treasury official and deputy press secretary under George W. Bush, was recently quoted as saying that Shelton's appointment would be "a discredit to the Senate and the Fed. It screams. Nothing at all is serious. Not us. Not you. Not them."

Mainstream Economists Against Anyone for Gold

Back in August of this year, over one hundred academic and business economists issued an open letter to members of the U.S. Senate calling for rejection of her nomination to the Fed. Among those who signed were some economics Nobel Laureates, including Robert Lucas and Joseph Stiglitz. They insisted on her unfitness for such an appointment. Why? They said: "She has advocated a return to the gold standard; she has questioned the need for federal deposit insurance; she has even questioned the need for a central bank at all."

They also accused her of hypocrisy, saying that Shelton had changed her stance on Federal Reserve policy and the institution's relevance based simply on a desire to be appointed to the Fed board, and to serve the wishes of the president who had nominated her. So, she stands damned if she opposes the Fed with her call for a gold-backed currency, and she is damned if she modifies her positions on monetary policy supposedly to be more palatable to the Senators deciding her professional fate. Clearly, her critics would only stop being critical if they were somehow convinced that Judy Shelton truly loved the Fed, hated the gold standard, and supported "activist" monetary policy and interest rate manipulation; and for the full 14 years of her term on the Fed Board.

Political campaigns are full of people who say that they are drawn to higher echelon government employment so they can "give back" to or "serve" the country, and no doubt there are some who are seriously sincere when they say so. But who can deny that what also appeals to such people, and many others who are far more crudely opportunistic, is the attraction of being a "player" and an "insider" in the various halls of political power and decision-making in determining the bigger picture of the "shape-of-things-to-come?"

And it may be that Judy Shelton, based on her own statements of desiring to "serve" the country in this particular capacity, truly wants to, even with all her apparent changing views and emphases. Or maybe it's all a game to say what she thinks others want and need to hear so that will approve her as a Board member of the Federal Reserve, and then sit at the Big Boy's – oh, I mean the Big Person's – table.

The Real Issue is the Case for Gold, Not a Person's Sincerity

Be that as it may, the real issues concern whether her views on gold and the Federal Reserve are reasonable or not as useful input into the decision-making process of Fed monetary policy. To begin with, there is a far longer history of human societies going back to the ancients in which gold or silver or some other "real" commodity has served as the medium of exchange, the money-good facilitating transactions. The period of history in which mankind has primarily relied upon fiat or paper money currencies only covers about the last one hundred years.

Now, merely because an idea or an institution has been around a long time does not prove its validity or continuing usefulness. A variety of bad ideas and bad institutions beclouded human betterment for many centuries until they were finally overturned and replaced by other ideas and institutions considered more in line with bringing about improvements in the human social, economic, and political condition.

Fundamentally, the case for a gold standard has been based on the idea that governments have been notorious in the misuse of their capacity to turn the handle of the monetary printing press to create the money needed to fund their expenditures, rather than fully rely upon the collection of taxes. By this means, governments are able to get around the necessity of telling their citizens the truth concerning the actual cost of the activities it wishes to undertake. This was understood by many economists of differing policy persuasions.

"Progressive" Richard T. Ely Challenged Arbitrary Monetary Policy

As an example, Richard T. Ely (1854-1943) is usually viewed as one of the early and successful proponents of the interventionist-welfare state in America in the late 19th and early 20th centuries. Having earned his bachelor's and master's degrees at Columbia University in New York in the second half of the 1870s, he went off to complete his studies in Imperial Germany. He came back imbued with the economic ideas and policy prescriptions of the German Historical School, with its emphasis on pragmatism and expediency as the needed basis for guiding governments in regulating industry and pursuing various forms of redistribution of wealth. He was also one of the founders of the American Economic Association in 1885 and a leading figure in the American Progressive Movement in the 1890s and early decades of the 20th century.

In his co-authored textbook, *Outlines of Economics* (1893, 4th revised ed. 1926) Ely highlighted the abuse with which governments – including the U.S. government during the Civil War of the 1860s – had used the issuance of paper or fiat money to fund expenditures with serious inflationary consequences for the citizens of countries experiencing such dangerous power by those in political authority. And why governments have little or no incentive to ever rein in their monetary mischiefs:

> "The supply of gold, as we have seen, is subject to variations arising from such influences as the discovery of new deposits, the exhaustion of old ones, and changes in the methods of handling the ores. Variations in gold production are reflected in movements of the general level of prices.
>
> "The supply of fiat money, it is argued, could be arbitrarily controlled by government and its purchasing power could be kept

more nearly stable. Closely scrutinized, this particular argument for fiat money turns into the strongest of the arguments against it. Under practical conditions, experience has shown, governments find it much easier to expand than to contract their issues of paper money.

"Expansion permits larger expenditures; it is, for the time being a substitute for taxation; it raises prices and stimulates business. Contraction on the other hand, is at the expense of an immediate increase in taxation; it calls for rigid economy on the part of the government; it has for the time being a depressing effect upon business activities.

"With all of its shortcomings, the gold standard has the great advantage that its variations, largely the result of the play of the forces of the market, are beyond the arbitrary control of government." (p. 259)

J. Laurence Laughlin and the Perverse Incentives of Paper Money

We may use one more example, but this time by an economist with nearly the exact opposite of Richard Ely's public policy views. J. Laurence Laughlin (1850-1933) earned his PhD from Harvard University, and became a founder of the economics department at the University of Chicago in 1892. He was an advocate of the establishment of a central bank in the United States in the years leading up to the opening of the Federal Reserve in 1914. He is also often considered a critic of the traditional quantity theory of money. On general matters of economic policy, Laughlin was a strong proponent of a general laissez-faire, free market society.

In his *Money and Prices* (1919), Laughlin also emphasized the danger of paper currencies not connected to gold by redemption requirements to prevent governments from taking advantage of their capacity to increase the amount of paper money in circulation:

"The very existence of paper [money] issues, originating in a wrong method of borrowing [by the government], is a constant menace. The mere lapse of time in which no injury has been incurred unfortunately serves to lull the fear of anger. If retained, such issues are a suggestion for similar crude expansions in the future, when men are too excited to judge calmly of their acts. Their very presence is an incentive.

"If legislators were all monetary experts, and never influenced by political considerations, there would be little risk in retaining for a time [such fiat money]; but we must take men as they are, and provide for probable acts of those who are incompetent and ill-advised. Obviously, these national guardians of our monetary system do not personally lose anything when they get the treasury into desperate straits . . .

"What is still more dangerous is the fact that the whim of the government is the only limit to its [paper money] issues . . . If a fancied need presses upon men inexperienced in monetary operations, especially if they have been inoculated with the fallacy that the more money a country has the better off it is, there will be excessive issues, followed by raids on the reserves.

"The paper will depreciate – and the country will undergo rapid fluctuations in prices, an unsettling of contracts, a period of mad speculation, leading to the inevitable ruin of a commercial crisis . . . It being understood [therefore] that convertibility into gold is the prime prerequisite either of government or bank issues." (pp. 265-266; 274)

The 20th Century Failures of Paper Money Systems

Is there anything in the history of the last one hundred years to invalidate the questions and concerns of such economists as Richard T. Ely or J. Laurence Laughlin, from so long ago, that led them to support and argue for a gold standard on political grounds? There was the monetary madness during and after the First World War, with paper money inflations to fund the expenses of the belligerent powers, and the destructive hyperinflations that followed the end of that conflict. (See my article, "The Lasting Legacies of World War I: Big Government, Paper Money and Inflation".)

