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RESEARCH REPORTS

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Business Conditions Monthly
ROBERT HUGHES 1

Ten Remarkable Financial Events of 2020
PETER C. EARLE 10

What's Up with the Great Reset?
STACEY RUDIN 18

Thwarting the Next Attack on the Capitol
ROBERT E. WRIGHT 22

All Hail the Reopening!
JEFFREY A. TUCKER 25

Global Productivity Growth Post-Covid – Down But By No Means Out
COLIN LLOYD 28

What They Said about Lockdowns before 2020
AMELIA JANASKIE & MICHA GARTZ 33

Lockdowns Don't Prevent Coronavirus Spread
JOAKIM BOOK & CHRISTIAN BJØRNSKOV 37

The Empirical Case for a Mask Mandate Lacks Scientific Grounding
PHILLIP W. MAGNESS 40

What Is the Alternative to Lockdowns? A Symposium
AIER STAFF 42

CARES Act Stimulus Did Not "Replace Lost Wages"
ALAN REYNOLDS 46

The Economic Policy Failures of the Trump Administration
JEFFREY A. TUCKER 49

Equity Performance Amid One-Party Rule in America
RICHARD M. SALSMAN 54

BUSINESS CONDITIONS MONTHLY

Robert Hughes
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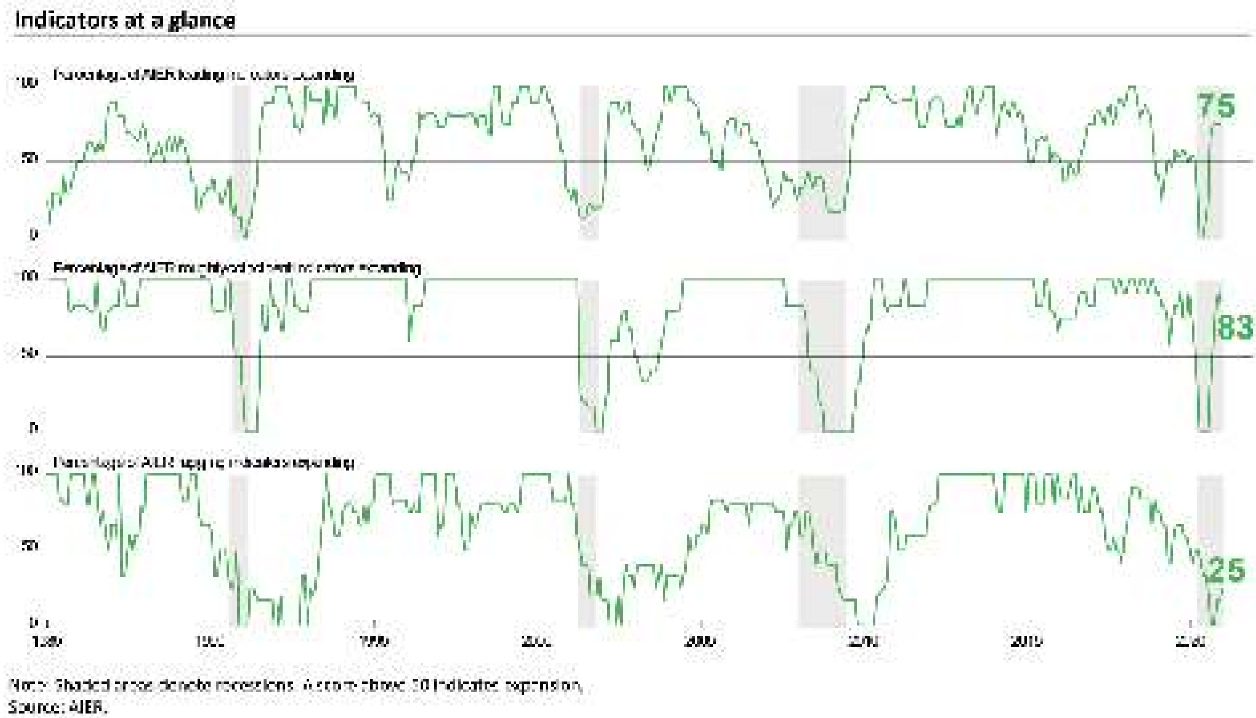
AIER Business Cycle Indicators Were Little Changed in January



AIER's Business Cycle Conditions indexes were little changed in January with the Leading Indicators Index and Roughly Coincident Indicators Index both holding solidly above the neutral threshold of 50; the Lagging Indicators Index remained well below neutral. The Leading Indicators index came in at 75 for a fourth consecutive month and the fifth month above neutral. The Roughly Coincident Indicators index fell back to 83 after posting a 92 in the prior month while the Lagging Indicators Index rose to 25 from 17 (see chart). The results suggest continued economic expansion in the months ahead.

Despite five months of solid results from the Leading Indicators Index, economic data overall continue to show varied strength among the major sectors of the economy. Notable among the sectors is the strong performance of the housing sector. Sales and construction have been robust, especially for single-family units. Supported by low mortgage rates, demand appears to be getting a boost from urbanites moving to less densely populated areas. However, the period of strong demand is boosting home prices and the improving economy is pushing mortgage rates up slightly, both of which will likely contribute to some cooling of demand in future months. Wider distribution of a vaccine and confidence by urban homeowners and renters that urban living is no riskier than suburbia or rural living may also soften future demand.

Business investment also had a strong performance in the final quarter of 2020. Some strength may be related to Covid-19 retooling and some may be a result of labor difficulties. Regardless, business investment helped boost the economy in the final quarter of the year.

On the weaker side, consumer spending softened towards the end of the year as did some measures for the labor market. Better performances for both will be crucial for the economy in 2021.

For now, government policies continue to distort activity by consumers and businesses, and the number of new Covid-19 cases continues to attract attention. Looking ahead, vaccine success and lower numbers of new Covid-19 cases as well as the cessation of restrictive policies remain the most important factors for restoring pre-pandemic activity levels and growth rates for the economy.

Leading Indicators index remains solidly above neutral

The AIER Leading Indicators index remained unchanged at 75 in January. The January result is the fifth month in a row above the neutral 50 threshold and the fourth at 75. The results suggest continued overall economic expansion as three-quarters of the individual indicators are trending higher. In total, 9 of the 12 leading indicators maintained a positive trend in January, with 3 trending lower and none were neutral.

Positive (favorable) trends continued for the average workweek in manufacturing, real retail sales and food services, real new orders for core capital goods, real new orders for consumer goods, total heavy-truck unit sales, the ratio of manufacturing and trade sales to inventory, housing permits, debit balances in customers' margin accounts, and real stock prices.

Downward (unfavorable) trends remained in place for the University of Michigan index of consumer expectations, initial claims for unemployment insurance, and the 10-year–1-year Treasury yield spread. All 12 indicators were the same for the fourth month in a row.

Overall, the Leading Indicators index remains above 50, indicating continued expansion is likely. However, government policies continue to distort economic activity and threaten future growth.

The Roughly Coincident Indicators index fell to 83 in January, following a 92 reading in December. This index has risen rapidly from a zero reading in August, with the last four months coming in above the neutral 50 threshold. Two indicators changed trend in January as the employment-to-population ratio improved from a neutral trend to a favorable trend while the consumer confidence indicator for the present situation dropped from a favorable trend to an unfavorable trend. Overall, five indicators were trending favorably while one was in an unfavorable trend and none were in a neutral trend.

AIER's Lagging Indicators index rose to 25 in January following back-to-back readings of 17 in November and December and back-to-back zeros in September and October. Just one indicator changed trend in the latest month: real manufacturing and trade inventories improved from a neutral trend to a favorable trend. Overall, four indicators were trending lower, one indicator was trending higher, and one was in a neutral trend.

Real Gross Domestic Product Posted A Solid Gain in the Fourth Quarter, but Remains Below Trend

Real gross domestic product rose at a 4.0 percent annualized rate in the fourth quarter, down from a 33.4 percent pace in the third quarter, according to the Bureau of Economic Analysis. The two increases follow drops of 5.0 percent and 31.4 percent at annualized rates in the first and second quarters, respectively. Despite the two gains, real gross domestic product remains 2.7 percent, or more than $500 billion in real terms, below trend.

Measured from fourth quarter 2019 to fourth quarter 2020, real gross domestic product decreased 2.5 percent. For calendar year 2020, real gross domestic product fell 3.5 percent versus calendar 2019.

Real final sales to private domestic purchasers, a key measure of domestic demand, rose at a 5.6 percent pace in the final quarter of 2020 following

a 39.0 percent annualized gain in the third quarter. This important gauge is still 3.1 percent, or more than $520 billion (in real terms), below trend.

Consumer Spending was moderate, with growth concentrated in services

Consumer spending decelerated in the fourth quarter, rising at a 2.5 percent pace following a 41.0 percent rebound in the third quarter. Durable-goods spending was unchanged for the fourth quarter, nondurable-goods spending fell 0.7 percent, and services rose 4.0 percent. Within services, housing services (a made-up number) rose at a 3.2 percent rate while health care services surged 12.4 percent. Consumer spending contributed 1.7 percentage points of the 4.0 percent real gross domestic product growth rate, with housing accounting for 1.35 percentage points and health care adding 1.33 points. Most other areas of consumer spending were lackluster in the fourth quarter.

Business investment performed well in the fourth quarter

Business fixed investment rose at an 18.4 percent annualized rate in the fourth quarter. At annualized rates, the gain was led by a 24.9 percent jump in equipment spending while intellectual property spending rose 7.5 percent and investment spending on structures rose 3.0 percent. Real business investment contributed 3.0 percentage points to overall real gross domestic product growth. Some of the strength may reflect retooling of work areas to accommodate Covid-19 requirements or efforts to boost labor productivity to offset absenteeism and/or labor shortages.

Core Capital-Goods Orders Hit A Record High in December, suggesting a positive outlook

New orders for durable goods posted an eighth consecutive gain in December, rising 0.2 percent following a gain of 1.2 percent in November. Total durable-goods orders are up 3.8 percent from a year ago.

Durable-goods orders excluding aircraft and parts rose 0.7 percent for the month following 1.1 percent gains in the prior two months. That is the fourth increase in a row and the seventh gain in the last eight months and puts the level of orders at $241.3 billion, a new record high.

New orders for nondefense capital goods excluding aircraft, a proxy for business equipment investment, rose 0.6 percent in December after gaining 1.0 percent in November, putting the level at $71.8 billion, a new record high. This important category had been in the $65 to $70 billion range for several periods over the past 15 years before dropping to $61.3 billion in April 2020. The $61.3 billion pace was the slowest since June 2017.

All but two of the major categories of durable goods shown in the report had a gain in the latest month. Among the individual categories, primary metals rose 0.3 percent, fabricated metal products gained 0.6 percent, machinery orders were up 2.4 percent, electrical equipment and appliances gained 0.1 percent, and the catch-all “other durables” category was up 0.5 percent. The two decliners were transportation equipment orders, down 1.0 percent and computers and electronic products, down 0.2 percent. Within transportation, motor vehicle and parts orders rose 1.4 percent, but the gain was offset by a 51.8 percent plunge in nondefense aircraft orders and a 5.0 percent fall in defense aircraft orders. Within the computers and electronic products category, computer-product orders fell 3.4 percent while communications equipment orders rose 0.3 percent.

Home construction remains a bright spot

Real residential investment (home construction) rose at a 33.5 percent pace in the fourth

quarter compared to a 63.0 percent surge in the prior quarter. Home construction contributed 1.3 percentage points to overall growth in real gross domestic product in the fourth quarter.

Monthly data suggests continued strength

Single-family homebuilding posted another strong performance in December as housing starts and permits rose again while homebuilder sentiment eased back but remained at a very high level. Total housing starts rose to a 1.669 million annual rate from a 1.578 million pace in November, a 5.8 percent increase. The December gain is the seventh rise in the last eight months since hitting an April low. From a year ago, total starts are up 5.2 percent.

The dominant single-family segment, which accounts for more than eighty percent of new home construction, rose 12.0 percent for the month to a rate of 1.338 million, the highest since September 2006. Single-family starts are up 27.8 percent from a year ago.

Starts of multifamily structures with five or more units fell 15.2 percent to 312,000 and are off 40.0 percent over the past year.

For housing permits, total permits rose 4.5 percent to 1.709 million in December. Total permits are 17.3 percent above the December 2019 level. Single-family permits were up 7.8 percent to 1.226 million, the highest rate since August 2006 while permits for two- to four-family units fell 11.5 percent to 46,000 and permits for five or more units dropped 2.0 percent to 437,000. Continued gains in single-family permits suggest additional gains in home construction in coming months.

Builder sentiment eases but remains high

While current activity measures are very positive, the National Association of Home Builders' Housing Market Index, a measure of homebuilder sentiment, fell slightly for a second consecutive month. The pullback is primarily due to surging materials costs, especially lumber, difficulty finding qualified labor, and resurging Covid-19 cases. Despite the decreases, overall sentiment remains relatively high.

The Housing Market Index fell to 83 in January, down from 86 in December but still very positive. All three components of the index had declines in the latest month but also remained at very high levels. On a regional basis, all four regions had declines in January but were also still at historically favorable levels.

Single-family home construction activity has recovered sharply since the April low as lockdown restrictions that impacted both construction workers and potential customers were eased. Furthermore, mortgage rates remain low by historical comparison (though they have drifted higher recently), providing support for the housing recovery while rising prices and tightening lending standards are headwinds for affordability and financing.

Labor Market shows some signs of weakness

Initial claims for regular state unemployment insurance totaled 779,000 for the week ending January 30, down 33,000 from the previous week's revised tally of 812,000. Claims have eased back for three consecutive weeks since jumping in early January. Still, initial claims have continued to run in the 700,000 to 1 million range for 23 consecutive weeks and remain well above the pre-pandemic level of 212,000 in early 2020.

The four-week average fell slightly, off 1,250 to 848,250. The four-week average has drifted higher since hitting a low of 740,500 for the week of November 28, rising in eight of the last eleven weeks. Persistent initial claims at such a historically high level remain a threat for the labor market recovery and the economy.

The number of ongoing claims for state

unemployment programs totaled 5.188 million for the week ending January 16, down 258,852 from the prior week. State programs had been trending lower since early March, but the downward trend has turned to a flattish trend since the week ending November 21. For the same week in 2019, ongoing claims were 2.076 million.

Continuing claims in all federal programs fell in the latest week following the prior week's surge, coming in at 12.647 million for the week ending January 16, off 227,553.

The total number of people claiming benefits in all unemployment programs including all emergency programs was 17.836 million for the week ended January 16, down 486,405 from the prior week.

Two consumer surveys suggest short-term pessimism, medium-term optimism, and big partisan divides

The final January results from the University of Michigan Surveys of Consumers show overall consumer sentiment fell in January and remains well below pre-lockdown levels, though well above prior cyclical lows. Despite the small decline, the details show deep partisan differences, especially for consumers' expectations.

Overall consumer sentiment decreased to 79.0 in January, down from 80.7 in December, a 2.1 percent decline. From a year ago, the index is down 20.8 percent. The sub-indexes both fell in January. The current-economic-conditions index dropped to 86.7 from 90.0 in December. That is a 3.7 percent decline and leaves the index with a 24.2 percent decrease from January 2020. The second sub-index — that of consumer expectations, one of the AIER leading indicators — sank 0.6 points or 0.8 percent for the month to 74.0 and is 18.2 percent below the prior year.

All three indexes remain well below the pre-pandemic levels, with the Current Economic Conditions index 22.9 percent below its 2018-2019 average and the Index of Consumer Expectations 15.2 percent below the recent average. Combined, the overall index sits 18.7 percent below the pre-pandemic average. All three are also well above the lows from the last recession: 55.3 for the overall index, 57.5 for the present situation index, and 49.2 for the expectations index.

According to the report, "The overall stability of consumer confidence has benefitted from wearing masks and social distancing, the quick substitution of home for office work, and the prompt distribution of generous federal benefits. These factors helped to absorb the pandemic's negative impact on the economy as well as on personal finances."

Regarding the partisan divide, the report goes on to add, "In contrast to the reduced levels but relatively stable trends in consumers' economic expectations, partisan views have remained quite volatile. In the past three months, the Index of Consumer Expectations, the primary gauge for the future performance of the economy, has jumped among Democrats to 91.8 in January from 68.6 in October, and among Republicans it has plunged to 51.4 in January from 96.4 in October. This reverses the shift which occurred when Trump was elected and maintained throughout his term in office. The data also indicate that the weighted average across Democrats and Republicans (74.2) has closely followed trends for Independents as well as the all-household average. The sharp partisan differences have been effectively neutralized with respect to economic expectations, although still exerting a dominant force shaping public discussions."

The Consumer Confidence Index from The Conference Board rose in January, increasing by 2.2 points to 89.3. The index is constructed so that it equals 100 in 1985. Overall consumer confidence remains well below the pre-pandemic level.

The two major components of the index had

mostly offsetting performances for the month though the gain in expectations was slightly stronger than the decline in current conditions. The present-situation component – one of AIER's Roughly Coincident Indicators – fell 2.8 points to 84.4 while the expectations component rose 5.5 points, taking it to 92.5 from 87.0 in the prior month. The report suggests that the resurgence of Covid-19 is weighing on consumers' views of current conditions.

For the present situation component, The Conference Board report says, "Consumers' appraisal of present-day conditions weakened further in January, with Covid-19 still the major suppressor." The net of the percentage of consumers saying business conditions were good minus those saying business conditions were bad fell to -27.0 in January from -24.3 while the net percentage of consumers saying jobs were plentiful minus those saying jobs were hard to get fell to -3.2 from -1.9.

Regarding the expectations component, the report states, "Consumers' expectations for the economy and jobs, however, advanced further, suggesting that consumers foresee conditions improving in the not-too-distant future." Consumers' expectations for business conditions in six months improved with the net percentage rising to 15.6 from 7.5 while the net percentage expecting better labor market conditions rose to 9.9 from 5.8 in December.

Outlook is cautiously optimistic

Overall, the economy continues to recover from the draconian lockdowns that began in 2020 though the results vary widely among the different sectors. The AIER Leading Indicators index suggests continued expansion in coming months.

Government restrictions on consumers and businesses remain a significant threat to the outlook for economic growth. The development and distribution of vaccines is a very positive development and should eventually lead to sharply less government restrictions. In the meantime, the longer the virus continues to spread (along with the possibility of mutations prolonging the outbreak), consumers remain restricted, and businesses remain closed or limited, the more uncertain a labor market recovery becomes and the higher the probability of a slow and drawn-out economic recovery.

CAPITAL MARKET PERFORMANCE

(Percent change)

	January	Latest 3M	Latest 12M	Calendar Year 2020	Calendar Year 2019	Calendar Year 2018	Annualized 3-year	Annualized 5-year	Annualized 10-year
Equity Markets									
S&P 1500	-0.8	12.8	15.8	15.8	28.3	-6.6	9.3	13.8	11.1
S&P 500 - total return	-1.0	12.2	18.4	18.4	31.5	-4.4	11.7	15.2	12.5
S&P 500 - price only	-1.1	11.7	16.3	16.3	28.9	-6.2	9.6	13.9	11.2
S&P 400	1.5	23.9	11.8	11.8	24.1	-12.5	6.2	12.2	9.7
Russell 2000	5.0	31.0	18.4	18.4	23.7	12.2	9.6	14.9	10.2
Dow Jones Global Large-Cap Index	-0.4	13.6	14.7	14.7	23.8	-10.4	6.7	11.6	6.7
Dow Jones Global Large-Cap ex-U.S. Index	0.3	16.9	8.8	8.8	18.2	-15.7	1.0	8.1	2.2
STOXX Europe 600 Index	-0.8	10.5	-4.0	-4.0	23.2	-13.2	0.0	3.0	3.5
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-3.6	-3.4	16.4	16.4	11.5	-4.2	7.4	3.6	5.2
iShares AAA - A Corporate Bond Fund	-1.6	1.2	7.1	7.1	9.1	-5.2	3.5	2.5	NA
Commodity Markets									
Gold	-2.1	-0.1	24.8	24.8	18.7	-1.7	11.5	10.7	3.4
Silver	3.3	11.6	46.8	46.8	16.7	-8.3	16.7	14.2	-0.1
Refinitiv equal-weight commodities index	2.1	11.7	9.4	9.4	7.6	-7.1	3.0	4.9	-0.2

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

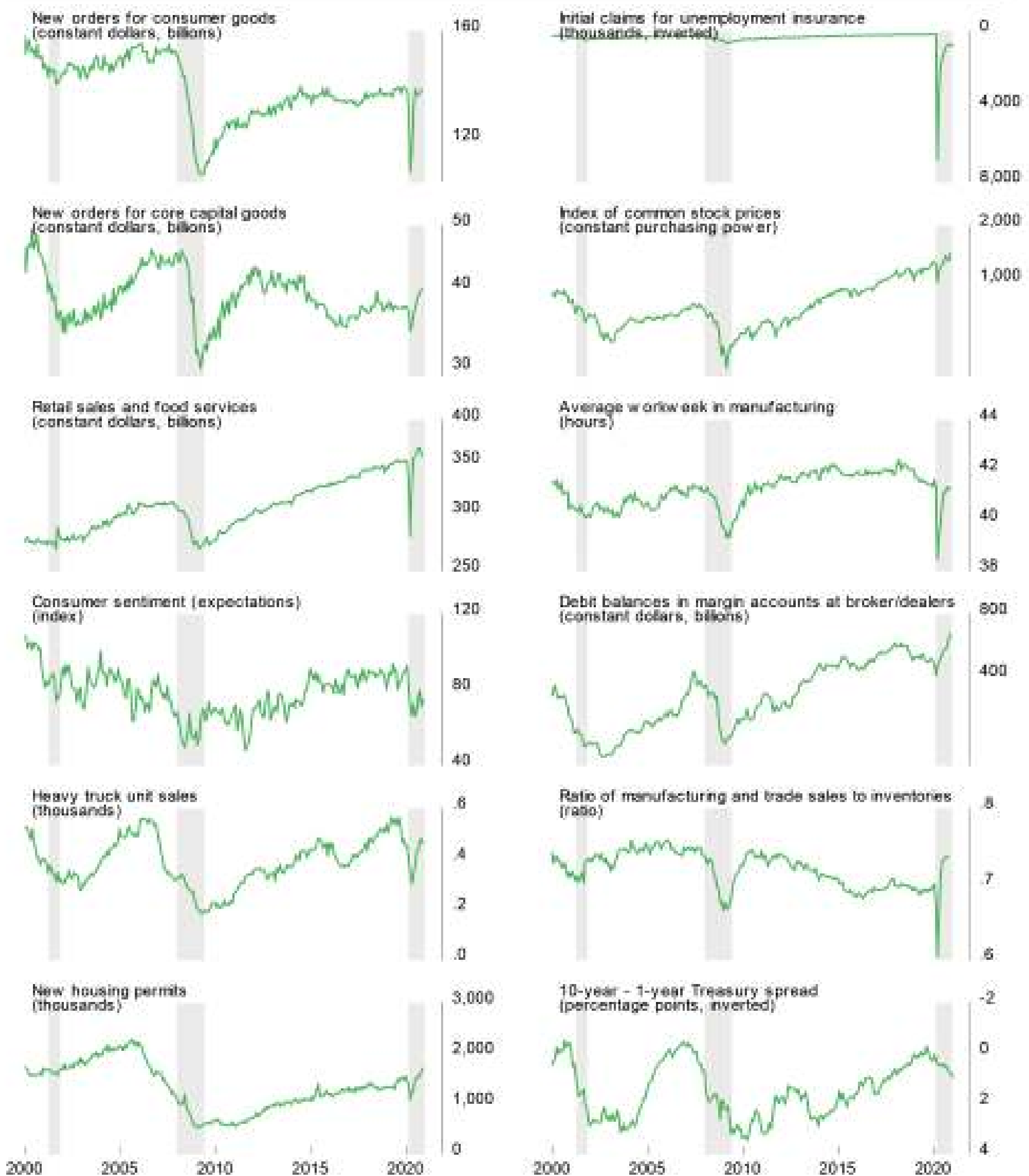
CONSUMER FINANCE RATES

(Percent)

	January	Latest 3M	Latest 12M	Average for Year 2020	Average for Year 2019	Average for Year 2018	Average over Period 3-year	Average over Period 5-year	Average over Period 10-year
30-yr. fixed mortgage	2.7	2.8	3.1	3.1	3.9	4.5	3.9	3.9	4.0
15-yr. fixed mortgage	2.2	2.3	2.6	2.6	3.4	4.0	3.4	3.3	3.3
5-yr. adjustable mortgage	2.8	2.9	3.1	3.1	3.6	3.8	3.5	3.3	3.2
48-month new car loan	NA	5.0	5.1	5.1	5.4	5.0	5.2	4.9	4.8

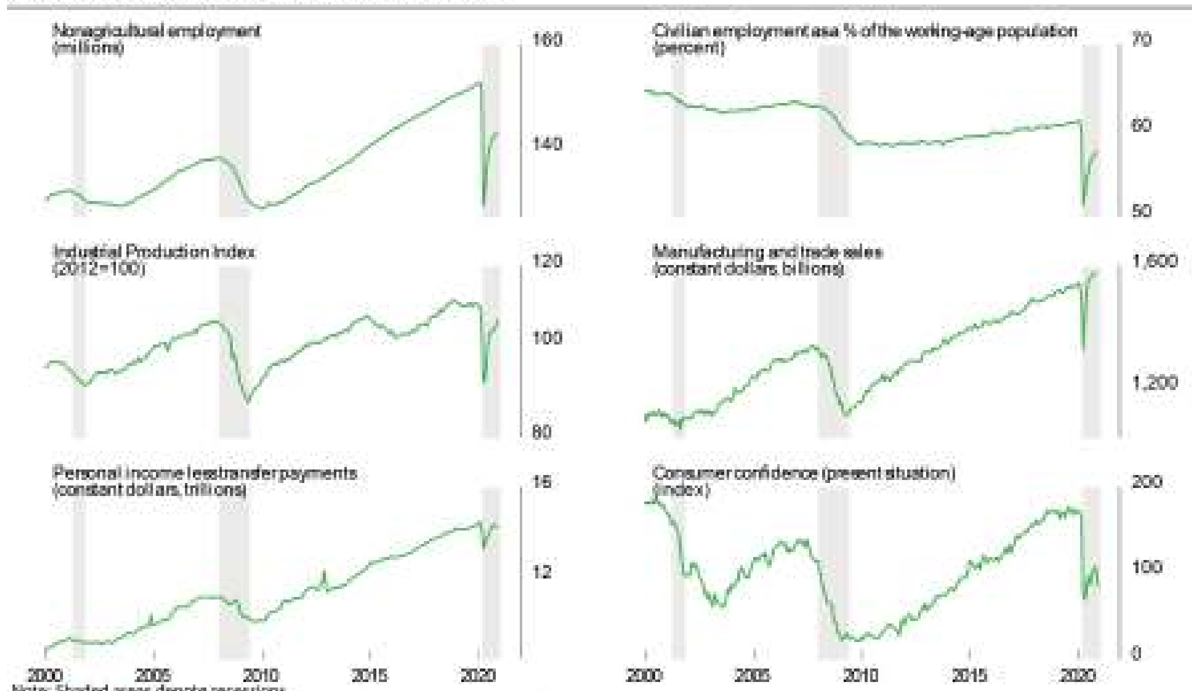
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (2000-2021)



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).

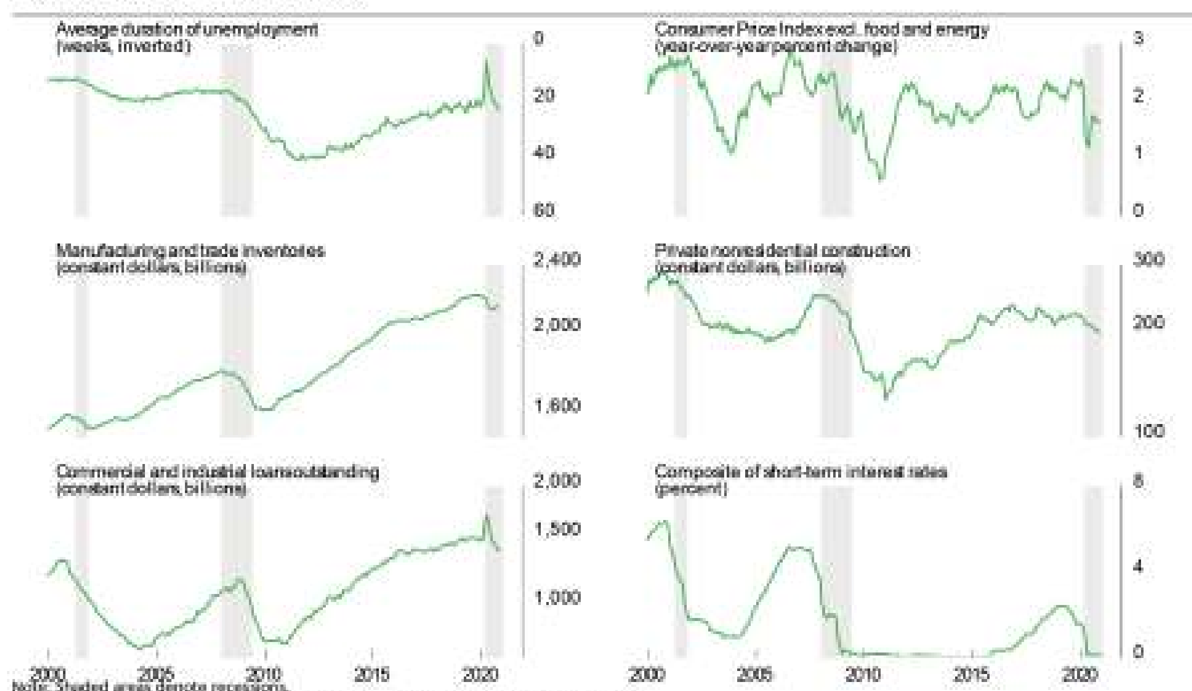
ROUGHLY COINCIDENT INDICATORS (2000-2021)



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 (2000-2021)



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).

Ten Remarkable Financial Events of 2020

PETER C. EARLE
Research Fellow

The past year has been one full of superlatives: from the most votes ever cast in a presidential election to the worst unemployment claims the United States has ever seen. There have been unbelievable highs, such as the record-breaking increase in new businesses launching, and there have been crushing lows, like the largest surge in poverty in US history. Perhaps no field highlights those highs and lows better than the financial sector.

The volatile financial landscape has become an indispensable component of ongoing pandemic coverage. Much like 2020 as a whole, events in global financial markets over the past year have ranged from shocking to devastating to mind-boggling. The sheer concentration of so many unlikely events taking place in the span of a year can, at least partially, be explained by economic logic, but that answer alone would paint an incomplete picture. Widespread fear and panic stemming from the ongoing Covid-19 pandemic and government-imposed lockdowns and business closures have played massive roles in rattling the financial sector.

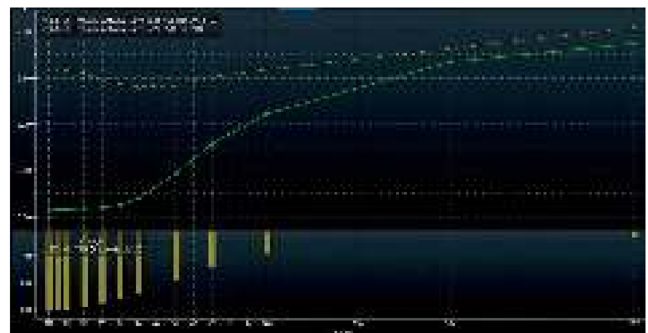
In looking back at the extremes of 2020—in rough chronological order, as some starting dates are estimated and many of the phenomena described persisted for days or weeks after emerging—the following events in global financial markets helped make this year one for the books.

1. US Treasury Yield Curve Inversions – February 14, 2020

The significance of an inverted Treasury curve can be debated, but in any event, short-term rates on government bonds exceeding long-term rates are an uncommon event and are typically indicative of increasing pessimism about economic prospects in the near- and medium-term.

The US Treasury yield curve inverted almost exactly one year prior to the Covid-19 panic and spent a good portion of fall 2019 inverted. But in February 2020, both one- and three-month Treasury bills inverted. Investors concerned about the severity of the virus and, more importantly, policy responses to the growing pandemic fled risk instruments (stocks, bonds, etc.) for the safety of short-term Treasuries, in which the principal is guaranteed by the United States government. When growing doubt (or, indeed, utter panic) leads to a rush into short-term government-issued securities, the prices of those instruments are pushed up and the yield (interest) down, creating the inversion.

Although inversion of yield curves sometimes concerns the outlook for the issuing nation, the broad-based inversion that began on roughly February 14th, 2020 had less to do with the US than global economic prospects as a whole. On that day, the one- and two-month Treasury bill yields rose to 1.60% with the ten-year note at 1.59%. This should be viewed as the first sign of the Covid-19 financial panic to come.



(Source: Bloomberg Finance, LP)

2. VIX Futures in Backwardation – February 27, 2020

The VIX is the Chicago Board Options Exchange's Volatility Index. Using exchange-traded option prices, it tracks the level of "fear" (anticipation of downside) in the market regarding equity prices. It's a somewhat esoteric financial market instrument upon which futures—market-traded contracts to buy or sell financial instruments at specified prices in the future—are traded, and the prices at which they trade imply expectations of future volatility.

Typically, when a number of futures contracts specifying a particular financial instrument over a series of dates are trading, they trade in a condition called "contango." In contango, progressively longer-dated futures trade at progressively higher prices. The term structure slopes upward. That makes sense for a few reasons: A longer time to expiry means more risk, more uncertainty, and higher time value of money (greater opportunity cost).

On exceedingly rare occasions, the term structure slopes downward in price over time: Thus the price today, usually a bit lower than the price a month from now, which is a bit lower than the price two months from now, is inverted. The opposite of contango is backwardation, with the present priced higher than contract dates further out in time.

This is what happened in the VIX futures contracts:

> VIX started the year at 13.78 and its term structure was in the classic contango … When the coronavirus outbreak hit China, the VIX spot [current market] was slightly elevated to 17.97 on Fed 3 out of concerns of supply chain disruptions and a global economic slowdown, but the VIX term structure was nearly flat … Then the sell-off began on February 20. From February 21 to 28 the VIX term structure quickly evolved to contango to backwardation. But the increases were relatively small and mostly in the front end showing that investors believe that the episode would turn out to be no more than a temporary hiccup. Entering March, major [equity] indices had their fastest downfalls in history. VIX shot up to 81 on March 16. Its term structure exhibited severe backwardation and all futures prices moved up across the time horizon. The message it was delivering: the stock market could be all over the place in the near term, and even 6 months out (180 days), the range of movement for the S&P 500 would be as wide as +/- 32% annualized.

(Source: Bloomberg Finance, LP)

This, though, does not give an impression of exactly how unlikely such an event is. One way of defining a significant episode of backwardation is to calculate the roll yield, the positive or negative return generated by shifting from a short-term to a longer-term futures contract. It is rarely positive, and even then it is scarcely greater than 1%. Since 2005, there have only been four such occurrences: During the 2008 financial crisis when Lehman and a number of other firms were collapsing; in 2011 when the US government lost its AAA credit rating; in February of 2018; and in March-April 2020.

3. Seizing up of the US Treasury Market – March 11, 2020

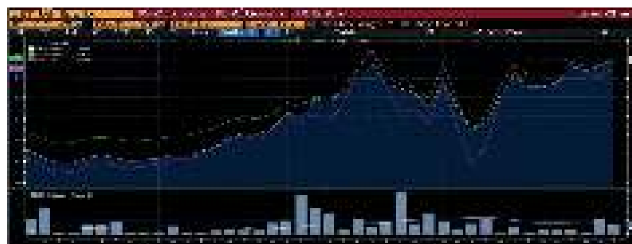
An extremely complex series of interactions occurred throughout February and into early March 2020 and led to never-before-seen duress in the cash markets for US Treasuries. In short, to ensure their access to financing—often referred to as seeking more "balance sheet"—many firms took large positions in US Treasury bonds, hedging them with Treasury futures contracts. Some did this purposely, to capture small disparities in what is called a basis trade. Others did so only to put money to work in a low-risk way, such that they might be able to borrow funds more easily should opportunities arise.