There was the false sense of economic and monetary stability in the 1920s, followed by the Great Depression due to misguided Federal Reserve policy in the '20s and disruptive government interventions and centralized planning schemes in the decade of the 1930s. Then more inflations to finance the Second World War, with a rollercoaster of inflations and recessions in the post-World War II period, followed by the new Federal Reserve monetary mismanagements that led to the financial and housing crises of 2008-2009, with continuing monetary manipulation over the next ten years of economic recovery. (See my article, "Ten Years On: Recession, Recovery and the Regulatory State".)

Institutions Restrict Potentially Harmful Behavior

Unfortunately, the benefit of a gold standard has not been that it has always effectively prevented government monetary mismanagement and abuse; far from it. But, like many social, economic and political institutions, it sets limits and rules on the conduct of the societal participants that restrict everyday conduct that if allowed and regularly pursued can bring about changes in attitudes and actions that cumulatively brings damage to all in society.

It can be easily argued that John Maynard Keynes's "revolutionary" idea of governments balancing their budget over the business cycle – budget deficits in 'bad" times and budget surpluses in "good" years – rather than on an annualized basis set loose the perverse political incentives of politicians never having to completely tell the citizenry from whence will come all the revenues to cover the costs of increasing government expenditures with which campaign contributions and votes are bought by politicians in the never-ending election cycles of modern democratic society. This institutional change has led to U.S. government budget deficits for 63 of the last 75 years since the end of the Second World War in 1945, with, now, annual trillion-dollar budget deficits likely to be the norm for as far as the fiscal eye can see. (See my articles, "Why Government Deficits and Debt Do Matter" and "Debt and Deficits are Out of Control" and "Debt, Deficits and the Cost of Free Lunches".)

The same has happened with mismanagement of the monetary system with, first, the weakening of the gold standard during and after the First World War, and then its abandonment in one country after the other beginning in the 1930s. The world is on fiat or paper money standards with total control in the hands of various monetary central planners with little or no external check on their policy decisions, other than the particular monetary theory fads and fashions that central bankers and their staff economic advisors currently hold as a guide for actual policy actions; along with the pressures of contemporary politics, regardless of how much it may be formally punctuated that the leading central banks around the world make their policy choices independent of the political climate.

Not having to worry about mandatory redemption of the bank notes and other monetary equivalents they issue being paid in gold "on demand" at a fixed rate of exchange by either domestic or foreign holders of their fiat currencies, central banks have been able to set loose what more than one economist has called the "age of inflation" since the end of the Second World War.

Gold an International Money vs. Fluctuating Paper Currencies

The end to the gold standard also weakened the international quality of what had been in many ways a global monetary system in which gold was the world's money and national currencies were merely different denominational ways of expressing relative amounts of the same money good.

The French social philosopher, political economist, and "futurist," Bertrand de Jouvenel (1903-1987), in an article on "Money in the Market" (1955), recounted the experience of a British family vacationing in France before and then after the end of the gold standard in the 1930s:

> In 1912, an English family spent its summer holiday in an out-of-the-way French village. A bill was presented, invoiced in francs; the English father had nothing but English gold sovereigns, then in circulation in Britain. This did not embarrass the innkeeper; true, he had never seen coins stamped with the British Monarch's profile, but he was thoroughly familiar with the gold coins then circulating in France.
>
> "Placing a 20-franc gold piece by the side of the sovereign, he found the latter heavier (123.27 grains to 99.56) and it seemed to him that two sovereigns made up about the same weight as a 50-franc gold piece (50 francs = 248.9 grains; 2 sovereigns = 246.54). Therefore, without consulting anybody, he made up his mind to accept two sovereigns as equivalent to 50 francs . . .
>
> "In 1932, the same English family returned to the same spot, again the head of the family had no other means of payment than those current in Britain at the time, i.e., pound notes. The aged innkeeper took these notes, laid them side by side with French notes, and this time learned nothing from the comparison . . . The 'weighing' of pounds had ceased to be a physical process, it was now a market process, a day-by-day confrontation of the French demand for pounds with the British demand for francs.
>
> "In the former case the rate of exchange depended upon the unchanging balance of physical weights in fine gold between the national coins: it was therefore inherently stable; in the second case it depended upon the changing balance of claims between two countries . . . it was therefore inherently unstable." (See Bertrand de Jouvenel, *Economics of the Good Life* [Transaction Publishers, 1999], pp. 179-180.)

The Changing Opinions of Economists on Monetary Policy

When Great Britain in 1931 and then the United States in 1933 went off the gold standard, there was much hue and cry among a large majority of economists and many in the general public that a terrible policy mistake had been made in ending gold as the core money based on obligatory redemption of bank notes into a fixed weight of gold.

No doubt, the economists who issued that open letter in August of 2020 angrily protesting to the U.S. Senate their objection to Judy Shelton's nomination to the Federal Reserve Board of Governors would all consider it the essence of monetary policy wisdom in the 1930s to have freed the British and American monetary systems from what Keynes had in the 1920s called that "barbarous relic" – gold.

By implication they would also be saying how misguided and wrong-headed were all those economists of the 1930s to oppose the leaving of the gold standard so governments might have wider discretion to wield monetary policy in the "activist" attempt to overcome the Great Depression.

Let me suggest that it is not outside the realm of the possible, perhaps the probable, that 50 years from now, many, maybe a significant majority, of economists will look upon the signers of that letter and think how misguided and foolish they were in thinking that governments and their central bankers had the knowledge, wisdom and ability to micromanage the economy through the macro-manipulation of money, credit and interest rates.

The Freedom to Choose the Currency to Use

They will wonder how it was that so many in the economics profession could have suffered from the delusion that monetary central planning ever could be any more feasible than the failed Soviet-style system of general central planning of human affairs. Those future economists will be confounded that these economists of 2020 had not paid more attention to the reasoning of Austrian economist and Nobel Prize-winner, Friedrich A. Hayek (1899-1992), when he pointed out that nothing had been more wrong-headed than leaving the control of money in the monopoly hands of government.

That, as Hayek had argued in *Choice in Currency* (1976), nothing would be more reasonable and rational than letting everyone, anywhere, choose the money or monies that they found more convenient and advantageous to use in various and sundry transactions and exchanges. That such freedom to choose would be an invaluable institutional means to keep government monetary mismanagement and abuse in check, since any political authority which noticeably reduced the value or increased the uncertainty of its national currency's future worth, would see a flight out of its use by its own and other citizens of the world. (See my article, "Government Monopoly Money vs. Personal Choice in Currency".)

Indeed, those future economists may also wonder why it was so difficult for those earlier economists of 2020 to fully appreciate the value and effectiveness of private competitive free banking as a replacement for the atavistic notion that a central bank was either necessary or desirable. They will be surprised at the general ignoring of an entire sub-field of monetary theorists that had emerged in the late 20th and early 21st centuries who demonstrated why central banks were the very institutional instrument to propagate the types of instabilities that monetary central planning was supposed to eliminate, or at least reduce. And why and how it was that the very stability and feedback needed for a functioning and growing economic order to flourish was far more likely and possible through monetary freedom. (See my eBook, *Monetary Central Planning and the State*.)