Treasury bonds, of course, are limited in supply, and newly-issued Treasuries ("on the run") are far more liquid than similar bonds which were not recently issued ("off the run"). As certain firms began to enter into basis trades using less liquid Treasuries for the cash leg, the futures hedge became less effective, resulting in paper (unrealized) losses. As certain market participants sought to exit that trade, they began buying back the bond futures and selling the bonds aggressively, causing a plummet in Treasury prices—in some cases, on already illiquid issues.

Treasury dealers, firms that stand ready to buy and sell a wide variety of US government bonds and agency issues, began to "get full:" they typically attempt to maintain a balanced book, adjusting prices to regulate the flow, but the torrent of bond sales (largely concentrated in certain popular maturities, such as the 10-year Treasury bond) led them to begin to lower their bids or, in some cases, exit the market. Bond sales were made at incrementally lower prices with paper losses mounting for firms unwilling or unable to liquidate their positions.

> Banks and investors have said that trading conditions in Treasuries, the world's biggest and deepest debt market, have deteriorated markedly this week as the coronavirus outbreak has ignited severe ructions. The market became "overwhelmed by liquidity concerns" during a chaotic day on Wednesday, Bank of America analysts said … A bond portfolio manager at a large asset manager said the situation had not improved on Thursday as volatility continued to grip the market. "We're not trading," he said.

It is rare, indeed, to see as broad and deep a market as Treasury securities, even across a small handful of maturities, driven to panic selling. And this is approximately when the Federal Reserve initiated its Treasury purchase program, which sought to assure sellers that they would get a price for their bonds and encouraged them not to sell.



(Source: Bloomberg Finance, LP)

A standard analogy features a burning theater, which symbolizes bond prices collapsing, with moviegoers—owners of bonds—all attempting to flee through a single door. As they attempt to squeeze through, the fire worsens and injuries/ deaths mount. In terms of the Fed's Treasury liquidity facility, the analogy would see the Fed break six or eight more "doors" in the theater, not only giving moviegoers ready exit, but possibly reason not to flee.

4. The First Stock Market Crash in 33 Years – March 16, 2020

There have been many drops in the market over the last few decades, but there hasn't been a crash since 1987, despite frequent misuse of the term and breathless reporting of notable, but statistically routine, declines. The most widely-accepted definition of a stock market crash is a drop of 10% or more in one day, and on March 16, 2020, equity markets crashed: The Dow Jones Industrial Average declined just short of 13% (2,997 points) with both the S&P 500 and NASDAQ Composite down 12%. That capped off the longest and most severe equity market losing streak since October 1929, with a four-day market decline of over 26% (approximately 6,400 Dow points).

(Source: Bloomberg Finance, LP)

The drop on that Monday came amid increasingly pessimistic predictions for the economic impact of the policy choices that government officials were considering to address the pandemic. But on that day, selling accelerated and triggered a trading halt when, during a press conference, President Donald Trump commented that the worsening pandemic could linger until August. And with that, the outlook for corporate earnings nosedived, followed by equity valuations and prices. (I wrote about the Crash of 2020 at that time.)

5. Corporate Bond ETF Prices Below NAV – March 17, 2020

Exchange traded funds (ETFs) are basically tradeable portfolios of financial assets. They can be diversified to provide investors with exposure to specific instruments, market sectors, capitalizations, and so on. In addition to the market price, ETFs have a net asset value (NAV) associated with them, which is essentially the pro rata portion of the underlying instruments of each share. The difference between the ETF price and the NAV should be very close in most cases, but they sometimes trade at a spread owing to stale prices (certain securities do not trade frequently), time differences (for example, a Japanese stock in a US fund is not actively trading at 11am EST), and so on.

During March 2020, a handful of corporate bond ETFs came to trade with massive spreads between their prices (which had also fallen, of course) and their NAVs. In the case of LQD and HYD—two ETFs which trade investment grade and high yield ("junk") bonds, respectively—the spreads implied that many, if not a majority, of bonds in each were highly distressed and likely to experience defaults.

Several factors were at work: First, to be sure, investor redemptions in ETFs and selling in the underlying corporate bonds sent prices plummeting and led to increasing illiquidity as fixed income dealers became more reticent to step forward and buy. With illiquidity comes wider spreads and less firm prices. And with political talk of lockdowns in the air, the prospect of certain bonds becoming impaired—the issuing companies having trouble paying required interest to bondholders and other creditors—heightened as well.

And it is worth mentioning that unlike in equity markets, bond investors are generally less likely to "buy the dip" when prices fall. One estimate holds that only 20% of corporate bonds trade daily under normal conditions, and thus, after being sharply

discounted owing to the economic uncertainties surrounding the policy reaction to the pandemic, the market froze up. That chill represents tens of thousands of traders, dealers, and other market participants waiting for more information in order to price near-term risk. As noted on Bloomberg,

> It might seem like perfectly good bonds are trading at fire-sale prices. In time, that will likely turn out to be the correct assessment. But in the middle of a maelstrom of selling, the likes of which has never been seen before, no security is safe, not when there's virtually no buyers to speak of. And if more retail investors decide they want out of the storm, as they have in the past, the vicious cycle has only begun.

Adding to this historic dislocation in pricing, though, is that in early April 2020 the Federal Reserve began purchasing high-yield bonds—an even more unprecedented development than the dislocation between ETF and NAV prices which in part triggered the intervention.

(Source: Bloomberg Finance, LP)

Most of those ETFs and the bonds stuffed into them recovered over subsequent months, but it was by all accounts the worst drop in corporate bonds in modern history: far worse than anything seen during 2008, after 9/11, and so on.

Tied to both the seizing up of US Treasury markets and the collapse of corporate bond prices: As those markets became less liquid, with spreads widening and bids disappearing, other credit markets—commercial paper and revolving credit facilities, for instance—began seeing a withdrawal of market participants as well. Yields on municipal bonds—instruments critical to county and state financing—skyrocketed. As in many previous financial crises, a wide range of asset, security, and derivative markets devolved into a breaknight flight toward cash.

6. Breakdown in the Historical Gold-Silver Ratio – March 18, 2020

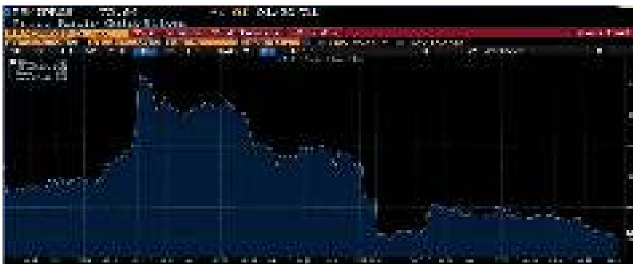
There is a case to be made that the price-ratio of gold-to-silver is the oldest financial time series on record. And although the ratio of silver to gold in the Earth's crust is approximately 18:1, silver and gold in modern financial markets have traditionally traded at a ratio of around 60:1. That ratio fluctuates owing to both supply and demand (ornamental and industrial) and sentiment, but over time tends to revert to the 60:1 level.

In the first week of April 2020, the ratio hit an all-time high (by some accounts, a 5,000 year high).

> We have data for this series going back a long, long time – during Pharaoh Menes' time (circa 3100 BCE) for example the ratio was 2.5x, whereas in King Hammurabi's day (circa 1750 BCE) it was 6x. The legendary Greek king Croesus (circa 560 BCE), who supposedly invented gold and silver coins, was more of a gold bug – he used a 13.33x ratio. Emperor Constantine I (280-337 CE) was less so at 10.5x. We have more frequent data starting from 1687 that confirms it: yesterday the gold/silver ratio was the highest ever. The ratio peaked at 123.78x. During Asian trading today it dropped back to around

116-117, but once London came in it went shooting back up to the 120-121 range. For reference, on Friday it averaged 101.74, and during all of 2019 it averaged 86.04. This is an amazingly swift change in this price. (The previous high before this month was in 1940, when it averaged 99.76 for the year.)

The reasons for the massive disconnection include sudden scarcity of physical silver (being more affordable for hedgers than gold) and the notorious difficulty of trading/hedging silver in futures markets. The silver futures contract is legendarily volatile—it is nicknamed "white lightning"—owing to low liquidity, wide spreads, and an uncommonly large 5,000-ounce contract size.



(Source: Bloomberg Finance, LP)

7. Historical Gold Spot-Future Spreads – March 24, 2020

Traditionally, spot prices (the price of a commodity today or delivered immediately) and futures prices (the price of a commodity delivered at a future date) trade at fairly close prices. For example, at present an ounce of gold is trading at $1,877 in spot markets, and the nearest-to-expire gold futures contract is trading at $1,882—a $5 "spread." But between late March and mid-April 2020, the spread between gold's spot and gold futures prices disengaged to an extent never before seen.

In late March, gold futures traded over $80 above the spot price. The incredible gap was reflective of the sudden rush to acquire gold as a hedge against economic uncertainty and, specific to the nature of the pandemic and travel/cargo restrictions, difficulty in procuring and transporting physical gold between major gold-trading hubs (New York, London, Switzerland, and Hong Kong) and other locations.

(Source: Bloomberg Finance, LP)

A factor contributing to the difficulties in the US Treasury markets was in effect here as well: Traders and brokers were working from home, without the multi-trunk phones ("turrets") and technology they are accustomed to. As reported:

> Ole Hansen, head of commodity trading at Saxo Bank, pointed out that a lockdown is occurring in two biggest gold hubs in the world – New York and London – so many traders are working from home. This has caused a breakdown in the marketplace, he said … "We don't have enough hands to handle all the demand," he said. "There is plenty of gold in the market, but it's not in the right places. Nobody can deliver the gold because we are forced to stay at home."

8. Negative US Treasury Bill Rates – March 25, 2020

Not only did the US Treasury yield curve see an inversion, but the aforementioned rush into short-term, nominally risk-free government bills caused their yields to turn negative. In

other words—and this is a bit oversimplified, as short-term instruments are issued in zero-coupon form (meaning interest is not paid on them, but rather the bills are issued at a discount and mature at their full face value)—investors were willing to "pay" the government $1.00, knowing they would receive only $0.99 or so back one to three months later, but a guaranteed $0.99 from the collector of taxes and owner of the printing presses.

> Yields on both the 1-month and 3-month Treasury bills dipped below zero Wednesday, a week and a half after the Federal Reserve cuts its benchmark rate to near zero and as investors have flocked to the safety of fixed income amid general market turmoil … both bills briefly flashed red and yields fell to minus-0.002% each. The readings Wednesday were well below those. The one-month traded at minus-0.053% while the three-month was at minus-0.033% around 2:35 p.m. ET.

This, too, is a sign of complete market capitulation rarely seen outside of the most severe market conditions, such as in the days leading up to and just after the bankruptcy of Lehman Brothers in 2008.

(Source: Bloomberg Finance, LP)

9. WTI May Futures Settle at Negative Prices – April 20, 2020

One of the oddest moments in financial markets occurred on April 20, 2020, when the price of the West Texas Intermediate May crude oil contract fell well below zero to settle at -$37.63 per barrel. The combination of a sudden, tremendous drop in demand for oil (owing to lockdowns, a historic drop in tourism, event cancellations, and the like) occurred as production disagreements between Russia and Saudi Arabia resulted in a number of OPEC member nations flooding the world with oil.

With an unprecedented supply of oil being unleashed in a global economy with precipitously falling demand for oil (visible in other petroleum-based products as well), storage facilities filled quickly. So much oil was being held that—and this is what negative futures prices imply—traders were paying counterparties to take their oil, a phenomenon now known as "peak storage."

(Source: Bloomberg Finance, LP)

I spoke at length about this particular phenomenon on Gary Baumgarten's show on April 29, 2020.

10. Bitcoin's Historic Moonshot – November 30, 2020 (ongoing)

From starting the year fluctuating between $7,000 and $10,000 to hitting a low of just over $4,900 in March of 2020—strongly indicating that at least some market participants dumped their holdings during the most chaotic period of the

panic—Bitcoin has since vaulted to all-time highs. As of this writing it stands at $29,488, a rise of over 250% this year. Whether that has to do with the halvening (which I wrote about in January), growing recognition of its resilience, or some other factor is difficult to say.

(Source: Bloomberg Finance, LP)

The Upshot

Uncertainty about the policy response to Covid-19 initiated the cascade of financial market extremes, but expansionary monetary policy was a profound accelerant as lockdowns took hold. The US government spent roughly $7 trillion in 2020, with the Fed having committed between $3 and $4 trillion to programs intended to keep markets functioning.

It also lowered the Fed Funds rate to zero, gave forward guidance indicating that it would keep rates low until inflation materially exceeded the 2% level, opened international swap lines, reopened some 2008 Financial Crisis programs, and embarked upon a Main Street Lending Program reminiscent of Great Depression-era policies. On the fiscal side, the US budget deficit was approximately $865 billion in June 2020 alone—an amount exceeding the entire debt incurred by the United States government between 1776 and 1980.

Beyond representing curiosities and the awesome distorting power of central bank largesse, each of the aforementioned extremes demonstrates that however well-designed a particular market is, and however carefully a regulatory oversight structure may be crafted, the sometimes-unpredictable nature of human action can and does lead to unintended consequences. And when, on those rare occasions, confusion and fear reach an apex, unforeseen events do not only occur, they cluster together.

Many options traders have the words *abyssus abyssum invocat* emblazoned on a notebook, a monitor, or some other nearby fixture—I certainly did—reminding that every so often "hell calls hell." One misstep or fluke event makes another more likely, at times resulting in a full-on cascade before calm prevails.

There is a tendency to view financial markets as either superfluous casinos of no real economic significance or, conversely, as invaluable social instruments for distilling disparate views. This year's clusters of remarkably unusual events feed the first view, but the second is far closer to the truth than the first.

A year like 2020 educates another generation of traders and corporate managers, contributes to more robust market and exchange designs, and draws in innovators and risk-takers seeking to capitalize on the next crisis opportunity. Whatever 2021 has in store, it is unlikely to replicate financial market conditions witnessed throughout 2020.

January 1, 2021

What's Up with the Great Reset?

STACEY RUDIN
Contributor

At any anti-lockdown protest, you will see signs that say "Stop the Great Reset." The *New York Times* calls this phrase "a baseless conspiracy theory." Here is the problem. None of this is secret. There are books you can read about it and detailed websites describing it. *Time Magazine* even did a cover story. It's the title of World Economic Forum head Klaus Schwab's book on the lockdowns and the future. It was published July 9, 2020, and now has nearly 900 reviews on Amazon.

Proponents of "The Great Reset" argue that the pandemic proves our former society "doesn't work," so we need a tech-focused, "sustainable" future to reduce emissions and thereby "save the planet." The Great Reset is a rebranded, tightened-up version of the UN's decades-old "Sustainable Development" agenda ("Agenda 21"). The same policies and ideas are contained in "The Green New Deal," which was defeated in 2019 in the US Congress.

It bears repeating: six months before "SARS-CoV-2" was discovered by China, the UN and the WEF signed a "Strategic Partnership" specifically to advance the "Sustainable Development" agenda, now known as "The Great Reset." You can read all about this partnership online.

Schwab has been openly "fighting" (to use his own word) against Milton Friedman-style economics for decades, ever since Friedman published his famous 1970 essay: "The Social Responsibility Of Business Is to Increase Its Profits." Schwab now predicts that the "COVID19 pandemic" — which he says will last at least until 2022 — will mark the final death-knell of "neo-liberalism," which he defines as "a corpus of ideas and policies . . . favoring competition over solidarity, creative destruction over government intervention and economic growth over social welfare."

Others would describe neoliberalism as "decentralized power and smaller government," and Schwab's preferred system as "China under Xi Jinping."

How long has Schwab known that a pandemic could be used to advance his ideals? A while, if his publications and planning exercises are any indication. His book, *COVID-19: The Great Reset* contains lengthy discourse on how pandemics are known agents for major societal shifts. He asks, "Why should COVID-19 be any different?"

Then there is the fact that Schwab's organization practiced a "high-level pandemic exercise" in October 2019, less than five months before "Covid-19″ came along. The WEF's co-sponsors for this event were The Johns Hopkins Center for Health Security and the Bill and Melinda Gates Foundation, both of which have actively promoted 2020's unprecedented pandemic response —as Imperial College London's Neil Ferguson recently explained, lockdowns were not recommended by any government until Xi Jinping "changed what was possible" by proclaiming "this worked for us in China."

This extraordinarily fortuitously-timed pandemic planning exercise makes Schwab look like something of an oracle. Indeed, he openly brags about his foresight:

> "For years, international organizations like the World Health Organization (WHO), institutions like the World Economic Forum and the Coalition for Epidemic Preparedness

> Innovations (CEPI — launched at the Annual Meeting 2017 in Davos), and individuals like Bill Gates have been warning us about the next pandemic risk, even specifying that it: 1) would emerge in a highly populated place where economic development forces people and wildlife together; 2) would spread quickly and silently by exploiting networks of human travel and trade; and 3) would reach multiple countries by thwarting containment."

In 2017, Anthony Fauci made a similar prediction, declaring that "there is no doubt" that Donald J. Trump "will be confronted with a pandemic" before the end of his term. Like Schwab, Fauci actively promotes lockdowns. Like Schwab, he declares that we can never again return to normal — if we do, we should expect diseases to constantly jump from animals to humans (because pandemics never happened until 2020, when the world grew "too industrialized"). To save ourselves, we must redesign society "in harmony with nature."

Both Fauci and Schwab's prose are littered with terms like "sustainability," "inclusiveness," "green," "nature," and "harmony." Terms that are hard to disagree with, although the behaviors supposedly promoting them are a harder sell. Schwab reveals in his "Great Reset" book that our new germ-avoidant behaviors are seen as optimal to "the environment:"

> During lockdowns, many consumers previously reluctant to rely too heavily on digital applications and services were forced to change their habits almost overnight . . . many of the tech behaviors that we were forced to adopt during confinement will through familiarity become more natural. If health [read: fear of germs] considerations become paramount, we may decide, for example, that a cycling class in front of a screen at home . . . is safer (and cheaper!).
>
> The same reasoning applies to many different domains like flying to a meeting (Zoom is safer, cheaper, greener and much more convenient), driving to a distant family gathering for the weekend (the WhatsApp family group is not as fun but, again, safer, cheaper and greener) or even attending an academic course (not as fulfilling, but cheaper and more convenient).