And who knows, if Judy Shelton is appointed to the Federal Reserve Board of Governors, and if she actually espouses and defends the ideas for which she is being condemned by so many of those "mainstream" economists today, it may be a useful step to the societal transformation to a freer society, a key long run element of which must be the freeing of money from political control.

November 16, 2020

Important Factors Driving Bitcoin's Drastic Growth in 2020

ETHAN YANG
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At the time of this writing, the cryptocurrency known as Bitcoin has seen its value skyrocket to around $18,000 (11/19/2020 12 AM EST) after dropping down to around just $4,840 in mid-March. This is significant because the all-time high for the cryptocurrency is $19,783 back in December of 2017, only to drop down to as low as $3,122. Within the past year, the price of Bitcoin has doubled, posting close to $10,000 in growth with over half of that value occurring within the past month at the time of this writing.

With most of the news attention on Covid-19, the presidential election, and so on, it is understandable that the meteoric rise of Bitcoin may have slipped past casual observers as it did not receive the attention it received in 2017. However, what makes this rapid growth interesting is that there are a number of important circumstances that might be paving the way for Bitcoin to sustain its ongoing trend.

Quantitative Easing Worldwide

It is undeniable that the monetary limits of fiat currency are being tested around the world as governments print trillions of dollars for stimulus packages in reaction to Covid-19. The World Resources Institute writes

> "In response to the massive economic contraction stemming from the coronavirus (COVID-19) pandemic, some central banks — including those of the United States, European Union, Japan and other major economies — are engaging in "quantitative easing" (QE) programs on an unprecedented scale."

The United States alone has printed trillions of dollars and has far outspent what it has brought in with tax dollars, creating an unprecedented level of debt.

Forbes writes

> "For the first time U.S. debt is now about equal to GDP (Gross Domestic Product), like the sound barrier we once thought if we hit it we might explode."

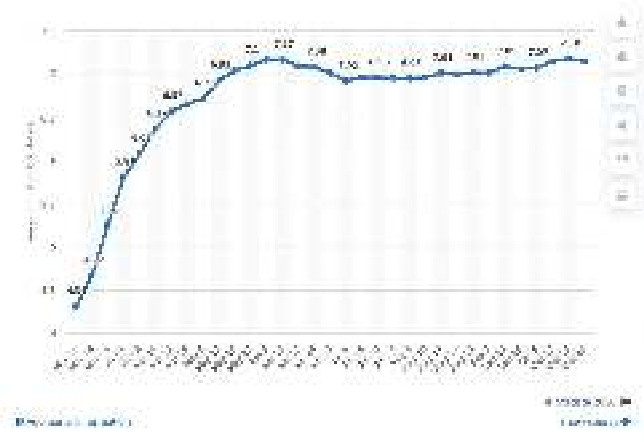
This level of spending and money creation has likely driven many investors to Bitcoin, as it may serve as a safe haven as the value of fiat currencies like the US dollar comes into question. Furthermore, it is uncertain how the stock market, which has been the main beneficiary of quantitative easing, will react when such policies eventually subside.

Since the 2008 recession, money injections from the Federal Reserve have continued at a constant rate and the value of the S&P 500 has moved in step with spending. This creates a disconnect between financial markets and the actual productiveness of the economy. Bitcoin may serve as an alternative investment vehicle for those who are wary of an unsustainable securities market.

An article in MarketWatch explains that

> "Worries that governments are printing heaps of money to paper over problems created partly by the 2008 financial crisis was at least part of the reason that bitcoins were created over a decade ago. That thinking is also the basis for this resurgence in bitcoin, crypto experts said, as the COVID-19 pandemic forces governments and central banks to spend to limit the economic hit."

Such caution is not unfounded as the Federal Reserve's balance sheet has ballooned to unprecedented levels in the past few months, going from $4.31 trillion to $7.18 trillion.



The monetary policies post-2008 kicked off interest in cryptocurrencies and it would not be irrational to assume that the current policies would be encouraging an accelerated timeline for the adoption of Bitcoin.

Mainstream Adoption of Cryptocurrencies

Perhaps the most significant development that may be supporting a potential sustainable growth trend for Bitcoin is the ongoing adoption of cryptocurrencies.

Market Insider reports that major companies like PayPal are making moves to incorporate cryptocurrencies into their services when they write

> "PayPal recently said that users on its platform will be able to purchase bitcoin, as well as other sister cryptos like ethereum, Bitcoin Cash and Litecoin. PayPal's decision last month was a further recognition of the legitimacy of digital currencies, crypto enthusiasts say."
>
> "Today bitcoin has gotten to a place where institutional investors, banks, and family offices are legitimately pondering involvement as a defense against currency devaluation," wrote Alex Mashinsky, CEO of Celsius Network, in emailed commentary.
>
> "This isn't a gold rush anymore, it's a good investment," he said. He predicts that bitcoin will hit $30,000 by the end of next year."

Perhaps one of the main dangers of cryptocurrencies is the fact that at the moment they are difficult to use and are rarely accepted anywhere. A lack of mainstream adoption may have explained the rapid fall of Bitcoin in 2017 as market hype diminished and investors understood that there was not much real value at the time. With the ongoing adoption of Bitcoin by major firms like PayPal, the growing value of Bitcoin may actually be justified.

PayPal isn't the only company to move towards cryptocurrency. CNBC reports

> "Payment company Square is buying a large block of bitcoin, an unusual use of corporate cash.
>
> Square said Thursday it bought 4,709 bitcoins, worth approximately $50 million. This represents about 1% of Square's total assets as of the end of the second quarter of 2020.
>
> "Square believes that cryptocurrency is an instrument of economic empowerment and provides a way for the world to participate in a global monetary system, which aligns with the company's purpose," the company said in a release."

Not only does Square's investment in Bitcoin demonstrate ongoing adoption by relevant financial tech firms, it also highlights one of the key benefits of Bitcoin. This is that it provides a universal and discreet form of value that individuals all around the world can access. Bitcoin is not only easy to transfer, but it is largely immune to manipulation, which makes it ideal for those who live in countries with less reliable monetary regimes.

Even large established banks like JP Morgan are starting to experiment with cryptocurrencies as Yahoo Finance reports

> "Indeed, at the DealBook Summit on Nov. 18, (Jamie) Dimon said, "The blockchain itself will be critical to letting people move money around the world cheaper. We will always support blockchain technology."
>
> In May, JPMorgan went a step further when it began allowing customer transfers to and from Coinbase and Gemini, two U.S.-based regulated crypto exchange sites. And Dimon on Wednesday acknowledged that some "very smart people" are investing in bitcoin these days."

This stands in contrast to his comments in 2017 where CNBC reports

> "In September 2017, about three months before bitcoin hit an all-time high of nearly $20,000 per unit and crashed shortly thereafter, Dimon dropped a bomb on the crypto world. He called bitcoin a "fraud.""

Cryptocurrency and blockchain technologies seem to be demonstrating undeniable advantages that cannot be ignored for long. These technologies will likely continue to grow in use, which gives further support to the ongoing growth of Bitcoin. Market Insider reports that one person, in particular, billionaire Mike Novogratz, believes that Bitcoin could be heading as high as $65,000.

Words of Caution

With unprecedented levels of quantitative easing and debt, combined with gradual mainstream adoption, it should not be controversial to say that Bitcoin might have some substance to back its meteoric revival. It is highly likely that in 2017 the world needed a couple more years to get acclimated to the idea of cryptocurrencies. It seems that for the most part they are here to stay and they will likely see further use.

With that said, that does not mean that Bitcoin and cryptocurrencies, in general, are guaranteed or even likely to continue on their current growth path. Much like 2017, it is highly likely that market hype is a contributing factor to the growth of Bitcoin and it remains to be seen how far investors are willing to take this bull run. It is uncertain how much, if at all, the price of Bitcoin may drop or where its next peak will be. It could be at $20,000 or it could be at $65,000, or it could just keep going.

Market Insider cites billionaire investor Ray Dalio when he notes that cryptocurrencies are still far from attaining widespread adoption and that governments may pass regulations that cripple the value of Bitcoin and other cryptocurrencies.

As with all investments, there are risks involved, especially when there is the potential for great reward as in the rapid rise of Bitcoin. Regardless of what happens, the swift growth of Bitcoin signals a number of important financial milestones as well as warning signs. Signals that not only lend some support to the cryptocurrency's value but also provide important insight into our current state of financial affairs.

November 20, 2020

Filling Fed Vacancies Would Leave Biden with Few Options to Replace Powell

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Senate Majority Leader Mitch McConnell (R-KY) appears intent to fill the two remaining vacancies on the Federal Reserve's Board of Governors. Judy Shelton and Christopher Waller were formally nominated by President Donald Trump in January and approved by the Senate Committee on Banking, Housing, and Urban Affairs in July. Last Thursday, McConnell took procedural steps to set up a full Senate vote for Shelton. (Note: Shelton was previously the director of the Sound Money Project, before it moved to AIER.) The motion to limit debate (and proceed to a vote on the nomination) failed (47-50) on Monday. McConnell joined the "No" voters at the last minute, however, which permits him to reconsider the motion in the future.

Will McConnell make another attempt to confirm Shelton? It would seem likely, provided that he has the votes. Sens. Rick Scott (R-FL) and Chuck Grassley (R-IA) were absent on Monday, as both are in quarantine. Their votes, with McConnell's, would bring the "Ayes" to 50. Vice President Mike Pence breaks a tie.

The timing is tricky, though. The Senate will be away for Thanksgiving next week. And Sen. Martha McSally (R-AZ) will soon be replaced by Democrat Mark Kelly. If McConnell fails to get Shelton confirmed before Kelly is seated, he will be left looking for a vote. That would be a tough task. Sens. Lamar Alexander (R-TN), Susan Collins (R-ME), and Mitt Romney (R-UT) have all committed to vote against Shelton.

A vote for the far-less-controversial Waller will probably take place in December. Waller received unanimous support from the Senate Committee on Banking, Housing, and Urban Affairs and would likely be confirmed by a large margin if brought to the Senate floor.

If both Shelton and Waller are confirmed, and no current Governor resigns, President-elect Biden will have few options for replacing Powell as Chair. For starters, Powell's four-year term as Chair does not end until 2022; and, while there is some legal uncertainty, Powell probably cannot be fired for his policy views.

Even in 2022, however, Biden's options will be limited. In brief, he can:

1. Reappoint Powell as Chair.
2. Replace Powell as Chair with Governor Lael Brainard.
3. Replace Powell with one of the other five Trump-appointed Governors.
4. Refuse to reappoint Vice Chair Richard Clarida as Governor and nominate a new Governor to serve as Chair.

For Biden, reappointing Powell is the path of least resistance. It would bolster his plea to put aside partisan differences for the good of the country and enable the left to continue billing itself as the guarantor of democratic institutions. Biden might even come to see Powell as his man at the Fed. Powell and Trump often clashed over policy. And, while Powell was elevated to Chair by Trump, he was originally nominated to the Fed's Board of Governors by President Obama.

Do not be fooled by Powell's Obama-era appointment, though. He is a Republican. His initial nomination was part of a deal with Senate Republicans to get

Obama's preferred candidate Jeremy Stein confirmed. (Stein's nomination had previously been filibustered.) Biden might naturally prefer to have someone from the home team in charge.

Governor Lael Brainard is perhaps the most likely person to replace Powell. She's a Democrat, Obama-era appointee with a lot of experience. She is already on the Board and stands a good chance of getting the requisite votes for confirmation as Chair in a Republican-controlled Senate. She could also serve as Chair for a long time. She is only fifty-eight years old and, since she was initially appointed to fill the balance of a term, could be reappointed for another fourteen years when her current term as Governor expires in 2026. (Alan Greenspan held the job for 18 years and five months, retiring just shy of his 80th birthday.)

The Biden administration might have other plans, though. Brainard's name has been floated for Treasury Secretary. Her resignation from the Board in a move to Treasury would free up a spot for Biden to appoint a potential Powell replacement. But the nomination would need to be sufficiently moderate to make it past the Senate.

The prospects for replacing Powell beyond that are pretty bleak. If Shelton and Waller are confirmed, President Trump will have appointed five of the seven members on the Board. Governor Miki Bowman's term will not expire until 2034. Vice Chair for Supervision Randy Quarles can stick around as Governor until 2032. Waller and Shelton are set to fill the balance of terms ending in 2030 and 2024, respectively.

Vice Chair Richard Clarida's partial term as Governor expires in 2022, at which point he is eligible for another fourteen-year appointment. Biden could refuse to reappoint him, but that would be imprudent. Clarida is arguably the sharpest mind on the Board. He is a well-established macroeconomist with more than twenty-three thousand citations to his work. No doubt some Governors struggle to understand the Dynamic Stochastic General Equilibrium Models employed by Fed staffers. But not Clarida. He has spent a career developing those models. In short: it is hard to imagine Powell finding a better candidate more to his liking who would also be able to get fifty votes in the Senate.

Biden's only other play would be to lean on historical norms. Fed Chairs rarely stick around to serve out their terms as mere Governors when they are not reappointed to the top spot. Janet Yellen resigned in 2018, when Trump replaced her as Chair with Powell, despite having nearly six years left on her term as Governor. Biden might hope Powell will follow suit.

November 18, 2020

Not All Government Spending is Stimulus

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For months, Congress has debated proposals for an economic stimulus bill to follow March's Coronavirus Aid Relief and Economic Security (CARES) Act. Federal Reserve officials have also called for fiscal stimulus to complement the Fed's monetary policies.

Although these fiscal policies are labeled as economic "stimulus," they are better described as "relief" packages. The goal of these proposals is to provide aid to out-of-work Americans who have been harmed by the coronavirus and restrictive lockdown policies. Such programs, however, are unlikely to stimulate economic activity.

Stimulus vs. Relief: When does fiscal policy stimulate the economy?

The two most common measures of economic activity are employment and production (Gross Domestic Product or "GDP"). The government can spend money to buy or produce public goods and services. Because of this spending, the government and the companies from which it buys tend to hire more employees. Thus, government spending on public goods and services can stimulate economic activity in terms of production and employment (although it may be offset by monetary policy).

Some fiscal policies, however, encourage people *not* to work and produce. One example is when the government increases benefit payments to the unemployed. Such payments might marginally increase consumption by those receiving the funds, but the direct effect is to discourage people who are out of work from finding a new job.

Relief payments can be vital to helping the recipients through these difficult economic times, especially when government restrictions force people to stay at home or prevent businesses from operating. Individuals cannot work while such restrictions are in effect, even if they want to. Relief programs provide benefits to unemployed Americans, but they do not help to stimulate the economy.