Spelling this out for those too stunned to take it in: this is an open admission that it benefits Schwab and Fauci's political agenda to continue lockdowns as long as possible. The same people who sell interminable lockdowns — by ignoring great science on pre-existing immunity, lack of asymptomatic spread, and flawed PCR tests — believe the lockdowns are the perfect agent to usher in the changes they desire. Will they succeed? Is their behavior remotely justified? Does the pandemic really prove our society is fatally flawed? Why can't they use the political system to gain majority votes if their agenda is so good?

Covid-19 is the first major pandemic in six decades. Worse pandemics occurred in 1918, 1957, and 1968, when the population was exponentially smaller (1.8 billion; 2.8 billion; and 3.6 billion, respectively) and carbon emissions were not even on anyone's radar. Because pandemics have always occurred, there is no logical basis — not even a flimsy one — to infer that "population growth," "climate change" or "industrialization" caused this one.

People may or may not agree with Schwab that Zoom meetings are preferable to in-person work, that sitting in the same house every day of the week is preferable to commuting to an office, that local entertainment is better than international travel, that exercise classes are just as good over the computer

screen as they are in a studio. But there is one thing most people agree with: being told that "germs" threaten your existence when they really do not is abusive.

Scaring people into their homes, making them fear their own family and friends, preying on their vulnerabilities, shattering their social existences—especially when you knowingly do this in hopes of making it permanent — is just about as bad as human behavior gets.

Just as bad, Schwab et al. know the lockdowns are "taking out" certain industries while sparing others: in a nutshell, the powerful survive. Anyone who has both this knowledge and the ability to influence lockdown duration has an unthinkable level of power and an unlimited ability to amass more of it by manipulating pretty much the entire global financial system. All of this is eminently predictable by the people encouraging, supporting, and imposing the restrictive orders.

> "The [restaurant] sector of activity has been hit by the pandemic [lockdown] to such a dramatic extent that it . . . may never come back. In France and the U.K., several industry voices estimate that up to 75% of independent restaurants might not survive the lockdowns and subsequent social distancing measures. The large chains and fast-food giants will. This in turn suggests that big business will get bigger while the smallest shrink or disappear. A large restaurant chain, for example, has a better chance of staying operational as it benefits from more resources and, ultimately, less competition in the wake of bankruptcies among smaller outfits."

Knowingly taking out small businesses — one of the last bastions of free speech and independence, distinguishable from the tightly-controlled corporate world — is evil. It is hard to believe anyone would do it, if they could avoid it. However, it is equally hard to ignore the fact that Florida, Georgia, South Dakota, Texas and Sweden (among many others) have fully open economies and average mortality to show for it.

Both public health ethics and the Siracusa Principles dictate that the "least restrictive means" must be used when "public health" is given as a justification for restricting basic human rights, such as the right to earn a living. Yet Schwab and Fauci both ignore Sweden and Florida, and claim that Covid-19 lockdown restrictions must continue until 2022 (or longer). How on earth do they justify it?

They seem to be telling themselves — and may even truly believe — that they are "saving the planet," so the ends justify the means. In his book, Schwab poses the rhetorical question, "Is it okay to lie to the public for some greater good?" "Well," I would respond, "who should we trust to decide what is the greater good?" There will never be unified agreement on which system achieves this end. Some will vote Milton Friedman, some Klaus Schwab. Most everyone, however, would agree that tricks like exploiting pandemics should not be used, even by "one's own" side.

Reasonable people may well believe in the merit of Schwab's "stakeholder economy." But they undoubtedly expect to be persuaded of its merit, not to have the system foisted on them by ruse. The democratic process exists so ideas can be openly hashed out, debated, and settled by the public, each person allotted one vote. Schwab quite openly admits that he would like to dispense with this process — it is not producing the result he desires. Far from it: recent populist movements in the US ("Make America Great Again") and UK ("Brexit") have specifically rejected his collectivist ideals:

> "Without greater collaboration, we will be unable to address the global challenges that we collectively face. Put in the simplest possible terms: if, as human beings, we do not collaborate to confront our existential challenges (the environment and the global governance free fall, among others), we are doomed."

In his "Great Reset" marketing book, Schwab threatens that this rising tide of nationalism will prove "incompatible" with the United States dollar's "status as global reserve currency." He suggests that an alternative currency will be needed, that a global digital currency is eventually going to arrive, and that China is "years ahead of the rest of the world" in developing one.

Although he doesn't say so directly, Schwab et al. undoubtedly dislike what Trump has been doing to defend the dollar. Schwab quotes Barry Eichengreen and European Central Bank representatives as follows: "The security premium enjoyed by the U.S. dollar could diminish" because "the U.S. is disengaging from global geopolitics in favor of more stand-alone, inward-looking policies."

Predictably, Schwab makes the argument that these same nationalist policies proved disastrous during "the pandemic." Echoing the WHO's praise of China's collectivist action in Wuhan — which Xi Jinping proudly declares "eradicated the virus" from the entire nation of China — Schwab writes that countries fared better during the pandemic when they share "a real sense of solidarity, favoring the common good over individual aspirations and needs."

"Favorable societal characteristics [include] core values of inclusivity, solidarity and trust [which] are strong determining elements and important contributors to success in containing an epidemic."

Support for these concepts is not a new feeling for Schwab. This did not spring organically out of the pandemic for him, like an epiphany. Rather, this is his long-held vision of utopia and his life's work. He's been talking about it for decades:

> Earlier this year, Schwab told the *Financial Times* that his aim has been to beat back Friedman. "What was for me always disturbing was that Milton Friedman gave a moral reasoning to shareholder capitalism — [he argued] the role of business was to make business earn as much as possible and then the money would flow back from the company to the government in the form of taxes. I had to fight against the wave."

In short, Schwab et al. are on a mission. The mission is to change society. They admire China's and New Zealand's governance. They practiced for a pandemic. Science has been thrown to the wind for months, censorship is rampant, Sweden and Florida are ignored, the rule of law is suspended, and certain governors seem determined never to release us from their declared "state of emergency."

These circumstances are favorable to Schwab and his powerful allies, including technology companies, billionaires, the media, China, the UN, and others. They are detrimental to billions of less powerful, less organized people and small businesses. There is a lot we don't know, because we aren't being told.

Schwab and his ideologically-aligned allies think they are saving the world. It is not conspiracy theory to read their own books and listen to their own words, which target fundamental liberties and rights that the West has long taken for granted. At some point, it's not unreasonable to observe that this is no longer about public health. It's about a new political vision, one hatched by a private few in order to rule over the many. It is unlikely to be shared by most people, thus setting up what is likely to be an epic battle in 2021.

January 6, 2021

Thwarting the Next Attack on the Capitol

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Thirty shots rang out in the U.S. Capitol around 2:30 pm. Bullets struck five House Reps, all of whom survived, thanks in part to the valiant response of House Pages.

If that sounds different from news accounts of the events of 6 January 2021, it is because the event briefly described above occurred on 1 March 1954, when four Puerto Rican nationalists fired the shots from the visitors' gallery while unfurling the Puerto Rican flag. The assailants were all eventually apprehended, tried, and convicted and were serving long prison sentences commuted by President Jimmy Carter in 1978 and 1979.

The three men and one woman who gave half their lives were heroes to Puerto Rican nationalists and anti-imperialists but vile, failed assassins to those who wanted to maintain U.S. hegemony over the island it had taken from the Spanish Empire in 1898. Importantly, most of those who had given little thought to Puerto Rico's status and likely could not find the island on a map also deprecated the attack because of the level of violence unleashed.

Of course the people who some Americans still proudly call Patriots were nothing more than nationalist rebels to the Tories. Had the Patriots lost the Revolutionary War, they would have at best suffered the same fate as the Confederate Johnny Reb. George Washington would be remembered today as a scoundrel and an enslaver and his sidekick Alexander Hamilton would have never spawned a hit musical. (Recent rumors of Hamilton's slaveholding, incidentally, remain empirically baseless.)

Today, obviously, matters are no different. If you think you will gain from the actions that some group takes, you will tend to rationalize its tactics and call its members good names. If you think the group's actions will hurt you, then you will tend to oppose it and its tactics and call its members bad names.

"Praise and blame" historians call it. One partisan's hero is another partisan's zero.

That is why it is so important for true supporters of "law and order" like myself to identify and reduce the causes of political violence before it becomes too late. In mid-March, I predicted rebellions if lockdowns continued for too long and many mass demonstrations, some quite violent, occurred throughout 2020 in many nations including, of course, our own. I also warned in December that trouble would ensue if the Supreme Court refused to hear the Texas election lawsuit … and here we are. If only the Capitol police had heeded my warnings they could have taken more effective precautions.

It isn't terribly difficult, actually, to see trouble brewing. All it takes is a little theory and some empathy. Theory, like one laid out by Eric Hoffer, suggests that frustration breeds violent protest. Frustration isn't measurable precisely but if you listen to what people — real people not TV pundits — say, and think about how you would feel in a similar situation, you can start to get a sense for genuine frustration.

Many Patriots, for example, felt that British policymakers were unresponsive to their concerns about how Imperial tax and monetary policies had led to the impoverishment and hence imprisonment of many colonists following the French and Indian War. They beseeched London elites not to tack the Stamp Act onto their many woes but were met with disdain. They won that one, with some violence and many threats, but the British soon piled on

additional regulations. The colonists responded with remonstrances, trade embargoes, and so forth, but after the Boston "Massacre" (Patriot propaganda of course) and the mob insurrection against tea in Boston Harbor (British propaganda), violence soon escalated into full blown war.

Puerto Rican nationalists were also frustrated. The island had gained some de jure independence from Spain in 1897, the year before the Yankee empire invaded and claimed jurisdiction over it. It took over half a century for the United States to grant limited autonomy to Puerto Rico, a reform that did not go far enough for nationalists, who in late October 1950 openly rebelled in several important towns and cities, including San Juan. Puerto Rican police and troops, bolstered by US military forces, quelled the uprisings, which resulted in scores of casualties. On 1 November, two Puerto Rican nationalists attacked President Truman in the Blair House, his temporary residence while the White House was being renovated. One LEO was killed in the attack, as was one of the attackers, while the other was captured, convicted, and imprisoned.

Unscathed in the attack, Truman supported a plebiscite on Puerto Rico's status but, crucially, independence was literally not on the ballot. Nationalists boycotted the election, which overwhelmingly endorsed commonwealth status for the island. From their perspective, the election had been stolen even before it was held.

None of that background excuses the 1954 attack but it does *explain* why some nationalists were frustrated enough to resort to violence. The same could be said of the small minority of peaceful protestors who attempted to overrun the White House in early June 2020. As I then wrote, those calling for redistribution of resources away from the police were rightly frustrated by continued state violence against poorer Americans, especially those of color, and offered a path toward reducing governmental power without encouraging criminal chaos.

As for the events of 6 January, every politico lays blame on somebody else and moralizes instead of admitting their own role in causing, or at least not allaying, the frustrations that undergirded the attack. (All federal politicians should resign and donate their entire net worths to the Treasury because all are abject failures … but I won't hold my breath on that.)

I have bad news — much like my news that 2021 would not necessarily be better than 2020 — things *could* get much, much worse. If you thought recent events were scary, imagine a million or more armed Americans storming the federal zone in DC and burning it to the ground regardless of upgraded security measures. (Vide the apparently insufficient 2017 upgrade.) That is not yet a prediction, and is certainly not a wish, but the probability of such an event is palpably higher than it was just a year ago.

To reduce the probability of such a horror, America needs real statesmen (leaders of any gender who seek to implement rational policies instead of engaging in constant partisan pandering) to emerge from this mess. Real leaders should:

1. Not use the attack on the Capitol as an excuse to further erode civil liberties. In fact, they should encourage frustrated individuals to engage in peaceful protest, like burning effigies, that is more cathartic than mere virtue signaling via haberdashery or social media posts.
2. Stop lying about Covid-19. Read the Covid-related posts on this website for the last year for details.
3. Lay bare the fact that most policy proposals redistribute resources from one group to another and encourage open debate about the tradeoffs involved.
4. Focus policy on reducing frustration, even if

that means cutting the power of corporate or party monopolies and duopolies, unions, and the government itself.

5. Chastise every media outlet that engages in partisan hyperbole and encourage the reestablishment of trusted, nonpartisan news sources.
6. Chastise politicians who call for metaphorical “wars” on everything and anything (including viruses!) and constantly use martial words like “fight” when they really mean “work on behalf of.”
7. Pass reforms that reestablish trust in elections. (I have long advocated a Constitutional amendment to tie representation in the House [and hence Electoral College weight too] to the number of people who cast ballots rather than on the number of residents, which frankly is already a tricky concept that will get trickier as online work becomes more common. This would give states incentives to encourage voting but also implicate the Census Bureau as a federal check. But other possible reforms abound.)
8. Insist that any other reforms, say of SCOTUS, be completely nonpartisan by, for example, having any additional justices chosen by the next administration or, better yet, a random draw from a qualified group.

Do any such real leaders exist in 2021 America? I doubt it, but sometimes existential threats birth greatness.

January 10, 2021

All Hail the Reopening!

JEFFREY A. TUCKER
Editorial Director

What a glorious thing the reopening is! After nearly a year of darkening times, the light has begun to dawn, at least in the US.

Given how incredibly political this pandemic has been from the beginning, many people smell a rat. Is it really the case that the reopening of the American economy, particularly in blue states, is so perfectly timed? Do the science and politics really line up so well?

These are questions for another day. And for the record, my own opinion is that the loosening of restrictions is timed well with the relaxing of public disease fear, from whatever source, political or through exhaustion or through a shift in the media narrative. In any case, it doesn't matter for now. What matters right now is that the astonishing destructiveness of lockdowns might be coming to an end.

For those of us inveighing against lockdowns for a full year, it's truly been a remarkable week. Restrictions are being loosened or are going away. We are finally getting some truth about the carnage. And we are even starting to see some elected officials being honest with us.

Let's start in the most locked down state on the mainland: Massachusetts. Governor Charles Baker, whose pandemic management has wrecked so many businesses in his state, has decided it's time to open up restaurants and businesses.

A hospital epidemiologist at Tufts Medical Center admits that the lockdowns didn't achieve their goal. Shira Dorn said: "Businesses and restaurants have not been shown to be a significant source of spread of infection, and it's not clear that the additional measures that were instituted in November and December actually helped."

So sorry we ruined your holidays and lives.

The egregious limits on gatherings will persist for a few more weeks, but the tone of the argument here has shifted. It is the most significant change in state policy in a very long time. Perhaps people can begin soon to get their human rights back?

The same is happening in other states.

Washington, D.C. will resume indoor dining.

Maryland's governor has decided that the state needs to reopen schools now and no later than March 1.

Gov. Gretchen Whitmer of Michigan says Michigan restaurants can reopen for indoor dining on February 1. Her health adviser decided to resign. Let us hope it is the beginning of many.

Chicago's mayor is now demanding an immediate opening of restaurants and bars. Chicago is also threatening teachers unions that they must return to work.

New York Governor Cuomo has dramatically reversed his rhetorical course and demanded a reopening of the city. More announcements are expected in the coming days.

Governor Gavin Newsom, incredibly, has lifted all stay-at-home orders across the state and is permitting dining to open up. Many restaurants have defied orders for months now, and good for them. This new announcement shows that their defiance had an influence.

Montana's new governor has lifted some Covid restrictions.

National Public Radio has decided to announce that the virus has peaked.

The WHO is insisting that the PCR cycle threshold must change. If nations adjust, it should

make a big difference in the case trend.

And perhaps in the most honest statement uttered by any elected official in twelve months, Joseph Biden said the following: "There's nothing we can do to change the trajectory of the pandemic in the next several months." He didn't need to qualify that statement. He could have stopped after pandemic.

CNN has removed the death tracker from its main page, while the *New York Times* has reported a 33% decline in new cases in the past two weeks. Plus, the *Times*, which arguably made the most profound contribution to the public panic over the virus, is finally reporting on the terrible carnage.

In an incredibly heartbreaking article, the *Times* chronicles the unspeakable deaths of despair from young children denied schooling over the past year. It's an absolutely shocking article, one that should echo unto the ages, given what happened this last year. It's worth a read.

As for the astonishingly anti-scientific blather dished out by the media over the last year, even that is starting to change. The *Washington Post* has published a helpful introduction to immunological basics, as written by JHU Professor Marty Makary:

> Having the infection activates both antibodies as well as memory B- and T-cells, which teach your immune system to recognize the same virus in the future to swiftly eradicate it.
>
> Natural immunity after covid-19 infection appears to last for at least the one year in which the virus has been circulating at large. Extrapolating from research on the SARS and MERS coronaviruses, it could be much longer. In one study of 176 people infected with SARS, immunity lasted for an average of two years. Another long-term analysis of health-care workers previously infected with SARS found antibodies up to 12 years later. Protective antibodies for the MERS coronavirus have similarly been documented to last for at least three years. And while the 1918 pandemic was caused by an influenza virus, the immune systems of those infected were able to make antibodies to the virus nearly nine decades later, a 2008 Nature study found.
>
> Even mild infections appear to elicit a persistent and functional immune response. One recent European study found that people who had mild or asymptomatic covid-19 mounted a "robust T-cell immunity" afterward. A separate French study affirmed this, noting that some people who lived with a confirmed covid-infected person developed T-cell immunity even when they did not test positive for covid.

The article goes even further to openly admit what many of us have noticed since March: "Many medical experts have been dismissive of natural immunity due to prior infection, but there is overwhelming data showing that covid-19 reinfections are rare, and when they do occur, the infection is often mild."

These basic facts fundamentally change the rationale for locking down. We've evolved with viruses without locking down. Starting in the late 19th century, once we got smarter about viruses, we realized that protection of the vulnerable and exposure among the non-vulnerable, in the framework of a functioning society, was the best approach to dealing with pandemics. We pursued that policy for a full century until last year. The unprecedented experiment with lockdowns will end up causing more death than if we had maintained a functioning society while treating disease as a medical and not a political problem.