Proposed "Stimulus" Bills

There are multiple proposals before Congress to increase fiscal stimulus spending. In October, the House of Representatives passed a revised version of the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act that would increase spending by $2.2 trillion. A smaller bill of $500 billion was proposed but voted down in the Senate. Forthcoming legislation is likely to be a compromise between these two proposals.

Spending in the HEROES Act falls into three categories. First, the bill allocates funds for coronavirus testing and treatment of $75 billion, a large dollar amount but a small percentage of the total.

Second, the bill would revive several programs from the CARES Act, including the Paycheck Protection Program, an added $600 per week increase in unemployment benefits, and one-time direct payments of $1,200 to eligible Americans. These are relief payments, not stimulus.

Third, the HEROES Act contains trillions of dollars of wasteful spending that is neither relief nor stimulus. This includes subsidies for US airlines and bailouts for state and local governments that have been overspending for decades.

Little, if any, spending from these so-called "stimulus" bills will actually stimulate the economy.

The Fed on Fiscal Stimulus

Fed Chair Jerome Powell has repeatedly called for Congress to expand its fiscal stimulus spending as a necessary complement to the Fed's own initiatives. It is often unclear, however, whether he is actually calling for true stimulus spending or simply for aid and relief.

Powell recently said that fiscal policy is "needed to avoid further spread of the virus and help individuals who, with the expiration of the CARES Act payments, are seeing their savings dwindle." He praised "federal stimulus payments and expanded unemployment benefits, which provided essential support to many families and individuals." Although he does cite economic benefits such as supporting household spending, Powell's descriptions seem to emphasize the relief aspects of these programs rather than their stimulative effects.

Powell has also voiced support for mask mandates and other restrictive policies. He claims that "There's actually enormous economic gains to be had nationwide from people wearing masks and keeping their distance."

While it is possible that such policies might help suppress the coronavirus and improve economic growth over the longer run, the direct effects of restricting workers and consumers are clearly negative for the economy. In addition, recent evidence shows that the benefits of mask mandates and lockdown restrictions have been greatly overstated. Fed officials would do best to focus on their own monetary policies and avoid topics on which they have little expertise such as lockdown restrictions and appropriate fiscal policy.

Americans should be skeptical of claims by Congress and the Fed of fiscal spending "stimulus." Relief spending would be a much-needed blessing for many Americans. But paying people not to work does not stimulate the economy.

November 18, 2020

Debt, Deficits, and the Donald

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Speaking to a CNBC reporter back in January, White House aide Larry Kudlow boasted about economic growth under President Trump (and blamed the Fed and others for its not being even higher): “You’ve gone from 1.5 percent to 2 percent growth. We had it going at almost 4 percent, then the Fed tightened. . . . We’re now down to 2.5 percent to 3 percent. I’m looking for faster growth.”

Kudlow was correct to prioritize economic growth. In a paper for the Mercatus Center, William Beach and I noted that if the economy were to grow at an inflation-adjusted rate of only 2 percent, it would take 35 years for the size of the economy to double. Three percent growth would double the economy in 23.5 years, and 4 percent growth would achieve that in less than 18 years.

The opportunity cost of slower growth has also been widely documented. As Hoover Institution economist John Cochrane has summed it up: “If the US economy had grown at 2% rather than 3.5% since 1950, income per person by 2000 would have been $23,000 not $50,000. That’s a huge difference. Nowhere in economic policy are we even talking about events that will double, or halve, the average American’s living standards in the next generation.”

So, yeah, economic growth is a big deal. The good news is that we know how to promote it. The building blocks of economic growth are property rights, the rule of law, and sound money. While far from perfect on these fronts, the U.S. is in relatively good shape. Additional causes of growth include less burdensome taxes, less regulation, and — contrary to conventional wisdom — substantial spending restraint.

Republicans love to focus on the tax part. Tax cuts as economic and political salvation have been a core tenet of Republican dogma since the 1980s, when Jack Kemp likened selling voters on cutting spending to selling them on a root canal. He suggested that GOPers instead focus on cutting taxes as a way of both growing the economy *and* reducing deficits and debt. Grover Norquist, president of Americans for Tax Reform, has said on multiple occasions that “Republicans have been put on earth to cut taxes.” Indeed, many GOP candidates just finished campaigning on Trump’s signature tax cut and warning that Biden and his fellow Democrats would raise taxes.

But Republicans’ singular obsession with cutting taxes obfuscates a profound truth: If you cut taxes but continue to spend excessively, the result is debt, debt, and more debt. And unless the cuts allow revenue to grow faster than debt (wishful thinking), the pressure to impose growth-inhibiting tax hikes or monetary shenanigans only intensifies. Milton Friedman often counseled, “Keep your eye on one thing and one thing only: how much government is spending, because that’s the true tax.” Unfortunately, on this front, Republican administrations and Congresses have utterly failed.

When Democrat Bill Clinton left the White House — and congressional Republicans at least pretended to care about federal spending — gross federal debt was close to $6 trillion in nominal terms (55 percent of GDP), and the budget was balanced. The end of the Cold War and a booming economy had reduced for both parties the urgency of fiscal policy. But in hindsight, it’s clear those were the good old days. By the time Clinton’s successor, Republican George W. Bush, had left the White House eight years later, the national debt was around $12 trillion (82 percent of

GDP). And when his successor, Democrat Barack Obama, left office another eight years after that, the debt had risen to around $20 trillion (over 100 percent of GDP).

This debt explosion happened even though, during the 16 years under Bush and then Obama, Republicans enjoyed more congressional majorities than Democrats. But the Obama administration and congressional Democrats have been just as complicit. And the Democratic agenda has arguably never been more fiscally radical — more insistent on growing government's size and scope — than it is now, as Joe Biden prepares to move into the White House. But here's the difference: Democrats have been mostly honest about their desire to grow the government. Republicans have generally been — to put it politely — hypocritical.

Hypocritical, that is, until the Donald. He never even pretended to be a small-government Republican. On the campaign trail he joked about being the "king of debt" — though he doesn't like paying interest on that debt — and called for willy-nilly military-spending increases. He also was honest about his refusal to touch Social Security and Medicare, our two biggest entitlement programs and two of the three main drivers of our indebtedness (the third is Medicaid). As a result, annual government spending just before the coronavirus pandemic was $1 trillion higher than it had been when Obama left office, and the budget deficit was on track to hit $1 trillion despite a historic economic boom.

Unsurprisingly, when COVID-19 hit, politicians on both sides of the aisle tripped over themselves to fling at the problem as much money as they could grab, without taking a moment to think seriously about what the best course of action might be. The result was a massive $2.2 trillion relief package, passed in March with the full support of the White House.

One can easily understand the impulse. Within a matter of days, the U.S. was hit with a deadly pandemic, businesses closed everywhere, the unemployment rate rocketed above 14 percent, and growth collapsed. It was necessary to put the economy on life support. Today, however, the unemployment rate is down by more than half, the economy is growing again, and businesses across the country are reopening their doors. The White House is nevertheless negotiating with Nancy Pelosi for another relief package of $1.8 to $2 trillion, which would include many programs that have proven counterproductive, such as an unemployment-insurance bonus, and other crony programs, such as additional bailouts for airlines. With Republicans like these, who needs Democrats?