We are also getting some truth telling on track-and-trace, courtesy of Holman Jenkins in the *Wall Street Journal*:

Top of the list is magic solution X, a national test and trace program. I won't mince words. A 9-year-old could see the math didn't work. Covid spreads more easily than the flu. An overwhelming share of cases are asymptomatic or indistinguishable from ailments that millions of Americans suffer every day. In a country as big, mobile and open as the U.S., there was zero chance of catching and isolating enough spreaders to matter.

Many experts said so at the time, but quietly. Anthony Fauci eventually said so, but quietly. All implicitly knew not to get between the media and its imperative that every big misfortune be played as a failure of inadequate government.

Even when the testing data shouted the truth, the press couldn't hear it. Our testing misses 70% to 90% of Covid cases and yet 91% of the people being tested for Covid tested negative and were suffering from something else. We were never going to make a dent in the epidemic this way. It was a distraction.

Finally, we have actual experiments in openness right here in the US. Florida, Georgia, South Carolina, and South Dakota have all been open since the spring of last year, with life continuing on more or less as normal. The results have been no worse and most often better than what we see in lockdown states. It's almost as if the virus doesn't care about your political solutions.

One final data point. I watched the AFC Championship football game last night. Gone were the dreary ads of 2020 that all began "In these challenging times." Instead we were treated to pictures of happy parties, friends socializing, people living life normally and happily. Even the masks are going away. True the stadium was only half full due to preposterous regulations but it felt much more normal.

Are our governments getting wise? Doubtful but many are feeling pressure to start recognizing the rights of human beings again. The new variant (viruses naturally mutate and the NYT is trying to bring calm) might frighten them again. Biden has already imposed new international travel restrictions. We aren't out of the woods yet.

Will they admit error and apologize? That will take longer if it happens at all. At this point, right now, other things matter more. The priority must be to emancipate us from bad science and destructive policy so we can put our lives back together again.

January 25, 2021

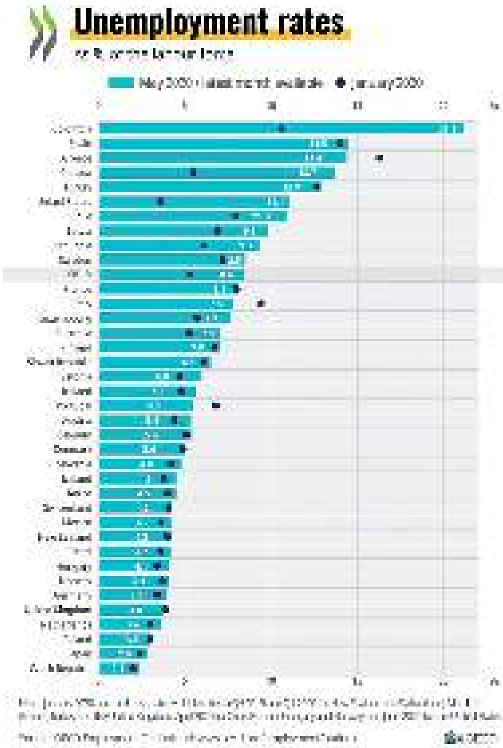
Global Productivity Growth Post-Covid – Down But By No Means Out

COLIN LLOYD
Contributor

"You can see the computer age everywhere but in the productivity statistics."

Robert Solow (1987) Emeritus Institute Professor of Economics at Massachusetts Institute of Technology (MIT)

According to the IMF – World Economic Outlook – October 2020, global GDP is expected to contract by 4.4% in 2020 and rebound by 5.2% in 2021. Along with the pandemic-related economic contraction of last year, global unemployment rates have soared as hundreds of millions of workers have lost their livelihoods: –



The International Labor Organisation (ILO) Monitor: COVID-19 and the world of work. Sixth edition, published at the end of September, estimated that, compared to Q4 2019, during Q1, 5.4% of global working hours were lost – equivalent to 155mln full-time jobs. By Q2 this number had risen to 17.3% or 495mln jobs. Their Q3 estimate was a more modest 12.3% – still 345mln out of work. The impact this combined supply and demand shock has had on productivity, however, is more difficult to divine.

Total factor productivity (TFP) is a measure of productivity calculated by dividing economy-wide total production by the weighted average of inputs, such as labour and capital. It attempts to calibrate growth in real output (total product) in excess of the growth in inputs (factors of production).

There are two broadly accepted measures of productivity: –

- Labour productivity = total output/ units of labour
- TFP = total output/weighted average of the inputs

TFP essentially represents that increase in total production which is in excess of the increase in inputs. It is derived from difficult to calibrate factors such as the rate of adoption of new technology, improvements in education, breakthroughs in research and development and the uptake of enhanced business/production methods.

Writing in April 2020 for VoxEu – The COVID crisis and productivity growth Filippo di Mauro, and Chad Syverson suggested a number of reasons

productivity growth would be impaired as a result of the current pandemic, including higher transactions costs, lower mobility and a reduced reallocation of resources across firms, sectors, and countries. The authors did allude to some improvement in productivity stemming from the adoption of new technologies.

By June the World Bank had released the first major assessment of the impact of the pandemic – Global Productivity: Trends, Drivers, and Policies. Running to more than 400 pages, the analysis was comprehensive. The authors put the impact on productivity of the current crisis into historical context, finding that severe disasters typically harm productivity. They noted that countries struck by pandemic outbreaks during the 21st century (excluding Covid) experienced a labour productivity decline of 9% after three years, but expected that the pandemic could also unleash a longer-term technological boost to productivity.

The World Bank reflected on the broad-based decline in productivity growth from a peak of 2.8% in 2007, to a post-financial crisis trough of 1.4% in 2016. In Emerging Market and Developing Economies (EMDEs) the decline was even more pronounced – 6.6% in 2007 to 3.1% in 2015.

The drivers of weakening productivity growth included a deceleration in the working-age population, a stabilisation of educational attainment and, due to the shortening of global value chains, a decline in the pace of expansion of more diverse and complex forms of production. Interestingly, the researchers also identified a new productivity driver: the increasing importance of economic complexity, urbanization and innovation, noting that technology-driven gains tended to displace workers in the short run.

The authors contend that in the current structurally straightened environment the pandemic and associated recession have acted as an accelerant to these declining productivity trends, whilst, looking ahead, they are concerned that, despite (or perhaps because of) historically low interest rates, global debt levels will act as a continued drag on productivity. They anticipate a kind of chain reaction as weaker investment undermines the long-term viability and resilience of operations, leading companies to retreat from global value chains; this in turn will reduce the pace of international technology transmission, further discouraging investment.

The authors also discuss the negative impact Covid has conferred on global education and point to the slowing momentum in the reallocation of labour from low-productivity to higher-productivity sectors. This is a process which has historically accounted for around 40% of EMDE productivity growth.

Amidst the penumbral gloom, the World Bank does see some cause of optimism, however. They allude to productivity-enhancing opportunities from technology, especially for those countries that employ complementary policies in order to seize them. They mention the adoption of greater automation of production, particularly in manufacturing, as well as the benefits to be derived from digital technologies. The authors foresee *creative destruction* as the least efficient firms are eliminated, together with the creation of more diverse and robust supply chains.

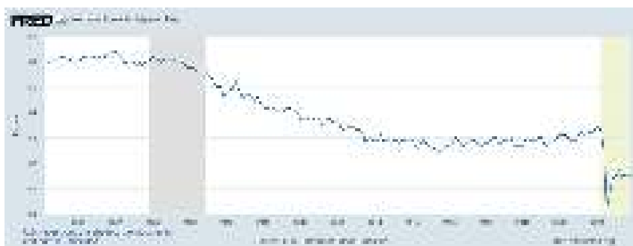
Sadly, with global interest rates near historic lows, the prevalence of *zombie* corporations bodes ill for any substantive cleansing of the slate, but trends such as supply-chain diversification and near-shoring/reshoring seem set to continue. For more about *zombie* firms – defined as those firms that are unable to cover debt servicing costs from current profits over an extended period – this 2018 paper from the BIS – The rise of zombie firms: causes and consequences makes sober reading

– they estimate that prevalence of *zombies* among the corporations of the G10 rose from 5% in 2000 to 12% in 2017.

In terms of the policy response, the World Bank recommends the following to increase technological productivity:-

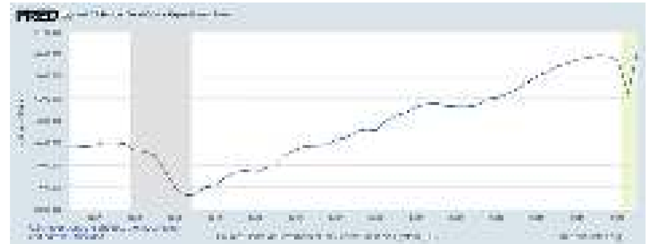
- policies to encourage and support the training and retraining of workers in new technologies
- policies to mitigate the negative effects on transitioning workers
- demand management to maintain full employment

By the time we reached the summer, initial lockdown restrictions had been lifted in several developed countries. It was becoming patently apparent that society and the businesses which support it would never return to pre-2020 *normality*; the entire world was in a state of flux. The carnage in the global labour market was becoming more clearly defined. It was estimated that as much as one-third of job losses and one-fifth of lost income might be permanent. The damage, however, would be concentrated in certain industries and sectors – travel and entertainment being hardest hit. Minorities and low-skilled workers, as usual, would suffer most. A sustained lack of employment opportunity would lead to another structural decline in the labour participation rate, similar to that which occurred after the great financial crisis in 2008. The chart below shows the US experience to date: –



Source: Federal Reserve

In this precarious environment capital expenditure was expected to plummet, but, as the chart below reveals, the fiscal and monetary response of the US government and the Federal Reserve (together with other central banks around the world) ensured a rapid recovery in confidence: –



Source: Federal Reserve

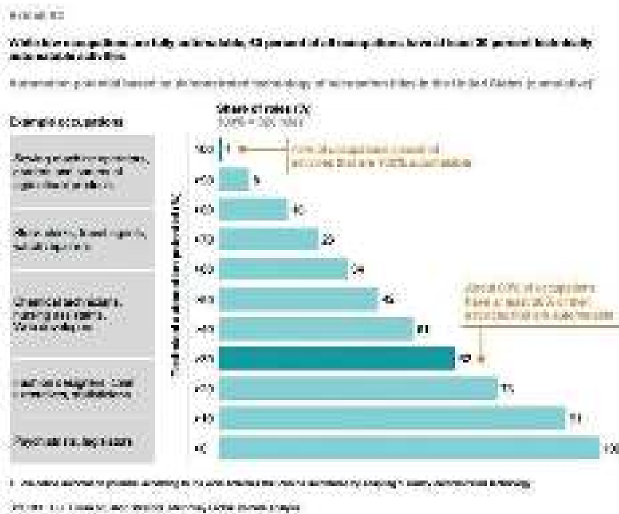
As the World Bank described in their report the crisis accelerated many trends including a reversal of globalization.

One such trend has been the move to remote work. For some of these sectors and industries, productivity has actually increased and for many remote workers total hours worked has risen too, but obstacles have also become evident as key business activities, such as project completions fall behind schedule due to a lack of physical collaboration and the challenge of hiring and training new talent has become apparent.

The OECD picked up on the potential benefits of remote working in their September publication – Productivity gains from teleworking in the post COVID-19 era: How can public policies make it happen? They concluded that telework is here to stay; that its adoption can become more widespread; that it has the potential to improve productivity. However, there is ambiguity as to its societal benefit. Home-working carries risks, especially for long-term innovation and worker satisfaction. To minimise these risks the OECD entreat policy makers to ensure teleworking remains a choice rather than an obligation, going on to advocate the

promotion of managerial best practices, together with self-management and ICT skills training. They encourage governments to invest in reliable, high-speed broadband and a widening of corporate support of home office infrastructure.

The rapidly changing nature of work is a perennial theme – this trend is hardly new. Automation and technology will affect a much wider cross-section of workers in the coming decade than it has in the past. The chart below shows those occupations most at risk: –



Source: BLS, McKinsey Research Institute

By November the world had seen the approval of the first vaccines, prompting equity markets to rise precipitously, despite a second wave of infections. The identification of a new Covid mutation with a much higher infection rate, however, has since tempered some of the euphoria of equity bulls.

In the more sober environment of December, the Bank of England published – The impact of Covid-19 on productivity in which they analysed data from the Decision Maker Panel, a monthly panel survey of around 3,000 UK firms. This forward-looking research suggests that TFP in the UK private sector will be reduced by up to 5% in Q4, 2020 and by around 1% in 2022 and beyond.

In the medium-term, the authors' anticipate a large reduction in research and development expenditure, together with a decline in its efficacy, due to lockdown restriction on movement. They also note that as much as one-third of the time of senior management has been devoted to dealing with the pandemic. As with the impact of the pandemic on education, it may be several years before the longer-term negative impact of the pandemic is fully evident in the diminution of productivity.

Looking beyond the next two to five years, we may, however, be on the brink of a productivity explosion. The Economist – Reasons to be cheerful – picked up on this theme. They postulate three hypotheses to explain the recent dearth of TFP growth: –

- recent innovations are simply not as transformative
- chronically weak demand
- it takes time to work out how to use new technologies effectively

In their January 2020 paper for NBER – The Productivity J-Curve: How Intangibles Complement General Purpose Technologies – Erik Brynjolfsson, Daniel Rock and Chad Syverson argue: –

General purpose technologies (GPTs) such as AI enable and require significant complementary investments, including co-invention of new processes, products, business models and human capital. These complementary investments are often intangible and poorly measured in the national accounts, even when they create valuable assets for the firm. We develop a model that shows how this leads to an underestimation of productivity growth in the early years of a new GPT, and how later, when the benefits of intangible investments are

harvested, productivity growth will be overestimated. Our model generates a Productivity J-Curve that can explain the productivity slowdowns often accompanying the advent of GPTs, as well as the increase in productivity later. We use our model to analyze empirically the historical roles of intangibles tied to R&D, software, and computer hardware. We find substantial and ongoing Productivity J-Curve effects for software in particular and computer hardware to a lesser extent. Our adjusted measure TFP is 11.3% higher than official measures at the end of 2004, and 15.9% higher than official measures at the end of 2017.

The opening quotation from Robert Solow was made back in 1987, and the deferred productivity growth to which he alluded finally started to show up in 1996. The answer is 17 years, what is the question: understanding time lags in translational research – published in 2011 by Zoë Slote Morris, Steven Wooding and Jonathan Grant by Journal of the Royal Society of Medicine, suggests the lag between innovation and adoption may take even longer.

The current pandemic has yet to run its course, and the social and economic impact will take much longer to work its way through. Productivity growth, in the medium term, is liable to disappoint, but deferred *creative disruption* – a deferral which artificially low interest rates have allowed to persist since 2008, if not earlier – could set the stage for an era of dramatic productivity growth in the decades ahead. In fact many of the technologies adopted during the pandemic, such as video conferencing, are far from new; hopefully their adoption will rapidly appear in the productivity data.

January 30, 2021

What They Said about Lockdowns before 2020

AMELIA JANASKIE (Research Associate) & MICHA GARTZ (Research Associate)

In 2020, beliefs about how to handle a new virus shifted massively. Prior to the Covid-19 pandemic, mainstream epidemiology and public health entities doubted – or even rejected – the efficacy of lockdowns and mass quarantines because they were considered ineffective. This all changed in March 2020, when sentiment flipped in support of lockdown measures. Still, there is a vast body of evidence explaining their original stance and why these mandates do not work.

1. Fauci said that shutting down the country does not work. (January 24, 2020)

Early into 2020, Fauci spoke to reporters saying, "That's something that I don't think we could possibly do in the United States, I can't imagine shutting down New York or Los Angeles, but the judgement on the part of the Chinese health authorities is that given the fact that it's spreading throughout the provinces… it's their judgement that this is something that in fact is going to help in containing it. Whether or not it does or does not is really open to question because historically when you shut things down it doesn't have a major effect."

2. World Health Organization Report discusses NPIs and why quarantine is ineffective. (2019)

In a table, WHO lists their recommendations of NPIs depending on severity level. Quarantine of exposed individuals is categorized as "not recommended in any circumstances." The report explains that "home quarantine of exposed individuals to reduce transmission is not recommended because there is no obvious rationale for this measure, and there would be considerable difficulties in implementing it."

3. WHO acknowledges social-distancing did not stop or dramatically reduce transmission during the 1918 influenza pandemic. (2006)

The WHO authors ultimately conclude that NPIs, including quarantining, require better and more focused methods to make them more effective and less "burdensome." "Ill persons," the authors assert, "should remain home when they first become symptomatic, but forced isolation and quarantine are ineffective and impractical." Summarizing reports from the 1918 influenza pandemic the WHO cites Lomé (British-occupied Togo) and Edmonton (Canada) as places where "isolation and quarantine were instituted; public meetings were banned; schools, churches, colleges, theaters, and other public gathering places were closed." Yet, despite additional measures (Lomé halted traffic, and Edmonton restricted business hours) in both cases "social-distancing measures did not stop or appear to dramatically reduce transmission." A United States, comprehensive report on the 1918 pandemic also concluded that closures "[were] not demonstrably effective in urban areas but might be effective in smaller towns and rural districts, where group contacts are less numerous."

4. A study in the *Bulletin of Mathematical Biology* regarding the 1918 influenza pandemic in Canada also concluded quarantines do not work. (2003)

The study simulated different levels of travel and found that travel limits could be effective

but "that a policy of introducing quarantine at the earliest possible time may not always lead to the greatest reduction in cases of a disease." The authors conclude that, "quarantine measures limiting intercommunity travel are probably never 100% effective, and simulation results suggest that such a situation may actually make things worse, especially in the absence of strong efforts to keep infectious individuals isolated from the rest of the population."