So what now? After conducting a presidential campaign that was utterly silent on the national debt, President Trump has lost, and President-elect Biden will likely face a Republican Senate. The good news is that when the Democrats hold the presidency, Republicans tend to remember their talking points about small government and the need to reduce the deficit and the debt. After Barack Obama was elected president, sweeping Democratic control of Congress in with him, big-spending Bush Republicans vigorously attacked (rhetorically, at least) our mounting debt. They even made cutting spending the central talking point of their successful 2010 campaign to retake the House of Representatives. And they certainly deserve credit for making it impossible for Democrats to implement some of their most left-wing policies.

The same should prove true this time around. Fortunately, divided government will mean no Green New Deal, no federally mandated and funded paid leave, and no Court-packing. But it probably won't mean less spending. We saw in 2013 that House Budget Committee chairman Paul Ryan was willing to make a reckless budget deal with Democratic senator Patty Murray, perceiving it to be a political necessity. We were told there was no other option than to make this ginormous compromise and that fiscal rectitude wasn't in the cards. We can presumably expect to witness the same sad profligacy under the coming divided government. In fact, Senate majority leader Mitch McConnell has already announced that we can expect another COVID-relief bill, one containing many of the Democrats' favorite provisions, such as bailouts of the states.

Hang on to your wallets!

November 15, 2020

Cost of Lockdowns: A Preliminary Report

AIER STAFF

In the debate over coronavirus policy, there has been far too little focus on the costs of lockdowns. It's very common for the proponents of these interventions to write articles and large studies without even mentioning the downsides.

Here is a brief look at the cost of stringencies in the United States, and around the world, including stay-at-home orders, closings of business and schools, restrictions on gatherings, shutting of arts and sports, restrictions on medical services, and interventions in the freedom of movement.

Mental Health

Mental Health Data	Source	Region
During late June 2020, 40% of US adults reported to be struggling with mental health or substance abuse.	CDC (June 2020)	US
Of adults surveyed, 10.7% had thoughts of suicide compared to 4.3% in 2018.	CDC (August 2020)	US
Reported symptoms of anxiety were three times higher than they were in Q2 2019 and reported symptoms of depression were four times higher than they were in Q2 2019.	CDC (August 2020)	US
Of individuals aged 18-24, 25.5% considered suicide.	CDC (August 2020)	US
In New York alone, Google searches increased for phrases and words: anxiety, panic attack, and insomnia.	JAMA (October 2020)	New York
Between April and October, the portion of emergency visits related to mental health for children (5-11) increased by 24% and 31% for 12-17 year olds compared to 2019.	CDC (November 2020)	US
In late June, 13% of survey respondents said they had started or increased substance use to cope with the pandemic.	CDC (August 2020)	US
More than 40 states have reported increases in opioid-related mortality.	AMA (October 2020)	US
From January 2020 to March 2020, 19,416 people died from drug overdoses, which is 3,000 more than in 2019 of the same quarter.	CDC (2020)	US
Seven in ten Gen-Z adults (18-23) reported to have experienced symptoms of depression between August 4 to 26.	APA (October 2020)	US

Hunger & Poverty

Hunger & Food Insecurity Data	Source	Region
Hunger caused by the pandemic is responsible for the deaths of 10,000 children.	The Lancet (July 2020)	Worldwide
Approximately 20 million more children (67 million total) will suffer from wasting (weakening of the body from emaciation) in the first 12 months of the pandemic.	The Lancet (July 2020)	Worldwide
Number of undernourished individuals may increase from 690 to 822 million people.	WHO (October 2020)	Worldwide
Rate of food insecurity from 2018 to mid-2020 has more than doubled (14% to 32%) for households with children.	Brookings (September 2020)	US
Between 9 and 14 percent of parents report their children did not have enough to eat because they could not afford food.	Center on Budget and Policy Priorities (September 2020)	US
In March alone, food banks gave out 20 percent more food than in an average month.	Feeding America (July 2020)	US

Poverty Data	Source	Region
Around 88 to 115 million people will fall into extreme poverty this year. The total could rise to 150 million by 2021.	World Bank (October 2020)	Worldwide
About 86 million children may fall into poverty.	UNICEF and Save the Children (May 2020)	Worldwide

The Economy

The Economy Data	Source	Region
Between March 25 and April 10, “nearly one-third of adults (31.0 percent) reported that their families could not pay the rent, mortgage, or utility bills, were food insecure, or went without medical care because of the cost.”	Urban Institute (April 2020)	US
52% of 18 to 29 year-olds are living with their parents as of July 2020 (47% in February), a record number of available data that surpasses the 48% living with parents in 1940 (during the Great Depression).	Pew Research (September 2020)	US
Q2 2020 GDP decreased at an annual rate of 32.9%, and Q1 2020 GDP decreased at an annual rate of 5%.	BEA (July 2020)	US
Between March 25 and April 10, 41.5% of nonelderly adults reported having lost jobs, reduced work hours, or less income because of Covid-19.	Urban Institute (April 2020)	US

Unemployment

Unemployment Statistic	Source	Region
Unemployment rate increased to 14.7% in April 2020. This is the highest rate of increase (10.3%) and largest month over month increase in history of available data (since 1948).	BLS (May 2020)	US
In March, 39% of people living with a household income of $40,000 and below reported a job loss.	Federal Reserve (April 2020)	US
The unemployment rate between February and April increased by 12% for women and 10% for men.	Bureau of Labor Statistics	US
Mothers of children aged 12 and younger lost 2.2 million jobs between February and August (12% drop), while fathers of small children lost 870,000 jobs (4% drop).	Stateline (August 2020)	US
One out of four women who were surveyed reported their job loss was due to lack of childcare, twice the rate of men surveyed.	Washington Post (July 2020)	US

Education

Education Statistic	Source	Region
About 24 million children may drop out of school next year as a result of the lockdown’s economic impact.	UN (October 2020)	Worldwide
A decrease in life expectancy by 5.53 million years of life is found to occur for US children due to the closing of US primary schools.	JAMA (November 2020)	US
30,806 internships were lost (a decrease of 52%) between March 9 and April 13.	Glassdoor (April 2020)	US
Between March 9 and April 13 travel & tourism internships fell 92%; IT dropped 76%, architecture & engineering 65% and telecommunications 65%. Accounting & legal internships fell the least, dropping 22%.	Glassdoor (April 2020)	US

Healthcare

Healthcare Statistic	Source	Region
At the 10-week mark of lockdown, 2.1 million people in the UK were waiting for breast, cervical, or bowel cancer screening.	Cancer Research UK (June 2020)	UK

Diagnosis for 6 cancers (breast, colorectal, lung, pancreatic, gastric, and esophageal) has declined 46.4% compared to 2018.	JAMA Research Letter (August 2020)	US
Pancreatic cancer diagnosis has dropped 24.7% compared to 2018.	JAMA Research Letter (August 2020)	US
Breast cancer diagnosis has dropped 51.8% compared to 2018.	JAMA Research Letter (August 2020)	US
"The Netherlands Cancer Registry has seen as much as a 40% decline in weekly cancer incidence."	JAMA Research Letter (August 2020)	Netherlands
Pre-Covid, Medical University of South Carolina dropped from 20 stroke-related calls daily (or 550 per month) to about nine in mid-April.	Washington Post (April 2020)	US
UK (suspected) cancer referrals have decreased 75% since Covid-19 restrictions were implemented.	JAMA Research Letter (August 2020)	UK
38% decrease in STEMI treatments in 9 major hospitals across the US.	JACC (June 2020)	US
In Italy, cardiological diagnostic procedures decreased 56%, PCI 48%, structural interventions 81% and PCI in STEMI 40%.	REC Interv. Cardiol. (2020)	Italy
Cardiovascular disease is the leading cause of death in the US; Premature cardiovascular disease and stroke mortality costs $137.5 billion in lost future productivity.	AHA (2020)	US
Admissions for chemotherapy decreased 45-66% while urgent referrals for early cancer diagnosis decreased 70-89%.	Lai et al. (2020)	UK
During April weekly emergency department (ED) visits declined 42% from the previous year average of 2.1 million to 1.2 million.	CDC (October, 2020)	US
In 2018 patients visiting the ER for opioid overdoses are 100 times more likely to die by drug overdose in the year after being discharged. They are 18 times more likely to die by suicide relative to the general population.	NIMH (May 2020)	US
Hospital financial losses will be as high as $323.1 billion for the entire year.	AHA (July 2020)	US
"Mortality rates for Alzheimer disease/dementia increased twice, between weeks ending March 21 and April 11 and between weeks ending June 6 and July 25."	JAMA (October 2020)	US
Tuberculosis case notifications dropped significantly worldwide and by 25-30% in impacted countries (India, Indonesia, the Philippines)	WHO (October 2020)	Worldwide

Crime

Crime Statistic	Source	Region
During the first six months of 2020 murder and nonnegligent manslaughter offenses increased 14.8%, and aggravated assault offenses were up 4.6%.	FBI (September 2020)	US
Property crime offenses declined 7.8%; except for motor vehicle thefts, which increased 6.2%.	FBI (September 2020)	US
Arson increased 19.2% in the first six months of 2020 compared to the same time the previous year; and increased 52.1% in cities with populations of 1,000,000 or more.	FBI (September 2020)	US
Between June and August 2020 homicides increased 53% and aggravated assaults increased 14% compared to the same period in 2019.	NCCJ (September 2020)	US
A UK domestic abuse charity (Refuge) reported a 25% increase in calls made to helpline since the start of lockdowns.	Refuge (April 2020)	UK

Food and Hospitality

Food and Hospitality Statistic	Source	Region
Restaurants have spent an additional $7,400 on PPE and enhanced safety protocols (training, cleaning, Plexiglas, etc.) which will take 66% of businesses 6 months to recoup.	QSR (September 2020)	US
The restaurant industry is set to lose $240 billion in revenue and 8 million employees in 2020.	QSR (September 2020)	US
In May, nearly 75% of independent restaurants reported new debts greater than $50,000; 12% reported additional debt at $500,000 and above.	FSR (August 2020)	US
1 in 3 restaurants are expected to close.	FSR (August 2020)	US
86% of restaurants reduced staff due to Covid-19; 40% of restaurants expect to be out of business by March 2021.	QSR (September 2020)	US

Other resources:

Collateral Global – A global repository of research concerned with collateral effects of the COVID-19 lockdown measures.

Lockdown Resistance – Focuses on Covid-19 policy impacts on wellbeing, quality of life and life-expectancy.

Retail Dive – Maintains a running list of 2020 retail bankruptcies.

November 18, 2020

It Was a Mistake to Close Schools, UK Study Concedes

JEFFREY A. TUCKER
Editorial Director

On March 12, 2020, the memo went out from the pen of Carter Mecher, bioterrorism expert advising the Veterans Administration. It went out to public health officials and others from around the nation. Close the schools. Pull the trigger now. And it happened, and with it, civic freedoms we have long taken for granted – freedom to travel, operate businesses, go to the movies, even leave our homes – were taken away.

They shut the schools. Then it was like dominos falling, one by one. The businesses had to close so that people could watch the kids at home. The shopping centers had to close because otherwise the kids would just gather there. The churches too. Entertainment venues were shut. Even parks closed. The stay-at-home orders followed from the school closures. In many ways, the whole legitimacy of lockdown hinged on the merit of the school closure.

A small group of pro-lockdown scientists cheered, as their decade-and-a-half-old dream of conducting such a social experiment was finally becoming a reality.

The school closures had a disproportionate effect on working women. They left their jobs to care for the kids, attempting to help them navigate the strange new world of Zoom classrooms and do assignments via email. Men stayed working in jobs as the primary breadwinners.

As the *Washington Post* reports:

> The pandemic recession [lockdowns] has been dubbed a "she-session" because it has hurt women far worse than men. The share of women working or looking for work has fallen to the lowest level since 1988, wiping out decades of hard-fought gains in the workplace.
>
> On Friday, the Labor Department's jobs report showed that the economy has gained back just over half of the jobs lost in March and April, but the situation remains dire for women. There are 2.2 million fewer women working or looking for work now than in January, vs. 1.5 million fewer men, according to the Labor Department data.

In nine months of this hell, one might suppose there would have been a clear test of whether and to what extent severe outcomes from catching the virus were really associated with school attendance. It has finally arrived, and the news is not good for the lockdowners.

It is by now obvious (and has been since February) that almost no children are in danger from the virus. The age/health gradient of the virus affects almost exclusively the elderly with comorbidities. The children might have been helpful in achieving good public health goals and burning out the virus, rather than losing almost a full year of quality schooling thus far, to say nothing of the trauma of mandatory masks and being taught that their friends are potentially pathogen-carrying enemies.

The kids would have been fine but what about the staff and adults? Does locking up the kids in homes really keep people safe and dial back the infectiousness and mortality associated with SARS-CoV-2? How might one test this? One simple way could examine the difference in disease outcomes between domestic environments in which kids are present versus those where they are not.

This seems like an obvious test. Finally just such a study has appeared, as released by the medical paper repository Medxriv: "Association between living with children and outcomes from COVID-19: an OpenSAFELY cohort study of 12 million adults in England."

It is the largest study yet conducted (35 authors) of Covid risk to adults from contact with children, and it has a not-so-surprising conclusion, at least for those who have followed the science so far. It discovered no increase in severe Covid-related outcomes for adults living with children. It demonstrated a small increase in infections but without bad outcomes. In fact, the study demonstrated fewer deaths associated with adults living with children at home than home without children.

To quote from the study directly:

> This is the first population-based study to investigate whether the risk of recorded SARS-CoV-2 infection and severe outcomes from COVID-19 differ between adults living in households with and without school-aged children during the UK pandemic. Our findings show that for adults living with children there is no evidence of an increased risk of severe COVID-19 outcomes although there may be a slightly increased risk of recorded SARS-CoV-2 infection for working-age adults living with children aged 12 to 18 years. Working-age adults living with children 0 to 11 years have a lower risk of death from COVID-19 compared to adults living without children, with the effect size being comparable to their lower risk of death from any cause. We observed no consistent changes in risk of recorded SARS-CoV-2 infection and severe outcomes from COVID-19 comparing periods before and after school closure.

What does this imply?

> Our results demonstrate no evidence of serious harms from COVID-19 to adults in close contact with children, compared to those living in households without children. This has implications for determining the benefit-harm balance of children attending school in the COVID-19 pandemic.