5. Popular author and Tulane adjunct professor John M. Barry, a strong opponent of the Great Barrington Declaration, argued that quarantines do not work in the case of the Spanish Flu. (2009)

Over a decade ago, Barry found that historically quarantines have been unsuccessful: "This author supports most proposed NPIs except for quarantine, which historical evidence strongly suggests is ineffective, and possibly school closing, pending analysis of recent events." And instead promotes commonly touted measures, such as remaining home when unwell (and isolating from family members while doing so), frequently washing hands, and wearing a mask if you are sick. On the latter point he warns against healthy people wearing masks, noting: "Evidence from the SARS outbreak suggests that most health care workers infected themselves while removing protective equipment."

6. Seton Hall's Center for Global Health Studies Director says travel restrictions did not delay the transmission of SARS. (2009)

Yanzhong Huang acknowledges that "travel restrictions and quarantine measures have limited benefit in stopping the spread of disease […] affecting travel and trade, dissuading the very kind of transparency and openness essential for a global response to disease outbreaks." These measures ultimately undermine a country's surveillance capacity because "people who show symptoms might choose to shun public health authorities for fear of quarantine or stigmatization [and squander] limited health resources […] Laurie Garrett of the Council on Foreign Relations [noted] by July signs of fatigue and resource depletion had already set in most of the world.

7. A study from Wake Forest University encounters 'self-protection fatigue' in simulated epidemic. (2013)

Study uses a multiplayer online game to simulate the spread of an infectious disease through a population composed of the players. The authors find that "people's willingness to engage in safe behavior waxes or wanes over time, depending on the severity of an epidemic […] as time goes by; when prevalence is low, a 'self-protection fatigue' effect sets in whereby individuals are less willing to engage in safe behavior over time." They say this is "reminiscent of condom fatigue—the declining use of condom as a preventive measure—in the context of HIV/AIDS prevention."

8. In *Biosecurity and Bioterrorism journal*, Johns Hopkins epidemiologists reject quarantines outright. (2006)

In an article titled, "Disease Mitigation Measures in the Control of Pandemic Influenza," JHU epidemiologists note problems with lockdowns: "As experience shows, there is no basis for recommending quarantine either of groups or individuals. The problems in implementing such measures are formidable, and secondary effects of absenteeism and community disruption as well as possible adverse consequences, such as loss of public trust in government and stigmatization of quarantined people and groups, are likely to be considerable." Their concluding remark emphasized, "experience

has shown that communities faced with epidemics or other adverse events respond best and with the least anxiety when the normal social functioning of the community is least disrupted."

9. In a top journal, *American Journal of Epidemiology*, authors explain the conditions when quarantine would be effective, which do not align with the characteristics of Covid-19. (2006)

Specifically, they note that quarantines will only be effective when: (1) isolation is not possible; and (2) asymptomatic spread is significant and timed in a narrow way (none of which is the case for Covid). They conclude that "the number of infections averted through the use of quarantine is expected to be very low provided that isolation is effective." And if isolation is ineffective? Then it will only be beneficial "when there is significant asymptomatic transmission and if the asymptomatic period is neither very long nor very short." But, should mass quarantine be used it would "inflict significant social, psychological, and economic costs without resulting in the detection of many infected individuals."

10. In the *Epidemiology Journal*, Harvard and Yale professors Marc Lipsitch and Ted Cohen say delaying infection can leave the elderly *worse off*. (2008)

They explain how delaying the risk of infection can work counterintuitively when the pathogen is more lethal for older populations. They say, "Reducing the risk that each member of a community will be exposed to a pathogen has the attendant effect of increasing the average age at which infections occur. For pathogens that inflict greater morbidity at older ages, interventions that reduce but do not eliminate exposure can paradoxically increase the number of cases of severe disease by shifting the burden of infection toward older individuals." Based on this analysis, Covid-19, which disproportionately harms the older more than the young, is better handled by allowing the community to be exposed, whether through natural infection or vaccination.

11. A team of Johns Hopkins scholars say quarantines don't work but are pursued for political reasons. (September 2019)

In the report, they explain how quarantine is more political than related to public health: "During an emergency, it should be expected that implementation of some NPIs, such as travel restrictions and quarantine, might be pursued for social or political purposes by political leaders, rather than pursued because of public health evidence." Later on, they explain the ineffectiveness of quarantine: "In the context of a high-impact respiratory pathogen, quarantine may be the least likely NPI to be effective in controlling the spread due to high transmissibility."

In March 2020, Michael Osterholm – now Biden's Covid-19 advisor – also argued that lockdowns are not a "cure" for the pandemic, listing multiple costs from a lockdown. Yet, Osterholm's *New York Times* article in August reveals a contrasting viewpoint, stating that "we gave up on our lockdown efforts to control virus transmission well before the virus was under control" by opening "too quickly." Osterholm and (Neel) Kashkari promote a mandatory shelter-in-place "for everyone but the truly essential workers."

Also in March 2020, these findings from the listed works and many others culminated in an open letter to vice-president Mike Pence signed by 800 medical specialists from numerous universities throughout the country which pointed out: "Mandatory quarantine, regional lockdowns, and travel bans[…] are difficult to implement, can

undermine public trust, have large societal costs and, importantly, disproportionately affect the most vulnerable segments in our communities."

While expert consensus regarding the ineffectiveness of mass quarantine of previous years has recently been challenged, significant present-day evidence continuously demonstrates that mass quarantine is both ineffectual at preventing disease spread as well as harmful to individuals. Learning the wrong lesson – assuming that mass quarantines are both good and effective – sets a dangerous precedent for future pandemics.

January 13, 2021

Lockdowns Don't Prevent Coronavirus Spread

JOAKIM BOOK (Contributor) & CHRISTIAN BJØRNSKOV (Contributor)

Much has been said about the terrifying models that in the spring projected such a staggering number of deaths from the novel coronavirus.

In hindsight, as bad as the pandemic has been, it never even approached the dismal numbers suggested – the very numbers that rationalized society-wide lockdowns in Italy, the U.K., New York City, and then in many other places as the pandemic spread.

What researchers have struggled with since then is how to measure the impact of various actions taken. Do we even know if what we're doing is working? Where's the evidence for that, and are there other things we ought to do instead?

Naturally, proponents of lockdowns have long said that strong government action prevented all kinds of horrors. If anything, the poor outcomes we had in the spring and the fall indicated that we didn't do enough. Skeptics, on the other hand, said that lockdowns did nothing but harm our societies – physically, economically, and mentally – and that infection rate curves moved the way they did regardless of what strong-worded politicians implemented, and often before their strong policies took effect. The August NBER paper by Andrew Atkeson, Karen Kopecky and Tao Zha, 'Four Stylized Facts about COVID-19' spells out the uncomfortable position for most policy-makers: the virus seems to spread rapidly, kill selectively, and in no way responds to anything that well-meaning politicians have thrown at it.

The general corona debate quickly became a battle of pointing to this or that country: Lockdowners picked Australia and New Zealand; skeptics picked Sweden and Taiwan. The angry feuds in political arenas and editorial pages were off to the races. Death rates in Sweden far outstripped those of its neighboring countries, a topic on which we already in August tried to bring some clarity. To an American and British audience who couldn't tell Bergen from Ystad, or slurred Danish from Finnish diphthongs, higher death rates and weaker restrictions were conclusive evidence that Sweden's slightly-more-open strategy had failed. Never mind that the Nordic countries may differ in other respects. One-variable statistical analysis at its worst while practically no one compared Sweden to the much worse-performing UK, Belgium or France.

Maybe countries greatly differed from one another in ways that would make such naive comparisons completely misleading: demographics, population densities, the size of the Covid-shock, the effect of government advice, the soft cultural values of how real people interact and how they responded to the pandemic. Besides, all these countries introduced so many new policies and behavioral changes that even those of us who tried to make sense of them quickly lost track.

What we needed was an experiment, where all of those background differences were controlled for. Ideally, a jurisdiction with similar conditions operating on similar rules; where some of their areas locked down hard, while their neighboring counties, identical in every other way, did not. In a new article, one of us together with another co-author, did exactly that. The article, "Lockdown Effects on Sars-CoV-2 Transmission – The evidence from Northern Jutland," by Kasper Planeta Kepp and Christian Bjørnskov is now available on MedRxiv.

In late summer, a new mutation of the Sars-CoV-2

virus was discovered among mink farms in Denmark. That information suddenly became important in Danish debate in October, when researchers from the Danish Serum Institute warned against the mutation, and politicians demanded action. On November 4, the prime minister announced that in the Danish region of Northern Jutland, seven municipalities were to enter into extreme lockdown, enacting the usual battery of work-from-home, closing of commercial and leisure activities and closed public transport. Scattered among them, all in the same region of Northern Jutland, were four municipalities that didn't; they remained under the then-fairly moderate rules in the rest of Denmark. In total 280,000 people and 126,000 jobs were affected by the extreme lockdown, as people were banned from crossing municipal borders to go to work.

Here was a golden opportunity to measure the infection impacts of very strict lockdowns. By comparing otherwise very similar municipalities – language, culture, administrative region, geography – the Danish professors could avoid the problems with identifying cause and effect that hampered cross-country observations. In addition, the lockdown of seven municipalities was not justified on different case numbers or spread of the virus, but only on a worry about a new mutation that subsequently proved to be unfounded.

Prior to the heavier lockdowns in our seven municipalities, there was no detectable difference between the two Northern Jutland groups. In the seven days before the lockdowns, the strict group had 0.15 positive tests per thousand inhabitants per day compared to 0.14 in the open group. In the spring, too, when far fewer people were tested, the former group experienced a total of 0.69 positive tests per thousand inhabitants while the open group saw 0.82 positive tests (all differences statistically insignificant).

Treating the two groups as stand-alone units, Planeta Keep and Bjørnskov write that

> "[W]e find no statistically significant differences between the two groups of municipalities prior to intervention. The strong similarity in infection rates at different timescales before the intervention strongly supports treating the lockdown as an actual quasi-natural experiment."

In no statistical specification that the researchers run does the lockdown variable – shifted by 4, 7, or 10 days to allow for an uncertain incubation period of the virus – pass conventional significance tests for its impact on the number of infections. The only thing that seems to be driving positive tests in the North-Danish municipalities are the infections in previous days and weeks.

As seen in Figure 1 of the paper, the number of Covid infections in the two groups was already falling before the onset of the heavy restrictions in the lockdown municipalities – and it keeps falling just the same in both groups. In non-statistical terms: looking at identical counties, with as natural as natural experiments come, the researchers cannot detect any impact from lockdowns. Lockdowns don't stop, slow down, or seem to affect the future spread of the disease in any way.

What's remarkable is that the study includes a big enough population to detect that change. It has similar test-and-control groups with hundreds of infections in each. There was a big push for mass testing in both groups, and so virtually no chance that testers did not detect a meaningful number of infections. The professors reflect on the study and describe it as

> "[T]he most time- and space-focused empirical dataset available with sufficient statistical power, adequate and homogeneous control group, nearly complete testing,

and with the smallest possible confounder pollution imaginable in a real setting."

In great contrast to the terrifying projections from imagined models, this study showed real outcomes with real people going about their real pandemic lives. It could very well be that lockdowns work in some settings, in some jurisdictions, and under some conditions. But in a setting with voluntary compliance, high trust in government and lots of general information available to the citizen, such as across Denmark (and other Nordic and Northern European countries), lockdowns don't seem to have added anything to prevent the spread.

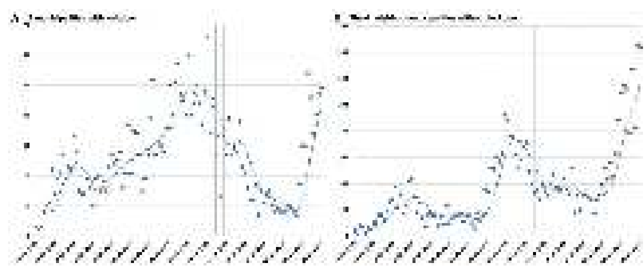
Whether this result is unique to a predominantly rural part of Denmark, or whether it translates to lockdown as a preventive policy more broadly remains to be seen. Because it has "lack[ed] actual empirical control cases for the same populations," the scientific community has not been able to tease out what works and what doesn't. However, a number of recent studies trying to get around different problems in different ways also conclude that lockdowns don't work.

What the new study from Northern Jutland shows is that an extreme form of lockdown didn't work in one of the most law-abiding societies in the world. Why, then, should we expect lockdowns to be effective anywhere else?

FIGURE 1

*Reported infection levels in the administrative region of Northern Jutland around the time of the November lockdown (Blue: daily new positives; orange: running weekly summed positives). (**A**) The seven municipalities with lockdown mandate. (**B**) The four municipalities without lockdown mandate. Vertical lines indicate first and last days of mandate effective (November 6 and 9). Any effect has to emerge later than this, since PCR also takes time to manifest in the population of positives.*

FIGURE A2: INCREASE IN INFECTION IN DECEMBER



*(**A**) Municipalities with lockdown. (**B**) Municipalities without lockdown. The dashed lines are 7-day running averages. Vertical lines indicate day of mandate effective (November 6) and first day where PCR positives can possibly be registered (three days). This shortest possible interval requires almost perfect test intensity. The increase in infection in December is very similar percentwise in both groups (approximate 5-fold increase), confirming similarity also post-NPI within the noise.*

January 12, 2021

The Empirical Case for a Mask Mandate Lacks Scientific Grounding

PHILLIP W. MAGNESS
Senior Research Fellow

Last fall, the University of Washington's Institute for Health Metrics Evaluation (IHME) published a headline-grabbing study with a politically appealing claim: if Americans would simply mask up when they ventured out into public, over 120,000 lives could be saved by the beginning of next year. As Joe Biden takes office later this week, he is widely expected to use executive orders to enact a 100-day long national mask mandate.

Biden's action is directly premised on the claims of the IHME study, which he has repeatedly alluded to in his public commentary. But is the science behind this claim sound?

As I documented last fall, the IHME's projections rested upon a simple data error. The IHME model begins from the assumption that only 49% of Americans were currently wearing masks in public. Increase the mask adoption rate to between 85% and 95%, it stands to reason, and you'll save over a hundred thousand lives by reducing the spread of Covid-19. A national mask mandate, the authors implied, would do the trick.

The IHME's projections had a crucial problem however. The IHME took its 49% adoption figure from a months-old outdated survey at the beginning of the pandemic. As of late September when they made their projections, US mask adoption hovered at 80% nationwide. Instead of nearly doubling mask use rates, a national mask mandate would only increase compliance by about 5 to 15 percentage points. The number of lives that the mandate would save, it turned out, had been vastly exaggerated in the published report.

The IHME's director took exception to my criticism, though notably he did not dispute any of my math. "[Magness] is correct that our estimate of mask-wearing rates has increased" since the study's publication, explained Christopher J.L. Murray in a letter to the *Wall Street Journal*. New data from the summer and early fall confirmed an increase in public mask adoption rates. Yet Murray continued: "[h]e is incorrect to suggest that this weakens the case for public policies that require masks."

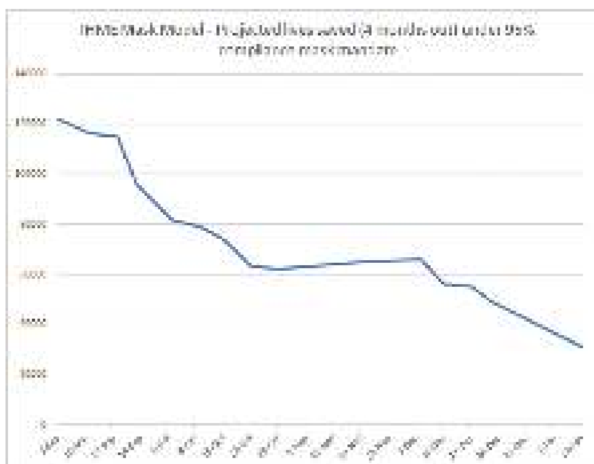
In the roughly two months since this public exchange, the IHME's mask model has undergone a curious transformation. Murray and his team quietly updated their figures to reflect the higher and more realistic mask-adoption rates. Furthermore, they extended these corrections retroactively to their model's projections from the summer months.

The chart below shows how the IHME mask model has shifted over time. The blue line depicts the actual US mask adoption rate, as tracked by the YouGov survey. It shows that US mask adoption rapidly increased in the spring until hitting about 80% in mid-July. From July until the present, it has held stable at the 80% level (parallel surveys by the CDC, Pew Charitable Trust, Carnegie Mellon University, and the Kaiser Family Foundation confirm these findings).

The orange line shows the IHME's mask model and forecast on September 21, which is the version it published in the journal *Nature-Medicine*. The yellow line shows the IHME's subsequent upward revisions as of January 2021, which are now finally starting to converge with reality. Their estimates still fall slightly short of what the aforementioned surveys show, but as of January 18th the IHME model assumes that 76% of Americans wear masks in public – just shy of the 80% level.

While the IHME team is to be commended for correcting their model to better reflect reality, these adjustments also mean that comparatively few additional gains remain to be had from bumping the mask-adoption rate upward to 85 or 95%. The most recent of the independent surveys – a study conducted by the Kaiser Family Foundation in December – even reports that 89% of Americans always or almost always wear masks in public, suggesting we are already at or near the targeted "universal adoption" threshold of the IHME model.

The ongoing corrections to the IHME model have severely dampened the promised benefits of a national mask mandate. The figure below shows the IHME's "lives saved" forecast under universal mask adoption with 95% compliance, as projected for 4 months out from its release date.



Back in September, the IHME model projected over 120,000 lives would be saved by January under a mask mandate. Now it projects a much smaller 31,000 lives saved by the end of April.

When reading these ever-shrinking projections, keep in mind that US mask adoption patterns have not meaningfully changed since the mid-summer of 2020, before the IHME even released its first "lives saved" estimate. It has stayed constant at roughly 80% throughout this entire time. The only apparent changes are the input data for the IHME model, which they updated in the wake of my critique to better approximate reality. The effect is to reduce the IHME's "lives saved" projection at the 4-month mark to only one quarter of its headline-grabbing claim from back in the fall.

These changes do not mean that masks lack effectiveness at the margins. They remain a precautionary hygienic response – particularly in certain indoor venues and around vulnerable people. Rather, the IHME's model adjustments confirm what several of us have been pointing out since the mask mandate movement began in earnest last year. The main gains from masking have already been reaped. Americans rapidly adopted them last summer and have continued to use them at consistently high rates ever since. Adding a new national mask mandate on top of this practice will bring little if any *additional* benefit to what voluntary adoption already achieved, though it may foster a false hope in the exaggerated claims of an obsolete and erroneous model.

January 19, 2021

What Is the Alternative to Lockdowns? A Symposium

AIER STAFF

Edward Stringham. My main academic contribution has been to emphasize the centrality of private governance in the building of social order. Private governance requires freedom, so that people and institutions can experiment with solutions to any and all social, cultural, and economic problems. There is not one answer but many competitive answers. As part of private governance there is learning. We find successes and emulate them. We observe failures and avoid them. Through this process, society gets better at dealing with the exigencies of existence and the need for progress. All of this pertains to the management and mitigation of disease. There is no one answer but many. Without the freedom to discover, we will be worse off. Private governance does not dictate models but lets them evolve by permitting individuals and institutions to use intelligence to find the right paths. Central planning does not work for public health any more than it does for the production and distribution of any good or service.

Phillip Magness. Even before the Great Barrington Declaration came out, I was arguing for what amounts to a "focused protection" strategy centered upon our most glaring vulnerability during the pandemic, the nursing home situation. Not only have we failed our nursing homes, but most policy decisions in this area have been nothing short of disastrous. We have known about long-term care vulnerability since at least February when the earliest US outbreaks hit nursing home facilities in Washington State. These early data points were neglected in the policy response. The Neil Ferguson/Imperial College study that induced the US and UK to go into lockdown even specifically omitted nursing homes from the model it used to make these recommendations: "Lack of data prevent us from reliably modelling transmission in the important contexts of residential institutions (for example, care homes, prisons) and health care settings."

Neglect of the nursing home situation turned to outright incompetence in March and April, when several states in the Northeast blundered their way through the first wave by adopting regulations that forced nursing homes to readmit Covid-19 patients. The regulations were likely intended to alleviate the strain on the hospital system by freeing up beds and moving their occupants into these facilities. But the hospital collapses never came, and instead they simply introduced Covid to run rampant through one of our most vulnerable populations. Catastrophic nursing home death tolls have become the predictable and avoidable result in many states.

Per the latest statistics, nursing homes alone make up at least 37% of all Covid-19 deaths in the United States – and the true number is actually much higher, because one of the worst states for nursing home patient readmissions – New York – intentionally hides its true nursing home death toll by excluding long-term care residents who died offsite in emergency rooms and hospitals from its counts. After almost a year of the pandemic, the evidence is clear: lockdowns do not effectively shield nursing homes.

So what could we do to address the acute vulnerabilities of our long-term care facilities? One proposal that I've personally advocated since last April builds on an idea from a handful of privately operated nursing homes in the US. The operators of

these facilities noticed early on that nursing home outbreaks came from residents and staff who carried the virus in from the outside world. They therefore adopted measures to house and accommodate staff onsite until the danger passed. One nursing home operator in Connecticut brought in RVs to house his staff onsite.

Others converted unused rooms at the facilities into staff residences. In the handful of places it was deployed the nursing home "bubble" strategy worked. Unfortunately, the lockdown emphasis of the Covid response and the accompanying neglect of nursing homes means we missed a genuine opportunity to try this strategy more widely. Indeed, when the second wave hit in the fall some nursing home facilities even began repeating their mistaken and deadly readmission practices from the spring. What might the alternative look like under a "focused protection" strategy? For one, we could subsidize nursing homes to bring in temporary housing (onsite RVs and trailers) for staff. Since asking staff to commit to living in a bubble for several months would take a toll on the nursing home workforce, we could also subsidize those who volunteer for this job with substantial salary premiums. Even though these seem like expensive options in their own right, the cost is miniscule when compared to the economic destruction of a year under lockdown and the public spending extravaganza of recurring trillion-dollar stimulus packages and payouts.

Jeffrey Tucker. I've seen many people asking what the alternative to lockdown is. The question presumes that lockdowns are normal. They are not. They are without precedent. Modernity has a long history of infectious disease and experience in dealing with new viruses for which there was no vaccine. We still managed to prioritize human rights and freedom. We used to understand the alternative to a medieval approach. Let individuals and medical professionals handle disease, not politicians. This idea was central to public health. It was the approach in 2009, 2006, 2002-2003, 1968-69, 1957-58, 1948-52, 1929, and so on, ever since public health discovered the scientific basis of immunology as it pertains to pathogens. Preserving the normal functioning society must be the priority in order to maximize the health of the community, and not by focusing on just one pathogen but all aspects of public health. I'm drawn to Sunetra Gupta's understanding here. We have long lived with an evolved and implicit social contract: we agree to respect each other's rights even in the presence of pathogens. That understanding needs urgently to be rediscovered. Now we find ourselves in a very difficult position of having to recover lost knowledge of 20th century public health wisdom.

Robert Wright: As I suggested on 4 April, the alternative to government-imposed lockdowns are self-imposed "lockdowns" where each individual, household unit, and business decides what is best for it given its circumstances. Everyone knows about Covid-19 and what steps they need to take to "stay safe." That might mean life as usual for a 20-something who already had the thing and might mean almost complete isolation for an 85-year-old with diabetes, with endless variations in between. Businesses know, or will soon discover, what they need to do to maximize revenue, which might mean business as usual on M-W-F and severe social distancing restrictions on T and S. Instead of just doling out cash to everyone, governments might pay delivery fees for everyone self-quarantining due to risk of active infection and subsidize sick days for employees who display symptoms. Policymakers cannot even control economies much less the natural world and should never have tried to "fight" a virus as if it was an enemy combatant but governments can intervene intelligently with targeted responses.

Donald Boudreaux. Given that Covid reserves most of its horrors overwhelmingly for an easily identified group – the very old and ill – the best course is, and would have been from the start, what the co-authors of the Great Barrington Declaration call "Focused Protection." This thoughtful approach explicitly recognizes Covid's contagiousness while implicitly recognizing also Ronald Coase's insight that externalities are always bilateral. Human interaction creates not only some risks for fellow human beings but also many benefits. When you dine at restaurants you help waiters and cooks earn their livings. You might even, simply by being a smiling face, enliven the restaurants' atmosphere for other diners. When you go to work you help your co-workers earn their livings as you increase the supply of goods or services available to consumers. When you venture out, unmasked, for walks in the park you often run into friends and neighbors – and sometimes even strangers – who benefit from stopping to chat with you. By going downtown to dine or shop or hear live music you contribute to the city's vibrancy – itself of great value to countless strangers. If you're going to analyze Covid and the response through the lens of externality theory, the positive externalities – in addition to other positive consequences – of human interaction (and of human freedom) cannot be ignored.

Jenin Younes. The question implies that lockdowns are the default response to the emergence of a new virus, when in fact large-scale, long-term quarantines of healthy populations have never been implemented before, let alone on a global scale. Ten months in, anyone who has done his or her homework knows that this unprecedented experiment is a catastrophe of epic proportions. Millions of lives and livelihoods around the world have been destroyed; poverty and mental health problems are skyrocketing; children have been deprived of crucial years of education and social development. Perhaps worst of all, jurisdictions that enacted lockdowns fared no better in minimizing coronavirus deaths than those that did not, so the evidence is in that all of this was for nothing. It is pure hubris to believe that we can rearrange societies around the existence of a single pathogen without devastating consequences. So what is the alternative? Well, I would say a return to common sense and recognition of human rights. People should be given accurate information about the risk they face from medical professionals who are not feeding into media-driven hysteria, allowing them to make decisions about how they want to live accordingly. Treat the sick as best we can and fund research of treatments and vaccines, just as we have always done and continue to do for all other diseases.

Ethan Yang. The biggest mistake that was made during this pandemic was subscribing to a romanticized version of reality that destroyed our ability to promote the general welfare of society. Fighting Covid-19 became a moral issue rather than a policy issue. Perhaps it was because it came during a time of political tension and Covid-19 was the ammunition needed to spark the war. A war against Trump, a war against globalism, a war against enlightenment values such as individual liberty. If you just listen to all the narratives about how selfish Americans won't wear their masks, it's clear many issues have been leveraged as a tool to lead an attack on traditional American values rather than actually fighting the virus. The idea that Americans are inherently selfish and don't wear masks is a false narrative at least according to YouGov data. From February to June 2020, it was reported that a higher percentage of Americans wore masks than their counterparts in Canada, Britain, Mexico, Sweden, Denmark, Norway, and kept pace to an extent with France, Italy, and Spain. Furthermore, there is a constant narrative

that America didn't lock down hard enough as if nobody noticed that two weeks to flatten the curve turned into ten months and counting. The fact of the matter is that the United States ranked quite high in lockdown severity according to the Oxford Government Response Tracker and with the strictest countries also having the most deaths per capita. Then when good-intentioned people such as Oxford's Dr. Sunetra Gupta attempted to come forward with new ideas, rather than "listening to the experts" such dissenters were savagely attacked. There is plenty of evidence that pandemics can be better managed without lockdowns but I don't think that was really the problem. The real problem was that we never wanted a conversation to begin with.

Peter C. Earle. Early on I was stricken by the South Korean approach, where the engine of prosperity wasn't subverted in the face of a then-unclear menace. It wasn't just that Seoul responded so quickly and with such a meticulously-crafted, commerce-centric response. The United States, England, Germany, France, and many other countries with much larger economies and more extensive trading relationships, and thus one would think more to lose, took nearly the opposite approach: lockdowns, stay-at-home orders, and other euphemistic terms for forcibly imposing an economic depression.

We will be learning about the secondary and tertiary effects of lockdowns for decades, but a question that comes up repeatedly is: "So it's turning out that lockdowns were an unnecessarily heavy-handed policy response, but aren't there some diseases – something akin to the bubonic plague, say – that *would* necessitate that kind of government response?" My answer is: no, not even a science fiction scenario such as depicted in zombie movies justify tyranny on the scale of lockdowns. In the same way that a military invasion wouldn't require conscription because most people would take up arms themselves, a particularly lethal outbreak would assuredly see individuals quickly adopting radical, local, ingenious, and individually-tailored measures without decrees. The human race has come to terms with thousands of viruses, bacteria, maladies and creatures over thousands of years. There is absolutely no reason to believe we will not continue to, or that we cannot without destroying civilization itself.

Micha Gartz. Recognize that Covid is now 'endemic' and move on. 'Endemic' diseases are regularly found among particular populations or in a certain geographic area, and maintained a baseline level without external inputs. Polio was endemic. Malaria is endemic across parts of Africa, Asia and Latin America. Chickenpox is endemic worldwide. Despite numerous and extensive restrictions – including travel restrictions preventing the introduction of new cases; mask requirements, capacity limits and bans on large gatherings to prevent transmission – Covid has maintained a constant presence in many countries. By definition, it is endemic. Reducing PCR threshold cycles to normal, *reasonable* levels of under 30 cycles would go a long way in excluding false positive results which pick up on genetic fragments of dead virus. This would lower case numbers (and numbers of deaths *with* Covid being misrepresented as *from* Covid) headlined in the media, and disable the frantic fear pervading the public. As endemic diseases become increasingly tolerated, responsibility shifts from the authorities to individuals who are better able to determine their own risk and seek access to medical care.

January 26, 2021

CARES Act Stimulus Did Not "Replace Lost Wages"

ALAN REYNOLDS
Contributor

To explain why the economy collapsed in March and April before recovering vigorously, demand-side economic theorists emphasize excess savings as the cause of the downturn with federal stimulus spending as the driving engine of the subsequent recovery.

An alternative supply-side explanation instead emphasizes the contractionary impact of state lockdowns before late April followed the energizing effect of reopening in more and more states from May through November. However, "the nation's labor-market recovery stalled in December," *The Wall Street Journal* notes, "as a resurgence of. . . state-imposed restrictions" quickly spread to nine states.

The tightening eased a little by January 14, when *The New York Times* reported that restaurants, bars and most entertainment businesses were completely closed in only four states (CA, OR, NM & IL), though such businesses were partly closed in another thirteen. Also, six states were still under stay-at-home (SAH) orders. That left only 31 states "mostly open" and without SAH restrictions. Predictably, with labor market opportunities closed in 19 states, layoffs are back up. For the week ending January 9, the *Journal* reported, "the number of workers filing for jobless benefits posted its biggest weekly gain since the pandemic hit last March."

Meanwhile, Congress passed a scaled-down version of the March 27 CARES Act on December 27. As before, the new law features a mass mailing of "stimulus" checks, extra and extended unemployment benefits, and more forgivable loans (grants) to businesses. As debt-financed payments from the original CARES Act were greatly reduced after July, advocates of "a second stimulus" repeatedly predicted that without another burst of federal transfer payments a double-dip recession is in the cards.

Economists seeing only a stark either/or choice between a second stimulus or a double-dip recession made the headlines every month – July, August, September, October, November and December. These endlessly humiliating predictions of imminent second recessions never made sense unless the first recession had merely been the result of avoidable bungling of fiscal and monetary management rather than the unavoidable intent and result of state lockdowns and SAH orders.

Economists in the Keynesian tradition who emphasize the demand side of economic transactions invariably tend to prescribe policies intended to maximize incentives to spend ("the propensity to consume"), rather than minimize disincentives to produce.

By contrast, Neoclassical economists who focus on the supply side of the economy (incentives or impediments to production), are likely to view the tightening or easing of state restrictions as far more important than, say, an ephemeral windfall of $600 checks.

From a demand-side perspective enlarged and extended unemployment benefits have a magical multiplier effect on nominal demand. From a supply-side perspective, enlarged and extended benefits for being unemployed discourage labor force participation and thus reduce real output. In fact, if governments did manage to stimulate growth nominal GDP (demand) while also restricting real GDP (supply), that policy mix might be a recipe for stagflation.

Economic forecasts (such as last year's periodic

alarms about a double-dip recession) are often visibly affected by assumptions about the relative importance of changes in supply-side restrictions, compared to a supposed boost in consumer spending from new stimulus checks.

If the rebound of 2020 was primarily the result of demand-side "fiscal stimulus" – rather than supply-side reopening – then we need not be too concerned today about how many states lock down businesses or ban inessential jobs. From the demand-side perspective, after all, additional stimulus could supposedly make up for any slowdown due to state restrictions on supply. If millions were prohibited from working but nonetheless had all their wages replaced by government benefits, then negative effects on supply (sources of income) can be easily downplayed by the habitual spotlight on consumer demand (uses of income).

On the other hand, if supply-side restrictions were the main threat last March, and again last December, then "putting more money in people's pockets" will do nothing to increase the supply of goods and services that stores, restaurants and entertainers are not permitted to sell.

In his year-end *Wall Street Journal* column, Greg Ip seemed to emphasize the supply-side. He wrote, "the economy's biggest problem isn't demand, it is supply. Most Americans have money; they are just constrained in how they spend it because of pandemic-related business restrictions or fears."

In his previous column however, Ip instead emphasized demand-side stimulus. He highlighted an "unprecedented funnel of federal cash" among "good reasons to think [2021] will be better – perhaps much better – than you think." He cited an estimate that the new $900 billion stimulus bill will ultimately bring total stimulus since February to $3.5 trillion." Never mind that only a fourth of that sum will be spent in 2021, or that only 13% of that ($120 billion) is earmarked to replace lost wages of the unemployed. Still, that $3.5 trillion, wrote Ip, "more than replaced all the wage income lost during the pandemic."

This claim that pandemic-related spending replaced "all the wage income lost" has several problems, not the least of which is that it is not true.

The Table, condensed from the Bureau of Economics (BEA), highlights the largest of what Ip calls stimulus spending but the BEA calls "Pandemic Response Programs"(PRP). All figures show changes in key sources of Personal Income from one month to the next, at annual rates. The BEA began the table with April when "stimulus" spending peaked, so monthly changes start with May.

Last April, the first stimulus bill briefly raised personal income lost to an annual rate of nearly $21.1 trillion. By August, personal income had fallen 6.6% to $19.7 trillion. That was not because of "lost wages." Private wages and salaries rose from $7.2 trillion in April to nearly $8 trillion by August, a gain of 10.4%. Consumer demand [personal outlays] rose most rapidly through August when (1) stimulus payments were falling most rapidly but (2) nearly all major state economies remained relatively open through the fall when some began to limit or reverse the economic reopening of May to July.

Aggregate wage income in the private sector was rising –not falling– long after the stimulus spending peaked in April. Overall losses of wage income

only happened in March and April when nearly all states had closed nearly all business except for some the politicians deemed essential (such as Big Box and liquor stores), closed schools, and issued stay-at-home orders to criminalize many jobs. Working in offices was widely banned until at least late April, as was some manufacturing, construction, and travel. Restaurants, entertainment, hair salons and many other service industries were more-or-less shut down in most states until May. In December, they were once again shut down by such economic giants as California (14.7% of U.S. GDP) and Illinois (4.1%).

The alleged demand-side stimulus in the original CARES law was primarily Economic Impact Payments (EIP): direct checks for $3,400 for a family of four (trimmed to $2,400 in the January rerun). These EIP checks added almost $2.6 trillion to annualized personal income in April, $606 billion in May, but only $9 billion by August. The extra $600 of weekly unemployment benefits peaked at an annual rate of $953 billion in June but quickly wound down to only $174.8 billion by August.

For perspective, federal subsidies to business (airlines, hospitals, etc.) increased from an annual rate of $74.5 billion in the first quarter to over $1.2 trillion in the third. That includes PPP loans (usually grants) to small businesses. But PPP loans were the equivalent of only 16% of proprietors' income at the peak in May and were only intended to delay some layoffs, not to raise wage and salary income by 4.5% that month.

The "stimulus spending" began in earnest around mid-April. But that was also when many states began to reopen their economies, resulting in *private wage* income rising briskly – to $7,514 billion in May, then $8,185.8 billion by December. Whether the pandemic-related spending plans are labeled "relief" or "stimulus," neither their front-loaded timing nor Congressional priorities about how the money was spent seemed especially aimed at replacing lost wages.

In two consecutive columns about what happened in 2020, Greg Ip offered two competing narratives. One ascribed the downturn to supply-side restrictions, the other ascribed upturns to demand-side stimulus. If restrictions are shrinking at the same time stimulus is growing, then either of these explanations might appear to fit the facts. The Table, though, shows that is not what happened from May to October. At that time, rolling back the supply-side restrictions produced growing wage income which more than offset the rapidly declining stimulus payments.