The wording seems a bit abstract, consistent with the genre of this style of writing. To put it in English, fear of bad Covid outcomes was never a good reason to shut the schools. Which is to say: this was a huge mistake. It is shocking to consider what has been lost, how the children have been treated, how brutalized are the parents who have paid so much in taxes or in private school tuition. It is robbery not only of money but also of education and the good life.

AIER has in general agreed with John Ioannidis's claim from mid-March. These policies were put into place with no solid evidence that they would mitigate the virus or improve on medical outcomes.

From the beginning, the lockdowns were a policy in search of a rationale. In all these intervening months, none has been forthcoming. And we are only now seeing the solid research proving that the skeptics were correct from the beginning. The only question now is whether and when the "experts" that produced this astonishing failure will admit their error. Perhaps the answer is: when the media start reporting on it.

November 9, 2020

The Censorship of Dr. Briand

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On November 13, 2020, Johns Hopkins University Advanced Academic Programs posted a YouTube lecture conducted by Dr. Genevieve Briand, JHU's MS in Applied Economics Assistant Program Director. The talk was titled Covid-19 Deaths: A Look at US Data and a full summary produced by AIER can be found here.

The general idea of the lecture was that Covid-19 deaths as reported by the CDC may be misleading due to a number of accounting aberrations in the data. One of the most notable discrepancies Briand points out is the reclassification of death by other diseases, such as heart disease, as Covid-19 deaths simply because at the time of death the individuals also had Covid. She also makes claims suggesting that overall deaths in 2020 have not substantially increased from past years. Although I am sympathetic to the research, this article should not be construed to be an explicit endorsement of the findings.

The video stood without any protest for almost two weeks and JHU's student newspaper even ran an article about the research on November 22nd. AIER soon came across the research and found it to be worthy of public attention and discussion. On November 26, AIER published a summary that cited the student newspaper article and the YouTube video. Almost within hours of AIER's publication, the student newspaper article which stood for over four days was taken down. The next day it was replaced by the following note attempting to discredit the research with a pdf link to the original article.

On Twitter, the following statement was issued

This of course is a ridiculous explanation and highly inappropriate and drew much-needed criticism in the comment section. Before I proceed I believe it must first be noted that the JHU News-Letter is a student-run publication independent of the university. Although what they did was wrong, I do not believe it is appropriate to attack student-run organizations or hold them to the same level of standards as we would for other organizations. I hope to use this article to talk about censorship and gatekeeping more generally, and not shame a specific organization.

I was recently a college student, and I can attest that professional standards pertaining to academic freedom and general conduct were certainly skills we are all still learning. What is more concerning is that Dr. Briand's YouTube lecture was delisted after going from around only a few hundred views to over 20,000 after the article was retracted. I am going to assume the YouTube Channel is run by the university. Such an action is not only a blatant attack on the work of a hard-working faculty member, but it's also a plain violation of academic freedom. This is all representative of not only sloppy professional standards but the worrying politicization of science during a time where such behavior is dangerous.

The Importance of Academic Freedom

We do not have free speech simply to talk about the weather; we have it so we can talk about very controversial things. Things like the abolition of slavery, a women's right to vote, a gay person's right to equality, a black person's right to sit in the same space as a white person. These were once all extremely controversial and offensive topics that were only brought to fruition through the protection and use of free speech.

Academic freedom is no different. We do not uphold standards of rigorous inquiry and free expression in the American academy, the most respected academic institution in the world, to all agree with one another. We uphold such standards precisely so we can disagree and through the marketplace of ideas our intellectual enrichment is made possible. We come up with the latest inventions, theories, models, and literature because we are free to think and say whatever we want. Whether it was the Red Scare in the 20th century that targeted leftist professors or attacks on right-leaning professors in the 21st century and everybody in between, academic freedom is a constant battle. That is because human beings are naturally power-hungry individuals who wish to silence those they disagree with and control the intellectual narrative to fit their own agendas.

The practical implications behind JHU's (JHU used to describe the student newspaper as well as the advanced academic program's YouTube channel) censorship cannot be worse. First and foremost, the YouTube video and the retracted article have now been viewed exponentially more times following the night of the 26th. Censorship in this case has backfired tremendously, as it usually does. The best course of action should have been to let the content stand and allow it to be subject to public scrutiny. An even better response would be to publish another rigorous academic piece in opposition. We would all be more educated as a result and JHU would set an example for the world in forwarding productive discussions about serious topics. However, the current actions taken by JHU make it seem like Dr. Briand's work is something the establishment doesn't want people to see.

The rationale given to support the retraction of the article was also poorly formed. One of the reasons given was to fight misinformation. The problem is that just because you don't agree with the use of the information doesn't mean you should censor it. When information is put out to the world, all sorts of people will see it; some of those people you may disagree with. Sometimes you might be the one who's wrong.

Another issue that was brought up was Dr. Briand's position as an economist and not a public health expert. This is a clear logical error because an appeal to authority does not lend any merit to one's argument. Dr. Briand's work was on data provided by the CDC to which she notes that there are statistical anomalies that should raise some questions. It wasn't neuroscience. If there are issues with her interpretation of data then we should have that debate, not censor her work. However this appeal to authority tactic is one used all throughout society on all sides of an argument. We would be better served if we stopped dismissing one another based on arbitrary titles and just listened to good arguments. If Dr. Fauci told you to jump off a bridge to stop Covid-19 but AIER economist Phil Magness told you his research shows that the policy of jumping off a bridge is rooted in no evidence, are you going to attack Phil for being an economist? For those who want to play this game, there are two reports written by actual scientists that generally support Briand's thesis. They can be found here and here. I do not endorse the findings. I am simply providing them as more examples of similar work done by scientists.

Setting aside the technical debate behind the research, JHU seems to forget, as we all do, that virtually all research has potential issues with it. However, the main problem is that such scrutiny seems to be one-sided in the age of Covid-19. Many of the epidemiological models used to predict the effects of Covid-19 were wildly incorrect, highly inflammatory, and more than likely led to terrible policy decisions that have wrecked the lives of countless people. Where are the retractions and pointed scrutiny on that kind of research? Again, I am not asking for everyone to embrace Dr. Briand's research. I just think that we should have some decent standards of professional conduct when it comes to ideas we disagree with.

Key Takeaways

The main problem with all of this goes far beyond Dr. Briand's research. This is all representative of an unproductive orthodoxy that exists around Covid-19. An orthodoxy that has a set view on how to think and how to respond to the virus. When the Great Barrington Declaration was released, a document signed by tens of thousands of medical professionals and hundreds of thousands of concerned citizens calling for the end of lockdowns, it was met with extreme vitriol. Some attacks were welcome scientific scrutiny but many others were the type of pointless slander usually reserved for the peanut gallery of politics. Oxford professor Dr. Sunetra Gupta, one the main signatories of the Declaration, writes about the types of attacks she received in an article here.

Dr. Briand's research regarding the statistical anomalies in the CDC's data is a worthy and important discussion. Although it is important to trust our institutions and support the dissemination of good information, mistakes are made all the time. Dr. Briand seems to have picked up on a number of interesting data points that should be investigated. If she's wrong in part then we can move on, resolve the discrepancies, and are now better equipped to fight the virus. If she's right then we would also be more equipped to fight the virus, having better information that will allow us to support the general welfare of society. Censoring her work does neither of this. If anything, it is simply giving in to the toxic politicization that has surrounded Covid-19 and missing an opportunity to provide leadership in a world that seems to have lost its way.

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