Rather than rising stimulus payments offsetting falling wages, as Ip suggests, what happened is that rising wages largely offset the rapid reduction in stimulus payments. The contraction in March-April clearly began with legal restrictions in what products and services certain politically selected businesses were permitted to produce and sell. The subsequent recovery clearly began with the gradual but accelerating easing or removal of those restrictions. Greater sales and employment certainly improved prospective sales of the greater array of products and services available for purchase because of reopening. But to borrow the title of Casey Mulligan's blog, this was "supply and demand (in that order)."

Far from stimulus checks, PPP loans and jobless benefits "replacing lost wages," it was instead a swift increase in private wages during the reopening that replaced a swift withdrawal of "fiscal stimulus."

January 17, 2021

The Economic Policy Failures of the Trump Administration

JEFFREY A. TUCKER
Editorial Director

There is some bitter irony embedded in the original campaign 2016 presidential pitch to "Make America Great Again." One looks around the country to observe catastrophe without precedent. Making sense of all the events that led to this will take years of investigation and reflection. It will require untangling good policies from bad, intentions versus realities, and many layers of causes and effects. My attempt below is not intended to be partisan; it's an attempt to tell the sad story I saw unfolding before my weary eyes.

My quick summary: Trumpian economics failed not because of its initial deregulatory push, tax-cut agenda, and judicial appointments. Rather the MAGA agenda failed because of its turn against international trade, its autarkic approach to migration, and, most of all, due to a wildly inconsistent and essentially catastrophic response to the pandemic, all of which trace to a fundamental philosophical pathogen. The post-election antics, culminating in the mob breach of Capitol Hill security, merely put a fine point on it.

Philosophy

From 2015, even from his first public speeches following his presidential run, it was clear that Donald Trump was not a conservative in the Reagan tradition but was selling something of which we had no experience in politics during most lifetimes. He was reviving what I've called right Hegelianism that imagines the trajectory of history culminating in the ideal of a nation-state unified and managed by a great leader. In other interactions of this ideology in the interwar period, this unity is economic, social, cultural, religious, and racial.

This is not an American ideal. It's not about freedom, rights, the rule of law, much less the limits on government. It imagines not a head of state that manages the government but rather an overarching central leader that manages the whole country in all its aspects. The US Constitution was structured not only to prevent such a system but to work as a rebuke to it. The first three words, "We the People," were chosen carefully to embrace a self-managing society, not one ruled by a person over and over everyone else.

There are many instantiations of right Hegelian ideology but all end up rallying around trade protectionism, migration restrictions, and the centralization of power in the executive. These were the main themes of the 2016 Trump campaign. These themes were not, however, what drew the Republican rank and file to his candidacy. Instead, what the party regulars liked about him was his brash and aggressive willingness to stand up to his enemies. His anger and relentless attacks thrilled people in the party who were fed up with playing nice with the left. That allowed them to overlook the aspects of his ideological push that stood in hard contradiction to anything like traditional American conservatism, much less classical liberalism.

Trade

Trump's first year began with a more traditional Republican agenda of tax cuts, deregulation, and non-progressive court appointments. Those who had worried that his right-populism and nationalism would predominate felt a sense of calm that things would work out after all. His regulatory appointments were solid free market people who believed in market forces and less centralization. My own

grim predictions, made in Newsweek July 16, 2015, had begun to seem overwrought. Even I began to think I had been far too pessimistic.

That all changed on January 22, 2018. That was the date that marked the end of peaceful trade relations with China. The Trump administration slapped high tariffs on the importation of solar cells and washing machines from China. This was the beginning of the trade war that would expand to Europe, Canada, Mexico, most of Asia, and ultimately the entire world. Some apologists claimed that this was nothing other than an attempt to gain trade concessions so that free and fair trade would be achieved. There was no evidence for that, however, apart from the periodic and perfunctory claims by Trump himself that he was not against trade.

The problem was that his actions belied his reassurances. Every policy decision was more extreme than the last. "Trade wars are good" and "easy," tweeted Trump on March 2, before slapping tariffs of 10-25% on steel and aluminium. Administration spokesmen assured the public that there would be no retaliation, a prediction that defies all known experience.

Thus did it all unfold as the year went on. His one-man campaign to reverse 70 years of progress in trade culminated in a vision more astonishing than anything I could have predicted. Foreign Policy put a fine point on it: Free Trade Is Over.

The Trump administration went one further and imagined that it could and would decouple the US economy from China entirely. In a digital age with infinitely complex and interlocking supply chains extending the world over, this hope amounted to violence against a major source of prosperity since the end of the Second World War. What he ended up seeking was nothing short of trade autarky. This not only pillaged Americans of $63 billion in one year alone; it dramatically reduced US influence in the world, not only over trade deals (China keeps making them, even with the UK) but also over fundamental issues of democracy and human rights (Hong Kong has effectively lost its independence and the US was powerless to stop it). To top it off, a trade war designed to push exports over imports ended up reducing the export contribution to US GDP to the lowest level in ten years.

There was bitter irony associated with his one-man rule over US trade policy. The US Constitution clearly grants that power to Congress. But following the 1930 disaster of Smoot-Hawley tariffs, Congress began systematically to turn that power over to the executive. The belief is that the White House will always be inhabited by a well-educated person who will understand how important global trade is to peace and prosperity. Mostly that has been true. The plan worked until it did not. For fully three years, the world watched in astonishment as one man's autarkic vision prevailed over the interests of every member of Congress, one hundred plus countries, and hundreds of millions of exporters, importers, and consumers.

Migration

Alongside the hope for national economic independence there was of course the immigration agenda. It began early on with a policy most conservatives embraced: an end to illegal immigration. If you listened carefully, however, you would notice that this was more than a concern about bad actors getting across US borders. Trump frequently spoke about job displacement – which should have been a sign that his immigration agenda was not, at its core, about security or race but was a mere extension of his protectionist trade policies. He intended to keep out both goods and people because he believed, sincerely, that this was the way to make America great.

There were grave consequences of his policies both economically and politically. The US population is growing more slowly than in many

decades. In effect, he cut countable immigrants by two thirds of the pre-Trump levels. This has caused the US to experience a labor shortage in retail and hospitality, at least until lockdowns so severely harmed those industries. It's profoundly affected the tech industry as well as building, construction, and agriculture. Immigration has made a mighty contribution to economic progress, so slashing of the legal levels – and effectively abolishing immigration in 2020 – has had devastating consequences.

Even before the lockdowns of the Spring of 2020, the business community, which one might have supposed would favor his capital-gain tax cuts and deregulatory pushes, turned decisively against the Trump administration and Republicans who failed to stop his dramatic departure from a Reagan-style economic agenda. This created an unprecedented shifting in business community support for the Democratic Party and turning ideologically left.

Lockdowns

The Trump administration's nationalist push was regrettable enough in its trade and immigration policies. But when it came to the coronavirus, it became absolutely devastating and ultimately wrecked the presidency. The turning point was January 31, when a ban of flights from China took effect. Trump reports he did this on his own, against the advice of everyone around him. It had previously been a well-established principle that flight bans do nothing to curb or mitigate viruses, especially since the virus was already here.

The hope here was surely propagandistic: the belief that the guilt for the virus itself could be pegged on China. Just as they are stealing intellectual property, selling us too-cheap goods, and dishing out compromised technology, so too are they sending us pathogens on airplanes. As with goods, the answer is to use the power of the state to stop the virus. That also put in motion a dangerous trajectory. Why allow any flights from anywhere? For that matter, why should states allow visitors from other states? If the goal of pandemic policy is to minimize exposure, even among non-vulnerable populations, the result would have to be a fundamental upending of life itself.

Sure enough, on March 12, Trump addressed the nation with a disastrous message in which he announced his complete change of mind on the virus. Having dismissed it previously as just another flu, he now saw the opportunity to be the savior to the nation by battling the virus with all his power and prowess.

At the end of the message, he made a shocking announcement. In four days time, all flights from Europe would be blocked. Just incredible and certainly without precedent outside of wartime. Indeed, such travel blocks are fixtures of war, deployed in the name of disease mitigation. The panic around the world was palpable, as people scrambled to book flights back as soon as possible. Huge crowds mingled for many hours in international airports, trying desperately to get back to the US before it was too late. Those travel restrictions were not lifted at any point in the remainder of his presidency.

It was the same with embassies and consulates issuing visas for coming to the US. It was all shut down. No more students. No more workers. No more tourists. The actions on the part of the Trump administration were so draconian and despotic. Though the president would variously claim that his actions saved millions of lives – as many as 4 million even – there is no evidence that blocking these flights and migrations achieved anything. The virus was already here and the US became the world's leading hotspot. His actions caused a policy and political panic throughout the country. By March 16, most of the country was shut down

with stay-at-home orders, limits on hospital use, closed schools, and blocked public gatherings. The lockdown was here, courtesy of the Trump administration, and the economic costs were astronomical.

We often hear people denying that this was the Trump administration's doing – Trump would later become an advocate for opening up – but it clearly was. The administration's own Department of Health and Human Services released on March 13 a classified edict: "The U.S. Government COVID-19 Response Plan." It recommended school closures and business shutdowns. The federal government worked closely with all the states to follow this document, which had clearly been in the works for weeks if not months. Three days later, stocks crashed 13% – not because of the virus that had been here for months but rather because of Trump's initial lockdowns.

After two weeks to flatten the curve turned into two months, and governors of many states continued to keep their economies closed, Trump began to smell a rat, wondering whether he had been tricked into destroying his own presidency by wrecking the economy. By mid-April, he began to call for opening up the economy. But even here he had doubts. Georgia became the first state to open in late April, but Trump tweeted against it, claiming that it was too soon. Thus did his messaging become completely confused. Was he for or against opening, did the shutdowns save lives or not, should states seek normalcy or keep stringencies?

This lack of clarity, this toggling back and forth between claiming the lockdowns saved millions of lives while at the same time demanding an opening, continued through September. Good sense at the White House did not arrive until public health specialist Dr. Scott Atlas of the Hoover Institution arrived finally to convince the president of the science and the facts. In doing so, he had to battle what amounted to a pro-lockdown fifth column within the White House itself.

By then, it was far too late for the administration to gain control of the narrative. The economy had been smashed, people's lives wrecked, children and parents traumatized, and the country had become consumed with mass disease paranoia and virus avoidance. Leading into the final days of the campaign, and probably convinced that he had been gaslighted all along, Trump took a different strategy of avoiding the topic of the virus completely.

Carnage

To everyone's complete astonishment, 2020 became the deadliest year in US history, and not only because of the pandemic. Deaths of despair due to lockdowns, murder, drug overdoses, and other deaths due to throttled medical care in other areas were also major contributors to the year of tragedy. By now, there are at least 28 studies proving that lockdowns do not work. Meanwhile, in China, the country that Trump had targeted three years earlier, had long ago abandoned the lockdowns it had sold the rest of the world and clocked a 6% GDP growth in the fourth quarter year over year.

In addition to this calamity, US government spending soared 47% while the money supply registered record increases as measured by M1. The effects of this debt and money printing will be felt through next year. In addition, New York City is in shambles, Washington, D.C. looks like an armed camp, and most states still have terrible stringencies in place enforced by police power. At least 150,000 businesses are dead, 1 in 4 women with children have left the workforce, millions of kids have lost a year's worth of schooling, in addition to other staggering costs.

None of this is great. It is a nightmare.

Counterfactuals are impossible but nonetheless tempting. What if the Trump administration had not alienated virtually the whole of the business

community with its attempt to reverse 70 years of progress in global trade? What if it had pursued the path of sincere diplomacy rather than coercive belligerence with China? What if it had pushed legal reforms in immigration rather than executive edicts? And what if in January the White House had consulted traditional public health experts rather than allowing career bureaucrats to talk the president into locking down?

We can never know the answers to these questions. But it is likely the case that the country and world would be a very different place than it is today, perhaps even a greater place. The economic policies of the Trump administration constitute one of the greatest lost opportunities of the postwar period. We'll be paying the price for decades. The fundamental problem traces most fundamentally to an illiberal philosophy behind the seeming policy chaos. Repairing that problem is essential to laying the necessary groundwork to recover what has been lost.

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Equity Performance Amid One-Party Rule in America

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Excessive, invasive, and arbitrary government power tends to undermine the performance of an economy and the stock prices of its major companies. In such a setting one might suspect that divided partisan control of government – "gridlock" – can mitigate potential policy harm. That is exactly what the evidence confirms, regarding equities, at least over the past 50 years. But in America, at the national level, we no longer have *divided* government.

Many policy factors beyond partisan control influence equities: monetary, fiscal, trade, regulatory, and foreign policy. Still, it is worth consulting the relationship between the policy mix, partisan mix, and equities. Below I summarize the returns which have accompanied three types of partisan control in America: full control by Democrats, full control by Republicans, and mixed control.

By "full control" I mean one or the other of America's top two parties controlling not only the White House but also (simultaneously) the U.S. Senate and U.S. House of Representatives. This is relevant again, as we now have one-party rule at the federal level. Democrats again are in full control. Yes, the Senate is tied at 50-50, but its president (the Vice President) has the power to break vote ties; the party in control of the White House technically also controls the Senate.

In modern America (over the past century), single-party control *has been* more common than you might suspect; it has occurred 53% of the time since 1921, with the balance of the 100 years (47% of them) characterized by mixed control. The reason people today might suspect that mixed control is the "norm" reflects the fact that it has been more common (70% of the time) over the past fifty years (1971-2020), compared to only 24% of the time during the period 1921-1970.

Summaries of the empirics are provided in Figure One and Table One. In Figure One notice that equity performance has been superior, on average over the entire past century, when Republicans were in full control (19 years): in those years, the real (inflation-adjusted) return on the S&P index averaged 12.7% p.a., compared to 10.6% p.a. when Democrats were in full control (34 years), only 9.4% p.a. for all 100 years, and a mere 7.1% p.a. for all years of mixed control (47 years).

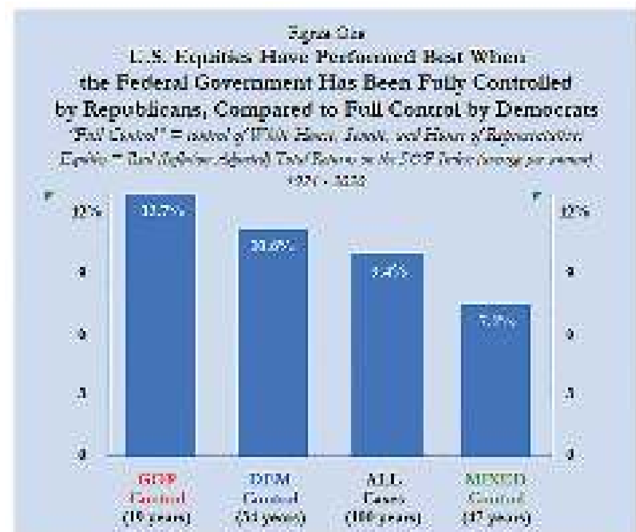

Table One provides the same summary evidence on equities but partitions the past century into two fifty-year periods (1921-1970 and 1971-2020), while also reporting inflation data (the CPI rate). In both sub-periods full control by the GOP has been better for equities and inflation than has full control by Democrats. In the latter case, relatively much

higher inflation (3.9% p.a.) has eroded real equity returns. The best period for equities (+16.2% p.a. for a dozen years during 1921-1970) has occurred with *deflation*, on average (-1.5% p.a.). So much for the claim that *deflation* is an impediment to solid gains in equities (or economic growth) – or that inflation is "bullish."

Table One

U.S. Equity Performance Amid Three Varieties of Partisan Federal Governance

1921 - 2020

1921-2020	# of years	% of Years in Control	S&P TR (Real)	CPI Rate
all years	100		8.4%	2.7%
years of GOP control	19	19%	12.7%	0.0%
years of DEM control	34	34%	10.6%	3.9%
years of Mixed control	47	47%	7.1%	3.0%
1921-1970	**# of years**	**% of Years in Control**	**S&P TR (Real)**	**CPI Rate**
all years	50		10.3%	1.6%
years of GOP control	12	24%	16.2%	-1.5%
years of DEM control	26	52%	11.9%	3.1%
years of Mixed control	12	24%	1.8%	1.7%
1971-2020	**# of years**	**% of Years in Control**	**S&P TR (Real)**	**CPI Rate**
all years	50		8.2%	3.9%
years of GOP control	7	14%	6.8%	2.4%
years of DEM control	8	16%	6.2%	6.4%
years of Mixed control	35	70%	9.3%	3.6%

Net performance advantage, GOP versus DEM	S&P TR (Real)	CPI Rate
	in % points	
1921-2020 (all 100 years):	2.2%	-3.9%
1921-1970 (first 50 years):	4.3%	-4.6%
1971-2020 (second 50 years):	0.6%	-4.0%

It's undeniable that GOP control has delivered a net performance advantage in equities (see the bottom three rows of Table One), with equity returns better by 2.2% points p.a. and inflation better by 3.9% points p.a. (for *all* 100 years) and equity returns better by 4.3% points p.a. and inflation better by 4.6% points p.a. for the first *fifty* years (1921-1970). The GOP advantage has lessened over the past fifty years: +0.6% points p.a. (for equities) and +4.0 % points p.a. (for CPI).

Conventional opinion today says U.S. equities perform better under divided government. That is true, but only for 1971-2020, not for 1921-1970. For the full century (1921-2020) equities have performed better when government has been unified (under *either party*) but *better still* when unified under Republicans. For 1921-2020 full control by Democrats—which will be the case for 2021-22 (at least)—delivered better equity performance (10.6% p.a.) compared to mixed control (7.1% p.a.), but that has not been true over the past fifty years (1971-2020), when full Democratic control yielded real equity returns of only +6.2% p.a. versus 9.3% p.a. under mixed control.

If history (especially more *recent* history) is a guide, U.S. equity gains over the next two years of full Democratic control will be inferior, a result that is more probable given that the party is currently more anti-business, anti-profit, and anti-capitalist than at any other time since 1970.

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